



**Standing Committee on Patents
Study on Inventor Remuneration**

AIPPI UNITED KINGDOM ANSWER

Nature of this Study

- 1) This study is not being presented for a resolution at the Sydney Congress. However, it will be the subject of a plenary session to debate a possible form of draft position that may then be used to invite comments from GOs and other stakeholders. After consideration of all input, the Standing Committee intends to propose a resolution on inventor remuneration for adoption at the Cancun Congress in 2018.

Introduction

- 2) This study concerns the issue of remuneration for employee inventors for inventions made in the course of their employment. Specifically, this study will consider whether and to what degree employee inventors should be compensated in addition to their normal wages for such inventions.
- 3) In some countries, employer rights to employee inventions are regulated by national laws, whereby an employer can acquire the right to an invention made by an employee in a number of ways. In other countries, there is no such regulation. Some countries have various requirements relating to the amount of remuneration an employee must receive for an invention made by the employee and filed in a patent application by the employer. Where this is required, remuneration may be due upon the happening of particular events, e.g. upon filing the initial application, upon issuance of a patent, upon licensing the patent, or at a number of such points. On the other hand, some countries have no such requirements. This creates a complex compliance obligation for international organizations and an unclear compensation regime for inventors.
- 4) The issue becomes even more complex in the context of multinational inventions, i.e. where joint inventors of an invention reside in different countries. This is an increasingly common situation due to the prevalence of international corporations having geographically distributed R&D groups, multinational joint venture projects, international corporate/university collaborations, and other cross-border research projects.
- 5) For the purposes of this questionnaire, multinational inventions are inventions conceived by two or more inventors where different national laws concerning inventorship apply to the inventions.
- 6) Most member states of the EU have some legal framework governing employer rights to employee inventions, as well as employee inventor rights to economic compensation. In

addition, there are special provisions governing employee inventor remuneration for the transfer of rights in the invention to the employer in a number of European countries.

- 7) Beyond Europe, codification in this area is not as common. For example, Australia lacks statutory provisions regulating employer rights to inventions developed by employees. In the US, with the exception of certain categories of federal employees, there is no explicit regulation by federal law. Employers' rights to employee inventions may be regulated by state law, and in general practice, employer rights to employee inventions are relatively extensive. Unlike Australia and the US, in Japan and China, employers' rights to employee inventions are regulated by statute. In addition, employee inventors have a right to seek reasonable remuneration for the transfer of the invention to the employer.
- 8) This questionnaire addresses the issue of compensating employee inventors of multinational inventions. For example, how do companies deal with inventions made by inventors in the US and a country with remuneration laws such as Germany or China? Do companies provide compensation only for their employee inventors in the countries requiring remuneration? How is compensation apportioned? These are current and important issues for multinational inventions, both employee inventors and their employers.

Previous work of AIPPI

- 9) AIPPI has previously studied inventor remuneration in the following contexts.
- 10) In the Resolution on Q40 – “The inventions of employees” (Helsinki, 1967), AIPPI resolved that:
 - a) *Unless otherwise provided by domestic laws or in the absence of an agreement between the parties concerned, the following regime should be applied:*
 - i. *The inventions eligible for protection made by the employees belong to the employer when they have been made with the means or experience of the latter or if connected with his type of activity. The employer shall enjoy the right of protecting the invention, in particular by a patent.*

Except in the case in which the invention is the result of a task entrusted to the employee, and is already remunerated, the employee shall have the right to request (to obtain) a special remuneration or a recompense which, in the absence of an agreement between the parties, shall be determined by a tribunal or by arbitration. This remuneration or this recompense shall take into account the importance of the invention and the contribution of the employee responsible for it.
 - ii. The employee shall have the right to be named as the inventor in the patent.
 - iii. The inventions made by an employee which do not fall within the above mentioned cases shall be regarded as 'free' inventions and will be the property of the employee.

