REQUESTS OR OPINIONS

Proposal for Provisions on Employees' Work Inventions under Article 35 of the Japanese Patent Law*

Japan Intellectual Property Association (JIPA)

On December 7, 2001, we, Japan Intellectual Property Association (JIPA) have proposed this proposal to the concerned bodies of the government including the Ministry of Economy, Trade and Industry; the Japan Patent Office; the Ministry of Justice; the Supreme Court; the Liberal Democratic Party; and the Japan Federation of Economic Organizations.

[Proposal]

With respect to the handling of inventions made by employees on duty (hereinafter called "employees' work invention"), this Association proposes to establish a system in which the succession of right to obtain a patent to employer and conditions therefor, is subject to an agreement between the employer and the employee, and/or working regulations or other rules between the parties.

1. Outline of Article 35 of the Patent Law (Provisions for Employees' Work Inventions) and Interpretation

(1) Employers (hereafter called the "Company") shall have a non-exclusive license on the patent right in respect of the employees' work invention made by employees (hereafter called the "Employee") (Article 35, paragraph 1 of the Patent Law).

(2) In case of other inventions made by the employee which is not fallen into the category of an employees' work invention, any agreement setting forth in advance that the right to obtain a patent shall succeed to the Company, etc. shall be null and void (Article 35, paragraph 2 of the Patent Law).

(3) If the Employee shall, by an agreement, have the right to obtain a patent in respect of the employees' work invention succeeded, etc. to the Company, the Employee shall have the right to receive the payment of a "reasonable compensation" (Article 35, paragraph 3 of the Patent Law).

(4) The amount of the "reasonable compensation" shall be determined by taking into consideration the following two (2) points: "Profit the Company receives" and "Degree of Contribution by the Company." [Article 35, paragraph 4 of the Patent Law]

1) "Profit the Company receives"

The concept established through the court cases is "profit which is likely to be received by acquiring a position enabling to monopolize the exploitation of the invention" (Judgment on December 23, 1983 at the Tokyo District Court <Hanrei Jihou No.1104, page 120>, "meaning an objective value

* *"CHIZAI KANRI"*(Intellectual Property Management) Vol.52, No.1, pp.5-14(2002)

of a thing at the time of succession which the Company may obtain by the succession of rights" (Judgment on March 4, 1993 at the Osaka District Court <Civil and Administrative cases relating to Intellectual Property, vol. 26, No. 2, page 405> and the Judgment on May 27, 1994 at the Osaka High Court for its appealed case <Hanrei Jihou No.1558, page 213>, and Judgment on April 28, 1994 at the Osaka District Court <Hanrei Jihou No.1542, page 115>; and

2) "Degree of Contribution by the Company"

This means the degree of contribution made by the fund for research and development, the fund for research facility, material or salary of inventor which are borne by the Company to the completion of the invention, and the degree need to be evaluated by each invention (*Yoshifuji* and *Kumagai* "*Tokkyo Ho Gaisetsu*, 13th ed.", *Yuhikaku Publishing*, at 238, 1998), and the precedent cases take almost similar position).

2. Examples in Past Court Cases

1) Decision in the case of OLYMPUS OPTICAL CO., LTD. on April 6, 1999 at the Tokyo District Court <*Hanrei Jihou* No.1690, page 145> and Decision on May 22, 2001 at the Tokyo High Court for its appealed case <*Hanrei Jihou* No.1753, page 23>

(1) On "Benefit to be received by Company"

In the district court's decision, 50 million yen was awarded and was affirmed by the appeal court. (Considering various points comprehensively, such as licensing fees of approximately 14.2 Billion yen which the Company received as licensing fees from this invention and from other inventions, the amount of profit to be received by the defendant owing to this invention is 50 Million yen. This amount amounts to 0.35% of licensing fee revenue.)

(2) On "Degree of Contribution by Company"

The degree of contribution by the Company is determined as 95%, taking into account that personnel cost borne by the Company such as salary, bonus or social insurance cost, etc. paid to the plaintiff was approximately 5 million yen per year at the standard of that time, that research and development cost per researcher was more than 4 million yen annually and the degree of contribution during the process of patent application and of establishing the right, etc.

