

# WINDS FROM JAPAN

The Licensing Executives Society Japan

## Anti-Counterfeiting Activities in Japan

By Masashi KUROSE

### Introduction

In March of 2002, the Council for Intellectual Property Strategy (CIPS), was established under the chairmanship of Japanese Prime Minister Koizumi.



CIPS was created to strengthen Japan's industrial competitiveness by enhancing the protection of intellectual property rights (IPR), in cooperation with relevant governmental agencies.

The CIPS announced the "Intellectual Property Strategic Program 2004" which consists of approximately 30 important initiatives, including 6 that address directly the issue of counterfeit goods, showing a clear and strong determination toward to resolve the counterfeit issues.

Counterfeit issues take place in both the domestic and the foreign marketplace. One major element in dealing with counterfeit goods in the foreign marketplace, a major problem that has become particularly troublesome recently and has severely been impacting the international business of Japanese companies, is the need for cooperation of foreign government bodies in order to resolve the issue.

The following is a brief introduction to Japanese measures that have recently been taken to deal with the counterfeit problem.

### Tightening Border Controls

Aiming at tightening border controls at the Custom Office, the "Customs Tariff Law" was revised in April of 2003. This revision strengthens the system of import injunction.

Under the former law, only the owners of trademarks, copyrights and neighboring rights were entitled to seek import injunction at the Custom Office. However, under the revised law, owners of patents, utility models patents, design rights and breeder's rights are now allowed to file complaints with the Customs Office seeking import injunctions.

Additionally, as an organizational improvement, officials for each respective intellectual property rights have been appointed in the Customs Office, in order to allow for taking stronger actions against the importation of goods that infringe IP rights.

In April 2004, Fujitsu Limited filed a complaint with the Tokyo Customs Office seeking injunction against plasma display panels being imported from South Korea by Samsung SDI. In June 2004, Sharp Inc. also sought an injunction against liquid crystal television sets made in Taiwan, based on its patent rights. The number of applications for likewise injunctions at the Custom Office based on patent rights is rapidly increasing.

### Further Revision

The Customs Tariff Law was further revised in April of 2004 to enable the Customs Office to provide information about the importer of counterfeit goods to the owners of IPRs. This has made it easier for the IPR owners to file suit against the importer, based on the information provided by the Custom Office, and claim for damages.

Also, when the exporter or manufacturer of the counterfeit goods is known, that information may be provided by the Customs Office as well,

which helps to take action against the infringing party in the country of manufacture or export, providing an additional effective action against influx of counterfeit goods into the domestic marketplace.

### **Strengthened Enforcement**

In order to better deal with counterfeit goods being sold in the domestic market, the National Police Agency is also reinforcing their anti-counterfeiting team. As such, arrests of sellers of infringing goods are increasing in number.

Recently, attention is focused on counterfeit goods sold on the internet, more particularly, through internet auctions. Although strategies are being developed to enable thorough scrutiny of people or entities that auction items at the auction website and to increase surveillance of the internet for illegal activities and transactions, many legal and technological hurdles still remain. Additional steps will be required, including the revision of applicable laws.

### **Accelerated Judicial Proceedings**

The procedures for legal proceedings are being revised, and recently a court decision regarding infringement of IPR required only about ten months.

Also, a law to establish the Intellectual Property High Court (IP High Court) was passed. With the recent reform of the court system in Japan, patent infringement suits will be exclusively under the jurisdiction of the district courts in Tokyo or Osaka, and appeal under the IP High Court. This reform of the court system is expected to result in faster resolutions of disputes before the courts.

### **Consumer Education**

Activities to educate consumers not to purchase counterfeit goods are vigorously being carried out. High schools offer introductory course on the intellectual property system, to teach people the importance of respecting IPRs.

With respect to general consumers, the Anti-Counterfeiting Association (ACA), for example, is conducting counterfeit goods removal campaigns, and holding symposia on the counterfeit problems. Such educational programs are considered vitally important to the fight against counterfeits.

### **Prevention of Outflow of Know-how**

Japanese companies struggle with the problem of leakage or outflow of know-how and trade secrets. Trade secrets are being illegally or unfairly disclosed or stolen, usually in connection with the job transfer of technical personnel, among other factors. This results in the weakening of the companies' competitiveness internationally.

