

Employee Inventions in Japan

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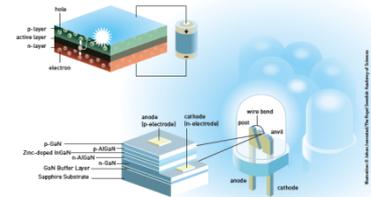


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Agenda

- ▶ Introduction
- ▶ 1. Principles of Japanese Patent Law regarding Employee Inventions
- ▶ 2. Amendments as of April 2016
- ▶ 3. Practical Advice for Employers performing R&D in Japan

Blue LED Patent (JP 2628404 B)



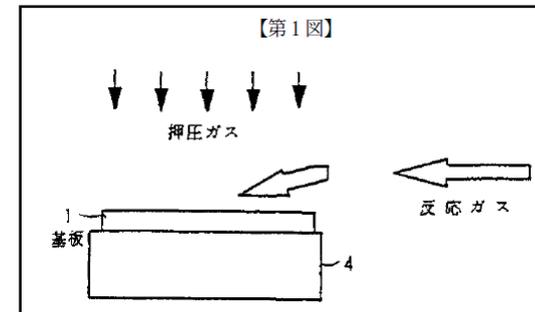
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Prof. Nakamura,
Nobel Laureate (2014)

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【請求項1】加熱された基板の表面に、基板に対して平行ないし傾斜する方向と、基板に対して実質的に垂直な方向からガスを供給して、加熱された基板の表面に半導体結晶膜を成長させる方法において、基板の表面に平行ないし傾斜する方向には反応ガスを供給し、基板の表面に対して実質的に垂直な方向には、反応ガスを含まない不活性ガスの押圧ガスを供給し、不活性ガスである押圧ガスが、基板の表面に平行ないし傾斜する方向に供給される反応ガスを基板表面に吹き付ける方向に方向を変更させて、半導体結晶膜を成長させることを特徴とする半導体結晶膜の成長方法。



Blue LED Patent (JP 2628404 B)

10/25/1990 Filing Date of the Patent Application

4/18/1997 Granted Patent

8/23/2001 Nakamura Sued Nichia at Tokyo District Court

- *"The ownership of the invention belongs to Nakamura."*

- *"If not, the considerable remuneration must be paid."*

1/30/2004 Tokyo District Court Decision

- *"The ownership belongs to Nichia."*

- *"Nichia must pay JY 20,000,000,000."*

2005 Settlement at Tokyo High Court

"Nichia will pay JY 600,000,000."

We will return to this case later.

1. Principles of Japanese Patent Law regarding Employee Inventions

An **employee invention** is defined as:

an invention, that is, in essence, within the scope of the employer's business; and
for which the work carried out to achieve the invention was done as part of the employee's present or past duties to the employer.

“Employee” includes company employees and directors, university professors, government officials, temporary staff and staff on loan.

