



# WINDS FROM JAPAN

The Licensing Executives Society Japan

## 26th SUMMER SYMPOSIUM IS CONVENED

By Yoichiro IWASAKI

This year's Summer Symposium was held on July 12th and 13th at the Kazusa DNA Research Institute (KDRI) in Kisarazu City, Chiba Prefecture, which is located approximately 75 kilometers from Central Tokyo, across the Bay of Tokyo.



There were 123 registered participants to this annual event of LES Japan, which had as its main theme "Towards The Re-activation of the Japanese Economy---Based on the Full Utilization of Intellectual Properties."

Following the established procedure, a reception dinner was held in the evening of the 12th, where the members and their spouses were able to renew their friendships and exchange their views in a relaxed atmosphere. This first day also featured a golf tournament and a very informative tour of KDRI, which was founded in 1991 as the first major DNA research facility in Japan, and supported financially by the Chiba Prefectural Government, after the Central Government refused to do so claiming that such DNA laboratory was premature at that time.

The highlight of the Summer Symposium was the lectures of 3 distinguished Speakers, given at the Kazusa Academia Hall on the second day.

The first Speaker was Mr. Hisamitsu ARAI, Secretary General, Intellectual Property Strategy Headquarters, Cabinet Secretariat, whose speech was titled "The National Strategy regarding Intellectual Properties." The very fact that such Headquarters had been established by the current Koizumi Government, illustrates the situation that Japan has unfortunately

been void of an affirmative national strategy to protect and encourage IP. Mr. Arai, a former Director-General of the Japanese Patent Office, analyzed the current status, giving certain specific examples worthy of mention. One was the length of the time required for patent applications to issue after it being filed. Japan requires on average 9 years, compared with 3 years for the USA and 6 years for Europe. Also Japan is underpowered manpower-wise, with only about 20,000 lawyers and patent attorneys, while USA has 940,000 and China has 130,000. The number of these ranks are increased every year by 1,200 for Japan, and 47,000 for the USA and 24,000 for China, which indicate that Japan is faced with much difficulty to catch-up even with China. While the Speaker recognizes that Japan is trying to improve matters by establishing courts and judges and examiners, who have expertise in IP, in order to facilitate and speed up procedures, he is concerned that it may not be sufficient to keep pace with the fast-changing world.

The second Speaker was Dr. Michio OISHI, Director of the Kazusa DNA Research Institute, and concurrently Heads of its Department of Chromosome Research and its Department of Genome Informatics. The title of his presentation was "Recent Developments in DNA Research and New Bio-technology." He described the organization of his Institute, and led us through the general concepts of bio-technology, making it easy for laymen to grasp an overview. It would be presumptuous of this Writer, a rank amateur in this field, to try re-capture the essence of his presentation. But his message was clear. Japan is lagging behind USA in this field, and faces a real threat that Japan as a nation may be dependent on the USA for most, if not all, of the food crops in the future, as these are being genetically engineered and being patented by USA start-ups and other concerns. Moreover, the Speaker stressed that the world of

bio-technology is advancing and changing very quickly, and no one is able to predict or anticipate the future, and Japan does not have the luxury of standing idle.

The third Speaker was Dr. Akira TONOMURA, Fellow, Advanced Research Laboratory, Hitachi, Ltd., and Visiting Professor, Tokyo Institute of Technology and other Universities, whose presentation was "Electron Beams Open Up a New Micro World." He said that as a child, he was fascinated by rows and lattices caused by interferences of light rays, which led him to explore whether light was a particle or a wave, and to see whether holography could be created by using electron beams. He had to design and construct equipment that would generate high powered but highly precise electron beams, and to use them to look into micro science. One of his current main themes appears to be Oscillating Rows of Vortices in Superconductors.

To go into further depth of his presentation is impossible for this Writer, given the limitation of my capabilities. The Speaker's message to the audience was to respect Originality, and try to encourage and promote such Originality, which is so difficult in the Japanese culture.

Lastly, in his opening speech, Mr. Chikao FUKUDA, President of LESJ, made special reference to the Gold Medal awarded to Dr. Akira MIFUNE, and invited him to the podium amid a tremendous ovation. Dr. Mifune thanked LES, LESJ and all his associates at work and otherwise, and paraphrasing President J.F. Kennedy, implored all those present to "ask not what LES can do for you, but ask what you can do for LES."

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# Patent Protection of Medical Activities

By Junjiro YASHIRO

## 1. Present Practice

In Japan, acts of medical treatment including operations, cures and diagnoses to human patients have long been regarded as unpatentable subject matters, despite the fact that there is no statutory provision in the Patent Law to prohibit such medical actions from being patented. This interpretation is largely due to examination practice within the Japanese Patent Office (JPO). JPO interprets that acts of medical treatment do not meet the requirement of patentability, more particularly, industrial application.

