



WINDS FROM JAPAN

Licensing Executives Society Japan

Thanks for the LESI Gold Medal Award

By Akira MIFUNE

It is indeed a great honor and a pleasure for me to be bestowed the LESI Gold Medal. First of all, I wish to express my most sincere thanks for the cooperation and support given to me over the years by all my LESI friends, in particular, the members of LES Japan and my former colleagues at Teijin Limited. Without these invaluable supports, I could not have been able to achieve my goals as the President of LESI and LES Japan, as well as in other various committee works. In addition, I can never forget to my gratitude to Mrs. Michiko Ariga, my genuine mentor in this field, who encouraged me to devote the rest of my life to society, when I recovered from the serious surgery operation for rectum cancer around 13 years ago. She said "you have been retrieved by God for the sole purpose of dedicating yourself to society"



Since 1956, I have been deeply immersed in the international technology transfer and licensing business, and have been collaborating with a multitude of people in the business circle. My first visit to Europe in 1956 was to find candidates for importing technology, which were useful for polyester fiber production. Teijin sent me to ICI in England to introduce the necessary technologies for polyester fiber production. Prior to the said trips, I had to study several hundreds of patent documents relating to polyester production. It was my first experience to encounter the patent field. In this licensing action, I was really impressed by the document package embodying the technical know how, which taught us how * a commercially proven technology should be transferred to a licensee. I have

never seen such a thoughtful and detailed package of know how to be transferred to a licensee. It truly formed the basis of my philosophy when conducting technology transfer business. The perception in difference of cultures between East and West and the advanced concepts in dealing with technology, which I received through the contacts with my counterpart people during those trips in Europe, dealt me a big and lasting impact, which evolved to become the fundamental core of my business life.

Since then, my career in technology transfer and licensing has continued directly and indirectly for over 47 years. It deepened with my move from Teijin's research institute to its corporate planning office. My involvement further intensified when I became in charge of intellectual properties and licensing as the general manager of IP Department, which lasted for around 25 years. After retiring from Teijin, I worked as an advisor for a venture business, or handling various issues relating to technology transfer and licensing, as well as providing education and guidance to trainees coming mostly from developing countries. In the course of these works, LES endowed me with an abundance of knowledge, information, and advices which acted as nutrients for business throughout my activities in LESI and LES Japan.

I have dealt with an enormous amount and a tremendous variety of agreements, and been involved in serious patent battles and hard negotiations over agreements. I distinctly recognized that "Faithfulness" "Fairness" "Rationality" and "Patience" were always key elements, and if I were to adhere to these principles, I would be able to enjoy friendly relations and good communications, even after undergoing hard negotiations and severe battles at the negotiating table.

Although I sometimes was pitted against world-known American chemical companies, and settled favorably three times, their key persons and I still keep very friendly relations, even though we all have left our respective companies. They frequently call me up when they come to Japan. I am very happy to be able to expand such types of communication linkages with many countries even now. One major issue in my patent dispute experience was the negotiation to try prevent one European company to launch their product in Japan. I started the negotiation in the very early stage of business planning, and after 3 years of hard negotiations, was able to stop their launch into Japan altogether. No serious damage was inflicted onto the careers of their relevant staff, and we were able to establish more friendly relations thereafter. From such negotiations, I clearly learned that fairness and patience rooted in reasonable logic are essential factors for a successful negotiation.

Among the IP and TT related issues, I can vividly remember the international forum of private sectors concerning GATT TRIPS Negotiation, where I worked as a member of Japanese delegation, representing KEIDANREN. In the present globally borderless markets of international trade, the different and independent intellectual property protection systems of individual countries have acted as substantial barriers against the smooth transaction of international technology transfer, and the recognition as such led to the establishment of WTO. In parallel, I also intensively participated in many delegations of the Japan Patent Association, the Pacific Industrial Property Association and other relevant organizations in order to improve and harmonize international IP protection systems. It was really fortunate for me to encounter this interesting transitional state of international cooperation in IP protection systems, and even now I am still continuing to collaborate with many developing countries through various advisory works and training courses organized by JICA, JPO and WIPO etc.