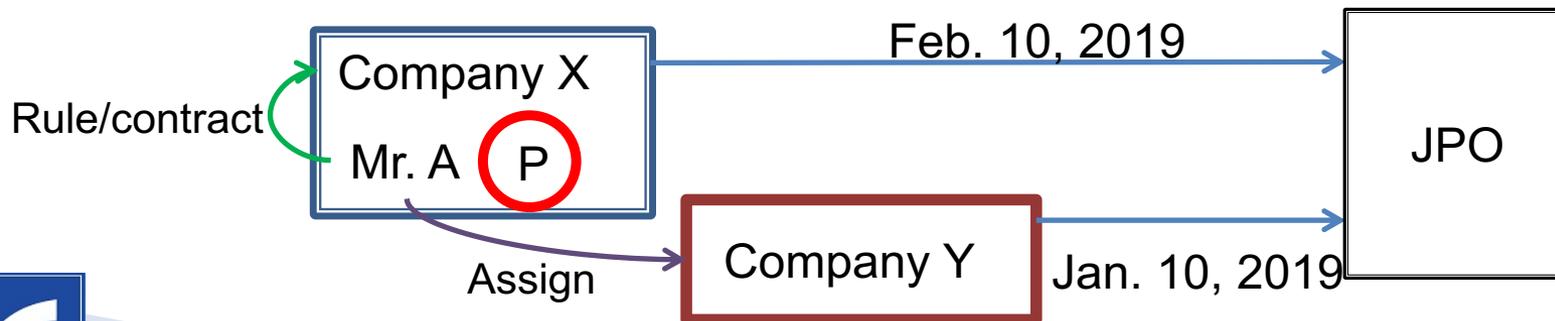
Principles of Japanese Patent Law

1. **An employee invention is initially owned by the employee-inventor** (Article 29, Paragraph 1; Article 35, Paragraph 2).
2. **An agreement between employee and employer can be made so the employer succeeds the right to a patent for the invention** (Article 35, Paragraph 2).
3. If there is no agreement, the employer is automatically provided with **a statutory royalty-free non-exclusive license** (Article 35, Paragraph 1).
4. If an employee invention is **assigned** to the employer, the employee has **the right to remuneration with due consideration** (Article 35, Paragraph 3).

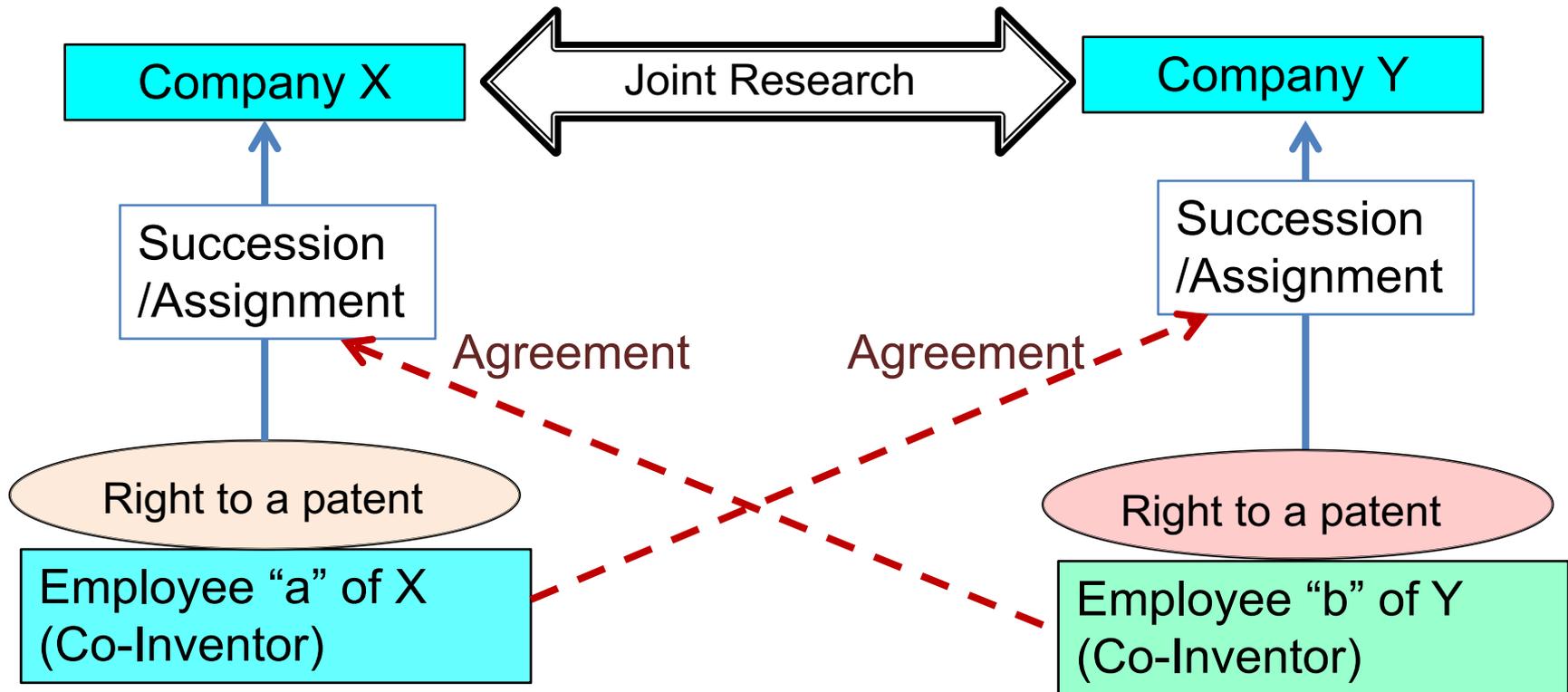
Article 35(3) was updated

Double Assignment Problem before Amendment

- An inventor might assign his invention to two people.
 - Second assignee files a patent application before the first assignee (employer).
 - **Even if** the employer has company rules or a contract providing that employee inventions must be assigned to the employer, if an employee invention is assigned to a third party and the third party files a patent application before the employer does, the application will **block the employer from obtaining a patent.** (Article 34(1))
- If the right to a patent on an invention originally belongs to the employer from the moment the invention is made, then an application by a third party will be rejected as illegitimate.



