Recent Intellectual Property Law Developments in Japan

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Prepared for

The Intellectual Property Institute of Canada 76th Annual General Meeting

October 3, 2002

Huntsville, Ontario, Canada

I. INTRODUCTION

Japan's intellectual property landscape continues to evolve. Legislation governing trademark, copyright, and patent law has all been revised in recent years to reflect changes in technology – most notably, the proliferation global communication networks and the Internet. Simultaneously, Japanese courts, taxed to their limits, have had to hear an ever-growing number of intellectual property cases brought by increasingly litigious Japanese intellectual property owners, and handed down decisions with important consequences for owners of intellectual property in Japan.

In particular, the Diet revised Japan's patent law to reflect changes in the nature of intentions and infringement in the age of computer software and global computer networks. Japan's unfair competition statute was also revised to create a safe harbor for Internet Service Providers ("ISPs"), and its trademark law was revised to incorporate provisions against cybersquatting.

Simultaneously, Japanese courts handed down decisions enhancing the rights of owners of famous trademarks, enjoining the use of file-sharing software, approved previously unheard of levels of damage awards in patent infringement cases, and, in one very recent decision, potentially destabilized the patent management systems of Japanese corporations by ruling in favor of an employee-inventor seeking enhanced compensation for the assignment of his invention to his employer.

These and other developments are discussed below.

II. TRADEMARKS & UNFAIR COMPETITION

A. Dilution

In the first decision of its kind, the Japanese Supreme Court expansively interpreted provisions of Japan's trademark law to encompass the concept of trademark dilution.[1]

The fact of this case, which took eight years to resolve, are as follows: defendant Madras K.K. registered the mark L'AIR DU TEMPS in *katakana* (レーデュタン) in 1988 for personal accessories and other goods in International Class 21. In July 1992, Parfums Nina Ricci ("Nina Ricci"), which owned a trademark registration for the mark 'L'AIR DU TEMPS' in Roman characters only, petitioned the JPO to invalidate Madras' mark. It should also be noted that Nina Ricci used the mark in *katakana* characters on its product packaging.

Nina Ricci filed a petition to invalidate the Madras registration with the Japanese Patent Office ("JPO") Appeal Board on grounds that the registration violated Section 4(1)(xv) of the Japanese Trademark Law.[2] The petition was denied.

Nini Ricci then appealed to the Tokyo High Court, which affirmed the JPO decision, ruling in particular that, while the L'AIR DU TEMPS mark was well known to perfume dealers and consumers of luxury perfumes, it was not well known to the general public. Further, and somewhat inexplicably given that both marks shared the identical *katakana* representation, the court ruled that the marks differed in pronunciation. Based on this reasoning, the court concluded that confusion between the subject marks was unlikely.

The Japanese Supreme Court explicitly rejected these findings, ruling in particular that Nina Ricci's marks were famous among consumers, that the marks were identical in pronunciation and that the goods covered by the respective marks – perfumes, on one

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[1] *Parfum Nina Ricci v. Madras, K.K.*, Heisei 10 (gyo hi) 85, July 11, 2000. English translation and commentary by Misao Toba, "Japanese Supreme Court Addresses the Question of 'Likelihood of Confusion' for the First Time," *The Journal of the Japanese Group of AIPPI*, Vol. 26, No. 6, at 331 (November 2001).

[2] Law No. 127 of April 13, 1959, as amended. "Trademark registrations shall not be effected in the case of the following trademarks: . . . (xiv) trademarks which are liable to cause confusion with goods or services connected with another person's business . . . " Translation in Japanese Laws Relating to Industrial Property, AIPPI Japan, at 153 (1997).

hand, and "cosmetic accessories," on the other, were sufficiently related that consumers would believe that the goods originated from closely related businesses.

