



WINDS FROM JAPAN

The Licensing Executives Society Japan

From “Networking” to “Foot-working”

By Kenichi NAKANO

It is my honor to announce that I have been elected President of the LES Japan for the 2004-2005 period. Taking this opportunity, I would like to express my most sincere appreciation to my predecessor, Mr. Chikao Fukuda, for his devotion to LES Japan over the past two years as its leader. Mr. Fukuda exhibited, among other things, an outstanding leadership in bringing a tremendous success to the LES International Conference in Osaka and to the celebration of the 30th anniversary of LES Japan. In my position as the new President, I feel quite fortified that Mr. Fukuda has agreed to remain as a member in the Steering Committee to provide his warm and capable support to me.



As the new president, I have given much thought on the role of LES Japan, looking toward the new start of another successful 30 years. In view of the stated mission of LES Japan, I believe that there are 5 objects we should target: namely, 1) Acquisition and development of advanced licensing skills and expertise, 2) Promotion of networking among its members, 3) Enhancing educational activities, 4) Cooperation with and support of LES International and various regional chapters, and 5) Promoting alliance with other professional bodies.

1. Advanced Licensing Skills and Expertise

LES Japan runs training sessions every month in both Tokyo and Osaka. These sessions are called “Monthly Seminars” and average about 1,000 attendees each year, consisting of both

members and non-members. In addition, at the Summer Symposium, LESJ presents special lectures on certain featured topics which amass more than 120 attendees every year. Our activities are not limited to open seminars. Small groups of active members periodically get together to discuss specific topics of mutual interest on a more frequent basis. The number of registered members totals around 230.

In order to continue keep these activities attractive, we need to be careful in choosing topics of current interest. We recognize that LES International’s journal, *les Nouvelles* is a source of valuable information. It is my current thinking that publishing of certain *les Nouvelles*’ articles translated into Japanese, would be a great stimulus. Of course, this requires the permission of the LES International and careful selection of appropriate articles. However, if this approach is allowed, the translated articles will have more readily accessible for LESJ members.

2. Promotion of Networking

LES Japan consists of a good mixture of different professions. We have corporate business persons, attorneys-at-law and patent attorneys. We have also members from academia. The strength of the LES Japan lies in its well balanced compositions of corporate members and professional practitioners. In my view, however, such strength has not necessarily been fully utilized in its regular activities such as trustee meetings, monthly seminars and working group gatherings.

Starting this year and during my presidency, I wish to encourage and foster even more opportunities for networking. As a first step, I have decided that the LESJ shall not hesitate to

invest money in such opportunities for networking. Such opportunities will create new and diverse venues for people to congregate and meet and get to know each other well. Younger members, in particular, will view such chances as invaluable and hopefully motivate them to be more active in LESJ. Eventually, their participation will contribute to LES Japan attaining its goals.

3. Enhanced Educational Activities

LES Japan has already started a two-day licensing course from 2000. This course, initially intended for beginners, has fetched around 90 attendees each year. I wish to expand this course to cover, not only the basic, but also the intermediate and the advanced stages of licensing. In addition to this domestic program, we organized an Asia-oriented program in Tokyo last year with the support of LES International. This program is called the "Train the Trainers Session" (TTS), in which 21 friends from Asian countries participated. There were 8 members who attended this session on behalf of LES Japan. They are now preparing to transplant into Japan the TTS methodology, whose origin is LES US/Canada.

4. Cooperation with LESI & Regional Chapters

I have two approaches in my mind to promote our international cooperation. The first one is to increase Japanese speakers at LES international conferences. When I attended a LESI conference for the first time, I was shocked by the regrettably limited number of speakers from Japan. Since then, my lamentation has been growing and has not been remedied. LESJ has the second largest membership in the world and its members are very active in meetings in Japan. We have human resources. We need to increase the number of speakers and the fruits of their output in the international arena.

No doubt, there are several good understandable reasons to prevent LESJ members from venturing abroad. Usually they are not fluent in speaking English. Also, they tend to be under-experienced in making presentations in an open forum. And more importantly, they are not aware of the magnitude of requests for Japanese speakers, partly because such requests have mostly been circulated within a limited number of decision-making officials. I would like to improve the situations by making earlier contact with those Chapters hosting international conferences. To be more specific,

we should communicate with the various Program Committees of international conferences still in their preparatory stage. This will enable us to choose appropriate speakers for the requested conference and speakers well in advance, so that they may place it in their schedule.

