Amendment of Article 35 (Employee Invention) of the Japanese Patent Act

November 5, 2015

Japan Intellectual Property Association

Heyday of inventors in early 2004

$1=¥110

Yonezawa v. Hitachi (January 29 , Tokyo High Court)

- Filed in 2001
- Inventor was awarded $1.5M
- for optical disc drive invention
- Judgment (No settlement)

HITACHI
Inspire the Next

Nakamura v. Nichia (January 30, Tokyo District Court)

- Filed in 1998
- Inventor was awarded $181.8M
- for blue LED invention
- Settlement: $7.7M

NICHIA

Naruse v. Ajinomoto (February 24 , Tokyo District Court)

- Filed in 2002
- Inventor was awarded $1.7M
- for artificial sweetener invention
  - Settlement: $1.4M

A taste of the future.
AJINOMOTO

2005 Amendment

Same structure, but fairer and transparent process

New § 4

Payment rules/schedule shall not be considered *"unreasonable"* (and should be honored), in view of:

- Manner of employer-employee negotiation to the set standards,
- Disclosure of the standards,
- Chances of opinion hearing on the calculation of the value, etc.

No stipulation on remuneration
Or "unreasonable"

New § 5

Compensation should be decided, taking into account:

- The amount of profit to be received by the employer from the invention,
- The employer's burden, contribution, and treatment of the employee,
- Other circumstances relating to the invention, etc.

Summary of the Current System

- The right to obtain a patent for an employee invention belongs to the employee.

- When an employer is vested with a right to obtain a patent for an employee invention, the employee is entitled to claim reasonable remuneration.

- Where employment regulation etc. provides for the remuneration, and if the amount of the remuneration is unreasonable in light of circumstances of a negotiation between an employer and an employee, etc., then determination of the amount becomes subject to judicial decision.

Problem in the Current System

- Difficulties to determine the amount of remuneration prior to the actual profits (unforeseeability)

- Problems associated with the transfer of the right to obtain a patent
  - Potential double assignment
  - Vulnerable ownership of a joint invention

- Others
  - May not be effective as an incentive
  - Senses of unfairness among inventors and non-inventors
  - Administrative costs/burdens

Proposal from the Industry

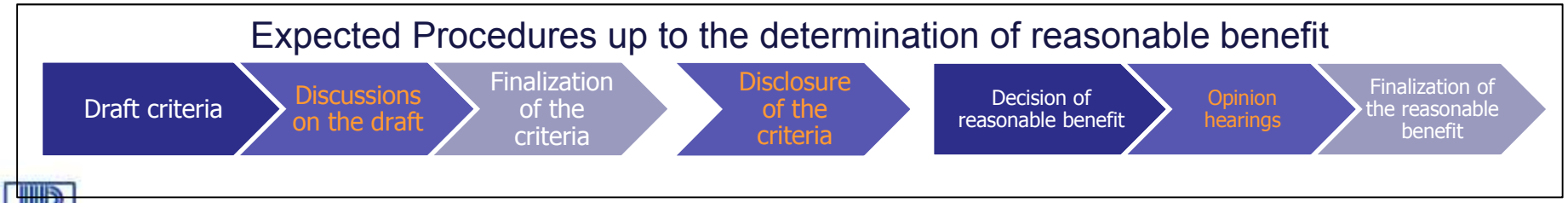
In light of those problems, JIPA and Japan Federation of Economic Organizations (KEIDANREN) have tried to amend the Article 35.

[Proposal from the industry (2013)]

- The right to obtain a patent for employee invention inherently belongs to the employer company.
- Incentive measures afforded to researchers of companies should be left to the discretion of companies, not by the legal enforcement.

Summary of the Proposed Amendment

- The right to obtain a patent for an employee invention may belong to an employer inherently from the conception.
- An inventor is entitled to a reasonable amount of remuneration and other economic benefits (hereinafter referred to as "reasonable benefit") .
- METI is to set forth guidelines with regard to circumstances of negotiations to be carried out between an employer and employees for criteria to decide details of reasonable benefit.



Expectations for/by the Amendment

- Difficulties to determine the amount of remuneration (unforeseeability)

➡ *to be ameliorated by following the Guidelines to some extent*

- Problems associated with the transfer of the right to obtain a patent

➡ *to be resolved because of inherent ownership of employer*

  - Potential double assignment
  - Vulnerable ownership of joint invention

- Others
  - May not be effective as an incentive
  - Senses of unfairness among employees

➡ *Possibly improved because of the latitudes of incentive measures*

  - Administrative costs/burdens

➡ *Can be mitigated*

Further Schedules

- On October 23, 2015, full contents of the draft Guidelines were submitted for discussion by the JPO's Patent System Subcommittee.
- Subsequent to the finalization of contents of the draft Guidelines in November, solicitation of public comments follows.
- The Amended Law is scheduled to be put into effect as of April 1, 2016.
- Subsequently, the Guidelines will be officially published.

Possible Impact on U.S. Companies

[Suppose]

- It is your company's practice to obtain the right to a patent (including foreign counterparts) under a boiler plate contact with employee/inventor for one dollar.
- A disgruntled employee/inventor sued your company for remuneration arising out of the corresponding Japanese patent.

[Possible scenarios (My personal view)]

(A) Before a US court:

It is very unlikely for a US court to "import" a Japanese law into a dispute between US people under a contract made in US.

(B) Before a Japanese court:

i) If a Japanese court characterize Article 35 as a kind of Labor Law, it will not intervene in the disputes between US employer and employee.

ii) If a Japanese court apply Article 35 just as other provisions in the Patent Act, it will see if the employer is in compliance with the Article (and possibly METI's Guidelines) regardless of the nationality of the parties. *See expected procedures.*

iii) Will a Japanese court honor the contract between the US employer and employee? If yes, same as i). If not, same as ii).

[Bottom line] Amendment will not alleviate fundamental concerns of US companies, whose practice is as set forth above.

Thank you for your attention.