

# Calculating inventor compensation

 *The French system of remuneration for inventor-employees*

**Didier Intès and Sophie Losfeld of Beau de Lomenie explain the French legislation and investigate recent compensation awards**

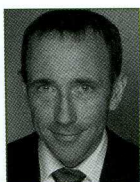
## IN SUMMARY

- French IP law classifies inventions made by employees into three types
- Inventor compensation is calculated according to the relevant category
- This feature examines French law and amounts awarded in recent cases

## AUTHORS

**Didier Intès** is a French Industrial Property Attorney and a European Patent Attorney. He joined Beau de Lomenie in 1992 and became a Partner in 2001. His main areas of practice are mechanics, hydraulics, shipbuilding and civil engineering. His practice covers all aspects of patent law, including prosecution, litigation, contracts and due diligence reviews of patent portfolios. He is fluent in English, French and German.

**Sophie Losfeld** (right) graduated from University of Paris la Sorbonne, and King's College London (LLM). She is qualified as a Barrister and was registered at the Paris Bar from 2001 until 2007. She practiced within law firms specialised in Intellectual Property, where she focused mainly on litigation aspects of the subject. She joined Cabinet Beau de Lomenie in 2007, where she principally provides support on patent law issues and related matters, such as unfair competition, misleading advertisement and IP tax law.



**F**rench IP law classifies inventions made by employees into inventions “of mission”, “out of mission, assignable” and “out of mission, not assignable” depending on the circumstances surrounding the development of the inventions. Each category governs ownership of the invention, and provides for a financial counterpart owed to the employee. However, the lack of concrete tests to determine the category or to assess the amount to be paid to an employee has generated case law which has focused on the issue of employees’ additional remuneration due to the employee.

## Three categories of inventions of employees

Article L. 611-7 of the French IP law provides that “inventions of mission” made by an employee “in the execution of a work contract comprising an inventive mission corresponding to his effective functions or to studies and research which have been explicitly entrusted to him”, shall belong to the employer. As a counterpart, the employer owes to the employee an “additional remuneration” determined in compliance with “the applicable collective agreements or company agreements, if any, and to individual employment contracts”. Additional remuneration is compulsory since an amendment to the law was introduced in 1990, and the Supreme Court ruled in 2005 that any derogatory agreement making the right to remuneration subject to a condition is void. A clause of the collective agreement for

the metallurgy industry stipulating that the additional remuneration is due only if the invention has an exceptional interest for the employer, was deemed void.

The second category (“inventions out of mission assignable”) applies to inventions made by an employee outside the frame of an inventive mission but “during the execution of his functions for the company that employs him, or in the field of activity of the company or by reason of knowledge or use of technologies or specific means of the company or of data acquired by the company”. Such an invention belongs to the employee unless the employer claims ownership. Here, a “fair price” – agreed between the parties – is owed to the employee, such a fair price being usually higher than the additional remuneration owed for inventions of mission.

Finally, “inventions out of mission, not assignable” cover employees’ inventions which have no relationship with the employer or are of no interest to the employer. They belong to the employee.

Classification of an invention among these three categories depends on mutual information of both parties. A notification procedure is set by regulatory provisions consisting of a declaration form filled in by the employee, which includes information relating to the object of the invention, the circumstances of its development, and the classification he suggests. Where classification implies the existence for the employer of a right of attribution, a description disclosing the problem faced by the employee and if possible, the state of the art, the solution provided, and at least one example of an embodiment, with drawings if any, must be enclosed to the declaration.



It has been recently judged<sup>1</sup> that non-compliance with the declaration formality does not lead the employee to lose his right to ownership over the invention. (In this case, however, the court considered that the employer could not ignore the existence of the invention because the company employed only five people and the chairman could not ignore that the inventor had worked on the invention). Following the employee's declaration, the employer has two months to accept the classification, his silence being construed as acceptance.

