

Nichia Corporation's Stance Regarding Article 35 of Japan's Patent Law

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On January 30, 2004, the Tokyo District Court rendered a decision on a case brought against Nichia Corporation by its former employee seeking reasonable remuneration for the assignment of his right to obtain patent (Japanese patent number 2628404) for his invention under Article 35 the Patent Law of Japan. The court found that the reasonable remuneration due from the company to the plaintiff to be more than 60 billion yen.

Nichia Corporation not only disagrees with the court's calculation of the remuneration, and is currently appealing to the Tokyo High Court (Heisei 16 [Ne] No. 962), but also believes that the provisions concerning "reasonable remuneration" contained in Article 35, the very basis of the above decision, should be repealed.

When a company decides to pursue an R&D project, it begins by investing in various resources required for the undertaking, such as equipment, materials, and research personnel. The more innovative an R&D theme is, the more likely the project will fail. If a project ends in failure, the company is left without any means to recover the money invested.

Furthermore, even if the company successfully completes a project and obtains patents for a resultant new technology, there is no guarantee of profits. If the technology has high commercial potential, competitors will likely try to design around the patent or seek to have it invalidated through legal action, which, if successful, can undermine the business of the company that originally made the invention. Also, except in the pharmaceutical and a few other industries, commercialization of an invention usually requires more than one patented technology. In fact, Nichia needed to file several hundred patent applications in connection with the development of an LED product, and actually required and utilized many of the patented technologies for the manufacture and sale of that product. This same product, however, has been the target of countless patent infringement claims, meaning that even a technology that has been patented and put on the market can later be found to infringe on patents held by other companies.

Meanwhile, once a company succeeds in developing a product based on a patented invention, it will then need to manufacture and market it. This requires investment in a number of areas, including manufacturing equipment, personnel, and sales activities. All of the capital thus invested can easily become unrecoverable if the patent for the product is invalidated or the patented technology becomes obsolete in the face of a superior product developed by a competitor. As an example, Nichia commercialized a blue LED in late 1993, only to see it surpassed in brightness by a rival product in 1995. A number of more advanced products have since been developed, including one released in 2004 that is 20 times brighter than Nichia's.

Nichia, together with its employees, has thus been making a steady series of high-risk investments in the struggle to prevail in the face of fierce technological and sales competition as well as constant patent disputes. Naturally, the company hardly finds it acceptable to have to pay several tens of billion yen to the inventor of a single patent. If required to pay such a large sum of money when applying for or acquiring a patent for a new technology, on the grounds that it *might* lead to substantial profits within the next few decades, it is doubtful that any enterprise, not just a startup, would be able to launch a business based on a patented invention.

Nichia Corporation has made every effort to ensure a motivating and supportive environment for its researchers. This is because it recognizes R&D excellence to be the key to its own survival as a developer and manufacturer: if it exploited its researchers by forcing them to sacrifice themselves for the sake of the company, it would certainly lose them as well as any opportunity to benefit from their talent and expertise that might have led to technological innovation. A company that fails to properly compensate its researchers for their inventions, or otherwise maintain a high level of employee satisfaction, would certainly have difficulty attracting and retaining capable personnel and, as a result, fall behind in the race for technological supremacy. In other words, business entities are driven by market dynamics to treat their employees in the best way they can, with or without legal provisions that oblige them to pay specific amounts of money for patent rights to employee inventions.

To summarize: Nichia Corporation firmly believes that the provisions concerning "reasonable remuneration" contained in Sections 3 through 5 (3 and 4 in the pre-2004 amendment) of Article 35 of Japan's Patent Law should be repealed, given that they can be used as the basis for absurd rulings that completely ignore the realities of the business world.