2) Precedents in Other Cases

(1) "Benefit to be received by Company"

Although this means the benefit which is expected to be received by the Company by acquiring a position which enables the Company to exclusively monopolize the reduction to practice of the invention, actual court decision are divided as follows:

① computation using licensing fee revenue as a criteria (in case of licensing to third party)

② estimated sales volume by third party, in case of licensing to such third party, multiplied by estimated licensing fees based on the sales volume of product, achieved by the Company itself, to which the invention is exploited (in case of exploitation by the Company only)

(2) "Degree of Contribution by Company"

The degree of contribution differs depending on courts, say, 95%, 90%, 80%, 60% and 35%. However, the computation method of value is not explicit necessarily.

3. Unclear Reasoning on "Reasonable Compensation"

Review of past court cases has revealed that the computation by courts of the amount of the "Reasonable Compensation" is not necessarily clear.

(1) "Benefit to be received by Company"

While court cases determine the profit, with respect to "Benefit to be received by Company", based on licensing fees for the invention in question or such amount as is obtained by multiplying estimated licensing fee rate on sales volume, however, there are many cases in which how licensing fees in question, degree of contribution by the employees' work invention in question for the patent right which has brought about the increase in sales volume or relationship with other inventions are judged is not clear. Although items of study subject are indicated, such as the causal relationship between the employees' work invention in question and the actual patent right established on such invention (relationship with the achievement made by other concerned employees and the percentage of contribution) or percentage of contribution of other patent rights against licensing fees or sales volume, there are many cases in which the correspondence to actual amount is not indicated, such as how they are computed, by what kind of criteria s used or how value distribution is made. Naturally, it is not that the corporate profit arises only from invention, but that basic technology accumulated in a company, establishment of research theme and investment for research and development, financing therefor, process of converting invention to patent, improvement in quality, meeting users' preference such as making products smaller and lighter, process of enhancing added value and of making a product more competitive by cutting manufacturing cost, etc. or marketing activity for products and so on comprehensively operate and produce profit.

With respect to continuous sales activity of a Company or to a part of component element of the achievement which is obtained whereby various elements organically connected in the research activity, it is naturally difficult for a third party to evaluate its value and it is not appropriate under any circumstance.

For example, in the area of electronics, there is a case in which tens of or hundreds of patents are reduced to practice in a product, and in the case of a comprehensive cross licensing agreement, the number of cases have increased in which thousands of patents are mutually granted for reduction to practice. In such cases, it would be impossible for a third party to objectively evaluate the value of an individual patent.

(2) "Degree of Contribution by Company"

The issue of determining the degree of contribution by company includes countless range of aspects. Although court cases has computed the degree of contribution made by the company by totaling cost factor amount including employment-related cost such as salary of inventor(s), social insurance cost or welfare-related cost, investment for research facility or cost for examination and research, etc., with respect to the contribution for building up so-called research software such as profit generation elements or organic relationship with various research fields which we have pointed out in 3. (1) above, court cases do not evaluate them at all even though they are quite important. It is difficult to make persuasive explanation in respect of detailed figure-for example, why it is 95%?, why it is not 90%?- and a gap is accompanied when reducing them into a figure. And, due consideration should also be given to a risk that company's tremendous research investment into employees, including personnel costs, does not necessarily guarantee an invention which is useful to the company and a risk that a new product which embodies an employees' work invention may possibly bring about a product liability issue.

(3) Establishment of Evaluation Criteria

If, with respect to the "Reasonable Compensation", a reasonable compensation can only be said when "the internal regulations of a company are reasonable in the light of Article 35, paragraphs 3 and 4 of the Patent Law and the application thereof to an actual case was properly made", as described in

the decisions of OLYMPUS OPTICAL CO., LTD., reasonable provisions or proper application criteria should be provided by the Government. If the Patent Law cannot be interpreted in an unfavorable manner for employees while the Patent Law simply provides an ambiguous standard and court cases does not offer detailed standards, it should be said that the legal stability is lost and that an unreasonably unclear and undue responsibility is put on the company.