The second one is increasing the cooperation with Asian countries. The TTS as mentioned above has contributed greatly in this respect. Receiving 21 LES members from Asian chapters was an invaluable opportunity to establish networking with Asian friends. We have already started our study as to when and how we can support Asian countries in the professional field of licensing and networking with those countries. The LES International has the Pan Asian Committee. With thorough communication with the Pan Asian Committee, we would like to establish appropriate action plans to attain this goal.

5. Promoting Alliance

Plans to achieve the foregoing four objects automatically direct our eyes to the necessary actions to achieve these objects. I am happy to state that we have already made the first step towards this direction. The first joint session with the American Intellectual Property Law Association (AIPLA) is scheduled for April. We look forward to this occasion not only for education purposes, but also as a vehicle for cooperating with other professional bodies.

What I would like to stress here most is the need of strengthening networking among LESJ members. In order to stimulate activities of LESJ, we need more than ever to recruit the membership of and encourage participation by the younger generation. Their involvement will inevitably set off lively discussions on future prospects and plans to be aimed at by LESJ members. Networking will surely set a solid basis for such constructive discussions. We need young blood to become personally dedicated and physically participate in LESJ. Not only brain power, but brawn power is required.

With these ambitious objects in mind, let's begin and enjoy our activities under the slogan of "From Networking to Foot-working."

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# Development of Employee's Invention Cases

## - Courts Set Higher Benchmark -

By **Jinzo FUJINO**

In the last issue of *WINDS#22*, we reported one of the recent lower courts' decisions relating to the determination of adequate compensation for employee inventions. This year, a series of courts' decisions have been rendered, having benchmarks higher than those handed down in the past.

On January 29<sup>th</sup>, 2004, the Tokyo High Court delivered its judgment, partly affirming and partly dismissing the lower court decision. The High Court ordered the former employee, Hitachi Limited to pay to a former employee a total amount of 162,846,300 yen (approx. US\$1.5 mil.) ("*Hitachi Case*."). Dismissing the lower court's finding of 35 million yen (\$318,200), the High Court raised the compensation for the ex-employee by nearly 5 times.

One day after the Hitachi case decision, the Tokyo District Court released the long awaited, epoch-making decision in the case of *Nakamura vs. Nichia Chemical (Nakamura Case)*. The District Court ordered the former employer, Nichia Chemical, to pay Mr. Nakamura, 20 billion yen (\$182 million), which was the exact amount the plaintiff had sought.

Almost a month later, on February 24<sup>th</sup>, 2004, the Tokyo District Court handed down another nine-digit figure award as adequate compensation in the *Naruse vs. Ajinomoto Case*. This case involved a commercially successful artificial sweetener, *Aspartame*, from which Ajinomoto has received a huge amount of revenue from licensees under the patents including one based on the employee invention. The District Court ruled that adequate compensation for the plaintiff's invention amounted roughly to 190 million yen (\$1.7 mil.).

### Authorities

The Japanese Patent Law, Section 35 sets forth the rule concerning the employee's inventions

made as parts of employee's jobs while in employment. To be specific, Paragraph 1 ensures to the employer a non-exclusive license to use the patent right granted on such employee's invention. Paragraph 2 allows the employer to enter into a prior arrangement with the employee/inventor to assign the rights to the invention from the employee to the employer. Paragraph 3 provides that the employee is entitled to receive adequate compensation in return of the assignment of his invention under Paragraph 2. Paragraph 4 further provides that the amount of such adequate compensation should be determined taking into account the employer's profits obtained from the invention and employer's contribution to make the invention.

In actuality, however, the industry has hitherto treated the matter of adequate compensation to be included in a general employment agreement or subject to other internal programs on employee inventions within the specific company. This practice had been commonly adopted by many companies and constituted a kind of industrial norm until a former employee of Olympus Corporation challenged this practice (*Olympus Case*).

In the *Olympus Case*, the Tokyo District Court ruled that the internal program setting forth specific amounts as adequate compensation to be null and void and that the employee had the right to receive adequate compensation for his invention whenever it recognized the shortfall of compensation to have been received.

Thus, the Court clearly denied the commonly established practice that payment under the internal program represented sufficient compensation under Paragraph 3. The Court, however, failed to offer any alternative approach to calculate "adequate compensation." On appeal, the Tokyo High Court affirmed the District Court's decision. The impact of the Courts' decisions in the *Olympus Case* was indeed

epoch-making and sent shock-waves throughout the Japanese business circles.

