

September 4 2023

Employed inventor's right to remuneration

Westerberg & Partners Advokatbyrå AB | Intellectual Property - Sweden



WENDELA
HÄRDEMARK

> Introduction

> Facts

> Decision

> Comment

Introduction

Employees' innovative work is of significant importance for businesses, and incentive systems encouraging inventive work are common. As a result, the employer may benefit from a large selection of inventions to exploit, which may provide a competitive advantage. Under Swedish law, the starting point is that an invention created under employment is the employee's property but should, under certain conditions, be transferred to the employer. In exchange, the employee has a mandatory right to receive fair compensation for the transfer of rights. Unfortunately, the legislation and standards for quantifying the fair compensation are vague.⁽¹⁾

In a recent case, decided by the Patent and Market Court of Appeal (PMCA),⁽²⁾ an employed inventor was granted:

- a lump sum for historical sales of a product in which the patented invention was used (in the following, the product); and
- a royalty of 1% of the net sales exclusive of VAT of the product until the patents relating to the invention expired.

Facts

The defendant in the dispute was a medtech company that started its business in 2004/2005. From January 2005 to September 2014, the plaintiff was employed by the defendant. The plaintiff worked mainly in product development but was head of sales during the period when the invention was made. The invention was conceived at some point in October 2009, and an American patent application was filed in December 2009. An international patent application was later submitted, which resulted in one European patent application and one Chinese patent application. All three patent applications were granted.

The patents were transferred from the plaintiff to the defendant but the compensation to the plaintiff had not been determined. Therefore, the question in the case was whether the plaintiff had received fair compensation for the invention through his salary and other benefits he had received or whether additional compensation should be paid by the defendant. If additional compensation were to be awarded for the value of the invention, the following needed to be considered:

- the scope of the right to the invention that the employer had received; and
- the significance that the employment may have had for the creation of the invention.⁽³⁾

The court of first instance, the Patent and Market Court (PMC), found that the invention was a service invention⁽⁴⁾ that had been completely transferred to the defendant and had a limited value for the defendant. Additionally, the PMC established that the employment had had significant importance for the creation of the invention. While determining the compensation, the PMC found that the plaintiff had received fair compensation for the invention through his salary and other benefits, and the claim was dismissed.

Decision

In its initial remarks, the PMCA clarified that the distinction between research inventions, service inventions and other inventions was based on the link between the invention, the employee's tasks and the employer's area of activity.

Insofar as it concerns a research invention, an employee hired specifically for working with innovation and development would have been granted a salary with this type of task in mind and consequently fairly rewarded for any created innovations. Therefore, specifically for this type of invention, additional compensation should only be granted if the value of the right to the invention exceeds the amount that could be expected, taking into consideration the employee's wages and other benefits of the employment.

According to the PMCA, this exception could not be extended to service inventions or other inventions. Instead, the determination of fair compensation should be based on a valuation of three factors:

- the scope of the rights acquired to the invention by the employer;
- the value of the invention (technical and commercial); and
- the significance the employment may have had for the creation of the invention.

First, the PMCA found that the invention had been entirely transferred to the employer.

Second, the PMCA found that the technical value of the invention for the defendant was limited, but the commercial value was significant. In its assessment, the PMCA took note:

- of evidence supporting the invention's use in the product;
- that the functionality the invention provided was requested by customers and an important selling point; and
- that the defendant had referred to the invention in marketing to customers and investors.

Third, the PMCA found that the employment had great importance to the creation of the invention. The PMCA held that there was no evidence supporting that the invention had been conceived by more individuals than the plaintiff or that any compensation had been given to the plaintiff.

Based on these premises, the PMCA reviewed the evidence presented by the plaintiff, who had the burden of proof. The plaintiff had requested a lump sum compensation for a specified period, and the PMCA declared that he would be awarded compensation based on the net sales of the product in which the invention was used. Even though the plaintiff had tried to present evidence supporting a 5% royalty, the PMCA rejected the claim. Instead, the PMCA found, in an overall assessment of all circumstances, that the royalty level should be 1% of the net sales exclusive of VAT of the product. Thereby, the plaintiff was awarded a lump sum of 4,385,000 krona (approximately £315,465) (1% of the turnover for the product between 2010 and 2019) and a royalty of 1% of net sales until the patent expired.

Comment

The judgment does not contain any explanation on how the PMCA determined that the royalty should be 1% instead of 5%, which can seem arbitrary. However, the takeaway is that employees may be awarded a significant proportion of the net sales of a product incorporating the invention. If compensation has not been set at the date of transfer, the valuation risks being affected by other circumstances than the actual value of the invention at the time of transfer. Furthermore, if the invention is a service invention, the salary and other benefits that the employee may have received will not be considered part of the compensation granted.

The PMCA granted the parties the possibility to appeal the judgment and it has been appealed to the Supreme Court. Hopefully the Supreme Court grants leave to appeal and spreads some light of the question of determining fair compensation for employee inventions.

For further information on this topic please contact [Wendela Hårdemark](#) at Westerberg & Partners Advokatbyrå Ab by telephone (+46 8 5784 03 00) or email (wendela.hardemark@westerberg.com). The Westerberg & Partners Advokatbyrå Ab website can be accessed at www.westerberg.com.

Endnotes

(1) The right to reasonable compensation for an employed inventor follows from section 6 of the Right to the Inventions of Employees Act (SFS 1949:345).

(2) PMCA, PMT 9596-21.

(3) See section 6(2) of the Right to the Inventions of Employees Act.

(4) Swedish law distinguishes between:

- research inventions;
- service inventions;
- other inventions; and
- exempted inventions.

The employer's rights relative to the invention differs based on the category of the invention. If research or innovation activities constitute the primary work duties and the invention has arisen primarily as a result of these activities, or an invention otherwise consists of a solution to a task charged or detailed in the course of employment, the invention is considered a research invention. If the invention has arisen in a context other than research and innovation, the invention is considered a service invention. An invention that has arisen outside the context of employment but falls within the employer's scope of business activity falls within the category other invention. Finally, free inventions are inventions that have been created outside the employment and fall outside the employer's scope of business activity.