

Two Recent Decisions on Patent Law

Patent Act Sec. 35, *Hôrei* Art. 7 – “*RW Laser Disk*”

An equitable remuneration for the transfer of an invention made in the course of employment must take into account the profits made from the invention abroad.

Supreme Court, 17 October 2006

Seiji Yonezawa v. Hitachi

Summary of Proceedings so far

The respondent (plaintiff) in this appeal has transferred his rights in an employee’s invention to the appellant (defendant), including those rights to take out a patent abroad, and requests an equitable remuneration under Sec. 35 (3) Patent Act.¹

The previous instance² has ascertained the following facts. The appellant is engaged in the development, production and sale of electronic appliances. The respondent was employed by the appellant between November 1969 and November 1996 as a senior researcher in the central research institute. During his employment, the respondent together with other employees made three inventions that will be referred to as “the inventions at issue” and that concern a method and device for the use of laser beams in re-writing information. The inventions were made in the course of the appellant’s employment, as it was the respondent’s task to make inventions for the appellant. The inventions thus fall within the ambit of Sec. 35 (1) Patent Act. The first invention was transferred to the appellant on 13 September 1977, the second on 20 January 1973 and the third on 26 December 1974 under a contract that included the rights to take out patents abroad. Apart from applying for and obtaining a domestic patent, the appellant took out patents for the first invention in the US, Canada, the UK, France and the Netherlands, and for the second and third inventions in the US, Germany, the UK, France and the Netherlands. The appellant at the time of the transfer contract undertook to pay its inventing employees a fixed amount of money for the registration and grant of the patent, and subsequently a share corresponding to the results of commercially

1 Prior to its amendment by Law No. 79/2004.

2 Tokyo High Court, 29 January 2004, 36 IIC 360 [2005] – *Hitachi*.

implementing the invention in conformity with the scheme “Guidelines for commendations regarding inventions and proposals”. Until June 1991, the inventing employees received a remuneration when patent applications were made domestically and abroad, when registrations were made domestically and abroad, for outstanding economic performance of the patents and in accordance therewith, and when patent licences were granted to third parties on the basis of royalties paid thereupon under the “Rules for obtaining inventions” and “Rules for rewarding inventions” (in the following “Rules”). For the inventions, the appellant both at home and abroad made patent applications, obtained patent registrations and concluded licensing agreements with a substantial number of companies, received licensing fees and derived a profit from them. The appellant paid the respondent for each patent according to the Rules, which amounted to 2.31 million Yen for the first invention, 51,400 Yen for the second and 10,700 Yen for the third.³

The second instance court held that the appropriate amount to be paid by the appellant to the respondent for the transfer of ownership rights in the patents (considering the remuneration already paid) was 162,846,300 Yen for the first invention, 131,750 Yen for the second and 25,666 for the third. In the amount of 163,003,716 Yen, the lower court thus allowed the respondent’s claim. In order to determine the problems related to the remuneration for the transfer of the inventions, it is necessary to establish the applicable law with respect to the subject matter of, respectively, the right to obtain a patent in Japan or abroad. The contract was concluded by the appellant as a legal person established under Japanese law, and the Japanese respondent who was resident in Japan and performed his employment duties on behalf of the appellant. The respondent completed his employee’s inventions in Japan, and for the conclusion and validity of the transfer contract the parties were in agreement that the applicable law would be the Japanese one. According to Art. 7(1) *Hôrei*,⁴ the applicable law for the remuneration in consideration of a transfer of the right to take out patents abroad is also Japanese law. Sec. 35(3) mentions “the right to obtain a patent”, which not only means the right to obtain a patent in Japan, but also includes a transfer of the right to obtain a patent abroad, and consequently the request for equitable remuneration under subsections (3) and (4) must take this as a base.

3 As the appellee was paid according to the 1991 Rules, the lower court regarded this as an acknowledgement of obligation and rejected the time-bar estoppel (10 years from the date the obligation was due). The suit at issue was raised in 1998.

4 *Hôrei*, Law No. 10/1898 on the application of laws, since 21 June 2006 the *Hô no tekiyô ni kansuru tsûsoku-hô*. Sec. 7 reads: “The formation and effect of legal acts shall be governed by the law of the place chosen by the parties at the time of the act.”