To help deal with such problem, the Ministry of Economy, Trade and Industry (METI) established a set of guidelines to prevent the unintended outflow of technical know-how, and distributed them to Japanese corporations. In addition, the Unfair Competition Prevention Law has been revised to impose criminal penalties on the theft or illegal use of trade secrets. These and other steps are being implemented to better prevent unfair or illegal outflow of technology and know-how.

### **Damage from Foreign Counterfeits**

Counterfeit goods that copy Japanese products in foreign markets are increasing in ever-greater numbers, causing severe damage to the international business of Japanese companies. These counterfeit goods are not only circulating in countries where Japanese companies have established manufacturing facilities and are selling products, but are also being exported to other countries, robbing Japanese companies of market share in those countries.

Companies calculate economic damage from counterfeits every year, and the findings show that the problem is growing. Especially, tremendous damage are caused in China by infringing goods, and it is imperative that specific countermeasures be developed with respect to counterfeits in China.

### **Counterfeits in China**

Damage caused by counterfeits in China is unique in that all kinds of imitations are appearing in the marketplace. Also, the scale of counterfeit production is very large, with imitations flowing not only throughout the Chinese market, but also being exported.

In order to better deal with this issue, Japanese companies such as Hitachi, Toshiba, Sony, Matsushita, Toyota, and Honda are sending personnel to China to oversee anti-counterfeit strategies, and strengthening their abilities to combat the problem locally. In addition, Japanese companies have jointly formed the

Intellectual Property Group (IPG), a cooperative group of Japanese companies whose subsidiaries in China carry out activities against counterfeits. The IPG has offices in Beijing and Shanghai, and has membership of more than 100 companies.

### **Increasing Government Support**

The Japanese government has created a structure whereby all governmental organizations can cooperate in order to support Japanese companies that are struggling with counterfeits abroad.

In July 2004, the Counterfeit Strategy Office was set up as a special office within METI, and has established unified roles for government branches to help deal with the problem of counterfeits. Companies can visit this office to consult about counterfeit. When the office acknowledges the existence of the problem, the government must take some action to help resolve the problem within ten days.

Let me introduce one case which I presented for my client. My case was actually the very first one handled by the newly opened office. In response to my request, METI was very quick to act, and through the Ministry of Foreign Affairs they requested assistance of the Japanese embassy in the country involved. The official from the embassy then immediately visited the IP Office and regulatory authorities in that country to discuss on the resolution of the issue, and to demand cooperation from that country's officials. Thanks to this, a rapid action to resolve was taken, something that would ordinarily be very difficult for a private company without official support.

### **Inter-Governmental Collaboration**

Based on instructions from the CIPS, an intellectual property group was established in each governmental body to deal with all kinds of IP problems. In addition to those in METI, the National Police Agency, the Cultural Affairs Agency and other government bodies with deep ties to IP issues, special IP departments with managers have also been set up in the Finance Ministry, the Ministry of Foreign Affairs, the Ministry of Agriculture etc. Some of these managers are people with many years of experience in dealing with counterfeit issues in Japanese companies. These departments are all connected through a network established under the auspices of the Counterfeit Strategy Office in METI, and a structure has been put in place to

maximize the effectiveness and efficiency with which each organization can deal with in each particular case. Due to such network, the aforementioned case that I was involved with was dealt with great efficiency.

In order to improve the level of support that the activities of these governmental organizations can provide, the Japanese Patent Office, which has its own, even more specialized office for counterfeit issues, and organizations such as JETRO (Japan External Trade Organization), provide information on foreign IP matters to Japanese companies free of charge.

### **Cooperation from Private Corporations**

In order to facilitate cooperation and effective action in dealing with the foreign counterfeit issues, Japanese companies organized the International Intellectual Property Protection Forum (IIPPF) in 2003. This organization was formed through the collaboration of many Japanese companies and organizations, for example the Intellectual Property Association, the Automotive Industry Group and the Bearing Industry Group. The IIPPF organizes debates, seminars and educational programs. Also, in 2003 and 2004, in cooperation with the government, a mission was sent to China for a conference with Chinese government officials with respect to the problem of counterfeit goods.