Under the former Patent Law in Japan, methods for preparing medicines or methods for preparing a medicine by mixing two or more pharmaceutical products were listed as unpatentable subject matters (old Article. 32). However, the amendment of the Patent Law in 1975 has removed this provision. As a result, the only unpatentable subjects that remain clearly in the present Law are those acts against public order, morality or public health. On its face, the category of unpatentable subject matters does not include the acts of medical treatment.

On the other hand, Article 69, Para. 3 in the present Patent Law, explicitly protects medical doctors etc. from infringement liability. It sets forth that the effect of a patent right for an invention of medicines does not extend to the preparation of medicines in accordance with prescriptions by physicians or dentists.

It is clear from the above that current practice to regard acts of medical treatment as being unpatentable has no basis so far as statutory provisions of the Patent Law are concerned. A basis of JPO's interpretation relied on its internal Manual of Patent Examination Procedures.

## 2. US and EU Situation

Unlike in Japan, US patents have hitherto been issued to inventions for acts of medical treatment under case law. However, a court decision on patent infringement has raised serious concerns among physicians and medical professionals concerning consequent liabilities under medical patents. This case is known as the "Pallin" case involving a US patent relating to a method for operations of cataracts. The decision led the Congress to amend the Patent Act, in particular Section 287 (c), so as to limit damages and injunctive remedies with regard to medical activities conducted by medical professionals.

Europe took a somewhat different approach from the USA. The acts of medical treatment in Europe were considered not industrially applicable. In this respect, the European approach was substantially the same as Japan's. However, EU faced the need to seek harmonized interpretation under the TRIPs framework. The Commission has amended relevant laws so as to set a basis for acknowledging industrial applicability of medical activities. However, the amendment has removed medical activities from the list of patentable subject matters. The amended law is going to be in effect shortly.

### 3. Japanese Perspective

In Japan, arguments in favor of patenting acts of medical treatment are gaining power. They demand to change the law so as to lay an explicit basis for JPO examiners to rely on for their interpretation. The Japanese government has already decided to form an expert group to tackle this issue. Reportedly, the Cabinet Secretariat, Intellectual Property Strategy Headquarters will address this issue by early 2004.

Under such circumstances, it appears a matter of time that some measures will be taken to protect acts of medical treatment under a patent. A hurdle

of “industrial applicability” could be easily removed by following the international trend.

It is unclear, however, which approach Japan will take: US approach or EU approach. As mentioned earlier, the USA opted to statutorily limit the patent right not to reach medical doctors while the European commission elected to deny patent on medical activities.

A majority of practitioners see that Japan is somewhat inclined to adopt the US approach.

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## Parallel import of non-genuine product constitutes trademark infringement in Japan

By **Kazuaki OKIMOTO**

### 1. “FRED PERRY” Supreme Court Decision

On February 27, 2003, the Supreme Court issued an interesting ruling concerning the parallel importation of genuine trademark products. In the ruling, the Court articulated a definition of parallel importation of genuine trademark products, by stating that parallel importers of genuine trademark products would not be liable for trademark infringement when the following requirements are met:

(i) The trademark is legally attached to the product by the trademark owner or its licensee in a foreign country.

(ii) The trademark represents the same source as that of the registered trademark in Japan by virtue of the fact that the trademark owner in the foreign country is identical to the registered trademark owner in Japan, or a relationship exists such that the foreign trademark owner can be regarded as being identical to the Japanese trademark owner from an economic or legal point of view.

(iii) The quality of the imported trademark product is determined to be no different from the trademark product manufactured by the Japanese trademark owner, as the Japanese trademark owner is in a position to exercise control either directly or indirectly over the quality of the product.

Since the Parker decision in 1970, the lower courts have considered, by applying the so-called “trademark function doctrine,” that parallel imports of genuine trademark products do not constitute trademark infringement. In the Parker case, the Osaka District Court applied this doctrine to a case where the function of a trademark was not considered to be damaged by a parallel importer’s action when

(a) the product was a genuine product with a genuine trademark, (b) the trademark owner in a foreign country was identical to the trademark owner in Japan and (c) the quality of the imported product was equal to that of the Japanese product. Since the Parker case, the Customs Authority has applied this doctrine in examining imported products at ports in Japan.

The “FRED PERRY” Supreme Court decision affirmed such decisions of the lower courts and the current customs control procedures.

### 2. Discussion

The subject imported products were manufactured by a contractor of a foreign trademark licensee outside of the territorial restriction of the agreement.

This decision is important for trademark licensing practitioners because it directly affects a determination of whether a Japanese trademark owner can stop the import of a licensed product which is manufactured under a license granted outside Japan by a trademark licensee but which is out of the scope of the license agreement. This question arises when the product in question has a licensed trademark appropriately attached thereto and when it seems to have been manufactured by a legitimate licensee in the country of origin.

