

The claim to increase a remuneration for an employee's invention in the Polish legal system

Quite often our Clients approach us with questions concerning the regulations of remuneration for employees' inventions in the Polish legal system, particularly in the context of the claim under Article 23 of the Act of June 30, 2020 on Industrial Property Law (from now on as IPL). In this issue of the WTS Legal Report we would like to provide you with a detailed overview of this matter, hopefully dispelling all the doubts you might have.

Let us begin by outlining briefly the most important rules related to employees' inventions in the Polish law and then continue to examine specific regulations addressing the issue of the inventor's remuneration. Subsequently we want to present you our analysis of the claim to increase a remuneration for the employee's invention that is based on the Article 23 of the IPL. While discussing the conditions that its application is dependent on, we would especially like to draw your attention to the case wherein a question of re-

muneration has already been regulated in an earlier contract between parties and we would also like to offer some hints as to how an employer can avoid certain risks that are tied to the claim under Article 23.

The employee's invention

First of all, let us explain briefly how is the concept of the employee's invention understood in the Polish system and what legal regime applies to it. We must begin by invoking Art.11(3) of the IPL, which introduces a crucial exception to a general rule formulated in Art. 11(1), according to which it is an inventor who is eligible to apply for a patent for their invention. **In fact, if an employee creates invention (alternatively an utility model or an industrial design) as a result of performance of the duties owed on the basis of the employment relationship or a different contract, it is their employer who is entitled to apply for a patent — unless parties agreed otherwise.** It has to be strongly emphasized that in this situation we are not dealing with any transfer of the right; the right automatically, at the moment when it starts to exist, is vested with the employer or the contracting authority.

The provision in question refers to the concepts that belong to the domain of labor law and are defined by the Act of June 26, 1974 — the Labor Code. Let us therefore recall that the term "**employer**" shall be understood as meaning an organisational entity, regardless of whether incorporated or not, as well as a natural person if they employ employees (Art. 3). Meanwhile an **employee** is a person who has been hired under a contract of employment, but also through selection, designation, or under a cooperative contract of employment (Art. 2). **The employment relationship** is defined by establishing mutual rights and duties of the employee and the employer: the employee undertakes to perform work of a specified kind for the benefit of an employer and under his or her supervision, in a place and at the time specified by the employer, and the employer undertakes to employ the employee in return for remuneration (Art. 22(1)); it shall be added that the employment under such conditions shall be considered the employment on the basis of the employment relationship, regardless of how the contract concluded by the parties is named. Moreover, we cannot forget that Article 11(3) of the ILP mentions another types of contracts as well and with regard to them the term "the contracting authority" is invoked: in the commentary to the ILP edited by professor Sieńczyło-Chlabicz it is indicated that it shall be understood in the broad fashion: "both as a customer, a mandator and any other person who on the basis of a contract is a creditor entitled to the performance the object of which is a creation of an invention or a design".

The term "as a result of performance of the duties owed on the basis of the employment relationship or a different contract" has already been elaborated upon and clari-

fied in the literature and in judicial rulings. For instance, the Labor, Social Security and Public Matters Chamber of the Supreme Court in its judgment of March 9, 2010 (II PK 260/09) demonstrated that "the sole use of knowledge, experience and skills gained in connection with the performance of the employee's duties in carrying out of a research, does not mean that the given research project is a result of performance of the duties owed on the basis of the employment relationship"; **it is therefore necessary to prove that "the performance of the employee's duties takes place at the employer's expense, in the framework of their organisational structure, with a use of their technical background and human resources"**. The relevant moment that shall be considered in such an assessment would be the moment when the invention is created: the scope of the Article 11(3) does not encompass inventions developed by the employee before or after the duration of the employment relationship; it is also necessary to bear in mind that what we are interested in is finding out when the invention was created (in other words, when it started to fulfill the patentability criteria), and not when it was disclosed.

There is yet one other fact that we have to be aware of: Article 11(3) of the IPL is not considered a mandatory provision. Parties to a contract are entitled to make their own arrangements. As it is pointed out in the commentary to the IPL edited by prof. Sieńczyło-Chlabicz, the parties' liberty in that field is subject to certain constraints, taking into account "the wording of Art. 11(1) (...) and an enumerative listing of exceptions to this provision", and what follows from it, "a contract between an employer and an employee (or a contracting authority and a contractor respectively) under which the right is vested with a third party shall be considered void".