The counter-measures against counterfeits that previously each company had to take on their own, can now, through the cooperation of many Japanese companies, be carried out in a stronger and more concerted effort.

### **Cooperation from Foreign Governments**

The Japanese government is also taking steps to increase the level of cooperation from foreign governments with respect to the counterfeit issues. In October 2003, the APEC Cabinet Declaration announced in Thailand included a reference to cooperation among Asian Pacific Rim countries concerning prevention of the spreading of counterfeiting and piracy problems. In addition, at the Sea Island G8 Summit that took place in June 2004, the importance of anti-counterfeit strategy was acknowledged. The strengthening of anti-counterfeit strategy was also discussed in June 2004 during the high-level summit talks between Japan and the European Union.

The Japanese government views the problem of counterfeiting as an obstacle to international commerce, and intends to further cooperate and interact with other countries.

### **Conclusion**

In summary, the issue of preventing and policing IP infringement and counterfeiting is viewed in Japan as a matter of national policy, and an infrastructure has been put in place to allow governmental agencies, companies and the public to work together to deal with the issue. With increased cooperation from other countries,

we plan to move forward in dealing with the problem of dealing with counterfeiting overseas as well.

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This article was prepared by *Yuzuru Hayashi*, Editor to *WINDS from Japan*, based on Mr. Kurose's presentation at the 2004 Seoul International Conference on Intellectual Property & Commercialization.

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## **Determination of Reasonable Compensation: By Whom and How?**

**By Yuji OHMAGARI**

Just recently, at least in these three years, many law suits claiming the payment of reasonable compensation for employee inventions have been brought to Japanese courts by ex-employee inventors against former employers. The number of pending cases at Japanese courts has reached to ten or more. It appears as if going to the courts is a kind of social phenomenon for ex-employee inventors.

### **Employee's Invention Law**

The legal ground of employee compensation is Article 35 of the Japanese Patent Act. Paragraph (1) of Article 35 adopts the general rule that the title to an "employee invention" originally belongs to the inventor, not his/her employer, and the company shall have a royalty-free, non-exclusive license under the invention. On the other hand, Paragraph (2) provides that contractual provisions or company regulations providing in advance that the employer who has the right to obtain a patent with respect to so-called "free inventions" shall be null and void. From this statutory provision, it is generally understood that an employer is entitled to be assigned the rights to the employee invention from the employee under company regulations without his/her consent, subject to the payment of reasonable compensation for the assignment of the employee's invention under Paragraphs (3) and (4).

Meanwhile, Paragraph (3) provides that the employee is entitled to receive reasonable compensation in return of the assignment of his/her invention. Paragraph (4) also provides that the amount of such compensation shall be decided by reference to the profits that the employer "will" make from the invention and to the amount of contribution the employer "has made" to the making of the invention.

The drafters of Article 35 seems to have taken it for granted that the compensation for employee inventions should be paid at the time of assignment of the invention. However, we are and shall be forced to face difficulties in calculating the amount of reasonable compensation at the time of assignment, since Article 35 provides no detailed criteria or guidelines for the determination of the reasonable amount of compensation. On the exceptions are: 1) employer's profits which it will make (not "made") from the invention, and 2) the amount of contribution which the employer "has made" to the making of the invention (not the amount which the employer made to the obtaining of the profits).

In this context, the Japanese industry has long been treating this issue as a mater of internal invention incentive programs. Namely, many Japanese companies adopted this practice in the form of a kind of "award" programs for their employees as inventors. The followings are typical examples:

- (1) fixed payment per application, at the time of filing and patent grant (100\$ or so, respectively)
- (2) payments linked to the share of profits (i.e. sales amount and royalties from licensees, sometime with upper limit)
- (3) special bonus for significant inventions.

While this practice had been commonplace in the most of Japanese companies, a former employee of Olympus Corporation challenged the practice with respect to the reasonable compensation for an employee invention in 1995 long after the assignment of his invention to the company. In 2003, the Japanese Supreme Court ruled that whenever the court recognized the shortfall of compensation under Article 35, which, the court said, was a compulsory law governing public interest, the inventor was entitled to claim supplemental payment under Article 35 irrespective of the stipulation under the internal award programs. The court thus ordered the additional payment of the balance between due compensation and the amount actually paid by the employer.

