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Date of the judgement

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2006.10.17

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Case Number

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2004(Ju)781

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Reporter

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Minshu Vol. 60, No. 8

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Title

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Judgment concerning the governing law for issues concerning the value for the assignment of the right to obtain a patent in a foreign country

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Case name

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Case to seek compensation

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Result

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Judgment of the Third Petty Bench, dismissed

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Court of the Second Instance

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Tokyo High Court, Judgment of January 29, 2004

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Summary of the judgement

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1. The governing law for issues concerning the value for the assignment of the right to obtain a patent in a foreign country should be determined, first of all, by the intention of the parties pursuant to Article 7, para.1 of the Act on Application of Laws in General.

2. Where the Employee, etc. has assigned to the Employer, etc. the right to obtain a patent in a foreign country for the employee's invention as set forth in Article 35 of the Patent Act (prior to the revision by Act No. 79 of 2004), the provisions of para.3 and para.4 of the same Article shall apply analogically to the claim for a value for the assignment of the right to obtain a patent in a foreign country.

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## References

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(Concerning 1 and 2) Article 35 of the Patent Act (prior to the revision by Act No. 79 of 2004);  
(Concerning 1) Article 7, para.1 of the Act on Application of Laws in General

Article 35 of the Patent Act (prior to the revision by Act No. 79 of 2004)

(1) An employer, a juridical person or a national or local government (hereinafter referred to as "employer, etc."), where an employee, an officer of the juridical person, or a national or local government employee (hereinafter referred to as "employee, etc.") has obtained a patent for an invention which, by the nature of the said invention, falls within the scope of the business of the said employer, etc. and was achieved by an act(s) categorized as a present or past duty of the said employee, etc. performed for the employer, etc. (hereinafter referred to as "employee invention") or where a successor to the right to obtain a patent for the employee invention has obtained a patent therefor, shall have a non-exclusive license on the said patent right.

(2) In the case of an invention by an employee, etc., any provision in any agreement, employment regulation or any other stipulation providing in advance that the right to obtain a patent or that the patent rights for any invention made by an employee, etc. shall vest in the employer, etc., or that an exclusive license for the said invention shall be granted to the employer, etc., shall be null and void unless the said invention is an employee invention.

(3) Where the employee, etc., in accordance with any agreement, employment regulation or any other stipulation, vests the right to obtain a patent or the patent right for an employee invention in the employer, etc., or grants an exclusive license therefor to the employer, etc., the said employee, etc. shall have the right to receive reasonable value.

(4) The amount of the value under the preceding paragraph shall be determined by taking into consideration the amount of profit to be received by the employer, etc. from the invention and the extent to which the employer, etc. has contributed to making the invention.

Article 7, para.1 of the Act on Application of Laws in General

(Governing Law for Validity and Effect of Juristic Act)

With regard to the validity and effect of a juristic act, the governing law shall be determined by

the intention of the parties.

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Main text of the judgement

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The appeal to the court of the last resort is dismissed.

The appellant at the court of the last resort shall bear the costs of the appeal to the court of the last resort.

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Reasons

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I. Outline of the case

1. In this case, the appellee at the court of the last resort seeks, from the appellant at the court of the last resort, payment of reasonable value prescribed in Article 35, para.3 of the Patent Act (prior to the revision by Act No. 79 of 2004; the same shall apply hereinafter) for having assigned the right to obtain a patent in a foreign country together with the right to obtain a patent in Japan with respect to the inventions made by the appellee as the appellant's employee.

2. The outline of the facts legally determined by the court of the second instance is as follows:

(1) The appellant is a general electric appliance manufacturer engaged in the development, manufacture, sale, etc., of electric products. During the period from November 1969 to November 1996, the appellee was employed by the appellant and worked as the chief researcher at the appellant's central research laboratory.

(2) While working as the appellant's employee, the appellee, in cooperation with other employees, made the inventions for which Patents 1 to 3 were later granted, as indicated in the list of patents attached to the judgment of the first instance (these inventions shall hereinafter be respectively referred to with their numbers in the list, as "Invention 1," "Invention 2," and "Invention 3", and collectively referred to as the "Inventions"). The Inventions all relate to devices and methods for reading and writing data on storage media (optical disc) by using laser beams. The Inventions by nature fall under the scope of the appellant's business, and they were achieved by acts categorized as the appellee's present or past duty to be performed for the appellant; therefore, they fall under the scope of employee invention prescribed in Article 35, para.1 of the Patent Act.

(3) The appellee concluded contracts with the appellant for assigning to the appellant the right to obtain a patent (including the right to obtain a patent in a foreign country) for the Inventions. The date of the contract was: for Invention 1, September 13, 1977; for Invention 2, January 20, 1973; for Invention 3, December 26, 1974 (these contracts shall hereinafter be collectively

referred to as the "Assignment Contracts").

