



# WINDS FROM JAPAN

The Licensing Executives Society Japan

## Forecasting the Future of Japanese Technology Licenses from Trade and Patent Statistics

By **Toshihiko KANAYAMA\***

This article provides a general overview of the prospects of Japanese Technology Licenses based on data obtained from general websites and from publications issued by some public organizations.

(1) Future of Japanese Technological Trade prospected by Trade Statistics

According to the world trade statistics 2007 announced by the Department of Statistics in The Ministry of Internal Affairs and Communications of Japan, both the world trade amount and the Japanese trade amount are increasing year by year as shown in the following table 1.

Table1: World Import / Export Trade Amount  
Unit: U.S. dollars in 100 Millions

Year	Export			Import		
	2003	2004	2005	2003	2004	2005
World	70,120	85,279	97,274	71,665	87,387	98,945
Japan	4,720	5,657	5,950	3,831	4,546	5,150

Amount of the trade surplus in Japan in 2005 is on a downward trend as 80,000 M dollars. However, within this overall amount, technological trade of Japan shows on an upward trend. In technological trade of Japan, the export amount (the amount of receiving) is 19,900 M dollars and the import amount (the amount of payment) is 6,100 M dollars. The balance is therefore 13,800 M dollars surplus. The 13,800 M dollars surplus accounts for 17% of the trade surplus of 80,000 M dollars in Japan in 2005. An amount equivalent to 24% of the technological trade surplus is added as compared to 11,100 M dollars in the year 2004. The export amount (amount of receiving) 19,900 M dollars in the technological trade in 2005 far

outstrips the export amount of 16,200 M dollars of acoustic and video equipments from Japan.

The technological trade balance ratios (export amount / import amount) in Japan were 3.12 in 2004 and 3.26 in 2005. These numbers exceeds 2.33 in Britain of 2004, 2.20 in US of 2004, 1.60 in France of 2004 and 1.00 in Germany of 2004. The technological trade balance of Japan turned into profit (black) from 1995. During this ten-year period, the balance ratio increased by 3 times. In the next ten-year period, from 2005, the ratio is expected to reach 6.00.

The technological trade surplus 13,800 M dollars as of 2005 is anticipated to rise to 41,400 M dollars or more within the next 10 years.

However, whether such growth is actually attained will be dependent on the state of research and development power in Japan within the same time frame.

(2) Future of Japanese Technological Power prospected by Patent Statistics

As shown in Table 2 below, according to "Patent Report 2007" issued by WIPO, the total number of patent applications in the world in 2005 is 1.66 M, which represents a 7% increase as compared with 2004. The number of patent applications filed in each country is shown in a descending order of Japan, US, China, Korea and EPO. Based on the "Annual Report 2007" issued by Japanese Patent Office, in 2006 the order between Japan and US counterchanged to US and Japan. In particular, the number of patent applications filed in China shows a remarkable growth of 21%.

Table 2: Receiving number of patent applications in each main country (Unit: 10,000), “-----”shows that the data is not gained.

Year	Order 1	Order 2	Order 3	Order 4	Order 5	World Total
2005	Japan 42.7	US 39.7	China 17.3	Korea 16.1	EPO 12.8	166
By Domestic Applicant	35.9	20.8	9.3	12.2	6.4	95
By Domestic Applicant %	86%	52%	54%	76%	50%	57%
2006	US 41.6	Japan 40.9	China 21.0	Korea 16.3	EPO 13.7	-----
By Domestic Applicant	22.0	34.7	12.2	12.5	6.6	
By Domestic Applicant %	53%	85%	58%	77%	48%	

It is worth noting with regard to Japan not only a large number of patent applications received for filing, but also the exceptionally large percentage of patent applications filed by domestic applicants. The percentage of patent applications filed by domestic applicants stood at 86% in 2005, and 85% in 2006.

In any country, a domestic patent applicant files an application in the respective domestic country first, without exception. And the applicant, based on the domestically filed patent application, files patent applications for the same inventions in particular other countries. Therefore, the core of new inventions in these family patent applications may be deemed to exist in the domestic patent applications.

According to world statistics for patent applications in 2005, the total number of patent applications which was filed in a domestic country by a domestic applicant stood at 950,000 (excluding patent applications by PCT route because these are assumed to be filed almost entirely by foreign applicants). In Japan in 2005, the number of domestic applications by domestic applicants stood at 360,000. Therefore, 38% ( $36/95 \times 100 = 38\%$ ) of the core inventions made in the world in 2005 can be inferred as originating in Japan. Without directing attention to a level of inventiveness involved, it is nonetheless recognized that the technological power of Japan was considerable in 2005, and remains considerable.

Next, the number of patents registered in each main filing country in 2005 is shown as Table 3.