*Reasons for the Appeal*1. As argued by *Wataru Sueyoshi* and others (3)

[According to the appellant], the question whether the transferor of a transfer of the right to obtain a patent abroad may request an equitable remuneration from the transferee, and the question about the amount of such remuneration for obtaining a patent cannot be separated from the other rights and obligations between the parties, and must be determined in accordance with the contract and the validity of other legal obligations. This means that according to Art. 7(1) Hôrei, this should be interpreted according to the intention of the parties. Thus, the question of what has been transferred regarding the right to obtain a patent abroad, and how to determine the validity thereof should be separated from the transfer between the parties and the problems related thereto. The applicable law for the former should be determined according to the principle of territoriality according to the law of each country where the right to obtain a patent has manifested in a registration.

There is an agreement between both parties that Japanese law should be the basis of the transfer contract between appellant and appellee. The question whether the appellee can claim a remuneration for the transfer of the right to obtain a patent abroad must be answered on the basis of the transfer contract that gives a right to remuneration for the transfer, and the applicable law is thus Japanese law. The finding of the lower court in this matter is thus correct, and the appellant's point must fail.

2. As argued by *Wataru Sueyoshi* and others (4)

It is clear that domestic patent law has no direct provisions on foreign patents or the right to obtain foreign patents (Art. 4bis Paris Convention of 20 March 1883, as amended in Brussels on 14 December 1900, in Washington on 2 June 1911, in the Hague on 6 November 1925, in London on 2 June 1934, in Lisbon on 31 October 1959 and in Stockholm on 14 July 1967). The provision of Sec. 35(1) and (2) Patent Act that refers to "the right to obtain a patent" must thus be understood to refer to the right to obtain a domestic patent, and the wording "the right to obtain a patent" in subsection (3) can thus only with considerable difficulty be understood as to comprise the right to obtain a patent abroad. For that reason, subsection (4) of the provision cannot be directly applied to the remuneration for transferring the right to obtain a patent abroad.

However, the provisions of Sec. 35 (3) and (4) in the case of a disposition over the right of exclusive use have two angles, one concerning employment, the other concerning use. But it is difficult to assume that the employee and the user [the company] trade on equal terms. Therefore, subsection (4) on the one hand determines the scope of remuneration as the profit that should be objectively expected when the user obtains the right for exclusive use at the time of the transaction, and on the other hand provides a certain protection for the employee of said invention. It is the purpose of patent law to promote and encourage the development of industry, and the argument that with respect to the

succession in the right to obtain a patent it would be difficult to take into account the interests of both the employee and the user, there is no difference in the object of the right to obtain a domestic patent or a patent abroad. Of course, the right to obtain a patent will become a different right in every country, yet the underlying invention is the result of one single common technical achievement. The invention of the employee is based on one single employment relationship, and the related right to obtain a patent in every country actually stems from one common achievement and in common understanding should be regarded as such. When the user becomes the employee's successor in title for the right to obtain a patent, often it cannot be determined at the time of transfer if a patent is taken out in a certain country or if the invention is retained as a trade secret, and if a patent application matures to an actual patent. It is thus common that the successor in title to the right to obtain a domestic patent also becomes the successor in title for the right to obtain a patent abroad. It may be true that the interest in obtaining a domestic patent may not always correspond to the interest in obtaining a patent abroad, but even taking this into account, for this invention the user is owner of this invention and between the employee and the user there is one single legal relationship that was transferred in one go, and the parties agreed thereupon. Thus, the provisions of Sec. 35 (3) and (4) must be understood as also applying to the right to obtain patents abroad. Consequently, once the right to obtain patents abroad for an employee's invention under Sec. 35 (1) is transferred to the user, the request for equitable remuneration ensuing from that is subject to subsections (3) and (4) of this provision.

In this case, the employee's invention was subject to the provisions on ownership under Sec. 35 (1) Patent Act, and the right to obtain a patent in the US, the UK, France and the Netherlands was transferred jointly with the right to obtain a patent in Japan. Consequently, the right of remuneration ensuing from the transfer to obtain a patent abroad is governed by the provisions of subsections (3) and (4). The appellee can thus claim from the appellant an appropriate remuneration for the transfer of the right to obtain a patent abroad on the basis of Sec. 35 (3) and (4) Patent Act.

The reasoning of the lower court being correct in regard to the above-mentioned issues, the appeal cannot succeed.