The case went up to the Supreme Court. The Court, after an unusually long interval, affirmed the lower court's decision on April 22, 2003. The Court admitted that the amount set forth in the internal program can constitute parts of adequate compensation under the Patent Law. However, the Court also found that even if there exists a compensation program setting forth a specific amount of payment for adequate compensation, the inventor is entitled to claim additional payment if he considers the amount in the program to be less than what he is entitled under Section 35-4. (For details, see the author's case review in *AIPPI Journal*, July 2003, <http://www.ngb.co.jp/english/news/2003/200305.html>).

All the recent decisions as listed above follow the teaching of the Supreme Court decision in the *Olympus* case.

### Uncertainties

The *Olympus* Case did not address all the issues arising out of the disputes relating to employee's inventions. One of such issues is the issue of governing law. In the *Hitachi* Case, the Tokyo District Court concluded that relevant foreign patents could not be included in the basis for the calculation of company's licensing revenues. The Court reasoned that the effect of the Japanese Patent Law, Section 35, did not extend to foreign counterpart patents which ought to be governed by local law. However, the appeal court reversed this interpretation and ruled that Section 35 had a nature of labor law and that it could reach foreign counterparts. The Court clearly denied the limitation of territoriality in this case.

Another interesting issue is how "profits" under Section 35-4 should be calculated when the invention was self-exploited by the employer. Given potential importance, the Court rejected to review this specific issue for procedural reasons – the claim was filed belatedly.

Yet another issue is the determination of profits arising from package license and cross-license arrangements. In the *Hitachi* Case, the District Court found that roughly \$273,000 was attributable to Sony, one of the major

cross-licensees, and \$364,000 to Philips, another major cross-licensee. While reducing the finding of \$364,000 from Philips to zero, the High Court increased the finding of profits from Sony to roughly \$727,000. The Court failed to provide a persuasive explanation why these two licensees were treated differently. In this regard, the Court only stated that "appropriate adjustments needed on a case by case basis." (For details of the *Hitachi* Case, see an author's article in *AIPPI Journal*, March 2004.)

Interesting arguments were made before the court in the *Hitachi Metal* Case. The Defendant argued that the employer assumed risk in commercializing the employee invention and that this risk-taking factor should be taken into account when calculating the degree of contribution by the employer. However, arguments did not attract the attention of the judges and, as a result, the court's decision made no reference to this interesting point of arguments. (For details of the *Hitachi Metals* Case, see *WINDS#22* and *AIPPI Journal*, January 2004, reproduced, <http://www.ngb.co.jp/english/news/2004/200401.html>)

### Legislation

To address these uncertainties, and more particularly, criticisms from industry, the Japanese government has proposed a bill to amend the provision of Section 35. The bill focuses on the amendment of Paragraph 4 and the addition of new Paragraph 5. In the proposed amendment, Section 4 allows the determination of the amount of compensation under a contract or stipulation between the employer and the employee, on a proviso that the amount of compensation should not be "unreasonable." New Section 5 provides a remedy for the employee by stating that if the amount of compensation on the contract is "unreasonable," the case may be taken to court.

The bill is expected to pass the Diet shortly. However, it is questionable whether the amended wording will have substantial effects to address the problems raised in connection with the employee's invention. Rather, it would tend to give rise to additional dispute regarding the definition of "unreasonable[ness]" which is being introduced in the new amended paragraphs.

It should be brought to mind that, in most of employee's invention cases, claims were raised by ex-employees who held strong impressions that they had been poorly treated by management in a biased and discriminatory manner. Such psychological impressions can only be remedied by improvements in corporate employment policies to due respect, promotion and payment to the inventor.

In any event, the amended law, even if enacted, will not have any retrospective effect on decisions already been finalized. Regardless of the amended law, courts are expected to go on to rule the amount of compensation in nine digit figures – which will come no longer surprising nor outrageous.

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IP News from Japan

By Shoichi OKUYAMA

1. Patent Law Amendment Is Introduced before the Diet

On February 10, 2004, the Cabinet approved a new bill for patent and utility model law amendments. The bill is expected to pass the Diet during its current session. Important items included in the bill are that:

- (1) Revised provisions concerning employee inventions (Section 35 of the Patent Law) will require the management to consult with employees when it prepares rules for calculating employee invention compensations. Only if such rules are considered unreasonable, then an employee can bring his or her case before a court for its determination of adequate compensation.
- (2) The term of a utility model registration will be extended to 10 years from the current 6 years term, and it will become possible to convert a utility model registration (as opposed to application) into a patent application. This change is designed to reduce examination workload at the Patent Office by encouraging applicants to file more utility models application which are registered without substantive examination.
- (3) Qualified private search companies will be registered with the Patent Office, and the applicant will be able to pay reduced examination fees if an examination request is accompanied by a search report from such a private company.