Table 3: Number of Patents registered in 2005 (Unit 10,000)

Year	Order 1	Order 2	Order 3	Order 4	Order 5	World Total
2005	US 14.4	Japan 12.3	Korea 7.4	China 5.3	EPO 5.3	57.4
By Domestic Applicant	7.4	11.1	5.3	2.1	2.8	35.7
By Domestic Applicant %	51%	90%	72%	40%	53%	62%

It is inferred that the number of Patents registered in each country in 2005 is a good indicator of the technological capabilities of each country within the two to three-year period immediately prior to 2005. The total number of registered patents by domestic applicants as the core inventions in the world of 2005 appears to stand at around 357,000; and the total number of patents registered by domestic applicants in Japan of 2005 stood at 111,000. Thus, it is inferred that Japanese technological power in 2002 or 2003 accounted for around 31% ( $111/357 \times 100 = 31\%$ ) of technological power worldwide.

(3) Considering that the numbers of patent applications and registered Patents by domestic applicants in Japan exceeds 30% of the total worldwide, and further considering that the rate of grant of patent in patent examination is lower by approximately 50% in Japan, as compared to that in other major filing countries, it is apparent that Japan already has a large reservoir of patent license resources in the world, and continues to increase these resources.

It is predicted that Japan will make further increase in technological transfers by way of patent licenses for foreseeable future.

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# New IP License Guidelines are Announced

By **Jinzo FUJINO\***

On September 28, 2007, the Japanese Fair Trade Commission (JFTC) announced the introduction of new intellectual property license guidelines, which is effective instantaneously. The new IP guidelines, replacing the former guidelines which were limited to patent and know-how licensing arrangements, are applicable to a wider scope of licensing practice involving technology-related intellectual property rights.

The IP guidelines deal with various conducts which could be questioned under the anti-monopoly law, including those arising in connection with so-called “hold-up” patents and standardization. The 23-page long guidelines comprise 4 sections: 1) Introduction; 2) Basic Policy; 3) Private Monopoly & Undue Trade Restrictions; 4) Unfair Trading Methods.

## Details of the Guideline Components

The Japanese anti-monopoly law statutorily prohibits 3 types of business activity: private monopoly (§3); undue transactional restrictions (§3); and unfair trading methods (§19). The IP guidelines specifically discuss whether certain types of business activity should be considered questionable in view of the anti-monopoly law. A majority of these types of activity has arisen only recently, and such activities tend to arise as a result of patent pool licensing and standardization process.

The IP guidelines discuss in Section 2 (“Basic Policy”) types of transaction to be carried out in the technology market from a perspective of the anti-monopoly law. In determining whether a particular type of transaction in the technology market is legal under the anti-monopoly law, a key factor is whether the transaction in question is likely to prevent or to impede competition in the market.

At the same time, emphasized is a need to define what actually constitutes a technology market, a product market, and other markets in order to determine whether a particular transaction carried out in such a market impedes or prevents competition within that market as it stands. Accordingly, it states that a key element is a presence or absence of a substitutive technology or product in that market as it stands.

In Section 2, two types of transactional restrictions are discussed as examples which would have an anti-competition impact. First type is a restriction of technology among “competitors.” This type of restriction would be considered to

have a larger negative influence against competition than that among non-competitors. The other is a restriction to use “indispensable” technologies. Technologies adopted as standard or norm in the technology market or product market would be regarded as being indispensable.

Section 2 also discusses determination of “non-impeding” conducts, using the concept of a newly introduced “safe harbor bench-mark.” If a product share is 20% or less in the technology market, it would be assumed that its anti-competition effect would be negligible, or at most, limited.

Section 3 discusses potentially illegal actions in view of the private monopoly and undue transactional restriction test. The IP guidelines list several examples of business practice which could potentially be deemed illegal. For example, if an IP proprietor prevents its technology from being licensed to others through patent pool arrangements, such prevention would be questioned a violation of the law. Another example relates to unreasonable limitation of IP licenses; while yet another example relates to a field of use limitation in a multiple license arrangement in which several licensees license a technology which is essentially the same. A violation of the law would be questioned when certain restriction is enforced in connection with patent pool arrangements and/or multiple license arrangements.

Section 4 discusses what practice would constitute unfair trading methods under the law. There are three examples. A first one is discriminatory licensing. The risk of statutory violation would increase when and if discriminatory licensing is enforced by an IP proprietor who has actively sought a standardization of his/her IPR. A second type is a field of use limitation combined with other terms and conditions such as territorial restrictions and limitations on sublicensing. A third type is imposition of unreasonable terms and conditions including restrictions on materials, resale price, non-competition, research and development, grant-back, package licensing, etc.

