

# WINDS FROM JAPAN

The Licensing Executives Society Japan

## Revision of License Registration System by Amendment of Patent Law and Other IP-related Acts

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### 1. Introduction

While there are growth restricting factors such as the aging society and declining birthrate, as well as the limited natural resources in the Japanese economy, continually stimulate economic growth, it is an urgent task to continuously promote innovation by accelerating the intellectual creation cycle and to further strengthen the industrial competitive edge through enhancing productivity in the medium and long term.

Under circumstances, to achieve a more convenient intellectual property rights system meeting users' needs to strategically utilize and duly protect intellectual property rights, the Patent Law, the Utility Model Act, the Design Act, the Trademark Act and the Law Related to Exceptions for Procedures Related to Industrial Property Rights has been amended. This bill for "Partial Amendment of Patent Law and other IP-related Acts" was passed into law on April 11, 2008 and promulgated as "Law No.16, 2008" on 18 April.

In the present discussion, an outline of the amendment to the law will be explained with respect to the revision of the license registration system in the Patent Law and the Utility Model Act.

It should be noted that opinions expressed in the article are the writer's private opinions, and do not necessarily represent opinions of the organizations to which the writer has belonged or now belongs.

### 2. Revision of license registration system

#### (1) Points of current system

In addition to exercising a patent right, a patentee can license the patent right to third parties. Under the Patent Law, as a right by which persons other than the patentee work the patented invention, provisions for "Exclusive license (*Sen'yo-jisshiken*)" (Patent Law Article 77) and "Non-exclusive license (*Tsujo-jisshiken*)" (Patent Law Article 78) are provided. The exclusive license provides a right by which the licensee can work the patented invention exclusively, so that the licensee can handle independently injunctions and/or compensation issues against infringement by third parties. On the contrary, the non-exclusive license is a right by which the licensee can only work the patented invention, and in principle, the licensee cannot handle independently injunctions and/or compensation issues against infringement by third parties<sup>1</sup>.

In addition, it is prescribed that the exclusive and non-exclusive licenses are to be registered in the Patent register provided at the Patent Office (Patent Law Article 27(1)(ii)). Since the exclusive license provides an exclusive right similar in some effects to the patent right, clarify the legal position including the establishment and assignment of the right, it is prescribed that registration at the Japan Patent Office is the requirement for entry into force thereof (Patent Law Article 98(1))<sup>2</sup>. On the contrary, as for the non-exclusive license, it enters into force only by

<sup>1</sup> In practice, as an exclusive license, a so-called "exclusive non-exclusive license" is sometimes used. Though this is a non-exclusive license under the Patent Law, the licensee is limited to one person by the agreement, and the effect thereof under the Patent Law is not different from that of a mere non-exclusive license having no exclusivity.

<sup>2</sup> Unless registration has been performed, even between the persons/parties concerned of the agreement, the license does not enter into force as an exclusive license under the Patent Law.

the intention of a person/party concerned; however, to assert the non-exclusive license in question against third parties, it is necessary to register the non-exclusive license in advance in the Patent register provided at the Patent Office (Patent Law Article 99 (1))<sup>3</sup>.

In addition, information on the exclusive and non-exclusive licenses registered in the Patent register is in principle disclosed to the public through access to the Patent register (Patent Law Article 186(1)). That is, the registration system for exclusive and non-exclusive licenses not only protects the licensee by affording the legal effect of providing the power for asserting rights against third parties by the registration, but also is intended to assure the safety of transactions relating to the patent right by disclosing the presence and the content of the non-exclusive license. Further, as described below, if the patentee has become bankrupt, the registration system works as a device to protect the licensee while maintaining the equality rule among creditors.

In a case where the license is not registered in the Patent Office, specifically in the following cases, the legal status of the licensee becomes unstable: 1) when the objective patent right has been assigned from the patentee to third parties, the licensee might be responsible for an injunction and/or compensation for damage based on the patent right etc. of the third party (new right holder), and 2) when the patentee as the licensor has become bankrupt, the license agreement might be dissolved by the trustee/administrator in bankruptcy (Bankruptcy Law Article 53(1))<sup>4</sup>. In each of case 1) and 2), a situation arises that the licensee might become unable to continue business under the previous license agreement. In order to avoid such a situation, by registering the non-exclusive license in advance in the Patent Office, 1) even when the objective patent right has been assigned from the patentee to third parties, the rights of the non-exclusive licensee can be asserted against a new right holder, and 2) even when the patentee has become bankrupt, the license agreement for establishing the registered non-exclusive license is not undeservingly dissolved

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<sup>3</sup> This is the same as a case where when a lease of real estate is registered, the lease enters into force also against the third parties (see the Civil Law Article 605). The basic concept thereof is that since the right of lease and the non-exclusive license are a credit, they enter into force only between the person/party concerned of the agreement and in principle, they do not enter into force against third parties; however, by providing the registration with public notice, they enter into force also against the third parties.

<sup>4</sup> When one party of a mutual-executory bilateral agreement has become bankrupt, in principle, the bankruptcy administrator may terminate the concerned agreement (Bankruptcy Law Article 53(1)).

(Bankruptcy Law Article 56(1))<sup>5</sup>. In other words, by registering the right in the Patent Office, the licensee can continue business based on the license.

Also in the Utility Model Act, the Design Act and the Trademark Act, the same registration system as that described above is provided.

## **(2) Background of amendment**

### **1) Needs for pre-grant license**

In recent years, in accordance with the progression of a management strategy emphasizing intellectual property, in enterprise management, the utilization of not only the patent right, but also the invention before the establishment of the patent right is becoming more important. Particularly in university TLOs or venture companies, as a management strategy including financing, a pre-grant invention<sup>6</sup> is utilized as a valuable property right and pre-grant licenses are actively made in practice. However, in the current Patent Law, there is only the provision on the exclusive and non-exclusive licenses as a license targeting the established patent right, and there is no provision on the license before the establishment of the patent right. In addition, with respect to the registration of the license, only exclusive and non-exclusive licenses can be registered, and even a license after the filing of the patent application cannot be registered before establishment of the patent right.