Actually, in Germany, where the system of employees' work invention that is similar to that of Japan is adopted, the Government sets forth rather detailed guideline for compensation. However, it seems that the German industrial circle has been at a loss seriously since many disputes has arisen in respect of the operation of the guideline in question.

According to the "Questionnaire concerning problems relating to Employees Invention Act (1998)" [1)] which covers approximately 800 companies in German industrial circle, in case of companies in which more than 50 applications for invention a year, 86% of them are faced with disputes relating to remuneration issues, 75% of them with disputes between inventors (joint invention, allocation of invention leading to remuneration) and 41% of them with the problems of remuneration provisions (application, argument of right, maintenance or waiver of protective rights, etc.) and the like.

Arising out of these problems, it is pointed out that information flow becomes stagnant and technological innovation is impeded. And, inflexible attitude provided by law brings about serious personnel cost or relative costs and restricts the freedom of activity by companies aiming at the strengthening of competitiveness. This system is quite complicated, and procedure for succession and computation of compensation money (steps for determining amount, computation method) etc. are fixed in each case of invention individually while obtaining the consent of inventors. 69% of the entire companies ask for the amendment to the law in respect of these problems, and in case of companies in which more than 50 applications for invention a year, the percentage amounts to 89%.

In the European Union, where the regional consolidation including the liberalization of movement of workforce has entered in a right stage, it is said that some companies have become hesitant in establishing laboratories in Germany by reason of compensation issue in which many disputes occur.

Without the need for looking into cases in Germany, we consider that the establishment, in advance, of methods of preparing the criteria therefor, of operation and of making a complaint, etc. is quite troublesome and further that however subtle criteria is made available, disputes will not cease to occur at the stage of actual operation.

Note 1): Excerpts from "Research by the Federal Confederation of German Industrial Associations and the Federal Confederation of German Employers Associations concerning the Employee Invention Act (1998)" (Source: Record of lecture given by Dr. Kraus Denner (the responsible person for laws and regulations in the industrial property section of Bayer AG) on the Research in question at a meeting of German corporate patent lawyers in April 1999).

(4) Time of Computation of Reasonable Compensation

There is a possibility that, since "Benefit to be received by Company" is to be considered, the time for determining "Reasonable Compensation" cannot be decided at the time when the right to obtain a patent is assigned by an inventor. The starting point of extinctive prescription is disputed in the case of OLYMPUS OPTICAL CO., LTD. due to the same reason. Further, in the recent management of companies, reorganization of business such as spinning off or assignment or succession of business divisions accompanied by corporate alliance often occur, and a case arises in relation thereto in which the position of an inventor and the right to obtain a patent are succeeded by another company. That the time for determining the compensation is unclear under such circumstances makes the legal relationship unstable and complicated, such as, making acquisition or loss and change of asset unavoidable whose compensation cannot be fixed.

4. Major Change in Situation from the Time of Enactment

While Article 3 of the Patent Law of 1909 provided for that the right to obtain a patent was to belong to the company without the payment of compensation, the principle of enacting this Article (corresponding to Article 14 of the Patent Law of 1921) was based on the employment environment in which employees were placed under quite a weak and disadvantageous working conditions under the recognition of times at that time that "we cannot help but feel the social influence at that time in the dawn of democracy in a point that the Government reversed the provisions of the old law in respect of the position of employees with consideration given on employees, the weak people. (Japanese Patent Office "70 Years History of the Patent System" page 35, 1955).

Now, 80 long years have passed since 1921. The labor law system for the protection of workers such as the Labor Standards Law has been maintained, and per capita income is in the top level of the world and the present working environment and employment conditions have remarkably been improved as compared with the old days. Further, currently, the lifetime employment system has become shaky, and the performance-based system increases and mobile labor and the degree of freedom of changing jobs have become increasingly enhanced.

