

IP Assignment Clauses in German Employment Contracts

1. Introduction

IP rights are territorial rights; legal relationships to these IP rights are therefore mainly shaped by national laws. For these reasons, it will not be possible to use for example a US standard IP assignment clause for employees in Germany. The following remarks are designed to point out the considerations which employers will need to bear in mind when implementing IP assignment clauses in Germany.

The first issue to be discussed is who initially owns the rights in intellectual creations made by employees during the course of their employment and how these rights, if necessary, are assigned to the employer. This includes the question which limitations to such assignments exist and how such limitations could possibly be circumvented.

The second issue which is always related to IP assignment clauses is the issue of remuneration. This covers in particular whether an additional payment has to be made to employees by way of consideration for the attribution or assignment of IP rights.

The third issue is whether and to what extent the parties to the employment contract are subject to other obligations such as obligations to apply for a registration of IP rights or obligations to support the other party in PTO proceedings.

2. Who owns IP rights and how can such rights be assigned to the employer?

In the context of a German employment contract, a distinction should be made between patents or rights to inventions and copyrights on the one hand and other intellectual property rights on the other hand. This is due to the specific treatment which inventions and copyright protected works are given. The special treatment

of copyrights, for instance, is based on the strong manifestation of moral rights in European copyright law. With other IP rights, there are mostly no legal provisions that prohibit an assignment or make a payment of additional compensation mandatory.

2.1 Inventions

The term “invention” includes technical inventions within the meaning of Art. 1(2) of the Paris Convention for the Protection of Industrial Property. It also includes developments which are eligible for protection by patent or utility models. The legal relationship between employer and employee with regards to inventions is strongly influenced by national laws.

The basic rule under German law is very straightforward: An inventor initially owns the invention and the associated rights to it by virtue of the act of creation i.e. as a matter of an inventor’s natural right. This basic rule also applies in connection with employee-made inventions; the employee is the first owner of all rights connected to the invention. It is important to note that German law does not share the concept of *shop rights* or *hired-to-invent*. However, there are provisions under German law that are not so different from these doctrines.

The transfer of the rights in employee-made inventions to the employer is most peculiar in Germany. An advance assignment is not possible. Freedom of contract is generally very limited when it comes to inventions made by employees during their employment. The reason for this is that the German Act on Employee Inventions (*Arbeitnehmererfindungsgesetz – ArbEG*) lays down detailed and mostly mandatory provisions that leave little room for individual agreements.

1) German employee invention law distinguishes between employment-related inventions and free inventions.

All inventions which either result from the employee performing his or her duties or are significantly dependent on the company’s experience or works are considered employment-related inventions. Rights to employment-related inventions originally belong to the employee. However, employers are entitled to claim the transfer of these rights to them.

2) German law requires the employee to notify the employer of the created invention in writing. The employer then has the right to claim the invention within a period of four months. The transfer of the invention to the employer takes place automatically unless the employer expressly rejects the invention within this time limit in writing.

For employers, this may seem convenient because the employer then does not have to ensure a timely transfer of the invention. However, it should be pointed out that a number of obligations are created as soon as the employee notifies the employer about an invention, for example, the employer's obligation to apply for a patent or utility model. Also, the employer has to pay remuneration as soon as he has claimed or is deemed to have claimed the invention and put it into practice.

3) Inventions which are not employment-related inventions are free. This means that the employee may freely decide whether he or she assigns the rights to the employer or not. Nonetheless, the employee has to communicate such inventions to the employer unless the invention obviously cannot be used in the employer's business. The rationale behind this obligation is to enable the employer to assess whether the invention is an employment-related invention or a free invention.

The employee's freedom to dispose of free inventions is subject to an important restriction: Before the employee exploits the invention elsewhere, he or she is obliged to offer the employer a non-exclusive right of use on reasonable terms, provided the invention can be used in the employer's business.

4) In the context of international IP assignment agreements it is important to note that it is not possible to contractually deviate from the statutory rules to the disadvantage of the employee before a particular invention has been disclosed to the employer. This means that an employment contract cannot contain stipulations which – compared to the statutory provisions of German employee invention law – disadvantage the employee. Therefore, an IP clause will be void if it is designed to have the employee assign all rights in future inventions to their employer, regardless of whether the clause is supposed to apply to free inventions or to employment-related inventions.

5) The German Act on Employee Inventions prohibits all contractual agreements which deviate from the Act in favor of the employer if these agreements are

related to future employee inventions. Rights in employee inventions can especially not be pre-assigned in the employment contract. This restriction on contractual freedom cannot be avoided by use of a non-German governing law clause because German courts consider the German employee invention law as mandatory. According to Art. 8 (1) Rome-I Regulation a contractual clause must not result in that mandatory provisions of the national law are derogated.

