

# WINDS FROM JAPAN

The Licensing Executives Society Japan

## Greetings from the New President

By Ichiro Nakatomi, Ph.D. \*



I greatly appreciate your continued support of LES Japan.

It was a great honor to be nominated as the 22<sup>nd</sup> President of LES Japan at the annual general meeting held on February 19<sup>th</sup>, 2014. I feel a great sense of responsibility to ensure the continued growth and success of this Society, now with

over 40 years of history in Japan. Please allow me to provide my views on the opportunities and challenges that we are facing.

### Present status

It may be difficult to achieve the same level of success as we enjoyed under the leadership of our successive ex-presidents (most recently former President, Mr. Katsumi Harashima). However, LES Japan will continue to build upon our past success through regular monthly meetings, educational programs, learning activities, annual meeting of LESI and IMDM activity, overseas posting, publication, administration of financial affairs and audit. In another words I will endeavor to maintain our current success while fostering the philosophy of LES as a “Learning and Enjoyment Society.”

### Future action plans

The following six items will be the points of discussion for further progress of LES Japan: 1) Number of the society members, 2) Collaborations with domestic societies or groups, 3) Information transmission, 4) Annual meeting, 5) International meeting and 6) Management of the Society.

### 1) Membership numbers

The total number of members at the end of December 2013 was 643, including 447 first members, 138 second members, 13 academia members, 38 emeritus members and 7 special members. The number of members has not drastically increased during the past seven years, balancing a slight increase from 632 since the Lehman Shock of 2009. Almost equal numbers of members have joined and withdrawn each year, on average 20-30 members every year. In LES Germany and LES Korea, I understand that the number of members significantly increased with the introduction of the CLP (Certified Licensing Professional) program and status, however our Society has thus far not favored this approach. The majority (51%) of our members are from relatively large companies having a number of patents and business opportunities. Members working for relatively small or medium-sized companies, young members, female members, and foreigners should continue to feel welcome and included. It will be necessary to have a working group to promote members joining from these backgrounds. Regarding the age of members, I believe that maintaining a good mixture of young members and senior members is optimum.

### 2) Collaboration with domestic societies or groups

We have working relationships with the Institution of Invention, JIPA (Japan Intellectual Property Association), AIPLA (American Intellectual Property Law Association) and WIPO (World Intellectual Property Organization), but less connection with universities and related TLOs and industrial associations. Accordingly, it will be necessary to have greater exchange among universities, industry, patent offices and governments for technology transfers and business alliances. We may also set up a working group for the purpose of fostering external relations. International President of LESI, Ms. Yvonne Chua established “Joining Hands - stronger LES Family and Closer”. Fostering a better

connection with the 32 Societies around the world would benefit everyone.

### 3) Information transmission

Our information transmission is limited to the publication of *LES JAPAN NEWS* and *Winds from Japan* and information from our website, therefore, I believe we should endeavor to publish more articles in *LES Global News* and *Les Nouvelles*, which is issued by LESI. Working with government organizations should also be a priority. I expect such collaborations to promote PR activity among the committees, including the Chair of the Public Relations Committee, Mr. Koji Tomita and the Chair of the Information Committee, Mr. Mitsuo Kariya, and the Chair of the Home Page Committee, Mr. Tadashi Noda.

### 4) Annual meeting

Our Annual meeting has been held in many locations all over Japan, and it is good for the members who have been attending the annual meeting every year to have this opportunity to visit the many new places. This year, the annual meeting will be held in Okinawa, the furthest location thus far from the head office in Tokyo. The Chair of the Event Committee, Mr. Yuki Ojima, and the committee members are preparing and dedicating huge amounts of their time, which is greatly appreciated. However, it is disappointing that only 26% of our members attend the annual meeting each year. I would like to have much greater participation, especially among our young members. We will need to carefully consider the selection of location and the improvement of programs in order to increase participation. I would like to be in a position to report an improvement in this situation to our next Chair of

the Event Committee, Mr. Chikashi Tamura in 2015. Your support would be greatly appreciated.

### 5) International Meeting

Preparation of the LESI Conference, which will be held in Yokohama in 2019 by the Chair of the International Committee, Ms. Junko Sugimura and its Committee members, is ongoing. The Asia Pacific Regional Conference (APRC) held in Tokyo in 2012 successfully concluded. The student business plan competition accompanied by APRC for the first time has been a feature of every Asian Conference since then (although the Japanese team has not yet won the first place). The Acting Chair of the Student Business Plan Competition Committee, Mr. Toshiya Tsuruhara, and myself will work hard to see if the Japanese team can win at the next APRC in Korea.