The recognition of times that the victory in the global mega-competition of the present times can only guarantee the continuous existence of a company and as such secure the employment of employees should be adopted. Shouldn't matters as to whether or not the employees' work invention needs to belong to a company, whether or not the compensation is necessary if it belongs to the company and as to the degree of amount for compensation, etc. be delegated to the managerial judgment of the company? Shouldn't a freehand be given to a company as one of steps for overcoming competition? It would not be an exaggeration to say that the life or death of a company depends on the management policy including measures for encouraging employees to demonstrate his/her capability such as grant of incentives.

5. Cases in Foreign Countries

Handling of employee invention in each country (see the attached schedule as reference)

(1) Countries adopting corporate invention system:

The United Kingdom, France (if an agreement which is favorable to employees is not available), Italy, Russia (if no provisions are set forth in an agreement);

(2) Countries adopting employees' work invention system:

Germany, Japan; and

(3) Countries adopting employee invention system:

The United States of America (in case of private companies: since no provisions are set forth in the Patent Law, an agreement and the common law principle apply.)

(*Yukio Fujita* "Handling of Employee Invention in 6 Countries in Europe and the U.S.A.", *Kokusai Shoji Houmu* Vol.28, No.11, pp.1326-1332 (2000), or others)

When we see the case of enactment of countries in which the invention is allowed to belong directly to the company (corporate invention), compensation is mandatory if remarkable benefit is brought about (The United Kingdom), or setting forth conditions for receiving additional remuneration in the working rule, etc. is mandatory (France) or payment of reasonable compensation is mandatory (Italy), there are weaknesses in that they are still strongly bound by the aspect of the protection of workers.

Germany's employees' work invention system has weaknesses that are described in 3.(3) above.

In the United States of America, it is premised that an employment contract is concluded between the company and an employee corresponding to the content of job, and it seems ordinary that wages and working conditions, etc., including compensation for employee invention, are determined there. And even if the assignment to the company of employee invention is not explicitly set forth in

the employment contract, it is established in the case law that a company may require the assignment of invention to the company if the employee is employed for a specific job to engage in invention or to solve a specific problem, or that if the employee is employed without the purpose of invention and if the employee develops an invention by using time, facility or resources, etc. of the company, the employee owns the invention, but the company has an non-exclusive license with free of charge.

6. How Employees' Work Invention Provisions Should Be in Future

(1) Ways of thinking

How much resource a company invests and what kind of research and development the company performs are the corporate policy itself, which are determined by giving consideration to market conditions, trend in technology, cost competitiveness or financial status of the company, etc. at that time. A company which judges that an invention overcomes the competition will treat an inventor favorably. A company that elects, rather than to invest costs and develop an invention for itself, to find excellent inventions of other persons earlier and to get license to develop business, will invest corporate resources to search inventions rather than to invent. And, there may be a way of thinking that if compensation is paid only to the inventor and if employees of many other sections who contribute in design or manufacture of a product, in advertisement or marketing activity, in license activity (including invalidation of patent held by the other party, counter argument against and persuasion of non-infringement argument) or in litigation, etc. are not paid, the equality in the company is lost.

In today's competition society, the autonomy of a company should be respected. Excellent researchers who can develop excellent invention gather at a company which has an attractive treatment system (including grant of incentives to invention, etc.). In a circumstance under which a drastic deregulation has been promoted, the involvement of the government to a company should be limited to matters that are necessary and indispensable, such as public order and standards of decency.

As discussed in 4. above, considering that working conditions have remarkably been improved as compared with those in 80 years ago, that the lifetime employment system is about to collapse, that the performance-based system increases and that mobility of employment has enhanced, working conditions in Japan's industrial circle have come to the period of re-study. Matters of whether or not the employees' work invention needs to belong to a company, whether or not the compensation is necessary and of the amount for compensation, etc. should be delegated to the a free agreement between the company and an employee. It is not reasonable to evaluate the profit gained by a company or the degree of contribution of the company without regard to actual business, management environment in which the company is placed, company's technological asset, investment for research facility or contributions made by persons other than researchers, etc. First of all, it is not an age in which matters relating to the belongings and compensation of an invention is regulated by law forcibly.

