Recent Changes in Inventor remuneration system under the Japanese Patent Law

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Outline of the employee-invention system

A) The right to obtain a patent is originally vested in the employee (inventor), while the employer is granted by operation of law a non-exclusive, royalty-free license.

B) The employer can obtain the patent or the right to obtain a patent from the employee (inventor) by agreement, or by the employment regulation or any other company regulation.
   * The inventor’s consent is not necessary for the assignment by company regulation.

C) In the case of B, the employee (inventor) has the right to receive “reasonable value” from the employer.
Problematic point of the former Patent Law

- Under the former Patent Law, the amount of “reasonable value” shall be determined by the court, even if the employer has paid the remuneration in accordance with the agreement or the company regulation.

- If the amount determined by the court is larger than the amount actually paid by the employer in accordance with the agreement or the company regulation, the employee (inventor) will be entitled to demand the balance due from the employer.

In some cases, extremely huge amounts have been approved as “reasonable value”!!
Huge amount cases in the past

◆ Nichia Corporation [Blue LED] Case
  ➢ 1st instance decision (Jan. 30, 2004) : 20 billion yen
  ➢ Settlement in 2nd instance (Jan. 01, 2005) : 600 million yen

◆ Hitachi, Ltd [CD player] Case
  ➢ 1st instance decision (Jun. 28, 2002) : 35 million yen
  ➢ 2nd instance (Jan. 29, 2005) : 189 million yen

◆ Ajinomoto Co., Inc. [Aspartame] Case
  ➢ 1st instance decision (Feb. 24, 2004) : 183 million yen
  ➢ Settlement in 2nd instance (Nov. 19, 2004) : 150 million yen
New Patent Law amended in 2004

- Under the new law (the current law), if the whole process for the determination of the remuneration adopted by the employer is considered not to be “unreasonable” by the court, the amount determined by the employer in accordance with the process shall be regarded as “reasonable value”.

\[\text{i.e.}\]

- If determined not to be “unreasonable”, the employer need not to pay any more than the amount actually paid to the employee (inventor)!
Whether “unreasonable” or not shall be determined, taking the following factors:

1. **“Situations of Consultation”**
   * This “consultation” means whole consultation on setting out the standard for deterring remuneration, held between the employer and the employees.

2. **“Situations of Disclosure”**
   * This “disclosure” means measures enabling the employees to refer to the standards as required.

3. **“Situations of Hearing of Opinion”**
   * This “hearing of opinion” means hearing opinions, complaints, any other comments from the employee (inventor) on calculation of the remuneration in accordance with the standard.

4. **“etc.”**
   * What are included in the “etc.”? The contents of the standard? The amount of remuneration to be paid finally?
Caution!

- Even under the new patent law, when the court holds "unreasonable", or if the employer did not have the standards of remuneration, the amount of "reasonable value" shall be determined **by the court** in a same manner as the former Patent Law.

- The New Law applies to the patents or patent applications that are assigned to the employer **after April 1\textsuperscript{st}, 2005**.

The former Patent Law will still remains applicable to almost all of inventor-remuneration cases for the time being. There has been no cases which the new law is applied to since April 1\textsuperscript{st}, 2005.
The method of calculation for “reasonable value”

- Under the former Patent Law (still applicable to a lot of cases), the “reasonable value” shall be calculated by the following calculating formula:

\[
\text{“reasonable value”} = (A) \times \{100 - (B)\} \% 
\]

(A) : “Profits gained from Exclusiveness”

(B) : “Degree of Contribution of the employer”
(A) : “Profits gained from Exclusiveness”

- It means the profits of the employer which could be gained only because the employer have the exclusive right to use the employee’s invention. (The profit gained just due to the non-exclusive license of the invention will not be counted.)

Whole Profits due to the patent of the employee’s invention

“Profits gained from Exclusiveness”

Profits from non-exclusive license
(A) : “Profits gained from Exclusiveness”

- **Royalties:**
  - In one-patent license case, all amount of royalties that the employer actually obtained is counted into “Profits gained from Exclusiveness”.
  - In package-license case, part of the amount of the royalties is counted, taking into account the degree of contribution of the employee’s invention to the license agreement.
  - In royalty-free cross-license case, the court compute the hypothetical royalties on the assumption: 1) that the employer is granted a license from the counterpart; or 2) that the employer grant a license of the employer’s invention to the counterpart.
(A): “Profits gained from Exclusiveness”

- **Sales amount of the patented products:**
  - Regarding the sales amount of the patented products of the employer, the “Profits gained from Exclusiveness” shall be calculated by the following calculating formula:

  \[ \text{“Excess Sales Amount”} \times \text{“Hypothetical Royalty Rate (％)”} \]

  - “**Excess Sales Amount**” means that the part of whole sales amount which could be obtained only because the employer could interfere with the sales of compete products by the patent right of the employee’s invention.
    - Approximately 10 – 50 % of the whole sales amount

  - “**Hypothetical Royalty Rate (％)”** means the royalty rate which the court hypothesize on the assumption that the employer grant a license of the employee’s invention to compete companies.
    - Approximately 1 – 3 %
(B) : “Degree of Contribution of the employer”

- The court decides the “Degree of Contribution of the employer”, taking into consideration the cost for developing the invention, treatment of the employee (inventor), contribution of other employees to developing the invention or to obtaining the profit, etc.

- In almost all cases, it falls within the range of 90-98%.

- 95% is the mode.
Recent changes

- **Amount of “reasonable value”**
  - There has been no case that grants over 100 million yen as “reasonable value” since the year 2005.

- **Treatment of foreign (non-Japanese) patents**
  - The Supreme Court Decision on Oct. 17, 2006 [Hitachi case] held:
    - Applicable law as to the value for assigning the foreign patents can be selected by the agreement between the employer and the employee.
    - If applicable law is the Japan law, the “reasonable value” for assigning foreign patents shall be calculated in the same manner as for Japanese patents.

- **Claim of invalidation**
  - The IP High Court decision on Jan.25, 2010 [Brother Industries, Ltd. case] held that the employer would not be allowed to assert the invalidation of the patent of the employee’s invention for avoiding the payment of “reasonable value”.
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