



WINDS FROM JAPAN

The Licensing Executives Society Japan

Solution or Expansion - The Supreme Court Sets Another Rule on Employee's invention

By Jinzo FUJINO*

On October 17, 2006, the Supreme Court of Japan handed down a long-awaited decision in a case in which an ex-employee claimed compensation for an invention he had made during his employment with his former employer, Hitachi. In the decision, the Supreme Court upheld the conclusion of the Tokyo High Court, which stated that foreign counterpart patents could inclusively be a basis for calculation of compensation under Article 35 of the Japanese Patent Law.

In this case, the initial decision handed by the Tokyo District Court had been overturned on appeal. The Tokyo District Court ruled that Hitachi's foreign counterpart patents, which were granted claiming priority of the Japanese patent application for the employee's invention at issue, should not be taken into consideration when calculating an amount of compensation to be awarded to the inventor under Article 35. Based on the doctrine of patent independence and territoriality, the Tokyo District Court reasoned that a payment of compensation with respect to foreign counterpart patents could not be justified under Japanese patent law, and that any issues related to compensation should come under the purview of the local law of respective countries.

The plaintiffs filed an appeal with the Tokyo High Court against the decision made by the Tokyo District Court. On appeal, the Tokyo High Court reversed the District Court's decision

and ruled that foreign counterpart patents could also be taken into consideration when calculating an amount of compensation to be paid to an employee for an invention made during his/her employment. The case was further appealed to the Supreme Court and the Supreme Court made its decision in favor of the petitioner (plaintiff) without conducting a hearing from the parties concerned. It appears that the Supreme Court decided to take this case up solely for the purpose of resolving the inconsistencies in judicial interpretation among the lower courts.

The Japanese Patent Law provides that an employer has a non-exclusive license on a patent right when the employee has obtained a patent for the employee's invention or when a successor in title to the right to obtain a patent for the employee's invention has obtained a patent therefore (Art. 35, Para. 1). The law further states that the employee has a right to claim reasonable compensation for his invention in a case that the employee has assigned to the employer the right to obtain a patent or patent right with respect to the employee's invention (Art. 35, Para. 3). To qualify as an employee's invention under the Patent Law, Art. 35, the invention has to meet three requirements: (1) it must be made by an employee, (2) it must be related to his present or past job, and (3) it must be within his employer's line of business.

Readers may recall that in April 2003, the Supreme Court of Japan issued a ruling in the Olympus case, in which the Supreme Court ruled that a contract between an employer and an

employee would be invalid when and if it one-sidedly provided for an amount of compensation for the employee's invention. At that juncture, it was recognized that many companies substantially handled the issues of employee's inventions through internal contracts drafted by the employer. Payments of the amounts listed in the internal contracts at least satisfied the completion of the employer's statutory duty. In general, it was considered by corporate intellectual property departments that the amounts paid under their programs satisfied the statutory compensation requirement. Thus, for many corporations, the Supreme Court decision in the Olympus case appeared to outlaw the long-held industrial practice.

Since then, lower courts have ruled in other employee's invention cases in favor of employees. In fact, lower courts had no other way to treat such issues in light of the Olympus ruling. Their role was simply to decide the amount of compensation, which became higher as the number of rulings increased. Most significant was the District Court decision in the Nichia case. The Court awarded 20 billion yen as compensation for the inventor of the blue light-emission diode, although the award was eventually cancelled and the parties agreed to settle their dispute with the much reduced amount of approximately 850 million yen in total. We have reported on these decisions in detail in past issues of this newsletter. In the Toshiba case, the Tokyo District Court recommended that the parties should seek a settlement and in July 2006, an ex-employee as an inventor of a flash memory invention agreed to accept 87 million yen in settlement.

A flood of suits against companies and a gradual increase in the amount of compensation caused serious concern in business circles, since they were considered to hinder the revitalization of competitiveness of Japanese industry that was taking place at the time. Such concern moved bureaucrats and lawmakers to enact an amendment of Article 35 of Patent Law. In 2005, the amended Article 35 became effective. In order to improve uncertainties caused by the Supreme Court's decision in the Olympus case, one paragraph was newly added to allow internal agreements which reflect good-faith negotiations between an employee and an employer as a reasonable basis for the calculation of compensation. Many companies have revised their internal contracts so as to avoid automatic invalidation under the statutory law.

