



WINDS FROM JAPAN

Licensing Executives Society Japan

NEW YEAR GREETINGS

By **Chikao FUKUDA**

I wish a happy New Year to all members!



Looking back upon last year's events, I believe that last year was indeed a remarkable year for LES Japan and its members. In April, the cherry blossom period, the 2002 LESI Conference was held in Osaka, with the participation of some 700 persons from 47 countries. Thanks to 4 years of volunteer activities by many members of LES Japan, the Osaka Conference ended in a huge success. In November, LES Japan celebrated its 30th anniversary of its foundation in the Annual Conference held in Hiroshima. Despite the fact that two large conferences took place in the same year, the Annual Conference was carried out successfully, thanks to the efforts by the participants. On this occasion, LES Japan received a special award from LESI for its remarkable activities and contributions to the advancement of the IP awareness in the Asia region, which is an unprecedented event for a Chapter Society.

Thirty years ago, LES Japan started with only 14 members. Last year, the number of its members has been increased to almost 600, one of the largest Chapter Societies, and is growing in a quite steady manner. The approximately 40 Board Members are engaged in various committee activities, and they support as lecturers Monthly Seminars in Tokyo and Osaka, as well as other voluntary study groups among

LES Japan members. Beside these routine activities, LES Japan is also looking to expand its future activities. The preparation and carrying-out of training programs for newcomers in the field of licensing is an important issue for LES Japan, which is now seeing a transition in the generations of its members. This year, we plan to tackle more challenging opportunities related to training courses, supported by our experience of having organized basic training course for the past 3 years.

Turning our eyes abroad, LES Japan has been encouraging its members to participate in LESI Conferences or to actively contribute to LESI Committee activities, which, in turn, will contribute to one of LES Japan's prime objectives: networking. More than 100 participants in last year's Osaka LESI Conference were from Asian countries. As a society, LES Japan is currently studying ways to contribute to these younger Chapter Societies in Asia, and we are working on forming a viable plan. As an example, LES Japan anticipates sending 5 of its members as guest speakers to Courses on Licensing to be held in Singapore in March this year.

Naturally, we will continue providing LES members with LES Japan's information through our newsletter, the "WINDS from Japan". (translation by Yuzuru HAYASHI, editor)

President, LES Japan
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LES Japan Celebrates its 30th Birthday

By **Jinzo FUJINO**

The past year was a busy one for LES Japan. After the LESI International Conference was held last April in Osaka, LES Japan held its annual symposium on November 15 and 16 in Hiroshima, a world known city along the Seto-Inland Sea. This year's symposium had a special meaning, as it marked the 30th anniversary of LES Japan. About 130 attendees enjoyed this annual gathering at a resort hotel where guests enjoyed a panoramic view of inland sea and islands.

At the reception of Day 1, the following distinguished guests honored us with their presence: Mr. Tadatoshi Akiba, Mayor of Hiroshima City; Dr. Taizo Muta, President of Hiroshima University and Mr. Ryoichi Hasegawa, Senior Managing Director of Mazda Motor Corp. We also enjoyed the company of Mr. Edwin Shalloway and Mr. Heinz Goddar, both from LES International, and Mr. Yoon Bae Kim of LES Korea.

On behalf of LESI, Ed Shalloway gave a speech of congratulations, and announced for the first time that LES International had chosen LES Japan as the first recipient of its new Special Award. The Special Award, it was explained, had been newly established and is to be presented to a local chapter whose performance and contribution was deemed by LESI to be outstanding. In closing his address, Ed asked Mr. Fukuda of LES Japan to join him at the podium and awarded the Special Award plaque. (See Photo)

Day 2 was a session for education. Dr. Muta of Hiroshima University explained how his university had tackled the issue of university-industry collaboration. Hiroshima University is known as a public-funded university with a full range of health-care oriented faculties including the departments of medicine, dentistry, pharmacy and medical treatment for A-bomb victims. In last three years, the number of patent applications filed by the University has significantly increased. Dr.