According to the Supreme Court, under the trademark function doctrine, an imported product which has been manufactured by a licensee in violation of a license agreement will not be considered to be genuine.

The Court reasoned as follows:

A. The source of the product is misrepresented, in other words, the product does not meet the first requirement (i) above; and

B. Substantially, there is a difference in quality between the imported product and the trademark product manufactured by the Japanese trademark owner, since the Japanese trademark owner has no control quality of the imported product, in other words, the product does not meet the third requirement (iii) above.

Trademark owners need to be careful to ensure that its trademark licensees in other countries fully comply with the obligations under the trademark license agreement. According to the recent decision of the Supreme Court, if a licensed product is manufactured in violation of the license agreement in

another country and is exported to Japan, the trademark owner in Japan would be able to stop the import of the product. In other words, a product manufactured outside the scope of the license agreement is deemed to be an illegal product or a counterfeit product. A mere fact that the trademark product has been manufactured by a licensee in the country of origin will not provide an effective defense.

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# Reforming Employee Invention Compensation Structure in a Japanese Corporation

By Yuri MORITA

## 1. Introduction

It is critical for large Japanese corporations to retain the rights to intellectual property, particularly those which result from employee inventions, and are considered part of the corporations' assets. During post-war Japan, when the country was in the midst of a 50-year high growth industrial expansion, intellectual property rights, including patent ownership, and employee compensation for invention were not a focus of attention. This was a time when there was a tacit harmony between corporations and their employees. Though contrary to what was occurring in other industrialized countries, Japan preferred to model its industry on the concept of one big family, cradled with the security that comes from lifetime employment with one's employer.

## 2. Present Practice and Problems

In 1985, a U. S. report known as the "Young Report" emphasized the importance of the Pro-Patent Policy as a means for strengthening the United States' role as a nation built on intellectual property. Following its publication, and responding to the creation of the U.S. Court of Appeals for the Federal Circuit (a single court to hear appeals in all U.S. patent cases), and a spate of court rulings favoring inventors, U.S. corporations began stressing the importance of patent applications. This proved to be very effective against an excessive influx of foreign goods particularly from Japan and China. Now, nearly 20 years later, awakening to a similar need for protection, Japanese companies and the Japanese

national government have begun an initiative, called the "Strategic Counsel Meeting on Intellectual Property."

Japanese corporations are now reviewing patent policies with a focus on employee compensation, as described under Article 35 of the Japanese Patent law. The current law states that an employee must be compensated at a "reasonable" rate for any patent granted during his/her employment with the company. Under debate is the interpretation and scope of "reasonable" compensation.

## 3. Reform Plan - Two-tier approach

Employment contracts are uncommon in Japan. More prevalent is a simple employment agreement under which the employee is bound for a specified period of time without any specific agreement on patents. As a rule, employees receive a nominal compensatory fee as recognition for applying for a patent, and an additional compensation of \$1000 to \$2000 at the discretion of the company, once the patent has been granted. However, owing largely to Dr. Nakamura's blue laser patents (\* see e.g. <http://physicsweb.org/article/news/6/9/13>), which led to sales of \$200-300 million for his employer, circumstances are changing. Employee patents are being rewarded with more than a nominal fee with some companies adopting the practice of paying the inventor a percentage of related sales as an annual fee. Results of a study by Dr. Vai Io Lo on this trend were published in the July 2002 Temple International and Comparative Law Journal in an article entitled, "Employee Inventions and Works for Hire in Japan, a comparative study of the U.S., Chinese and the German systems."

As a result of recent litigation, including the Hitachi and Olympus cases, inventors are realizing that the value of their patents is greater than the nominal fees offered. An example of one company's compensation model that may offer a more equitable structure for both inventor and corporation follows. This scenario provides better incentive to the employee, and also better protection for the company against any future claims over "reasonable" compensation.

Under this model, employees are encouraged to submit patent applications through a program called the "Intellectual Property Creation Cycle." Companies are recognizing the importance of their engineers understanding the patent filing process, regardless of whether a particular patent application is viable or not, and often will provide patent application training. In this regard, I recommend that companies reward patent applications with a one-time process fee to the inventor of \$90 to \$270, which would lead to a further patent fee for the inventor if a patent issues based on the application.

Once a patent is granted, the inventor will receive a share of the anticipated revenue, calculated on percentage of profit, as part of his/her patent compensation. Recent Japanese court decisions indicate that this fee should fall somewhere between 1% and 20% of the sales amount for the products to which the patent applies. (See, for instance, recent court decisions on former Hitachi, Hitachi Metal and Olympus employees' cases.)