2.2 Works protected by copyright

The situation differs significantly when it comes to copyright protected works. Broadly speaking, copyright is an intellectual property right which subsists in artistic, musical, literary and suchlike creations, provided these creations meet certain criteria.

First of all, it should be pointed out that the Anglo-American copyright system and the European copyright system differ substantially from each other. The Anglo-American copyright is an economic exploitation right; it grants its holder – as the term suggests – the *right to copy*, to exploit the creation. Copyright holder and work's author do not necessarily have to be identical; even though it is usually the author who first owns the copyright in the work, it can be (pre-)assigned to other individuals or legal entities. European copyright systems provide for a stronger connection between the copyright and the author of the protected work. This makes sense if one considers that even though the German *Urheberrecht* or the French *droit d'auteur* are often translated as *copyright*, the literal translation is *author's right*.

When employees create a copyright protected work, by virtue of this creation, they become the owner of the copyright. The employee cannot transfer the copyright to the employer, because copyright is non-assignable under German law.

Moreover, German copyright law does not know the concept of *work made for hire*, under which the employer is deemed the author of a work that an employee created within the scope of the employment and therefore owns the copyright from the outset.

However, the employee can grant the employer various exploitation rights, e.g. the right to reproduce the work or the right to distribute it. Exploitation rights can be granted exclusively or non-exclusively. An exclusive exploitation right also excludes the author from using the work.

Unlike in case of employee inventions, copyright exploitation rights can be granted with regard to future creations. In fact, German courts even assume an implicit grant of certain essential exploitation rights by virtue of the employment contract; naturally, this applies only to such works which employees create within the scope of their employment contract.

Nonetheless, employers should seek to obtain an express grant of exploitation rights in their employment contracts. Such an IP clause should not be worded vaguely. Rather the clause should exactly specify to what extent exploitation rights are granted. Ideally, it should name each type of exploitation that is supposed to be covered. Otherwise, only those exploitation rights will be covered which employers need in order to operate their usual business. Especially the right to license or transfer the granted exploitation rights to third parties is not always considered essential in order to conduct the ordinary business activities. Thus, it should be expressly granted in the employment contract. Furthermore, it is important to know that the grant of rights in respect of as yet unknown types of exploitation must be in writing and signed.

A special provision exists for employee-made computer programs: If an employee creates software in the execution of his or her duties or according to the employer's instructions only the employer is entitled to exercise the related proprietary rights. Thus, the employer is granted comprehensive rights with respect to all forms of exploitation by law. There is no need for a contractual agreement.

It should be noted that no insightful case law has been established with regards to the question of whether and under which circumstances an employee can validly commit themselves to offer future non-work related creations to his or her employer. An IP clause which includes such works is exposed to the risk that a court will hold it invalid or unenforceable.

Besides exploitation rights the German copyright includes moral rights. These are the right to determine if, when and how the work shall be published, the right to be recognized as the work's author and to be or not to be mentioned in publications and the right to prohibit a distortion of the work.

Moral rights cannot be waived as such; however, to a certain degree, employees may contractually commit themselves to not exercise them, at least as far as the exercise would hinder the authorized commercial exploitation of the work. Employers could, for instance, not exercise their right to distribute the protected work if employees objected to this by invoking their moral right to determine whether, when and how the work is to be published.

3. Remuneration

Another crucial question is whether the employer has to make extra payments for the transfer of rights to employee-made intellectual creations.

3.1 Inventions

According to German employee invention law, the employer has to remunerate the employee – beyond the monthly salary – in return for the rights to employee-made inventions.

When the employer has obtained the rights to an invention the parties shall individually agree upon a reasonable compensation on the basis of the invention's economic value. Each party may demand an adjustment if, at a later time, circumstances change which were decisive for determining the amount of compensation.

Employees cannot validly waive their right to additional remuneration in the employment contract, because the statutory provisions cannot be modified to the employee's disadvantage before a particular invention has been communicated to the employer. Moreover, an IP clause that stipulates a certain lump sum as remuneration for the transfer of rights over future inventions is void.

Only after the employee has informed the employer of a particular invention the parties may deviate from the statutory rules. However, such individual agreements

are void if they are grossly unfair. In what circumstances a contractual provision is considered grossly unfair cannot be answered universally. Neither does the Act on Employee Inventions specify the term, nor is there illuminating case law concerning this matter. A remuneration agreement is or becomes grossly unfair and thus void if the remuneration according to the agreement is considerably lower than the remuneration the employee could claim according to the statutory provisions. As a general rule it can be said that this should be considered if the agreed remuneration is below 50% of the remuneration owed under the Act on Employee Inventions. The real problems lie in this determination, where a lot of difficult to evaluate factors have to be taken into account. Despite that, a complete waiver of the right to additional compensation is not grossly unfair per se, provided the employee is entirely aware of the waiver's consequences. However, since courts do not assume a will to waive rights easily, complete waivers are rather exposed to the risk of being considered as grossly unfair.