(2) Proposal

Article 35, paragraph 3 and 4 of the current Patent Law should be deleted and a new paragraph which assures the following effect should be established [as a replacing paragraph 3]:

> **"Employers, etc. may, by means of agreement with employees, working regulations or other rules, specify in advance that, with respect to employees' work invention, the right to obtain a patent or the patent right shall be succeeded to employers, etc. or the exclusive license shall be established for employers, etc. and the conditions, etc. for such cases."**

SCHEDULE

Handling of Employee Inventions in Various Countries

(1) Corporate Inventions

	Relationship between Invention and Duty	Remuneration or Compensation of Employees, etc.
The United Kingdom	Ordinary duty, specifically given duty	No provisions. (However, for certain inventions, court or patent office can render an award of compensation money if a claim is made from the inventor claiming that the invention brings to the company a remarkably great benefit in the light of scale and nature of the company and deserves the payment of compensation money. The amount of compensation money shall be such amount as guarantees the share of benefit which the company receives or the company can reasonably expect to receive from the invention.)
France	If no agreement is available, which is favorable to employees, inventions made in the duty whose purpose is to invent such as research and development (duty invention)	Conditions in which employees receive additional remuneration are set forth in collective contract, working regulations or individual employment agreement.
Italy	1) Employment relationship whose purpose is invention; 2) Process of performing employment relationship	- The company shall pay reasonable compensation (remuneration) to the inventive duty. - Employees shall have the right to receive fair compensation.
Russia	Unless otherwise specifically set forth in the agreement, own duty or detailed subject given by the company	If the company has secured the right, employees shall have the right to receive remuneration which corresponds to the profit which the company has obtained or which the company could obtain by the proper reduction to practice of the invention.

(2) Employees' Work Invention

	Relationship between Invention and Duty	Remuneration or Compensation of Employees, etc.
Germany	Invention arising from duty during the employment term; invention arising based on experience and activity in the company is an restricted invention	When the company reduces the employees' work invention to practice, employees shall have the right to demand reasonable compensation to the company. The computation of the amount of compensation shall be determined based on the economic feasibility of invention, employee's duty and post in the company and the percentage of involvement of the company. Even if there is an agreement between the company and an employee, it is made null and void if it is quite unreasonable. The Labor Minister sets forth the criteria relating to the computation of the amount of compensation.
Japan	Invention within the scope of business of the company and belonging to the present and past duty of the employee (employees' work invention)	The company shall have the statutory non-exclusive license. - When, by means of agreement or working regulations, etc., the right to obtain patent or the patent is succeeded to the company or the exclusive license is established, an employee shall have the right to receive the payment of reasonable compensation. The amount of compensation shall be determined taking into account the profit to be received by the employer and the degree of contribution of the employer.

(3) Employee Invention

	Relationship between Invention and Duty	Remuneration or Compensation of Employees, etc.
France	Invention made during the performance of duty, or within the scope of business of the company, or by using data or knowledge, etc. of the company	Inventions listed to the left made by employees shall belong to the employee. However, the company shall have the right, subject to the conditions set forth by the National Council, to have the patent right or the right to use relating to the invention in question, in whole or in part, belonged to the company. On such occasion, the employee shall have the right to acquire fair compensation, and if agreement between concerned parties cannot be reached, the decision is rendered by the Joint Conciliation Committee. The Committee shall computes the fair compensation taking into account the contribution made by respective concerned parties and industrial and commercial practicability.
Italy	In case the invention is within the business area of the company, even if there is no connection between the invention and the employment relationship	The company shall have the right of exclusive or non-exclusive use and the priority right to obtain the patent right in exchange for license fee and use fee.
The United States of America: Private Company	Inventions made during the process of duty within the employment term	There are no provisions, a general agreement or common law principle is based: 1) If an agreement to assign the invention to the company exists, the company can require the assignment of the invention; 2) If an agreement to assign the invention to the company does not exist, but if an employment contract having the purpose of specific invention of problem solution exists, the company can require the assignment of the invention; 3) If, generally, an employee is employed with a purpose of making an invention and has made the invention in the private time, or even if the employee is employed without the purpose of making invention but the employee has made an invention by using time and resources of a company, the invention belongs to the employee and the company shall have the non-exclusive license with free of charge.