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**PTK**

# Employee's Inventions



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# INTRODUCTION & HISTORY

When crafts and industry expanded from the 15th century onwards, a need arose to protect ingenious devices from imitations. To avoid inventors keeping their designs secret, an increasing number of states started to offer a time-limited sole right to the invention in exchange for it being made public. Making technological advances known to the general public was seen as a way to speed up technological progress. If, for example, the famous violin maker Antonio Stradivari had applied for a patent for his violin-making technique, far fewer people today would be wracking their brains to uncover his secrets.

Different countries adopted different rules for the protection of inventions. In 1883, however, the Paris Convention was drawn up for the purpose of harmonising the patent rights systems of the different countries. Today, around 80 countries including Sweden are signatories to the convention.

The purpose of patents is to provide the inventor with sole rights to his or her designs. For employed inventors, this principle conflicts with the perception in labour law that the result of the employee's work is the property of the employer. The salary paid is the compensation for this. Since patent law provides personal ownership of precisely the type of work-related result represented by inventions, it has been necessary to introduce special provisions to cover these issues. In the 1940s, this was first dealt with in collective agreements signed by the salaried staff trade union organisation, SIF (the Swedish Union of Clerical and Technical Employees in Industry) and the employers' organisation, SAF (the Swedish Employers Association). For the purpose of establishing a similar system for public sector employers (which could not, at the time, sign collective agreements), the Act on the Right to Employee's Inventions 1949 was introduced. Today, most western countries have similar legislation.

In private industry, matters relating to inventions have been covered by collective agreements, since the 1940s, with the exception of the period from 1 April 1964 until the Agreement between SAF and SIF/SALF (the Swedish Union of Supervisory Staff)/CF (the Swedish Association of Graduate Engineers), in respect of the right to employees' inventions came into force on 1 April 1970.

The Agreement has applied between SAF and PTK (the Council for Negotiation and Co-operation – representing salaried employees in the private sector) and the industries which have adopted the Agreement since 1 April 1995.

# THE SCOPE OF THE LEGISLATION AND THE AGREEMENT

## Patents in Sweden

Both the Act and the Agreement cover “inventions patentable in this country [Sweden]” discovered by employees. It is sufficient that it is possible to apply for a patent in Sweden. It is not necessary to apply for a patent, although this is the only way to obtain a definitive answer on issues relating to patentability. Even a patent granted may be declared void at a much later date, so there is never any real certainty. Nor is such certainty necessary. Since the rules on payment in the Act and the Agreement are worded in a relatively general manner, the inventor is not regarded as being obliged to confirm patentability in every respect. A very strict requirement for evidence is, however, placed on employers who claim that a patentable invention is not really patentable.

The requirement that an employee should be regarded as the originator limits the interpretation to inventions which have come about during employment only and, for certain inventions, within six months after employment has ceased.

## Patents in Europe

Today, a convention makes it possible to apply for a European patent. Such a patent provides protection in the European countries specified in the application. Under this convention, patentability is also regarded as referring to an “invention patentable in this country [Sweden]”.

## Consulting services

A particular problem arises when inventions come about while an employee is carrying out work on behalf of a party other than his/her employer. This applies particularly to consulting services. In these cases also, it is, obviously, the consultant's employer, i.e. the consulting company, which has the right to take over the invention and the obligation to pay reasonable compensation for the transfer. But often, agreements between the consulting company and the client company state that such inventions will accrue to the client. In such cases, when the inventor demands compensation from the consulting company, there is often strong psychological (and financial) resistance to paying appropriate compensation.

There is, therefore, every reason for an employee who has been assigned to carry out work on behalf of a party other than his/her employer to ascertain what terms apply if the consulting service should result in patentable inventions.

# CATEGORIES OF INVENTIONS

A solid argument in both the Act and the Agreement is that an employer should have a greater right to inventions which fall within his normal area of operation and which have come about as a result of the employee, in principle, carrying out his/her normal tasks. On the basis of this argument, the Act and the Agreement now divide employee inventions into different categories which are subject to varying rights and obligations for employers and employees.



## The Act

The Act deals only with inventions which fall within the employer's area of operation.

