

# Allocations of Ownership of Inventions in Joint Development Agreements — The Japanese Perspective by Kenichi Nakano



*If the agreement between LCC and BAC does not allocate ownership of inventions made by their employees during the course of the R&D program, who would own the inventions and patents?*

In Japan, if inventions are made by employees, the inventions are owned by the inventors unless an agreement exists between an employer and employees concerning ownership of the inventions.

The Japanese Patent Law Section 35 stipulated as follows regarding inventions invented by an employee.

**Case 1:** If an invention does not fall into the business scope of an employer, the inventor owns the invention.

**Case 2:** If an invention falls into the business scope of an employer, but an act or acts resulting in the invention were not part of the present or past duties of the employee, the inventor owns the invention.

**Case 3:** If an invention falls into the business scope of the employer, and an act or acts resulting in the invention were part of the present or past duties of the employee, the inventor owns the invention and the employer has a nonexclusive license on the patent right concerning the invention.

Japan differs from the U.S. where an employer may be entitled to own a "shop right" or ownership of inventions in Case 2 or 3 regardless of the existence of an assignment agreement with an employee. In Japan, an employer is not entitled to license or assign an employee's inventions or patents to third parties unless an assignment agreement has been completed with an employee.

If an employer in Japan concludes an assignment agreement with employees concerning the inventions in Case 3, the ownership

of inventions made in the course of R&D is the same as in the U.S.

*Should LCC and BAC have agreements with their employees regarding inventions made during course of the R&D program?*

Yes, LCC and BAC should have agreements with their employees to avoid the problems mentioned in relation to Question 1. Most employers in Japan require all employees to sign an employment contract that automatically assigns the employee's inventions and patent rights to the employer in above Case 3.

However, the Japanese Patent Law Section 35 states that in the case of an invention falling into the above Cases 1 or 2, any contract provision, or other stipulation providing in advance that the right to obtain a patent, or the patent right, shall pass to the employer, etc., or that the employee shall have an exclusive license on such invention, shall be null and void.

Before launching the joint R&D, both parties should provide assurance that any employment contract between an employer and an employee shall include the provision that all inventions falling in above Case 3 shall be assigned to the employer.

*If BAC wants the exclusive rights to exploit the results of R&D in the automobile industry and LCC wants to exploit the R&D results elsewhere, how can rights be allocated in the joint development agreement?*

There are various approaches that LCC and BAC can take to allocate exclusive rights in order to exploit the results of R&D, as outlined below.

## OWNERSHIP ALLOCATED TO ONE PARTY

**Approach 1:** In the same way in the U.S., joint R&D in Japan entitles the risk of a prior art collision between LCC's patent applications and BAC's patent applications.

To avoid this problem, in this approach BAC assigns all inventions made during the joint R&D program to LCC under the joint R&D agreement. The joint R&D agreement may then include the provision that LCC grant to BAC an exclusive, royalty free, irrevocable license to such inventions and patents in the automobile or vehicle manufacturing field.

However, this Approach 1 may not generally be considered acceptable to Japanese companies compared with following Approach 2, because an exclusive licensee needs the consent of a patent owner to grant a license for the subject patent to a third party.

**Approach 2:** Step 1: LCC and BAC agree that all applications for inventions made during the Joint R&D program shall be filed at the Japanese PTO by one applicant, for example LCC. This means LCC would temporarily own the all inventions made during the joint R&D.

**Step 2:** When the patents have been registered, the applicant, LCC, will be changed to BAC in the automobile or vehicle manufacturing field. This means BAC would then have ownership of the patents related to the automobile or vehicle manufacturing field.

**Step 3:** Concerning registered patents which both LCC and BAC

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want to own, the applicant LCC is changed to LCC and BAC. This means LCC and BAC jointly own the patents concerned.

Step 4: Concerning jointly owned patents, BAC and LCC would agree in the joint R&D agreement that BAC owns the exclusive right to exploit the patents in the automobile or vehicle manufacturing field and LCC owns the exclusive right to exploit the patents in fields other than automobile or vehicle manufacturing.

