Interview No.31

Revision of Patent Law Article 35 is for "System Innovation" required to strengthen industrial competitiveness

Approach to Revision of Patent Law Article 35 (Part II)

【2013/8/9】

The Tokyo District Court's decision against the Nakamura case in 2004 concerning the blue LED Patent was alarming. The Tokyo District Court ordered a company to pay ￥20-billion to one of its researches for the researcher's invention. The decision is based on the Patent Law Article 35. Thereafter, Nichia Kagaku Kogyo (the company) appealed the decision to the Tokyo High Court, but a settlement was reached on January 11, 2005 on condition that Nichia Kagaku Kogyo should pay Mr. Nakamura ￥840-million including about ¥600-million in relation to his patent. Furthermore, after the Nakamura case, other researchers filed suits against their companies and acquired large considerations for their service inventions. Under these circumstances, enterprises have appealed for the necessity to revise the Patent Law Article 35 and raised the issue of to whom service inventions belong. While invention is an act carried out by individuals, invention within a company can be first realized by the existence of the company which has taken on the risk in researching and accumulating information in order to commercialize the invention. The Patent Office has now set up the, "Research Study Committee on the service invention system" and is advancing discussions with a view to revise the Patent Law Article 35. The present status of the service invention system and points at issue of the Patent Law Article 35 were discussed by: Mr. Takashi Sawai (Vice President of Miyoshi & Miyoshi) who is a member of the Committee and Deputy President of Intellectual Property Committee Planning Department of Japan Economic Federation; Mr. Yoichi Okumura (Intellectual Property Department Manager of Takeda Pharmaceutical Company Limited) who is President of Intellectual Property Committee of Japan Pharmaceutical Industry Association; and Mr. Naoto Shimizu (Planning Department Principal, Intellectual Property Department of Nippon Steel & Sumitomo Metal Corporation) who is Service Invention Task Force Leader of Japan Intellectual Property Association.

Attendees:

Mr. Takashi Sawai

Deputy President of Intellectual Property Committee Planning Department of Japan Economic Federation (Vice President, Miyoshi & Miyoshi)

Mr. Yoichi Okumura
Chairman of Intellectual Property Committee of Japan Pharmaceutical Industry Association (Intellectual Property Department Manager of Takeda Pharmaceutical Company Limited)

Mr. Naoto Shimizu
Service Invention Task Force Leader of Japan Intellectual Property Association (Planning Department Principal, Intellectual Property Department of Nippon Steel & Sumitomo Metal Corporation)

Without allowing a service invention to belong to a legal entity, no essential problems can be settled."

Mr. Sawai: The moment you say "remuneration," it causes quite an awkward situation. The remuneration was defined in an article of the Patent Law when the 1959 law was enacted. The premise lies in that a right to a patent belongs to an inventor, who assigns the right to a company. The word "remuneration" results from such a relationship between the inventor (employee) and the company (employer). It places both employer and employee in a very confusing relationship. The inventor is engaged in his work in the company. I think we should question why a service invention produced in such a situation should belong to the employee (inventor). Unless this is changed, the essential problem will remain unsettled.

For example, can laborers who are manufacturing cars on a production line claim a right to ownership of completed cars? The completed cars do not belong to the laborers. The cars produced during their labor, of course, belong to their company. The laborers provide their labor for pay. The cars produced by the labor are naturally owned by the company. The only difference is whether the product born from labor is a car or a service invention. Certainly an act to invent is a creative behavior; however, the entity that creates an environment to produce a service invention is the company. In addition, the company pays the employees. I cannot understand the reason why the service invention belongs to the employee (inventor) and then needs to be assigned to the company.

Mr. Okumura: The remuneration for a service invention is not announced officially in enterprises, because it will give much feeling of inequality to employees. When a project succeeds in a company, the people concerned would come to know who contributed the most to the project. However, the Patent Law Article 35 does not surmise such a matter. Those who contributed are treated accordingly by the company, but an employee who is the inventor

is paid remuneration for a service invention in addition. The employees other than the inventor, wondering why only the inventor can get extra remuneration, come to have feelings of inequality. I am afraid that in many companies, groups having such feelings of inequality are gradually arising.

Mr. Shimizu: A company is acting as an organization. In a baseball team, there is a superstar like Ichiro. However, even Ichiro is a superstar as a member of a team among team players. He does not play the game by himself. The same can be said about sports played on a one-to-one basis like judo. There are instructors and practice partners. Such an environment leads people toward success. In this world, one man cannot live alone. In a heavily-industrialized society like the present one, information is shared by IT. It is impossible for you to bring forth an invention all by yourself from zero. In science, too, a Nobel Prize invention is born from an enormous accumulation of past achievements.