Most significantly, the court explicitly embraced the concepts of dilution and "free-riding" within the context of Article 4(1)(xv) of the Japanese Trademark Law, stating that the purpose of this section is to "preserve the distinctive character of famous or well-known marks and to prevent another party from taking a free ride and to prevent dilution so as to protect both the goodwill of the holder of such famous or well-known marks and the consumer."[3]

By so doing, the Supreme Court created new law, thereby marking a significant expansion of the concept of "likelihood of confusion" in Japanese trademark jurisprudence with regard to famous marks.[4]

B. Posthumous Enforcement of Publicity Rights

Section 4(viii) of the Japanese Trademark Law prohibits registration of trademarks comprised of the portrait, name or pseudonym of famous individuals. This provision, however, is construed to apply only to living individuals. The heirs or successors in interest to these famous names have therefore not been able to take advantage of this provision.[5]

Reflecting a trend emerging in JPO practice, however, an opposition to registration of a mark comprised of the name of a famous *deceased* individual was sustained on grounds that its registration would contravene public order and morality under Section 4(vii).

In this case, two individuals filed an application to register a stylized version of the mark EINSTEIN for clothing. All rights to the name and likeness of the famous physicist, however, are owned by Israel's Hebrew University. The JPO initially approved this application, but Hebrew University opposed, arguing that registration of the mark would contravene public order and morality.

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[3] Id. at 332.
[4] See also, Shusaku, Yamamoto, "Supreme Court Accepts 'Dilution' Trademark Protection," I.P. Japan, No. 10, at 10 (Spring/Summer 2001).
[5] Opposition No. Neisei 11-90972, December 12, 2000. Case summarized in Shusaku, Yamamoto, "Trademark Protection for Names of the Deceased and Famous," I.P. Japan, No. 11, at 10 (Spring/Summer 2002).

The JPO agreed, holding that registration of the mark comprising the EINSTEIN name without authorization from his heirs or assigns would insult the name and honor of Albert Einstein, violate Japan's trust with other countries, and "contravene good international relations" by exhibiting poor moral conduct in business.[6]

Whether a nod to *real politik* or principle, this case demonstrates that publicity rights of famous individuals can be posthumously protected under Japan's trademark law, and that the JPO is increasingly willing to refuse to register marks comprising the names of such individuals.

C. Cybersquatting – Revisions to Unfair Competition Prevention Act

On June 29, 2001, the Japanese Diet amended the Unfair Competition and Prevention Act ("UCPA") to include cybersquatting as a new category of unfair competition.[7] The amendment marks a major step forward for trademark owners in Japan seeking to cancel registrations of domain names incorporating their trademarks, and appears to codify the holding of the Toyama District Court in *K.K. Jaccs v. Nihonkai Pakuto.*[8]

In this case, the defendant registered the domain name www.jaccs.co.jp with JPNIC, the Japanese domain name registrar. This domain name linked to a website offering Defendant's low-cost toilets and cellular telephones.[9] Plaintiff Jaccs, which has branch offices throughout Japan, has been providing credit card services in Japan since 1976. The term "JACCS" is the abbreviation of "Japan Consumer Credit Service."[10]

The issue raised by this case, which Japanese courts had never before addressed, was whether a domain name constituted an "indication" of goods such that its

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[6] Id. at 11.
[7] Act for Partial Amendment of the Unfair Competition Prevention Act, Law No. 81 (June 29, 2001). For summary and translation, see Teruo Doi, "Prevention of Cyber-squatting and Prohibition of Bribery of Foreign Public Officials in International Business Transactions," Patents & Licensing, Vol. 31, No. 6, at 7 (December 2001) (*hereinafter*, "Teruo Doi").
[8] Heisei 10 (wa) 323, Toyama District Court (December 6, 2000).
[9] For translation of decision, see Kenneth L. Port, "Japanese Intellectual Property Law in Translation: Representative Cases and Commentary, 34 Vanderbilt J. Transnat'l L., 847 – 869 (2001).
[10] Teruo Doi, at 10.

unauthorized registration would constitute a violation of Sections 2(1)(i) or 2(1)(ii) of the UCPA.[11]

The court decided in favor of JACCS, ruling that a domain name could be an indicator of source under the UCPA. Specifically, the court observed that the JACCS trademark was featured prominently on the defendant's website. "As such," the court continued, "the domain name as used as part of the web page itself functions to distinguish the source or origin of goods that appear on the web page."[12] Having overcome this hurdle, the court easily found that the plaintiff's mark was famous, and that the defendant's registration of the domain name constituted an act of unfair competition under Section 2(1)(i) and 2(1)(ii) of the UCPA.