## Major changes in the New Guideline

Among other things, the following acts would be questionable under the new IP guidelines: restrictions on research and development, grant-

back requirement for exclusive license, and post-expiration limitation.

Obliging a licensee to use a particular trademark was illegal under the former guideline. Obliging not to contest patent was the same. However, they are no longer on the black list in the new guidelines; and those items whose legality would be questionable are specifically discussed in the guidelines.

At least, the following items would be problematic: acts to prevent others from using a

technology; acts to coerce a license on a basis of a platform technology; and discriminatory sub-licensing.

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## IP News from Japan

**By Shoichi Okuyama\***

### 1. On Inventive Step Three Reports Published

Three reports were published in March 2007 concerning inventive step standards.

Two of the reports were prepared by groups organized or commissioned by the Japan Patent Office, and the other one was put together by the Patent Committee of the Japan Patent Attorneys Association (JPAA). The JPAA report analyzes the history of inventive step or unobviousness from the inception of patent systems, with particular reference to Japan and the U.S., and discusses the applicability of a premise that if inventive step is in doubt, a patent should be granted.

Another report was prepared by a committee composed of JPO appeal examiners, patent attorneys and corporate patent specialists. This committee studied two specific cases for each of four technical areas: chemistry, mechanical engineering, physics and electronics.

In conclusion, the committee found no significant problems in the determination of inventive step in the eight cases studied. This project is still continuing for the current fiscal year in a slightly modified format.

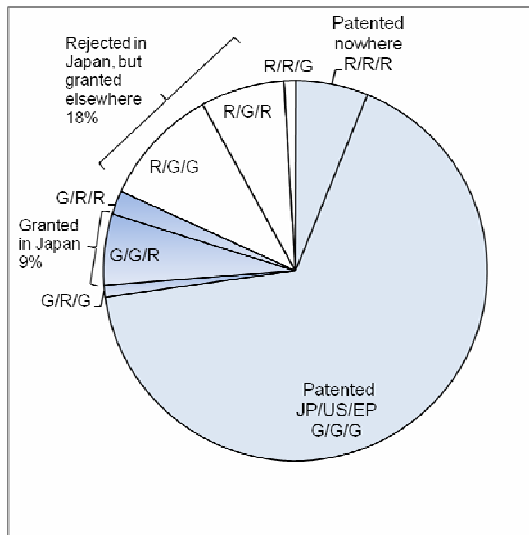
The third comparative law report came from a committee organized by AIPPI Japan and commissioned by the JPO. This report has three parts: review of current examination practices in Japan, the U.S. and Europe (European Patent Office); statistical analysis of actual cases among JP, US and EP; and reports on hearings carried out in Japan, the U.S. and Europe. The statistical study is very detailed, and highlights a number of difficulties that arise as a result from the employment of different legal and examination systems. Shown below are data taken from this study which indicate that a percentage amount of

allowance of cases in Japan is clearly relatively low, possibly suggesting a requirement for a higher level of inventive step. In 72% of all 625 cases studied, the examination results were consistent: either grant or rejection/abandonment. In 18%, Japanese applications were rejected while counterparts were allowed in US or EP or both. On the other hand, the corresponding figure for granted cases in Japan was 9%. As noted in the report, however, it is difficult to ascertain the exact reason for rejection or abandonment and to thus statistically analyze a level of inventive step required.

Application Result Class*				# of Cases	%
JP	US	EP	JP/US/EP		
G*	G	G	G/G/G	414	66
R*	G	G	R/G/G	60	10
G	R	G	G/R/G	9	1
G	G	R	G/G/R	37	6
G	R	R	G/R/R	23	2
R	G	R	R/G/R	44	7
R	R	G	R/R/G	9	1
R	R	R	R/R/R	39	6
Total				625	100

\*Notations of classes G and R as to the disposal of applications:

G	Grant (including grant as a result of continuations in the U.S.)
R	Rejection in Japan
	Rejection or abandonment of a whole application family in the U.S.
	Rejection or withdrawal after or w/o requesting exam before EPO



Patented JP/US/EP G/G/G	6%
G/R/G	1%
G/G/R	6%
G/R/R	2%
R/G/G	10%
R/G/R	7%
R/R/G	1%
Not patented JP/US/EP R/R/R	6%

During the discussions of the AIPPI committee it was pointed out, similarly to the JPAA report, that cautionary remarks against the *ex post facto* analysis or hind-sight approach are absent from the current version of examination guidelines, although they did exist in the earlier versions.

This author was involved in the three studies discussed above with the position as chair of the Patent Committee of the JPAA.