Complications of Joint Ownership before Amendment



In joint research, assignment of an invention to an employer requires the other co-inventors' agreement (**Article 33(3)**)
→ If the rights originally belonged to the employers from the moment of invention, the employers are already co-owners without needing to obtain the agreement of employees

Principles of Japanese Patent Law (Current)

1. The right to a patent for an employee invention initially belongs to the employer **if specified by their employment contract, rules, or the like.**
2. If right to a patent for an employee invention is **obtained** by the employer, the employee has the right to remuneration **with economic benefit** such as monetary compensation.
3. The Minister of Economy, Trade and Industry published guidelines.

2.1 Japanese Patent Law on Employee Inventions enforced *of April 1, 2016*

Change 1:

Employee inventions (i.e. the right to obtain patents thereon) belong to the employer from the time the invention is made, if so specified beforehand by employment contracts, company rules, or other agreements.

- ▶ In the absence of agreements: an employee invention belongs to the inventor and the employer is provided with a royalty-free non-exclusive license (same as before)
- ▶ By allowing the employer to originally possess the rights to an invention, the potential of double assignment and the complications of joint ownership can be avoided

Change 2:

In exchange for taking possession of an employee invention, the employer must provide the employee with reasonable monetary or other economic benefits.

“adequate remuneration” → “reasonable **monetary or other economic benefits**”

- ▶ Other economic benefits can be: chances to study abroad, stock options, promotions, paid holidays, licenses and other non-monetary benefits

Change 3:

The Minister of METI (Ministry of Economy, Trade and Industry) published guidelines relating to reasonable economic benefits.

- ▶ The guidelines specify **the factors to be considered** in establishing company standards on “economic benefits” (“standards for determining reasonable benefits”).
- ▶ Standards for determining reasonable economic benefits are more reliable and the **risks of unforeseeable disputes are reduced**.
- ▶ Ownership of the invention is an issue separate from the “economic benefits”.

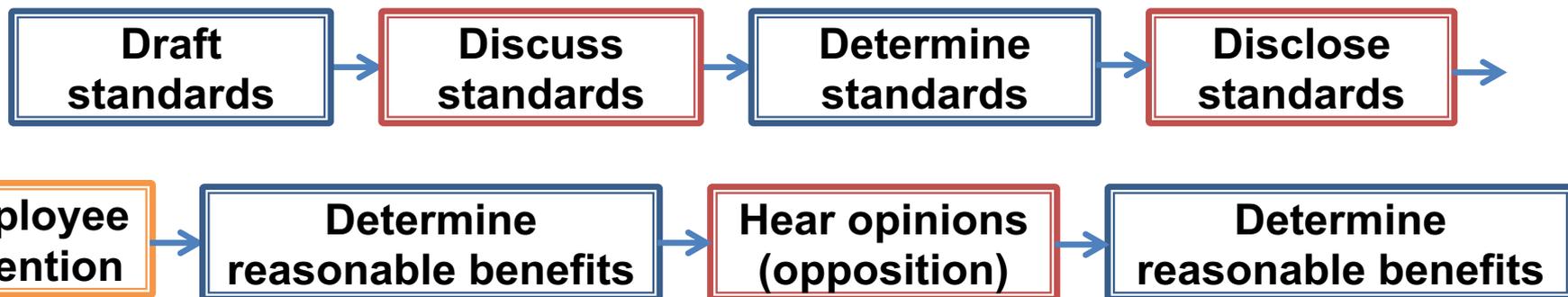
2.2 Guidelines Concerning Company Standards on Reasonable Economic Benefits

According to the guidelines, the following should be conducted in a reasonable manner:

(Discussions) between the employer and the employees on the standards

(Disclosure) of the standards

(Hearing) of inventors' opinions regarding the amount of economic benefits



Discussions:

- ▶ When establishing standards for determining reasonable economic benefits, the employer and the employees must talk
- ▶ The discussions may be held between representatives (e.g. workers' union representatives) of the employees and the employer
- ▶ The discussions must be thorough, but need not reach an agreement
- ▶ The company rules do not apply to employees who have neither attended nor been represented by others during the discussions
- ▶ Discussions must also be held with new employees joining the company after the standards have been established

