

Transforming intellectual property in Japan

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Japan is transforming its intellectual property (IP) and economy through invention. The speed of change in the IP field is occurring at a furious pace, and in some cases surpassing those in Western countries. Recent landmark decisions concerning employees' rights to invention, that have resulted in large payouts by Japanese companies to their former inventors, all point to change propelled by the need to be globally competitive.

Driving these IP changes in Japan is a determination:

- to make proceedings for those wishing to patent and license in Japan less cumbersome
- to defend the patents of Japanese companies

These objectives have been achieved by the Technical Licensing Organisation (TLO) Laws, the introduction in 2005 of a bespoke patent court, and procedural and litigation changes in the courts.

TLO Laws, privatisation of universities and new IP divisions

In the USA, TLOs are serving as engines for economic development by spinning out new companies and creating new employment opportunities. TLOs are also managing a process of commercialising and transferring research results for public good and benefit.² In Japan, the 1998 TLO law, "Promoting University-Industry Technology Transfer", has ushered in a new relationship between inventors, universities and industry. In introducing this law, Japan initially followed, and then adapted, TLO strategies used in the USA.

By 2006, Japan had adapted the TLO concept to 34 (mainly) University centers, in which approved TLOs were able to use national university properties without any cost (the centers were privatized in April 2004). The role of TLOs has expanded further from solely tech-transfer functionality to becoming centers that assist university start-ups and obtain patents.

Professor Akio Nishizawa, Deputy Director of the New Hatchery Center at Tohoku University, points to a development unique to Japan: that of intra-university IP Divisions. These exist solely to give advice and support to those in universities who wish to bring their inventions to fruition. Professor Nishizawa points to further IP structural changes that need to be implemented in the Japanese economy¹.

These include moving:

- from a follow-through system to a break-through system that emphasizes innovation
- from a centralised to decentralised economy
- from government (bureaucracy)-led to a market-oriented economy
- from big business with scale of economy, to entrepreneurial ventures with scope of economy
- from capital labor intensive to knowledge intensive

The success of the Japanese TLOs may be seen in the rise in number of university start-up ventures in Japan, from 98 in 1995 to 1,112 in 2004. This met the target for spin-offs but Professor Nishizawa notes that the performance of university start-ups is not good enough to boost the regional economy significantly by attracting high tech industry: unlike the US there is a lack of risk money and a shortage of highly talented people.

Although the technology transfer system between university and industry has changed, there has been little matching change in Japanese financial and labor policy. Venture capital activities still remain miniscule compared to the US and Europe, although this is changing.³

Employees' Rights to Compensation

Employees' rights to compensation have not changed substantially in Japanese law since the Patent Law of 1960. Employees of both companies and businesses have traditionally been reluctant to invent or license their inventions because of the poor relations between business and universities. This has resulted in inventions stagnating, and emigration of key inventors to the United States. The latter has been exacerbated by high settlements granted by the Tokyo High Court in 2004, with the Nakamura Shuji vs Nichia case becoming a landmark decision by the (then) presiding Judge Shitara. Since this case there have been modifications to the law that balances the rights of inventors with those of employers.

Nakamura Shuji vs Nichia

The blue emitting laser diode invention by Nakamura could net Nichia Corporation at least 120.8 billion yen in profits, through its exclusive ownership rights up to October 2010. The Tokyo District Court ruled that Nichia employee Nakamura Shuji was solely responsible for the invention – despite the company's claims that it was a joint effort - and calculated that Nichia should pay Nakamura half of the potential profit (60.43 billion yen). Nichia had originally bought the invention for USD 2,700, 000, and had not recognized the potential value of the blue emitting diode - even ordering Mr. Nakamura to cease his research work at one point. This was why the contribution to the employer was deemed to be only 50%.⁴ However since Nakamura had asked for 20 billion yen (USD 187 million) the District Court ordered Nichia to pay that amount as compensation for

his invention. In January 2005 the Tokyo High Court overturned the decision of the District Court, and Nakamura settled with Nichia Corporation for 844 million yen (USD 8 million). The Japanese Business Federation was relieved, as were other businesses around the world..

It is very difficult to legislate for the lack of vision by institutions and employers. It also appears that without such a ruling by the Tokyo District Court, inventors would have confirmed in their minds that they will never be remunerated properly in Japan and they would become demotivated and then emigrate elsewhere.