11) In Q183 – “Employers’ rights to intellectual property” (Geneva, 2004), AIPPI studied the legal frameworks governing relations between employers and employees in the field of intellectual property rights. This study concluded that, taking into account the diversity of rights, harmonisation could initially relate to the statute of intellectual property rights in technical creations, such as patents; and includes such principles as:

- a) *The respect of the principle of the contractual freedom of the parties;*
- b) *The respect of the principle according to which the employer should profit from the right to use the inventions carried out by the employees within the framework of their contract of employment, and in particular when these inventions are carried out in the execution of an inventive mission, and that whatever the particular mode of the transmission of these rights for the benefit of the employer;*
- c) *The litigation concerning the attribution of the rights in this field should come under the responsibility of the Courts which rule in the field of the patents and if it appears useful to envisage a phase of conciliation, it should not be obligatory;*
- d) *The terms of limitation must be relatively short to avoid creating an uncertainty as for the ownership of the rights;*
- e) *And the starting point of the term of limitation must be also given.*
- f) *Lastly, if it appears justified to envisage compensation particularly for the benefit of the authors of inventions which will be transferred to their employer and who would be additional with the wages that they perceive, the criteria for the evaluation of this additional remuneration must be simple so as to avoid any useless dispute.*

12) In Q244 – “Inventorship of multinational inventions” (Rio de Janeiro, 2015), AIPPI studied inventorship of joint inventions where the inventors reside in different countries. This study evidenced a particular strong support for harmonisation of the definition of inventorship, for the ability to correct inventorship after the filing date, and the abolishment or simplification of first filing requirements. The remuneration of the co-inventors was expressly excluded from the scope of the proposals for harmonization due to the breadth of issues encompassed within inventorship per se. Remuneration for multinational inventions was the subject of a dedicated Panel Session at the AIPPI World Congress in Rio de Janeiro in 2015. From that discussion it was clear that inventor remuneration, particularly in the context of multinational inventions, is a significant problem facing employee inventors and employers alike.

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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.

Section 39(1) Patents Act 1977 provides that,

“... an invention made by an employee shall, as between him and his employer, be taken to belong to his employer for the purposes of this Act and all other purposes if -

- (a) it was made in the course of the normal duties of the employee or in the course of duties falling outside his normal duties, but specifically assigned to him, and the circumstances in either case were such that an invention might reasonably be expected to result from the carrying out of his duties; or**
- (b) the invention was made in the course of the duties of the employee and, at the time of making the invention, because of the nature of his duties and the particular responsibilities arising from the nature of his duties he had a special obligation to further the interests of the employer's undertaking.”**

For an analysis of this provision see *LIFFE Administration and Management v Pinkava*. [2007] EWCA Civ 217. This provision cannot be displaced by contract (Section 42(2)).

The combined effect of sections 39 and 42(2) is that “[o]wnership of inventions between employer and employee is not governed by direct contractual provisions as to ownership, but by s.39(1) and (2) alone” (*LIFFE* at [95]).

- 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 only distinction made in UK law is between those employees referred to in Section 39(1)(a) and those referred to in Section 39(1)(b). Employees referred to in section 39(1)(b), who possess a “special obligation to further the interests of the employer's undertaking” are likely to be limited to the senior management of the undertaking (e.g. managing director) (see e.g. *Harris' Patent* [1985] RPC 19 at 37).

- 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?

No.

- 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.

Yes. Section 40 Patents Act 1977 provides an entitlement to compensation for an employee, at subject to the judgment of the court or the comptroller, in an amount determined in accordance with Section 41, where "... having regard among other things to the size and nature of the employer's undertaking, the invention or the patent for it (or the combination of both) is of outstanding benefit to the employer; and "it is just that the employee should be awarded compensation to be paid by the employer". This provision cannot be displaced by contract (Section 42). The requirement for "outstanding benefit to the employer" establishes in practice a high hurdle which few applicants can meet – see *Shanks v Unilever Plc & Ors* [2017] EWCA Civ 2.

- 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?

No.

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 41(4) Patents Act 1977 provides for account to be taken of, inter alia, a) to c) in determining the amount of compensation. As to d), Section 40(3) provides that the entitlement to compensation which otherwise exists under Section 40 "... shall not apply to the invention of an employee where a relevant collective agreement provides for the payment of compensation in respect of inventions of the same description as that invention to employees of the same description as that employee."

Employment agreements other than a collective agreement may not diminish the employee's right to seek compensation under section 40 (section 42(2)). That said, terms in an employment contract which evidence the employer and employee's intentions with respect to employee inventions and remuneration therefor are likely to be material to the assessment of the amount of compensation (i.e. a "fair share" of the benefit of the invention to the employer – section 41) – see e.g. *Kelly & Anor v GE Healthcare Ltd* [2009] EWHC 181 (Pat) at [159].