Disclosure:

- ▶ The standards must be disclosed to each employee to whom they apply
- ▶ Various methods of disclosure are acceptable: notices; website/intranet publication; e-mail; and/or disclosure of standards upon employees' request
- ▶ Specifics of adequate benefits, conditions that need to be satisfied, and other matters for determining adequate benefits must be concretely disclosed

Opinion hearing:

- ▶ When determining the specific benefits for employee inventions, the employer must hear the opinions of the employees who created the inventions
- ▶ This may be before or after adequate benefits have been decided
- ▶ An agreement does not need to be reached, but the employer is supposed to respond to the opinions in good faith
- ▶ In the case of joint inventions, the employer may hear the opinions from an agreed representative

Other key points:

- ▶ Adequate benefits may be provided at the time of patent registration or at the time of retirement as a lump sum
- ▶ Transfer of employee inventions and standards for calculating adequate benefits can be decided separately
- ▶ The **procedure** through which the standards are established is **more important** than the method of calculating the benefits (however the adequate benefits are decided, they will not be immediately considered unreasonable)
- ▶ No direct provisions regarding foreign applications, however it is recommended to include foreign applications in the standards

3. Practical Advice for Employers performing R&D in Japan 1/4

- ▶ Establish company rules to determine that employee inventions belong to the employer from the time the invention is made
- ▶ Establish standards to determine economic benefits according to the guidelines of the Minister of METI so that the standards are deemed “reasonable” and therefore the economic benefits are less disputable
- ▶ Keep a good record of the discussions held between the employer and the employees, disclosure of the standards, and the opinions of the employees about the remuneration

Practical Advice for Employers performing R&D in Japan 2/4

- ▶ During the establishment of the standards:
 - Discussions must be held between the employer and the employees
 - In the discussions, try to include, directly or indirectly, all the employees who might be inventors
 - Hold discussions periodically to include newly employed people in the discussions
 - Formulate the invitation to potential inventors so that they can be assumed to have assigned others to attend the discussions in their place if they do not actually attend

Practical Advice for Employers performing R&D in Japan 3/4

- Company standards for the economic benefits must be made accessible to inventors
 - In view of the confidential nature of the standards for economic benefits, the balance between disclosure and confidentiality must be carefully determined
 - Periodic explanation is recommended, both to discuss and inform employees of the standards

Practical Advice for Employers performing R&D in Japan 4/4

- The employee-inventors' opinions on the amount of economic benefits must be heard
 - Inventor's opinions must be recorded
 - The employer and the employee do not need to come to an agreement on the economic benefits

Practical Advice for Employers involved in joint R&D with a Japanese corporation

When your R&D partner company performs R&D in Japan, be sure that the partner company has established company rules providing that employee inventions belong to the company from the moment the inventions are created. Otherwise, there is potential for the previously mentioned double assignment and complications.

Principles of Japanese Patent Law regarding Employee Inventions

Encouraging invention.

Equity between the employer and employee.

"和" Harmony

Content and action fitting the specific conditions in each field and company are necessary.

Blue LED Patent (JP 2628404 B)

- No doubt that the blue LED invention is distinguished.
- Nakamura invented so many (300 patents/applications).
- There must have been many collaborators.
Not only the immediate vicinities, but also indirect cooperators.

Other engineers may have failed, but the results of their trial and error must have been valuable for the inventor.

- The inventor was promoted to a higher position.

What do you think?

Thank you!



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Appendix I:

Patent Law on Employee Inventions over the Years

Article 35 at the time of the Blue LED case (abridged translation)

An employer is entitled to a non-exclusive license, when an employee receives a patent for an invention which is, in essence, within the scope of the employer's business, and for which the work carried out to achieve the invention was done as part of the employee's present or past duties to the employer (employee invention), or when the successor of the right to obtain a patent for the employee invention receives a patent.

2 Regarding inventions made by employees, other than cases where the inventions are employee inventions, agreements, employment regulations and other rules, which allow the employer to succeed to the rights to obtain patents or patent rights or to set an exclusive license for the employer in advance, are invalid.

3 When the right to obtain a patent or patent right for an employee invention is transferred, or when an exclusive license for the employee invention is set for the employer, by means of agreements, employment regulations or other rules, the employee is entitled to receive payment of adequate remuneration.