Invention compensation

The Nakamura case is not an isolated one. In a landmark case in 2004, *Olympus v. Tanaka*, the Supreme Court made it clear that inventors can sue their companies for larger shares of the profits from a successful invention, irrespective of employee agreements and internal rules. This appeared to give the courts total discretion to allocate size of reward. In Japan, a country traditionally adverse to litigation, this marked a significant change. In 2006, Section 5 of Article 35 was amended to protect employers by making the courts respect an employment agreement - or company rules on invention compensation - unless such compensation is deemed unreasonable: *"The amount of reasonable remuneration shall be decided by considering the amount of profit that the employer shall obtain from the invention and burdens that accompany the inventions on the employers and the degree of the contribution by the employer, and the benefits given to the employee by the employer and in all other circumstances."*

This provision is a counterbalance to the original Section 4 which allows employers redress, as it ensures that employer's contributions are taken into account in the assessment of an invention's worth. This will lead to other compensation cases paying greater attention to the valuing of IP which can be written into initial employee agreements, but needs to be more accurately assessed.

Changes to Patent Courts and Status of the Patent Attorney (*Benrishi*)

Japan's commitment to invention is profound. It began in earnest when (then) Prime Minister Koizumi launched the national strategy for invention and IP in a policy speech to the Diet in early 2002. This resulted in the formation of the Strategic Council on Intellectual Property in March 2002. Sweeping reforms of Patent Law in general⁵, amendments to the Patent Attorneys Law, and the new introduction of Patent Courts in 2005, are changes on a scale not seen since the beginning of the Meiji Era,

Sumiko Shimosaka, President of the Japan Patent Attorneys Association (JPAA), outlined a number of key areas for JPAA to follow. These included:

- the problems of counterfeiting and infringement of IP in Asia
- participating more in international conferences
- working together with more international IP organisations.

Of paramount importance is training patent lawyers to equip them with the expertise to cope with the new complex IP reforms. The increase in patent attorneys with this new expertise is already marked; 533 *benrishi* (patent attorneys) have passed an examination that complies with a recent law allowing them to jointly and equally represent clients with attorneys at law (*bengoshi*). This changes the whole process of IP litigation in Japan. At a symposium a few years ago, Sumiko Shimosaka noted that *benrishi* are now set to assume an important role in creating, protecting and utilising IP⁶

The IP High Court in Japan has 18 judges in four divisions, which is equivalent to a medium sized High Court in Japan. The Judges are supported by 11 research officials, ten of whom have examiner/appeal examiner experience at the Japan Patent Office (JPO) in the fields of machinery, chemistry or electricity, and one has experience as a patent attorney. These officials are required to review the JPO Board decisions and to submit a fair and accurate report to the Judges.

Finally, in addition, and to ensure maximum fairness, the IP High Court has a special Grand Panel Division. The IP High Court is the court of second instance, and the Supreme Court is the court of last instance in terms of legal interpretation. However the business community has requested the judiciary to form reliable rules and standards at an appeal stage, so that they do not have to wait for Supreme Court decisions. For these reasons, the Grand Panel system was introduced in April 2004 by amending the Code of Civil Procedure, in order to provide unified opinions at the second instance level.

Recent Changes to the Japanese Patent Court System

Recent changes to Japan's patent procedure relate:

- (a) to the patent court system to make it more specialized, and
- (b) to the way in which invalidity can be raised in proceedings and a patent revoked.

With the importance of intellectual property being acknowledged by both government and industry, there has been pressure for the Courts to become more specialized in dealing with patent disputes in particular. Consensus was reached after much debate and discussion, and from April 2004 some major changes were made to the Civil Procedure law:

- All litigation relating to patents, utility models, circuit design rights and copyright in computer programs is to be assigned exclusively either to the Tokyo District Court or Osaka District Court. Accordingly, it will no longer be possible to bring proceedings in other District Courts which previously had concurrent jurisdiction with those two courts. The number of specialist divisions in Tokyo District Court has been increased to four to meet the increased demand. In addition, all appeals will now be heard by the Tokyo High Court, which has by far the most specialization and expertise in the IP field. The number of judges in the IP division of the Tokyo High Court was increased from 16 to 18 to meet the additional demands.
- In the Tokyo High Court, a grand panel system was introduced to ensure consistency of High Court decisions. When cases raising the same issues are pending in the High Court, they will be heard by a panel consisting of 5 leading judges with IP expertise.
- 140 technical advisers have been appointed to assist the High Court and District Courts on technical matters. These advisers are university professors or researchers in public or private organizations who will be able to assist the court with their expertise on a part-time basis when required. This is in addition to the full-time research officials who are already employed by the courts.