Despite the amendment of the statutory provision, however, it seems that a number of inventors still believe that the court is a good venue for seeking compensation for their old inventions. A week after the Supreme Court decision in the Hitachi case, another ex-employee of Hitachi brought a suit against his former employer claiming payment of 200 million yen as compensation for an invention he made during his employment.

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## Patent Prosecution Highway Pilot Program Launched

By Kei KONISHI\*

On July 3, 2006, the pilot program of the Patent Prosecution Highway (PPH) was launched. The PPH is expected to bring about early grant of foreign patent applications claiming Paris Convention priority to global companies by accelerated examination with simplified

procedures, provided that their domestic patent applications filed in their home country contains allowable claims.

Among the trilateral Patent Offices, namely USPTO, EPO and JPO, it is known that the number of patent applications being filed is steadily increasing, and a considerable number of

patent applications are presently awaiting patent examination, with a result that a serious delay in issuance of grant of patent for applications exists. As can be seen from the fact that the number of patent applications having corresponding foreign patent applications amounts to approximately 210,000 annually among the trilateral Offices, which necessitates a huge amount of duplicated prior art search and examinations, the idea of the PPH is that, if the search and examination results conducted by the domestic Patent Office are submitted to foreign Patent Offices, the workload imposed by conducting duplicated searches, and the examination workload overall of foreign Patent Offices, would be reduced. The JPO and USPTO became the first to start the trial of the bilateral PPH, based on the US-JP Joint Initiative agreement of March 2006 between the JP minister of Economy, Trade and Industry and U.S. Secretary of Commerce, which upholds the establishment of the PPH scheme.

For eligibility to enjoy the PPH before JPO, patent applications must be Paris Convention patent applications filed in Japan, that validly claim Paris Convention priority based on a corresponding U.S. patent application, while PCT applications are excluded. A JP application which claims priority to multiple U.S. applications, and a divisional application based on the originally filed JP application that claims priority based on the U.S. application are also eligible. As of November 22, 2006, the requirement for "correspondence" was relaxed, and even in the case that a U.S. continuation application, continuation-in-part application, divisional application, or non-provisional application exists which contains an allowable claim, the PPH will remain applicable to the JP application claiming Paris Convention priority based on the corresponding U.S. parent application or provisional application. More importantly, in any case, before applying the PPH, applicants are required to amend claims in the JP application such that all claims in the JP application sufficiently correspond to one or more of those claims notified as allowable in an Office Action for a corresponding U.S. application. In other words, all claims in the JP application for which PPH is sought must have a common technical feature that results in the claims being allowable over a prior art cited by the USPTO.

Upon receiving an Office Action notifying allowance of a claim by the USPTO, an applicant is able to file a request at the JPO for the PPH for the corresponding JP application, a form of "The Explanation of Circumstances concerning Accelerated Examination" in accordance with the procedure prescribed in "The Guidelines of the Accelerated Examination and Appeal". Requirements for the JP application to be examined in an accelerated manner under the PPH are that: 1) the JP application for which the PPH sought should be the Paris Convention application; 2) at least one claim is notified as allowable for the corresponding U.S. application by the USPTO; 3) all claims in the JP application are amended such that all claims in the JP application sufficiently correspond to the allowable claims in the U.S. application; and 4) the JPO has not started substantial examination of the JP application. To fulfill procedural obligations, the applicant is required to attach the followings: 1) copies of all Office Actions issued at the USPTO; 2) copies of all claims determined to be allowable by the USPTO; 3) copies of references cited by the USPTO; and 4) an explanatory chart showing how the claims notified as allowable by the USPTO sufficiently correspond to the pending claims in the JP application. Alternatively, no copies of all Office Actions and all claims and/or no cited references are required to be submitted, in the case that the Office Actions are available on the Patent Application Information Retrieval (PAIR: <http://portal.uspto.gov/external/portal/pair>) and/or the cited references are available on the IP Digital Library (IPDL: [http://www.ipdl.ncipi.go.jp/homepg\\_e.ipdl](http://www.ipdl.ncipi.go.jp/homepg_e.ipdl)). Essentially, it is not required for an Office Action(s) and allowable claim(s) issued at the USPTO and references cited by the USPTO. Even under the PPH, the JPO will, of course, need to conduct additional searches and examination due to existing diversity in criteria for patentability and the definition of what constitutes a prior art. However, it is highly likely that examination results will be issued by the JPO within a few months. In this connection, as has been reported, Microsoft obtained two JP applications within two months from filing a PPH request.