The inventions are divided into:

- research inventions (§ 3, 1st paragraph)
- other work-related inventions (§ 3, 2nd paragraph)
- other inventions (§ 3, 3rd paragraph)

As a result of the numbering of the sections, these inventions are sometimes referred to as three-ones, three-twos and three-threes.

### **Work-related inventions (research inventions and other work-related inventions)**

The term “work-related invention” refers to inventions which have come about as part of someone's work. The connection does not have to be particularly strong. It is sufficient that the work initiated the invention or that the idea could not have been executed in practice were it not for access to the employer's resources. The claimed connection must not, however, be far-fetched.

One group of work-related inventions is research-related inventions. These must have come about as a result of research and invention operations which are the principal task of the employee, or be the solution to a clearly specified task which forms part of the employee's work. The interpretation of the research-related invention concept has, in practice, been extremely restrictive, and most inventions are classified as normal work-related inventions (§ 3, 2nd paragraph).

### **Other inventions**

The term other inventions refers to inventions which have come into existence without any connection to a person's work. Please note that for an employer to have any right to an invention, the use of the invention must, as stated above, fall within an employer's area of operation.



## The Agreement

The Agreement gives the employer the right to inventions which fall within the employer's area of operation. It also states that other inventions should be reported to the employer, but that he has no right to these. The Agreement divides inventions into categories different to those in the Act, i.e. as follows:

- Class A inventions – are those which fall within the framework of the employee's duties or special assignments. In terms of the Act, this category includes both research-related inventions (three-ones) and other work-related inventions (three-twos).
- Class B inventions – are inventions which fall within the area of operation, but which are not Class A inventions. This is the equivalent of "other inventions" (three-threes).
- Class C inventions – are defined as inventions which are neither Class A nor Class B inventions, i.e. which fall outside the area of operation and are not linked to the inventor's work.

### Definition of area of operation

In defining the concept of "area of operation", it is necessary to consult the preparatory work for the 1949 Act. According to the commentary, an invention falls within an area of operation when it relates to a product which the employer produces, or a method for or aid in the manufacture of that product. This includes a product or a method which falls within an area where the employer is carrying on technical research and development (R&D).

If the employer is involved in different types of operations, only the area of operation in which the inventor is carrying out his work should be included in the concept, at least in the absence of a more tangible connection between the branches of the operation.

Please note that following negotiations in accordance with § 1, 2nd paragraph, the group may have signed a collective agreement concerning which companies should be regarded as forming part of the employer's area of operation.

# WHO OWNS AN INVENTION?



## The Act

Under the Act, the employee always owns the right to his or her invention, but the employer may take over that right to a greater or lesser extent, depending on which category it falls into.

### The right to take over an invention

With respect to research-related inventions, the employer has the right to take over all rights to the invention. With respect to other work-related inventions (three-twos), the employer can only demand that he himself will be granted permission to use it in his business (“basic license”) and will be given preference over others in acquiring a greater right to the invention. If the employer does not exercise this right, the employee may have free use of the invention.

### Preferential right to an invention

With respect to the “other inventions” category (three-threes), the employer has a preferential right to the invention only before the inventor offers it to others.



## The Agreement

### Class A inventions belong to the employer

Under the Agreement, Class A inventions belong to the employer automatically (c.f. with the principle mentioned previously that the fruits of labour belong to the employer). Consequently, no special agreement is required for an employer to be granted the right to an invention. For practical reasons, the inventor is usually expected to sign some kind of transfer document for Class A inventions as well. This makes it easy for the employer to confirm his right to the invention to the Patent Office.

### Class B inventions may be acquired

The employer has the right to acquire the full right to a Class B invention. This means that there is no automatic right of ownership.

### Class C inventions

With respect to Class C inventions, it is stated only that the employee has the right to use them. Consequently, the employer cannot claim any right to them.

# NOTIFICATION OF AN INVENTION



## The Act

Under the Act, an employee who invents something which falls within the employer's area of operation must report this to the employer without delay (§ 4). The notification must be drawn up in such a way that the employer can determine the nature and significance of the invention on the basis of the notification. In effect, this means that the notification should be made in writing even though the Act does not specifically call for this. The employer should also provide some kind of confirmation that the notification obligation has been fulfilled, since it may be important to the employee to be able to provide proof of when the notification was made (see Dispute Settlement, page 17).