(4) With respect to the Inventions, in Japan, the appellant filed patent applications, which resulted in the registration of establishment of patents, and obtained patent rights. The appellant also obtained patent rights for Invention 1 in the United States, Canada, the United Kingdom, France, and the Netherlands, and for Invention 2 and Invention 3 in the United States, Germany, the United Kingdom, France, and the Netherlands.

(5) At the time of conclusion of the Assignment Contracts, the appellant had established the "Regulations for Honoring for Inventions, Devices, etc.," which provides that the appellant shall award its employee who has made an invention a certain amount of prize money when a patent application is filed and the establishment of a patent right is registered with respect to the employee's invention, and shall also award such employee prize money according to the performance of the invention where the invention brings about remarkable results by being worked by the employer. The appellant further established, by June 1991, the "Rules for Handling Inventions, Devices, etc.," "Regulations on Compensation for Inventions, Devices, etc.," and "Standards for Compensation for Inventions, Devices, etc." Under these rules and regulations, the appellant shall pay its employee who has made an invention a certain amount of compensation as calculated under the specific standards on the following occasions: a patent application is filed or the establishment of a patent right is registered in Japan or a foreign country with respect to the employee's invention; the invention is found to have contributed to the appellant's business performance with its remarkable results through in-house working; or the appellant receives royalties for licensing the invention to a third party (all rules and regulations established by the appellant as mentioned above shall hereinafter be collectively referred to as the "Regulations").

(6) The appellant concluded contracts with several corporations for licensing the Inventions, for which patent applications were filed or establishment of patent rights were registered in Japan and foreign countries, and obtained profits from license royalties.

(7) In accordance with the Regulations, the appellant paid the appellee a value for the assignment of the right to obtain a patent for each of the Inventions, namely, 2,318,000 yen in total for Invention 1, 51,400 yen for Invention 2, and 10,700 yen for Invention 3, in the form of prize money or compensation.

3. The court of the second instance, by determining the amount of reasonable value claimable by the appellee from the appellant for the assignment of the right to obtain a patent for the Inventions (while deducing the amount already paid under the Regulations) to be 162,846,300 yen in total for Invention 1, 131,750 yen in total for Invention 2, and 25,666 yen in total for Invention 3, upheld the appellee's claim to the extent to seek payment of 163,003,716 yen in

total, on the following grounds.

(1) The determination of the amount of value for the assignment of the right to obtain a patent under the Assignment Contracts involves international aspects in that the subject matter of the assignment is a right to obtain a patent in Japan and in a foreign country, and therefore it is necessary to decide which country's law is to govern. The Assignment Contracts were concluded in Japan between the appellant, a Japanese corporation, and the appellee, a Japanese national who resided in Japan and worked as the appellant's employee, with respect to the inventions made by the appellee as the appellant's employee. Since it can be presumed, based on the above facts, that the appellant and the appellee have reached an implicit agreement that the law of Japan shall govern the validity and effect of the Assignment Contracts, pursuant to Article 7, para.1 of the Act on Application of Laws in General, the governing law for the Assignment Contracts, including the issue of determining the amount of value for the assignment of the right to obtain a patent in a foreign country, shall be the law of Japan.

(2) The "right to obtain a patent" prescribed in Article 35, para.3 of the Patent Act means not only the right to obtain a patent in Japan but also the right to obtain a patent in a foreign country. Therefore, the appellee may also request the appellant to pay a reasonable value, as calculated in accordance with the standards set forth in para.4 under the same Article based on para.3 of the same Article, with respect to the right to obtain a patent in a foreign country.

II. Concerning Reason III for petition for acceptance of appeal to the court of the last resort argued by the appeal counsel, SUEYOSHI Wataru, et al.

1. The issues concerning the value for the assignment of the right to obtain a patent, such as whether or not the assignor of the right to obtain a patent in a foreign country can request payment of its value from the assignee and what the amount of such value is, can be understood as an issue of what the claim and the obligation held by each party to the assignment is, and this issue, in turn, can be construed to be a question of the effect of the contract (or any other juristic act with in-personam effect) made by parties, which gives cause for the assignment. Consequently, it is appropriate to construe that, pursuant to Article 7, para.1 of the Act on Application of Laws in General, the governing law should be determined, first of all, by the intention of the parties.

Here, it should be noted that the issue concerning how a right to obtain a patent, which is the subject matter of the assignment, is treated in foreign countries and what the effect of such right is in foreign countries, should be considered separately from the issue concerning the cause of the assignment between the parties. In light of the principle of territoriality for a patent right, it is appropriate to construe that the governing law for issues concerning the treatment and effect in a foreign country of right to obtain a patent should be the law of the country where a patent

right is to be registered based on the right to obtain a patent.

2. In this case, since the appellant and the appellee reached an implicit agreement that the law of Japan shall govern the validity and effect of the Assignment Contracts, the issues concerning the value for the assignment of the right to obtain a patent under the Assignment Contracts, including whether or not the appellee can also request the appellant to pay a value for the assignment of the right to obtain a patent in a foreign country, should be governed by the law of Japan.