The above approach may be easier to obtain approval for by the top management of LCC and BAC because the process is simple and both parties can share in the ownership of the patents.

**Approach 3:** Step 1: LCC and BCC jointly file all applications at the Japanese PTO for inventions made in the joint R&D program.

Step 2: After the concerned patents are registered, the name of the applicant will be changed from LCC and BAC to LCC or BAC according to the practical necessities of the parties.

— In this way, BAC can basically own the patents related to the automobile or vehicle manufacturing field and LCC can own patents related to other fields.

Step 3: Concerning patents which both LCC and BAC want to own, the names of applicants LCC and BAC can be maintained as joint applicants.

Step 4: Concerning such jointly owned patents, BAC and LCC would agree in the joint R&D agreement that BAC owns the exclusive right to exploit patents in the automobile or vehicle manufacturing fields and LCC owns the exclusive right to exploit patents in fields other than automobile or vehicle manufacturing.

#### ALLOCATION OF OWNERSHIP BY EMPLOYMENT

In Japan this is handled the same as in the U.S.

#### ALLOCATION OF OWNERSHIP BY SUBJECT MATTER

In Japan this is handled the same as in the U.S.

#### CROSS LICENSE MAY BE NECESSARY

In Japan this is handled the same as in the U.S.

#### LICENSES MAY BE NECESSARY UNDER BACKGROUND TECHNOLOGY

In Japan this is handled the same as in the U.S.

*If the joint development agreement provides for joint ownership by BAC and LCC of some inventions and patents, what contract terms are needed to protect each party's exclusive market?*

Again as in the U.S., LCC would grant an exclusive license to BAC to exploit patents in the automobile and vehicle manufacturing field, and BAC would grant an exclusive license to LCC to exploit patents other than the automobile and vehicle manufacturing field.

In the U.S., Joint R&D agreement must provide protection against either party's free licensing to third parties because a joint owner can grant a license for use of a patent to any third parties without the consent of the other joint owner.

However, Japanese Patent Law Section 73 states that a joint owner of a patent right may not transfer his share and may grant neither an exclusive license nor a nonexclusive license without the consent of the other joint owners. Because of this article, a specific protection clause in a joint R&D to prevent unlimited assignment and/or licensing to third parties is not necessary.

*If BAC and LCC jointly own a patent on a painting system that uses a unique paint formulation, will sale of the paint by LCC give the purchaser rights under the patent? If so, how can the agreement restrict that effect?*

In Japan this is handled the same as in the U.S.

*What provision should be included regarding obtaining patent protection on inventions made during the course of the R&D?*

In Japan this is handled the same as in the U.S.

*What provisions, if any, are necessary to permit one or both parties to enforce jointly owned or exclusively licensed patents?*

There is a considerable difference in this regard between Japan and the U.S., as described below.

##### 1) Exclusive license

An exclusive licensee in Japan can enforce his exclusive right without the consent of the patent owner. Furthermore, an exclusive licensee need not ask the patent owner to participate in any infringement action.

##### 2) Jointly owned patent

There is no rule in the Japanese Patent Law covering a joint owner's position. According to Japanese Civil Law 252, a joint owner can individually sue an infringer. If the joint owner wins a case demanding an injunction, there would be no problems resulting for the other joint owners of the patent right. However, if the joint owner was defeated in such a case, there is some question as to whether the other joint owners could sue the same infringer again. It is believed that the other joint owners could sue the infringer again because they have the right to protect their own profits.

Concerning a request for payment of damages from an infringer, each joint owner can individually take action for only because the damages would be different for each joint owner.

These concepts have already been clearly adopted in Japanese Copyright Law Section 117.

Because of Japanese Patent Law Section 73 as explained in relation to Question 4, in Japan, there is no risk that any joint owner may license a jointly owned patent to an infringer without the consent of the other joint owners who sued the infringer.