Compensation of Employee Inventions in Japan

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In the United States, compensating employees for their inventions is often a routine matter. U.S. companies typically have rules for establishing how employees are compensated for their inventions. U.S. employees are bound by these rules as a result of their employment contracts. As long as the employment contract is properly executed and the company rules are clear, neither statute nor case law effects the compensation of U.S. employees for their inventions.

Not so in Japan. While many Japanese companies have internal rules by which their employees are compensated for their inventions, statutes can also play an important role in determining what that compensation will be.

In recent years, the issue of employee compensation for inventions has become more and more of an issue in Japan. This topic has recently been researched by Nikkei Electronics Magazine, the most widely-read, professional magazine among electronics engineers in Japan. According to Nikkei Electronics Magazine, in 1999, 1,177 electronics engineers in Japan were asked to state their complaints regarding intellectual property policy of their respective companies. The results of the survey are noteworthy:

39.2% of the engineers surveyed stated that their companies did not provide sufficient compensation to their employees for patented inventions;

20.5% of the engineers surveyed stated that their respective companies did not adequately support the patent filing process;

18.0% of the engineers surveyed indicated that it was unclear how their respective companies were calculating the profits associated with any particular patents;

2.7% of the engineers surveyed indicated that cross-licensing unfairly detracts from the monetary value a company places on a cross-licensed patent;

1.2% of the engineers surveyed complained about other issues; and

17.7% of the engineers surveyed had no complaints.

From these figures, it appears that there are many engineers in Japan who are unhappy with their company's intellectual property policies.

In one case in particular, an employee actually took his company to court over the amount of compensation he believed he was entitled to. That case, S. Tanaka v Olympus Optical Company, Ltd., Tokyo District Court, 29th Civil Division/Case Number 3841/April 16, 1999 (hereafter, the "Tanaka Case"), is well known among engineers in Japan.

The facts of the Tanaka Case are somewhat involved. The Plaintiff, S. Tanaka, was an employee of the Defendant, Olympus Optical Company, Ltd., from 1969 to 1994. The Plaintiff worked in the research division of Olympus Optical from 1973 to 1978. Olympus is a well-known manufacturer of cameras and other optical equipment.

In 1977, the Plaintiff invented a pickup for optically recorded disks. The invention was used in combination with technology embodied in what was referred to as the Morokuma Patents. By using Plaintiff's invention in combination with the Morokuma Patents, it was possible to achieve significantly improved miniaturization for optical recording devices such as video disk players. Both the Morokuma invention and Plaintiff's invention were being used in products manufactured by a number of well-known Japanese companies.

Tanaka was compensated for his invention using a formula that is generally used by many companies in Japan. Typically, compensation is paid in the following stages:

> Compensation is first paid when an invention is reduced to a patent application and the patent application is filed;
>
> Compensation is then paid when the patent application matures into a patent;
>
> Additional compensation is paid when the patented invention is actually used in a product.

An informal survey of compensation in Japan found that compensation is usually paid to inventors at a fixed price for each patent application. For filing an application, compensation is usually between $30.00 - $50.00. When the application matures into a patent, typical compensation may be $100.00. As one would expect, the compensation paid for use of an invention in a product may have different values depending upon how the calculation is done. Thus, many Japanese engineers are troubled by the amount of

compensation they receive when their inventions are used in a product because they question the formula used to calculate the compensation.

Also, if there are joint inventors, the compensation is divided equally among the inventors. When a foreign patent application is filed, additional compensation may be made to inventors based on an internally derived scale.

In the Tanaka Case, the Defendant, like most Japanese companies, had internal guidelines for compensating employees for their inventions. Based on those guidelines, the following compensation (in year 2000 dollars) was paid to Tanaka:

Filing the application:	$ 28.00
Application matures into a patent	$ 75.00
Compensation from use of the invention in a product	$1,900.00

Tanaka claimed that the amount of compensation his employer was paying him did not conform with Japanese law. Specifically, in Japan, the invention of an employee is governed in accordance with Section 35 of the Japanese Patent Act. With regards to the Tanaka Case, the pertinent parts of that statute state:

The employee … shall have the right to reasonable compensation when he has enabled the right to obtain a patent … with respect to an employee's invention to pass to the employer …

The amount of such compensation will be decided with reference to the profits that the employer makes from the invention and the amount of contribution the employer made to the making of the invention.