The determination of the court of the second instance that goes along with this reasoning can be affirmed as justifiable. The appellant's argument cannot be accepted.

III. Concerning Reason IV for petition for acceptance of appeal to the court of the last resort argued by the appeal counsel, SUEYOSHI Wataru, et al.

1. It is obvious that the Patent Act of Japan does not directly govern a foreign patent or a "right to obtain a patent" in a foreign country (See Article 4bis of the Paris Convention for the Protection of Industrial Property of March 20, 1883, as revised at Brussels on December 14, 1900, at Washington on June 2, 1911, at The Hague on November 6, 1925, at London on June 2, 1934, at Lisbon on October 31, 1958, and at Stockholm on July 14, 1967). Therefore, the "right to obtain a patent" as set forth in Article 35, para.1 and para.2 of the Patent Act should inevitably be construed to mean the right to obtain a patent in Japan, and it is difficult to construe the term "the right to obtain a patent," from its language, to mean the right to obtain a patent in a foreign country as well as in Japan only when it appears in para.3 of the same Article. For this reason, it should be concluded that the provisions of Article 35, para.3 and para.4 cannot be directly applied to the claim for a value for the assignment of the right to obtain a patent in a foreign country.

However, regarding the provisions of Article 35, para.3 and para.4, it is appropriate to construe that, based on a recognition that, when disposing the exclusive right to exploit the employee's invention, it is difficult for the Employee, etc. who has made an invention to make a deal with the Employer, etc. on equal footing because the invention has been made based on the employment relationship, these provisions aim to protect the Employee, etc. who has made the invention by enabling him/her to secure a certain amount of money as calculated under the standards set forth in para.4 of the same Article, from the profit that is objectively expected to be received by the Employer, etc. who has acquired the right through exclusive working of the invention, thereby achieving the purpose of the Patent Act as a whole, i.e. encouraging inventions and contributing to the development of industry. On the other hand, the Employee, etc. may experience difficulty making a deal with the Employer, etc., on equal footing regarding

the transfer of the right to obtain a patent from the Employee, etc. who has made the invention to the Employer, etc., even when the subject matter of the deal is a right to obtain a patent in a foreign country. Although the right to obtain a patent can be deemed to exist separately in individual countries, the invention from which such right arises is one and the same achievement in technical creation and was achieved in one and the same employment relationship. Therefore, it can be said as a social fact that rights to obtain a patent in foreign countries for such invention substantially arise from only one invention. In addition, at the time of transfer of the right to obtain a patent from the Employee, etc. who has made the invention to the Employer, etc., there are usually many issues yet to be determined, e.g. in which country a patent application should be filed, whether or not the invention should be kept as secret know-how rather than disclosed in a patent application, and whether or not there is a possibility to obtain a patent for the invention, and for this reason, it is often the case that the right to obtain a patent in a foreign country is transferred together with the right to obtain a patent in Japan. Although the right to obtain a patent in a foreign country may not always be deemed to have the same concept as the right to obtain a patent in Japan, it can be construed that even in such case, the parties generally intend to handle all legal relationships regarding the employee's invention between the Employee, etc. who has made the invention and the Employer, etc. in an integrated manner, by also vesting the Employer, etc. with the right to obtain a patent in a foreign country. It follows that depending on the circumstances, the purport of the provisions of Article 35, para.3 and para.4 should be applied to the right to obtain a patent in a foreign country. Consequently, where the Employee, etc. has assigned to the Employer, etc. the right to obtain a patent in a foreign country for the employee's invention as set forth in Article 35, para.1 of the Patent Act, it is appropriate to construe that the provisions of para.3 and para.4 of the same Article shall apply analogically to the claim for a value for the assignment of the right to obtain a patent in a foreign country.

2. In this case, the appellee, based on the employment relationship with the appellant, made the Inventions that fall under the scope of employee invention prescribed in Article 35, para.1 of the Patent Act, and assigned to the appellant the right to obtain a patent for the Inventions in foreign countries including the United States, the United Kingdom, France, and the Netherlands, together with the right to obtain a patent in Japan. Consequently, the provisions of para.3 and para.4 of the same Article shall apply analogically to the claim for a value for the assignment of the right to obtain a patent in these countries, and therefore the appellee may also request the appellant to pay a reasonable value, as calculated in accordance with the standards set forth in para.4 of the same Article under para.3 of the same Article, also with respect to the right to obtain a patent in these countries.

The determination of the court of the second instance on this point of issue is justifiable as the conclusion. The appellant's argument cannot be accepted.

Therefore, the judgment has been rendered in the form of the main text by the unanimous consent of the Justices.

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Presiding judge

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Justice NASU Kohei

Justice UEDA Toyozo

Justice FUJITA Tokiyasu

Justice HORIGOME Yukio

(This translation is provisional and subject to revision.)