KOJIMA LAW OFFICES

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Labor and Employment Practice Group Vol. 9 March 2017

Labor & Employment Law Newsletter

Amendment makes it easier for companies to own patents

INTRODUCTION

Former Nichia employee Shuji Nakamura made headlines in 2004 when the Tokyo district court ordered Nichia to pay Nakamura a record 20 billion yen for his blue LED invention. A key question in that case was whether Nakamura had assigned his patent rights to Nichia. Even though Nakamura lost on this issue, the court nevertheless found that he was entitled to fair compensation for his breakthrough invention, which the court reasoned was half of Nichia's profits from the blue LED.

An amendment to the Japanese Patent Act, which took effect on April 1, 2016, seeks to minimize these kinds of disputes in two main ways. First, it clarifies who owns the patent rights to inventions - companies or their employers - by allowing a company to directly own those rights through implementing appropriate company rules. Prior to the amendment, the employee first owned the invention, and then transferred it to the company. Second, the amendment, read in conjunction with its explanatory guidelines, provides guidance on how to determine fair compensation to employees.

BACKGROUND AND IMPACT

Prior to the amendment, the employee rather than the company was legally considered the owner of the invention. In this environment, companies risked having their employees surreptitiously license inventions to third parties. This was true even when the company and the employee had agreed in advance that the patent would automatically transfer to the company (technically, the right to patent the invention, not the patent itself). This uncertainty sometimes resulted in acrimonious and expensive disputes.

In addition to addressing these problems, the amendment allows companies to better implement a so-called "open-closed strategy", where some inventions are public and patented (open) while others remain undisclosed and unpatented (closed). On the flip side, having companies own the patent by default could stymie employee motivation and innovation, or make it significantly harder to attract or retain top talent. Nakamura himself was "vehemently oppose[d]" to the amendment because he feared an engineering brain drain out of Japan.

Sakura (cherry blossoms)

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THE AMENDMENT IN DETAIL

Prior to the amendment, companies needed to obtain patent rights over their employees' inventions by having those rights transferred from their employees. Companies had to take this step because they were not allowed to directly own the patent. Under the amendment, companies can now directly own the patent to their employees' inventions if they provide for such direct ownership in their company rules. Despite the change, most companies would do well to adopt a comprehensive process that makes it clear both that the company owns the patent, and that employees will receive fair compensation for their inventions. On the issue of fair compensation, the amended Act and the clarifying guidelines strongly suggest that the integrity of the process itself is key (for simplicity's sake, the amendment and the guidelines will be collectively referred to simply as the "amended Act" or the "amendment").

Despite the change, most companies would do well to adopt a comprehensive process that makes it clear both that the company owns the patent, and that employees will receive fair compensation for their inventions.

Ownership is a fairly clear-cut issue, which means this requirement is not hard to satisfy. As noted above, the amendment allows companies to own the patent by default by providing appropriate internal rules and policies that clearly establish direct ownership of the patent.

The more difficult question is what constitutes fair compensation. The answer would be simpler if it were limited solely to the amount of compensation. As noted above, however, the amendment focuses heavily on the process that will be used to determine fair compensation. Under the amendment, therefore, companies are required to come up with a comprehensive approach to determine an appropriate level of compensation. In other words, in most cases "fair compensation" must be fair both in terms of the bottom-line amount and the fairness of the process.

OVERVIEW OF THE REQUIRED PROCESS

Prior to the amendment, employees were essentially entitled to monetary compensation for their inventions. Under the amendment, however, employers enjoy considerably more flexibility to offer their employees not just cash, but also such benefits as stock options, opportunities to study abroad, and even certain rights to use the patent.

The required process to determine "fair compensation" includes, of course, appropriate provisions in the company's internal rules and policies. However, the amended Act also lists the following factors to determine whether or not compensation is fair: (a) the opportunity for employers and their employees to discuss how the required company rules will be determined; (b) sufficient disclosure so that employees are fully aware of that process after it's been set; and (c) whether, and if so, to what extent the company will allow its employees to have input into the actual compensation they will receive. These factors are examined in more detail below.

ESTABLISHING THE COMPANY'S OWNERSHIP OF THE PATENT

As discussed above, obtaining ownership of the patent is fairly straightforward. Determining fair compensation is more complicated.

SETTING "FAIR" COMPENSATION

Unlike ownership, the issue of fair compensation is more involved. From setting the general, company-wide standards for determining fair compensation to actually deciding the actual compensation for individual inventions, companies would do well to follow the following steps in order to comply with the fair compensation requirements set forth in the amended Act.

A company can either come up with standards to determine a fair level of compensation prior to anything being invented, or it can do so each time an invention is made. Particularly in the former case, the company needs to do the following:

• **Adequate discussion** – When setting compensation standards for employees, the company only needs to give employees the opportunity to provide their input. For instance, the company could e-mail its employees a draft of its proposal detailing how it plans to determine the compensation for employee inventions. The company need not contact each employee individually if

the employees have an appropriate representative, such as a union representative or, in some cases, a representative from individual departments. In companies where only R&D employees will ever be potential inventors, a representative from the R&D department can serve as an appropriate liaison between the R&D employees and the company. In short, companies need to give their employees the chance to engage in discussions with management, submit their input, and have their questions answered. If the company follows these steps, it will then be in a position to determine "fair compensation". If an employee tries to challenge that compensation in court, the company will find it much easier to convince the court that the compensation is valid.

Companies need to give their employees the chance to engage in discussions with management, submit their input, and have their questions answered.

• **Adequate disclosure** – Once the company sets the criteria for determining fair compensation, it then needs to make its determination available to all target employees in either electronic or hard copy form. As with the issue of adequate discussion above, this requirement is satisfied as long as employees have the opportunity to easily access the information.

• **Opportunity to be heard** – When it actually comes time to pay an employee fair compensation for an invention, the company should give that employee the opportunity to be heard. The company may come up with a compensation proposal and allow the employee to review and comment on it. Or the company can solicit input from employees prior to determining the compensation. It's important to note here that the opportunity to be "heard" does not necessarily mean the parties need to reach an agreement. In many cases, it may be enough that the employee has a chance to provide their input, and that the company thoroughly explains how it made its determination.

Employers should note that all of the steps should be properly established in order for the compensation to be considered "fair". In some cases, a deficiency in even one of the steps could taint the entire process. For example, a failure to properly give an employee the chance to be heard could result in the compensation itself being considered inadequate, even if the amount of the compensation was not especially low. With that said, however, an unusually generous amount of compensation may itself be enough to overcome a defective process. If, under the worst-case scenario, a court finds that a company provided insufficient compensation to one of its employees, the court will not deprive the company of ownership. Instead, the court will order the company to pay the employee what the court determines to be a fair level of compensation for the particular invention.

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