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Current Status of Employee Inventions in Japan

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Current Status of Employee Inventions in Japan

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1.Three Types of Inventions Relating to Employee

1) Free Invention

A “free invention” is one outside the scope of duty of an employee and outside the “scope of business” of the employer, so the employee can freely obtain a patent and enjoy its right by him/herself. The employer cannot bind him/her.

1. Three Types of Inventions Relating to Employee

2) Business–Related Invention

A “business-related invention” is one within the “scope of business” of an employer, but is other than a statutory “employee’s invention”.

The “scope of the business” is comprehensive and includes not only current business, but future business under research and development as far as such is recognized as a part of the company’s business activities.

1.Three Types of Inventions Relating to Employee

3) “Employee Invention”

An “Employee Invention” is one within the scope of business of an employer and is created by the employee within the scope of the employee’s duties in present and past employment, pursuant to Article 35, Paragraph 1, of Japan’s Patent Law.

2. Right to Obtain a Patent

1) Fundamentals

According to the Japanese Patent Law, the right to obtain a patent initially belongs to an inventor (Article 29, Paragraph 1).

- An inventor can file a patent application.
- This right to obtain a patent can be assigned.
- For the special case of “Employee Inventions”, see Article 35.

2. Right to Obtain a Patent

2) Who can file a patent application?

- Employee/Inventor
 - Free Invention
 - Business-related Invention
 - Employee Invention
- Company / Employer
 - The right to obtain a patent can be assigned to the employer by means of contract, so that the employer can file an application as applicant.
- Any contract, employment policies, or other stipulation providing in advance for the transfer of “free inventions” and “business-related inventions” by an employee to the employer is null and void (Article 35, Paragraph 2).
- Only in the case of Employee Inventions, a contract, employment policies, or other stipulation in advance to transfer the right to obtain a patent to the employer is allowed (Article 35, Paragraph 2).

2. Right to Obtain a Patent

3) Statutory Non-exclusive License to an Employer

- In most cases of Employee Inventions, the right to obtain a patent is assigned to the employer so that the employer can file a patent application in its own name as applicant.
- What happens when an employee has filed a patent application for an Employee Invention and has obtained a patent?

The employer/assignee has a non-exclusive license, like a shop right, so that the company can “work” the patented invention in its own discretion. This license is a statutory license.

In the case of a statutory license, the license has legal effect against a third party, regardless registration of the patent in the Patent Register (Article 35, Paragraph 1).

3. How are employees remunerated for Employee Inventions?

1) Article 35, Paragraph 3

The employee shall have a right to receive a reasonable amount of remuneration for the invention when he/she assigned the right to obtain a patent/the patent right to the employer, or when he/she granted an exclusive license to the employer in accordance with the contract, employment policy, or other agreement.

2) Article 35, Paragraph 4

The amount of such remuneration shall be decided by considering both profits gained by the employer from the invention and the extent of contribution by the employer to the invention.

3.How are employees remunerated for Employee Inventions?

3) Reasonable Amount of Remuneration

- No clear definition of “profit” and “contribution” by law, which makes it difficult to determine reasonable remuneration.
- Primary factors in determination:
 - Historical remuneration of Employee Inventions within a given company.
 - Court decisions.
- Recent views by most of major companies.

3.How are employees remunerated for Employee Inventions?

4) Historical Developments

In the past, a reasonable amount of remuneration is determined according to a patent remuneration policy of each employer.

Usually, a fixed amount is paid at the time of filing (¥7,400) and at the time of granting (¥16,000).

A variable amount (¥35,000— ¥600,000) is paid according to the contribution of the patent to the company's profit and business, but normally has an upper limit (¥1,000,000 or ¥10,000,000).

3. How are employees remunerated for Employee Inventions?

5) Court Decisions

- Heisei 3 (Wa) 5984 Decided April 28, 1994
Osaka District Court (ID: 27828238)
Zojirushi Mahobin

“ Method of manufacturing vacuum bottle”

The inventor claimed ¥150,000,000 (\$1.15M) . The court awarded ¥6,400,000 (\$49,000) as a reasonable amount.

Profit by the employer does not mean a profit gained by the employer by working the invention, but means a profit resulting from exploiting or monopolizing the patent right.

Royalty rate = 2%.

Contribution by the employer = 80%

3.How are employees remunerated for Employee Inventions?

5) Court Decisions

- Heisei 5 (Ne) 723;763 Decided May 27, 1994
Osaka High Court (ID: 27827381)
- Heisei 6 (O) 1884 Decided Jan 20, 1995
Supreme Court Gohsen (ID: 28011673)

“Method of manufacturing polyethylene terephthalate monofilament”

The inventor claimed ¥16,350,000 (\$126,000). The court awarded ¥1,660,000 (\$12,800) . The Supreme Court confirmed the decision by the Osaka High Court.