In fact, in deciding the amount of reasonable compensation for the employee invention, the courts have adopted the following criteria:

[Reasonable Compensation] = [Company's profits arising out of the patent right to monopolize the market of patented products (or royalties from licensees)] x [100% - the amount (percentage) of the employer's contribution (at the range from 50%, as indicated in the Nichia Case, up to 95%, as indicated in the Olympus and Ajinomoto cases)].

### Calculation by Courts

Here are two questions: "What are the company's profits?" and "The employer's contribution to "What?" For the first question, the courts answered in many cases that, in patent license contexts, the profit was the total amount of royalties received from the licensees, although there still remained questions as to whether it included anticipated royalties in the future or it was limited to those actually obtained. In case of the exclusive sale of patented products, the company's profit, the courts said, was the amount of contribution by the patent to the total sales amount. Thus, the company's profit could be calculated by:

[Profit] = [Gross Sales Price] x [3% (patent's contribution ratio)].

However, it is not necessarily clear as to whether the value of royalty-free, non-exclusive license was deducted by the courts.

As for the second question, the courts' decisions were somewhat variable and seem to be still under discussion. In the Nichia case, the court limited the scope of the employer's contribution to those which had been made by the time when the invention was made, such as salary, equipment and so on. On the other hand, in the Ajinomoto case, the courts allowed to take into account a wide scope of contribution to realize the profit which the employer made even after the time the invention was made; i.e., filing patent application, prosecution, license negotiation, bonus, promotion of the employee due to his invention, etc.

However, even if the courts admitted a wide variety of contribution to the profit, the courts have not allowed the deduction of expenditures to realize the company's profit from gross profit, for instance, those for additional R&D for commercialization, legal service fee for license negotiation, patent prosecution, patent maintenance fee and so on. Their rationale seems to be based on the reason that there are difficulties in calculating concrete amounts of such expenditures. But such rationale is somewhat fragile as the courts ruled that such expenditure should be taken into account when the courts considered the amount of the company's contributions, without indicating explicitly as to "why" and "how." What they referred to was the provision of civil procedure laws setting forth the discretion of the judge to decide the reasonable amount of damages arising out of torts or alike where high difficulty remains in proving a concrete damages amount

There still remains another issue: whether an inventor can claim compensation for foreign counterpart patents. In the Hitachi Case, the Tokyo High Court reversed the decision of the Tokyo District Court that relevant foreign patents could not be included for the calculation of company's licensing revenues because Article 35 did not extend to foreign counterpart patents which ought to be governed by local law. The courts ruled that Article 35 had a nature of labor law and accordingly that it could reach foreign counterpart patents. The difficulties in

calculating the company's profit are highlighted in the packaged patent cross-license arrangement. Also in the Hitachi Case, the Tokyo High Court increased the amount of profits obtained from a major cross-licensee by twice as much as that the district court found, while reducing to zero from another major cross-licensee without persuasive explanation. The court simply reasoned that appropriate adjustments needed on a case-by-case basis. This case seems to be a good example which allows us to draw the conclusion that it is almost impossible to identify the degree of respective (numerous) patent's contribution objectively to the whole arrangement.

The most embarrassing thing in the courts' decision is that the courts have not paid appropriate attention to the risk-taking factor for R&D investment and commercialization. In the Hitachi Metals Case, for example, the company argued that the employer assumed risks in R&D investments and commercializing the employee invention and that this risk-taking factor should be taken into account by using economical approach for IP valuation (e.g. discount cash flow approach) when calculating "the company's profit," or when considering the degree of the employer's contribution. Because, they argued, from literal interpretation of Article 35, a re-evaluation of the profit actually obtained by the patent should be accompanied by its nature to reflect the risks, when considering "reasonable compensation." The courts' decision made no reference to this argument.

The Japanese industry sees serious uncertainties in the determination of contribution amounts depending on the courts' defined criteria. In other words, the companies are unable to cope with a potential risk of lawsuits raised by employees sometime in the future, since the cases did not indicated any concrete criteria to presently calculate the reasonable consideration for employee invention. The biggest and essential frustration of the industry, however, is that the level of compensation affirmed by the courts does not reflect the reality of management- too expensive. Let's compare it with that of Germany, the sole European nation adopting the employee invention system resembled to that in Japan. Detailed criteria are reportedly shown in voluminous guideline.