### 6) Management of the Society

Looking back on the decisions and reports over the past year from officers and board members, voices of individual members all over Japan should be reflected in the Society management. Our Society is a nonprofit organization and we have been hesitant to introduce sponsorship. During my tenure as president, I would like to improve the overall financial position of the Society.

I sincerely appreciate the tremendous efforts and collaboration among the officers and board members who serve concurrently as chairs and WG leaders to implement the items described above.

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\*NanoCarrier Co., Ltd. CEO & President.

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## LESJ's Amicus Brief on Apple v. Samsung

By Jinzo Fujino\*

### The Cases

As reported in the last issue of this newsletter (WINDS #49), there are several pending cases in the smart phone battle between Apple and Samsung in Japan. One of the most notable is the case in which Apple sought from the Tokyo District Court (TDC) a declaratory judgment asking for the court's confirmation that Samsung has no right to seek monetary relief under a FRAND-encumbered patent. On February 28, 2013, the TDC found that the FRAND-encumbered patent of Samsung was valid and essential to the UMTS standards, and that it was infringed by *iPhone* and *iPad* products. While finding patent infringement, however, the TDC concluded

that Samsung was not entitled to monetary relief. Because of Samsung's reluctance in licensing negotiations with Apple, the TDC found an abuse of right under Article 1(3) of the Civil Code on the part of Samsung. (For details of the TDC's decision, refer to the WINDS #49, page 1.)

It is quite rare for a court in Japan to regard a patent encumbrance as a basis for a finding of an abuse of right under the Civil Code. In fact, this case was a case of first impression in Japanese courts. The TDC decision was appealed by Samsung to the Intellectual Property High Court (IPHC) and, on January 23, 2014, the IPHC announced that the Grand Panel of the IPHC would review this appeal.

The IPHC also announced that it would seek *amicus* briefs from the public, a highly unusual step

for courts in Japan. In response to the IPHC's announcement, the Licensing Executive Society of Japan (LESJ) submitted to the IPHC an opinion in the names of the Anti-Monopoly Working Group and the Network Business Working Group. The joint opinion of LESJ's two working groups can be summarized as follows.

### The Opinion

It is conceivable that enforcement of a FRAND-encumbered patent could be limited to some extent in view of an obligation of *bona fide* negotiations under the Civil Code. However, due care should be taken not to force the holder of a FRAND-encumbered patent to sit for unreasonable negotiations or to disclose proprietary or confidential information. Such limitation should be permissible only if it is justified in view of licensing practices in a given industry. In the ICT industry, for example, a large number of patents are categorized as standard-essential patents (SEPs), causing such issues as "royalty stacking" and "holdup". The ICT industry is one of the typical areas in which patent clearance is very difficult.

In analyzing requirements for limiting statutory relief, specific consideration should be given to adverse influences on, for example, fair competition in corresponding product markets, future research and development, and an incentive to standardization activities. It should be noted that injunctive relief and monetary relief will have different implications, depending upon applicable industries. In particular, limitation of a damages claim should be the exception, not the rule, and justified in only extremely exceptional cases.

### The Rationale

The joint opinion of LESJ's two working groups discusses two major components as grounds for arguments: obligation of *bona fide* negotiations and maintenance of fair competition.

With regard to the former, the opinion discusses five items which are peculiar to licensing practice in the ICT industry. They are as follows:

1) Economic clauses are commonly confidential in

practice and, in some cases, even reference to an existing license agreement is prohibited under the agreement.

- 2) Even a party's name is subject to confidentiality so the parties are not allowed to disclose it.
- 3) Licensed patents are a bargaining item during negotiations. Whether to include SEP or non-SEP in the license is a matter of negotiations between the parties.
- 4) Licensed products are variable depending upon a case so they are changeable in each agreement.
- 5) Valuation of an individual patent is hard to determine. It is typical in case of a cross-licensing arrangement.

With regard to the latter, *i.e.*, maintenance of fair competition, the opinion refers to a statutory requirement of public policy to promote fair and free competition. An appropriate consideration should be made not to adversely affect fair competition on the market. Smart phones are recognized as a part of the societal system which constitute infrastructure. In the judicial review, the aspect of public policy should be taken into account when standard-essential patents are at issue.