In practice, the PPH provides global companies with a new option for obtaining at an early date a JP patent; and as compared to the

existing accelerated examination procedure available at the JPO, an applicant's burden of conducting a prior art search and provide a description of the prior art and a comparison between the claimed invention and the prior art. A year pilot program of the PPH may be extended by one more year. The Korea IP Office (KIPO) has agreed to start the PPH with the JPO in 2007, while the EPO is holding discussions with respect to joining the pilot program of PPH; and other Patent Offices such as the U.K. Patent Office, the German Patent Office and Canadian Patent Office have also commenced discussions with respect to the PPH.

Information on detailed procedures for applying the PPH pilot program before the JPO is available at:  
[http://www.jpo.go.jp/torikumi/t\\_torikumi/pdf/hig\\_hway\\_pilot\\_program/01e.pdf](http://www.jpo.go.jp/torikumi/t_torikumi/pdf/hig_hway_pilot_program/01e.pdf)

And information on applying the PPH pilot program before the USPTO, is available at:  
[http://www.uspto.gov/web/patents/pph/pph\\_index.html](http://www.uspto.gov/web/patents/pph/pph_index.html).

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Revision of Japanese Design Law in Japan

By **Kazuaki OKIMOTO***

An amendment of Japanese Design Law was issued on June 7, 2006, and a part of amendment became effective from September 1, 2006; the remaining part of the amendment will become effective from April 1, 2007.

By the amendment, defining clause of Section 2 of the Design Law has been revised such that a registration may be granted of an application for a design of a gadget with a graphical image which is integral to an article, and is used for operating the gadget. If a graphical image is incorporated in an operation of an intrinsic function of a gadget, the graphical image, for example, a screen design showing a selection screen for a cell-phone, and a screen design showing a program-selection screen for video-reproduction equipment may be able to be protected under the revised Design Law. When a graphical image is caused by application of software to appear on a screen after the gadget has started working, such as a graphical image provided via the Internet, an entertainment picture for game software or a graphical image for accounting software, such a graphical image is not protected under Section 2 of the Design Law.

In Section 24 of the Design Law, a clear statement is inserted stipulating that when judging the scope of similarity of a registered design and other designs, such judgment has to

be made based on an aesthetic impression imparted to customers by the goods which are the subject of the registered design. The term "customers" includes all people who buy the relevant goods, for example, general consumers as well as industrial buyers, and so on.

In Sections 3^{bis} and 10, it is provided that an owner of a prior filed design application may obtain a registration on a later filed design by the same applicant. The later design application may be filed for a variant or a part of the prior filed design. The later design application should be filed within the same date of filing of the prior design application to the date of publication of an Official Gazette of the prior design registration.

In Section 14, it is provided that an applicant may demand that a design be kept secret for a maximum three-year term from the registration of the design right either on the filing date or at the time of paying registration fees.

Other amendments

With regard to reinforcement of Intellectual Property Rights in Japan;

- 1) "exporting" of goods protected by a design right may be deemed to infringe a design right, due to the introduction into Section 2 of "exporting", which section defines working of a design right;
- 2) "stocking goods to which a registered design or designs similar thereto apply, for the

- purposes of assigning, leasing or exporting” may be deemed to infringe a design right registered under amended Section 38; and
- 3) the maximum penalty for infringement will be prison term of a maximum of ten years, and/or a fine of a maximum amount of 10,000,000 yen, under Section 69.

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## IP News from Japan

**By Shoichi OKUYAMA\***

### **Patent Prosecution Highway between the JPO and USPTO**

The JPO and USPTO started the pilot program of the so-called Patent Prosecution Highway (PPH) from July 3, 2006. The Patent Prosecution Highway makes it possible to obtain examination results quickly within a few months, if successful examination results from one Patent Office are submitted to the other Patent Office. Basically, the pending claims have to be the same before the two Patent Offices. This pilot program will be conducted for one year as one of the steps toward global work sharing of examination loads. As of the middle of November, eight patent applications were on this project. Korea will join this project in April 2007.