A remuneration for an employee's invention

Detailed regulations concerning the remuneration for a creator of an employee's invention are provided by Article 22 of the IPL. Before anything else, it must be noted that — according to the general rule — unless parties agreed otherwise, **the creator of the employee's invention is entitled to a remuneration for the use of their invention by the entrepreneur if the entrepreneur has a right to use their invention on the grounds of Art. 11(3) which has been described in detail above** (Art. 22(1)). Nevertheless, it is worth adding that a right to remuneration (similarly, provided that it has not been regulated otherwise under a contract), shall exist in the following situations that this provision refers to:

- The invention was developed by the inventor with an assistance of the entrepreneur and the entrepreneur can use it on their own (Art. 11(5));

- The invention has been submitted to the entrepreneur for their use and the entrepreneur accepted the invention for their use, about which they informed the inventor in a due time (Art. 21).

The provision of Art. 22 addresses also an issue of the amount of the remuneration — if the parties have not agreed otherwise, the amount of the remuneration shall be determined in just proportion to the benefits gained by the entrepreneur from the invention, taking into account the circumstances in which the invention has been created, and in particular the scope of the assistance provided to the inventor and the scope of the employee's duties related to creation of the invention (Art. 22(2)). The remuneration shall be paid in whole or in parts — again different arrangements between parties are allowed (Art. 22(3)). Furthermore, the legislator specifies when the payment shall be made: at the latest 2 months after the gain of the first benefits from the invention, and if the payment is made in parts: the first part shall similarly be paid at the latest 2 months after the gain of the first benefits from the invention and the subsequent parts — at the latest 2 months after the end of every following year, but no later than 5 years from the moment of the gain of the first benefits (Art. 22(4)). It is necessary to mention that the Supreme Court in its judgment of January 24, 2018 (I PK 107/17) came to a conclusion that the remuneration of the creator of the employee's invention determined in accordance with Art. 22(2) shall be considered a single performance — what means that in order that the limitation of this kind of claims would apply to it: Article 118 of the Act of April 23, 1964 — Civil Code designates the limitation period of 6 years (before a recent amendment it was 10 years).

The optional character of the provisions concerning the remuneration

It is worth to highlight once again a key feature of the legal rules regarding the remuneration — even though we have already mentioned it, we would like you to pay particularly close attention to it. **The optional character of the provisions concerning the remuneration means that their application can be excluded or limited depending on the will of the parties.** The parties enjoy thus a certain degree of liberty in determining their proper rights and duties: in the contract between the employer and the employee/the creator of the invention the matters of the remuneration, its amount, a manner and deadlines for payment can be subject to arrangements differing from those indicated by the discussed provisions of the IPL. What is more, the right to the remuneration itself is not absolute.

The contractual provisions shall prevail over the statute. Similarly the Supreme Court in the already mentioned judgment of January 24, 2018 stated that "the precedence of the contractual arrangements results directly from the text of the provisions, where the

legislator inserts a stipulation: that an inventor is entitled to the remuneration 'unless the parties agreed otherwise', that its amount is determined by the court 'unless the parties have specified its amount', as well as 'unless the contract provides otherwise', the remuneration shall be paid in whole or in parts in time limits fixed by the legislator”.

In the commentary edited by prof. Sieńczyło-Chlabicz the optional character of the provisions pertaining to the question of the remuneration is also emphasized: it is underlined that "within the limits of freedom of contract the parties are entitled to shape the conditions upon which the right to remuneration might be dependent, the rules for determining its amount (e.g., a lump sum remuneration or a remuneration proportional to profits made by the entrepreneur) as well as rules and deadlines regarding its payment”.

The claim under Article 23 of the ILP

According to Article 23 of the IPL, **the remuneration of the creator of the invention (or a utility model/an industrial design) determined and paid on the basis of Art. 22(2) and (3) shall be increased in case when the benefits gained by the entrepreneur turn out to be considerably larger than those on the basis on which the remuneration paid was calculated.**

When examining this rule, let us begin by establishing what are the conditions that must be met so it can be applied. **Above all we need to find out whether we are dealing with an underestimation of the benefits that provided the basis for setting an amount of the remuneration** — additionally, the underestimation must be proved "considerable". It is worth to notice that what we are interested in this context are benefits exactly, and in order to ascertain whether Art. 23 could be applied in a specific context we do not have to compare the benefits actually gained with the amount of the remuneration. The legislator does not offer any detailed guidelines regarding as how to make a definite finding that the benefits gained are considerably larger than those that provided the basis for setting an amount of the remuneration. The Appellate Court in Łódź presented its position on that matter in its judgment of February 24, 2016 (I ACa 1169/15): it came to the conclusion that "in practice, with respect to the traditional understanding of this term in the Polish patent law, it shall [be understood to] encompass all the economic results (measurable) and some of the immeasurable results"; additionally it observed that this provision requires to carry out an assessment — "to a significant extent, it leaves determining an amount of remuneration of the creators of the invention to judicial discretion, once all the relevant circumstances in the case are considered".