Accordingly, under the current system, in a case where the right to obtain patent has been assigned to third parties before the establishment of the patent right, there is no legal device provided for asserting the license granted from the previous right holder against the new right holder. In addition, in the case where a person having the right to obtain patent (licensor) has become bankrupt before the establishment of the patent right, the licensee has no means for being provided with requirements for asserting and cannot prevent the bankruptcy administrator from terminating the license agreement only because of the fact that the licensor has become bankrupt. Such a situation has been a large risk for enterprises preparing or working a business based on the pre-grant license. In addition, for example, it has been pointed out that such a situation has been caused that even in the case where the applicants wish to raise profitability while maintaining their position

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<sup>5</sup> With respect to an agreement for establishing a right for obtaining profit from the use such as a lease agreement etc., when the agreement is provided with requirements for asserting against the third parties such as the registration etc., the bankruptcy administrator cannot terminate such an agreement (Bankruptcy Law Article 56(1)). The license agreement is a bilateral agreement and is construed as falling under "agreement for establishing the right for obtaining profit from use" described in the Bankruptcy Law Article 56.

<sup>6</sup> The patent right enters into force by registering the establishment thereof (Patent Law Article 66(1)).

as a patent applicant, when a party to become a licensee would prefer to avoid the bankruptcy risk of the medium, small and venture companies as a patent applicant, these companies cannot make the license and are obliged to transfer the right to obtain patent itself to the other parties.

## 2) Needs for not disclosing the registered items

In the current system, as described above, the registered items for the non-exclusive license should be disclosed to the public. However, for both the patentee side and the licensee side is undesirable to disclose to the public information on in-licensing and out-licensing or the enterprise information on the licensor or licensee, because such information is highly suggestive as to their R&D activities, and it is strongly felt that confidentiality of such information as being closely related to business secrets and strategy should be maintained.

As a reason that the current license registration system is utilized very little, it has been pointed out that business enterprises are vehemently opposed to the registered items being disclosed to the public<sup>7</sup>.

## (3) Content of amendment

### 1) Establishment of registration system for pre-grant license [Patent Law]

Since the right to obtain patent has no exclusiveness, under the current Patent Law, a pre-grant license made in practice is considered to be equal to a firm promise that the licensee may work exclusively the patented invention after the establishment of the patent right, thereby providing the licensee with security for preparation of the business. The legal nature thereof is constituted centering on the "exclusive or non-exclusive licenses taking the establishment and registration of the objective patent right as conditions precedent"<sup>8</sup>.

On the basis of the legal nature of the pre-grant license and the above-described needs, as a system for protecting the pre-grant license, "Provisional exclusive license (*Kari-sen'yo-jisshiken*)" and "Provisional non-exclusive license (*Kari-tsujo-jisshiken*)" have been newly established under the Patent Law, and at the same time, a registration system therefor has been also provided. In accordance with the current system, for a provisional exclusive license, the registration thereof is a

<sup>7</sup> Though the total number of non-exclusive licenses related to patent rights including unregistered ones existing in Japan is estimated to be about 100,000 ("Intellectual property activities search report" 2006, the Japan Patent Office), among them, the number of non-exclusive licenses registered at the JPO is 1,315 (searched by the JPO in 2006), so that the registered ratio is calculated to be about 1%.

<sup>8</sup> Further, as is described below, the pre-grant license has such a nature as being exempted from any demand for compensation.

requirement for the entry into force, and for a provisional non-exclusive license, registration thereof is a requirement for asserting rights against third parties.

In addition, under the Utility Model Act, the Design Act and the Trademark Act, the new rights and registration system therefor are decided not to be provided based on the length of the term from the application to the registration, and there is no strong need for providing a new systematic treatment for the pre-grant license.

### i) Provisional exclusive license (the amended Patent Law Article 34-2)

#### (a) Basic content

It has been prescribed that a person having a right to obtain patent can establish a provisional exclusive license with respect to a patent right which should be acquired based on the right to obtain patent within the range described in the specification, claims and drawings which have been initially attached to the written application for the patent application (the amended Patent Law Article 34-2(1))<sup>9</sup>. In addition, it has been also prescribed that when later, there has been registered the establishment of a patent right for a patent application related to a provisional exclusive license, the provisional exclusive license becomes extinguished and it is to be deemed that in its place, an exclusive license has been established with respect to the patent right within the range<sup>10</sup> prescribed by the action for establishing the provisional exclusive license (the amended Patent Law Article 34-2(2) and (6))<sup>11</sup>.

#### (b) Subject establishing provisional exclusive license and objective of establishing provisional exclusive license

<sup>9</sup> In addition, it is considered that under the amended Patent Law, the case where an exclusive license is worked before the establishment of the patent right can include besides a case of using the provisional exclusive license, a case of using the so-called "exclusive provisional non-exclusive license" in which the provisional non-exclusive license is granted and the licensee is limited to one person according to the agreement.

<sup>10</sup> It is such a purport that the scope (region, period, limitation on the content) determined by the action for establishing the provisional exclusive license is inherited as it is in the exclusive license deemed to be established.

<sup>11</sup> It is being investigated whether a provision for such an intention that in this case, the registration of the exclusive license is performed by the JPO on its own authority, should be provided by government ordinance. In addition, it is not necessary to pay registration and license tax for an exclusive license which has been deemed to be established in addition to registration and license tax for the provisional exclusive license (the amended Registration and License Tax Law, Annexed list No.1 13 (2)).