The opinion sums up that there may be cases in which limitation of injunctive relief could be justified against a FRAND-encumbered patent. But, determination of a failure in *bona fide* obligation for license negotiations should be carefully made taking into account practices in the ICT industry. Otherwise, incentive for encumbrance or declaration of FRAND royalties would be seriously deteriorated.

Regarding monetary relief, the report raises a concern that limitation of damages would injure the patent system, a primary goal of which is to prevent a free ride by followers who did not contribute to the patented invention. Limiting damages should be an extremely exceptional case, according to the opinion.

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\*Editor / Professor of Tokyo University of Science, School of IP Studies

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## IP News from Japan

**By Shoichi Okuyama, Ph.D.\***

### Former SanDisk Employee Arrested for Theft of Trade Secrets

On March 13, 2014, Mr. Yoshitaka Sugita, a former employee of SanDisk Corp., was arrested by the police for theft of trade secrets from Toshiba Corp., which is a business partner of SanDisk. The

stolen secrets were taken to a Korean competitor, SK Hynix Inc. In 2007, Mr. Sugita quit SanDisk and went to work at SK Hynix with the trade secrets he gathered while he was working at SanDisk. The secrets related to the maintenance of data in NAND-type flash memories. Reportedly, his salary was double what he received at SanDisk, with perks such as 25 free air tickets between Japan and Korea when he moved to SK Hynix, but he was fired in 2011 after

only three years. Toshiba claims that the theft resulted in damages of 100 billion JPY (1 billion USD), and asked for criminal prosecution.

On the same day, Toshiba announced that it was suing SK Hynix before the Tokyo District Court for damages. On March 14, 2014, SanDisk also announced that it had filed a lawsuit before the Santa Clara Superior Court against SK Hynix for the same theft, asking for damages, an injunction and other remedies.

Criminal charges against theft of trade secrets have not been common in Japan. The Japanese government, however, has been strengthening the protection of trade secrets. In 2009, the requirement that a trade secret theft be for the purpose of providing secrets to a competitor was dropped, and in 2011, special measures were provided for protection of trade secrets during criminal court proceedings. Currently, further improvements are under discussion in government committees.

### **Official Fee Reductions for SMEs and Individuals**

In recent years, the Japan Patent Office has been providing some limited reductions or exemptions in official fees for certain types of SMEs, individuals, universities, and research institutes. Substantive and procedural requirements have been unrealistically high, and usage was a far cry from that for U.S. small entities.

Starting April 1, 2014, examination fees and patent annuities are reduced to one-third (66% reduction) for SMEs or small business owners with 20 or fewer employees or who have been in business for less than 10 years. Also, the government will similarly subsidize official fees for PCT applications. Overseas residents are also eligible.

Businesses and corporations that belong to one of the following categories will be eligible for the reductions:

- sole proprietor of small scale business (20 employees or less)
- sole proprietor whose business started within 10 years
- small-sized corporation (20 employees or less), and
- corporation capitalized at 300 million yen (or about 3 million US\$) and established less than 10 years ago

### **Apple Scores another Win against Samsung**

A Japanese subsidiary of Apple Inc. won a legal battle against Samsung Electronics in a DJ action for non-existence of liability on the part of Apple. Samsung was attempting to use its patent on control technology for efficient use of power during data communication. The Tokyo District Court found that the technology Apple uses for the iPhone 4,

iPhone 4S and iPad 2 does not infringe the claims of the Samsung patent. According to the publicly available database, Apple has two more DJ action cases pending against Samsung.

### **Patent Application Backlog Reduced and Another Ambitious Goal Set**

The Japan Patent Office has been saying that by the end of FY 2013, i.e., by the end of March 2014, the average period from the filing of a request for examination to the issue of a first action will be reduced to 11 months. With this goal expected to be reached, the JPO announced a new goal. In March 2014, the Cabinet Minister overseeing the JPO announced that the average time between the filing of request for examination and the issue of a final action (either allowance or rejection) would be reduced from the current average of 29.6 months to 14 months by FY 2023.