Even if a company provides reasonable in-house service invention rules so as to be satisfactory to the employees, due to the High Court's decision on the Olympus case, it has become a predetermined route to go to court if the paid remuneration based on the in-house rules is not deemed appropriate as reasonable remuneration. In the previous revision of the Patent Law Article 35, a clause to attach importance to procedures is provided, but the clause for a reasonable remuneration still remains. In as much as there remains a choice for determining a reasonable remuneration by a court's decision, Article 35 has not changed in essence from before the revision.

At the time of the previous revision, Japan Intellectual Property Association asked for abolishment of the right to claim reasonable remuneration and enablement to contract freely. Considering the original characteristic of the service invention, the Association asks this time for abolishment of the right to claim reasonable remuneration and provision of the right to belong not to an employee but to a legal entity. In the discussion for revising the 1954 law, there were opinions that it should belong to a legal entity. However, there were only a few lawsuits at that time. It was in the 1990s that there was an increase in lawsuits. It was in the 2000s that the requested amount of remuneration became high. In the 1990s, the economic bubble burst, resulting in the end of constant growth of enterprises. As a result, the life-time employment system began to collapse. As a time came when employees got laid off, lawsuits increased. The Patent Law Article 35 may have conformed to the state's policy to encourage new industry at the time of the 1920s law, but at the time the 1959 law was enacted, it would not have been strange at all if an invention were made to belong to a legal entity in view of the then socioeconomic realities.

"In essence, it is natural that service inventions belong to the company (legal entity)."

Mr. Sawai: Using the above analogies, those working for a company should understand the point at issue with the Patent Law Article 35. Enterprises are endeavoring to retain a stable employment in spite of a fluctuating balance sheet. And this is also an enterprise's raison d'être. There are three words: "remuneration," "compensation," and "reward." "Remuneration" gives an image of buying and selling goods. "Compensation" means pay for work. "Reward" is an incentive award. At present, discussions are sometimes being made, making no distinctions among such definitions.
Even if there are inequalities in treatment of a company as a team, it is important to persist and to function well as a whole team. To that end, it is considered appropriate to evaluate a good outcome not in the form of "remuneration" but of "reward." As Mr. Okumura explained, it is also important to improve research environments. It is not to be forced by law in the form of "remuneration."

If forced by law, companies hold an unpredictable risk. Enterprises cannot predict when and how compulsion by law works. Those who revised the law ten years ago consider that the risk is decreasing because the procedure was made definite. However, legally, essential problems remain. The illogicalness of the right to claim remuneration forces an unpredictable risk on the company.

Mr. Okumura: Some people ask, "Why is the current law wrong?"; "Aren't the enterprises simply making bad use of it?" Some other people ask, "Under the current law, it is good to set a proper in-house system to which both management and labor can agree, isn't it?"; "It is because proper procedures aren't taken that you find the current law problematic, isn't it?" I also thought so at first but talking with various people in the industrial circle, I came to find that many companies are troubled by the current law. Taking into consideration that so many enterprises are troubled, I have come to consider whether the law itself should be changed or not.

"Even by investigating overseas patent systems and comparing with the wordings of their patent laws, no essential quality can be found."

Mr. Sawai: The current law defines that the contribution made by the employer in connection with the invention is also taken into consideration. However, although the employer's

contribution can be known qualitatively, it is difficult to quantify the contribution to one patent. In more mature societies such as Europe and the U. S. A. where the essential quality of enterprises' business is understood, such strange things do not occur. In a contract based society such as the U.S.A., things are handled by the contract. Even if a lawsuit should arise, an appropriate judgment will be made, under common law. However, Japan is a state of statute law. If the handling of things based on pre-established harmony is denied and things are interpreted literally, it becomes a great problem to enterprises.

Mr. Okumura: There is a difficult aspect when comparing with overseas patent systems. It becomes necessary to compare not only the texts but also everything including the working environments, employees' payment systems, etc. Essential qualities do not come into sight by simply comparing only the wordings of the Patent Laws.

"What should be intended by the present revision is the breakthrough of 'system innovation', I suppose."

