

WINDS FROM JAPAN

The Licensing Executives Society Japan

~ Greetings from the New President ~

My Mission as the LES Japan President

By Masau TAKAYANAGI*



My name is Masau Takayanagi. I have officially assumed the position of the 19th President of LES Japan at the general assembly held in February.

I believe that my mission as President is to further promote LES activities to satisfy the needs of its

members, and strengthen the presence of LES Japan through its activities and public relations. The keyword to achieve such mission is “change”. As the U.S. Presidential Election Campaign is topical, I would like to bring your attention to the word Senator Obama frequently uses: “change”. I believe that for any country, organization or individual, “change” are important. What I mean by “change” is taking initiatives to actually make a difference, rather than passively accepting change already being made.

In that sense, the activities of LES Japan have been undergoing many changes. The best example was the “LESJ International Symposium 2008” held on January 25th, 2008. In this Symposium, discussions were held regarding the current situation in each country on the topic: “Legal Protection of a Licensee against a Transferee of the Patent licensed”. Japan’s representative was Mr. Hirohiko Nakahara, Director, Office of Intellectual Property, Ministry of Economy, Trade and Industry (METI). He lectured on the specific

non-exclusive license registration system, recently enacted by METI in 2007.

There were also presentations given by members of each LES society on the licensee protection system in the US, Germany and China, followed by heated panel discussions.

We have received many compliments and words of appreciation from many members of LES Japan and also from members of LESI visiting from overseas, commenting that the symposium was a success both in its contents and administration.

Let me specifically note that this symposium was co-sponsored by METI and LES Japan. When we made a proposal of this international symposium to the Office of Intellectual Property at METI, not only did Mr. Hirohiko Nakahara willingly accept our invitation to act as a guest speaker, but he also offered us co-sponsorship for the symposium. This was significant in a sense that the project has been acknowledged as serving a national interest, and that LES Japan has earned the trust of METI through submitting public comments and opinions during the drafting stage of the license registration system.

Mr. Noriyuki Maniwa, Director, Legislative Affairs Office, JPO also participated in this symposium as a panelist. This actually led to Ms. Tomoko Fukuda, Counselor of the Legislative Affairs Office, JPO becoming a guest speaker for LES Japan-AIPLA open joint meeting held on April 14th, 2008. She lectured on the Bill to amend the Patent Law for incorporation of the license registration system.

The foregoing shows exactly what I mean by making “changes”. Through these activities LES has apparently expanded its networks to

METI and the JPO. I sincerely hope to continue promoting events in which government officials could also take part.

“Changes are undergoing, and more to come in LES Japan.”

I would like to further note some significant aspects of the LES Business Plan 2008.

(1) Research and Education Programs

As a part of the Research Program, LES Japan has 15 working groups to date, which provide not only great opportunities for studying specific cases and business issues, but also an ideal setting for building networks.

With regard to the Education Program, monthly seminars are held in Tokyo and Osaka. In addition, two Basic Courses on Licensing and Licensing in English are now available. This year we have added Practical Courses to provide a business perspective. We are also currently considering a line-up of Advanced and Special Courses to provide a wider course selection for participants.

(2) Annual Conference

The Annual Conference is the biggest event at LES Japan, and involves an overnight trip. This is an excellent opportunity to enjoy social life at LES and expand networks.

This year the Conference will be held in Takayama, Gifu on June 6th and 7th. The number of participants has been increasing for the past two years. Last year, unfortunately, we had to close the offer prior to the deadline, due to a rush of applications exceeding hotel accommodation capacity.

This year we have increased the capacity and will be welcoming more applications. The workshops, which have been popular among the participants for the past two years, will also be provided in a more comprehensive version.

(3) International Activities

The LES International Conference 2009 will be held in Manila, Philippines. Although the main sponsor is LES Philippines, LES Japan has been asked to participate in planning workshops and sending guest speakers. We, as LES Japan, would like to organize and discuss in detail such a cooperation scheme at the Asia Pacific President Meeting and Asia Pacific Committee of LES International Chicago Conference scheduled in May this year.

Furthermore, in 2006, a Japan-China Joint Symposium was held in Beijing, China. Our next event is planned to be a Japan-India Joint Symposium, expected to be held in early 2009. We will soon be launching an executive committee to discuss plans in further detail.

