SONDERHOFF EINSEL

The Employee Invention in Japan

Hiroshi Morita,
Patent Attorney (Japan)

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1. Background

- **Patent Law prior to 1909：**
  - The first Patent Monopoly Act stipulated that an inventor could obtain a patent but did not stipulate any provision regarding an employee invention per se.
  - It was understood that when an employer wished to obtain a patent for an invention made by an employee during working hours, the employer needed to succeed to the employee's invention by an agreement, etc.
- **Patent Law of 1909：**
  - A right to obtain a patent for an invention made by an employee in the course of his/her duties or by contract shall belong to an employer unless otherwise stipulated in an agreement, etc.
  - An agreement, etc. providing in advance that a right to obtain a patent for an invention by an employee shall be null and void unless the invention is made in the course duties of the employee, or by contract.

1. Background

- **Patent Law of 1921：**
  - A right to obtain a patent for an employee invention shall belong to an employee.
  - An employer has a free non-exclusive license for the employee invention.
  - Where a right to obtain a patent is assigned to an employer by an agreement, etc., an employee has a right to receive “reasonable compensation”.
- **Gist of Revision**
  - The provision which stipulates that a person who is not an inventor naturally obtains a patent violates the inventor principle.
  - A balanced relationship between an employer and an employee is established by payment of reasonable compensation.

1. Background

Patent Law of 1959：

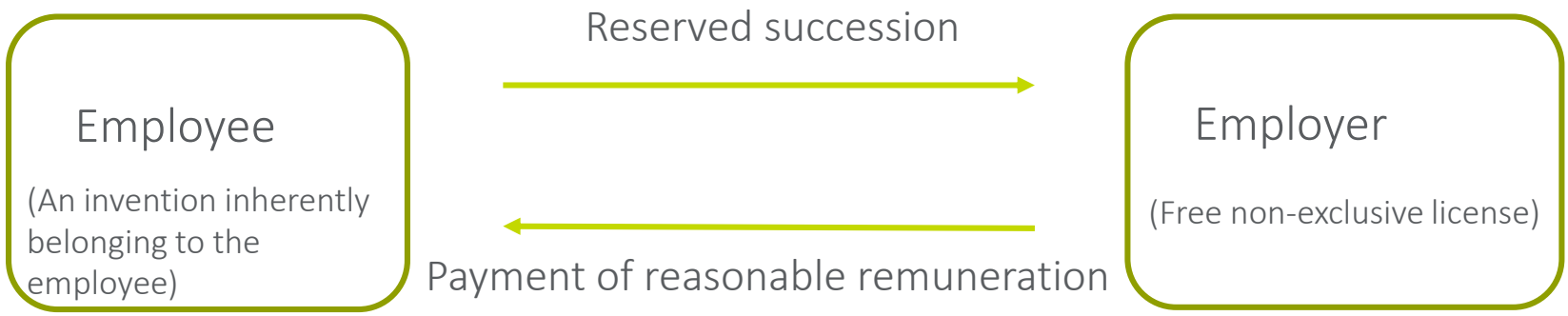
- An employee invention was defined as “an invention achieved in the course of present or past duties of an employee” while maintaining the principle that a right to obtain a patent originally belongs to an employee.
- The expression “reasonable compensation” was changed to “reasonable remuneration (value)”.

Gist of Revision

- The expression “compensation” is generally used to refer to the money paid to compensate the right restricted by a public authority. Therefore, when the right is voluntarily assigned, the expression “remuneration (value)” is more appropriate.

1. Background

Patent Law of 1959



Problem 1:
Is the employee satisfied with the assessment of his/her own invention ?

Problem 2:
Is the basis for calculation of "reasonable remuneration" clear?

Problem 3:
How much money should be paid for the invention?

1. Background

- Employee invention lawsuits regarding "reasonable remuneration"
  - Olympus Corporation Case 2003 (Supreme Court decision dated April 22, 2003)

    "Where the amount of remuneration is less than the amount of remuneration provided in Article 35(4) of the Patent Law, an employee is eligible to demand payment of the difference to meet the reasonable remuneration according to paragraph (3) of the same Article."