Depending on the circumstances, the terms of the employment agreement, insofar as they do not overlap into the territory covered by the factors listed under section 41, may also be relevant in determining the threshold question of whether is just for compensation to be paid at all (section 40). Floyd J in *Kelly v GE Healthcare*, as he was then, noted at [41] that "*It is not desirable or sensible to seek to categorise the types of situation where an award may be unjust. The court will recognise such situations when they arise*" but also noted at [53] that "*questions of the remuneration of the inventor and the efforts the inventor made in making the invention are expressly listed as factors under section 41 in determining a fair share. It would be a little surprising therefore if establishing inadequate remuneration, or efforts beyond the call of duty were threshold requirements of obtaining any award under section 40*".

- 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?

An application for compensation must be made within the "prescribed period" which begins when the relevant patent is granted and which expires one year after it has ceased to have effect (Rule 63.12(2) Civil Procedure Rules).

- 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 compensation is variable, and is determined in accordance with Section 41 Patents Act 1977, but which requires that the compensation "be such as will secure for the employee a fair share (having regard to all the circumstances) of the benefit which the employer has derived, or may reasonably be expected to derive", from, inter alia, the invention in question and the patent for the invention.

Section 41(4) sets out a non-exhaustive list of matters to be taken into account in determining the "fair share" (where the invention has always belonged to the employer), notably including the effort and skill of the employee, the effort and skill of co-inventors, advice and assistance from those not listed as inventors and the contribution made by the employer. Logically, where co-inventors exist, the individual contribution of each to the invention will be likely to be lower than if a sole inventor were involved. The effort and skill of the other co-inventors in making

the invention would also therefore be taken into account. Accordingly, in practice, a greater number of co-inventors will likely reduce the amount of remuneration due to each (all else being equal).

In the sole successful application for remuneration to reach the courts, *Kelly & Anor v GE Healthcare Ltd* [2009] EWHC 181 (Pat), and in which the benefit of the patents in issue to the employer was estimated to be of the order of £50 million; a fair share for the employees was held to be £1 million for one inventor and £500,000 for the other, representing together about 0.1% of turnover in the product the subject of the patents.

- 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?

No. (Section 42(2) Patents Act 1977) However, as noted, the substance of the agreement between the employee and employer and any benefit/remuneration already derived by the employee from the invention may have a bearing on the amount of compensation to be paid (and possibly also the threshold question of whether compensation should be paid).

- 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.

Yes, an application for compensation under section 40 may be brought even if the employee inventor has already accepted remuneration for the invention, although this will be a relevant factor in determining the amount of the further remuneration to be paid.

In theory a second application could be brought even after an employee inventor has obtained compensation pursuant to a first application under section 40. However, in practice this is very unlikely, given that compensation has only ever been granted in one case. In any event a premature application would be unwise as it is even harder in an application brought before patent expiry to establish "outstanding benefit to the employer" than in one brought shortly after patent expiry.

- 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?

In *Kelly & Anor v GE Healthcare Ltd* [2009] EWHC 181 (Pat), mentioned above, the employee inventor who received the higher compensation was leader of the research project that led to the patents in issue and the other employee inventor had been a member of the team working on that project. According to section 41, it is the effort and skill devoted to making the invention which is relevant to

determining the contribution of each inventor for the purposes of determining the amount of compensation.

In *Kelly v GE Healthcare*, taking all of the “fair share” factors, and the evidence as to valuation of the benefit of the invention to the employer into account, Mr Justice Floyd established a broad range of possible shares of the benefit (ranging from nil to 33% on the evidence before him). He found in the circumstances that the employees’ (combined) share should lie towards the bottom of the scale (3%) and took a “very conservative figure” for the valuation of the total benefit (£50 million) and share of the benefit. The 3% share was then split into 2% (£1 million) for the project leader and 1% (£500,000) for the team member. This was considered to be a just and fair amount, considered in the round (as well as with respect to the closest comparator – a consultancy agreement providing for royalty payments for inventions that were commercialised).

- 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?

Not in general. By Section 43(2) Patents Act 1977 the provisions outlined above do “not apply to an invention made by an employee unless at the time he made the invention” he was either “mainly employed in the United Kingdom”; or “he was not mainly employed anywhere or his place of employment could not be determined, but his employer had a place of business in the United Kingdom to which the employee was attached, whether or not he was also attached elsewhere.”

- 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?

Yes. Subject only to the second limb of Section 43(2) Patents Act 1977 set out above the location of the employer is irrelevant.

- 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?

It can be envisaged that the number of co-inventors and their entitlement to compensation would have to be taken account of in deciding what would be a “fair share” for the UK based employees under Section 41 Patents Act 1977 (see response to question 8 above). However, if an employee inventor is entitled to make a claim, the location of the employer is irrelevant in assessing compensation.