Mr. Sawai: "Research and Investigation Committee on Service Invention System" is, as shown on the Patent Office website, scheduled to open a first meeting on July 4, 2013, and to sum up as a written report early next year. As the industrial circle raises various issues, I think that problems that have actually arisen in enterprises will be discussed first, and then problems in connection with the Patent Law Article 35 will be extracted from them, to make a drastic revision of the law within next year. In my view, the direction of the revision of the law will be studied in future after hearing the opinion of the industrial circle, various opinions of lawyers and economists, summarizing the point at issue, and finding out where the essential problem lies.

I think some committee members are of the opinion that an extension of the current system will do. For instance, those who have long been engaged in the legal circle or who participated in planning the current system may wonder what kind of problems have come to the fore when less than ten years have passed since the law was revised. They may question why such problems cannot be dealt with by contrivance under the current system and by guidelines or established practice. However, we who engage in the actual business of enterprises feel there is a major gap between our view and their way of thinking which does not focus on the essential nature of a service invention.
The previous revision of the law was made in fear of possible occurrence of outrageous claims for remuneration preceded by negation of the management's discretion, as in the judgment

of the Olympus case. However, the Nakamura Judgment, which was more surprising than we had imagined, was given after the direction of the revision of the law was decided. The present approach by the industrial circle was initiated because of a fear that forcing by law has begun to rot the core of the team system role in innovation. I am afraid that it might lead to serious problems in the future if we cannot approach an essentialist theory of the service invention simply due to legislation. I do wish that persons concerned would enrich their imagination and set a direction which leads to an ideal revision of the law.

Mr. Okumura: When talking with many people, I am asked if it is possible to address the problems in employment contracts. In other words, a method to make an invention belong to a researcher and to have the researcher transfer it to the company under an employment contract. This is exactly the same as in the U. S. I think those who have such an opinion are in agreement with the industrial circle. Their opinions differ only in how to realize it.

Mr. Shimizu: In the case of Japanese enterprises, there is a possibility to hire researchers as general employers and assign them to positions other than research. Researchers are sometimes assigned to corporate planning departments or sales departments. The names of those who work really hard to make a business successful are not always added to the list of inventors. And those who conduct valuable research do not always contribute to business profits, either. At any rate, whether to commercialize service inventions depends on management. It is strange that only inventors receive the profits as reasonable remuneration based on such judgment by the management. Innovation implies innovation in management, innovation in the business model, as well as innovation in science and technology. It is management that organizes these into one.

I think the present discussion on the Patent Law Article 35 concerns "system innovation" and its breakthrough. The law in 1921 made a 180-degree shift from the invention belonging to a legal entity. The revision was made perhaps because this conformed to the prevailing policy and social circumstances and was reasonable at that time. Rules such as fundamental human rights and corporate structures should be decided by law, but judgment on whether to give incentive of an invention or not as set forth in the Patent Law Article 35 is not what a state should decide. Back in 1921, it may have been considered that giving researchers monetary compensation would bring about good inventions. However, it is different in the modern age. It is also obvious from the fact that the present achievement-based pay is not going well. What matters in the world of science is not money. A good service invention is initially brought about through a good environment for research in a company, alongside good co-workers and support and vast amounts of collective wisdom (trade secrets) stocked in the

company.

The Abe Administration encourages bold investment in research and development as well as facilities. However, enterprises cannot but go overseas, because their global competitive strength would decrease without such measures as reduction in corporate income tax. It is likewise for the current service invention system. The current system as it is has a risk, which becomes a factor in reducing international competitive strength. The most important thing now is how to maintain action to stimulate research and development, science and technology, and innovation within the country. In terms of policies, the Government is discussing steps for reduction in corporate income tax, special zones for research and development, and tax reduction for research and development. The revision of the Patent Law Article 35 is also included. It is one of the important factors to strengthen industrial competitive strength (Fig. 1).