Muta said that technology transfer is expected to accelerate with the forming of a team of licensing coordinators within his university.

Following Dr. Muta, Mr. Hasegawa from Mazda discoursed on the history of his company's innovation and elaborated on how knowledge management (KM) and information technology (IT) has been integrated into corporate management. As CFO and the officer responsible for IT-solutions/e-business, Mr. Hasegawa explained how the corporate innovation was implemented, namely, by both in a vertical move initiated by the top management, coupled with horizontal activities at its non-supervisory staff level. Seeing the latter was highly effective for corporate innovation, the company actively supported such intra-company voluntary activities of small groups, which set certain specific goals for the improvement of working environments and productivity.

The annual LESJ symposium for 2003 is going to be held in July at the *Kazusa Academy Park* in Chiba Prefecture.

*Editor-in-chief, WINDS from Japan
NGB Corporation, IP Research Institute*



[Photo] Ed Shalloway (right) awards the plaque to Chikao Fukuda (left).

IP News from Japan

By Shoichi OKUYAMA

1. Recent Developments Following the IP Policy Outline

As reported in the previous issue, the Strategic Council on Intellectual Property, chaired by Prime Minister Jun'ichiro Koizumi, issued its final Policy Outline on July 3, 2002 (an English version is available at <http://www.kantei.go.jp/>). In order to fulfill this Outline, several committees have been active. With an eye on the deadline of April 2003, reports are being finalized on such issues as the patentability of medical treatment methods, reform on the employee's inventions scheme, enhancing the efficiency and speed of the examination of patent applications, including further outsourcing of examination work, dispute resolution processes before JPO and infringement courts, and improved trade secret protection. Based on such reports, law amendment bills are to be drafted by the end of 2003. Also, the currently very strict amendment practice may be loosened to some extent with revisions to the examination guidelines.

2. Invalidation Proceedings before JPO Speed Up

Since July 2001, the Japan Patent Office has been making plans to speed up on a trial basis certain invalidation cases involving Japanese parties only, which have been brought before its Appeal Department. In December, JPO announced that this planning scheme would be established permanently and used for particularly complicated invalidation cases filed in January 2003 and thereafter. JPO intends to complete all invalidation proceedings within one year from the filing of their petitions.

3. More Patent Attorneys

In November 2002, the results of the national examination for the qualification of patent attorneys were announced for the fiscal year 2002. Of about 7,200 who took the exam, 466 passed. This figure represents a sharp increase in the number of those who pass this exam. For example, it was 110 in 1990 and 315 in 2001.

4. Japan Intellectual Property Association Issues a Strong Statement

In view of several recent court decisions concerning employees' inventions, Japan Intellectual Property Association (JIPA), which is the largest IP organization for companies with a membership of about 800 corporations, recently issued a strong statement calling for a law amendment to remove the

compensation clause for employee-inventors in Section 35 of the Patent Law. This new statement reiterates what JIPA pointed out in 2001 after the Olympus case, in which an ex-employee-inventor won a damages award of some two million yen (about 16,000 US dollars). As noted above, the issue of employees' inventions is under discussions at a governmental committee and in other forums with a view towards a possible law amendment, next year.

5. Examination Fee Increase Being Considered

In connection with discussions initiated by the IP Policy Outline, the possibility of fee increase emerged. With the mounting pressure of increased examination workload, coupled with the recent shortening of the period for requesting examination from 7 years to 3 years, JPO now intends to double or triple its examination fee in an attempt to reduce the number of applications to be examined. JPO pointed out that this would simply be a realignment of fees, as it does not intend to increase its overall income, since it would simultaneously reduce the basic filing fee and other fees. Presently, this fee increase is likely to happen even though strong opposition does still exist. JPO is self-supported by its fee income and has reduced some of its fees in 1998 and 1999.