  - Nichia Kagaku Blue LED Case 2004 (Tokyo High Court, settled on January 11, 2005)

    "The amount of reasonable remuneration for the assignment of a right to obtain a patent for an employee invention should be sufficient so as to provide an incentive for invention by an employee and at the same time, should be of an amount that makes it possible for the company to overcome severe economic situations and international competition and strive for development. Therefore, it is fair to think that the reasonable remuneration is naturally different from the amount of profits that the joint operators of companies bearing the various risks receive under favorable economic conditions."

    "Reasonable remuneration" at the first instance was about 60,000,000,000 Yen

    ➔ Settlement at the second instance was about 600,000,000 Yen

2.Revision of Law in 2004

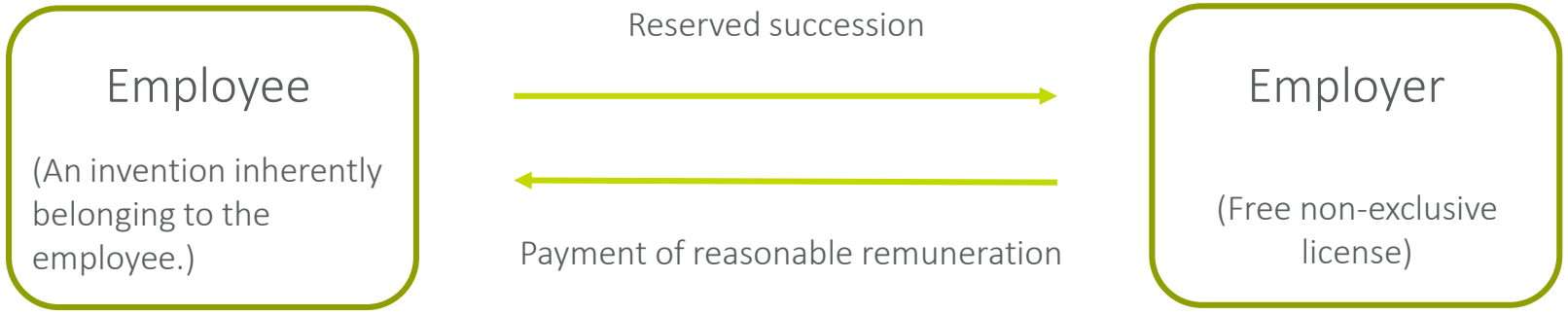
- Change in labor – management relationship：
  Permanent employment➔Mobilization of researchers
- Growing interests in the employee invention system
- Increasing number of lawsuits claiming “a reasonable remuneration”
  (Employees can claim the payment for insufficient remuneration.)
- Meanwhile, high remunerations were accepted in court and the appropriateness of the right to claim a remuneration has been questioned.

The framework for the right to claim a remuneration is maintained, but the method for computing a remuneration is very ambiguous.

For employers: Predictability regarding the amount of “a reasonable remuneration” is increased.
For employees: Satisfaction at the assessment of an invention is increased.

2. Revision of Law in 2004

Law in 2004



- When an agreement stipulates a remuneration, the payment of the remuneration shall not be considered unreasonable in light of circumstances of a negotiation taken place between an employer and an employee, a standard disclosed, and the received opinions of the employee. (Procedures are emphasized.)
- When a remuneration is regarded as unreasonable, the "amount of a remuneration" must be determined by taking into consideration the amount of profit to be received by the employer, the employer's burden, the contribution and treatment of the employee, and any other circumstances.