In consequences the essential question arises: **how would the investor's right to pursue the claim under Article 23 be affected if the question of the remuneration has previously been regulated in the contract?**

In the commentary redacted by Doctor Michalak we can find the thesis that this provision "does not have an optional character and parties are not allowed to exclude its application in their contract". Nevertheless, it must be underscored that should the arrangements pertaining to the reimbursement find their way into the contract, **filing a claim under Article 23 by the inventor will not be in fact possible – with the exception of one particular case.**

In this context it is necessary to recall an opinion expressed in the Appellate Court in Warsaw in its judgment of April 13, 217 (I ACa 204/16). Trying to find out whether in case when the parties included in the contract provisions relating to the remuneration, **it would possible for the inventor to request its increase only in the parties determined the amount of the remuneration in the contract, tying with it the expected benefits from the invention** ("thus if the parties incorporated into their contract, as it were, the mechanism of determining the remuneration provided by Art. 22(2)"). The Appellate Court in Warsaw stated unequivocally that "the provision of Art. 23 of the [IPL] would be applicable neither with regard to an agreed remuneration, nor when it comes to any selected manner of determining remuneration other than provided by Art. 22(2), in particular when the parties agreed to a lump sum remuneration".

The recommended mode of action

The condition for applying Article 23 of the IPL is rather ambiguous and without any common benchmark for carrying out evaluations whether a difference between expected and actually gained benefits is considerable, courts enjoy a wide margin of appreciation in their examination of the plaintiff's claim. Such a situation is not desirable for any of the parties. For the following 6 years the employer must take into account (the period of limitation) a prospect of being sued by the employee demanding an increase of their remuneration, while the employee cannot feel secure about the outcome of their case.

Such a risk can however be eliminated at a very early stage. **The most appropriate mode of action that can ensure the greatest certainty with regard to mutual rights and duties of the parties, seems to implement arrangements concerning the remuneration into the contract – either into an individual contract with an inventor/employee or into Staff Regulations binding on all the employees, wherein proper provisions on remunerations for employees' inventions will be included** (addressing, i.a.,

the mode of payment and rules for determining its amount). The conduct that we can most commonly observe is rather different: usually the employer automatically earns a right to the invention on the basis of Art. 11(3) of the IPL, they start to use it and an issue of the remuneration reemerges once the inventor, after the employment relationship is terminated, files a claim under Article 23. If only steps were taken to ensure that proper contractual arrangements regarding the remuneration were in place, especially in Staff Regulations, the legal position of both parties would be much more secure.

Summary

Below we are recapping the most important issues discussed in this Legal Report:

- The Polish Act on Industrial Property Law establishes a specific legal regime applicable to employees' inventions: if an employee creates invention as a result of performance of the duties owed on the basis of the employment relationship or a different contract, it is their employer who is entitled to apply for a patent — unless parties agreed otherwise.
- In the lack of other arrangements reached by the parties, the creator of the employee's invention is entitled to a remuneration for the use of their invention by the entrepreneur if the entrepreneur has a right to use their invention or apply to patent it as the inventor's employer.
- The provisions of the statute that concerning determining an amount of a remuneration, a mode of payment and deadlines for payment have an optional character and the parties can regulate those matters differently in their contract.
- The remuneration of the creator of the invention determined and paid on the basis of proper provisions of the statute shall be increased in case when the benefits gained by the entrepreneur turn out to be considerably larger than those on the basis on which the remuneration paid was calculated. The employee cannot file such a claim however if there are contractual arrangements regarding the remuneration (unless the parties to the contract determined the amount of the remuneration on the basis of expected benefits from the use of the invention).
- We recommend to adopt necessary steps to avoid claims under Article 23: this goal can be easily achieved by including the provisions regarding the remuneration in the contract or in the Staffs Regulations binding on all the employees.