NEWSLETTER

Employee Invention System in Japan

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1. Introduction

In this article, we provide an overview of the employee invention system under the Japanese Patent Act (Act No. 121 of 1959). Specifically, we briefly explain the definition of and requirements for employee inventions in Japan, the necessity of establishing employee invention regulations, and the grant of reasonable benefits to employees. In addition, a brief explanation of the rules on the work of hire under the Japanese Copyright Act (Act No. 48 of 1970) is also provided.

2. Definition and Requirements for Employee Inventions

Under the Patent Act, if a contract, employment regulation, or any other prior stipulation sets forth that an employer shall acquire the right to patent an employee invention made by an employee,[1] the right to patent shall vest in the employer from the time of the occurrence of such right (Section 35(3) of the Patent Act).

An employee invention is an invention made by an employee, which due to its nature falls within the scope of the business of the employer, and for which the acts resulting in the invention that were part of the current or prior duties of the employee[2] performed on behalf of the employer.

Inventions made by employees outside the scope of the employer's business[3] (free inventions) and inventions made by employees within the scope of the company's business but outside the duties of employees (service inventions) do not constitute employee inventions. In regard to free inventions and employee inventions, it is not possible to have the employer obtain or succeed to the right to patent in advance, and any rule which stipulates that the company may succeed to the rights in advance is invalid[4] (Section 35 (2) of the Patent Act).

An employer who has acquired the right to patent an employee invention is required to grant a reasonable monetary or other economic benefit to the employee who invented it (Section 35 (4) of the Patent Act).

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1 Directors also constitute employees in this regard. Temporary employees who are accepted by a company are often considered to constitute employees of the company, in the context of employee inventions.

2 It is not necessary that the making of the invention itself be the employee's duty. The employee's duties here are not limited to those for which the employee received specific instructions from the employer. This requirement is satisfied even if the employee voluntarily researches a topic and makes an invention.

3 Businesses that the employer is presently engaged in or specifically plans to engage in in the future.

4 It is possible to acquire the right to obtain a patent by agreement with an employee after the free invention or service invention was created. However, if the employer abuses its superior position over the employee and receives an assignment for free or at a extremely low price, the assignment may be invalid.

3. Necessity of Establishing Employee Invention Regulations

Even if an employer does not acquire the right to patent an employee invention from an employee, the employer has a statutory non-exclusive license to implement the employee invention (Section 35 (1) of the Patent Act); thus, the employer may implement the employee invention for free without obtaining the permission of the employee.

However, if an employer does not acquire the right to patent an employee invention from an employee, there is a risk that the employer will not be able to exclusively implement the invention if the employee assigns or licenses the right to the employee invention to a third party. Therefore, it is necessary for the employer to obtain from the employee the right to patent the employee invention that the employer wishes to implement exclusively.

Although it is possible to acquire the right to patent an employee invention from an employee by executing an individual agreement with the employee, it is more efficient to establish employee invention regulations.

4. Grant of Reasonable Benefits to Employees

As stated above, an employer who has acquired the right to patent an employee invention must grant a reasonable monetary or other economic benefit to the employee who invented said employee invention.
The reasonable benefit may be, for example, granting an opportunity to study abroad, granting stock options, promotion or advancement with improved monetary compensation, granting paid leave, granting a license to the patent rights pertaining to the employee invention, and so on.

The contents and timing of the granting of reasonable benefits to employees will be stipulated in the employee invention regulations, and whether the contents of the regulations are reasonable will be determined by taking into consideration the following factors (Section 35 (5) of the Patent Act).

(i) The status of discussions between the employer and the employees in establishing the standards for determining the contents of the benefit to be granted to employees.
(ii) The status of disclosure of the standards that were established.
(iii) The status of obtaining opinions from employees concerning the determination of the contents of the benefits.

In this regard, it is not necessary to have reached an agreement with employees regarding the specific contents of the reasonable benefits.

In addition, considering the factors above, if the contents of the employee invention regulations are reasonable and the calculation and payment of the benefits is conducted in accordance with such regulations, a court is likely to respect the contents of the employee invention regulations, and even if the inventor employee disputes the sufficiency of the benefits stipulated in the employee invention regulations, the court is likely to reject the employee argument.

Prior to the 2004 amendment of the Patent Act (effective on April 1, 2005), the Patent Act contained no provision equivalent to Section 35(5) of the Patent Act, and there were many court judgments ordering employers to pay

much higher compensation than the amount stipulated in the employee invention regulations. As a result, the Patent Act was revised in response to requests from companies, and courts now respect the contents of employee invention regulations as long as they are reasonably established in accordance with factors (i) to (iii) above.

On the other hand, if there are no employee invention regulations, the court will determine the amount of reasonable benefits to be paid to employee by employer by taking into consideration the profits earned by the employer from the implementation of the employee invention, the inventor's level of contribution, etc. However, the possibility of a high reasonable benefit being awarded at the discretion of the court cannot be ruled out. Therefore, companies should establish specific standards for the calculation of reasonable benefits by establishing employee invention regulations.

There is no particular statutory rule on the timing of granting reasonable benefits. As long as it is reasonable, based on discussions with and opinions obtained from employees, it is acceptable. Generally, in many cases, reasonable benefits are granted at the time of patent application and registration, and reasonable benefits are also granted in proportion to the actual profits generated by the employee invention.

The provisions regarding employee inventions under the Patent Act also apply *mutatis mutandis* to the Utility Model Act (Act No. 123 of 1959) and the Design Act (Act No. 125 of 1959)

5. Rules on work for hire

For a work that an employee of a corporation or other employer ("employer") makes in the course of duty at the initiative of the employer, and that the employer makes the work public under the name of the employer,[5] the author is the employer, so long as it is not stipulated otherwise in a contract, employment rules, or elsewhere at the time the work is made (Section 15(1) of the Copyright Act).

Unlike employee inventions, in the case of work for hire, it is not necessary to grant a reasonable benefit to the employees unless separate arrangements have been made with the employees.

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[5] If the work is a computer program, the requirement that the work be made public under the name of the employer is not necessary.