## 2. Lower Win Rate for Patentees in Japan

Every year, the Japan Patent Office releases a large volume of statistics in an attempt to objectively understand the state of affairs concerning industrial property systems in Japan and around the world. This year, the JPO put out figures illustrating a success rate for patentees in patent and utility model infringement lawsuits before district courts in Japan. In 2006, 40 decisions were rendered for patent infringement litigation and patentees won in only 5 cases, providing a success rate of 12%. For 2001 through 2005, the corresponding figures were, respectively, 22% (102), 21% (90), 16% (65), 17% (70) and 20% (63), making an average of 19% over 5 years, with the total number of decisions being stated in parentheses. Particularly notable was that patents were found to be unenforceable on a ground of lack of novelty or inventive step by district courts in 70% of 33 cases in which

invalidity was contested in 2006. It is also made apparent that the number of cases that end in settlement is about the same as the number of decisions rendered by district courts.

The lowering of the success rate for patentees may be attributed to the introduction of Article 104ter of the Patent Law in April 2005, which allows infringement courts to deem patents unenforceable if they find that the asserted patents are likely to be found invalid under invalidation proceedings before the Japan Patent Office. In 2000, the Supreme Court in the well-known Kilby case clarified that it should be possible for an infringement court to find disputed patents enforceable if grounds for invalidity “clearly” exist, marking a departure from the German style bifurcation of validity and infringement. The deletion of the underpinning term “clearly”, and inclusion in the statutory patent law provisions of the same principle in 2005 seemingly strengthened the courts’ hand in judging against patentees.

Another factor that needs to be considered is that, in almost every case, judges explicitly suggest or specifically discuss the possibility of settlement at some point during court proceedings. Some judges have pointed out that, in settled cases, the patentees are on the winning side approximately 50% of the time, although, in this regard, it should be pointed out that no statistical data have been made publicly available. If the odds are statistically even between plaintiffs and defendants in settled cases, the success rate should be 30% or higher even in 2006.

Further studies and discussions are necessary if this trend continues and, more importantly, if it is justifiable.

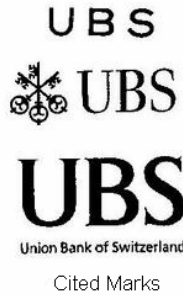
## 3. Chicago Cubs' CUBS Mark Found Dissimilar to UBS

On August 8, 2007, the Intellectual Property High Court, Judge Iimura presiding, reversed a decision by the Japan Patent Office, in which the mark of the major league baseball team Cubs was found phonetically similar to the UBS marks of Union Bank of Switzerland. The JPO concluded that the CUBS mark would represent the sound of “U-B-S” because “C” is too large to be read as a part of the four characters: C, U, B and S. In the decision, it is noted that the CUBS mark has become well known as a result of the success of some Japanese base ball players in the U.S. major league; and the CUBS mark should be pronounced as “Cubs” instead of U-B-S. The goods and services designated for the CUBS mark included telephones, cameras, printed matter and provision of information concerning entertainment in classes

9, 16 and 41, and those for the UBS marks belong to classes 9, 14, 16, 35, 36, 38, 41 and 42.



Present Mark

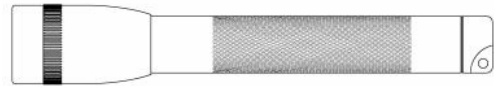


Cited Marks

#### 4. Mini Maglite Found Registrable As a 3D Mark

On June 27, 2007, the Intellectual Property High Court, Judge Imura presiding, reversed an earlier Patent Office appeal board decision to reject an application for a three dimensional trademark of a "Mini Maglite" product sold by Mag Instruments Inc. for the goods "flashlights". It is noted in the decision that: "as a result of long-term and intensive sales, consumers are now capable of distinguish Mag Instruments' products from those of other companies, and a trademark registration should be available." It is significant for the court to note that registrability of 3D marks may depend

on a sales history of relevant products. Also, this decision is a relief from what was the prevailing trend against 3D marks.



Drawing taken from the disputed application

According to the decision, the product had maintained the same shape since first going on sale in the U.S. in 1984, and also since first going on sale in Japan in 1986. There are now 2700 stores that carry the products in Japan. The number of the products sold in Japan was 600,000 in 2001. Also, it was pointed in the decision as a contributing factor that Mag Instruments had taken legal measures to stop the sales of similarly-shaped flashlights, and that as a result no products similar to the Mag Instruments' product are available in the Japanese market.

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## Editors' Note

We trust that the articles included in this issue will prove useful in providing you with up-to-date information. As will be apparent from a review of the contents of the articles of this issue, we have included information on new IP license guidelines that should be of practical use to you in conducting your business in Japan. We are also including in this issue an interesting article on the future of technology licenses in Japan, along with some articles providing updates on a variety of IP issues in Japan.

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