Fig.1

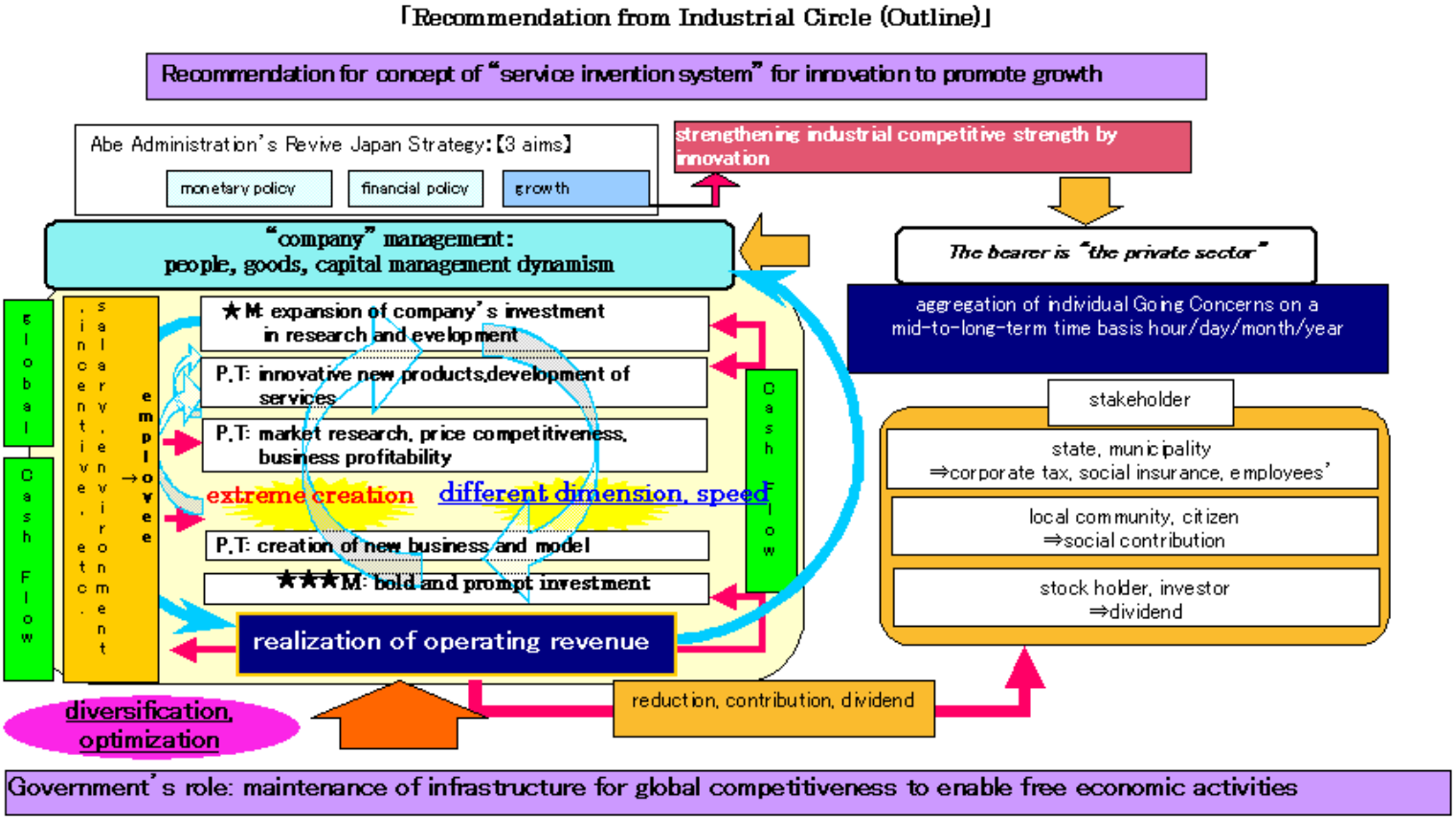

Fig. 1 ●What the service invention system for growth-promoting innovation should be like
(prepared by Service Invention Task Force of Industrial Circle)

Mr. Okumura: There are people who still think that, if given money, researchers will work hard. Actually, it is improbable. We respect researchers who are, so to speak, our comrades. Of course, ask if they want money and they will definitely answer, "Yes." However, what encourages them to work hard is not only money.

Some people ask us what will result when the law is revised in such a direction as we propose. I do not think there will be immediate visible change even if the Patent Law Article 35 is changed. The current law is a system which has allowed bad culture to take root gradually in the research environment. From a broad perspective of a span of 10 to 20 years, I think it will be important to change at this moment. As it will take a long time for the change to be effective, I think now is the time to change. I am recommending this matter because I would like to leave a Japanese society with international competitiveness for our descendants.

Mr. Takashi Sawai
Japan Economic Federation
Deputy President of Intellectual Property Committee
(Vice President, Miyoshi & Miyoshi)

Mr. Yoichi Okumura
Chairman of Intellectual Property Committee of Japan
Pharmaceutical Industry Association
(Intellectual Property Department Manager of Takeda
Pharmaceutical Company Limited)

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