6. IP Headquarters to Be Set up at Universities

The Science and Education Ministry now plans to help 30 universities establish what is called "intellectual property headquarters." All national universities will become independent corporations with their own legal status in two years. While they will be operating on government funds, they will become accountable for meeting their budgets and achievements. At the same time, professors' inventions which are currently considered free inventions will most likely become subject to the ownership of universities. To help universities manage their IP resources better, the Ministry would like to see new departments created, in addition to the already existing technology licensing offices (TLOs). Many TLOs have been established with help from the Ministry of Economy, Trade and Industry (METI). In theory, such headquarters should be capable of cooperating with TLOs, but a tug of inter-bureaucratic war lingers between the two Ministries.

Editor, WINDS from Japan
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Recent Interlocutory Decision

By **Kazuaki OKIMOTO**

1. Background

The Tokyo District Court issued an interlocutory decision on *Shuji Nakamura vs. Nichia Chemical Industries Co., Ltd.* ("Dr. Nakamura case") on September 15, 2002. Business impacts of the decision are outlined in the following article by Mr. Morita so this article focuses on, among other things, legal aspects of the case including arguments by the parties and the court decision.

Dr. Shuji Nakamura, currently a professor at Santa Barbara School of University of California, invented a blue LED (light-emitting diode) while he was employed by Nichia Chemical Industries Co., Ltd., Tokushima, Japan (Nichia). He sued Nichia, claiming mainly that the patent right on his invention of blue LED should be transferred back to him because it is not an "employee's invention" as defined in the Japanese Patent Law, Section 35, but rather is a "free invention", which was made by him against Nichia's policy and direction. He also demanded, as a second claim that should the validity of assignment be recognized, a compensation for such transfer of title to the patent amounted to around 200 million Yen, which is a portion of the profits enjoyed by Nichia and the exact amount of which is to be set by the court in a final decision to be issued in the near future.

This interlocutory decision relates only to the validity of assignment of the blue LED invention, which Dr. Nakamura made in September 1990 while he was an employee of Nichia. The Tokyo District Court declared that the assignment of the LED invention is valid.

2. Summary of Discussion

(1) Employee's Invention or Free Invention

Dr. Nakamura argued that he made the LED invention outside the scope of his duties assigned by Nichia. Thus, under Japanese Patent Law, Section 35, the invention does not fall within the scope of an employee's invention, and is therefore a so-called free invention which he made outside his duties as an employee at Nichia. Accordingly, he professed to be entitled to ownership of the invention. (Note: The term "free

invention" is a literal translation from the Japanese, *jiyu hatsumei* (free invention)).

The court found, however, that the invention is in fact an employee's invention because it was made by utilizing the company's facilities, and with other employees' support at Nichia during work hours; and further, that the work by Dr. Nakamura on the invention of a blue LED fell within the scope of his duty as an employee, and also the scope of business of Nichia.

(2) Internal Regulations

According to Nichia's internal programs on the treatment of inventions, which were revised in 1985, employees are required to submit their inventions to the patent department when an invention is made. The patent department handles all patent applications for the inventions, and manages all matters related to the inventions under the company's name. Subsequently, employees are entitled to receive certain amount of financial compensation for their invention.

The court interpreted the internal programs to mean that the employee has a right to some amount of compensation in the case of an employee's invention, and that the company shall assume/handle all necessary procedures for patent applications and manage the patent rights under its name under the premises that all rights to such employee's invention be transferred to the company. Thus, the internal programs are construed as "a contract" stipulated in the Patent Law Section 35(3).

The court found that in Dr. Nakamura's case, the right to the employee's invention had been transferred to the company under these internal programs.

(3) Implied Contract

Since inventions had been handled under these internal programs for many years, the court found that before the LED invention was made, an implied contract existed between Dr. Nakamura and Nichia in regard to the assignment of any right for an employee's invention to the company.

(4) Individual Contract

Upon reviewing the evidence, the court also found that the individual contract of assigning the right to the LED invention to the company had effectively been concluded between Dr. Nakamura and Nichia, citing the absence of complaint over a period of many years by Dr. Nakamura against applying the internal programs governing employees' inventions at Nichia to his case.

