

The Case Studies of the Procedures  
under the New Employee Invention System

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※This is an unofficial translation.

## Introduction

The new employee invention system shall, as a rule, entrust "appropriate remuneration" relating to employee-invention to a "voluntary agreement" between the employers and the employees. However, there are some inappropriate cases to be entrusted to the "voluntary agreement" because inappropriate decision can be decided due to difference in positions of the employers and the employees.

Therefore, under the new employee invention system, where it is considered unreasonable to pay remuneration in accordance with the contract, employment regulation or other stipulations, remuneration calculated by consideration of certain elements shall be "appropriate remuneration" as well as in case of existing employee invention system.

Unreasonableness shall be judged, particularly focusing on the procedural elements among those in the whole process until the remuneration is determined and paid. But, the new employee invention system does not define detailed procedures so that remuneration can be determined in response to various actual situations of the employers and the employees avoiding excessive intervention by setting the law which accompanies actual methods of consultation etc.

On the other hand, "Improvement of employee invention system", a report summarized by the Intellectual Property Policy Committee, has stated that the Patent Office should compile case studies which indicate when the determination of "remuneration" should be judged to be obviously unreasonable for the purpose of prevent the unreasonable determination of "remuneration" between the employers and the employees.

Furthermore, in Diet proceedings, some members indicated that case studies to which the employers and the employees can refer for taking the procedure should be prepared. Then, some members indicated that an example of regulations to which small and medium-sized enterprises of no experience to set regulations on employee-invention can refer in drawing up such regulations should be prepared.

These case studies are compiled by the Patent Office in a form of Q & A, referring to the questions and the procedural cases collected from industrial/labor world or universities and hearing from the opinions of the intellectuals of the Patent System Subcommittee.

And please keep it in mind that these case studies are not legally binding, and that they were compiled by the Patent Office, a submitter of the bill, to clarify the legal purport of the new employee invention system and offer the cases to which parties concerned can refer in taking the procedure so that the procedure according to the new system can be smoothly taken.

In the future, where new questions arise or precedents relating to actual cases are set, these case studies will be amended as required.

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(ANNEX 2) Additional resolution of the both chambers committee of economy, trade and industry, the 159<sup>th</sup> regular Diet

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## Definition of terms

The Patent Law Section 35 defines “The Employers”, “The Employees” and “Employee-invention” as follows. In these case studies, the above definition will be used.

- “The Employers”: an employer, a legal entity, a state or local public entity
- “The Employees”: an employee, an executive officer of a legal entity or national or local public official
- “Employee-invention”: an invention which, by its nature, falls within the scope of the business of the employers and was achieved by an act or acts categorized as a present or past duty of the employees performed on behalf of the employers.

And in these case studies,

- “Remuneration relating to employee-invention” means the remuneration for the employees who has vested the right to obtain a patent or the patent right with respect to an employee invention to the employers or has granted the employers an exclusive license to such invention in accordance with the contract, employment regulation or other stipulations.
- “Succession of the right relating to an employee invention” means vesting the right to obtain a patent or the patent right with respect to an employee invention to the employers or granting an exclusive license to such invention.
- “The employees who are researcher” means the employees who engage in research and have a lot of chances to develop employee inventions.

In these case studies, an expression of “judgement of unreasonableness” is used for determining whether it can be considered unreasonable to “pay remuneration in accordance with the stipulations”.

Elements to be considered in judgement of unreasonableness shall be evaluated by the following expressions:

- “work in a positive direction toward unreasonableness”
- “work in a negative direction toward unreasonableness”

The former is an expression meaning that in judgement of unreasonableness, “payment of a remuneration in accordance with the stipulations tends to be considered unreasonable” by reference to a relevant element. The latter is an expression meaning that “payment of a remuneration in accordance with the stipulations tends not to be considered unreasonable” by reference to a relevant element.

However, unreasonableness shall be comprehensively determined. So, unreasonableness shall not be denied in comprehensive determination for the simple reason that an element works in a negative direction toward unreasonableness. Furthermore, where an element works in a more negative direction toward unreasonableness, a factor that works in a positive direction toward unreasonableness in other elements may be canceled and unreasonableness can be comprehensively denied.

# I. Basics

## Chapter 1. Generals

### 1. Outline of the new employee invention system

Q1. What is the purport of the new employee invention system?
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The primary objective of the employee-invention system is to create incentives for invention by providing a stable environment in which “employers, corporations, the national government or local public organizations (hereinafter ‘the employers’)” can proactively invest in research and development activities on the basis that they are playing an important role in intellectual creation in Japan, and also by ensuring that individual “employees, executives of companies, national public officials or local public officials (hereinafter ‘the employees’)” are appropriately rewarded. The system has industrial policy implications, aiming to encourage research and development activities and to increase investment in them in Japan, and has the objective of coordinating the interests of employers and employees as the means to achieve those aims.