### **Trilateral Meetings Held in Tokyo and Osaka**

The 24th Annual Trilateral Conference was held in Tokyo between November 13-17, 2006 among the JPO, USPTO and EPO. Parallel to this Conference, the Industrial Trilateral Meeting was held in Osaka with delegates from the AIPLA, IPO, UNICE and JIPA. Another B+ meeting was also held on November 20 and 21, 2006 with delegates from more than 20 countries out of 41 B+ countries. Progresses occurred in the area of formality unification. Toward the end of February 2007, another meeting will be held for an agreement on the common application format. Additionally, the JPO is pressing its "New Route" proposal, which would, if implemented, make it possible for the applicant to bypass WIPO and its PCT system when filing parallel patent applications in major industrialized countries and still obtain a 30 months period for national phase entry.

However, the USPTO and EPO were not very positive about this proposed scheme. See <http://www.jpo.go.jp/> for the results of the 24th Trilateral Conference.

### **Storing and Forwarding TV Broadcast Found Not to Infringe Broadcasters' Rights**

On August 4, 2006, the Tokyo District Court decided in preliminary injunction proceedings that the service provided by a small company for Japanese-speaking residents in foreign countries did not infringe certain neighboring rights provided under the Copyright Law on TV programs.

NHK, the national broadcasting company, and five other large private TV broadcasting companies alleged that a tiny shop called Nagano Shoten, which provided its service to 47 individual customers, infringed their "rights of making transmittable" provided under the Japanese Copyright Law. Such rights were established in 1997 to protect copyright holders from infringement over the Internet. If a third party makes some performance automatically transmittable to the public without authorization, it would constitute an infringement of the "rights of making transmittable" even without showing of any person having actually accessed the performance. In this case, a user buys such a widely available product as SONY's so-called "location free TV" (<http://products.sel.sony.com/locationfreetv/flash.html>) and sends the base station to Nagano Shoten. Then Nagano Shoten connects the input of this base station to a TV antenna and power and the output to the Internet, and maintains the base station owned by the user in a secure location with the connections. The user can connect his or her monitor of the location fee TV to the Net, operate the base station using the monitor, and watch TV programs that have been

stored in the base station anywhere in the world. Nagano Shoten charges 5,040 yen (about US\$ 42) a month for this service. The service is aimed at Japanese users who wish to watch Japanese TV programs while living in foreign countries.

The Tokyo District Court found that the person who made TV programs transmittable was not Nagano Shoten, but the user, and concluded that Nagano Shoten did not infringe the broadcasters' rights.

### **Supreme Court Ends the Hitachi Employee Invention Case**

On October 17, 2006, the Supreme Court rendered a decision in a much publicized case between a professor-ex-employee, Mr. Seiji Yonezawa, and Hitachi Corp. The Supreme Court upheld the High Court decision that awarded Mr. Yonezawa 160 million yen or about US \$ 1.4 million for his three inventions patented

in Japan and several other countries. The award amounted to 14% of the licensing and cross-licensing income Hitachi enjoyed. The Supreme Court stated that the "right to obtain a patent" prescribed in Section 35(3) of the Japanese Patent Law and assigned to the employer covers foreign patents, and reasonable remuneration should reflect incomes generated based on foreign patents by analogy with the application of the law to Japanese patents.

This Supreme Court decision gives a final touch on much of controversies related to employees' inventions including the 20-billion-yen-award decision and the subsequent settlement of 840 million yen in the blue-LED Nakamura case.

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Editors' Note

We trust that the articles included in this issue will prove useful in providing up-to-date information. As you will be apparent from the articles of this issue, cases are relating to Employees' invention are accumulating in Japan. With regard to examination at the Japanese Patent Office, JPO has started a fast-track examination system, which they refer to as "Patent Prosecution Highway", for obtaining patents. We are also including articles providing up-dates on IP activities in Japan.

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<http://www.lesj.org>

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