



Seiwa Patent & Law (IP Information Section)

May 10, 2016

Revisions Made to the Japan Patent Law Relating to Employee Invention System (made effective on April 1, 2016)

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Summary:

Article 35 of the Patent Law, which prescribes the employee invention system, was amended by the 2015 revision in order to reduce potential litigation risk, which may otherwise increase as technical innovations made by businesses become more highly developed and complicated. The revised law, which came into effect on April 1, 2016, newly prescribes: that (i) an employer can make an agreement (via, e.g., a contract or employment rules) with an employee that when the employee makes an “employee invention” (i.e., an invention made in the course of exercising his work duties), the right to obtain a patent for the “employee invention” shall inherently be vested in (i.e., shall inherently belong to) the employer; that (ii) the employee can receive a reward for his “employee invention” in the form of “reasonable [...] economic profits”, which shall not be limited to a “remuneration” (monetary reward), but shall also include any other types of economic profits; and that (iii) the Minister of Economy, Trade and Industry shall provide a guideline for determining the “reasonable profit” as a reward for an “employee invention”. This article explains the changes made to the employee invention system in Japan by the 2015 revision to the Patent Law.

1. The employee invention system under the old Patent Law

The Patent Law prescribed that a right to obtain a patent for an invention, which occurs when the invention is made by the inventor, is inherently vested in the inventor, on the grounds that only a natural person (not an artificial person such as a business entity) is eligible as an inventor. This principle also applies to a so-called “employee invention”, i.e., an invention made by an employee in the course of exercising his work duties under the control of the employer (Article 35, paragraph 1 of the Patent Law). There was no exception to this principle under the old Patent Law, which was effective until the 2015 revision came into effect on April 1, 2016.

According to the old law, an employer is only allowed to make an agreement (via, e.g., a contract or employment rules) with an employee in advance that when the employee makes an “employee invention”, the employer shall succeed to the employee’s right to obtain a patent for the “employee invention” or, if the employee has obtained a patent right based on the “employee



invention”, to the employee’s patent right, provided that the employer offers the employee a reasonable remuneration as a monetary compensation (Article 35, paragraph 5 of the old law). Otherwise, the employer is only eligible as a non-exclusive licensee for a patent right granted for the “employee invention” (Article 35, paragraph 1 of the old law).

However, there were a number of cases before the 2004 revision to the Patent Law where even though an employer paid an employee remuneration as a reward for his “employee invention”, the employee filed a lawsuit claiming that the remuneration is not “reasonable remuneration” as monetary compensation for the “employee invention” (e.g., the Supreme Court decision held on April 22, 2003, for Case No. 2001 (Ju) 1256).

Accordingly, in order to reduce the employers’ risk of being sued by their employees and also decrease the employers’ possible litigation costs, the Patent Law was amended by the 2004 revision to explicitly prescribe that “remuneration” as compensation for an “employee invention” is deemed to be “reasonable” as long as the entire process from determination of the remuneration amount to payment of the remuneration is “reasonable”.

2. Problems involved in the old employee invention system

Since the 2004 revision to the Patent Law established a clear standard for determining “reasonable remuneration” as a reward for an “employee invention”, there have been only a few instances of litigation seeking compensation for damages relating to an “employee invention” under the 2004-revised Patent Law.

However, there has recently been a growing demand from industry to revise the Patent Law further, in view of recent changes in technical innovations made by businesses, for the following reasons.

(1) Recurrence of the employees’ risk of being sued by their employees

There has been a tendency in recent years for a single invention to be typically made by a group of employee inventors, with support from other employees, and for a single product to be often covered by as many as several hundreds to several thousands of patents. These developments have rendered the process of determining “reasonable remuneration” for an “employee invention” more complicated, gradually increasing the employers’ risk of being sued by their employees again.

(2) Instability in attribution of a right relating to an “employee invention”

As mentioned above, the old law prescribed that an employer can make an agreement (via, e.g., a contract or employment rules) with an employee in advance that the employer shall succeed to the employee’s right to obtain a patent for his “employee invention” or the employee’s obtained patent right based on his “employee invention”. However, such an agreement may cause the following problems.