3. Revision of Law in 2015

➢ Problems remaining after the revision in 2004:

- Instability in attribution of the right such as double assignment
- Low legal predictability of the still remaining risk of being sued for employee inventions
- Cost of computing a reasonable remuneration on the company side

Barriers against the promotion of innovation such as company research and development strategies

3.Revision of Law in 2015

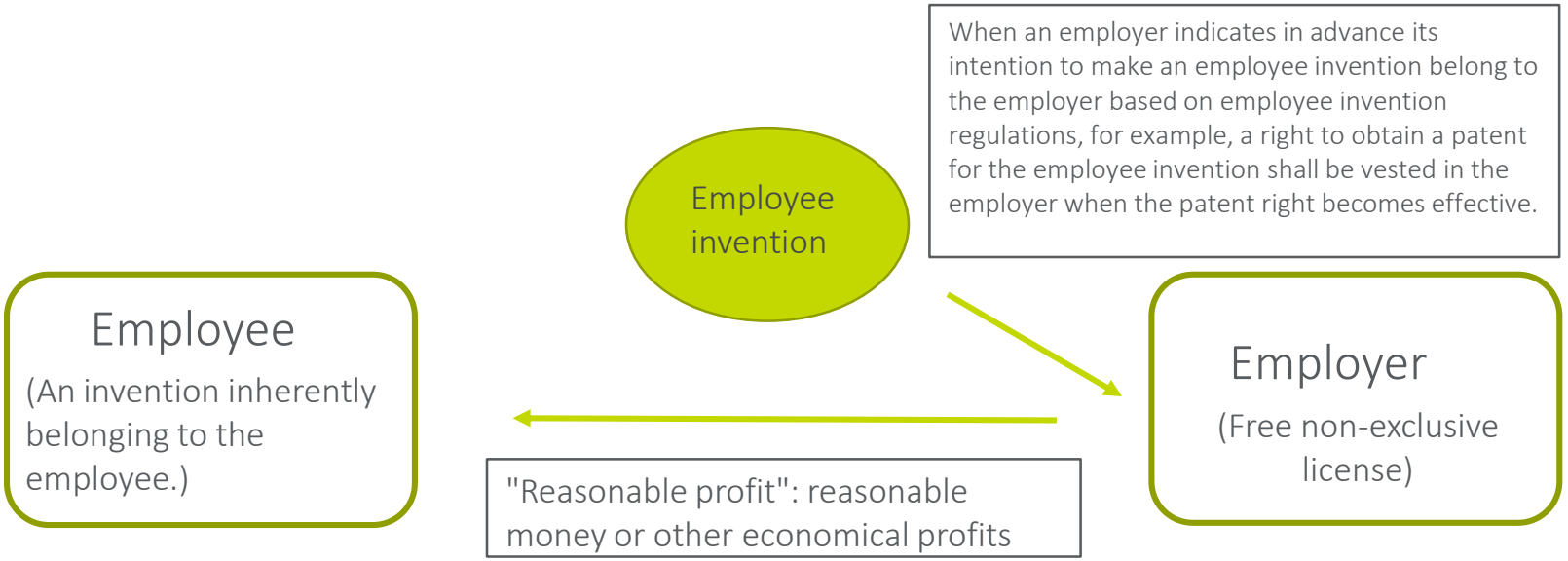
Standpoint of Industry：Basically, an employee invention inherently belongs to an employer

1. Problem of double assignment

➔Double assignment will cause no problem on the premise that an employee invention inherently belongs to an employer

2. Weakness of attribution: More serious for medium-sized and small companies
3. Low predictability of remuneration
   - What is meant by “unreasonable” in Art. 35(4)?
   - Licensed patents including valuable and worthless ones
   - Man-hours necessary for payment
4. Prevention of teamwork
   - Inventing activities are carried out by a team.
5. Adopting incentive measures suitable for individual companies

3. Revision of Law in 2015



When an employer indicates in advance its intention to make an employee invention belong to the employer based on employee invention regulations,

- a right to obtain a patent for the employee invention shall be vested in the employer when the patent right becomes effective;
- the employee has a right to obtain reasonable money or other economical profits; and
- the reasonable money or other economical profits shall be specifically determined in accordance with the guidelines defined by the Minister of Economy, Trade and Industry (April, 2016).

