SZECSKAY
Ügyvédi Iroda · Attorneys at Law

H-1055 BUDAPEST, KOSSUTH TÉR 16-17
(MAIL: H-1245 BUDAPEST PF/POB 1228)
HUNGARY

Tel: +36 (1) 472 3000 • Fax +36 (1) 472 3001 • info@szecskay.com • www.szecskay.com

IP LAW IN HUNGARY: THE RULES APPLICABLE TO SERVICE INVENTIONS

BY DR. GÁBOR FALUDI AND DR. GUSZTÁV BACHER

In Hungary, *Act XXXIII of 1995 on the Protection of Inventions by Patents* (the "Patent Act") is the key piece of legislation in respect of inventions created in employment relationships. The Act differentiates between employees' inventions and service inventions in its provisions applicable to this domain.

Service inventions refer to the inventions of persons on whom it is incumbent to develop solutions in the domain of the invention pursuant to the employment relationship. The patent claim belongs from the outset to the employer, as the legal successor of the inventor.[1] An inventor is the person who has created an invention and has the right to be indicated on the patent documents as such.

An ***employee invention*** is the invention of a person, who develops an invention *without* an incumbent duty to do so arising from the employment relationship. The patent claim belongs from the outset to the inventor; the employer, however, is entitled *ex lege* to utilize the invention. The employer's right of utilization is not exclusive.

Due to its greater practical importance, it is the nature of the service invention that will be explored in the balance of this paper.

REPORTING AND MANAGEMENT REQUIREMENTS

The inventor is required to report the service invention to the employer immediately following its creation. The employer has ninety days following receipt of such notification to make a declaration signaling his intention to claim the service invention. Absent this declaration in the prescribed time period, the inventor employee may freely dispose of the rights in the service invention. The same is true if the employer consents to such an outcome.

In the event the employer chooses to claim the service invention, he is obliged to file a patent application within a reasonable time following receipt of notification regarding the

[1] This provision explains the difference between the approaches of the continental and Anglo-Saxon patent legal systems. The right to claim to a patent in our system lies originally with the creator, i.e. the inventor, even if this person is employed and the employer may, pursuant to the service contract, be the legal successor of the economic rights only. In other words, this system does not acknowledge the original right ownership of the employer or the "master" of creations (inventions and works) made for hire or within a labor relationship. From this approach stems the statutory right of the service inventor to be remunerated beyond his /her wages if the legal successor, i.e. the employer, utilizes the service invention.

existence of the invention. The Patent Act imposes an additional duty on the employer to act with the level of care generally expected in acquiring a patent. Moreover, if the employer omits or commits an act that would result in the rejection of the patent application, the employer must offer a free assignment of the patent claim to the inventor.

If the employer considers the invention to be utilized as a trade secret, he will not file a patent application or withdraw it if it has already been submitted and has not been publicized. Under these circumstances, the employer must acknowledge that absent its trade secret characterization, the service invention would otherwise be eligible for patent protection. The employee must be notified of this decision and in case of dispute, the burden of proof is on the employer to demonstrate that the invention was ineligible for patent protection.

REMUNERATION OF THE INVENTOR

There are two possibilities for the remuneration of inventors: **(i)** payment through a license analogy or **(ii)** a lump sum amount. The inventor's right to remuneration arises upon the utilization of the invention. As outlined in greater detail below, the concept of utilization is broadly interpreted. The Patent Act includes a number of provisions in connection with the statutory claim of remuneration that is due to inventors.

The following rules apply unless a remuneration agreement is concluded between the inventor and the employer that departs from these mandatory rules:

- Time span of the remuneration claim: the general rule provides for the presumed entire term of patent protection, i.e. twenty years (plus the term of the supplemental patent certificate in the case of medicines), even if the patent is terminated earlier through any act or omission of the employer.
- Types of utilization by the employer on the basis of which the inventor employee is entitled to remuneration: production, use of process, and/or licensing, and/or assignment of the patent, and/or any omission of utilization in order to create or maintain an advantageous market position.
- The inventor is entitled to remuneration separately in respect of each and every type of utilization including the granting of any licenses or assignments without consideration.
- The remuneration claim may be enforced against the employer. In the case of licensing or assignment of the patent, the licensee or assignee may assume the obligation to pay remuneration without prior consent from the employee. In the absence of a remuneration agreement, the claim may always be enforced against the employer (in case of multiple employers, against the employer utilizing the service invention).
- The remuneration of the inventor must be governed by a remuneration agreement.

As mentioned above, the application of the statutory provisions can be avoided through the use of well-drafted invention regulations (i.e. by-laws) and remuneration agreements.