The decision was unanimous.

Translated from the original. C.H.

Comments

1. Ever since the *Olympus* decision,⁵ Japanese companies have fought tooth and nail when confronted with claims for equitable remuneration of inventions made by their employees who all too often were poorly paid for their efforts.⁶ The Hitachi case above concerns one of the few areas not yet covered by jurisprudence: the obligation to pay for profits made from patents taken out abroad. Under the EPC, it seems little disputed that the applicable law in such a case is the law of the country where the invention was made rather than (as was suggested by the appellants) the laws of each of the countries where a patent was taken out. For one, issues of international or foreign law do not even occur at this stage – the right to take out a patent in another country is transferred prior to any foreign patent application. Second, it would be rather impracticable having to apply a myriad of different laws with different remuneration schemes. And third, the close connection with labour law suggests that the law applicable to the labour contract should be the same as the one applicable to the employee's invention.⁷

2. On behalf of Hitachi, the case before the Supreme Court was argued by *Wataru Sueyoshi*, one of the leading Japanese IP attorneys. In addition, both parties had asked for and received a number of expert opinions by IP professors,⁸ although such opinions are not mentioned in the decisions themselves. Asking for such opinions has become an unfortunate habit in many IP lawsuits, yet in view of the commercial nature of such opinions, particularly those that go unpublished add precious little to the academic debate and almost always come out in favour of the party that has asked for such an opinion.

3. In ye old days, appeals were dismissed by the Supreme Court *a limine* with the rather mysterious phrase: “The appellant takes a particular (or peculiar) view that cannot

5 Supreme Court, 22 April 2003, 35 IIC 1039 [2004] – *Olympus*.

6 Tokyo District Court, 30 January 2004, 35 IIC 941 [2004] – *Blue LED Diode*; Tokyo High Court (above note 2); Tokyo District Court, 24 February 2004 (HP Supreme Court) – *Aspartame*; Tokyo High Court, 29 September 2004, Hanrei Jihô 1887, 99; Osaka District Court, 28 April 2005, IIC 2007 (forthcoming) – *Prescription Period*; Tokyo District Court, 13 September 2005, IIC 2007 (forthcoming) – *Inventor*.

7 Under the EPC, the issue is discussed by J. Straus, *Die international-privatrechtliche Beurteilung von Arbeitnehmererfindungen im europäischen Patentrecht*, GRUR Int. 1984, 1.

8 *On behalf of Mr. Yonezawa*, the following academics/practitioners submitted opinions: *Tamura* (professor; unpublished); *Koizumi* (professor; unpublished); *Makino / Kimijima* (attorneys; published in *Tokkyo News*); *Tamai* (professor; published in *Chizai Kanri*); *Kiyonaga* (attorney; unpublished); *Komatsu* (professor; unpublished); *Chaen* (professor; unpublished); *Kidana* (professor; unpublished).

On behalf of Hitachi, the following academics/practitioners submitted opinions: *Nakayama* (professor; unpublished); *Aizawa* (professor; unpublished); *Ôba* (attorney; published in *Chizai Kanri*); *Hanamura* (professor; published in *Seiwa Hôgaku Kenkyû*). Information obtained from *Yoshiyuki Tamura*, Hokkaido University.

be endorsed.” This has considerably changed in the last ten years and given the Supreme Court a far more important role in determining the scope and limits of intellectual property rights, not least in the case of employees’ inventions. The style of such decisions has also become much clearer, and in the above case, the court only relapses to some rather fuzzy language on *Sueyoshi*’s fourth point. Transparency and accessibility of IP decisions have also been increased by their availability *in toto* on the Supreme Court’s homepage.

Christopher Heath

ZUSAMMENFASSUNG

Der Autor des Beitrags übersetzt und kommentiert die Entscheidung des japanischen Obersten Gerichtshofs vom 17. Oktober 2006 im Fall RW Laser Disk. Der Oberste Gerichtshof entschied, dass gemäß Art. 35 Patentgesetz und Art. 7 Hôrei bei der Bemessung einer angemessenen Vergütung für die Übertragung einer Erfindung im Rahmen eines Arbeitsverhältnisses auch die Gewinne berücksichtigt werden müssen, die im Ausland erzielt wurden.

(Zusammenfassung durch die Red.)