4. Problems of Revision in 2015

- Work of revising company regulations, e.g.,
  - changing the regulations so as to stipulate that an employee invention shall inherently belong to the company
  - changing the wording in a deed of assignment
  - determining what is the economical profit (e.g., simplification of procedures)
- Application of several versions of company regulations
- Litigation risk still remaining on the company side

Thank you very much for your attention

Contact

SONDERHOFF & EINSEL LAW AND PATENT OFFICE
Shin Marunouchi Center Bldg. 18th/19th Floor, 1-6-2 Marunouchi, Chiyoda-ku, Tokyo 100-0005

Tel +81-3-5220-6500
Fax +81-3-5220-6556 (G3)
Fax +81-3-5220-6530 (G4)
Fax +81-3-5220-6583 (Law Department)

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Appendix

Characteristics of pharmaceutical patents

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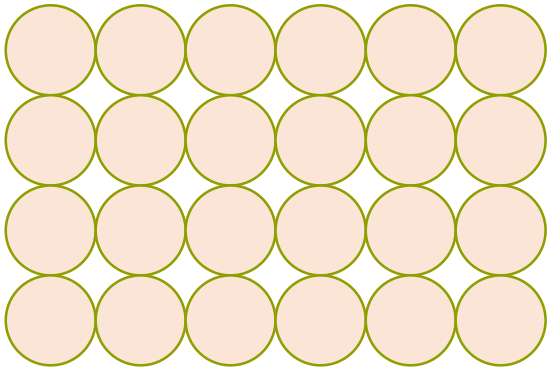
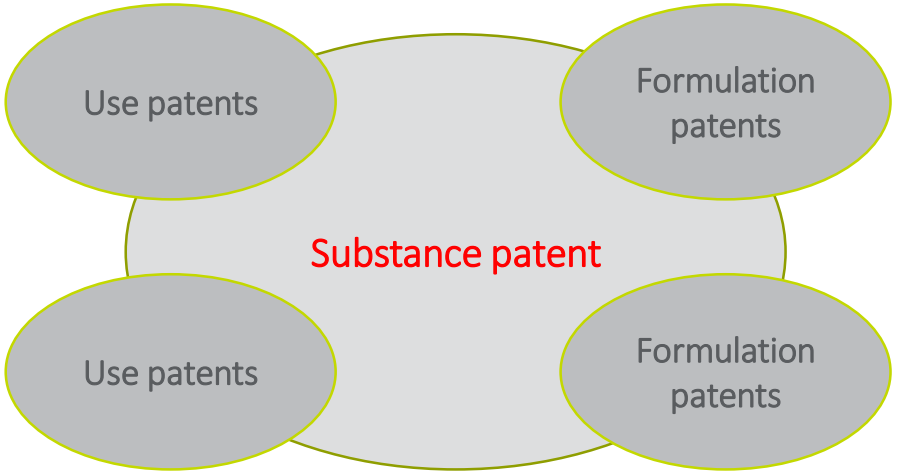
Vehicles, domestic appliances etc.



Several hundreds to several thousands of patents per one product.
The impact of one patent is small.

Slim chance that the existence of patents hinders development.

Pharmaceuticals



One basic patent in principle (i.e. the substance patent)

High patent monopoly

High licensing fees

Many cases of dashed hopes for product development due to patents of another company

11 December 2012
Cross industry - Forum on employee inventions
Materials courtesy of the Japan Pharmaceutical Manufacturers Association