Tanaka concluded that the level to which the Defendant contributed to the invention, in view of research, development costs, facility costs, and time needed to finish the invention, was not more than 60%. In 1990, the market for CD systems was approximately 7 billion dollars. Furthermore, Tanaka maintained that he was responsible for 1% of that amount.

Of course, the Defendant set forth much different figures. Specifically, the Defendant maintained that it's contribution to the invention was very large and that Tanaka's contribution to the invention was relatively small. The Defendant also maintained that there

were relatively few products on the market which actually relied upon the Plaintiff's invention.

In reviewing the facts, the Japanese Trial Court reached a number of factual conclusions. First, the Court found that during prosecution of the Plaintiff's patent application, a procedural error may have occurred. In what is analogous to the U.S. prosecution concept of "new matter", the Japanese Trial Court concluded that a "change of gist" had occurred during prosecution, thus possibly invalidating the resulting patent. The Court found that Pioneer Corporation had demanded a trial for invalidation of the patent based on the "new matter/change of gist" error which occurred during prosecution. Pioneer's demand for a trial was subsequently withdrawn. Second, the Court noted some agreement by the Plaintiff and the Defendant regarding the number of companies actually using the technology, although the companies identified by Plaintiff and Defendant as using the technology all argued that they were not using the technology. Third, the Court found specific amounts of royalty income which had been generated as a result of the patent. Fourth, the Court found that there were sharp differences between Plaintiff's original proposal and the actual invention which was embodied in the patent at issue. Fifth, the Court found that Defendant's contribution to the invention was at least 95%. Looking at 5% of the total royalty Defendant received from the invention, the Court arrived at a total of approximately $25,000. Subtracting the approximately $2,000 previously paid by Defendant, the Court ruled that Tanaka was due to be compensated the remaining $23,000.

The Court also made a ruling regarding the Defendant's company regulations. The Defendant had argued that company regulations barred the Plaintiff from receiving further compensation from the Defendant. The Court disagreed and, relying on Section 35 of the Patent Act, ruled that the Plaintiff was entitled to the portion of the royalty which corresponds to his contribution to the invention. Thus, the law was interpreted in a strict manner against the Defendant's argument and the Court ruled that Plaintiff was entitled to $23,000.

While the Tanaka Case is an interesting example of an individual taking legal action against his employer for compensation he felt entitled to, over the past few years many Japanese companies have changed their attitudes regarding compensation of employees for their inventions. These revisions have been made to encourage and motivate engineers and researchers to provide valuable inventions. Specifically, it is the intention of these companies to show that a successful engineer will be rewarded for producing an invention

which is embodied in a good, strong patent. These companies define a "good" and "strong" patent as a) one from which licensing income from competitors can be derived or b) which can be used with high effectiveness in a cross-license negotiation. These companies also hope that an invention will mature into a patent which may be used as a "essential" patent in any one field.

Based on this recognition, companies have introduced new compensation such as additional bonuses for high quality applications. These bonuses are paid either at the time of application filing or at the time the application matures into a patent. These companies have also increased the compensation which is paid to employees when the patent is embodied in a product or used in a license.

A review of company policies which was recently published in Nikkei magazine revealed the following:

Sony started an incentive bonus in 1998. This bonus has been in the range of several thousand dollars. They have also raised their highest compensation price from $10,000 to $20,000.

Toshiba raised their compensation for filing a foreign patent application from $50.00 to $300.00. Furthermore, Toshiba has placed more emphasis on licensing income. The maximum price which Toshiba pays its employees may be up to $100,000. This is ten times higher than pre-1998 compensation.

NEC has removed the upper limit of compensation for licensing income. Prior to 1996, the limit to compensation for licensing income was $20,000.

Fujitsu has increased the compensation based on licensing income.

S. Tanaka is not the only well-known engineer who was unhappy with his company's compensation policies. Another famous engineer, Syuzou Nakamura left his Japanese company and came to the United States to become a professor at UC Santa Barbara in California. Nakamura is very famous for his invention of the blue LED and the blue laser diodes. These products will most certainly be used in next generation high density DVD players. Many large companies such as Sony and Matsushita have been working on making a blue LED for many years but they have been unsuccessful in their attempts. Nakamura alone succeeded in making a practical blue LED. Nakamura claimed that despite the fact that his company received significant licensing income from his blue LED patent, he only

received $100 for each application and each issuance. It is said that he left Japan and came to the United States because of his disappointment regarding the compensation he received for his patents.

While Japanese companies have definitely improved the level of compensation they provide to their employee-patentees, the sentiment among many engineers in Japan is that further advancement is required.

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