Specifically, while Japanese Patent Law stipulates that the right to obtain a patent originally belongs to the inventor, it grants the right of legal non-exclusive license to the employers (Patent Law, Section 35(1)), because a certain employers’ contribution, such as employing the employees, providing research facilities and bearing the cost of research and development, is essential to the employees’ inventions. It also allows reserved succession of the right to obtain a patent or the right to a patent granted, or the establishment of an exclusive license for the employers (Patent Law, Section 35(2)).

On the other hand, the law provides the right to demand payment of “adequate remuneration” to the employees who have actually created the invention, in return for allowing the employers to succeed to the right to obtain a patent or the right to a patent granted or the establishment of an exclusive license for the employers (Patent Law, Section 35(3)). This right to demand “adequate remuneration” is granted in order to encourage inventions by ensuring that employees receive remuneration for the assigning of patent rights.

These provisions are aimed at coordinating the interests of the employees who made the invention, and of the employers who supported the employees.

**Q2. What is the basic idea of the new employee invention system?**

Regarding remuneration for an employee invention, it is necessary to arouse an incentive for research and development by increasing the employers' predictability of the remuneration and satisfaction of the employees on evaluation of the invention. In addition, this remuneration shall be allowed to determine flexibly with the reflection of the conditions which each employee is situated. These conditions include fullness or freeness of the content and environment of research and development and recognition including employee's treatment, as well as different circumstances depending on industry sectors of the employers, such as business environment or strategies of research and development of the employers.

So, it is appropriate to entrust the determination of remuneration, as a rule, to "voluntary agreement" between both parties concerned. Therefore, where remuneration for succession of the right relating to an employee invention is regulated by the contract, employment regulation or other stipulations, the stipulated remuneration shall be, as a rule, "appropriate remuneration".

However, in some cases, unreasonable determination can be decided due to difference in positions of the employers and the employees. So, there may be some cases where it is inappropriate to entrust the determination of remuneration for succession of the right relating to an employee invention to the "voluntary agreement". Therefore, where an environment or conditions under which it is appropriate to entrust the determination of remuneration to the "voluntary agreement" are not developed, the remuneration cannot be respected even if it has been determined in accordance with the contract, employment regulation or other stipulations. Accordingly, where it is recognized unreasonable to pay remuneration in accordance with the stipulations, the remuneration calculated by reference to certain elements, as well as the existing employee invention system, shall be "appropriate remuneration".

For respecting the voluntary agreement between the employers and the employees and avoiding an excessive intervening of the law as far as possible, unreasonableness shall be judged with the stress of the procedural element, such as the situations of consultation between the employers and the employees, in the overall process from decision of the stipulations by the voluntary agreement to payment of the remuneration. This may facilitate thorough consultation between the employers and the employees

As a result, it is expected that an environment where research and development will be activated by cooperation of the employers and the employees will be established.

**Q 3. How is the new employee invitation system is different from the existing one?**

In the existing system, the amount of the remuneration calculated by the court based on the previous Patent Law Section 35 (4)<sup>1</sup> was considered to be “appropriate remuneration” even if a remuneration relating to an employee invention had been regulated by the employment regulation, etc. (employment regulation or other stipulations provided in advance by the employers).<sup>2</sup>

In contrast to the existing system, under the new employee invention system, where a remuneration relating to an employee invention is determined in accordance with the contract, employment regulation or other stipulations, the determined remuneration shall be considered to be “appropriate remuneration” unless payment of the remuneration in accordance with the stipulations is recognized unreasonable. This is the most different point.

In addition, even under the new employee invention system, where a remuneration is not defined in the contract, employment regulation or other stipulations, or where they are defined but payment of a remuneration in accordance with the stipulations is considered unreasonable, the amount of “appropriate remuneration” shall be, as well as the existing system, determined with the consideration of the factors such as the amount of profits to be received by the employers from the invention. However, the new employee invention system clarifies the factors to be considered in this case more than the previous Patent Law 35 (4) with respect to the elements to be considered in this case.

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<sup>1</sup> The previous Patent Law 35 (4) stipulates that “The amount of the remuneration as provided in the preceding paragraph shall be determined in light of the profit to be received by the employers from the invention and the degree of contribution made by the employers to the making of the invention.”

<sup>2</sup> In 57 MINSHU 477 (Sup. Ct. April 22, 2003) , it stated that “Where the employment regulation include the provision on remuneration to be paid by the employers to the employees but the amount of remuneration is less than the amount decided by the above provision, the employees who succeeded the right to obtain a patent, etc. with respect to an employee invention to the employers in accordance with the employment regulation, etc. can demand payment of the remuneration corresponding to the deficit.

## 2. Practical meaning of the Patent Law Section 35 (4) and (5)

### Q1. Explain practical relationship between the Patent Law Section 35 (4) and (5).

The Patent Law Section 35 (4) clarifies that the “appropriate remuneration” provided by the Patent Law Section (3) can be determined in accordance with the contract, employment regulation or other stipulations and its requirement.

On the other hand, the Patent Law Section 35 (5) shall be applied to a case where a remuneration relating to an employee invention is not stipulated in the contract, employment regulation or other stipulations, or a case where the stipulations do not meet the requirements stipulated in the Patent law Section 35 (4). Therefore, the Patent Law Section 35 (5) shall not be applied where the requirements of the Patent Law Section 35 (4) are met.