#### 4. Contractual Option

Another option would be to contract with the patent holder for compensation over the expected life

of the patent. This can be achieved by estimating total amount of anticipated sales resulting from the patent. Though more complicated, this will allow the inventor the benefit of receiving advance payment based on projected product sales and will effectively eliminate any future controversy between the company and the employee for claims over reasonable compensation.

#### 5. Summary

The intent of this exploration is to present to Japanese companies who are still struggling to find the "Best Reasonable Compensation System," a structure outline that will protect the corporation while providing for fair and equitable employee compensation for patents.

A company must have a flexible and competitive patent compensation program in effect, if it is to attract new or skilled employees. It must be able to enter into contractual agreements based on carefully considered options of payment based upon the anticipated sales amount over time, or offer an up-front patent fee. The writer further suggest that, in the current business environment where Japanese workers are becoming more skilled and globally aware, it is necessary for the company to include special provisions for individuals employed outside of Japan or who have been previously employed in other companies and have a proven track record for patentable designs.

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## IP News from Japan

By Shoichi OKUYAMA

### 1. Still More to Come towards IP Reform

On July 8, 2003, a sweeping action plan for the imminent reform of intellectual property protection in Japan was disclosed. Entitled "Promotion Plan for the Creation, Protection and Use of Intellectual Property," this report was prepared and published by the Headquarters for the Intellectual Property Strategy. The Headquarters are chaired by Prime Minister Koizumi and consist of all members of the Cabinet plus 10 experts selected from the private sector. The participation of all Cabinet members guarantees that every government agency has had its say during the preceding discussions. The Headquarters were officially set up in March 2003 based on the Intellectual Property Policy Outline

issued on July 3, 2002 by the Strategic Council on Intellectual Property, also chaired by the Prime Minister, and empowered by the Intellectual Property Basic Law legislated in December 2002. The bureau chief is Mr. Hisamitsu Arai, the former Commissioner of the Japan Patent Office.

The Plan consists of 70 pages and includes five chapters, each covering the creation, protection, use of intellectual property, contents business, and education, respectively. Chapter 1 covers the creation of intellectual property at universities, research institutes, and corporations. In Chapter 2 the protection of intellectual property and improvements of patent examination, protection schemes, and dispute resolution mechanisms are discussed. Border measures, protection against imitations, and international cooperation are also taken up in Chapter 2. Chapter 3 considers the use of intellectual

property including trust business dealing with intellectual property and patent pooling for standardization. Chapter 4 deals with the dramatic expansion of contents business through various training, effective protection of artistic works, and creation of markets for contents. Chapter 5 covers graduate and undergraduate level professional education at universities and a variety of educational opportunities for improving public awareness on intellectual property.

Items of significance included in the Plan are the establishment of the Intellectual Property High Court, the protection of medical treatment and diagnostic methods under patents, the abolition or amendment of the employee inventions provisions in the Patent Law, and some drastic measures for cutting down the backlog of patent applications filed but still not examined.

Perhaps, the most notable feature of this Plan is the attempt to breakdown the barriers standing among governmental agencies. To give one example, the Japan Patent Office has been at odds with the Agency of Cultural Affairs, partly because stronger protection of computer software by patents may be considered to infringe on the turf of the Agency, which administers copyright protection. Under the leadership of Prime Minister, all governmental agencies had to come together and were forced to reconcile their differences, at least temporarily. The Plan includes some 230 action items and specifies which government agencies have to be involved in each item. Within a

time span of about three years from now, what otherwise would take 10-20 years may possibly be accomplished because of the Plan.

Three specialists committees have already been established for the issues of patent protection on medical methods, promotion of contents businesses, and basic improvements in enforcement areas.

During 2004, several bills will be introduced before the Diet including a bill that is aimed at dramatically speeding up patent examination.

## 2. New Examination Guidelines for Regenerative Medicine

In view of discussions on the patentability of medical treatment methods mentioned above, the Japan Patent Office revised its examination guidelines so that a method of taking certain issue from a patient, processing and returning it to the same patient now falls under patentable subject matters. This and other minor changes took effect immediately upon publication in August. Previously, such methods were considered as medical procedures and were not patentable, although use of issue itself, such as blood, taken from a person for another patient has been a patentable subject matter.

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## Editors' Note

Articles of "WINDS from Japan, September 2003" (Issue #21) are focused on the recent developments relative to Japanese Intellectual Property topics in the business and the academic circles. The report on 26th Symposium touches upon government and law professional's increased awareness towards the importance of strategic policies on IP, with particular emphasis on such areas as medicine and bio-technology, where the current Patent law has not been able to cope adequately with the rapid advances in their technologies.

New developments on trademark case law and increased litigations concerning employees' inventions may be a passing phenomenon but certainly will bring about some fundamental changes, such as the proposed establishment of the Intellectual Property High Court.

An electronic file of the WINDS from Japan is available from the web site of the LES Japan: <http://www.lesj.org/>

(Y.M.)

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