(i) Problems relating to double assignment of a single right

Since the right to obtain a patent for an “employee invention” is inherently vested in the employee without exception under the old Patent Law, the employee can logically assign the right in advance both to his employer and also to a third party. The employer has to file a



patent application for the “employee invention” in order to perfect the succession of the right to obtain a patent for the “employee invention” from the employee and to assert the succession against any third party. If the third party files a patent application earlier than the employer does, then there is a risk that the employer may not be able to succeed to the employee’s right to obtain a patent for the “employee invention”. In this case, the employer is only eligible as a non-exclusive licensee in the event a third party obtains a patent right for the “employee invention”.

(ii) Problems relating to joint inventions

Since joint research and development projects between two or more business entities and/or research institutes are becoming more common, it has become more difficult to clarify the attribution of the rights for inventions made through such joint research and development. Specifically, when two or more researchers employed by different employers create a joint invention, each joint inventor inherently obtains a share of the right to obtain a patent for the joint invention. In this case, a joint inventor who wishes to assign his share of the joint right to another party via, e.g., a contract, has to obtain consent from all of the other joint inventors, not only when the assignee is a third party, but also when the assignee is his employer. This may make the assignment process complicated and often render it unclear as to who currently owns each share of the joint right.

3. Contents of the revision

In response to the growing demand from industry to address the problems mentioned above, the new revision to the Patent Law was legislated in 2015, and came into effect on April 1, 2016. This revision can be summarized as follows:

(1) Amendment relating to attribution of a right to obtain a patent for an “employee invention” (Article 35, paragraph 3 of the revised law: NEW)

The revised law newly allows for an employer to make an agreement (via, e.g., a contract or employment rules) with an employee that the right to obtain a patent for an “employee invention” made by the employee shall inherently be vested in (i.e., shall inherently belong to) the employer. When such an agreement exists between an employer and an employee, the right to obtain a patent for an “employee invention” made by the employee is inherently vested in the employer from the time the employee makes the “employee invention”. Since this is an arbitrary provision, the employer can choose not to make such an agreement with an employee. In this case, the right to obtain a patent for an “employee invention” is inherently vested in the employee, as is always the case under the old law.

(i) The revised law maintains the old law’s principle that a right to obtain a patent for an invention is inherently vested in the inventor, but prescribes an exception for an “employee invention” that a right to obtain a patent for an “employee invention” is inherently vested in the employer only when the employee and the employer make such an agreement (via, e.g., a contract or employment rules) in advance. Unless such an agreement is made, a right to



obtain a patent for an “employee invention” is inherently vested in the employee, as is always the case under the old law.

(ii) By making such an agreement with an employee under the revised law, an employer should be able to avoid problems relating to double assignment of the right to obtain a patent, and also to resolve the problems relating to a joint invention by clarifying the attribution of each share of a joint right.

(iii) The definition of the “employee invention” prescribed in Article 35, paragraph 1 of the Patent Law (i.e., an invention made by an employee in the course of exercising his work duties under the control of the employer) has not been changed. For an invention which is made by an employee but does not correspond to the definition of an “employee invention” as prescribed in Article 35, paragraph 1 of the Patent Law, the employer cannot even make an agreement (via, e.g., a contract or employment rules) with the employee that the employer shall succeed to the employee’s right to obtain a patent for the (non-employee) invention, let alone an agreement that the right to obtain a patent for the (non-employee) invention is inherently vested in the employer.

(2) Amendment relating to reward for an “employee invention” (Article 35, paragraph 4 of the revised law: amended from Article 35, paragraph 3 of the old law)

The revised law newly prescribes that the employee can receive a reward for his “employee invention” in the form of “reasonable [...] economical profits”, which shall not be limited to “remuneration” (monetary reward), but shall also include any other types of profits.