These substantial practical changes to the patent court system helped make it more specialist and reliable. However, in 2005 an amendment was introduced creating a new IP High Court, as part of the Tokyo High Court. This amendment, and the formal creation of the court, has had the effect of enshrining in law the new position with respect to IP specialization, the formality being viewed as appropriate in light of the importance being attached to IP rights at present in Japan.

Validity

Another major amendment to Japanese law, allowing invalidity to be raised formally as a defence to infringement, came into effect in 2005. Rather than arguing merely that a patent appears to be invalid and thus should not be enforced, the Court has been able formally to decide that the patent is invalid. This decision however will be binding only on the parties, as the power to revoke the patent will remain with the JPO.

In addition, the former position whereby there were two ways of challenging validity in the JPO has been abolished. There is now to be only one procedure: a revised invalidation procedure. Under this procedure, any person can challenge the validity of the patent, and there are no time limits for doing so. The decision of the JPO may be appealed to the IP High Court.⁷

Summary

These important changes have made the Japanese patent system more specialized and better able to cope with this area of law with its complexities. The changes to the procedures for attacking the validity of patents are also important, as they render proceedings fairer and more efficient. No doubt there will be many more developments in the future, but these transformations will help to ensure that Japan has a fast and reliable patent enforcement system.

Such changes are further supported by the amendment made to Section 4 of Article 35 which finally provides a balanced law that serves to provide proper remuneration for the architects of invention - the inventors themselves - while balancing the contribution of the employers. For without inventive, creative people there is no innovation in any society, and both economy and society will perish without creative talented people.

Read this article in Japanese at

http://www.thomsonscientific.jp/news/pdf/Transforming_Intellectual_Property_in_Japan.pdf

Notes

1. See Cover Story "In defence of IP; Japan's new approach to patent protection" by Ruth Taplin in *Patent World*, April 2005/Issue 171 pp 20-22.
2. Terry Young, "Technology Transfer from US universities: the need to value IP at the point of commercialization" in Ruth Taplin (ed) *Valuing Intellectual Property in Japan Britain and the United States*. ed Ruth Taplin 2004 Routledge Curzon. Pp 20-33.
3. Akio Nishizawa "University start-up ventures and clustering strategy in Japan" in *Innovation and Business Partnering in Japan, Europe and the United States* Routledge 2006 p126-7.
4. Hiroshi Okuda, Chairman of the Japanese Business Federation, speaking in "Settlement in LED lawsuit could spark surge in lawsuits by inventors", published on www.asahi.com January 2005.
5. *Japan Times* 24 February 2004
6. The draft laws were passed in April 2003, see the appendix of *Exploiting Patent Rights and a New Climate for Innovation in Japan*, ed Ruth Taplin 2003, Intellectual Property Institute.
7. The author would like to thank Judge Ryuchi Shitara, Presiding Judge of the intellectual division of the Tokyo District Court for his assistance with material concerning the IP High Court and employees rights to compensation.

About the author

Prof. Ruth Taplin received her doctorate from the London School of Economics and is the author/editor of over 200 articles and 14 books. The most recent are, *Exploiting Patent Rights and a New Climate for Innovation in Japan* (London: Intellectual Property Institute 2003); *Valuing Intellectual Property in Japan, Britain and the United States* (London RoutledgeCurzon:2004);

Risk Management and Innovation in Japan Britain and the United States and *Japanese Telecommunications Market and Policy in Transition* both published by (London: Routledge/Curzon 2005/2006). Published at the end of 2006 is Ruth Taplin ed, *Innovation and Business Partnering in Japan, Europe and the United States* (Routledge). Her forthcoming book for 2007 deals with Outsourcing issues.

Prof. Taplin has been Editor of the Journal of Interdisciplinary Economics for 12 years. Her Center for Japanese and East Asian Studies of which she is Director won Exporter of the Year for trading partnerships and pathfinder in 2000 for the UK. Currently she is a Research Fellow at Birkbeck College University of London and the University of Leicester. She is a Visiting Professor at the School of International Business and Management, University of Warsaw, Poland.