To resolve these uncertainties, a new bill to amend the provisions of Article 35 was passed by the Diet in May, 2004 and is to be effective on April 1, 2005. New Article 35(4) of the Patent Act allows the determination of the amount of compensation under a contract or a stipulation between the employer and the employee, only if the processes in setting up the stipulation are fair (not unreasonable) and if the amount of remuneration set forth in the stipulation should not be unreasonable. New Article 35(5) provides a remedy for the employee under which the employee can take the case to court, only if the process is unfair and/or if the amount is unreasonable. In my personal view, the new legislation seems to be a kind of compromise between the advocate of labor law and corporate IP practitioner. Therefore, additional disputes regarding the definition of "unreasonable" might remain in many cases.

We have to admit that it is a critical factor to improve its corporate employment policies where employee researchers do not feel substantial frustration in terms of due respect, promotion and payment to the employee inventors. But, it appears unfortunate to me that ex-employees use Article 35 as a tool for expressing their complaint about bad treatments during the period of his employment in the former company, in the sense that I personally believe that the Article 35 does not have any nature of labor law.

The amended law does not have any retrospective effect on patent applications that have been already filed. The industry, however, does expect that the courts will respect corporate stipulations which have been "reasonably" set forth by the employer and the employee, even in pending cases. If not the case, the industry might, in personal view, have to raise arguments again as to a possibility of another amendment of Article 35 sometime in the near future. Otherwise, the courts should establish a practical guideline of "safe harbor" for the industry including the pending "laches" issue.

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# IP News from Japan

**By Shoichi OKUYAMA**

## **Two Settlements in Employee-Invention Cases**

On January 11, 2005, Mr. Shuji Nakamura and Nichia Corp. settled the highly publicized employee-invention case on blue-ray diodes pending before the Tokyo High Court. The settled amount was 608,570,000 yen or US\$ 5.8 million plus interest, which totaled 843,910,000 yen or US\$ 8.04 million. The Tokyo District Court (Judge Mimura presiding) had earlier awarded 20 billion yen or US\$ 190 million to Mr. Nakamura. Reportedly, the Tokyo High Court showed that the benefits Nichia enjoyed from Mr. Nakamura's inventions amounted to 1.2 billion yen and assessed that the contribution of Mr. Nakamura was 5% thereof (conversely a 95% contribution by Nichia to the inventions in question) and arrived at the 0.6 billion yen figure. The settlement covers all inventions Mr. Nakamura made at Nichia (about 300 Japanese patents and applications, corresponding foreign patents, and knowhow) while the subject of the lawsuit was only one patent (No. 2628404).

Also, on November 19, 2004, Ajinomoto reached a court-mediated settlement with its former employee in another employee invention case before the Tokyo High Court. The invention in question related to a method for producing Aspartame. The amount for the settlement was 150 million yen or US\$ 1.4 million, which was lower than 189 million yen the Tokyo District Court had awarded earlier.

From these court-mediated settlements and other recent court decisions a going rate appears to be emerging for inventor compensations under Section 35 of the Japanese Patent Law.

## **Report on the Patentability of Medical Methods to Issue**

A specialist committee organized within the Council for Intellectual Property Strategy headed by Prime Minister Koizumi finalized a report on December 22, 2004 concerning the patentability of medical methods to wrap up its discussions over one and a half years. This report turned out to be a disappointment. It concludes that

only methods for realizing new efficacies of drugs for the purpose of manufacture and sale, such as combination dosage of two or more drugs, and methods of operating medical equipment should be included in patentable subject matters, although initial discussions started around patenting all kinds of medical treatment methods. Certain committee members representing physicians put up a strong opposition against those representing medical companies and patent community in order to discourage any kind of change. Either the patent law will be amended or the examination guidelines will be revised soon based on this report.

