

# WINDS FROM JAPAN

The Licensing Executives Society Japan

## Hard Work Gains Good Results

### - First IAM Seminar Ends in Success -

By Jinzo FUJINO

The Intellectual Asset Management (IAM) seminar for LES Japan members was held on June 16, 2004 with a huge success. The IAM seminar was an immediate fruit of the Train The Trainer Session that was provided in Tokyo by LESI instructors last December. The LESI's program comprised: IAM101 (The Basics of Intellectual Property and Licensing); IAM102 (Opportunity Assessment); and IAM103 (The Deal) whose details are available from our report in the "WINDS from Japan" #22 (<http://www.lesj.org/>).

The IAM seminar basically followed the methodology and course materials provided for the LESI's program but was not a mere localized version of the international program. In order to effectively transplant the essence of the LESI's program, the IAM seminar required some changes in the scheduling and ways of running the class.

The first and most important one was the term of the seminar. Intellectual property seminars on multiple days were not common and not strategically appropriate. The instructors, given their training experience a half year ago, were not necessarily familiar with the case study methodology to run a multiple day program. Taking these factors into account, the IAM seminar in Japan was set as a full one-day program.



Hard workers lined up

This inevitably forced the seminar instructors to reorganize the components of the program because the LESI's course materials had been prepared for the 3-day program. The IAM instructors in Japan were unable to rely on the course materials in their original forms. After repeated discussions, their conclusion was that the seminar should focus on the IAM 102, while adopting the case study methodology for the entire program.

Then, the instructors faced another question. How were the other parts of the course materials to be treated? As noted above, the LESI's programs covered a wide variety of topics from introduction to intellectual property laws to value analysis. The instructors felt the need of providing the attendees with some basic knowledge as the touchstone on intellectual asset management as a whole. They decided to start the seminar with a 90-minute overview on the

fields of the courses, i.e., IAM101 and IAM103. Case studies followed, focusing on the IAM102 for the rest of the day.

The seminar program had the 30 attendees, which filled the capacity of seats. Overcoming their initial hesitation and some embarrassment, the attendees gradually became accustomed to the case study methodology and began to participate in the discussions and arguments. This change in class atmosphere was confirmed by the interviews with attendees at the post seminar reception.

For the LES Japan, the launch of the IAM seminar was a kind of trial. In the beginning, nobody had been optimistic about its consequence. However, the show went well and everyone is now convinced of its potentiality. Although there is still room for improvements, the program itself, they feel, remains worth keep trying.

The LES Japan plans to hold a likewise IAM seminar next year for colleagues in Asian countries.

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## LESJ Meets with AIPLA Delegates

By **Junichi YAMAZAKI**

On Thursday, April 22, 2004, the American Intellectual Property Law Association (AIPLA) and the License Executives Society Japan (LESJ) had a joint meeting in Tokyo to discuss current IP issues. The AIPLA is a U.S. organization having more than 15,000 members consisting primarily of IP practitioners (For more information, go to <http://www.aipla.org/>).

The meeting was arranged taking the opportunity of its IP Practice in Japan Committee's visit to Japan. For over ten years, the Committee had been coming to Japan annually and meeting various IP-related organizations in Japan, but it was for the first time that a joint meeting was held with the LESJ.

AIPLA attendees were Mr. Melvin C. Garner (AIPLA First Vice-President), Mr. John T. Johnson (Committee Co-Chairman), Mr. Mark D. Alleman, Mr. Charles S. Barquist, Mr. Warren C. Bovee, Mr. Christopher Chalsen, Mr. David W. Hill, Ms. Soonhee Jang, Mr. David Schnapf, Mr. Stephen P. Scuderi, Mr. Joerg-Uwe Szipl and Mr. Darryl L. Webster.

LESJ attendees were Mr. Kenichi Nakano (President), Mr. Kiyohide Okamoto (President Elect), Mr. Chikao Fukuda (President Immediate Past), Mr. Junichi Yamazaki (Vice President), Masau Takayanagi (Vice President), Yasunori



Speakers & Attendees from Both Sides

Ohtsuka (Board member) and Takafumi Yamamoto (Board member).

Mr. Nakano and Mr. Garner made opening speeches, and Mr. Fukuda and Mr. Johnson introduced activities of each organization. Then, the meeting had the following presentations and discussions:

Mr. Yamazaki presented on "Payments for Employee's Inventions Under Article 35 of the Japanese Patent Law" and Mr. Hill presented on "Employee Invention Remuneration Systems in the US." Mr. Yamamoto presented on "Recent Trend of the Japanese National Universities' IP Management and Technology Licensing to Private Companies," and Mr. Szipl presented on "Federal Funded Invention Handling in the US."

Mr. *Nakano* presented on “A Japanese Supreme Court Decision on Merchandising/Publicity Rights.” Mr. Alleman presented on “Trademark Issues for Toy Guns Manufacturers in the U.S. and Japan.”

The participants unanimously commented that it was a very successful event, informative and useful for them.

