KADOR & PARTNER

NEWSLETTER

IP NEWS FROM EUROPE AND GERMANY

May 2019

I. NEWS ABOUT US

New Partners

We are happy and proud to announce that as of January 1, 2019 three of our patent attorneys, **Dr. Wilhelm Eger, Dr. Sebastian Siebenhaar** and **Dr. Johannes Wehner**, have become partners to Kador & Partner.

All three have been educated as German and European patent attorneys in our firm, and while Wilhelm and Sebastian worked as associates at Kador & Partner since their qualification, Johannes had started his own firm close to Fulda (Germany) before re-joining Kador & Partner.

Sebastian, Wilhelm and Johannes

We are fortunate to have such capable new additions to our partnership!

Training Course on European IP Law in October 2018

From October 6 to 13, 2018 we held our biannual advanced training course on European IP Law at our Munich office. Participants came from all over the world, including the U.S.A., Japan, China, and Brazil.

The course first provided an overview of the European patent system and procedures, then continued with an in-depth handling of these topics:

- The assessment of novelty and inventive step under the EPC
- The requirement of sufficient disclosure of the invention
- The strict approach of the European Patent Office on amending claims - added matter
- Best practices in opposition and appeal proceedings

Utz welcoming our seminar participants

- Infringement and litigation under European and German law
- The European Trade Mark system.

An overview of the new Unitary European Patent and the Unified European Patent Court was also given, and the consequences of Brexit were discussed.

The participants also attended an EPO appeal hearing to experience these proceedings first-hand.

Aside from IP issues, the participants were offered a variety of social activities, including a trip to Bavarian King Ludwig II's famous Neuschwanstein castle, a sightseeing tour of Munich, a visit of the famous Munich Oktoberfest and a trip to the picturesque lake Chiemsee.

Our next seminar will take place in October 2020. For more information on the seminar and a detailed description of both lectures and social activities, please refer to our web page www.kadorpartner.com, under the "Seminar" link. It would be great to welcome you then at our premises!

New Patent Attorney Trainee

We are pleased to welcome **Ms. Kathrin Inzenhofer** as a patent attorney trainee in our firm. Kathrin holds a diploma in chemistry from the University of Bayreuth and worked there as a research associate.

She then joined the European Patent Office and worked as a patent examiner in the field of polymers, inks and coatings for several years.

We are happy that Kathrin joins our team and look forward to working with her!

Excursion to Brixen

In autumn last year, our team made an excursion to the medieval city of Brixen in South Tyrol.

We hiked in the beautiful vineyards surrounding Brixen to the famous Neustift monastery which is still producing wine today and is known especially for its excellent white wines which we enjoyed tasting!

Part of our team hiking in the vineyards close to Brixen

II. GENERAL IP ISSUES

Consequences of Brexit for European Patents and Trade Marks

1. European Patents

The European Patent Convention (EPC) under which European patents can be applied for since 1977 is an international treaty between 38 member states and neither administered by the EU nor linked to EU member state status. This can be seen e.g. from the fact that Switzerland and Norway are members of the EPC but not of the EU. The same will apply to the UK after Brexit.

Accordingly, Brexit will not affect the application and granting procedure of European patents and European patents may also in the future be applied for with effect in all EPC member states including the UK.

Furthermore, through the grant of a European patent, the patentee obtains a “bundle” of patents in those EPC member states in which the patentee validates the European patent which are equivalent to granted national patents

Thus, also the status quo of national parts of European patents which have been validated in the UK will remain unaffected by Brexit.

However, Brexit may affect the issuance of supplementary protection certificates ("SPCs"). SPCs allow patent proprietors primarily from the pharmaceutical sector to extend the term of patent protection beyond the usual 20 years. The rationale for this is that products protected by such patents often have to undergo long approval processes, thus effectively shortening the term of protection.

In contrast to national parts of European patents, SPCs are governed by an EU regulation that will not automatically apply after Brexit.

The biggest impact that Brexit will have on patent protection in Europe is certainly on the implementation of the Unitary European Patent (“UEP”) and the Unified Patent Court ("UPC"). These were planned to be the two pillars of a simplified and more cost-effective way to obtain patent protection in all EU member states through one unitary patent valid in the whole EU after grant.

The first pillar, the UEP, is based on two EU regulations so that after Brexit it is clear that these will no longer apply to the UK. Thus, the UEP will certainly not come into effect as planned, and it remains to be seen in which way the regulations will have to be adapted to the new situation and whether a way can be found to include the UK in the protection offered by a UEP.