Ever since the late stage of my Teijin's business life, I have been concentrating to resolve the challenging proposition of how to successfully manage joint research works. As I worked for a small international venture business after retiring from Teijin, this became more personal and serious matter. This is one of the fundamental issues for international-oriented companies to survive in the face of strong competition.

By extension of above-mentioned joint R&D issues, I am now assisting certain universities to establish their internal offices for IP management and technology transfer, the so-called TLOs. At the beginning of the 21st Century, novel and creative

advanced ideas from academic research are keenly sought in order to open up a new vista to the future of the industrial society. In order to maintain a steady pace of development and to survive in business competition, such ideas should be effectively protected with a bundle of intellectual properties. This is the reason why the establishment and strong support of TLO are desirable for universities. I am determined that a part of my remaining energy will be devoted to this difficult but invaluable subject.

With regard to my activities in LES Japan, I remember the following three works in relation to international cooperation. I first organized the LES Japan Summer Symposium in 1978 for the purpose of stimulating collaboration between the members. Before that event started, local members had no opportunity to exchange views and promote friendship except the official annual assembly. We invited many authorities in IP and licensing, international affairs, and advanced science and technology, and harvested a plenty of rich crops relating to licensing activities during the said overnight meetings. We have just celebrated the 25th anniversary of Symposium, and year by year its value is increasing for enhancing the personal communication and friendship.

The next achievement is the creation of the English newsletter "Winds from Japan" in 1997, informing internationally the hot issues relating to the changes in intellectual properties and licensing environment in Japan. In this May, the 20th issue was published and released at this LESI Delegates Meeting. As the promoter of this plan, I had been in charge of editing from the first to the 8th issue with color illustrations, by using my personal computer. Owing to the wonderful voluntary co-editors, the newsletters have enjoyed high reputation by many overseas readers. Since only very little and belated Japanese information concerning IP and licensing had been released in English before our newsletter was published, this "Winds from Japan" solved such problems, and very quick and precise information are delivered to the friends of LESI. I keenly wish to express my sincere thanks to my collaborators and successors as editors on this occasion.

The last unforgettable works were the successes in organizing the programs of 1985 LESI International Conference in Tokyo and 2002 LESI International Conference in Osaka as well as smoothly conducting the 1992 LESI International Conference in Barcelona as the LESI President. In Osaka, an unexpectedly large number of participants joined us and we are convinced that the Conference was able to help solve any perception gap in culture between East and West, as well as North and South. I was fortunate to be able to participate in around 50

international and local meetings in various countries, and these opportunities have given me plenty of harvest and have proven to be a wonderful treasure, enriching and supporting my intellectual life.

As International President, I would like to add the following two projects. I assisted to establish LES Malaysia and initiated to collaborate with UNIDO in editing the "Manual of Technology Transfer Negotiation".

Before closing my acknowledgement, I would like to ask you to allow me to express my deepest thanks to my wife, AIKO, for her warmhearted and

unwavering support to my all activities over the many many years, without which I could never have been awarded this Gold Medal.

Thank you again for your continuous and kind cooperation, and I sincerely wish to devote my best, so that I may be worthy of the trust and expectations of my distinguished LES colleagues.

Past President of LESI & LESJ
UFJ Research Institute, Advisor, Tokyo

Who says there is no future for Japan

By **Jinzo FUJINO**

It was a freezing Friday evening last winter. I received a visit from my friend who had just arrived from Hong Kong. My friend was almost frozen making his way to the restaurant where we met. I decided to change my usual casualness of treating guests with a mug of beer and follow his preference of ordering hot soup. Then, we changed to warm "sake" – the popular rice-based beverage in Japan.

As he warmed up, my friend recovered his talkativeness. Starting with his impression of his visit to Tokyo after a several years' interval, he went on to describe how different the reality of Tokyo was from that which had been reported in the Hong Kong media. He saw vitality in the crowds of Tokyoites, the flashes of city illuminations and a lot of new construction going on. He was unable to see anything that indicated a depressed, gloomy future of Japan as often portrayed.

Japan's Challenges and Trends in Licensing

It is not surprising to see press articles focusing on the lingering slump of the Japanese economy and how Japanese companies are viewed to be losing their competitiveness. *Dennis Unkovic's* report in the recent edition of the "*LESI Guide to Licensing Best Practices*" (John Wiley & Sons, 2002) can be classified as yet another example in this category. His report entitled "Is there a future for Japan?" analyzes the economic slump of Japan and its impact on licensing. He sees four major challenges facing Japan: Fixation of the banking system; New political leadership; Deregulation of government on the economy; and Restructuring of corporations. Then, he analyzes the impact of the economic slump on licensing. He sees five basic trends related to licensing as follows.