In the wake of this decision, the Diet amended the UCPA by adding to the list of acts defined as unfair competition in Article 2, the act of "acquiring or possessing, for the purpose of making unfair profit or injuring another person, a domain name identical or similar to a specific indication of goods, etc. of such person (i.e., a name, trade name, trademark, or service mark) . . . or of using such a domain name."[13] The amendment also explicitly exposes cybersquatters to damages.[14]

Thus, under the amended UCPA, which entered into force on December 25, 2001, owners of trademarks in Japan, and in particular, owners of famous marks not registered in Japan, can now take advantage of a statute aimed specifically against cybersquatters. This places plaintiffs in Japan roughly on par with plaintiffs in the United States, who can take advantage of the Anti-cybersquatting Consumer Protection Act (ACPA).[15]

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[11] "Acts of Unfair Competition under this Act shall be the following: (i) the act of using as one's own goods or indication (meaning a name, trade name, mark, trade mark, wrapping or container of goods related to a person's business), identical or similar, to another party's indication widely known among consumers . . . [or] (ii) the act of using as one's own an indication identical or similar to another party's famous indication of goods . . ." Translated in Christopher Heath, The System of Unfair Competition Prevention in Japan, at 294-95 (2001)..
[12] See, translation of Kenneth L. Port, 34 Vanderbilt J. Transnat'l L., at 888.
[13] UCPA § 2(1)(xii). Translation by Teruo Doi, at 15.
[14] UCPA, § 5(2).
[15] 15 U.S.C. §1125(d).

D. Unclean Hands Under Unfair Competition Law Limited

On September 26, 2001, the Tokyo High Court issued a decision that appears to limit the availability of the "unclean hands defense" in cases brought under the UCPA.[16]

In this case, plaintiff K.K. Leisure Products, a handbag manufacturer, sued Yubi-sha for its manufacture and sale of handbags, the form of which allegedly imitated that of Leisure Product's bags, in violation of Article 2, paragraph (1)(iii) of the UCPA.[17] Leisure Products filed its complaint with the Tokyo District Court.

Simultaneously, Yubi-sha filed a complaint with the Osaka District Court seeking an injunction against Leisure Product's continued sale of its bags because the bags' labels and sales material misrepresented the material composition of the bags and falsely designated the origin of the bags (i.e., New York rather than China), in violation of Section 2, Paragraph 1(xii) of the UCPA.

Ruling first, the Osaka District Court found in favor of Yubi-sha, enjoining further sales of Leisure Product's bags because Leisure Products had falsely designated the origin of its products as well as the material composition of its bags.

The Tokyo District Court, however, ruled in favor of Leisure Products, holding that Yubi-sha's bags imitated its bags in violation of the UCPA, and specifically rejected, without explanation, Yubi-sha's "unclean hands" defense.

Yubi-sha appealed this decision to the Tokyo High Court, which affirmed the lower court's rejection of the "unclean hands" defense, holding specifically that Leisure Products's misleading claims regarding the origin and material composition of its products did not excuse or otherwise mitigate Yubi-sha's manufacture and sale of its copy-cat handbags.

The significance of this case lies in the refusal of the courts to allow an unclean hands defense by a defendant in an unfair competition action. Rather, it appears Japanese courts will require defendants to file a separate complaint alleging the basis of their unfair competition claim against the plaintiff in the original case.

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[16] *Yubi-sha Sangyou K.K. et al. v K.K. Leisure Products*, Judgment of the Tokyo High Court, September 26, 2001, *reported in* Muratake, Reiki, "Tokyo High Court Refuses to Extend the 'Unclean Hands Defense' From Infringement Claims to Violations of the Unfair Competition Prevention Act," CASRIP Newsletter (Autumn 2001), upon which this section is based.

[17] "The act of transferring or dealing in (including the display for such purpose), exporting or importing goods that imitate the form of another party's goods . . . provided that no more than three years from the date of first commercial circulation have elapsed." (Translation in Muratake, Reiki, id.)