### **Four Basic IP Laws to Be Amended**

The Patent, Utility Model, Design and Trademark Laws will be amended soon. A bill covering these laws and the Patent Attorney Law was submitted to the Diet on March 11, 2014, and it should pass in a month or two. Items included in the bill are as follows:

- The post-grant opposition procedure will be revived for patents.
- Japan will accede to the Hague Agreement for international registration of industrial designs.
- New types of trademarks, such as for colors and sounds, will become registrable.

The revived post-grant opposition procedure will be document-based, without hearings and witness testimony, and the opponent will be able to intervene during the procedure after filing an opposition brief only if claims are amended. The period for filing an opposition will be six months from the date of publication of a patent. As for "new" trademarks, smells and scents will not yet be registrable.

### **Discussions of Changes to the Employee Invention Scheme**

Since around December 2012, discussions about revising the Patent Law to change the current employee invention scheme have been gaining momentum, and a bill for amending the Patent Law may be submitted to the Diet, with a high likelihood of passage, by the end of this year. Currently, when an employee-inventor makes an invention, the employee-inventor has the right to obtain a patent. Article 35 of the Patent Law stipulates that an employer can acquire that right from the employee-inventor by virtue of corporate rules or a contract

with the employee. In return, the employer must give "reasonable value" to the inventor.

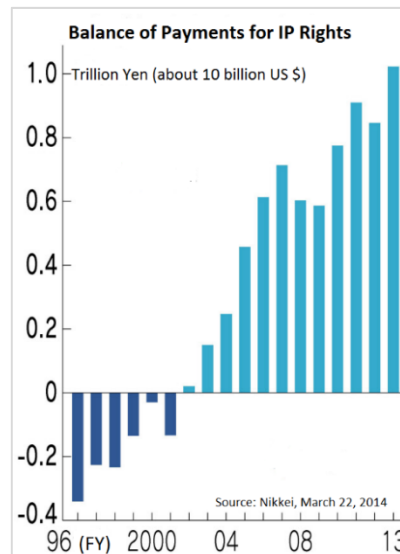
A decision handed down by the Supreme Court of Japan on April 22, 2003, in the Olympus case (*Minshu*, page 477, issue 4, vol. 57) made it clear that a court has authority to do its own calculation of this "value" based on licensing royalties and profits of the employer. In 2004, the Tokyo District Court awarded 20 billion yen (about 200 million US dollars) to Dr. Shuji Nakamura, inventor of a method of producing blue LEDs and blue laser diodes while working as a researcher at Nichia Corporation. Although this decision subsequently ended with a settlement before the Tokyo High Court of 840 million yen (about 8.3 million US dollars) including interest, these decisions led to an outcry among corporate managers asking for reform.

In 2004, the Patent Law was amended to give more weight to procedures that are taken within a company to decide on specific rules for employee inventions. If the procedures are properly taken, it would be difficult for an inventor to ask for more compensation beyond what is provided by such rules.

Currently, corporate managers of large companies, as represented by the *Keidanren* and the Japan Intellectual Property Association, are making concerted efforts to change the original or inherent ownership of an employee invention to the employer, not the employee-inventor, and to separate remuneration from the value of the patented invention. A great variety of opinions have been presented, and it remains to be seen what the final landscape will be for employee inventions in Japan.

## Improving Trend Continues in the Balance of Payments for IP Rights

While the overall current account balance for Japan is deteriorating in part due to the devalued yen and increasing costs and amounts of imported fossil fuels, the balance of payments for intellectual property rights, including patents, trademarks, and copyrights, are



continuously increasing, as shown in the graph at right, in which the figures for FY 2013 are up to January 2014. It will exceed 1 trillion yen for FY 2013, which will end in March 2014. If we look at the balance of technology trade, the picture is even better. The corresponding figure was 2.3 trillion yen (or about 22 billion US dollars) for FY2012, and is also increasing.

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## Editors' Note

This is commemorative issue #50 of "Winds from Japan". We thank all our friends and readers for your support of this newsletter over the years. "Winds from Japan" will continue to provide you with useful information on activities at LES Japan and up-to-date information on IP and licensing activities in Japan.

The role of Editor in Chief was taken over by Mr. Mitsuo Kariya from Mr. Kazuaki Okimoto in February, 2014. Mr. Okimoto remains a key editor of this newsletter. Mr. Kanayama retired from the Editorial Board after his long-term dedication and many contributions.

If you would like to refer to any back issues of our newsletters, you can access them via the following URL:

<http://www.lesj.org>

(MK)

### WINDS from Japan Editorial Board Members, 2014

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