3. Observation

It is important to note here that the court found that a contract did exist between the employee and the company, even though the company's internal programs contain no explicit statement about assignment of an employee's invention to the company. In other words, the company may rely on its existing internal programs to have the employee's invention assigned to the company, even if the company has established it without prior discussions or specific agreement with its employees.

Now that the LED invention is recognized as being an employee's invention made for Nichia, the question remains as to how much the court will rule to be a "reasonable remuneration" in awarding compensation. This coming decision is expected to set the guideline as regards payment of compensation for an employee's invention to be assigned to an employer. In particular, it is hoped that certain concrete principle will be established as to what factors should be considered when calculating "reasonable remuneration"; for example, should and how the following factors should be assessed:

- a) the amount of profits the company makes from the invention; and
- b) the company's contribution to the invention.

Editor, WINDS from Japan
YUASA and HARA, Patent Attorney

Impact of Recent Patent Decisions

By **Yuri MORITA**

In September and November of 2002, the Tokyo District Court issued two seminal decisions that are forcing Japanese corporations to reexamine their internal programs regarding employee patents.

Defining "Reasonable Remuneration"

In the first case, decided on September 19, 2002, the court issued an interlocutory decision denying Shuji Nakamura's claim to rightful ownership of a patent for a blue light-emitting diode, ruling that the patent had been transferred to his former employer, Nichia Corporation. Despite the dismissal of his claim, the court also rule that under Japan's Patent Law Mr. Nakamura was eligible to receive "reasonable remuneration" for his invention, the case is still pending for the damages portion of the original damages.

In the second case, decided on November 29, 2002, the court awarded Seiji Yonezawa, a former employee of Hitachi Ltd., roughly 35 million yen as reasonable remuneration for his contribution to a patented optical disc-reading technology crucial to the development and manufacturing of CD and DVD players. In response, Hitachi issued a statement strongly

protesting the ruling and made clear its intent to appeal the decision.

Changing Company-Employee Relationships

The significance of these two rulings stems from the fact that they go against corporate practices that have been in place in Japan for over half a century. By ruling that these two ex-employees are eligible to receive remuneration for transferring ownership of their patents to their employers, the court has demonstrated that Japan's Patent Law is not just some toothless guideline, but an enforceable vehicle. In particular, the Nakamura case demonstrated that employees are eligible for such remuneration even if they had previously received a certain compensation from their employer under company rules.

Japanese industry has long championed workplace harmony. Indeed, much of Japan's competitive edge can be said to have been a result (at least up until the '90s) of this "team spirit" between companies and employees. Typically, even large corporations do not require newly hired engineers to sign agreements that specify employees' rights and obligations in regard to the discovery of new inventions and the ownership of patents. Any technology developed by a researcher during his or her presumed lifetime career at the company is assumed to be for the purpose of benefiting the

company. Patents granted under an employee's name are therefore automatically assigned to the company that he or she is working for.

In the aftermath of the aforementioned cases, however, those halcyon days are likely to be a thing of the past. In essence, the court has unequivocally concluded that the correct reading of Japan's Patent Law is that employees are entitled to reasonable remuneration in exchange for their inventions, as defined in Article 35 of Patent Law at subsection 3 ("The employee.... shall have the right to reasonable remuneration when he has enabled the right to obtain a patent or the patent right with respect to an employee's invention...."). The court further concluded that it is the court's duty to determine this amount, under Article 35 at subsection 4 ("The amount of such remuneration shall be decided by reference to the profits that the employer.... will make from the invention and to the amount of contribution the employer....").

Uncertainty for Companies

The definition of "reasonable remuneration," however, is still being debated. In an earlier patent dispute involving Olympus Optical Co., Ltd. and a former employee, the Tokyo High Court defined "reasonable remuneration" to be total royalties received by the company multiplied by the employee's contribution to the patent.