<u>Remuneration on the Basis of the License Analogy</u>

In the event the employer itself utilizes the service invention, the remuneration provided to the employee shall be proportionate to the fee that would be paid by the employer

as a licensee pursuant to a patent licensing agreement, in view of the licensing practice in the given technological field and in accordance with the subject matter of the invention.

If the service invention becomes the subject of a license or an assignment, the royalty paid must be proportional to the proceeds of a license or assignment, or to the transfer or economic benefit/advantage resulting from a free license or free assignment.

Remuneration will be deemed proportional where due regard is paid to the employer's contribution to the creation of the invention as well as to the obligations of the inventor in the employment relationship. Further guidance in the form of jurisprudence is yet to come with respect to proportionality as well as license analogy.

Lump Sum Payments

As previously mentioned, the Patent Act allows for possible departures from the statutory remuneration provisions. In fact, the Act expressly allows for lump sum remuneration agreements.

As noted above, two possible avenues are allowed: **i)** a remuneration of a fixed amount paid per invention and if necessary, determined specifically by the type of utilization (own exploitation, license, assignment); or **ii)** a lump sum replacing all remuneration payable for all types of utilization of all future inventions of the employee.

A remuneration agreement qualifies as a civil law contract despite the fact that it is concluded in the context of an employment relationship, and this is reinforced by the Patent Act itself. Although feasible under the express terms of the statute, the second option is more fragile as the enforcement of a claim by the inventor before the courts given a substantial change in circumstances can be more easily verified in the case of a general lump sum agreement designed to satisfy all future claims. Further, there is no published case law on whether the inventor may challenge the agreement based on the legal cause of flagrant disproportion between the services rendered and the consideration paid for services, of error or deceit.

Companies often address remuneration issues by the way of internal invention regulations (i.e. by-laws). Such invention regulations are in fact regarded as a general term of the (employment) contract to which all rules laid down by the Hungarian Civil Code are applicable. However, in the event a workers' council or other similar representative organization duly accepts such a regulation, it qualifies as an individual agreement binding upon the employee pursuant to the employment contract, although under the Labor Code, the workers' council only has a right of consultation.

POTENTIAL CLAIMS

In Hungary, there is not a significant level of disputes in connection with employers' ownership claims. Disputes tend to occur in cases where it does not obviously result from the nature of the employment relationship that the elaboration of a given solution in the domain of the invention is the employee's obligation. This may arise, for example, where an employee develops an invention or solution in connection with and during the course of employment that falls within the sphere of activities of the employer. These disputes however, can be minimized through the consistent use of appropriate contractual practices.

The enforceability of claims in connection with remuneration agreements may actually turn out to be limited if the regulation of the invention is not a unilateral act of the employer but rather the result of a consensus. Subject to certain limits, such regulation may restrict the ability to challenge the agreement based on the legal cause of flagrant disproportion between the services rendered and the consideration paid for services, of error or deceit.

Additionally, the legal cause to challenge an agreement crystallizes only following its execution, meaning that the difference between the remuneration provided and actual revenues from sales becomes disproportionate at a later stage. In view of this fact, the chance of a "classic" challenge based on invalidity for reasons listed above is slim in any case. At present, there is no published judicial practice to provide guidance regarding the drafting of remuneration agreements or enforceability of claims.

SUMMARY

The **employer may become the rightful holder of a patent** that is granted in respect of an invention created by its employee by fulfilling his/her labor responsibilities. The inventor of a service invention has a **statutory right to remuneration** in case of utilization even in the absence of a remuneration contract; remuneration must be calculated using the license analogy or a lump sum payment.

If the parties conclude a remuneration agreement and/or they use agreed-upon general terms and conditions of remuneration agreements (in the form of internal by-laws), they can take advantage of the permissive possibilities offered by the remuneration rules, including the possibility to conclude a lump sum agreement. If the internal by-laws are accepted by consensus and separate remuneration agreements are concluded in accordance with the by-laws, the risk of enforcement of a claim by a service inventor diminishes.

Clearly drafted employment agreements and internal regulations governing remuneration issues are vital in the area of service inventions. While jurisprudence covering service inventions and remuneration agreements is still forthcoming in Hungary, consistently-drafted employment and remuneration agreements, including invention by-laws, will ensure successful employment relationships and a competitive business.

The contents of this article are intended to provide only a general overview of the subject matter. Specialist advice should be sought for specific matters. Queries relating to this article should be addressed to the authors at:

GABOR.FALUDI@SZECSKAY.COM OR GUSZTAV.BACHER@SZECSKAY.COM