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## **Outline of New Employee Invention System**

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On 3 July 2015, the Act for Partial Revision of the Patent Law was enacted and is expected to become effective on 1 April 2016 (hereinafter, the “Amended Patent Law”). While the second Abe Cabinet is, as one of its growth strategies, aiming to raise Japanese competitive power by promoting innovation, the Amended Patent Law is intended to make it easier to keep the relevant patent rights in the companies, while allowing the inventors reasonable profit, to further that goal.

Moreover, the Amended Patent Law is the first major reconsideration of the law regarding employee inventions since the major revision of the Japanese Patent Law in 1921. Below, we will introduce the circumstances of the amendment of the current patent system and outline of the new system.

### **Circumstances of the Amendment of Current Patent System**

Japanese current Patent Law provides that “Employee Invention” is an invention which, by its very nature, is within the scope of the business of the employer, and was achieved by past or present duties of the employee (Article 35 (1) of Patent Law).

Under the current Patent Law the legal right to obtain a patent for Employee Invention primarily belongs to employees, and employers retain just a non-exclusive license in the event that the employee obtains a patent therefor (Article 35 (1)). In order for employers to obtain the right to obtain a patent from the Employee Invention, they have to take over the right from the employee by contracts or employment regulations. On the other hand, employees have “the right to receive reasonable value” when they transfer the right to obtain a patent (Article 35 (3)). The amount of the aforementioned reasonable remuneration that the employee inventor is entitled to is determined by taking into consideration both the expected profit of the employer and the degree of the employer’s contribution to the invention (Article 35 (4)).

In 2004, The Tokyo District Court issued a milestone judgment in the Blue LED case on 30 January 2004, ordering the payment of JPY 20 billion as a reasonable remuneration for the employee’s transfer of the right to obtain a patent for his invention. In this lawsuit, the court of first instance calculated approximately JPY 60bn as reasonable value and ordered payment of JPY 20bn as claimed by the employee; however, the parties reached a settlement at the Tokyo High Court during the appeal, in which the company paid approximately JPY 600m as value. Japanese Companies were against the trend following upon the Blue LED case, and argued that “reasonable value” is unpredictable and lobbied for further revision of the Japanese Patent Act.



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Innovation in companies is not necessarily caused by a single inventor; one invention is made by more than one person, and one product constitutes of hundreds and thousands of patents. As a result, it is costly and difficult for companies to calculate the reasonable value. If employees transfer the right to obtain a patent to a third party other than employers and such third party files a patent in advance, employers cannot retain the right. If the right to obtain a patent is jointly owned by joint research by companies and research institutes such as universities, the companies or research institutes cannot obtain their respective shares without the inventor of the other party's consent under the current Patent Law.

As such, it was decided to amend the current patent system to one, which does not inhibit companies' innovation, and which secures researcher's incentives at the same time. The two main issues of the Amended Patent Law were whether the right to obtain a patent belongs to the employer or employees and whether inventors' rights to claim awards or value should be legally guaranteed.

### **Outline of New Employee Invention System**

Concerning those issues above, the Article 35 of the Amended Patent Law sets forth as follows.

First, the right to obtain a patent belongs to employers when contracts or employment regulations stipulate in advance that employers retain it (Article 35 (3) of the Amended Patent Law), which enables the right to obtain a patent primarily by employers. On the other hand, legal entities which hope to make the right to obtain a patent the right of employees; universities, research institutes and companies who choose to do so as a corporate strategy in order to attract brilliant researchers, etc., can make it a patent right belonging to employees as before. It should be noted that this amendment does not mean that the right to obtain a patent belongs to employers by default. In companies which do not have contracts or employment regulations regarding Employee Inventions, the right to obtain a patent primarily belongs to employees in the same way as in the current law.

Second, in the event that employers succeed to the right to obtain a patent or primarily retain it, employees have the right to receive "reasonable profit" (Article 35 (4)). "Reasonable profit" includes economic profit other than cash or cash equivalents, e.g., stock options or promotion and support for studying abroad. This amendment guarantees that employees have practically the same right as under the current law and that companies decide a flexible incentive policy.

Third, the government defines a guideline for companies deciding their incentive policy (Article 35 (6)). This guideline only defines the procedure of adjustment between employers and employees (discussions and interview with employees), and does not cover the definition of "reasonable profit". The legislature did not prescribe the definition or formula of reasonable profit and left it to the decision of employers and employees.

According to the committee which is in charge of legislation, if the "profit" that employees receive is based on employers' incentive policy which is decided in accordance with the above guideline, such "profit" is not regarded as unreasonable. As a result, it will become easier for companies to predict the reasonableness of profit.

### **Future Prospects**

In response to the establishment of Amended Patent Law, the government will define the guideline above by the day of enforcement of the new law, which is expected to be 1 April 2016. On 16 September 2015, the Patent Office published a draft of the guideline, and as of December 2015, they are gathering public comments.

On the companies' side, in order to benefit from Amended Patent Law, they have to execute new contracts with employees or decide new employment regulations and obtain agreement of employees.