Since, when a provisional exclusive license has been established, an exclusive license is deemed to be established automatically upon the establishment of the patent right, it has been prescribed that a person capable of establishing a provisional exclusive license is in a position to acquire the patent right in the future based on the patent application related to the provisional exclusive license; that is "a person having the right to obtain patent". In addition, the object of establishing a provisional exclusive license has been prescribed to be a "patent right to be acquired based on the right to obtain patent" by a person having the right to obtain patent. This is because it is appropriate to consider that a right which becomes an exclusive license in the future should not be established with respect to a right to obtain patent, but with respect to a patent right which should be established in the future, taking into consideration that the right to obtain patent remains a right capable of demanding the government to grant a patent and has no exclusiveness, and that a provisional exclusive license automatically becomes an exclusive license upon the establishment of the patent right.

(c) Range in which provisional exclusive license can be established

The establishment of the provisional exclusive license is to be made by the holder of a right to obtain patent with respect to a patent right to be established in the future. However, considering that a patent right has been not yet established at the time of the establishment of a provisional exclusive license, it is appropriate that an extension of the range in which the establishment of a provisional exclusive license can be made is to be the range of the right to obtain patent, that is, the range in which there is a probability that the patent right will be established in the future through the application process, including amendment etc.<sup>12</sup> Based on such a consideration, it has been prescribed that the holder of a right to obtain patent can establish a provisional exclusive license "within the range of items described in the specification, claims or drawings (the translation or the specification after the amendment, the claims or the drawings in the case where the specification, claims or drawings have been amended by submitting a written mistranslation correction (Patent Law

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<sup>12</sup> The range of the exclusive license of the patent right is limited to the range of the claims of the patent (see Patent Law Article 70(1)). However, it is so construed that the range of the right to obtain patent at the application is not to be limited to the range of temporary claims, but to be defined by a range including items described in the initial specification and drawings for which there is a probability that the patent right can be finally established (range in which the amendment can be performed for the application).

Article 17-2(3))) attached initially to the written application of the patent"<sup>13</sup>.

Here, considering the fact that the right to obtain patent is generated upon completion of the invention and is attributed primarily to the inventor, and also in the practice, an invention before filing of the patent application can sometimes be regarded as an object of licensing, it could be thought that irrespective of the patent application, the establishment of the provisional exclusive license is accepted. However, when the patent application has been filed, the extent of the right to obtain patent is objectively defined through the action of the application, the extent of the right to obtain patent for which the application has not yet been filed is uncertain. Therefore, taking into consideration that it could be considered that even when it is prescribed that the provisional exclusive license for the right to obtain patent before filing of the patent application can be established and registered irrespective of the patent application, it does not necessarily lead to clarification of the relation of the rights, as described above, it has been decided to prescribe that a provisional exclusive license can be established within the range defined by the patent application.

In addition, though the establishment of a provisional exclusive license can be made within the range including the specification and drawings etc. attached initially to the application of the patent, when the patent right for the application of the patent related to the provisional exclusive license has been registered, it is to be deemed that the exclusive license has been established with respect to the patent right. Since, upon the establishment of the patent right, the range of the right thereof becomes defined by the claims (Patent Law Article 70(1)), the extent also of the range of the exclusive license deemed as established is drawn by the claims, and defined by a range prescribed by the action of establishing the provisional exclusive license.

(d) Licensing of provisional non-exclusive license by provisional exclusive licensee (the amended Patent Law Article 34-2(4))

Since after the establishment of the patent right, the provisional exclusive license becomes an exclusive license and enforcement of the right such as through an injunction becomes possible, a person who would like to be granted a provisional non-exclusive license related to a patent application for which a provisional exclusive license has been established, is required to get a priori grant not of the non-exclusive license for the patent right, but rather the non-exclusive license for the exclusive license. Accordingly, it has been

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<sup>13</sup> In addition, licensing before the patent application made in the practice should not at all be prevented from being continuously performed (however, so long as the range is not defined by the patent application, institutional protection of the provisional exclusive license cannot be accepted).

prescribed that when a provisional exclusive licensee obtains consent of the holder of the right to obtain patent, he can grant the provisional non-exclusive license to the third parties (the amended Patent Law Article 34-2(4))<sup>14</sup>. Actually, in practicing the license agreement, when a stipulation to the effect that the exclusive license is registered after the establishment of the objective patent right is provided in a pre-grant license agreement, together therewith, a stipulation to the effect that the sublicensing authority of the licensee is approved is sometimes provided.

It has been provided that the subject for issuing the provisional non-exclusive license is the provisional exclusive licensee, and the object of the licensing is not the provisional exclusive license, but the exclusive license to be obtained by the provisional exclusive licensee in the future<sup>15</sup>.

e) Relation with the right to demand compensation (the amended Patent Law Article 65(3))

Under the current Patent Law, it is prescribed that the patent applicant can demand compensation from a person who has worked the invention related to the application after the publication of the application, after the establishment of the patent right has been registered (Patent Law Article 65(1) and (2)). However, on the basis of the term that the provisional exclusive licensee can work the patent related to the application before the establishment of the patent right, it has been newly prescribed that even when the provisional exclusive licensee has worked the patent related to the patent application, it is not necessary to bear the demand for the payment of the compensation provided in Patent Law Article 65(1) from the patent applicant (the amended Patent Law Article 65(3)).

ii) Provisional non-exclusive licensee (the amended Patent Law Article 34-3)

As described above, the legal nature of the pre-grant non-exclusive license under the current Patent Law centers on the "non-exclusive license taking the establishment and registration of the objective patent right as conditions precedent".

On the basis of the nature of a pre-grant non-exclusive license, it has been prescribed that a person

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<sup>14</sup> It is prescribed that when the exclusive licensee obtains the consent of the patentee, he may grant a non-exclusive license on the concerned exclusive license (Patent Law Article 77(4)).