The second pillar, the UPC, is based on an international agreement between the EU member states which is, in principle, independent from EU member state status. Under the current UPC agreement, even one of the three central division courts is supposed to be based in London.

Although the UK has ratified the agreement, it remains to be seen how the UK will in practise handle its membership to the agreement because the last instance in this court system is the European Court of Justice, and it was always expressed as one of the goals of Brexit to regain independence from that court.

Thus, apart from the fact that the likelihood that the UK will join the UEP/UPC system after Brexit and hence that UEPs will be available/effective in the UK is very small, Brexit will in any case cause severe delays in establishing the new system for the remaining EU member states.

2. European Trade Marks and Registered Designs

Unlike European patents, European Trade Marks (EUTMs) and Registered Community Designs (RCDs) are based on EU regulations and are administered by an EU authority (the EUIPO).

Thus, EUTMs and RCDs after Brexit will no longer have effect in the UK. However, the UK government has expressed that it will seek to ensure continuity of protection and avoid the loss of those rights.

According to information from the UK IPO[1], the UK IPO will for all registered EUTMs (RCDs) automatically create comparable UK trade mark (design) rights which will be recorded on the UK register. If EUTM (RCD) holders do not desire protection in the UK, there is the possibility to opt out from obtaining such UK rights.

The UK rights will become valid as of the day of Brexit, will retain the filing dates of the corresponding EUTM (RCD), and will also inherit any priority and/or seniority dates. They will be fully independent UK trade marks (designs) which can be challenged, assigned, licensed or renewed, separately from the original EUTM (RCD).

Applicants of pending EUTMs (RCDs) will be able to refile after Brexit with the UK IPO under the same terms (filing date, priority, seniority) for a UK equivalent right using the normal application process for registered trade marks (designs) in the UK. This applies for a period of 9 months from Brexit, and the cost of refiling the application will be in accordance with the UK application fee structure. This procedure, however, will not be initiated automatically by the UK IPO but will have to be actively pursued by the applicant.

Brexit will also have a severe impact on representation before the EUIPO, because UK patent attorneys and lawyers will no longer be allowed to represent applicants in proceedings before the EUIPO. British representatives who lose their capacity to act before EUIPO due to Brexit will be

(i) automatically removed from all files in EUTM and RCD related proceedings,

(ii) deleted from EUIPO's database of representatives (and, where applicable, from the Office's list of professional representatives).

According to information provided by the EU, EUIPO will invite rights holders to appoint a new representative, should this become necessary, where such a need actually occurs. This will be the case where the right in question is, or becomes, subject to pending proceedings before the Office.

Value of Trade Marks

Trade marks identify the origin of goods or services and hence distinguish goods and services of a company from that of other companies. At the same time, trade marks are the most important components establishing what is termed a "brand" and the goodwill, i.e. value, associated with it.

A brand such as e.g. "Apple" does not necessarily refer to only a single product or trade mark, but rather may refer to a whole portfolio of trade marks including further items such as domain names, social media presence, advertising and more. So the "brand value" may go beyond a single product or service offering.

[1] See e.g. https://www.gov.uk/government/publications/trade-marks-and-designs-if-theres-no-brexit-deal/trade-marks-and-designs-if-theres-no-brexit-deal

Brands can constitute the most valuable assets of a company and in any case can have surprisingly high values, as can be seen from a ranking of the most valuable brands in the world:

Ranking	Brand	Estimated Value
1	Apple	$ 184 billion
2	Google	$ 141 billion
3	Microsoft	$ 80 billion
4	Coca-Cola	$ 70 billion
5	Amazon	$ 64 billion
6	Samsung	$ 56 billion
7	Toyota	$ 50 billion
8	Facebook	$ 48 billion
9	Mercedes	$ 47 billion
10	IBM	$ 46 billion

via Interbrand Best Global Brands 2017

Unlike other IP rights such as patents trade marks have no pre-determined "expiry date" but may be renewed for an infinite number of times so that trade mark owners can continuously build up goodwill in their marks and keep it proprietary.

For evaluating the goodwill of trade marks, different methods are available and have been used in litigation, licensing and other contexts. These valuation methods include estimations on how much the trade mark contributes to the revenues generated with products/services sold under the mark which, in turn, is decisively influenced by the quality expectations the customer associates with the trade mark.

The systematic building up of goodwill starts already by choosing the right trade mark. Conceptually strong marks are such which are suggestive and/or fanciful and thus allow the customer to easily recognize the mark. Before applying for the registration of a selected mark it is highly advisable to check whether the same or similar marks already exist, in order to avoid conflicts which might prevent registration or cause a deletion of the selected trade mark.