## The Agreement

The Agreement also states that the employer must be notified of both Class A and Class B inventions without delay, and that it is advisable to notify the employer of Class C inventions as well, since it is in the interest of both the employee and the employer that the issue of which category an invention belongs to is clearly established before further actions involving the invention are taken.

The notification should normally be made in writing and contain the essential elements of the invention. It may also be possible for the inventor to submit a working model or drawing with a technical description. It is important that these rules are complied with. If a notification is incomplete, it may be regarded as not having been submitted at all. Another reason is that it will be easier to avoid future disputes regarding what the original invention actually constituted.

The employee should also indicate the category he believes the invention falls into. This may be particularly important if the employer fails to observe the time limits specified in the Agreement (see Time Limits page 10).

The employer must treat the notification as confidential and must ensure the employee's right to priority within the company by registering the notification in an appropriate manner.

# TIME LIMITS



## The Act

### Four-month time limit

The Act contains a four-month time limit within which the employer must notify the employee that he wishes to acquire the right to the invention to some extent or another. The time starts when the employer receives notification of an invention.

During the four-month time limit, the inventor must not use his invention other than to apply for a patent in Sweden. If he does this, he must inform the employer within a week of the application date.

### The presumption rule

If an employee applies for a patent for a research-related invention within six months of his employment being terminated, the application will be regarded as having been made during his time of employment and will, therefore, be subject to the provisions of the Act. This “presumption rule” does not apply, however, if it can be demonstrated that the invention has, in all probability, come about since the inventor ceased his employment.



## The Agreement

The Agreement has a more complex time limit system. Time limits in the rules on negotiations are dealt with in the Dispute Settlement section on page 17.

As mentioned, the employer is automatically entitled to Class A inventions (but see the Notification of category section below). To acquire Class B inventions, however, the employer must always notify the employee of this within eight months of the date on which the employer was notified of the invention. If the employer fails to do so, the inventor will have free right of disposal of his or her idea.

### Patent application and consultation

Unless the employer has already informed the employee that he wishes to acquire the invention, the employee has the right to apply for a patent for his or her invention four months after the notification date. Obviously, this only applies to Class B inventions. The employee must consult the employer on the wording of the patent application.

### Response within four months

The employer must inform the employee of which category his invention belongs to in the employer’s opinion within four months of notification. The response must be in writing. The employer does not, however, forfeit his right to the invention if he fails to comply with these “procedural rules”, which is the case if, as mentioned above, he fails to observe the eight-month time limit.

### **Notification of category**

The employee may, however, put a certain amount of pressure on the employer by notifying the employer of which category the invention belongs to in the inventor's opinion. Such a notification does not have to be submitted simultaneously with the notification of an invention, but may be submitted at a later date. If the employer should fail to register a divergent opinion regarding the category to which the invention belongs within four months from the date on which he received the notification of category, the employee's opinion will become binding. Therefore, in a borderline case, if the employee states that he believes that the invention is a Class B invention, the employer may be bound by this opinion even if the invention, objectively speaking, is really a Class A invention.

### **Subsequent protection**

The Agreement also contains a rule on "subsequent protection". An invention which is subject to a patent application within six months of employment being terminated will be regarded as having come about during the employment period. Under the terms of the Agreement, this applies, however, to Class A inventions. Since this concept includes both research-related and other work-related inventions under the provisions of the Act, the rule in the Agreement has greater scope. Just as in the Act, the presumption can be overruled if it can be demonstrated that the invention probably came about after the employment was terminated.

# RIGHT TO COMPENSATION



## The Act

Every inventor who has transferred any right to an invention to his employer is, under the Act, entitled to fair compensation (§ 6). This provision is mandatory, in the sense that it applies irrespective of any previous agreement between the employer and the individual prior to the discovery of the invention. In a situation where the employee is about to transfer the invention to the employer, the provision does not, therefore, provide any protection against “bad” agreements. At this stage, it may be appropriate for the employee, either alone or with the assistance of his or her trade union, to clarify with the employer the issue of patent applications, exploitation, the date of determination of reasonable compensation etc.

Please note that, in principle, the right to compensation is not dependent on the employer’s use of the invention. The individual is entitled to compensation if the employer has taken over the invention, even if it is only put in a drawer and forgotten about.