<sup>15</sup> This is because, taking into consideration the way of thinking described in (i) (b)) in the case where the holder of the right to obtain patent will establish the provisional exclusive license, the provisional exclusive license is a right having no exclusiveness, and the provisional non-exclusive license established by the provisional exclusive licensee becomes, as described below, the non-exclusive license for the exclusive license automatically upon the establishment of the patent right (the amended Patent Law Article 34-3(3)), an exclusive license to be established in the future is construed as the object of the provisional non-exclusive license.

having a right to obtain patent may grant a provisional non-exclusive license with respect to patent right which should be acquired based on the right to obtain patent within the range described in the specification, claims and drawings which were initially attached to the written application for the patent application (the amended Patent Law Article 34-3(1)). In addition, it has been also prescribed that when later, there has been registered a patent right for a patent application related to the provisional non-exclusive license, the provisional non-exclusive license becomes extinguished and it is deemed that instead thereof, the non-exclusive license has been granted with respect to the patent right (the amended Patent Law Article 34(2) and (7)).

The basic concepts such as the subject for licensing the provisional non-exclusive license, the object of the right, the range, the relation to the right to demand compensation etc. are respectively the same as those described above with respect to the provisional exclusive license<sup>16</sup>.

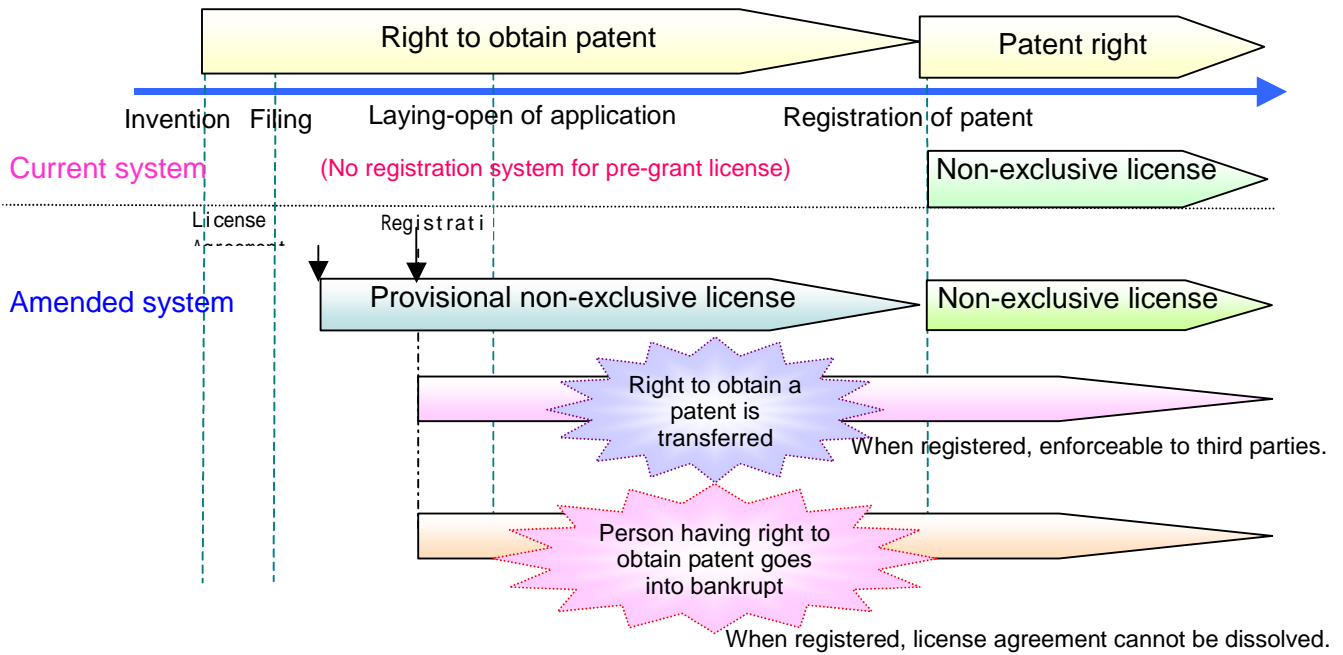
iii) Registration system for provisional exclusive license and provisional non-exclusive license

The registration system for a provisional exclusive license and provisional non-exclusive license (hereinafter, referred to as "provisional non-exclusive license etc.") has been established and it has been prescribed that the establishment, assignment or limitation on the disposition of provisional exclusive license or provisional non-exclusive license are to be registered in the patent register provided at the Patent Office (the amended Patent Law Article 27(1)(iv)). It has been prescribed that the provisional exclusive license does not enter into force unless it is registered (registration is requirement for the entry into force) (the amended Patent Law Article 34-4). In addition, a licensee who has been provided with the registration of the provisional non-exclusive license may assert the provisional non-exclusive license against third parties who have acquired thereafter the right to obtain patent related to the provisional non-exclusive license (registration is a requirement to assert against third parties) (the amended Patent Law Article 34-5).

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<sup>16</sup> However, on the basis of the fact that there is no provision provided related to the issuance of a non-exclusive license by the non-exclusive licensee in the current Patent Law, differing from the case of the provisional exclusive license described above in i) (c) (the amended Patent Law Article 34-2(4)), there has been made no provision related to the issuance of the non-exclusive license by the non-exclusive licensee.

## Effect of Registration



iv) Measures relating to amendments to or division of a patent application related to the provisional non-exclusive license etc.

Under Article 17-2 or Article 44 of the Patent Law, the applicant may add amendments to and/or divide his patent application related to a provisional non-exclusive license etc.

Under Article 17-2 of the Patent Law, the applicant may add amendments to his patent application related to a provisional non-exclusive license as long as they are to be added to matters described in the scope of claims, specification, or drawings of the original patent application. As mentioned above, the scope of the right to obtain patent after the filing of a patent application is not to be limited to the scope of claims at a specific point of time but to be interpreted as covering the scope for which a patent right might be finally issued, including the matters described in the specification and drawings initially submitted. Before and after the amendments are added, therefore, the scope of right to be granted to the patent application is to be regarded as being virtually the same. There has been no provision made on amendment of a patent application related to a provisional non-exclusive patent license because a provisional non-exclusive license is considered to remain valid for the scope set out by the action for establishing the provisional license even if amendments are added to the patent application related to the provisional non-exclusive license after the signing of the license agreement.

