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IN THIS ISSUE

- Revisions to the Japanese Patent Law
- Hitachi Case Ruled in Favor of Former Employee

Revisions to the Japanese Patent Law

A bill which was passed on June 7, 2006, and which revises the Japanese Patent Law includes the following major revisions.

- (1) Inclusion of the act of "exportation" in the definition of "working" of an invention (Article 2)
- (2) Restriction of allowed amendments after the issuance of an Office Action (OA) (Article 17^{bis})
- (3) Additional period to file a divisional application (Article 44)
- (4) Restriction of the amendments allowed for a divisional application (Articles 17^{bis}, 50^{bis})
- (5) Addition of a new act which may be deemed to be infringement (regarding act of "exportation") (Article 101)
- (6) Restriction of effect of restored patent right (regarding act of "exportation") (Articles 112^{ter}, 175)
- (7) Increase in the penalties for infringement (Articles 196, 196^{bis})

Below is an overview of some of the revisions which will be important for patent practitioners outside Japan. The following three revisions will come into force on April 1, 2007, and the revised law will be applied to patent applications filed on or after this date.

A: Restriction of allowed amendments after issuance of an OA (Article 17^{bis})



Under the current patent law, when an OA other than a final OA is issued, amendments to the claims are allowed when the amendments are within the scope of the original disclosure of the specification and/or the drawings. Therefore, the inventions before amendment do not have to satisfy the unity of invention requirement with the inventions after amendment.

After the enactment of this revision, when an OA other than a final OA is issued, amendments to the claims must satisfy the following requirements:

- the amendments are within the scope of the original disclosure of the specification and/or the drawings; and
- ***the inventions according to the claims before amendment satisfy the requirement of unity of invention with the inventions according to the claims after amendment.***

Under the revised patent law, if the amendments do not satisfy the above requirements, such amendments constitute a reason for rejection. When an OA other than a final OA is issued and the applicant wishes to seek a patent based on a new set of claims which does not satisfy the above requirements, a divisional application should be filed.

B: Additional period to file a divisional application (Article 44)

Under the current patent law, the periods to file a divisional application are the same as the periods to file amendments. In other words, a divisional application (or amendments) can be filed:

- until a first OA is received;
- within the response period to an OA; and
- within 30 days after filing an appeal when a Decision of Rejection has been issued on the application.

Therefore, an appeal against a Decision of Rejection is sometimes filed in order to obtain an opportunity to file a divisional application.

Under the revised patent law, in addition to the above periods, a divisional application can be filed within 30 days after the issuance of a Decision to Grant a Patent or a Decision of Rejection.

Therefore, it will not be necessary to file an appeal against a Decision of Rejection only for the purpose of obtaining an opportunity to file a divisional application. In addition, an opportunity will be available to seek a patent for inventions which are not claimed but which are disclosed in the original disclosure of the specification and/or the drawings when a Decision to Grant a Patent is issued without the issuance of any OA.

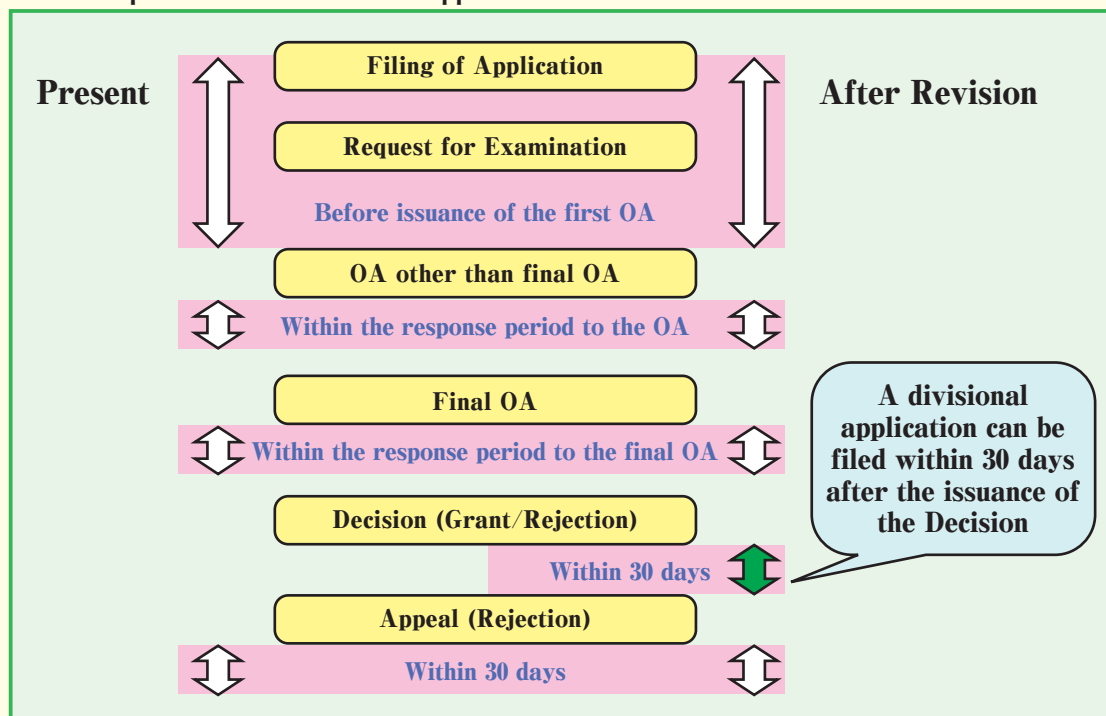
C: Restriction of allowed amendments for a divisional application (Articles 17^{bis}, 50^{bis})