1) Over time, the licensing prospects within Japan should decline rather than rise.

2) There are insufficient new technologies being developed in Japan at this time due to a perceived missing entrepreneurial class.

3) The continued deflation in Japan makes foreign investments into selected industries much more attractive now than the past. This trend suggests that over the long run this will be a top priority for foreigners, while licensing into Japan will hold a lower priority.

4) Most Japanese corporations are less powerful and influential in the 21st century than they were just a few years ago, reducing the desirability for foreign companies to partner with a Japanese corporation in the Asian market.

5) When foreign companies seek to do business in Asia, they no longer go to Japan first.

Based on these observations, *Unkovic* concludes that without aggressive steps to reverse these perceived trends, Japan in the 21st century will indeed find itself in permanent and irreversible economic decline.

In reading his report, however, I could not keep two basic questions from arising. One, was this article really intended for the *LESI Guide* book? Next, if so, why didn't the author attempt to include specific examples of contemporary realities?

Ongoing Reforms

The author, *Dennis Unkovic*, is a business lawyer who is said to be familiar with the economy and business in Japan. I have no intention to raise arguments or question about his familiarity with Japan. If his article were in the *Asian Wall Street Journal*, rather than the *LESI Guide*, investors and economists overseas may find it of some informative

value. However, the interest of the *LESI Guide's* readers arguably differ from that of financial people. I have some reservations as to whether his article would be informative for the *LES Guide's* readers for several reasons.

First, this article is the sole section in the *LESI Guide* that discusses Japan. Readers have no opportunities to compare the author's view with others. Second, the author places more importance on a corporations' present financial status than the strength of components of Japanese businesses and their potentials. Third, and perhaps most importantly, the author's prospects appear to be drawn by inference, without seemingly mentioning any of the latest reform developments that are now under way in Japan.

The *LESI Guide* denotes in its subtitle "strategic issues and contemporary realities." Readers of the book would naturally expect something new and up to date relating to the current licensing environment, as many readers are in fact aware of the significant changes that have been taking place in Japan. However, such new changes and their impact on technology transfer are unfortunately not mentioned in the *LESI Guide*. Below are some examples.

During this past decade of the economic decline, many Japanese companies have been obliged to reduce their budgets. Naturally then, the reduced budgets for research and development are not exceptional in this sense. Reductions in the R&D budgets inevitably necessitate companies to concentrate on specific focused technologies and operations, and to outsource technologies for less-focused operations. Outsourcing technologies, most likely from universities, will foster technology transfer and licensing business in Japan. It is evident from the history of the United States that accelerated technology transfer drives a nation's economy. Accordingly, the lingering economic decline currently observed in Japan cannot be automatically regarded as evidence of heralding a pessimistic future of its licensing business.

Efforts in this same direction are being made by the central government. In July 2002, for instance, the government announced the Intellectual Property Policy Outline, which calls for fifty-five action plans involving reforms of universities and the court system within 3 years. The IP Policy Outline regards technology transfer as an important vehicle to drive the Japanese economy and sets forth specific arrangements for efficient and smooth university-industry collaboration.

The government created the Office of Intellectual Property Strategy Headquarters in March

this year. With major cabinet members and business and academic leaders as members, this new Office is to play the role of the supervisor and coordinator for various ministerial agencies so as to direct them to the speedy accomplishment of scheduled actions.

The most notable thing in the context of technology transfer and licensing is the deregulation by the government on universities. In and after April 2004, universities in Japan will be free from governmental restraints and will enjoy the right and power to commercialize their own inventions.

Wait and See

The mere description of the items of scheduled reforms and renovations may not sound persuasive. Nonetheless, just take a look at the national budget for universities with these specific regards. For FY 2003, the Ministry of Education plans a spending of US\$50 million to support university licensing offices (TLOs) and US\$60 million for fostering knowledge cluster projects. Separately, the Ministry of Economy, Trade and Industry (METI) is preparing public funds in the amount of US\$170 million to help to nurture new technologies in selected strategic fields by regional research laboratories.