As regards division of a patent application, a condition that the patent application is inclusive of not only the original patent application but also possible future divisional applications is often added

to a license agreement. Legally, moreover, an original patent application is divisible for a part of the original application (see Article 44 of the Patent Law) and such division is to be made within the scope set forth in the specification, claims, and drawings of the original patent application. Before and after the division, therefore, the scope of right is considered as virtually the same. Under Articles 34-2(5) and 34-3(5), therefore, it has been prescribed that if a patent application related to a provisional non-exclusive license is divided, a non-exclusive license is to be regarded as being granted with respect to patent right to be obtained based on a right to obtain a patent related to a new patent application after the division, within the range prescribed by the action for establishing the original provisional non-exclusive license<sup>1718</sup>.

If an applicant is allowed to waiver or withdraw, at his own discretion, a patent application for which a provisional non-exclusive license is granted, the interests of the licensee who has been provided with the registration will be hampered. In accordance with Article 97 of the Patent Law, which stipulates provisions on waiver of a patent right, therefore, a patentee may waive or withdraw the patent right only

<sup>17</sup> If such measures are not taken, it is possible that an assignee of the right to obtain a patent based on a patent application for which a provisional non-exclusive license is registered might intentionally divide the application for the purpose of nullifying the effect of the provisional non-exclusive license.

<sup>18</sup> Discussion about registration of a non-exclusive license that is deemed as being granted is now going on in the JPO and the basic idea is that such a license is to be considered as registrable without any new request for registration for the license filed with the JPO.

where the consent of the provisional exclusive licensee or the provisional non-exclusive licensee who has been provided with the registration is obtained (see Article 38-2 and other relevant Articles of the revised Patent Law) (This scheme is also applicable to the case when an original patent application is deemed as withdrawn<sup>19</sup> (see Article 41(1) of the revised Patent Law which sets out provisions on a patent application involving a priority claim, and Article 10 of the revised Utility Model Act and Article 13 of the revised Design Act which include changed provisions concerning utility model applications and design applications, respectively)).

## **2) Revision of the current registration system for non-exclusive licenses (limited disclosure) [the Patent Law and the Utility Model Act]**

In recent years, there has been a heightening demand among licensees for a revision of the current registration system for non-exclusive licenses to keep the contents or existence of a license secret and thereby bring about more adequate protection for licensees. To satisfy such demand, some registered

items<sup>20</sup> of a non-exclusive license for a patent or utility model, which it was desired should be hidden from others, are to be made accessible only to a certain interested party (see Article 186(3) of the revised Patent Law and Article 55 of the revised Utility Model Law)<sup>21</sup>. In contrast, an exclusive license is a very powerful right to be able to exclude others. In other words, such a right can have a great impact on third parties and thus, the current provisions have been continuously applicable to exclusive licenses and all registered items are to be kept open to the public.

Provisions relating to limited disclosure on a non-exclusive license are to be made applicable to a provisional non-exclusive license, and those relating to disclosure of all registered items on an exclusive license are to be made applicable to a provisional exclusive license.

Before making these provisions fully applicable, transitional measures will be established. For a non-exclusive license registered before the implementation date of the revised law, all registered items are to be disclosed (Article 2(6) of the Supplementary Provisions).

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<sup>19</sup> If the application is a PCT international application involving a provisional non-exclusive license, the JPO will have no means to confirm whether or not the licensee's consent is obtained unless it is the receiving Office. According to Article 27(1) of the Patent Cooperation Treaty (PCT), moreover, "No national law shall require compliance with requirements relating to the form or contents of the international application different from or additional to those which are provided for in this Treaty and the Regulations." For an international application claiming priority under the PCT, therefore, the consent of the licensee of the registered non-exclusive license will not be required (see Article 184(1) of the revised Patent Law).

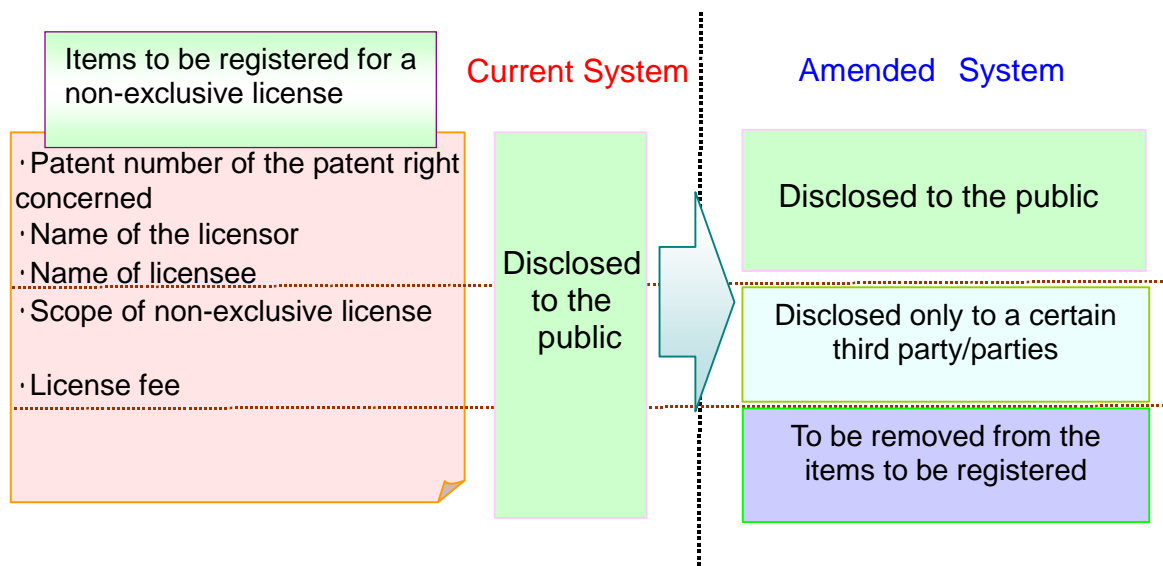
In addition, if a patent applicant fails to make an examination request for a patent application involving a registered provisional non-exclusive license within a prescribed time limit, the application is to be deemed to have been withdrawn (see Article 48-3(4)). Under Article 48-3(1), however, "Where a patent application is filed, any person may, within 3 years from the filing date thereof, file with the Commissioner of the Patent Office a request for the examination of the said application." If the applicant does not file an examination request with the JPO and if the licensee of the provisional non-exclusive license files an examination request, the application will not be deemed to have been withdrawn. Thus, no specific provision was added to the Patent Law for the protection of licensees of provisional non-exclusive licenses.