(i) The old law prescribes that the inventor of an “employee invention” can receive a reward for the invention in the form of “reasonable remuneration”, which is deemed to be monetary remuneration. The 2004 revision clarified the criteria for determining “reasonable remuneration”, which served to ensure the predictability of “reasonable remuneration” and reduce the potential litigation risk to employers to some extent. However, there is a possibility that the potential litigation risk may increase again, mainly due to the current problems relating to joint inventions mentioned above. In order to resolve these problems, the 2015 revision changed the term “reasonable remuneration” in the law to “reasonable remuneration or other economical profits”, in order to clarify that the reward for an “employee invention” should not be limited to monetary remuneration, but may also be other economical profits, such as job promotion or support for an overseas study program, and to thereby reduce the potential litigation risk to employers again.

(ii) The provision relating to the “reasonable [...] profits” prescribed in the revised law applies not only to the case where the right to obtain a patent for an “employee invention” is inherently vested in (i.e., inherently belongs to) the employer by an agreement under the revised law, but also to the case where the employer succeeds to the employee’s right to obtain a patent for an “employee invention” by an agreement under the old law.



(3) Amendment relating to guidelines by the Minister of Economy, Trade and Industry (Article 35, paragraph 6 of the revised law: NEW)

The revised law newly prescribes that the Minister of Economy, Trade and Industry (METI) shall provide a guideline for determining “reasonable profit” as a reward for an “employee invention”.

(i) Since the revised law allows an employer to make an agreement that the right to obtain a patent for an “employee invention” made by an employee shall inherently be vested in (i.e., shall inherently belong to) the employer, there arises a risk that employers’ (especially large businesses’) superiority over their employees may be greater than previously and lead to an imbalance in terms of power between employers and their employees. Specifically, if there is no guidance for determining “reasonable [...] profits” as a reward for an “employee invention”, the “reasonable [...] profits” determined by employers may largely vary between businesses, and in some cases result in lack of employees’ (especially researchers) incentive for making inventions. It is therefore necessary to take measures to ensure employees’ incentive for making inventions under the revised law.

(ii) To this end, the revised law prescribes that, taking into consideration the opinions of the Industrial Structure Council, the Minister of Economy, Trade and Industry (METI) shall make guidelines for determining “reasonable [...] profits”, in order to harmonize different interests between employers and employees and to thereby reduce the potential litigation risk. The METI’s guidelines were disclosed in April 2016.

5. Conclusion

After the revised law came into effect on April 1, 2016, it has become necessary for employers to review previous agreements (e.g., contracts or employment rules) with their employees and decide to make new agreements in view of the revised law. Such new agreements are generally expected to serve to clarify the attribution of rights to obtain patents for “employee inventions” and to thereby reduce the potential litigation risk. However, some large businesses may have difficulty in obtaining consensus from all of numerous employees involved in research and development work. Therefore, it would be advisable, especially for large companies, to fully consider the revised law and take sufficient measures as early as possible.

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Annex: Comparison of text of Article 35 (Employee Invention) between the old and new laws

New Law after the 2015 Revision (Effective on or after April 1, 2016)	Old Law after the 2015 Revision (Effective until March 31, 2016)
<p>(1) An employer, a legal entity or a state or local public entity (hereinafter referred to as the “employer, etc.”) shall have a non-exclusive license on the patent right concerned, where an employee, an executive officer of a legal entity or a national or local public official (hereinafter referred to as the “employee, etc.”) has obtained a patent for an invention which by reason of its nature falls within the scope of the business of the employer, etc. and an act or acts resulting in the invention were part of the present or past duties of the employee, etc. performed on behalf of the employer, etc. (hereinafter referred to as an “employee invention”) or where a successor in title to the right to obtain a patent for an employee invention has obtained a patent therefor.</p>	<p>(1) An employer, a legal entity or a state or local public entity (hereinafter referred to as the “employer, etc.”) shall have a non-exclusive license on the patent right concerned, where an employee, an executive officer of a legal entity or a national or local public official (hereinafter referred to as the “employee, etc.”) has obtained a patent for an invention which by reason of its nature falls within the scope of the business of the employer, etc. and an act or acts resulting in the invention were part of the present or past duties of the employee, etc. performed on behalf of the employer, etc. (hereinafter referred to as an “employee invention”) or where a successor in title to the right to obtain a patent for an employee invention has obtained a patent therefor.</p>
<p>(2) In the case of an invention made by an employee, etc. which does not correspond to an employee invention, any contractual provision, service regulation or other stipulation providing in advance that the right to obtain a patent for such an invention <u>shall belong to the employer, etc. or that the patent right granted for such an invention shall pass to the employer, etc. or that he shall have a provisional exclusive license or exclusive license on such an invention shall be null and void.</u></p>	<p>(2) In the case of an invention made by an employee, etc. which does not correspond to an employee invention, any contractual provision, service regulation or other stipulation providing in advance that the right to obtain a patent for such an invention or the patent right granted for such an invention shall pass to the employer, etc. or that he shall have a provisional exclusive license or exclusive license on such an invention shall be null and void.</p>
<p><u>(3) In the case of an invention made by an employee, etc. which corresponds to an employee invention, when there is a contractual provision, service regulation or other stipulation providing in advance that the right to obtain a patent for such an invention shall belong to the employer, etc., the right to obtain a patent for such an invention shall inherently be vested in the employer, etc., since the occurrence of the right.</u></p>	