This meeting marked the first step toward hopefully continuing friendship and co-operation between the two organizations.

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## Summer Symposium in Yamagata

### By Kazuaki OKIMOTO

LES-Japan held their 27<sup>th</sup> Annual Meeting on July 9 and 10, 2004, at the Hotel Castle located in Yamagata City in Yamagata Prefecture. About 120 members attended the meeting.

#### Tourism and Reception

On the first day, the attendees visited *Tendo Mokko Company Limited*, a local woodworking company, and then enjoyed picking and eating “*Sato Nishiki*”, a famous type of Japanese cherry, at a farm in Yamagata City. Later, LES-Japan hosted a dinner party, which started with an opening statement by Mr. *Kenichi Nakano*, the president of LES-Japan, followed by a celebratory speech by Mr. Koyu Komatsu, the president of Yamagata Research Institute of Technology. During the party, there was a lot of lively conversations, and many people enjoyed watching *Hanagasa Ondo*, a locally traditional dance.

#### Conference

On the second day, there were three lectures as follows:

1. “Finance in Intellectual Property Rights – Securitization and Trust” by Dr. Masaharu Ushijima, the president of Advanced Strategy Limited

Dr. Ushijima explained detailed procedures on investment, securitization and trust in relation to intellectual property rights, and suggested some financial schemes.

2. “How to protect Intellectual Property Rights of a business venture started based on a University invention” by Mr. Kazunari Adachi, Assistant Professor of the Faculty of Technology at Yamagata University

Dr. Adachi described a strategy for a venture company to avoid purchase of its intellectual property by a giant company; the venture company in question was established by investment by the inventors, the professors and students at Yamagata University. Since the venture company, which started on the strength of a university invention, which is related to a method of producing a type of rice bread, is small, the company will effectively lose controls of the invention if they accept investment from a major bank.

3 “Corporation of National Universities and Encouragement of Science and Innovation at university” by Dr. Fujiro Sendo, the president of Yamagata University

Dr. Sendo explained in detail about the history and current status of the national university corporation with reference to the National University Corporation Law which is effective from April 2004, and also described a established guidelines for handling intellectual property originating at Yamagata University.

After each lecture, there followed a substantial question and answer session.

We look forward to receiving you at 28<sup>th</sup> Annual Meeting in Miyazaki in July 2005.

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# Royalties under US Patents Not Taxable

By Jinzo FUJINO

The Supreme Court of Japan handed down a long-awaited decision on June 24, 2004 in the case of *Higashi Murayama Tax Bureau v. Silver Seiko K.K.* The Court concluded that royalties paid by a Japanese licensee to a US licensor under a patent license agreement do not fall within the category of domestic source income to which the Income Tax Act is applicable. Based on the rationale that the payments were made as royalties under a US patent, the Supreme Court said that the Japanese law did not reach the income occurring in a different tax jurisdiction.

## Background

In June 1983, a US Patentee filed a Section 337 complaint against *Silver Seiko K.K.* under the Tariff Act of 1930. *Silver Seiko* decided to settle this dispute by obtaining the license under the disputed US patent and its foreign counterparts. The settlement agreement provided, among other things, that *Silver Seiko* paid the stipulated royalties without deducting withholding taxes. Payments were thus made without deducting the withholding taxes but, a year later, the tax authority issued a decision that *Silver Seiko* failed in paying the income tax for its royalties and that it should pay the missing taxes together with overdue penalties. *Silver Seiko* filed a suit with the Tokyo District Court seeking a declaratory judgment that the tax authority's decision was void on the ground that the national tax law was inapplicable to the royalties paid to a US licensor on a US patent.

## Domestic Source Income or Not

In its 1992 decision, the Tokyo District Court concluded that the royalties paid by *Silver Seiko* were free from the application of the withholding tax under the income tax law. In determining a

source country where a taxable income generated, the District Court put more weight on the place where the US patent at issue existed. The tax authority appealed the District Court's decision. On appeal, the High Court affirmed the District Court's decision in 1999. The tax authority further appealed to the Supreme Court. In accepting this appeal, the Supreme Court concluded against the tax authority.

Arguments in the *Silver Seiko* case were focused on whether the fees paid under the settlement agreement amounted to a royalty as defined in the statute. The tax authority argued that the fees were taxable as income of domestic source in view of the place of actual production. In its argument, the tax authority focused on the fact that a Japanese counterpart patent was included in the license agreement and that the products in question were manufactured and sold in Japan.

## Deviation from Precedent

In the *Silver Seiko* case, the tax authority basically followed the teachings of a precedent in which the court put more weight on the place of manufacture than the place of consumption in determining the source country for taxation. But the District Court deviated from its own decision in the precedent case. This deviation, provoking much criticisms and debates among practitioners and tax experts, caused this case to linger unusually long before the courts: actually for almost 17 years until the Supreme Court finally affirms the lower court decision. This conclusion put an end to the long-lasting arguments on taxes involving royalties.