## The Agreement

A consequence of the fact that the concept of fair compensation is mandatory is that the right to compensation cannot be overruled in advance even through the use of collective agreements. When the concept is mentioned in the rules on compensation in the Agreement, the same provisions as in the Act therefore apply. Under the Agreement, an inventor is entitled to at least the same compensation that he or she would be entitled to under the Act, all other things being equal.

### Obligation to pay compensation

Since a Class A invention automatically belongs to the employer as soon as it is discovered, he must normally pay fair compensation reflecting the fact that he has taken over the worldwide rights to the invention. He can, however, avoid this obligation by returning full or partial rights to the originator (§ 3, 1st paragraph, last sentence).

The same opportunity does not exist if the employer has taken over the rights to a Class B invention. If he would like to return a right already transferred, he has to agree to do so with the employee. The employer cannot force the employee to accept the return of an invention to reduce the amount of fair compensation.

# HOW THE AMOUNT OF COMPENSATION IS CALCULATED

## Valuation basis



### The Act and the Agreement

The Act and the Agreement contain certain basic rules for valuation which are largely the same. Here, we will be examining the bases individually. It should, however, be emphasised that valuations should be carried out on the basis of an overall assessment of the various bases. It is in the nature of things that the outcome of such an assessment may vary significantly, depending on who carries out the assessment. Representatives of employees and employers will, naturally, examine the various bases from different starting points, and their opinions often differ widely.



### The value of the invention

#### The Act and the Agreement

This basis exists in both the Act and Agreement, and is not only the most difficult to assess, but also the most important. The opinions of the parties regarding the value of the invention are often miles apart.

The value is partly financial, and partly industrial.

#### Financial value

The financial value is determined using normal commercial principles, e.g. through an analysis of costs and income associated with a new product. If the issue does not involve a product but a new or improved method which generates savings to the company or increases its profit, this should be used as the starting point for the calculation of the inventor's share of the result. In some cases, the value must be determined in other ways, e.g. when the employer does not exploit the invention himself, but sells the patent or grants licenses. Even then, however, the profit can be used as the starting point.

#### Industrial value

The term industrial value refers to the value of an increase in a product's technical level through, for example, improved function. There is a value in itself to a company in being technically ahead of the competition. This value cannot easily be measured in financial terms, but it does have a positive or negative impact on the total value.



## **Scope of the right transferred to the employer**

### **The Act and the Agreement**

The basis for valuation exists both in the Act and the Agreement, and its meaning does not require any detailed explanation. It is fairly obvious that the employee should receive higher compensation if he or she has transferred all rights to the employer than if only a basic license has been granted. That part of the inventor's right which the employee has retained gives him, after all, the opportunity to exploit the invention himself or to transfer it to another party, at least in theory.

Sometimes, an employer may, in fact, take over all rights of financial significance by taking over only a small part of the invention. If this is the case, the issue of compensation should be assessed as if all rights have been transferred.



## **The significance of the employment**

### **The Act and the Agreement**

This expression refers to how important it was to the achievement of the invention that the employee worked in the technical environment offered by the company and the fact that, as part of his or her normal duties, he or she worked with products and tools etc. which may have provided the impetus for the invention. The criteria can be found both in the Act and the Agreement. It is, in other words, a question of the employer's contribution to the invention through the provision of machinery, premises, technical equipment, drawings and the collective knowledge bank contained within the company. The assessment should, of course, take into account whether or not the employee has primarily developed the invention during his working hours.



## **Position and salary**

### **The Act and the Agreement**

According to the Agreement, the "employee's position, salary and other employment benefits" should be taken into account. This applies to Class A inventions only, and large deviations for normal salary benefits are required for this basis to be of any significance in the determination of compensation.

This criteria is not included as a general basis for assessment in the Act (however see "Special limitation rules" below).

## Special limitation rules



### The Act

Compensation for research-related inventions under the provisions of the Act (§ 3, 1st paragraph) normally forms part of the salary. A separate compensation payment requires the value of the invention to be so great that it could not have been reflected in the salary and other employment benefits normally received by the employee. Please note that the position held by the employee is given no significance in the Act.