Therefore, the “appropriate remuneration” under the Patent Law Section 35 is decided as follows:

1. According to the Patent Law Section 35 (4), the remuneration stipulated in the contract, employment regulations and other stipulations shall be the “appropriate remuneration” unless it is considered unreasonable to pay a remuneration in accordance with the said stipulations”.
2. The remuneration stipulated by the provision of the Patent Law Section 35 (5) shall be the “appropriate remuneration” where a remuneration relating to an employee invention has not been stipulated in the contract, employment regulation or other stipulations or where payment of remuneration in accordance with the contract, employment regulation or other stipulations is recognized unreasonable according to the Patent Law Section 35 (4).

### Q 2. What is the practical meaning of the provision of the Patent Law Section 35(4) and (5) saying that “the payment of remuneration in accordance with the said provision(s)”?

“The payment of remuneration in accordance with the said provision(s)” means the whole process until the determination of the amount of money to be paid for remuneration relating to an employee invention in accordance with the contract, employment regulation or other stipulations to the payment. For example, where the standards for the remuneration are set and the remuneration is paid in accordance with the set standards, the above provision shall mean the whole process from the

procedure of setting of the relevant standards to payment of the remuneration following its decision by application of the standards. And where remuneration is paid based on the contract concluded for each invention, the provision means the whole process from the procedure of conclusion of the contract to payment of the remuneration.

The whole process shall include each of procedural elements with the meaning of what kinds of procedures have been taken and each of substantive ones including the content of the standards that decides remuneration and the finally decided amount of remuneration. However, in judgement of unreasonableness, substantive elements shall be considered in a more complimentary way, compared to the procedural ones.

Judgement about "the payment of remuneration in accordance with the said provision(s)" shall be made for each employee-invention.

Q 3. The Patent Law Section 35 (4) stipulates "situations of consultation", "situations of disclosure" and "situations of hearing of opinions", but what are their practical meanings?

"Situations of consultation", "situations of disclosure" and "situations of hearing of opinions" exemplify the procedural elements that are particularly stressed and considered in the whole process until a remuneration relating to an employee invention is decided and paid. These are exemplified to clarify the purpose to emphasize the procedural elements.

"Consultation" of the "situations of consultation" means the whole consultation on setting of the standards for determining remuneration, held between the employers and the employees (or his/her representative) who develops an employee-invention targeted for application of the standards.

"Disclosure" of the "situations of disclosure" means, where the standards for determining remuneration has been set, enabling the employees who develops an employee invention targeted for application of the standards to refer to the standards as required.

"Hearing of opinions" of the "situations of reception of opinions" means hearing opinions, complaints, etc. on calculation of the remuneration from the employees who is the inventor of the relevant employee invention when the amount of the remuneration relating to a specified employee invention is actually calculated in accordance with the contract, employment regulation or other stipulations which define the remuneration relating to employee inventions.

In addition, the "situations" of the consultation, disclosure and hearing of opinions

are defined as those meaning that not only alternative determination of presence of consultation, etc., that is, whether consultation, etc. is held or not, but also the whole situations of consultation, etc. in a case where consultation, etc. is held shall be elements to be considered.

**Q 4. What are included in the “etc.” of “considering the situations of consultation, ...conditions of disclosure, ... conditions of hearing of opinions etc.” in the provision of Patent Law Section 35 (4)?**

In judgement of unreasonableness under the Patent Law Section 35 (4), “payment of remuneration in accordance with the stipulations”, that is, the whole process until a remuneration relating to a specified employee invention is determined in accordance with the contract, employment regulation or other stipulations and paid, shall be comprehensively judged. Therefore, all various situations and elements shall be targeted for consideration, but among them, the procedural ones shall be stressed and considered in determination.

“etc.” of the “considering ... etc.” includes procedural elements required for judgement of unreasonableness other than the exemplified ones and all of the substantive ones such as the content of the standards and the amount of remuneration to be paid finally.

**Q 5. The Patent Law Section 35 (5) stipulates that “where payment of remuneration in accordance with the stipulations is recognized to be unreasonable”. How is this unreasonableness judged?**

Judgement of unreasonableness shall be made by comprehensive judgement of “payment of remuneration in accordance with the stipulations”, that is, the whole process until the amount of money to be paid is determined in accordance with the contract, employment regulation or other stipulations for remuneration relating to a specified employee invention, and paid based on the Patent Law Section 35 (4). In the comprehensive judgement, the procedural elements shall be stressed and considered in the whole process, with the substantive elements considered in a supplementary way. In general, where the procedure itself is not recognized unreasonable, the possibility of being judged unreasonable in the comprehensive judgement is low even if the amount of remuneration is low. But, where the amount of remuneration calculated finally is extremely low, it is considered that there is a possibility to be considered unreasonable in comprehensive judgement.

In addition, in judgement of unreasonableness, one element that works in positive direction toward unreasonableness does not always directly lead to affirmation of comprehensive unreasonableness as a result.