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<sup>20</sup> To have a non-exclusive license for a patent right registered, information on the following items should be entered in the Patent Register: 1) application number; 2) name of the licensor of the non-exclusive license (name of the patent holder or holder of the exclusive license); 3) name of the non-exclusive licensee; 4) scope of the non-exclusive license; and 5) amount of license fee and its payment method (see Article 17(19(ii) of the Patent Law, Article 45(1) of the Patent Registration Order, and Article 10(4) of the Patent Registration Order Enforcement Regulation.)

<sup>21</sup> Which registration items must not be disclosed due to a risk of causing the party such as a non-exclusive licensee a loss is to be set forth by an ordinance of the Cabinet Office. More specifically, name of the licensee and the scope of license are not likely to be disclosed. The JPO has also been looking into the possibility of excluding "amount of license fee" from the required registration items because "amount of license fee" can widely fluctuate due to economic factors.

Also, conditions on interested parties allowable to request for information disclosure are to be set out by another ordinance of the Cabinet Office. More specifically, following the examples of other enacted laws, a licensor, a licensee, holder of the patent right, a pledge, an attaching creditor, a provisional attaching creditor, and a holder of a right to control/dispose of the seized goods.



#### (4) Implementation date of revisions to the Patent Law

Revisions concerning the license registration system will enter into effect on a date prescribed by a government order which will fall within a year from the promulgation date (i.e. April 18, 2008).

#### 3. Conclusion

To date, detailed provisions have not been set out in the Patent Law on how to deal with legal rights during the processes from the filing of application to the issuance of a patent or rejection of the application. For the purpose of ensuring more adequate IP protection for licenses with the enactment of the Partial Amendment of Patent Law and other IP-related Acts, new provisions are introduced and thereby new systems will be established. The new systems will help avoid possible risks deriving from

licensing such as a right transfer or bankruptcy of a licensor. The newly introduced registration systems will also be expected to enable an applicant to seamlessly utilize them at any time regardless of whether or not a patent is already issued. Then, they are expected to practically underpin flexible licensing activities. The revisions under the Partial Amendment of Patent Laws and other IP-related Acts are also expected to enhance discussions on legal aspects of rights relating to business practices other than licensing while paying attention to business activities of the industries.

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## Coca-Cola Bottle is Registrable as a 3D Trademark

By **Jinzo FUJINO\***

On May 29, 2008, the Intellectual Property High Court in Japan delivered a landmark decision in the trademark field. In its decision, the IP High Court found a returnable Coca-Cola bottle registrable as a three dimensional (3D) trademark, as it had acquired distinctiveness through use supported by active marketing efforts over a long period of time. This is the first instance of a court awarding a 3D trademark for a container of goods since legislation establishing the 3D trademark system was enacted in Japan in 1996.

#### Shape of Coca-Cola Bottle

In 2003, Coca-Cola filed a trademark application for its returnable bottle designating goods in Class 32, which encompasses beer, refreshing beverages, fruit juice and vegetable juice. The Japan Patent Office (JPO) examiner rejected Coca-Cola's 3D application because the 3D shape of a Coca-Cola's bottle did not meet the statutory requirements for registration. Under the Trademark Law, §3-1-3, a trademark may not be registered when it consists solely of a mark indicating, in a common manner, a shape of goods (including packaging shape), or articles for use in the provision of services.

Coca-Cola responded by changing the designated goods to "cola drinks" and appealed the examiner's decision. The Appeals Department of the JPO rejected the appeal, citing the same basis as the



examiner. Coca-Cola then appealed to the IP High Court seeking the cancellation of the JPO decision.

On appeal, the IP High Court decided in favor of Coca-Cola and cancelled the decision of the JPO. The Court found, among other things, that the returnable bottle in question had acquired distinctiveness as a 3D mark through use, and that the use of a registered, two-dimensional, trademark, i.e., “Coca-Cola”, would not interfere with finding distinctiveness in the three dimensional shape of the returnable bottle.

### Three Dimensional Trademarks

The system for the registration of 3D trademarks was first introduced in Japan in 1996. In the legislation, however, there was a special remark that the 3D marks indicating designated goods in common manner should be carefully dealt with so as not to improperly allow registration of commonplace 3D trademarks. Presently, a 3D trademark is registrable if it is inherently distinctive (§3-1-3) or distinctiveness is acquired through use (§3-2), and it is not solely of a three dimensional shape of goods being indispensable to secure the functions of the goods (§4-1-18).

In view of the cautionary remark in the legislation, the JPO prepared an internal examination guideline for JPO examiners to aid them in assessing the registrability of a 3D mark. The guideline specifies, among other things, that a shape which could be perceived by consumers as being a commonplace shape of the designated goods or its container is unregistrable.

In the case of the Coca-Cola returnable bottle, the JPO Examiner, taking this guideline into account, concluded that the three-dimensional shape of the Coca-Cola bottle was for the purpose of increasing the function or authenticity of a container for Coca-Cola drinks, and that its shape was still within the scope that would cause general consumers to consider it ordinary and commonplace.

### Acquired Distinctiveness by Use

According to evidence which the Coca-Cola submitted, the Coca-Cola started selling its returnable bottles in Japan in 1957. Since then, its sales increased remarkably. Over this period, however, the shape of the bottle remained unchanged and active advertisements have been carried out focusing on the features of the returnable bottle as a container for the Coca-Cola beverage. The Court observed that these marketing and advertisement efforts by Coca-Cola caused average consumers to distinguish

Coca-cola’s bottle from others and identify it as being distinctive.