The Tokyo District Court is still deciding how it will calculate the reward owed to Nakamura. If the court decides to apply the aforementioned formula, however, this amount could be quite staggering. Nichia is said to have received more than 20 billion yen in royalties based on Nakamura's patents and his contribution to Nichia's patent portfolio is said to be quite substantial.

The Tokyo District Court has, however, already applied this formula to the Yonezawa case, multiplying Hitachi's income from royalties of the component under dispute by the

employee's estimated contribution to the patent (14%). The final result was a sum of 35 million yen.

Avoiding Future Patent Disputes

In light of these legal developments, Japanese corporations and Japanese subsidiaries of foreign firms should start right away to employ measures to prevent future patent-related employee disputes. The first step would be to create clear company rules regarding patent ownership and a system to provide fair remuneration for inventions created by their employees. When joining a company, a new employee should be provided with these rules and asked to sign a form acknowledging that he or she has been made aware of them. A clause clearly stating that the employee forgoes any rights to ownership to the invention other than those specifically identified in the company's rules would be crucial. In addition, when employees apply for and are granted patents, companies should make an honest effort to fairly evaluate the invention's worth and remunerate their employees accordingly, leaving a paper trail of how these assessments were conducted. Such procedures would help prevent the occurrence of future patent disputes and also help to prove that the company had acted in good faith if and when such disputes do occur.

Finally, Japanese companies need to lobby to modify Japan's Patent Law so that the amount of reasonable remuneration is calculated based on the agreements formed between companies and individual employees and not on court decisions or court-imposed formulas. Until this ambiguity is cleared up, companies and their employees will be forced to handle the issue with continued uncertainty.

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Behind The Scene

By Yoichiro IWASAKI

From the moment that Japan was selected to be the site of the 2002 International Conference, LESJ sprang into action. It formed various committees to address the many facets that constitute a major international event.

Osaka was decided to be the site, and therefore the logistics of selecting the meeting place, the accommodations and the tours fell on the Osaka district branch.

1. Far Beyond the Bottom Line

One major concern felt by all, was whether this Conference would be able to attract enough participants to reach the break-even point,

tentatively set at 350 persons. Due to the prolonged recession in Japan, almost all Japanese companies had been paring expenditures that did not contribute directly to the bottom line. To the disinterested eye, the registration fee would look expendable.

Re participants from overseas, the tragic events of 9-11 had influenced many companies to refrain as much as possible or avoid altogether travels to foreign destinations. We were deeply concerned that since the trip to Japan from Europe or the Americas is such a long one, it could become a target for economizing.

An all out effort was made by every LESJ member to solicit participation in this great event. We are happy to report that the last official count states that the total participants, including guest speakers etc., amounted to 691 persons, of which 550 persons registered, a joyous tally for us who worked so hard to make the Conference a success both academically and financially.

2. Addition of Japanese Flavor

LESJ organized a Program Committee, headed by Mr. Mifune, a former president and veteran of LESI matters and probably the most experienced person we could find to orchestra this great international event. I also joined as a member thereof. Mr. Mifune and I agreed that since this Conference was to be held in Japan, there should be added a unique feature which would give it a Japanese flavor. As a result of several in-depth discussions, we reached the conclusion 1) have as Plenary Speakers in Sessions III and V, gentlemen with some unique experiences and backgrounds and 2) to include in Workshop 3E the theme "Transplant of Traditional Technology into Modern Business".

For Plenary Speakers of Session III, we had two leaders of Japanese industry. The first being Mr. S. Yasui, Chairman of Teijin Limited, whose career was not only in fiber and textiles, but in such diverse fields as selling automobiles and cosmetics and a stint in Indonesia.

For Plenary Speakers of Session III, we had two leaders of Japanese industry. The first being Mr. S. Yasui, Chairman of Teijin Limited, whose career was not only in fiber and textiles, but in such diverse fields as selling automobiles and films/plastics for recording media and a stint in Indonesia. He has been really promoting Teijin's

international cooperation and established its reputation as a worldwide business entity.