As trade marks are protected on a regional/national basis, a strategy has to be developed in which countries the mark should be registered to ensure that protection is obtained in all important markets.

Finally, in order to maintain the goodwill built up with a trade mark, the market should be thoroughly watched whether there is any infringing, improper and/or unauthorized use of the trade mark, and if this is affirmed, legal action should be taken.

Simultaneously, the trade mark registers of the countries in which the mark is registered should be monitored and action should be taken in case it is found that the same or confusingly similar trade marks are applied for or have been registered.

Of course, as can be seen from the brand ranking above, it is most important for the goodwill of a brand or trade mark that customers associates a high quality of the goods or services provided under the mark, so that they decide to buy from the company owning the trade mark/brand instead of buying from another company.

III. EUROPEAN PATENT LAW

Question of Double Patenting referred to Enlarged Board of Appeal[2]

The interesting and important question of "*prohibition of double patenting*" has already been considered by the Enlarged Board of Appeal (EBA) of the EPO in decisions G1/05 and G1/06.

The opinion of the EBA in these decisions was that an applicant "*had no legitimate interest in proceedings that gave rise to the grant of a second patent in respect of the same subject-matter for which he already held a patent*" (G 1/05, reasons 13.4).

The issue of double patenting may arise in two situations – divisional applications and applications claiming internal priority.

For the latter situation conflicting decisions by Technical Boards of Appeal have been issued after G 1/05: In T 1423/07 it was found that prohibiting "*double patenting*" has no legal basis and that an applicant may have a legitimate interest in the pursuing a second application having the same claims' scope.

By contrast, in T 307/03 the Board held that Art. 60 EPC provides the legal basis for preventing "*double patenting*" even in cases of internal priority.

In the present case T 318/14 the applicant appealed the rejection of a European patent application (EP 2 429 542) by the Examining Division which was based on the ground that the claims covered subject matter identical with the patent granted on the European priority application.

In view of this situation and the diverging decisions as regards "*double patenting*" the Board has referred the following questions to the Enlarged Board of Appeal:

"1. Can a European patent application be refused under Article 97(2) EPC if it claims the same subject-matter as a European patent granted to the same applicant which does not form part of the state of the art pursuant to Article 54(2) and (3) EPC?

2.1. If the answer to the first question is yes, what are the conditions for such a refusal and are different conditions to be applied where the European patent application under examination was filed

a) on the same date as, or

b) as a European divisional application (Article 76(1) EPC) in respect of, or

c) claiming the priority (Article 88 EPC) in respect of a European patent application on the basis of which a European patent was granted to the same applicant?

2.2. In particular, in the latter case, does an applicant have a legitimate interest in the grant of the (subsequent) European patent in view of the fact that the filing date and not the priority date is the relevant date for calculating the term of the European patent under Article 63(1) EPC."

Our comments:

It is to be welcomed that the EBA will clarify whether or not there is a "principle of prohibition of double patenting" and, if so, what the pre-conditions are for it to be applied.

At present not only diverging decisions of the Boards of Appeal exist on that issue, but also in the practice of the examination at the EPO the issue of "double patenting" has been handled quite inconsistently. For example, objections have been raised not only in cases of claims having the

[2] Case T 318/14 of February 7, 2019.

same scope, but also in cases of claims with (only) overlapping scope.

While it may be so that there is, as the EBA found in G1/15, no legitimate interest of an applicant to obtain two patents with claims having the same scope of protection, certainly the fact that no legal basis for the "principle of prohibition of double patenting" can be found in the EPC must be thoroughly considered.

From a practical perspective, it seems that "double patenting", i.e. issuing two patents having the same scope of protection for the same applicant, does not harm the interests of the public, as in cases of infringement proceedings installed on the two patents separately the cases would certainly be combined by a Court. Similarly, if one patent is revoked in an opposition or invalidity proceedings, the second patent would be deemed to have the same fate. Rather, in cases of two patents with the same scope, the applicant has the disadvantage of paying annuities for two applications without effectively having additional protection.

In cases of patents with claims which are not identical but have overlapping scope it is highly desirable that a "prohibition of double patenting" is not applied in any form because otherwise a whole range of new issues may become relevant in practice, such as e.g. the question of how to avoid the overlap without including unallowable amendments.

IV. GERMAN LAW ON EMPLOYEES' INVENTIONS

Principles of the German Law on Employees' Inventions and of the Calculation of Employee Inventors' Remuneration

The German Act on Employees' Inventions (GAIE) came into force in its original form already in 1957, with the intention of promoting the creation of inventions by company employees. It attempts to balance the interests of employed inventors with that of their employers and regulates the rights and obligations of both parties.

