Interview No.30

"Service Invention Should Belong to Legal Entity
Approach to Revision of Patent Law Article 35 (Part I)

【2013/8/7】

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:

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"Revision of the Patent Law Article 35 should be viewed from the standpoint of innovation."

Mr. Sawai: The Nakamura case was astonishing to patent professionals. On the other hand, the Patent Law Article 35 has long been discussed with a basic awareness of the problem. In the first place, enterprises dare to develop goods/services taking various risks. They invest abundantly in research and development and accumulate a lot of information. Service invention is first enabled by the accumulated information. Furthermore, various divisions of the company such as manufacturing and sales are involved to commercialize an invented technology.

Incidentally, the provision related to the service invention of the Patent Law Article 35 was enacted in 1921 and its content is outlined as follows: the right of an invention belongs to the inventor; a company can be assigned the right; the company shall pay remuneration to the inventor for the assignment of the right.

Because enterprises have made a large amount of investment up to the point when a service invention comes into existence and in commercialization of it, we had thought that the enterprises can relatively freely determine the amount of remuneration. However, two years before the Nakamura case, a judgment was given for a patent dispute relating to Olympus's optical pickup technology. The judgment reads that the remuneration accompanying the assignment of the service invention cannot be arbitrarily determined by the company. It was defined that, if the inventor is dissatisfied with the remuneration determined by the company, a court shall decide the outcome. As a result of such a legal judgment, this raised a serious problem for enterprises.

Enterprises make a decision after taking various conditions into consideration and then provide limited resources to an operation. The judgment of the Olympus trial was that it made it difficult for a company to run its activities based on its voluntary will. Because of this, the business circle contended that a revision of the Patent Law Article 35 is a must. As a result of discussions of the Industrial Structure Council, it was decided that the content of the current Patent Law Article 35 should attach importance to procedures.

However, the decision of the Nakamura case was made after this plan was determined. It is likely that the council members were surprised, but certainly the industrial circle had not thought that the remuneration would be such an unreasonable amount.

We reached recognition that the idea of changing the Patent Law Article 35 to attach importance to procedures but with its fundamental composition left as it is, would be insufficient. Ten years has already passed since the law was revised. At the time of the previous revision of the law, the Koizumi Cabinet adopted an intellectual property-oriented nation as its slogan and forwarded the pro-patent policy. For this reason, discussion focused on invention rights developed. The pro-patent policy is a policy from the 1980's based on the Young Report during the years of President Regan. Thinking back now, I feel that the then discussion in Japan was two cycles behind that in the U. S. While such a discussion was developing in Japan, the Palmisano Report from the U. S. came to the fore. The Palmisano Report advocated not pro-patent but pro-innovation policy. The content of it was that innovation should be focused on promoting industrial growth.

Even after the previous revision of the Patent Law Article 35, Japan's economy has not really got on the growth track and importance of innovation came to be recognized. This helped enhance a feeling of momentum to review the Patent Law Article 35 fundamentally from the standpoint of promoting innovation. The innovation is to be implemented not by individuals but by organizations. Enterprises invest in people and goods to bring about the innovation. I think that service inventions resulting therefrom do not belong to individual employees but fundamentally to the enterprises. We are now going to review the Patent Law Article 35 from the standpoint of innovation.

"In essence, it is a matter of course that a service invention belongs to an enterprise (corporate body)."

Mr. Okumura: Enterprises invest in people and goods. If you ask whether there is anything that does not belong to an enterprise among business activities, the answer will be that there is nothing but patent rights. What comes out of business activities, for example, ideas such as products and services all belong to the company. Only rights to patents yielded from enterprises somehow do not belong to them even though they invested in research laboratories, research programs, and researchers. The enterprises must buy out the rights from the employees (inventors). Such a structure itself is very strange. The enterprises have accumulated various collective wisdom (that may be called trade secrets), and the inventors owe their service inventions to such wisdom. Inventors are salaried as well as other employees, to begin with. I cannot find any reasonable explanation why the companies should pay extra allowances different from the results of work of other employees.

We are asserting that a service invention ought to be, in the first place, a company's property right (Fig. 1). So far, the industrial circle has been unable to express such a point of view, but in essence, we assert that it's a matter of course that the right to a service invention belongs to the company (legal entity).

Researches claim that it is difficult to change jobs even when their research environments are bad which leads to the current Patent Law Article 35 for bettering researchers' conditions for the future of Japan. Researchers are, of course, important, but in light of the innovation which Mr. Sawai has just explained, employees other than researchers are also important. Why are only researchers protected by law? It does not seem natural. From my standpoint as an observer of the current enterprise activity status, there is a feeling of strangeness in that point.