(4) LES International Conference—in Japan

The LES International Conference 2008 took place in Chicago last May. 2009 will be in Manila, 2010 in South Africa, 2011 in UK, and 2012 in New Zealand. For the Conferences after 2013, however, LES International is recruiting host cities and Japan has expressed its intention to host the Conference in Metropolitan Tokyo area in 2013 in last Chicago meeting. Hosting the LES International Conference takes enormous effort and requires support from various sectors. I believe, however, that it could potentially become a driving force for expansion of LES Japan activities, just as the Olympics stimulate the economy of a host country. More than anything, it would be a great opportunity for a creating a “big change”.

I believe that the advantage of being a member of LES Japan not only lies in its excellent research and training opportunities but also in the enjoyment of social life through its networks. The activities of LES Japan are based on a “volunteer spirit”, and that is why I believe a member can earn satisfaction and enjoyment beyond monetary benefits. Even from a business perspective, strong networks developed through LES activities, domestic and international, can be incredibly useful in finding business opportunities.

Licensing negotiations or even disputes are ultimately communications between humans. Thus the outcome largely depends on whether the opposing party is trustworthy or whether good teamwork can be organized. I believe that human networks are invaluable assets to those involved in licensing or intellectual property business.

Would you like to take part in creating good networks? Well, then, are you willing to change and actively participate in LES activities?

Let’s make that change and enjoy the LES network together.

LES Japan is one of the largest member societies of LES International, having more than 650 members, out of which approximately 360 (55%) are executives and managers dealing with

intellectual property or licensing in various industries, and approximately 215 (33%) are attorneys or experts as private practitioners. The well-balanced ratio of its members provides a network that is both stimulating and useful.

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*\*LES Japan President*

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## **A Vehicle to a More Active IP Market Place? – Reform of the Patent License Registration System in Japan**

**By Kei KONISHI\***

Spurred on by the increase in M&A and bankruptcy activity, IP transactions are here to stay in Japan. Over the past decade, the number of patent-related IP transactions (*i.e.*, the buying and selling of patents) has increased fourfold. Under these circumstances, a new scheme for protecting licensees of patents has been established. Under this system, a pre-existing licensee of an acquired patent may raise the license as a defense to an assertion of infringement by the transferee so as to continue the licensee's R&D and other business. It is expected that global companies who are licensed under patents granted in Japan will benefit from the assurance of sustainability of their business under the licensed patents. The new scheme has been put into practice via two-tiered amendments to the law. First, a comprehensive patent license registration system has been newly introduced by the Act on Special Measures for Industrial Revitalization, published in May 2007, and becoming effective in the middle of 2008, after relevant Rule amendments are published in April 2008. Second, the current patent license registration system has been revised by an amendment to the Patent Act, published in April 2008, and becoming effective in June 2008.

### **The Rationale for Having a Patent License Registration System in Japan**

Unlike other jurisdictions, such as the U.S. and Germany, under the current Japanese legal system, non-exclusive patent license agreements may not protect against an assertion of infringement by the transferee (*i.e.*, the successor in interest to the original licensor) unless the non-exclusive patent license is registered in a non-exclusive patent registry before the JPO (the Patent Act Sec. 99). Accordingly, even if the license agreement contains provision in favor of

the licensee, without registration a licensee bears the risk that a subsequent transferee of the licensed patent may enforce the patent against the licensee and seek an injunction or monetary damages. Moreover, if a non-exclusive license agreement is not registered a trustee in bankruptcy may terminate the patent license agreement in the event of bankruptcy of the licensor. In this regard, registration of non-exclusive patent license agreements in Japan, while not mandatory, is necessary in practice in order to avoid these pitfalls.

### **Issues Addressed by the Change in the Law**

Despite the risks of failing to register, the non-exclusive patent license registration system has been sparingly used. For example, only 300 agreements were registered in 2005. However, this is expected to change with the current trend in the electronics, semiconductor and IT fields toward comprehensive patent licensing practice involving packages of licenses and cross-licenses. A typical comprehensive patent license is characterized as follows: 1) the object of the patent license is specified by comprehensive language, *e.g.*, a licensed product or licensed technology is defined by means other than a particular patent number; 2) terms and conditions are usually kept confidential; and 3) the object of the patent license may include pending patent applications.

The previous registration system was not compatible with such a comprehensive patent licensing practice because patent numbers were required to be specified in the license agreement as a precondition to registry before the JPO, meaning that comprehensive cross licenses were ineligible for registration. Moreover, upon registration, confidentiality was lost because the content of the registry was open to the public, allowing including information such as the name of the licensee, terms and conditions, and royalty

amount to be readily obtained by third-parties. In addition, registration was only available for license agreements on granted patents.