Key issues in this regard are that according to German law an invention, even if made on the job, is initially owned by the inventor which means that the inventor holds all rights in the invention. On the other hand, it is recognized that the employer has a legitimate interest in obtaining the rights to the invention since it (usually) resulted from work the employee is employed for.

GAEI resolves this conflict by entitling the employer to claim the right to an employee's invention and hence to transfer ownership of the invention to the company (apart from the inventor's personal rights such as being mentioned as an inventor) and, at the same time, obliging the employer to pay an "adequate remuneration" to the employee inventor.

Once an invention has been made, employees have to report the invention "promptly" to the employer, i.e. without undue delay (Sect. 5 GAEI). This applies actually to all inventions made by employees, regardless where they have been made and whether or not they are related to the business field of the employer.

Such a report must enable the employer to fully understand the technical object of and the solution provided by the invention, including the technical means for its realisation, and it must also contain a description of how the invention was made.

Within two months of receipt of the first report, the employer may request additional information, otherwise the report will be deemed to be complete.

The receipt of a complete(d) invention report triggers a four month term for the employer to (actively) claim the invention. If the employer remains silent, the invention *is deemed to have been claimed* by the employer after expiry of the four month term. This means that only in case the employer *explicitly releases* the invention to the employee, the rights to the invention will not be transferred to the employer.

This is a significant change to the situation before 2009 when GAEI was amended. Under the old regime, the employer had to actively claim the invention for it to be transferred to him. This was perceived as being unsatisfactory as especially in smaller and midsized companies not all formal GAEI procedures were observed, which in several cases lead to the situation that important inventions were unintentionally not claimed and hence not transferred to the employer.

After an invention is claimed (or is deemed to have been claimed) the rights are transferred to the employer, who is then obliged to pay the inventor an *"adequate remuneration"* and to apply for a German patent or utility model. The latter obligation ceases to apply if the invention is to be treated as a trade secret.

The employer may also apply for patents on the invention abroad in countries of his choice. However, for countries in which the employer does not intend to file an application, he has to release the invention to the inventor in due time for the inventor himself to be able to file respective foreign applications claiming the priority. At the same time, the employer can reserve a right of joint use of the foreign applications filed by the inventor, which is subject to payment.

The *"adequate remuneration"* is in practice determined in accordance with the official *"Guidelines for the Remuneration for Employees' Inventions"* as issued by the Federal Government of Germany, using the following formula:

R = VI x CF x SI

with R = amount of remuneration

VI = value of invention

CF = contribution factor

SI = Share of individual inventor
if more than one inventor
(100% in case of a single inventor)

A) Value of the Invention VI

The *"value of the invention"* for inventions which are used, e.g. in products sold to customers, has usually to be determined using the *"license analogy method"*. As the name tells it is to be determined which license fee/license rate (LR) a company would have paid to a "free inventor" from whom the technology had been licensed.

The value of the invention is then calculated by multiplying the license rate so determined with the total revenue (total turnover, TT) realized with the product:

VI = LR x TT

Regarding the license fee/license rate determination, two cases have to be distinguished:

a) The technology has in fact been licensed

According to the case law of the German Federal Supreme Court, in case of actual licensing, the *"concrete license analogy method"* must be applied which starts from the license contract

and the fees/rate agreed upon therein. Then, a detailed analysis of the content of the licensing contract has to be made in order to determine whether other valuable items (such as the transfer of know-how, other patents or trademarks) may have influenced the amount of the license fees. If this applies, the LR used in the equation above has to be reduced accordingly.

b) The technology has not been licensed

In these cases the *"abstract license analogy method"* has to be applied. This method involves the determination of license fees/rates which were applied by the employer when licensing out *similar* subject-matter. If such data are not available, license fees/rates used by third parties for licensing of similar technologies in the industry have to be considered.

In Germany, there exists a well-accepted standard collection of license rates classified according to IPC classes. For orientation purposes, in chemistry, license rates used in the license analogy method for chemical mass products usually range from 0.1 to 0.6 % and for the remaining inventions the license rates in chemistry range from 1 % to 2.5 %.

The total turnover TT is the net turnover achieved with the products covered by the patent(s) for the invention. Thus, for example, where a license rate of 1 % applies and a net turnover of EUR 1,000,000 has been realized, the VI of an invention is EUR 10,000.

B) Contribution factor CI

The contribution factor is supposed to reflect the contribution of the inventor to the invention and is determined by three partial factors which are

a) Definition of the problem,

b) Solution of the problem, and

c) Tasks and position of the employee in the company.