The Japanese government firmly believes that a package of new legislation and public spending as well as the overhauling of the IP-related judicial systems will be effective to drive the economy. The government has set the goal of these major changes to be completed in three years. Only when these goals and investments are not been implemented, then the *Guide* author's assertion that Japan is investing in "impressive buildings and not people" would be proven correct.

Readers of this newsletter may recall the *LESI* annual conference in Osaka last year. Almost seven hundred people from the world took part in the conference. They were licensing experts and practitioners who were interested in technology transfer to and from Japan. Roughly, two thirds of those in attendance came from outside Japan, and close to half from Europe and America. Why did they want to attend the conference so far away from their homes? It is because they firmly believe that there are still much licensing opportunities available in Japan and that the reforms now taking place will only increase those opportunities.

It is too premature to draw any conclusion that there is no or very limited future for Japan, as suggested by the article in the *LESI Guide*.

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

IP News from Japan

By Shoichi OKUYAMA

1. Amendment of the Patent and Other Laws

The most recent amendment to the Patent Law passed the Diet on May 16, 2003 and became law. Some of major changes as well as amendments to the Code of Civil Procedure and the Unfair Competition Prevention Law are noted in the following.

A. Patent Fees

Perhaps the most important change is the reduction of about 20% on average for the total costs of a patent. The major components of this are the large reductions in the fixed application fee (down 20%) and the annuities which depend on the total number of claims (down about 50%), although fees for requesting examination which also depend on the number of claims will go up (roughly double).

Reduced application fees will apply to applications filed after April 1, 2004, while the new examination fees will apply depending when the application is filed. Conversely, the reduced annuities will depend on when the request for examination is made. Annuities for patents that have examination requested before April 1, 2004 will be at the old, higher level; annuities of a patent for which examination is requested after April of next year will be at the reduced level. It is important to note, however, that overall patent costs will be coming down in Japan.

Comparison of Total Patent Costs*

	Old (yen)	New (yen)
Application	¥21,000	¥16,000
Examination	¥99,500	¥199,000
Annuities	¥356,200	¥166,600
TOTAL	¥476,700	¥381,600

*For an average patent: 7.6 claims, maintained 9 years (2001). About ¥120 to a US \$.

B. Refund of Examination Fees

Another feature of the changes is that applicants will be refunded a portion of the examination fees they have paid, when they withdraw their applications before substantive examination actually begins. Considering that currently there exist an average period of about 22 months between the request of examination and the first official action, this provides a useful option for applicants to respond to changing business circumstances.

C. Improvement of Dispute Resolution System

Aimed at swifter and more effective resolution of patent disputes, some changes will be made. Up until now two mechanisms for annulling granted patents coexisted side by side: opposition and invalidation proceedings before the JPO. Also, the procedural rules for amending granted patents allowed some cases to move back and forth between the Tokyo High Court, which has sole jurisdiction over appeals from the JPO decisions, and the JPO. It was legally possible to amend patented claims at the JPO even while invalidation cases were pending on appeal before the Tokyo High Court, complicating invalidation processes and possibly co-pending infringement litigation.

The coexisting opposition and invalidation systems will be merged and certain procedural rules will be simplified concerning the amendment of granted patents. Effectively the opposition system will be abolished and consolidated into the invalidation proceedings before the Patent Office. Basically, any person with or without specific legal interest in each case will be able to initiate *inter partes* invalidation proceedings at any time

D. PCT Harmonization

In accordance with the changes approved at the thirty-first session of the PCT Union held in September/October 2002,

- Some measures will be adopted for the reinstatement of rights after failure to enter the national phase within the 30 months deadline. Requirements for the reinstatement of rights are not clear at this moment.
- All contracting countries will automatically be covered as designated states.

E. Amendment of the Unfair Competition Prevention Law

Trade secret protection will be strengthened with the introduction of criminal penalties of up to 3 years imprisonment or a fine of 300 million yen (about 2.5

million US dollars) for infringement (possible introduction by the end of 2003).