4 The amount of the remuneration must be determined in consideration of the amount of profit that would be gained by the employer based on the invention and the level of contribution made by the employer etc. to the invention.



Current Article 35 (only the most important differences from the old Article 35 are indicated)

4 When the remuneration is determined by agreements, employment regulations or other rules, the remuneration must be determined in consideration of the state of discussions between the employer and the employee when making standards for determining remuneration, state of disclosure of the standards, and the state of hearings of opinions from employees regarding the calculation of the amount of remuneration; and the determined remuneration must not be unreasonable.

5 When there are no rules on the remuneration or when remuneration based on the rules is unreasonable, the amount of remuneration in paragraph 3 must be determined in consideration of the amount of profits that would be gained by the employer, the burden borne by, and the contribution made by the employer etc. in connection with the invention, treatment of the employee and other circumstances.



Patent Law on Employee Inventions over the Years

Article 35 from April 2016 (only the most important differences from the old Article 35 are indicated)

2 Regarding inventions made by employees, other than cases where the inventions are employee inventions, agreements, employment regulations and other rules, which allow the employer to acquire the rights to obtain patents, to succeed to the rights to obtain patents or patent rights or to set a provisional exclusive license or an exclusive license for the employer in advance, are invalid.

3 Regarding inventions made by employees, when agreements, employment regulations or other rules allow the employer to acquire the rights to patents in advance, the rights to obtain patents belong to the employer from the moment the rights to obtain patents arise.

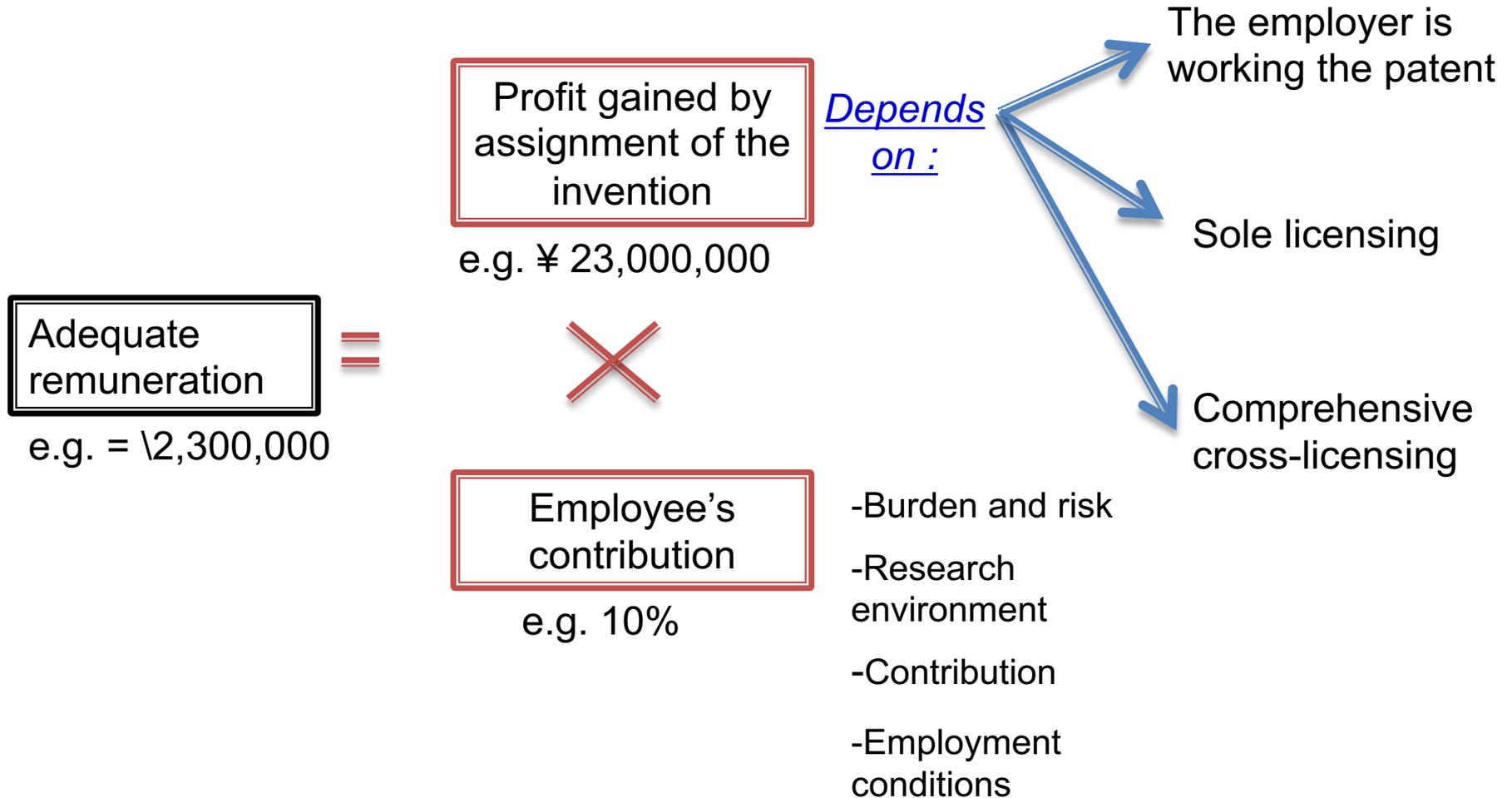
4 In cases where the right to obtain a patent for an employee invention is acquired by the employer, where the patent right is transferred to the employer, or where a provisional exclusive license for the employee invention is set for the employer, by means of agreements, employment regulations or other rules, the employee is entitled to receive payment of adequate monetary or other economic benefits("adequate benefits") when an exclusive license has been deemed to be set.