For these three factors, a rating in points has to be determined and the sum of the points then determines the final "contribution factor".

In the following, details on the three partial factors are given:

a) Definition of the problem

Here, three main groups are usually distinguished:

i) a company-initiated problem, i.e. the problem was indicated to the employee by the company, e.g. by the head of the R&D department;

ii) the problem was found by the inventor because of insight and knowledge acquired through the company;

iii) he or she defined the problem on his or her own.

For example, if the inventor found the problem completely on his or her own, the rating is 6. If the problem was indicated to him or her by the company, the rating would be 1. In this rating system, also half points are possible.

b) Solution of the problem

Here, the main criteria are:

i) Was the solution found based on considerations which are common in the profession?

ii) Was the solution found based on work done at or knowledge acquired at the company?

iii) Did the company support the inventor with technical means?

If all the above questions fully apply, then the rating will be 1. If neither of the question applies, the rating will be 6.

A rating between 1 and 2 will usually apply for a regular case.

c) The tasks and the position of the employee at the company

Here, usually 8 groups are discerned:

1. the leader of the complete R&D department of the company

2. a department leader in R&D

3. a group leader in R&D

4. an engineer or chemist in R&D

5. a higher technically educated em ployee with e.g. a university degree

6. a worker with a thorough technical education, e.g. a lab technician

7. a technically educated worker, e.g. a lab assistant

8. an untrained worker.

The point count corresponds to the number of the group.

To determine the contribution factor, the ratings of a), b) and c) are summed up and then translated into the contribution factor according to the following table:

a+b+c	3	4	5	6	7	8	9	10	11
A [%]	2	4	7	10	13	15	18	21	25

a+b+c	12	13	14	15	15	17	18	19	20
A [%]	32	39	47	55	63	72	81	90	100

with

a = points which are based on the definition of the problem,

b = points which are based on the solution of the problem,

c = points which are based on the tasks and position of the employee, and

A = contribution factor (employee's contribution to the invention in %)

In practice, contribution factors so determined usually range from 7 % to 25 %.

As an example, the following calculation can be made:

Assumed is a total net turnover (TT) made with products using the invention of EUR 1,000,000, and a license rate of 1 %, then, as mentioned above, VI the folume of the invention is EUR 10,000.

Assuming further that the invention has been made based on a problem indicated to the inventor by the company, all questions as to support by the company fully apply, and the inventor is an engineer or chemist in R&D, a+b+c would be 6 and hence the contribution factor (CF) would be 10 %.

The remuneration for a single inventor (SI = 100 %) accordingly would be EUR 1,000.

The claim of the employee inventor to remuneration comes into existence fundamentally when the invention is claimed by the company and falls due 3 months after use of the invention has been taken up. It continues to exist for the lifetime of the patent(s) covering the invention.

In principle, the remuneration has to be calculated according to the above scheme for each invention and inventor individually. However, it has been acknowledged that the administrative effort for doing this in many cases exceeds the amount payable to the inventors.

Thus, to circumvent this situation and to further promote innovative activities, so-called incentive systems are frequently used today. The core of such systems is that a lump sum remuneration (usually in the order of several hundred Euros) is paid very soon after the invention has been claimed by the company, regardless of whether or not the invention is or will be in fact used and regardless of the turnover made using the invention.

However, such lump-sum agreements are acceptable only as long as the lump sum is not “inequitable” for the inventor, which means that the lump sum may not be less than 50 % of the individually calculable remuneration.

Thus, also with incentive systems the turnover made with a patent-covered product must be continuously watched and if a certain threshold is exceeded, further remuneration must be calculated and paid to the employee.

The statutory provisions outlined above are (much) more detailed than in most other countries. It is not possible to deviate from the provisions in advance to the detriment of the employee inventor, for example by way of the employment agreement. In most cases, there is therefore a considerable need for advice in this area.

Internal company guidelines that reflect the provisions of German law and provide for incentive agreements based on lump sum payments may help to reduce the administrative burden for handling employees' inventions.

KADOR & PARTNER

80469 München
Corneliusstraße 15
Phone: +49 89 201 52 52
Fax: +49 89 201 52 42
mail@kadorpartner.com

6020 Innsbruck
Bienerstrasse 2A
Phone: +43 512 58 33 12
mail@kadorpartner.at

London SWIV 1QL
99 Warwick Way
Phone: +44 20 78348589
Fax: +44 20 76300286
mail@kadorpartner.com

03001 Alicante
Castanos 10 - Atico 3
Phone: +34 965 215758
Fax: +34 965 215758
mail@kadorpartner.com

www.kadorpartner.com

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