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 theory, yes, but in practice no, given that the test of “outstanding benefit to the employer” is inherently hard to apply, and in practice establishes a hurdle which is extremely hard to overcome.

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

No, in part because of the dearth of case law as to how it is to be applied. However, as observed in the only reported case in which such compensation was awarded, *Kelly & Anor v GE Healthcare Ltd* [2009] EWHC 181 (Pat), at [7] “... the section presents difficulties of interpretation and application. There is no reported case of a successful contested award made under it, although there are known to have been some settlements. It is perhaps justifiable to note in passing that in the passage of the Bill through the House of Lords, Lord Nelson of Stafford is recorded in Hansard as saying that:

"I have never seen such a collection of vague terms in my life. What compensation, who is responsible, what is outstanding benefit, what value is to be put on this and what on that?" and "Who is to be the Solomon who will sort out all these vaguenesses at the end of the day and adjudicate on compensation when a claim is made, I hesitate to think."

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

There seems to be general consensus amongst the UK Group that the present system for employee remuneration in the UK is flawed in its conception and execution. As outlined above, there are serious difficulties in applying the law in this area, there has only ever been one successful case where compensation for employee inventors has been ordered, and in respect of what little litigation has occurred, such litigation has, in the main, proved to have been the source of unrealistic and dashed hopes on the part of employees.

Moreover, some hold the view that a problem with all such schemes (and not just that in the UK) is that they discriminate against employees whose contributions are to subject matter that is not treated as patentable, or which the employer might reasonably wish to keep secret, and also against those who although not as a matter of local law necessarily classed as “employees” perform the function of employees. We note that this last class of people is one that is growing fast, and not only in the UK, and consider that their situation would be a more appropriate area for further study than that the subject of this questionnaire.

More fundamentally, some consider that the case for state interference in the remuneration of inventor employees has not been made out, although the counterargument to this is that the more intrusive state interference is the deeming provision (section 39) which gives ownership of the invention to the employer rather than the employee and employee remuneration provisions are

part of the *quid pro quo* for that. A discussion of the basis for the deeming provision itself is beyond the scope of the present enquiry.

To the extent that it is considered that the current provisions are not working and are unsalvageable, we would favour its repeal.

On the other, in spite of the above, there are known to have been some settlements in relation to claims under these provisions, as noted by Floyd J in *Kelly & Anor v GE Healthcare Ltd* [2009] EWHC 181 (Pat). This would indicate that at least some employee inventors have benefited from this law, despite its flaws and despite the paucity of successful contested claims. Further, although it is difficult to assess or quantify the passive benefit employee inventors may be deriving from the existence of these remuneration provisions, the possible existence of such effects should not be discounted. For example, their existence may encourage employers to reward employee inventors more generously in the first place, to avoid the likelihood or later litigation. Removing them altogether would weaken the bargaining position of employee inventors (variously, for example, at the point of contracting in the first place, at the point of invention and reward therefor and in settlement negotiations) to obtain compensation for what some would see as “*the unfairness inherent in the fact that the law takes the invention away from the employee and gives it to the employer*” (as submitted by the employees’ counsel in *Kelly v GE Healthcare*).

If the law is not to be repealed then we consider that substantial improvement is required to clarify its limits and reduce uncertainty in its application (particularly for employees who may be misled as to the scope and intention of the law). A study of the passive benefits derived from the existence of the provisions could be helpful to assess how best legislative reform could be directed (or indeed whether the benefits are sufficient to justify the continued existence of the provisions).

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

None are currently proposed

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?

Not applicable

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

Not applicable

III. Proposals for harmonization

17) Is harmonization in this area desirable?

We would only support harmonization to the extent that it increased freedom of contract.

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.

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.

None, as we question whether this is an appropriate subject for state interference. If there is to be a standard then it should be as clear and as structured as possible in its application, and set a high threshold to be satisfied. Such a threshold is required in order to prevent a glut of litigation and uncertainty for both employers and employees, and to ensure employee inventor remuneration provisions act more as a shield than a sword – i.e. to be employed to provide recourse in circumstances where to do otherwise would be unjust in the circumstances, rather than deployed offensively where there has been a breakdown in the employer/employee relationship.

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.

None, as we question whether this is an appropriate subject for state interference. Presumably the applicability of national laws relating to the remuneration of inventor employees is tied to the applicability of the corresponding laws regarding employer ownership of such inventions. In any event, employment law, contract law and working conditions will differ between countries and are relevant factors in assessing the appropriateness of employee inventor remuneration provisions. Accordingly, we do not propose an international standard – national law should prevail.