F. Other Changes

Under the bill to amend the Code of Civil Procedure the Diet, the Tokyo and Osaka pending at District Courts will have sole jurisdiction over patent and utility model cases. Currently, these two courts have special intellectual property divisions with judges specializing in IP cases. This change is included in a pending bill to amend the Code of Civil Procedure, which is expected to pass the Diet shortly. Cases involving trademarks, designs and copyrights will not be affected.

2. First Draft of the "Intellectual Property Strategic Promotion Plan"

A first draft was made public on May 21, 2003 for the "Intellectual Property Strategic Promotion Plan" which will be finalized in July by the Headquarters for Intellectual Property Strategy headed by Prime Minister Koizumi. Some of notable items are as follows.

(a) "International IP Trade Commission"

Possibly in 2004, the "International IP Trade Commission" (tentative name), which is an administrative organ for stopping imitations and pirated products at the border, will be established.

(b) Shortened Pendency at the Japan Patent Office

The pendency time of patent application at the Japan Patent Office will be cut to one third from the current level of 22 months before a first office action.

(c) Establishment of "Intellectual Property High Court."

A ninth High Court will be established. The currently pending bill (which has passed the Lower House and is now pending before the Upper House) for amending the Code of Civil Procedure includes provisions that all patent, utility model, circuit layout, software copyright cases will be handled by either the Tokyo or Osaka District Court, and that the Tokyo High Court will have sole jurisdiction over all such cases. The proposed establishment of the IP High Court will be the next step in enabling accumulation of more expertise concerning IP at this new High Court.

(d) Amendment to the Patent Law concerning Employees' Inventions.

Amendment of Section 35 of the Patent Law is proposed to make sure employers can predetermine compensation for inventions employees have made on duty. Currently, the court may override any contracts or company regulations covering employees' inventions if it finds compensations given to an employee is insufficient under Section 35 of the Patent Law.

Editor, WINDS from Japan

Okuyama & Co., PhD., Patent Attorney, Tokyo

The New Wave of M&A in Japan

By Healthcare Working Group

The Healthcare Working Group of LES Japan held a study meeting on October 18, 2002. A total of 19 LESJ members from the licensing and patent/law departments in the Japanese Pharmaceutical Industries attended the meeting and discussed certain changes in the business environment surrounding the pharmaceutical industries in Japan. Among other things, the members discussed the recent noticeable occurrence of mergers and acquisitions (called M & A hereunder).

During the last decade, the sales ranking within the pharmaceutical industry worldwide has been changing at least every two years. This was due partly because of M & A initiated by leading companies, including BM-Squibb, Novartis,

Pharmacia, AstraZeneca, GlaxoSmithKline, Aventis and Pfizer. The influence of these western giants was negligible so far as the top 5 companies in Japan were concerned. However, their influence to companies ranking below the top 5 was significant. M&A was regarded as a more rapid way to increase the company revenue than the traditional approach of contractual arrangements.

The wave of M & A reached the Japanese pharmaceutical industry, just when the industries were suffering from the economical recession. Since 1998, for example, a total of 15 companies, independent of the approaches from the foreign giants, have been the notable players in the swirling current of M & A activities in Japan (see the table). Among them, there are two interesting deals initiated by Mitsubishi Pharma and Roche.

For the period from 1998 to 2001, four pharmaceutical companies merged to form Mitsubishi Pharma. First, Yoshitomi acquired Green Cross in 1998 and formed Welfide, which then merged with Mitsubishi Tokyo in 2001. Before that deal, Mitsubishi Chemical (later renamed “Mitsubishi Tokyo”) separately had acquired Tokyo Tanabe in 1999. As a result of the merger among Yoshitomi, Welfide and Mitsubishi Chemical, Mitsubishi Pharma emerged as a gigantic pharmaceutical company with the revenues of US\$2.4 billion and the operating profit of US\$250 million. These revenues and profit figures are 3 times and 6 times larger respectively than those of Mitsubishi Chemical alone before the M&A.