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# IP News from Japan

By Shoichi OKUYAMA

## 1. Special Jurisdiction over Patent Cases

On April 1, 2004, with the amendment of the Code of Civil Procedure, infringement cases related to patents, utility models, circuit layout registrations, and copyrights on computer software are to be brought before the Tokyo or Osaka District Court. Although 50 District Courts exist in Japan, these two courts shall now be in charge of all patent infringement cases. The Tokyo District Court has four special IP divisions and the Osaka District Court has two similar divisions now. Each division has four to five judges. Also, appeals from these two courts now go to the Tokyo High Court and to no other courts under normal circumstances. The Tokyo High Court has four IP divisions that have been regrouped as civil IP division Nos. 1-4 and called the IP Center.

Furthermore, with the passage of a new law at the Diet in June 2004, the four IP divisions of the Tokyo High Court will be reorganized again next year to form the Intellectual Property High Court, which will be set up within the framework of the Tokyo High Court (THC) so as to have some limited autonomy. At the same time, the Court Act was amended so that the court can issue a protective order when a trade secret is involved in litigation, and some of court proceedings may be carried out closed to the public within the constitutional framework of open courts. Under the amendment, an infringement court can find a patent invalid and therefore unenforceable. While this principle had been shown by the Supreme Court in 2000 in the *Kilby* case, it is now incorporated into statutes.

## 2. Japanese Companies Issue IP Reports

Triggered by a committee organized last year by the Ministry of Economy, Trade and Industry, a number of Japanese corporations started this year to publish "intellectual property reports"

discussing the companies' status and strategy on research, patents, brands and copyrights as part of their IR activities. Such companies include Ajinomoto, Hitachi, Olympus, Asahi Chemical, Bridgestone and Tokyo Electron.

## 3. New "Importation Right" Stops the Reverse Flow of Music Records under the Copyright Law

The Copyright Law was amended in June 2004 in order to stop the reverse circulation of Japanese music CDs sold in foreign countries at prices much less than those in Japan. A new paragraph 5 was added to Section 113 of the Copyright Law, and importation into Japan of music recordings that are destined for distribution outside Japan will become copyright or neighboring rights infringement, if the profits a copyright or neighboring right holder is expected to earn are deemed to be unduly harmed. The new provisions will take effect in January 2005, but they are not clear whether or not parallel importation of non-Japanese music recordings will be covered by the new provisions. The Ministry of Cultural Affairs has assured that the new law will be enforced according to the original intention mentioned above and will not cover parallel importation of foreign music.

## 4. JPO Issues a Q&A Booklet for the New Remuneration Scheme for Employees' Inventions

As Section 35 of the Patent Law was amended earlier this year concerning the remuneration for employees' inventions, the Japan Patent Office published the final version of its extensive Q&A booklet in September 2004. At the time of this writing, an English language version of a draft is available in the JPO web site.

[http://www.jpo.go.jp/iken\\_e/pdf/200408\\_newep/001.pdf](http://www.jpo.go.jp/iken_e/pdf/200408_newep/001.pdf)

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# Congratulations

Mr. Takafumi Yamamoto, a board member of LES Japan, was awarded by the Commissioner of the Japanese Patent Office, a special award for his distinguished contribution to technology transfer. Mr. Yamamoto, who is the president of Tokyo University TLO, has been a driving force for technology transfer from his university to private companies.

The award called the “*Intellectual Property Contribution Award*” goes to companies and individuals who have exhibited noticeable contribution to the promotion and development of the intellectual property system in Japan. Mr. Yamamoto is one of the six individuals who received the award this year. The award was

presented to the recipients on April 18, 2004, marked as the Day of Invention.

Here is Mr. Yamamoto’s comment:

“ I am very much honored with this award. It is extremely unusual that this kind of award is given to a person engaging in licensing business. This fact may witness the growing importance of university-industry collaboration. I would like to share the honor with my colleagues at the TLO and my university. Let me express my sincere thanks to those whose cooperation was indispensable.”

Congratulations, Yamamoto-san.

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## Editors’ Note

1) The new double taxation-prevention treaty between Japan and US became effective on March 30, 2004. Intellectual property royalties paid on or after July 1, 2004 between Japan and US are free from withholding taxes under the treaty.

In practice, tax authority demands submissions of a lot of paper to assure the place of establishment of recipients. If the recipient of royalties is found as a party whose resident is not in US, a Japanese licensee would be imposed a 20% tax on its payment under the national tax act.

For more information, please visit the website of the Ministry of Finance at:

<http://www.mofa.go.jp/announce/announce/2004/3/0330.html>

2) One of our editors, Mr. Yoichiro Iwasaki has decided to step down from the editorial board. Since the first issue of *WINDS*, he has been contributing to the publication of *WINDS*.

Although his name disappears from the next issue of this journal, the rest of the editors will not forget his devotion and contribution. Thank you for your help and support, Iwasaki-san.

### **WINDS from Japan Editorial Board Members, 2004**

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