6 To encourage inventions, the Minister of Economy, Trade and Industry shall hear the opinions of the METI Industrial Structure Council, decide on guidelines concerning matters relating to the circumstances to be considered, and publish the guidelines.

7 In cases where there are no rules on adequate benefits, or where provision of adequate remuneration as determined by the rules is considered unreasonable, the specifics of adequate remuneration to be received must be determined in consideration of the amount of profits that would be gained by the employer, the burden borne by, and the contribution made by the employer etc. in connection with the invention, treatment of the employee and other circumstances.

Appendix II

How Courts Calculate Reasonable Remuneration



How Courts Calculate Reasonable Remuneration

Adequate remuneration

$$= (\text{Profit gained by assignment of invention}) \\ \times (\text{Employee's Contribution})$$

“Profit gained by assignment of invention”

= Profit of the employer gained by the invention – Profit the employer could have had from a Statutory Non-Exclusive License

Profits for patents granted outside of Japan should also be included in the calculation of remuneration.

Hitachi Case (the Supreme Court of Japan)

Contribution of Employee

When calculating the contribution of the employee, the following elements should be taken into consideration:

- Contribution
- Research Environment
- Burden (Risk)
- Employment Conditions

In many cases, the courts basically set "5%" as the contribution of the employee and change it only in exceptional cases.

Determination of “Profit Gained by Assignment of the Invention”

When the employer is working the patent:

“Profit gained by assignment of the invention”

$$= (\text{Extra sales due to exclusiveness of assigned right}) \\ \times (\text{Hypothetical licensing fee}) \times (\text{Employee's Contribution})$$

Sole Licensing

“Profit gained by assignment of the invention”

$$= \text{Licensing fees} \times (\text{Employee's Contribution})$$

Comprehensive Cross-Licensing

“Profit gained by assignment of the invention”

$$= (\text{Employer's profit for the licensing agreement}) \\ \times (\text{Employee's Contribution})$$

April 22, 2014: Osaka District Court

Plaintiff: Former Employee

Defendant: Company Making Traffic Safety Equipment and Providing IT Services

Background

- The plaintiff worked for the defendant for about 4 years.
- The rights to two employee inventions were assigned to the defendant. Patents were granted on the inventions.
- No other employees.
- **No standards** for calculating remuneration were in place and there was **no agreement between the employer and employee.**
- At the beginning, the defendant worked the invention. After that, it was licensed to a different company.
- The patents were assigned to a separate company on the condition that a one year non-exclusive license would be provided.

Court Decision

- The profit gained by the employer from the inventions was calculated as follows:

64,584,520 JPY (Extra Sales)

X 0.5 (Extra Sales Rate from Exclusive Licensing)

X 0.1 (Hypothetical Licensing Fee)

= 3,229,226 JPY

- Price of the Patents when Assigned to a Separate Company:

20,000,000 JPY

- Employee's Contribution: **10%**

- **Conclusion:**

2,322,922 JPY = (3,229,226 + 20,000,000) × (10%)