<p>(4) The employee, etc. shall have the right to a reasonable <u>money or other reasonable economical profits (referred to as the “reasonable profits” in the next paragraph and in paragraph (7).)</u> when he has enabled the right to obtain a patent for an employee invention <u>to belong to the employer, etc., when</u> the patent right granted for an employee invention to pass to the employer, etc., when he has given the employer, etc. an exclusive license to such invention in accordance with the contract, service regulation or other stipulation, or when, in the case where he has given the employer, etc. a provisional exclusive license on such invention with respect to an employee invention in accordance with the contract, service regulation or other stipulation, an exclusive license has been deemed to have been established under Article 34-bis (34-2) (2).</p>	<p>(3) The employee, etc. shall have the right to a reasonable remuneration when he has enabled the right to obtain a patent for an employee invention or the patent right granted for an employee invention to pass to the employer, etc., when he has given the employer, etc. an exclusive license to such invention in accordance with the contract, service regulation or other stipulation, or when, in the case where he has given the employer, etc. a provisional exclusive license on such invention with respect to an employee invention in accordance with the contract, service regulation or other stipulation, an exclusive license has been deemed to have been established under Article 34-bis (34-2) (2).</p>
<p>(5) The <u>provision of the reasonable profits</u> in the preceding paragraph, as provided for in the contract, service regulation or other stipulation shall not be considered to be unreasonable, in view of the situation under which a negotiation is carried out between employer, etc. and employee, etc. in the course of establishing the criteria for determining the <u>contents of the reasonable profits</u>, the situation under which the criteria established are disclosed, and the situation under which the views of employee, etc. are heard for <u>determining the contents of the reasonable profits</u>, etc.</p>	<p>(4) The payment of the remuneration in the preceding paragraph, as provided for in the contract, service regulation or other stipulation shall not be considered to be unreasonable, in view of the situation under which a negotiation is carried out between employer, etc. and employee, etc. in the course of establishing the criteria for determining the remuneration, the situation under which the criteria established are disclosed, and the situation under which the views of employee, etc. are heard for calculating the amount of the remuneration, etc.</p>
<p>(6) <u>In order to encourage inventions, the Minister of Economy, Trade and Industry shall consider opinions of the Industrial Structure Council, and establish and disclose a guideline as to matters relating to, e.g., the situation to be considered in the preceding paragraph.</u></p>	



(7) Where there is no stipulation with respect to contents of the reasonable profits or where the provision of the contents of the reasonable profits determined thereby shall be considered to be unreasonable, the contents of the reasonable profits shall be determined, taking into consideration the amount of profits that the employer, etc. will make from the invention, the burden assumed and contribution made by the employer, etc. in connection with the invention, and the treatment upon the employee, etc. and other circumstances.

(5) Where there is no stipulation with respect to remuneration referred to in the preceding paragraph or where the payment of the remuneration determined thereby shall be considered to be unreasonable, the amount of the remuneration referred to in paragraph (3) shall be determined, taking into consideration the amount of profits that the employer, etc. will make from the invention, the burden assumed and contribution made by the employer, etc. in connection with the invention, and the treatment upon the employee, etc. and other circumstances.

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