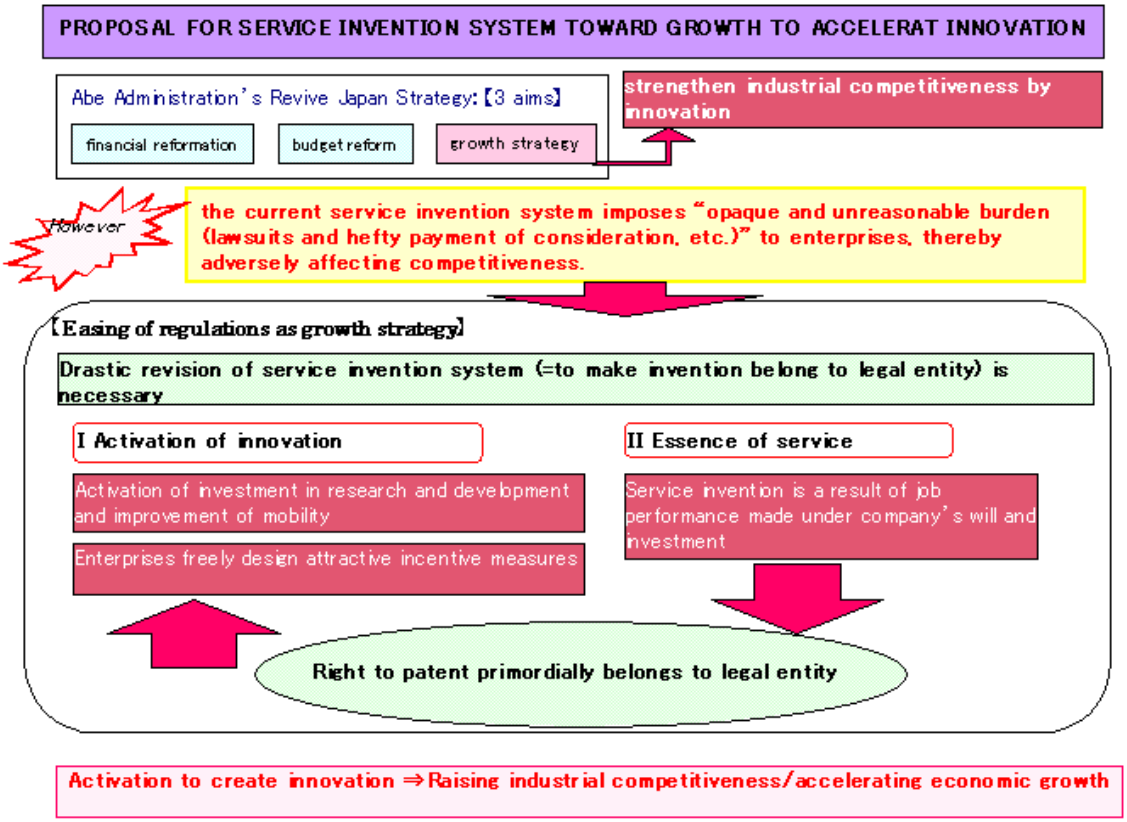

Fig. 1. To accelerate innovation, let service invention belong to legal entity!
(prepared by Industrial Circle's Service Invention Task Force)

"Employee principle under the current law was introduced in 1921 and is greatly different from the current socioeconomic realities."

Mr. Shimizu: The legal system follows the world trend. The service invention system provided by law fits with the society of the time. The Japanese service invention system provided by the 1921-law changed from the employer principle in the Meiji Era to the employee principle. It was a time when state-led encouragement of new industry was called for. It must have been necessary to expect that technicians have motivation for their inventions to be of use for the encouragement of new industry.

For industrial development, the Patent Law is important, and the Patent Law Article 35 also assumes characteristics of the Labor Law. At the time the 1921-law was enacted when the Taisho democracy prevailed, there was perspective to protect workers by giving them a right to claim compensation. At the time of the revision of 1959-law, the right to claim

compensation was changed to a right to claim remuneration (reasonable remuneration). "Compensation" is so-to-speak "compensatory money." If the payment for an invention is labeled as "compensatory money" to the inventor, it has a slightly strange nuance. So, the term was changed to "a reasonable remuneration."