Many German companies have introduced so-called *incentive systems* with which they offer the employee inventor a payment of a certain lump sum instead of ongoing (e.g. annual) payments for a particular invention. The offer is usually made when the employee reports the invention. The amount usually depends on the invention's estimated economic value. While some incentive systems leave it at that, others combine the payment of a lump sum with a waiver of several employee rights, e.g. the above-mentioned right to an adjusted amount of compensation. Even though employees are free to decide to be compensated pursuant to the statutory provisions of the Act on Employee Inventions instead, according to a recent survey, the majority chooses to be remunerated according to their employer's incentive system.

It is important to note that the same remuneration obligations come into existence with regards to so-called qualified improvement proposals, i.e. for improvement proposals which are not eligible for protection by a patent or a utility model but afford the employer a competitive advantage similar to that obtained from a patent or utility model.

3.2 Works protected by copyright

With respect to works that were created within the scope of the employment contract, employees are in general not legally entitled to additional remuneration.

Consequently, an IP clause of such contents will usually not evoke legal problems. Only if exploiting the work brings the employer a profit in relation to which the monthly salary is an inadequate reward, the employee may claim to be paid additional compensation. An IP clause whereby the employee waives this right will be void.

4. Other rights and obligations

Besides the questions of right's ownership and additional compensation, there are a couple of other issues that should be addressed in the context of IP rights in employment relationships.

4.1 Reporting of intellectual creations

Without the information that an intellectual creation has been made the employer cannot know about his or her rights to it. Such a situation can only be avoided if employees have the duty to inform their employer of intellectual creations they have made in the course of their employment.

German employee invention law stipulates the employee's obligation to immediately report a created invention to the employer. This applies to employment-related as well as free inventions, because the employer needs to be able to classify the invention in question. The relevant laws also contain provisions as to the content of the report (circumstances under which the invention was made, description of the invention etc.) and the formalities that have to be complied with. It should come as no surprise that in Germany, the employment contract cannot validly stipulate stricter requirements than the Act on Employee Inventions sets out because agreements that disadvantage the employee are only permissible after a particular invention has been reported to the employer.

With other intellectual creations there are usually no statutory provisions that stipulate an obligation to report. Such an obligation may be laid down by a clause in the employment contract. Otherwise, it will in most cases be implied by virtue of the employment relationship.

4.2 Registration of IP rights

As opposed to copyrights, intellectual property rights that serve to protect an invention, most importantly patents need to be registered with the competent authorities in order to come into existence. The right to apply for and be granted a patent is in fact the most valuable right connected to an invention.

As a general rule in European jurisdictions, the person or legal entity that holds the rights to an invention is also the one that is entitled to apply for and be granted a registered IP right for the invention at question. In an employment context this means that only the employer has the right to do so when he or she has acquired the rights to an employee-made invention.

In this context, German employee invention law contains some peculiarities.

As soon as the employee has reported an employment-related invention to the employer, only the employer is entitled to apply for a registration of IP rights in Germany, especially patents and utility models. Thus an employer has the sole right to apply for a registered IP right even before he or she claims the invention and thereby acquires the connected rights.

The sole *right* to apply for a registered IP right in Germany is accompanied by the *obligation* to apply for a domestic patent or utility model. The employer must file the application without undue hesitation. Again, it needs to be pointed out that this obligation arises as soon as the invention is reported to the employer. Depending on the particular circumstances, an employer might be obliged to apply for a German patent or utility model even before he or she has decided whether or not to claim the invention.

The obligation to apply for a German patent or utility model lapses in three scenarios. Firstly, if the employment-related invention has become free due to the employer's rejection of it. In this case all rights connected with the invention belong ultimately to the employee.

Secondly, if legitimate interests of the company necessitate the invention to be treated as a trade secret and the employer acknowledges to the employee that the invention is eligible for IP protection.

Thirdly and most importantly in our context, the obligation to apply for a German patent or utility model ceases if the employee has agreed that no application is to be filed. However, employers cannot be released from the obligation prior to the invention's disclosure to them. Therefore, a corresponding clause in the employment contract will be void. In practice it is common that employees release their employer from the obligation when they decide to be treated according to

their employer's incentive system instead of according to the statutory provisions of German employee invention law.

Only when the employer claims the invention, he or she also become entitled – but not obliged – to apply for a registration of IP rights abroad. However, the employee can permit the employer to do so before claiming the invention. As with most individual agreements concerning employee inventions, this is not possible in the employment contract, but only after the invention has been reported to the employer.