R&D process for pharmaceuticals

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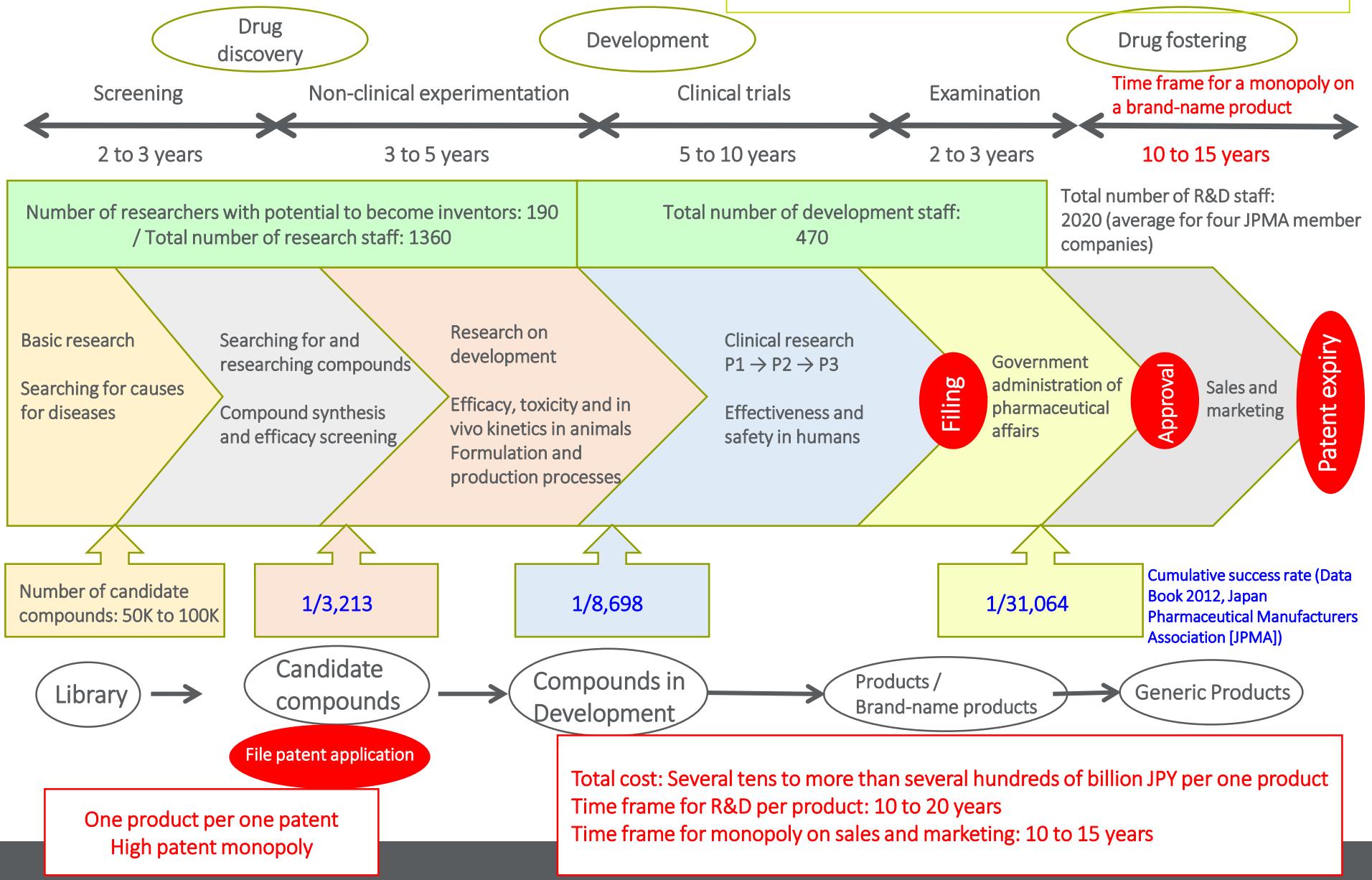