The value of an enterprise consists of "people, goods, and capital." In the case of the manufacturing industry, how much extra value the facilities/equipment, lands, and funds yield determines the enterprise's proceeds. This extra value is customer lists from the point of view of sales representatives, business planning options for project planners, JV and investment for overseas business managers, accounting system methods for accountants. As skilled sales representatives, planners, accountants, engineers, researchers, and factory managers are required, enterprises naturally cultivate human resources within the office. If such human resources are not found in the office, they are headhunted from outside. Researchers are likewise cultivated, and as the case may be, employed from outside. The enterprises invest in "people, goods, and capital," yield high added value, and aim at high returns. The result leads to a social contribution and the company continues to exist. In such a way, comparing the present age, where enterprises with all their organizations are competing globally, with the time around 1921, we would have to say that the current Patent Law Article 35 is greatly out of touch with reality.

Mr. Okumura: Enterprises wish to employ top level human resources and keep these human resources. They take various steps for that purpose not only related to money. They provide researchers with new areas of research and research facilities. They also study how to provide incentives to employees other than researchers. Nevertheless, a reasonable remuneration is provided by the Patent Law Article 35 only to researchers and that remuneration is cash. It is also a problem that the remuneration is specified as cash. If enterprises could freely determine the remuneration to be something other than money, there would be fewer problems.
Researchers have their own scientific inquisitive minds, desires for self-fulfillment, and so forth. In the future, naturally, they would like to make a social contribution by way of a technique they invented. Researchers are working not only for money.

Enterprises wish to provide incentives freely and use their underlying assets to enhance employees' motivations. It would be useful for Japan's growth strategy, too. This is why we are proposing a new revision of the Patent Law Article 35.

"The employee shall have the right to reasonable 'compensation' is questionable! The reward to the employee should be determined at the discretion of the legal entity which takes on the risk."

Mr. Shimizu: The researchers in Japanese enterprises have little risk because their employment is protected. Despite that, they have a right to claim remuneration of some percentage of product profit based on a patent. It is strange from the perspective of common business practice. In a country with an advanced merit-based-pay system such as the U. S. A., researchers without any achievements would be fired. Under these circumstances, high remunerations could be considered. A researcher has the option whether to choose the Japanese style with secure lifetime employment or to choose the U. S. style with a pay-by-merit system. The difference in salary between business people and general employees is as much as dozens of times or so in Japan. Under such circumstances, it is strange to claim billions of yen or tens of billions of yen.

Mr. Sawai: Let's repeat: it is an enterprise that takes a risk, not an inventor. A researcher conducts research in the life-time employment system. One of the problems facing us is how to deal with this situation. Why only inventors are specially treated by law is an additional problem. There are many departments in a company and people working in them also contribute to commercializing patented technology and accomplishing success. It is not to be determined by law to provide remuneration to such people; neither can it be determined by law.

It is strange that the law intervenes in a matter which an enterprise itself should determine at its own discretion. Contribution to an enterprise is fundamentally reflected in salary and treatment. Business activity is advanced by assembling a team for each of research, planning, manufacturing, sales and marketing, etc. For so doing, the Patent Law Article 35 becomes a large factor of confusion for business activity. It causes a feeling of unfairness to employees.

My concern in the present discussion on the revision is that it is going to be developed on the basis that there is the Patent Law Article 35. The Patent Law Article 35 is, as explained by Mr. Shimizu, a clause enacted in 1921. The social environment around 1921 was greatly different from the present one. We are presenting the problem by considering it necessary to review the clause in compliance with changes in social environment.

Mr. Shimizu: A judge who gives a ruling on a reasonable remuneration for a service invention

must also be puzzled. In an enterprise, too, it is difficult to evaluate a service invention. In addition to an invention, various other factors are included which lead to business profits. If a profit of ￥100-billion is made, it is difficult to appropriately evaluate the degree of contribution of an invention as so-and-so percent of the profit even if the finance department, the engineering department and the planning department all make an estimate. It is all the more so for a judge who has poor knowledge of research, development, and work environment.

It is easier to understand if you compare with equivalent situations in other businesses. For example, a writer writes a manuscript. A publisher turns it into a book and publishes it. The writer receives the royalties. This is an obvious "remuneration." When the manuscript is written, it is not certain how many copies of the book will sell. By an actual achievement such as the number of copies sold, a certain value is recognized and evaluated by the enterprise and the world. Similarly, a reporter who is a company employee acquires status and remuneration as a member of an editorial board, position as an editorial writer, or the like. This seems to be a natural course. It is a strange thing that a researcher, even though the business value or social value of his/her service invention has not been set, can file a patent suit against his/her own company (where he or she belongs or has formerly belonged). A company is one vessel. If it is just a person, both success and failure should come back to the person. All is attributable to outcome accountability.

Mr. Sawai: What Mr. Shimizu has just explained is quite important. One who becomes an editorial writer in mass media does not receive "remuneration" for an article. Salary and treatment are raised only for his/her past results and capability

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