Under the current patent law, there is no limitation to the claims in a divisional application as long as the claimed inventions are disclosed in the original specification and/or drawings.

Under the revised law, if the claims in a divisional application include a claim which is **substantially** the same as a rejected claim in the parent application, the allowable scope of amendments is restricted when responding to the OA, and will be the same as when responding to a final OA. In such a case, the allowable scope of amendments will be restricted as follows.

- Cancellation of claims
- **Adding limitations to current features**
e.g. $A+B+C \rightarrow A+B'+C$
(Addition of new features is not allowed,
e.g. $A+B+C \rightarrow A+B+C+D$)
- Amendments to correct clerical errors
- Amendments to clarify unclear descriptions

Allowable periods to file a divisional application



Hitachi Case Ruled in Favor of Former Employee

The Supreme Court ruled on October 17, 2006 that a former Hitachi Ltd. employee can seek remuneration for patents based on inventions made by the former employee obtained by the company not only in Japan but also abroad. The Supreme Court turned down Hitachi's appeal of the Tokyo High Court ruling that ordered the payment of roughly 163 million yen (equivalent to 1.4 million U.S. dollars) to the former employee for patents granted in the name of Hitachi both in Japan and overseas. With the Supreme Court upholding the ruling of the Tokyo High Court, the Hitachi case, which discussed "reasonable remuneration" for an employee's invention specified in the Japanese Patent Law, Article 35, Paragraph 3, has ended in favor of the former employee.

The final ruling represents the first time that remuneration for an employee covered overseas patents as well as cross-licensing agreements.

1) Tokyo District Court Decision of November 29, 2002 (Tokyo District Court Case Nos. Hei 10 (wa) 16832 & Hei 12 (wa) 5572)

The former employee made 308 inventions, three of which were processes associated with optical disk reading technology, during his employment at Hitachi from 1969 to 1996, and Hitachi obtained patents on this technology in Japan as well in countries such as the U.S., the U.K., France, and the Netherlands. The former employee originally received roughly 2.3 million yen as a bonus, the bonus being mainly for one of these three inventions. The inventor sought 971 million yen (equivalent to 8.4 million U.S. dollars) as reasonable remuneration for the three inventions.

The Tokyo District Court awarded the former employee 34 million yen (equivalent to 296 thousand U.S. dollars) based on royalties Hitachi obtained only in Japan, stating that "the right to claim remuneration as recognized by the Japanese Patent Law does not extend to overseas patents." Based on the territorial principle, in which patents in each country are subject to the rules and regulations of that country, judgments concerning employees' inventions should comply with the rules and regulations in each country.

The former employee appealed to the Tokyo High Court in 2002 against the Tokyo District Court ruling.

2) Tokyo High Court Decision of January 29, 2004 (Tokyo High Court Case No. Hei 14 (ne) 6451)

The Tokyo High Court ruled differently from the lower court, in particular with respect to overseas patents. The Tokyo High Court found that "remuneration, including rights to patents granted overseas, should be determined uniformly by Japanese laws." The Tokyo High Court increased the award to 163 million yen, stating that the inventor should also be compensated for the value of overseas patents for the same technology.

The High Court ruling was also significant in that it factored in the value of comprehensive cross-licensing agreements in calculating the award. Cross-licensing agreements, which are common in the electric and electronic business fields, allow companies to use each other's patents without paying royalties. The High Court decided that such agreements should also be considered in estimating the reasonable remuneration for an inventor, even though the companies do not receive royalties under cross-licensing agreements.

Hitachi appealed to the Supreme Court in 2004 against the Tokyo High Court ruling.