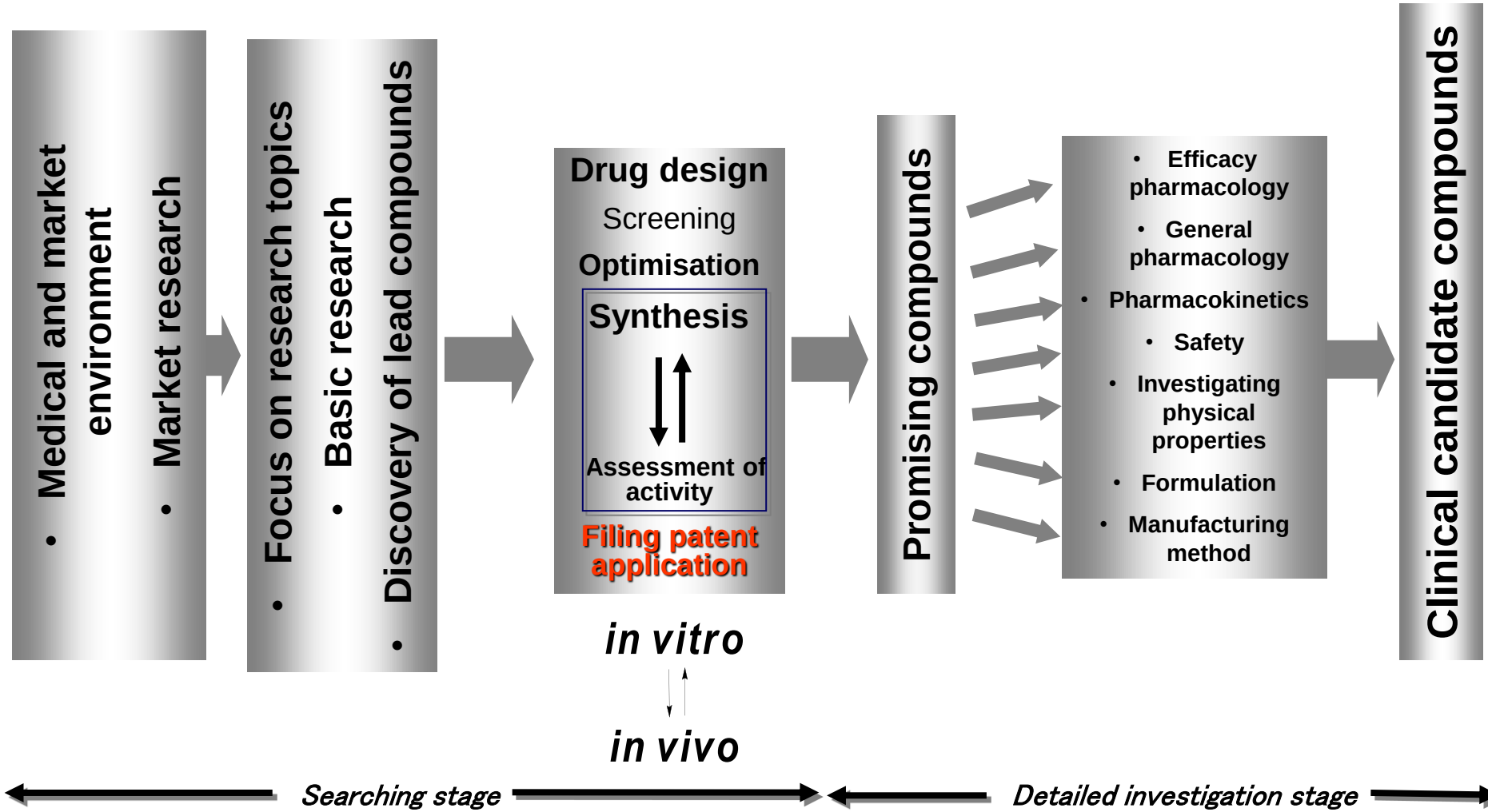

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Issues remaining in the pharmaceutical industry

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1. There are several steps involved from research to commercialization. There is great profit by a single patent, but also the payback (i.e. remuneration) to the inventor is too high.

2. As a compound, the odds are one to several tens of thousands.

3. Feelings of unfairness between the inventors and other associated staff - as the staff are not evaluated/acknowledged even if they contribute their accumulated highly advanced basic techniques and knowledge to an invention.

4. Secretiveness/delays in free information exchange, sharing and disclosure of technical information, and ideas amongst research teams

5. Reduced incentive towards types of research work unrelated to 'inventions'

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