With this observation, the Court concluded that Coca-Cola’s returnable bottle had acquired distinctiveness through use, thereby causing it to become registrable as a 3D trademark under §3-2. Section 3-2 provides that trademark registration may be obtained if, as a result of the use of a less distinctive mark, consumers are able to recognize the goods or services as being connected with a certain person’s business.

### “Coca-Cola”™ v. Bottle features

The JPO’s Examination Guideline further requires that a mark for which registration is sought must be identical to a mark in actual use. In practice, this requirement has been a bottleneck that has prevented 3D marks from being registered as trademarks.

In this respect, however, the IP Court found that consumers might be able to identify the source of the goods due to the shape of the goods, even without known word trademarks, “Coca-Cola” in this case. According to this finding, even if a known trademark is put on a 3D article, presence of such a known trademark would not adversely affect the finding of distinctiveness in features of the article. In other words, even if the actual use of the returnable bottle is in combination with the Coca-Cola trademark, such a use of the trademark in combination with the bottle would not prevent acquired distinctiveness in the features of the bottle. Instead, distinctiveness should be determined based upon whether the three-dimensional shape appeals to the eyes of consumers and impresses them with its features.

This decision follows the IP High Court’s decision in the case of MINI MAGLITE for a flashlight. In the MINI MAGLITE case, the IP Court found that the shape of a flashlight successfully acquired distinctiveness through use over a long period of time (over 20 years) combined with active advertisements focusing on an excellent product design. The Court stated that the use of a registered trademark, MINI MAGLITE, would not interfere with finding distinctiveness in the shape of the flashlight.

Building on this precedent, the Court has thus paved the road for distinctiveness in 3D articles.

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# IP News from Japan

By Shoichi Okuyama\*

## Stay Home for Examination Work

Starting 2009, the Japan Patent Office will introduce a telecommuting project for examiners. In preparation for this major change, the JPO will allow examiners to choose among several satellite offices set up in addition to the main offices in central Tokyo during the current fiscal year for a part of their examination work.

## New JPO Commissioner Appointed on July 11, 2008

Mr. Takashi Suzuki officially took office as the Commissioner of the Japan Patent Office on July 11, 2008, in a surprise shuffling of personnel at the METI, the Ministry of Economy, Technology and Industry. Mr. Suzuki was slated for the top bureaucratic position at the METI, but another person who headed the Agency for Natural Resources and Energy took that position and Mr. Suzuki came to the JPO, which organizationally belongs to the METI. The previous Commissioner of the JPO, Mr. Masahiro Koezuka, retired from the METI after his one-year stint at the JPO.

## "Dubbing Ten" Starts Suddenly on July 4, 2008

On June 19, 2008, stalled discussions in a governmental advisory broad called the Information, Communications and Technology Committee moved a few inches ahead due to an unexpected proposal from a rights holders group to separate the issue of how many times users can make copies of a recorded digital broadcast from that of compensation to copyrights holders from hardware makers. Accepting this proposal, the Committee agreed that a new scheme called "Dubbing Ten" would take effect as of July 4 or 5, 2008. Subsequently, the "Dubbing Ten" started on July 4, 2008. Despite governmental interventions, the Committee, which consists of representative from associations of hardware manufacturers, rights holders groups, and consumer associations, and university professors, had been unable to reach any concrete conclusions.

The "Dubbing Ten" scheme allows users to make 9 copies of a hard-disk recorded TV broadcast and "move" once the hard-disk copy to a DVD disk (make a copy and erase the original). Originally, a new scheme was expected to start on June 2, 2008, in an attempt to replace the current and hugely unpopular scheme called "Copy Once," which allows users of hard-disk or DVD recorders to copy the recorded digital TV program only once.

By separating the issue of how many times copies can be made, however, it has become more difficult to agree on the issue of monetary compensation to be made by hardware makers to copyright holders.

## Another Defeat for Broadcasters in Fight against Location-Free TV Services

On June 22, 2008, another decision was rendered by the Tokyo District Court, confirming that what is termed a "housing service for Sony's location-free TV base stations" provided by a small company called Nagano Shôten does not infringe broadcasters' public broadcasting rights.

In June 2006, a host of major Japanese TV broadcasting companies including NHK (a public broadcasting station), TBS and NTV sued for a preliminary injunction order against Nagano Shôten, which claims to have a clientele of about 100, but the plaintiffs lost. Nagano allows its clients to buy a Sony location-free TV base station and houses it by providing space, power, Internet access, and airwave feed to the base station for a fee. The location-free TV base station records broadcast TV programs as programmed by the owner and allows the owner to later view the recorded programs via the Internet. In this way, owners who live outside Japan can view Japanese TV programs without geographical and temporal restrictions. The point is that the ownership of the TV base station rests not with the defendant; the defendant is merely allowing the users who own the TV base station to record TV programs and to watch them later.

The broadcasting companies appealed before the Intellectual Property High Court and lost. They then brought another suit for a permanent injunction order and damages awards, and lined up a stellar collection of well-known copyright lawyers. In a 100-page, June 22 decision, a panel of three judges, presided by Judge Masayuki Abe, repeated basically the same reasoning as made in the previous decisions.

### Other similar cases with different outcomes

Injunction orders have been issued against similar services, such as "Rokuga Net," in which video recorders were owned by the defendant and users were allowed to use them. As recently as May 28, 2008, a panel presided over by Judge Misao Shimizu of the Tokyo District Court found infringement and rendered a decision for a permanent injunction order and damages awards against K.K. Nippon Digital Kaden, which provided a service called "Rokuraku II Video Deck Rental." In this case, the defendant rented to users two proprietary video decks that allowed users to record TV broadcasts in Japan with one deck housed on the premise of the defendant in

Japan and to transfer copies over the Internet to the other deck for viewing by the user.