3) Supreme Court Decision of October 17, 2006 (Supreme Court Case No. Hei 16 (jyu) 781)

The Supreme Court rejected Hitachi's appeal of the Tokyo High Court ruling that supported the employee's demand that his remuneration should be based on the global profits his inventions had brought to the company. The Supreme Court said that the employee should also be compensated for the value of overseas patents. Although the Japanese Patent Law does not directly address overseas patents, the Supreme Court referred to a provision that recognizes appropriate remuneration for the transfer of rights to obtain patents, stating that the provision was designed to protect employees' interests and foster the creation of inventions in the face of unequal bargaining power between employees and companies. "The imbalance between employees and companies is the same whether patents are granted in Japan or abroad, so the same provision should be applied to foreign patents," the Supreme Court stated.

4) Impact of Hitachi case

To date, contested remuneration exceeding 100 million yen has been decided through mediation in cases such as the remarkable blue LED case between Dr. Shuji Nakamura and Nichia. However, this Supreme Court decision may set the standard for future cases.

At most companies in Japan, the right to obtain a patent for an employee's invention is automatically transferred to the company in accordance with the contract between the employee and the company. Article 35 of the Japanese Patent Law, which was created to protect employees' interests, was revised in April 2005. This revision introduces the requirement that the court respects reasonable corporate rules for determining the

amount of remuneration for inventions by employees which have been discussed with employees. This court ruling, which has established that overseas patents as well as comprehensive cross-licensing agreements must be taken into account when calculating rewards, may lead Japanese companies to review their rules regarding remuneration for employees' inventions. Companies provide funds and facilities for the development of new technologies and assume the risks involved in research and are therefore likely to be reluctant to greatly increase remuneration for employee's inventions. However, besides the risk of incurring a court case similar to the Hitachi case, tightfistedness in rewarding inventors could trigger the departure of talented researchers from companies.

Article 35 of the Japanese Patent Law (revised on April 1, 2005)

(Employees' inventions)

35. - (1) An employer, a legal entity or a state or local public entity (hereinafter referred to as the "employer, etc.") shall have a non-exclusive license on the patent right concerned, where an employee, an executive officer of a legal entity or a national or local public official (hereinafter referred to as the "employee, etc.") has obtained a patent for an invention which by reason of its nature falls within the scope of the business of the employer, etc. and an act or acts resulting in the invention were part of the present or past duties of the employee, etc. performed on behalf of the employer, etc. (hereinafter referred to as an "employee's invention") or where a successor in title to the right to obtain a patent for an employee's invention has obtained a patent therefor.

(2) [omitted]

(3) The employee, etc. shall have the right to a reasonable remuneration when he has enabled the right to obtain a patent or the patent right with respect to an employee's invention to pass to the employer, etc. or has given the employer, etc. an exclusive right to such invention in accordance with the contract, service

regulation or other stipulation.

(4) The payment of the remuneration in the preceding subsection, as provided for in the contract, service regulation or other stipulation shall not be considered to be unreasonable, in view of the situation under which a negotiation is carried out between employer, etc. and employee, etc. in the course of establishing the criteria for determining the remuneration, the situation under which the criteria established are disclosed, and the situation under which the views of employee, etc. are heard for calculating the amount of the remuneration, etc.

(5) Where there is no stipulation with respect to remuneration referred to in the preceding subsection or where the payment of the remuneration determined thereby shall be considered to be unreasonable, the amount of the remuneration referred to in subsection (3) shall be determined, taking into consideration the amount of profits that the employer, etc. will make from the invention, the burden assumed and contribution made by the employer, etc. in connection with the invention, and the treatment upon the employee, etc. and other circumstances.

(excerpted from Japanese Laws Relating to Industrial Property published by AIPPI Japan)

Japanese National Holidays in 2007

January 1 (Monday)..... New Year's Day
January 8 (Monday)..... Coming of Age Day
February 11 (Sunday)..... National Foundation Day
February 12 (Monday)..... Substitute Holiday
March 21 (Wednesday)..... Vernal Equinox
April 29 (Sunday)..... Showa Day
April 30 (Monday)..... Substitute Holiday
May 3 (Thursday)..... Constitution Day
May 4 (Friday)..... Greenery Day
May 5 (Saturday)..... Children's Day

July 16 (Monday)..... Marine Day
September 17 (Monday)..... Respect for the Aged Day
September 23 (Sunday)..... Autumnal Equinox Day
September 24 (Monday)..... Substitute Holiday
October 8 (Monday)..... Health and Sports Day
November 3 (Saturday)..... Culture Day
November 23 (Friday)..... Labor Thanksgiving Day
December 23 (Sunday)..... Emperor's Birthday
December 24 (Monday)..... Substitute Holiday

*The Japanese Patent Office and Shiga International Patent Office will be closed on the above days and on several days before and after January 1, 2008 (we will notify you of these holidays in December 2007).

Disclaimer: The articles in this newsletter reflect our understanding and are not meant to convey legal opinions or advice. We disclaim any liability for errors or omissions.

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