Remunerations at the time of filing (P:¥5,000, UM:¥3,000) and at the time of granting (P:¥15,000, UM:¥10,000) are reasonable. Profit by the employer does not mean an actually gained profit, but a profit expected when the right was assigned to the employer.

Royalty rate = 2% P = Patent UM = Utility Model

Contribution by the employer = 60%

3.How are employees remunerated for Employee Inventions?

5) Court Decisions

- Heisei 1 (Wa) 6758 Decided Sept 30, 1992
Tokyo District Court (ID: 27816808)
Kaneshin

Various UM and Design Registrations concerning housing parts such as triangle plate, corner leg, etc.

The inventor claimed ¥30,900,000 (\$238,000).

The court awarded ¥6,420,000 (\$49,400).

Royalty rate = 2%

Contribution by the employer = 35%

3. How are employees remunerated for Employee Inventions?

5) Court Decisions

- Heisei 7 (Wa) 3841 Decided April 16, 1999
Tokyo District Court (ID: 28041376)
- Heisei 11 (Ne) 3208 Decided May 22, 2001
Olympus Optical Industry (ID: 28061004)

“(Optical Video Disc) Pickup Apparatus”

The inventor claimed ¥1,000,000,000 (\$7.7M). The court awarded ¥2,500,000 (\$19,200). The patent utilizes a prior, fundamental patent, and was not important in licensing arrangements.

The validity of the patent is not clear.

The contribution by the employer = 95%.

Article 35, Paragraphs 3 and 4 take precedence over any contract, employment policies, or other stipulation defining remuneration lower than a reasonable amount. The employer cannot decide a reasonable amount of remuneration unilaterally. Thus, the inventor can claim for the shortfall in “reasonable remuneration”.

3. How are employees remunerated for Employee Inventions?

5) Court Decisions

- Heisei 7 (Wa) 3841 Decided April 16, 1999
Tokyo District Court (ID: 28041376)
- Heisei 11 (Ne) 3208 Decided May 22, 2001
Olympus Optical Industry (ID: 28061004)

(Continued)

A 10-year statute of limitations (“extinctive prescription”) for claiming for a reasonable amount of remuneration begins to run from the time the right to obtain a patent was assigned (Heisei 6 (O) 1884, upheld Jan. 20, 1995, Supreme Court). After 10 years from the time of assignment, employee claims are barred.

According to the Supreme Court (July 15, 1970), running of the extinctive prescription requires not only that there is no legal bar in order to enforce the right, but also that the enforcement can be actually expected.

In this case, the employee assigned the right to obtain a patent to the employer on Dec. 8, 1977. The employer argued that the extinctive prescription began at that time, and ten years had already elapsed, so that the employee could not claim for remuneration. The court noted that the employment policy was revised on Oct. 1, 1992, and the employer then paid remuneration (¥210,000) to the employee. The Court held that Oct. 1, 1992, was the time that the employee could actually expect enforcement of the right. Thus, the extinctive prescription began to run on Oct. 1, 1992, and the employee was not barred from claiming additional remuneration.

3. How are employees remunerated for Employee Inventions?

5) Court Decisions

● Pending Cases (Tokyo District Court)

— Hitachi was sued in 1998 by an employee who invented an optical mechanism for reading compact discs.

The employee claimed ¥700,000,000 (\$5.4M). Not decided yet.

— Nichia Chemical (actively involved in various patent infringement litigations against Toyoda Gosei, Sumitomo Trading Co. (Cree), Rohm) was sued in 2001 by Prof. Nakamura, who is the key inventor of various blue LED patents. Prof. Nakamura claimed ¥2,000,000,000. (\$15.4M).

The primary claim in the law suit is that the patent-in-suit is not an “Employee Invention” and that there was no assignment.

The secondary claim is that, even if a status of “Employee Invention” is found, ¥2,000,000,000 should be paid as a part of a reasonable amount of remuneration.

Not decided yet.

3.How are employees remunerated for Employee Inventions?

6) Examples of Policies Relating to Maximum Remuneration in Various Companies

Sony	No Upper Limit	April, 1997
Hitachi	No Upper Limit	April, 1991
Toshiba	No Upper Limit	April, 1998
JVC	No Upper Limit	April, 1999
Kenwood	No Upper Limit	Jan., 1999
Omron	¥100,000,000	April, 1999
Mitsubishi Chemical	¥250,000,000	Dec., 2001
Sankyo Pharmaceutical	¥60,000,000	Sept., 1999

4. Current Issues

1) Fundamental Understanding

How should an inventor be treated and rewarded by an employer in the current pro-patent environment, while lifetime employment in Japan is disappearing?