### The Agreement

The Agreement states that a standard amount determined in advance should be paid to the inventor, no matter which category (A or B) the invention belongs to. This means that a minimum of a standard level of compensation should be paid for an invention which, under the Act, is regarded as a research-related invention. On the other hand, additional compensation for Class A inventors should be payable only if the value of the invention “significantly exceeds the predicted value, taking account of the position held by the employee, as well as salary and other employee benefits”.

Since the definition of a Class A invention is much broader in the Agreement than the definition of research-related inventions in the Act, and since the concept of reasonable compensation is obligatory, the rule on limitation primarily applies to Class A inventions which are also research-related inventions, as defined in the Act. Normally, therefore, the invention does not need to be of significant value to entitle the inventor to further compensation.

A Class B invention should always entitle the inventor to compensation over and above the standard compensation, unless it is almost valueless.

## Standard systems



### The Agreement

The commentary included in the Agreement (under § 4) states that standard systems should be adopted by companies in which patentable inventions occur frequently. The example which follows this recommendation sets the standard.

The standard compensation should be regarded as an advance on the final compensation, and the idea behind it is to stimulate increased creativity ensuring that compensation is paid soon after the invention is reported to the employer.



## **Levels of compensation**

### **The Act and the Agreement**

It is difficult to specify more precisely the compensation levels which can be paid in general, since almost no case is the same as another when it comes to determining compensation. The amounts paid by the business sector in practice are significantly lower than those set in the few cases which have come before the Swedish Labour Court and the Industrial Inventions Board. The reason for this is that the issue of final compensation is “forgotten”, and that, in practice, the standard compensation becomes the final compensation.

An arbitral award in 1982 showed that 25–30% of the employer’s profit should be paid to the inventor if the invention has come about on the initiative of the inventor and without significant assistance from his employer. Naturally, it is difficult to draw any general conclusions from a statement in a single case, but this should, perhaps, still serve as a basis for a rough estimate of the level of compensation. The case involved a Class B invention.

# DISPUTE SETTLEMENT



## The Act

### Companies without collective agreements

For these companies, only the Act applies. The Act itself does not cover negotiation procedures, and the rules for negotiation time limits and limitations in the Co-determination Act are not applicable. However, under § 10 of the Co-determination Act, the trade union has the right to negotiate with the employer on issues of compensation for inventors as well. For the employee's claim for compensation, the rules on a 10-year limit for claims in the Limitations Act (SFS 1981: 130) apply. This means, amongst other things, that there is a breach of limitation, i.e. that a new 10-year period commences, if the employer recognises the claim or if the employee submits a written reminder of the claim or starts court proceedings. The issue of compensation will, in the final instance, be settled by Stockholm District Court.

### Companies with collective agreements

This group of companies includes a special variant. Since the Inventors' Agreement has not been generally accepted by all PTK organisations, there are, within certain areas covered by PTK organisations, many companies which are subject to the Act. Even where companies have signed local collective agreements, the Inventors' Agreement may not have been included in the "agreement package".

Such companies are subject to §§ 35–37 of the Co-determination Act which, amongst other things, means that when a dispute arises with the trade union, the employer must request negotiations immediately. If he fails to do so, he must pay the amount the trade union regards as appropriate, unless the amount is unreasonable. The issue of compensation will, in the final instance, be settled by Stockholm District Court.



## The Agreement

In other cases, i.e. even when the Inventors' Agreement applies at the company, §§ 35–37 of the Co-determination Act overrules the Agreement's own rules on negotiations, as set out in § 6. The employer must, however, take the case before the Industrial Inventions Board rather than Stockholm District Court. Please note that the special limitation rule in § 6, second paragraph, of the Agreement applies in full. This means that legal actions relating to compensation issues cannot be taken if 10 years have elapsed from the date on which the invention was reported to the employer. Even if negotiations have been ongoing throughout this time, the case must be presented to the Industrial Inventions Board before the end of the 10-year limit. An individual may, instead, sign an agreement with the employer that the limitation will not be invoked.

## **TAXATION ETC.**

Compensation for inventions taken over by the employer under the terms of the Act or Agreement will be taxed as income from employment. Consequently, the employer is liable for paying the usual employer's contribution in accordance with statutory provisions and agreements.

