

New trend in the employee's invention compensation

1 The Tokyo District Court issued a judgment in the Blue LED case on January 30th, 2004 ordering the payment of 20 billion yen as a reasonable remuneration for the employees invention(404 patent). Newspapers reported on this judgment on the front page the following day.

However, after a year, this Blue LED case finished with a settlement in the Tokyo High Court. The amount of remuneration agreed on in the settlement was 608 million yen plus interest, totally about 844 million yen and this is the remuneration for all the employee's inventions made while the plaintiff worked in Nichia. This settlement was made upon the court opinion for settlement and as a result of mediation by the judge in charge of this case. The notable difference between the High Court opinion and District Court judgment had a significant impact upon similar cases following the Blue LED settlement.

Before explaining the reason why the remuneration awarded by the High Court was restricted to roughly 1/100th the original award, I have to explain the outline of the Patent Law with respect to the employee inventions.

2 Article 35 of the Japanese Patent Law

- Paragraph 1 of Article 35 of the Japanese Patent law provides that where an employee has obtained a patent right relating to the employee's duty, the employer shall have a non-exclusive license to the patent.

- Paragraph 3 of Article 35 provides that the employee has the right to be paid an reasonable remuneration when he assigns to his employer a patent or right to obtain a patent for the employee's invention in accordance with the contract or employment regulations.

• Before the 2004 amendment of the Japanese Patent Law, Paragraph 4 of Article 35 provided that the amount of the aforementioned reasonable remuneration shall be decided by considering the amount of the profit that the employer shall obtain from the invention and by considering the degree of the contribution by the employer to the making of the invention.

3 The Japanese Supreme Court decided in the Olympus case on April 22nd, 2003 that an employee who assigned his right to obtain a patent for the employee's invention may claim the difference, in case when the amount paid by the employer falls short of the amount of reasonable remuneration provided in Paragraph 3 and 4 of Article 35 of the Patent Law, .

The paragraph 4 of Article 35 was amended in 2004 and Paragraph 4 and 5 were newly created, but the amended Paragraph 4 and 5 of Article 35 shall be applied only to the employee's inventions assigned after the April 1st, 2005.

So the Paragraph 4 of Article 35 as it was before the 2004 amendment will still be applied to almost all the cases that are filed to the court over the next few decades.

4 High Court Opinion for the settlement

The gist of the opinion of the Tokyo High Court is shown in paragraph 2 as follows.

【The amount of remuneration should comply with the object of the Patent Law , which is to "encourage inventions" and "contribute to the development of industry". In other words, reasonable remuneration for the assignment of the right to obtain a patent for an employee invention should be both sufficient to provide an incentive for employees to invent ,and at the same time, be such that companies can overcome harsh economic conditions and international competition and develop. This reasonable remuneration is naturally of a different nature to the amount of profit the joint operators of companies subject to various risks receive under favorable economic conditions. 】

The employer has to face to various risks in his business and has to bear the liability and risk of loss arisen by his business, but the employee does not have to face to the risk of loss and does not have to bear any liability arisen by the employers business.

High risk and high return or no risk and low return is the defining principle.

This idea in the High Court Opinion clearly appears when deciding the rate of employee's contribution to the making of inventions.

In contrast that the Tokyo District Court decided that an employee's contribution rate is 50 percent; the Tokyo High Court decided the contribution rate is 5 percent.

At present this opinion of the Tokyo High Court has a great influence over all the other cases and is evaluated as one of the leading precedents for reasonable remuneration in Japanese practice. For example, in these days 5 percent is the figure that is most frequently used in Japanese practice as an employee's contribution to an invention.

5 Another reason why the remuneration awarded by the High Court was restricted is that the employer Nichia entered into free comprehensive cross-licensing agreements with other two rival companies respectively in 2002. Besides these two there are no other rival companies in the world. So until the cross-licensing agreements were made, Nichia had enjoyed the exclusive right to practice the 404 patent. But after the free comprehensive cross-licensing agreements were made, each of these two rival companies could practice this invention.

Before Nichia made cross-licensing agreements and while it still enjoyed the exclusive right to practice the 404 patent, the profit the employer earned from this patented invention could be calculated on the sales basis of Nichia. For example, the profit earned from this invention was calculated by the High Court, in the way that assuming a half of the sales amount of Nichia arose due to the exclusive right of 404 patent, and hypothetical royalty rate 10 or 7 percent was multiplied on those sales.

However, after the free comprehensive cross-license agreements were made, Nichia

could not enjoy that exclusivity.

So the amount of the royalty to be earned from the license agreements shall be the basis for calculation of the amount of the profit to be earned from the 404 patent for the term after the cross-license agreements, but no royalty has been paid from licensee to Nichia in the aforementioned free cross-license agreement.

In the District Court judgment, the court decided the profit earned from the patented invention assuming that Nichia would enjoy the exclusive rights for the entire period of the 404 patent. However the High Court Opinion did not adopt this calculation method due to the aforementioned free cross-license agreement. The Tokyo High Court Opinion calculated the profit to be earned from 404 patent for the term from conclusion of the cross-license agreements till the expiration of the patent in a very limited way.

5 Finally I would like to introduce the new Supreme Court Decision rendered on October 17th, 2006 in the Hitachi Co. case.

The Supreme Court held that

- in this case the assignment contract for the employee's invention was made between the Japanese company and Japanese employee in Japan. So the law that governs the legal effect of this assignment contract for the right to obtain a patent in this case is Japanese Law, and
- as to the aforementioned assignment contract between employer and employee for employee's rights to obtain a foreign patent, Article 35 of the Japanese Patent Law shall not be applied directly, but shall be applied analogically.
- The Court concluded that the employer has to pay to the employee reasonable remuneration for the assignment of the employee's right to obtain a Japanese patent and a foreign patent.
- The Supreme Court rejected the final appeal by the Hitachi Co. So the judgment of the

Tokyo High Court ordering Hitachi Co. to pay about 160 million yen as a reasonable remuneration was upheld.

- However, I must point out that the Supreme Court is the final court only for the important legal issues. In the Hitachi case, the Supreme Court decided the legal issues, first, the governing law and, second, applicability of Article 35 of Patent Law to the assignment contract for the employee's rights to obtain a foreign patent. Yet the Supreme Court did not say anything about other issues, such as whether 160 million yen that the Tokyo High Court ordered Hitachi Co. to pay is reasonable remuneration under Article 35 of the Japanese Patent Law.