Also, while not a part of the law amendments, the Patent Office will be hiring some 500 new examiners over the next five years for a limited period of time up to 10 years, in order to speed up its examination as mandated by Prime Minister's Intellectual Property Promotion Plan. The current number of examiners is about 1,100. The first batch of 98

examiners-to-be will join the Patent Office in May this year. Currently, it takes about 24 months between requesting examination and receiving a first official action.

2. IP Rights Can Be Subject of Trusts

The Finance Ministry introduced a bill before the Diet for amending the Trust Business Law, so that intellectual properties, such as patents, trademarks and copyrights, may be put into a trust, and a company that is not a financial institution can administer such a trust. This will be the first major revision of the Trust Business Law since its inception in 1922.

3. Foreign Lawyers Can Hire Japanese Attorneys

Foreign lawyers may be registered to practice in Japan and they can also form a special partnership with Japanese counterparts. However, they have not been able to hire Japanese attorneys. Starting April 1, 2004, this restriction will be lifted, broadening what foreign-based law firms can do in Japan.

4. Eight Bills Introduced for Judicial Reforms

Several bills that have been introduced before the current session of the Diet included one for the establishment of the "Intellectual Property High Court." This IP High Court has been politically motivated and is essentially a result of compromise between politicians and the Supreme Court. It will have its own head, but will be set up as another court system within the Tokyo High Court. It will not be a separate High Court some politicians hoped for. To make things complicated, the Tokyo High Court will establish in April this year what is tentatively called the Intellectual Property Rights Center (in Japanese) by combining the existing four special intellectual property divisions. The Tokyo High Court announced that its English name would be "the IP High Court" although even the official Japanese name for this Center has not been finalized, an

indication of resentment on the part of judges against intervention of politicians into court business.

Also, another bill relates to the introduction of protective orders in Japan for the protection of trade secret. Further, it will become possible to make court hearings closed to the public under specific conditions in spite of the constitutional requirement of open court.

5. Supreme Court Says Owners Do Not Enjoy Horses' Publicity Rights

On February 13, 2004, the Supreme Court reversed the decisions made by the Nagoya District and High Courts and rejected the idea of recognizing judicially-created publicity rights for horses. A software house was sued by the owners of winning race horses for its unauthorized use of horse names in its computer game software. The owners claimed that the publicity rights their horses should have had been violated and diminished by the unauthorized use of the horse names in computer game software. The Supreme Court noted that ownership rights extend only to the physical existence of a horse and not to intangibles such as goodwill associated with the horse. The Tokyo District and High Courts earlier reached the same conclusion as the Supreme Court.

6. More Employee Invention Cases

On January 29, 2004, the Tokyo High Court decided in a case against Hitachi in favor of an employee-inventor who invented a key technology

for CD players. The Court increased the compensation the Tokyo District Court awarded to 128 million yen or about 1.2 million US dollars by including foreign license income into the calculation. On the next day, the Tokyo High Court awarded 20 billion yen or about 180 million US dollars to Professor Nakamura, who invented blue LEDs. On February 24, 2004, another division of the Tokyo District Court decided in favor of an inventor who invented a method of making aspartame crystals on an industrial scale and awarded 189 million yen or about 1.8 million US dollars as part of the appropriate amount of compensation under Section 35 of the Patent Law. Also, according to news reports, Canon and Toshiba have been sued by their ex-employees respectively for laser printer inventions and flash memory inventions in attempts to recover 1 billion yen or 9.5 million US dollars as part of the compensation. In the Toshiba case, Professor Masuoka, who is now at Tohoku University, invented the basic structures of NOR and NAND flash memories which are expected for form a worldwide market of 1.5 trillion yen or about 14 billion US dollars in 2004 and obtained 21 patents in Japan alone for Toshiba. A number of other employee invention cases are also pending.

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## Editors' Note

LES Japan has reshuffled the steering committee members. Mr. Kenichi Nakano, as the new President of LESJ, has contributed his policy statement to this newsletter which is cited as a cover page story.

This issue has focused on the recent development of case law relating to employee's invention litigation in Japan. The article will provide readers in other parts of the world a clearcut view on the problem arising in Japan in connection with employee's inventions. Although the problem is unique to Japan, it has attracted the attention of practitioners all over the world. One of the reasons for such attention is because international companies having research facilities have concerns about evolvment of likewise claims brought by Japanese researchers.

In addition to the development of this very special development, this issue covers the development of intellectual property matters in various fields. Dr. Okuyama's article will update readers' understanding on intellectual property law in Japan.

(J.F.)

### WINDS from Japan Editorial Board Members, 2004

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