The second, Mr. M. Hijikigawa, Senior Executive Director, who at Sharp Corporation, led its pioneering achievements in Liquid Crystal technology, to become the world leader in this particular cutting-edge business. Session V Plenary Speakers were renowned experts in Japanese culture and philosophy. Dr. M. Matsumoto, Professor, University of Honolulu, presented his unique analysis of the human and Japanese mind-set, comparing it to insects. Dr. H. Kawakatsu, Professor, International Research Center for Japanese Studies, spoke on how the surrounding oceans and seas has influenced and is still influencing the Japanese culture.

From the feudal ages, Japanese art has been renown, which was supported by skilled artisans. We focused on 2 areas; one being ceramics and the other printing. Japanese porcelain and other ceramics embodied technologies which were handed down through generations, and have been developed to fit modern industrial usages. I called upon Nihon NGK, who belongs to the Morimura group of the Noritake fame and had progressed from being mostly a ceramic guide manufacturer for power lines into a much diversified fine ceramic producer, and requested they present their recent achievements. They graciously accepted and made a wonderful presentation on their ceramic carrier for automotive catalytic converters, made of special ceramics which are thin as tissue paper and with fine cracks on their surface to maximize the surface area.

Re Japanese printing, which products from the past include the artistic *Ukiyo-e* woodblock prints and the *Yuuzen* silk cloth for Kimonos; both require multiple coloring and precise positioning. These technologies have been evolved to be utilized in PCBs and other usages requiring very fine lines accurately drawn. The panelist to talk on this subject was from Toppan Printing Company, who articulated their work on organic LEDs or ELs, which are necessary to develop flexible foldable screens for future electronic devices and involves sophisticated printing techniques. Both presentations were not necessarily on technology transfer per se, but on emerging technologies, which may become the object of such transfer in the future, The

audience responded enthusiastically and peppered the panelists with many questions, a sign of high interest, and recommended that such introduction of new technologies become a standard feature in coming International Conferences.

3. With Eyes Open for Asian Nations

Another “first” materialized in Workshop 4E, “Possible Development of Native Products and Design in Asia”. Postwar Japan first emerged as a developing nation, copying Western products and designs. Later, as Japan progressed to the ranks of a developed nation, it began to assert its unique colors and concepts such as “small, lightweight and portable”. The Japanese are now trying to support similar efforts in Asia, and the case presented here was its efforts in Indonesia to encourage the incorporation of local culture into modern products for the global market. A most interesting presentation was made, stimulating active discussion.

4. Preparations for Emergency Unnecessary

Lastly, one concern, which fortunately did not manifest itself, was on risk management.

With so many people of diverse ethnics, cultures and religions congregating, we were apprehensive of how to deal with a crisis, such as illness or some accident requiring in-depth help, should such occur, especially at night. Compared to Tokyo, the facilities available in Osaka were limited, and LESJ racked its brain to provide sufficient back-up to cope with such undesirable, but possible situations. Luckily all such preparations were uncalled for; resulting in a deep collective sigh of relief.

In ending, I wish to thank all who participated in the preparation for this Conference, and for the kind words of the participants appreciating the “behind the scene” efforts of LESJ.

Eat and drink well and have fun! These are definitely one of "things to do" in Osaka.

*Editor, WINDS from Japan
Consultant*

Editors' Note

Intellectual property is subject to a keen interest of not only IP practitioners but also the general public in Japan. The central government has been busy creating new IP schemes and drafting new bills for overhauling the existing system. Companies are busy for tackling with the issue of “pricing” their own patents.

In this issue, Dr. Okuyama summarizes the latest developments on major IP topics in Japan. Also, Mr. Okimoto and Mr. Morita discuss recent court decisions concerning the hot issue of employee’s inventions.

The editors believe that “WINDS from Japan” helps you keep abreast of the recent developments of IP legislation and court cases in Japan. Given a rarity of timely information in English language, this newsletter will, the editors hope, be informative for practitioners abroad.

WINDS from Japan Editorial Board Members, 2003

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