### **Solutions to Addressed Issues**

In response to pressure from industries in which comprehensive patent licensing practice is occurring, a new comprehensive patent license registration system has been established, thus permitting easy registration of an entire patent portfolio without the need to specify particular patent numbers. This new system complements the current per-patent-basis registration system where specifying particular patent numbers is required, and preserves confidentiality by limiting disclosure of registered patent license agreements to the public. In general, only stakeholders will have access to the whole content of a given registry. In addition, under the new system, license agreements in which pending patent applications are concerned are eligible for registration.

### **Outline of the Comprehensive Patent License Registration System**

Under the new system, a patent licensee has two options for obtaining protection against a future assignment of the patent and/or bankruptcy of a licensor. These options are: 1) registration in the new comprehensive patent license registry (available for a comprehensive license agreement that does not specify patent numbers); and 2) registration in the old per-patent-basis patent license registry, which requires specifying patent numbers. Once registered, the rights granted to the licensee are binding on the licensor's successors in interest (*e.g.*, subsequent transferees of the license may not bring infringement actions against preexisting non-exclusive licensees). One patent may be covered in both registries.

For a license agreement to be eligible for registration in the comprehensive patent license registry, it must meet the following criteria: 1) the license agreement must relate to a patent or a utility model (a registered trademark and a registered design are excluded); 2) the license agreement must be between corporations (an individual as either party is excluded); 3) the license agreement must be in writing; and 4) the object of the license may not be specified by patent numbers.

The content of the comprehensive patent license registry is subject to three-tier disclosure,

thereby business strategies and trade secrets of parties to a license agreement are kept secret while enjoying registration protection. Disclosed to the public (first tier) are only the name and address of a licensor, a license period, a registration date, and any patent number exempted from the comprehensive registration. In the second tier, a transferee of a licensed patent and a trustee in bankruptcy have access to the name and address of a licensee in the registry. In the third tier, certain stakeholders (*i.e.*, both parties of the license agreement, and the transferee of the patent, if any) have access to the whole content of the registry, including the terms and conditions of the license and matters specifying licensed patent, *e.g.*, the licensed product or the licensed technology. A flat registration fee of ¥150,000, is charged for the comprehensive patent license registration, regardless of how many patents are concerned. As noted above, specific patents can be exempted from the comprehensive patent license registry by identifying them by number.

### **Outline of Revision of Per-patent-basis Patent License Registration System**

According to the 2008 amendments to the Patent Act, a pending patent application is eligible for being registered in a per-patent-basis registry as "a provisional non-exclusive patent license" by specifying the patent application number. The concept of limited disclosure also applies now to the per-patent-basis registration system. For example, certain items of information are only accessible by certain stakeholders, *e.g.*, the name and address of a licensee, and licensing terms and conditions. Notably, disclosure of royalty provisions, currently one of the mandatory items in the registry, is now optional and may be excluded from the registry if desired.

### **Licensee's perspective – M&A context**

From a licensee's perspective, the registration of a patent license is only available by joint request by both parties, a licensor and a licensee. Nevertheless, unless provided by agreement, the licensor has no legal obligation to request registration of his patent license. Thus, from a practical viewpoint, it is recommended for a licensee to include a provision in the patent license agreement that places an obligation on the licensor to ensure registration in case of assignment of the patent.

### Licensee's perspective – Bankruptcy context

In case of bankruptcy of a licensor, the trustee in bankruptcy can generally exercise his power to terminate a patent license agreement. However, if the license is registered in the registry, the trustee is barred from terminating the patent license (the Bankruptcy Act Sec. 56(1)). It is therefore also of practical importance for a licensee to include a provision in the patent license agreement that places an obligation on the licensor to ensure joint registration in order to enjoy a protection in the event of bankruptcy of the licensor.

### Possible transferee perspective

From the perspective of a company which

intends to buy a patent, the company no longer has free access to royalty and other information concerning the subject patent. Therefore prior to an assignment of a patent, it is suggested that it is good practice for the buyer company to confirm if the seller company has the patent license registration as a licensor and, if so, to request the seller company to disclose all relevant content of the registry under an NDA. In this manner, a fair negotiation based on the reasonable value of the patent may be possible.