In the context of the registration of IP rights abroad the employer is subject to a peculiar obligation: With respect to the countries for which the employer does not desire to obtain registered IP rights, he or she has to release the claimed invention to the employee so that the employee can apply for IP protection in these countries. At the employee's request, the employer has to support the employee in the process of acquiring IP rights abroad. However, the employer can also be released from this obligation, but only after the invention has been reported. Many German companies also include the waiver of this obligation in their incentive system.

There are no legal provisions that speak against clauses in the employment contract obliging the employee to assist the employer in acquiring intellectual property rights for creations that are attributed to the employer. The German Act on Employee Inventions even stipulates that the employee, if requested to do so, has to assist the employer in the application proceedings and has to make the statements that are necessary in order to acquire registered IP rights.

4.3 Confidentiality

Where the employer enjoys the rights to an employee-made intellectual creation, it actually goes without saying that the employee must not disclose the creation to third parties or the public. This applies to both parties as long as the final attribution of the rights is still in abeyance.

The German Act on Employee Inventions as well as the Act on Unfair Competition and the French Decree on Employees' Inventions expressly state such an obligation to confidentiality as regards inventions.

Where there is no explicit statutory provision, the obligation to confidentiality results from the employment relationship itself. There is no need to expressly include it in the employment contract. However, a suchlike clause will not cause validity issues.

German competition law, for example, even penalizes the violation of the employee's obligation to confidentiality.

5. Conclusion and practical advice

German law, especially employee invention law, permits individual agreements in employment contracts only to a very limited extent. It is not possible, in individual agreements, to deviate from statutory provisions that are designed to protect employees. This applies in particular to remuneration regulations with the consequence that a waiver of statutory remuneration claims is impossible. Many issues, particularly in respect of invention's and copyright's ownership, are, however, sufficiently regulated by statute. For IP clauses in employment contracts it follows from this that, first of all, employers should draw a clear distinction between different types of IP rights in their employment contracts.

Below is an example of an IP clause that will be held valid under German law. Obviously, the clause does not give the employer as much rights as he or she would like to obtain. However, this is about as much as one can get under German law:

“Intellectual Property Rights

- 1. The Employee shall assign to the Employer the exclusive rights of use and exploitation, which is unrestricted in terms of time, territory and content, in any and all work results that are protected under the German Copyright Act and that the Employee creates during the term of his or her employment during his or her working hours.*
- 2. The same applies to any and all work results that are protected under the German Copyright Act and that the Employee creates during the term of his or her employment, outside of his or her working hours to the extent that they have been prompted by his or her contractual duties.*

3. *Any assignment of rights of use and exploitation under copyright laws shall include any use and exploitation that is unknown at the time of the conclusion of this contract. The assignment of the right of use and exploitation includes the authority to process the results and to grant rights of use to third parties.*
4. *The Employee expressly waives all other rights to the work results to which he or she may be entitled as their creator, in particular the right to be named as the creator, the right to modify such work results and the right to access such work results.*
5. *The provisions of the German Act on Employee Inventions apply to inventions and qualified improvement suggestions. The Employer shall be entitled to the work results the Employee creates during the term of his or her employment during working hours or outside of working hours and which qualify as employee inventions under the German Act on Employee Inventions. All rights to the invention, in particular rights under patent law or utility model law, shall transfer to the Employer in accordance with the German Employee Inventions Act.*
6. *The Employee shall immediately notify the Employer of any invention he makes and any improvement he devises during working hours or outside of working hours unless the invention or improvement manifestly cannot be of any interest to the Employer.*
7. *To the extent that work results which the Employee creates during the term of his or her employment during working hours or – to the extent they have been prompted by his or her contractual duties – outside of his or her working hours have not already been transferred under Sections 1 to 5., and do not qualify as inventions or qualified improvement suggestions, the Employee shall transfer to the Employer all rights to such work results, in particular trademark rights and design rights.*
8. *The granting of rights and the waiver of rights are fully remunerated through the remuneration paid to the Employee. This does not apply to*

claims for remuneration of inventions and qualified improvement suggestions.

9. The Employee shall provide to the Employer any possible assistance he or she is capable of and which is necessary or reasonable in attempting to obtain protection for intellectual property, including but not limited to signing of legal documents, providing test results available to him or her and commentary and explanation pertaining to his or her creation. The Employee shall also provide such assistance in the event of an enforcement of intellectual property rights owned or used by the Employer, including informing the Employer about any possible act of infringement of which the Employee becomes aware,

10. The provisions of the German Employee Inventions Act and Section 69b of the German Copyright Act remain unaffected.”