### **Supreme Court Renders Two Patent Decisions**

The Supreme Court of Japan rendered two decisions on April 24 and July 10, 2008. These decisions relate to the procedures for "correction" of patents.

Japanese patent law allows a patentee to amend the claims, specification and drawings of a granted patent if the amendment is to: (1) restrict the scope of claims, (2) correct errors or incorrect translations, or (3) clarify ambiguities. The correction procedure may be initiated before the Japan Patent Office anytime after the grant of a patent, and even during infringement litigation or after the expiration of the patent. In many cases, the interplay between the correction procedure and other procedures such as infringement litigation is an issue.

#### **Too late to defend**

In the first case, for which a decision was handed down on April 24, 2008, the patentee successfully petitioned for correction after four earlier attempts for correction failed and after the appellate court proceedings for patent infringement had been declared closed. The patentee sought the reopening of the infringement court proceedings. The Supreme Court rejected the appeal because the patentee was late for petitioning the successful correction before the Patent Office and had sufficient time and opportunities to put forward the finally successful amendment for one of the patented claims earlier, while the successful petition for correction can be grounds for opening up a retrial, a separate court procedure that can only be initiated under strict conditions. One judge in the five-judge panel dissented on the reasoning, while agreed with the conclusion. He noted that the successful correction was not even qualified as grounds for a retrial.

This decision is in line with another Supreme Court decision in the so-called Kilby patent case which clearly allowed an infringement court to declare a patent invalid so that infringement litigation can be finished faster. The gist of the Kilby decision has now been codified into Japanese patent law as Article 104ter.

#### **Change the procedural practice**

The second case, for which a decision was handed down on July 10, 2008, arose from an opposition which was filed five years ago. Japan no longer has an opposition system because it was believed to be redundant in view of the invalidation procedure that can be initiated before the JPO. In this case, the patentee tried to amend four patented claims as a defense against the opposition. Only amendments to claims 1 and 2 were substantive in nature and became an issue in the present case. The JPO decided that the amendment to claim 2 was not allowable and it rejected the entire petition for correction of claims 1-

4 without any regard to the allowability of the amendments to claims 1, 3 and 4. It had been standard practice of the JPO to consider a petition of correction as a single indivisible request even if the petition is related to more than one claim. If grounds for rejecting correction are found only for some, and not for all, of the claims that are the subject of correction, the entire petition is rejected. The Supreme Court questioned this practice and rejected it. By reversing the lower court decision, the allowability of correction should now be considered for each amended claim and if correction of a certain claim is allowable, the correction must be allowed for that claim, even if the correction of another claim is rejected.

In this case, the lower court decision was reversed regarding claim 1 because the allowability of correction of claim 1 had not been considered by the JPO and the IP High Court.

This case relates to a correction procedure initiated during opposition proceedings, but it probably covers a petition for correction filed as a defense during invalidation proceedings before the JPO. Another type of correction is one that is petitioned unrelated to opposition or invalidation proceedings. This type of correction is not covered by this Supreme Court decision, and the allowability of a petition for correction will most likely be considered as a whole and not for each claim in a patent.

### **The Grand Panel of the IP High Court Renders its Fourth Decision**

On May 30, 2008, the Grand Panel of the four-year-old Intellectual Property High Court, which consists of four judges who head the four divisions of the Court plus one judge who is in charge of proceedings of the case, upheld a decision rendered by the Japan Patent Office. This case resulted from an invalidation trial held before the Japan Patent Office between Tamura Kaken Corp. and Taiyo Ink Manufacturing Co., Ltd. The JPO had found the patent at issue to be valid.

This case involved three issues: (1) what is "matters described in the specification and drawings" for the purpose of an amendment, (2) what is allowable "narrowing" of granted claims, and (3) whether or not an amendment introducing a phrase that "excludes" certain matters from claim scope (called a "disclaimer" under EPO practice) is allowable as an exception to prohibition against the introduction of new matters when such exclusion is not found in the specification.

#### **Changes foreseen in amendment practice**

On the first issue, the Grand Panel noted that an amendment can be made based on technical information which can be derived comprehensively from everything disclosed in the specification and drawings. "Comprehensively" is the keyword here. In recent years, JPO examiners have tended to rely on

the literal wording in the specification as a basis for determining allowability of amendments, and it appears that the IP High Court cautioned against such an approach.

For the second issue, the Panel noted that narrowing is generally allowable if it is within the "technical information" derived comprehensively from the specification and drawings. This is significant because a departure is apparently suggested from the EPO style approach in which specifically disclosed numbers or numerical ranges can be the only basis for narrowing amendments of numerical ranges.

For the third issue, the current Examination Guidelines issued by the Japan Patent Office reason that an "excluding" type phrase can be introduced into claims as an exception to general rules for allowable amendments. The Panel clearly noted that

there is no basis in the Patent Law for such an exception. Rather, the introduction of such excluding phrase is in fact not an exception and is allowable under the general principles set out in relation to the second issue.

Overall, this IP High Court decision, while it apparently deals only with amendments of granted claims, forces all practitioners to rethink the propriety of current examination practice and cast doubts on what we have come to assume to be the allowable scope of amendments even during prosecution.

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*Patent Attorney, Ph.D., Okuyama & Co.*

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## TEPIA Award was given to Dr. Okuyama, our editor

We are pleased to inform you that Dr. Okuyama received the TEPIA\* award at the meeting of the Intellectual Property Association of Japan held in June. The award was granted to Dr. Okuyama in recognition of the great contribution he has made in dispatching IP information on Japan to other countries, by way of many and varied articles, published, for example, in "WINDS from Japan" since 1997.

<http://www.tepia.jp/english/index.html>

Kazuaki Okimoto

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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 recommend that you refer to the article "Recent Status and Problems of Patent Appeals and Trials" when determining your patent strategy in Japan. An analysis of an inventive step of an invention in view of the Supreme Court's decision in the KSR case will also be useful in understanding the difference between the Japanese and the U. S. patent practices. 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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