### Joint Conciliation Board

Usually, conflicts between employers and employees arise when the employee leaves the company (as a consequence of a redundancy or retirement) and claims payment for his fair price or additional remuneration. In addition, claims of payment go along with claims of right to be identified as the inventor (or even co-inventor). In both situations, the dispute may be submitted either to the High Court or to the Joint Conciliation Board which specialises in solving employees' invention matters. The Board has no judicial power and merely hands down reasoned decisions about the relevant amount upon which parties should

agree. However, arguments disclosed during the proceeding remain confidential, and decisions of the board are not published. A report of 2008 stated that 87% of the cases submitted to the board are initiated by employees and that disputes usually happen 10 years after the development of the invention. When parties disagree with the assessment made by the board, frequently one of them (in most cases, the employee) files a suit before the High Court. This proceeding before the court is not an appeal but constitutes a first instance notwithstanding the decision of the board.

### Time limits to initiate actions for payment

While it is agreed that the additional remuneration due for "inventions of mission" is a salary (and tax treated as such), one of the major issues since the 1980s has been to determine the time limit within which an action for payment could be initiated by the employee. Until recently, French Civil Code provided that actions for payment "of salaries (...) and generally of everything which is payable annually or at shorter periodical times", were barred after five years. Some contended that such a provision and time

limit did not apply to additional remuneration because they could be payable differently than annually and without periodical times. However, since a judgment of the Supreme Court of 2002, case law constantly rules (with one isolated dissenting decision in 2005) that the action for payment of additional remuneration must be filed within the five-year period.

The second issue was to determine the starting point of this period. The theoretical answer commonly agreed upon consists of stating that the period starts once the employee is able to assess the amount of his additional remuneration. As it will be explained hereunder, additional remuneration can consist of lump sums paid at different stages of the patent life, or be proportional to the commercial exploitation. With regard to remuneration owed in the case of exploitation, case law tends to require complete information of the employee instead of mere knowledge that the invention is exploited<sup>2</sup>.

One court, in favour of the employee, ruled that the starting point could consist, *inter alia*, of the notification by one party to the other one of the assessment it considers as the appropriate one, or of the date of expiry of the patent, or of the stopping of the exploitation<sup>3</sup>. Similarly, the Paris Court of Appeal<sup>4</sup> postponed the

Court/Date	Case	Details	Turnover (€)
Paris Court of Appeal 28 April 2004	<i>Christian Dior Parfums SA v Mr Meybeck</i>	17 inventions	n/a
Paris Court of Appeal, 13 May 2005	<i>Rhodia Chimie SAS v Mr Ray</i>	One invention	
Paris High Court, 14 September 2005	<i>Mr Brinon v Vygon SA</i>	One patent	4,450,000
Paris High Court, 5 April 2006	<i>Sebillaud v Fabricom Airport</i>	One invention One invention No exploitation No evidence of economic interest	20,550,000 n/a
Paris Court of Appeal, 10 November 2006	<i>Garcia v Fillon</i>	One invention, contribution by claimant inventor 50% One invention, contribution 90% One invention, contribution 50% One invention, contribution 100% One invention, contribution 100% One invention, contribution 55% One invention, contribution 50% One invention, contribution 50%	125,000 1,472,836 9,950 none 72,686 8,500,000 2,485,584 none
Paris Court of Appeal, 24 November 2006	<i>Mr Cousse and Mouzin v Pierre Fabre Medicament SA and Pierre Fabre SA</i>	Two patents covering one medicine	100m in Japan
Paris Court of Appeal, 15 Dec 2006	<i>HB Fuller France SAS v Mr Rouyer and Mrs Pariente</i>	One invention	n/a
Supreme Court, 18 December 2007	<i>Aube Viticole Services SARL v Mr Defrance</i>	Confirming Paris Court of Appeal 23 March 2005. One invention	n/a
Paris High Court, 7 November 2008	<i>Mr. Zanvit vs L'Oréal</i>	One invention	n/a
Paris Court of Appeal, 28 Nov 2008	<i>Comau France SA vs Mr. Thurier</i>	37 inventions, all patent protected, 18 not exploited	n/a



starting point to the date the employee could precisely assess the remuneration, even though it included, together with a bonus for exploitation, a bonus for filing the patent application and a further bonus for extending the application to foreign countries, both of these events having occurred more than five years before initiation of the action for payment. The court considered that the action for payment of the patent bonus was not barred because for these patents, the employer could not prove that the employee had been fully informed of the exploitation, or of the lack of exploitation, of the patents, and consequently, it was not established that the employee had previously been enabled to assess his remuneration. Clearly, the burden of proof is borne by the employer.