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Patent Attorney at MIYOSHI & MIYOSHI

IP News from Japan

By Shoichi OKUYAMA*

Trademark fees drastically reduced starting June 1, 2008

While WIPO will reduce PCT fees by 5% this year, the JPO will reduce trademark fees by 43% and patent fees by 12%, respectively, on average. In particular, the official fee for renewing a trademark registration for ten years will be reduced by 68% from the current 151,000 yen to 48,500 yen, effective June 1, 2008. This fee reduction is part of the patent and trademark law amendment that was reported in the previous issue of this newsletter. The bill for this amendment was passed by the Diet on April 11 without any changes and became law on April 18 upon publication.

Apple cleared for use of the “iPhone” in Japan

In Japan, Apple has reached settlement with a 60-year-old Japanese maker of intercom systems, Aiphone Co., Ltd., for use of the trademark “iPhone” in Japanese, as it had with Cisco over use of the trademark “iPhone” in the U.S. Aiphone has several trademark registrations in Japan, covering telephones and other goods. Apple agreed to use a trademark corresponding to iPhone in a Japanese representation that is somewhat unconventional so as to better distinguish it from “Aiphone.” No other details of the terms of the settlement have been disclosed.

University patent applications nearly quadruple in three years

Japanese public and private universities filed 9,090 patent applications in Japan and abroad during fiscal year 2006, according to the Ministry of Education, Culture, Sports, Science and Technology. Of these applications, 7,282 were filed in Japan with 1,808 abroad. This number of applications filed by Japanese universities is almost four times the corresponding figure for fiscal year 2003. The number of patents that are involved in some form of commercialization was 2,872.

Infringement win rate for patentees improves

In issue No. 32 of this newsletter, a low win rate for patentees in infringement lawsuits was reported for 2006. The figure for 2007 is now available from the Patent Committee of the Japan Patent Attorneys Association.

Year	2004	2005	2006	2007
Win rate	17%	20%	12%	24%

As shown, the win rate in 2007 is twice that of 2006, a significant improvement for patentees. This should be viewed bearing in mind the practice of judges encouraging settlements. Normally a judge will mention the possibility of settlement at least once during infringement court proceedings. Often, the judge may disclose a

probable outcome of the case and suggest specific terms of settlement, holding discussions with each party separately. It is now clear that the number of settlement cases is nearly equal to the number of trial decisions. In settlement cases, about 40% of outcomes are said to be favorable to patentees.

Also, of those cases in which an invalidity defense was made, in the following percentage of cases, patents were actually found to be invalid.

Year	2004	2005	2006	2007
Found invalid	41%	42%	70%	56%

The percentage of cases in which defendants argued for invalidity as a defense still remains high at 70 to 80%.

Year	2004	2005	2006	2007
Invalidity defense	80%	71%	83%	78%

Worries about trademarking in China

More Japanese names associated with a locality have recently been found registered as trademarks in China. For example, Saga, Kyoto, Kagoshima and Aomori, names of prefectures in Japan, have been registered in China by third parties, causing concern to local governments in Japan. The Aomori prefectural government has

succeeded in having two registrations cancelled by filing oppositions in China, and still has two other opposition cases pending. According to the April 10th issue of The Daily Yomiuri, a local English-language newspaper, as of the end of December 2007, Chinese companies had registered 36 of Japan's 47 prefectural names as trademarks, with "Kyoto" being found in 93 registrations. Local Japanese governments are now monitoring trademark publications in China.

According to the China Intellectual Property Office, 708,000 trademark applications were filed in China in 2007, the largest number in the world. The cumulative number of trademark applications filed in China up to the end of 2007 was 5.6 million, and of these, more than 3 million have been registered. China now has the largest number of trademark registrations in the world. Also, there were 245,161 invention patent applications and 181,324 utility model applications filed in China in 2007, an increase of 21% in total from the previous year.

The monitoring of IP filing in China is becoming more important for companies that do business in China, and even for those who as yet do not.

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## Editors' Note

We trust that the articles included in this issue of Winds from Japan will prove useful in providing up-to-date information on the captioned matter. We have a new president this year and are including a message from the new president of the LES Japan in this issue. We are including an article titled "Reform of the Patent License Registration System in Japan", which we expect will be useful for your licensing activities in Japan. We are also including articles providing up-dates on IP activities in Japan.

If you are interested in reading back issues of our newsletter, please access the following web site;

<http://www.lesj.org>

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