## **Securitization of Intellectual Property**

An amendment to the Trust Business Law, which is touted to be the very first overhaul of the statute since its legislation in 1922, passed the Diet on November 26, 2004 and became law. This amendment took effect on December 30, 2004, and made it possible to securitize properties in general including intellectual properties, such as copyrights, trademarks, and patents, and allows companies which are not financial institutions to enter into the trust business. Previously, the subject of securitization was limited to monetary assets, such as loans, and real estates. Under the new Trust Business Law, it has become unnecessary to set up a special purpose company in order to raise money based on intellectual properties, and associated costs are expected to reduce considerably. According to news reports, UFJ Trust Bank made an agreement with Tokiwa Seiki Co., Ltd., a construction machinery parts maker, to securitize its patents. Also, Sumitomo Trust Bank also plans to securitize copyrights on movies.

## **Tougher Border Measures Based on Patents**

With the amendment to the Customs Tariff Law of 2003, which took effect in April 2003, importation of products that are suspected to infringe a Japanese patent can now be stopped with ease and speed. The amendment gave patents equal powers as trademarks or copyrights. When the Customs Office accepts a complaint, it

will first stop the importation into Japan of suspected products and then promptly start a review process that includes possible referral to the Commissioner of the Japan Patent Office. This review process normally takes about 70 days, during which the importation will remain stopped. According to the Customs Office web site, 16 complaints are currently in force to stop importation of products based on patents. This customs procedure has become a political issue. The Korean government officially complained to the Japanese government that such customs injunctions should be granted only on a strictly selective basis.

In April 2004, Fujitsu Ltd. filed a complaint with the Customs Office and in about two weeks, the importation of plasma display panels made by Samsung SDI was stopped. Fujitsu also filed complaints against Samsung SDI Co., Ltd. at the Tokyo District Court and at the Federal District Court of Central District of California for patent infringement. Fujitsu and Samsung subsequently settled.

In June 2004, Sharp Corp. filed complaints with the Tokyo District Court and the Customs Office against low cost LCD TV sets made by TECO Electronics & Machinery Co., Ltd., a Taiwanese company, for patent infringement. AEON Co., Ltd, a large supermarket chain, was to sell TECO's products in Japan, and immediately threatened Sharp, a competitor to TECO, with the termination of all business relationship. However, stock prices of Sharp as well as AEON fell sharply and AEON was criticized for its lack of respect for intellectual property. Within a few days, Sharp and AEON came to an agreement. While Sharp products remained at AEON's shops, TECO's products were stopped by the Customs Office.

In November 2004, Matsushita Electric Industrial Co., Ltd. filed a complaint at the Customs Office against LG Electronics Inc. in order to stop importation of plasma display panels (PDPs) for patent infringement. In retaliation, LG Electronics filed a complaint in Korea against Panasonic Korea, a subsidiary of Matsushita Electric, and another complaint with the Korean Trade Commission, all for patent infringement in Korea by Matsushita's PDPs. The Japanese Customs Office accepted Matsushita's complaint and currently LG

Electronics' PDPs are stopped at the Customs Office in Japan, and the Korean Trade Commission also issued an injunction order to stop the importation and sales of Matsushita's PDPs into Korea.

In more traditional lawsuits, Toshiba Corp. sued Hynix Semiconductor Inc., a Korean chip maker, for infringement of Toshiba's flash memory patents before the Tokyo District Court and also before the Federal District Court in Dallas, Texas in November 2004. NEC Corp. sued Harris Corporation in California and its Canadian subsidiary, Harris Canada, in Canada for infringement on its microwave communication patents.

### **More Law Schools and Other Specialized Graduate Schools**

Last spring, we saw 68 graduate-level law schools newly opened. This year, 6 more such schools will open. Two private universities, the Tokyo University of Science and Osaka Institute of Technology, will start a new Master of Intellectual Property program. Also, the Tokyo Institute of Technology, a national university, will start a graduate-level management of technology (MOT) program and other universities will follow suit. MOT has become, all of sudden, a popular term in Japan. The number of such specialized graduate programs starting this year is 26 including 8 accounting schools.

### **New Employee Invention Law Will Take Effect**

The amendment to Section 35 of the Japanese Patent Law made last year will take effect in April this year. It will become necessary for corporate management to make known to its employees, its rationale for their Employee Invention Rules and how the amounts for inventor compensation are arrived. Some companies, such as Takeda Pharmaceuticals and Hitachi, announced that they have adopted new schemes for evaluating and compensating for employees' inventions in accordance with new Section 35 provisions.

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