By contrast, the fair price due for "assignable inventions out of mission", which is not a salary, was subject to common law prescription of 30 years. However, this distinction of time limits has become outdated since a recent Statute (17 June 2008) modifying the prescriptions system and providing from now on that either additional remuneration or fair price payment claims must equally be raised within a period of five years. Issues relating to the identification of the

beginning five-year period will now apply to action for payment of fair price.

### **Inventive mission as entrusted by contract or else**

While the employer tends to qualify the invention as an invention of mission, the employee on the other hand will prefer the qualification of invention out of mission assignable, the fair price due in the latter case being usually higher than the additional remuneration due for inventions of mission. The key issue to solve this problem will consist of determining whether the employee developed his invention pursuant to an "inventive mission" as entrusted to him by contract or by other form of instruction, or not.

As for the inventive mission, the Supreme Court constantly rules<sup>5</sup> that an inventive mission consists of "finding a solution to a technical problem", and making research and tests contributes to this target. Such a mission may be entrusted by the employment contract. Courts do not merely search for an "inventive mission clause" in the contract and will instead read through the contract to find whether such a mission could result from the general balance of the contract. However, the mere presence of such a clause, if any, will not bind judges if one party can provide evidence that the effective mission entrusted to the employee was not a mission of making inventions.

Similarly, the lack of a clause dedicated to the definition of the mission as the one of making inventions will not hinder the qualification of invention of mission if one party can justify that such a mission had been entrusted by other means during the execution of the employment contract. Therefore, the mere title of the function of an employee as stipulated in his employment contract will not be self-sufficient to retain or reject the presence of an inventive mission. A comparison of the mission to the in-suit invention will be necessary to determine whether they are related to one another. In that respect, keeping a logbook listing everyone's tasks and duties will be pertinent. After solving this first issue, judges have to assess the amount to be paid to the employee.

### **Statutory rules of calculation for state agents**

French law stipulates precise calculation rules for the additional remuneration of state employees, as an incentive measure to encourage R&D activity in the public

sector. The public servant will receive a "bonus for patent" of €3000, 20% of it being paid at the end of a one-year period beginning with the first filing of the patent application, and the remaining 80% being granted at the time of the signing of a licence or assignment of the patent.

In addition, he will also be granted a bonus for the exploitation of the invention consisting of 50% (or 25% depending on the annual salary of the public servant) of the annual royalties received by the public body including a coefficient representing the contributory part of the employee. This bonus is paid every year and may be the object of instalments.

But, there are no similar provisions for employees in private sectors and this issue is left to the parties, who generally disagree, and therefore, to the courts. However, plaintiffs (employees) will often use this rule of calculation to evaluate their remuneration not as a main determination mode *per se*, but rather to enhance the fact that the remuneration they claim pursuant to another rule is less important, and thus, cannot be rejected by courts.

### **Reference to an agreement and/or free assessment of the Court**

In practice, judges will firstly refer to "collective agreements, company agreements and individual employment contracts" and see whether they stipulate modes of calculation of additional remunerations due for inventions of mission by exposing precise rules and amounts to apply (percentage and/or lump sums). As for collective agreements, most of them merely indicate criteria to take into consideration. For instance, the National Collective Agreement of Chemical Industries provides that "the amount of the additional remuneration, which may be paid in one single instalment, will consist of a lump sum taking into consideration the general frame of research covering the invention, difficulties of practical development, personal and original contribution of the inventor and economic interest of the invention".