- Different remuneration schemes for inventor/employees versus regular employees.
- The possibility of separate contract between an employer and an individual inventor/employee.

4. Current Issues

2) Inventors' Views

- Inventors are not satisfied with the current situation of a “reasonable amount” of remuneration. They expect more than they now receive. The number of law suits concerning employees' invention is increasing and the amount of remuneration they claim is increasing. Inventors have become very conscious of patent rights.
- Recently, “headline cases”, such as the Olympus case and the new litigation filed by Professor Nakamura, have emboldened some employee/inventors, who are now more likely to assert that their contributions should be more highly remunerated.
- While a few employees are strongly influenced by this trend, most of the employees consider that patent activity is only a part of their scope of duties. These employees tend to value other business activities as more important than patent rights.

4. Current Issues

3) Unclear Provisions of Article 35, Paragraphs 3 and 4

Basic problem

- “a reasonable amount of remuneration”
- “contribution by employer”

These factors have been discussed in various court decisions. However, each decision discussed conditions of the specific employment and creative activity, so that the decisions are hard to apply as precedent or to use in developing guidelines.

4. Current Issues

4) Working Group by the JPO

Should we revise the current provision of employee invention or not? The JPO understands the need of reconsidering the employee inventions system and has organized a Working Group to discuss industry's competitiveness and IP.

Employee inventions are only one of the topics in the Working Group's portfolio.

In the future, the relevant statutory provisions may be relaxed to permit employer and employee to have more freedom to enter into contracts concerning assignment, licensing, and remuneration. In the interim, court rulings may anticipate such statutory relaxation, like in the Olympus case.

4. Current Issues

5) Proposal by JIPA

On December 7, 2001, the JIPA officially proposed that the assignment of the right to obtain a patent to the employer, the exclusive license relating to patents of Employee Inventions, and related conditions should be determined by contract, employment policy, and other stipulations between the employer and the employee, while abolishing Article 35, Paragraphs 3 and 4 of the Patent Law.

The social and industrial landscape of Japan has changed greatly from 1921, when Article 35 was adopted. In 1921, the situation of employees was very weak, and Article 35 was crucial to the protection of employee/inventor rights.

JIPA proposes that matters relating to assignment of patent rights and remuneration of employee/inventors should no longer be regulated by law.

Currently, employers realize the importance of patents and can reward inventors reasonably. Sometimes, a powerful inventor has bargaining power over employer. Although the trend is to make employee inventions subject only to employer/employee negotiations and private agreements, others believe that some statutory protection of employee/inventors should be retained.

4. Current Issues

6) Employees in Japan of U.S.-Based Companies

Many U.S. Companies do not have an inventor reward system similar to Japanese Companies. When employees of a Japanese subsidiary of a U.S. Company create inventions in Japan, the U.S. Company should still take necessary steps to reward the inventors.

Some companies understand this system, but some do not. This may cause friction between U.S.-based employers and their employees in Japan, unless both parties reach an agreement.

Appendix

Employee Inventions /Article 35

(1) An employer, a legal entity or a state or local public entity (hereinafter referred to as the “employer, etc.”) shall have a non-exclusive license on the patent right concerned, where an employee, an executive officer of a legal entity or a national or local public official (hereinafter referred to as the “employee, etc.”) has obtained a patent for an invention which by reason of its nature falls within the scope of the business of the employer, etc. and an act or acts resulting in the invention were part of the present or past duties of the employee, etc. performed on behalf of the employer, etc. (hereinafter referred to as an “employee invention”) or where a successor in title to the right to obtain a patent for an employee invention has obtained a patent therefor.

Appendix

Employee Inventions /Article 35

(2) In the case of an invention made by an employee, etc. which is not an employee invention, any contractual provision, service regulation or other stipulation providing in advance that the right to obtain a patent or the patent right shall pass to the employer, etc. or that he shall have an exclusive license on such invention shall be null and void.

(3) The employee, etc. shall have the right to a reasonable remuneration when he has enabled the right to obtain a patent or the patent right with respect to an employee invention to pass to the employer, etc. or has given the employer, etc. an exclusive right to such invention in accordance with the contract, service regulations or other stipulations.

(4) The amount of such remuneration shall be decided by reference to the profits that the employer, etc. will make from the invention and to the amount of contribution the employer, etc. made to the making of the invention.

Thank you for your attention!