The other interesting deal was the acquisition of Chugai by Roche, a Swiss-based big pharmaceutical company. Chugai was one of the top 10 companies in Japan and the deal was concluded in 2002. Roche’s acquisition of Chugai was strategic in terms of geological consideration. Roche agreed to preserve Chugai’s status in Japan. Under the arrangements, Chugai was allowed to keep its own policy as well as its company name. Chugai was also able to add the

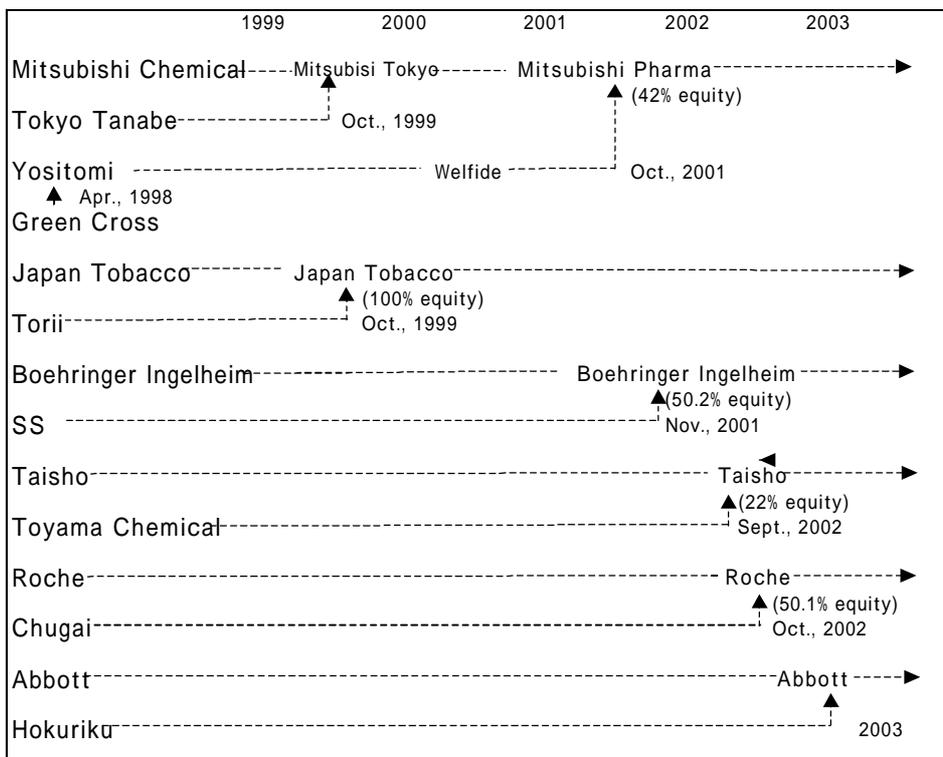
product lines of bone metabolism and cancer therapies, having received first priority rights from Roche in the Japanese market.

At the meeting, members of the LESJ Healthcare WG discussed several scenarios including benefits and problems before and after an M&A in the pharmaceutical industry. The M&A in the Japanese pharmaceutical industry is bound to occur more frequently because companies are still suffering from difficulties to develop NCE products, which require huge amounts of funds and to maintain the lead in blockbuster products in the market. However, the new wave of M&A may not continue to be dominant in this country.

As one may say, small animals are eaten by dinosaurs which can survive for the moment having acquired lots of energy. But as the history of animals teaches us, even dinosaurs may not last long without undergoing functional evolution.

Healthcare Working Group
LES Japan

Table. Recent Pharmaceutical Industries in Japan - Mergers & Acquisitions



Editors' Note

It has been more than a year since we were busy preparing for the LESI Conference in Osaka. Our colleague of the LES Scandinavia may probably be facing tensions and excitements as we have had a year ago. We believe that with the devoted contribution of our friends, the LESI 2003 Conference in Oslo will surely turn out to be successful.

The Oslo Conference is special for us, because Dr. Akira Mifune, one of the editors to this newsletter, is to receive the LESI Gold Medal in there. We cited his memoirs as the top article in this issue of "WINDS from Japan. As the editorial members, we would like to express our sincere congratulations to Mifune-san.

The second article is a commentary to "the LESI Guide to Licensing Best Practices" recently published by John Wiley. The article counter-argues the view expressed in the Guide in connection with licensing practices in Japan. It is not a book review but we hope it would be of some help for readers who want to keep abreast of latest development in Japan.

We are pleased to include in this issue a report from the LESJ's Healthcare Working Group. It summarizes the recent development of merger and acquisition in the pharmaceutical industry in Japan. (JXF)

WINDS from Japan Editorial Board Members, 2003

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