As for company agreements, companies are discreet about the remuneration agreements they implement. Systems of remuneration are usually one of three kinds: a lump sum (paid at different stages such as invention declaration, patent application, and extensions application if any, patent grant) or exploitation-related (whether direct or indirect) sum or a mixture of both.

#### **Remuneration (€)**

300,000

300,000 (reversing the Paris High Court granting, €600,000)

100,000

30,000

1,000

10,000

6,000

1,990

4,000

5,000

4,000

24,000

4,000

30,000 each for two inventors (40,500 and 55,800 previously paid by employer). Employees claimed 9m each.

30,000 to each employee

20,000

10,000 (joint conciliation board suggested 5,500) in addition to 500 paid by employer

106,241



In practice, either there is no agreement, or when one exists, it remains quite vague about this specific issue by providing mere clues of calculation. In such an event, courts will assess the amount to be paid by taking into consideration circumstances surrounding the development of the invention such as:

- the number of inventors
- the contribution by the inventor
- the average royalty rate applied in the relevant industry, if any
- the turnover realised while exploiting the invention if any
- economic and scientific interest of the invention
- difficulties met during the development of the invention

Similar criteria are used with respect to determining the fair price due for inventions out of mission.


### Criteria of assessment instead of rule of calculation: from €600,000 to €1,000

A major judgement was handed down in 1997 by the Paris Court of Appeal, confirmed in 2000 by the Supreme Court, ruling the employer, a pharmaceutical

company, owed to its employee just over €600,000. The figure was quite high, and has never been exceeded ever since, but rather minimal if one takes into account that the employer had made a turnover of €100m in France and almost €7m in the USA (licensing). Even though this decision remains isolated with respect to the amount granted to the employee, employers nevertheless realised that additional remuneration was a real issue to seriously deal with instead of waiting for litigation.

In this specific case, apart from the turnover generated by exploitation of the invention, the importance of the invention was a relevant criterion for the court, since this invention was directed to a medicine for treating cancer. Later decisions were less generous (see table pp18 & 19), also due to the fact that the mere application of a percentage on the turnover may reach figures high enough to deter judges from not counter-balancing their evaluation with other factors.

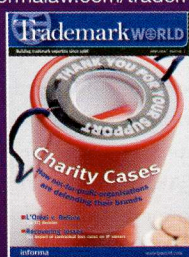
Figures clearly state that the criteria of assessment do not constitute a precise method of calculation, so there is a wide range of possibilities, and therefore uncertainty, in the assessment of

additional remuneration. If the principle of remuneration of an invention of mission has left the status of a mere faculty to become an obligation upon employers, many are those requiring a legal reform implementing definite rules of calculation. The issue is not only to ease the task of judges but also to enhance engineering activity of French companies for it has been observed that when schemes of remuneration had been implemented in advance, inventions, declarations and patent applications increased. 

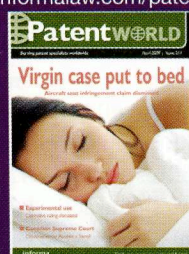
### Notes

1. Supreme Court, Dec. 18, 2007 (*Aube Viticole Services SARL vs Mr. Defrance*).
2. Paris Court of Appeal, April 28, 2004 (*Christian Dior Parfums SA vs Mr. Meybeck*).
3. Paris High Court, April 5, 2006 (*Mr. Sebillaud vs Fabricom Airport Systems SA*).
4. Paris Court of Appeal, Nov. 28, 2008 (*Comau France SA vs Mr. Thurier*).
5. Supreme Court, June 3, 2008 (*Mr. Rouyer and Mrs Pariente vs HB Fuller France*); Paris Court of Appeal, Sept. 21, 2007 (*Conte SAS vs Mr. Chochoy and Foscarin*); Supreme Court, Nov. 21, 2000 (*Mr. Vesque vs France Telecom*).

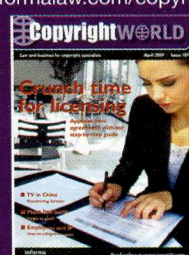
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