E. Standing to Appeal JPO Decision by Joint Owners

In a decision with important implications for joint owners of Japanese trademarks and patents, the Supreme Court ruled that, in cases involving jointly owned trademarks, all of the joint owners *do not* have to be included as parties in an appeal of a JPO decision to the Tokyo High Court.[18]

In this case, plaintiffs, nine of the eleven owners of a jointly owned trademark MIZUSAWA UDON for udon noodles, appealed a decision by the JPO invalidating their trademark on grounds of descriptiveness. The JPO's decision was based on the geographically descriptive nature of the term MIZUSAWA, and the generic nature of the term "udon."

Without reaching the merits, the Tokyo High Court dismissed the complaint, ruling that because all of the joint owners were not named in the appeal, the plaintiffs lacked standing to bring the appeal.

The Japanese Supreme Court overturned this decision, ruling that the appeal in the name of some, but not all, of the joint owners, could go forward because it would not harm the interests of the unnamed joint owners, and because the seriousness of the effects of invalidating a trademark for the named owners outweighed any harm that might result to the unnamed owners. In *dicta*, the Court also recognized the fluid nature of business relationships, in which the interests of individual joint owners can change over time.

To reach this conclusion, the Court applied a flexible "rule of reason," which will most certainly be followed by lower Japanese courts in the future. Joint owners of trademarks and patents who appeal an invalidation decision by the JPO should therefore be able to reasonably expect that the appeals court will reach the merits of their case regardless of whether all of the joint owners are named in the appeal.

[18] *K.K. Tamaruya, et al. v. U.K. Maki Shoji, et al.*, Judgment of Tokyo High Court, Case No. 2001 (*gyo-hi*) 12, February 28, 2001. Translated and analyzed in Fujino, Jinzo, "Trademark/Administrative Law: Standing to Sue," AIPPI (Japan) Case Reporter, *forthcoming*.

F. Retail Services

The JPO and Japanese courts continue to deny trademark registration for marks identifying retail services, as demonstrated recently by the Tokyo High Court decision in *Esprit Int'l v. Comm'r of Japanese Patent Office.*[19]

In this case, Esprit Int'l appealed the JPO's refusal to register its mark ESPRIT for retail services covering the sale of goods manufactured by others. The Tokyo High Court affirmed the refusal to register, stating that activities which incidentally involve the transfer of products "are not independent objects of trade, and as such, do not correspond to services listed in the trademark law."[20]

Thus, major Japanese retailers such as Takashimaya and Mitsukoshi, as well as foreign retailers such as Walmart and Toys "R" Us, remain unable to register marks for their retail services in Japan, in contrast with practice in the European Union and the United States. However, these businesses are still entitled to protect their names under Japanese unfair competition laws.

G. Use of Trademarks on Computer Networks

In one additional development, Japanese trademark law was revised to explicitly expand the scope of trademark protection to trademarks used on computer networks. Under the revised law, use of a service mark will include the display of the mark on a computer screen used in connection with services provided over the Internet.[21]

III. COPYRIGHT

A. File Sharing/MP3 Case

Consistent with developments in the United States, the Japanese are taking aggressive steps to enjoin the use of file-sharing software. For example, in the first ruling of its kind in Japan, a Kyoto court imposed a ¥400,000 *criminal* penalty against two individuals for using such software to make certain business software programs available for transmission to Internet users. In a summary order issued in March 2002, which was

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[19] Heisei 12 (gyo-ke) 195, January 31, 2001, summarized in Shusaku Yamamoto, I. P. Japan, at 12 (Spring/Summer 2002).
[20] Id. at 13.
[21] "Legislative and Practice Changes. Review of Patent and Trademark Law," JPO, available at www.jpo.go.jp/infoe/patent_law.htm.

widely reported in the press, the court ruled that this act constituted copyright infringement.[22]

Subsequent to the original arrest of the two defendants in November 2001, separate criminal charges were filed by the Japanese Society for the Rights of Authors, Composers and Publishers (JASRAC) and the Recording Industry Association of Japan (RIAJ) against the two defendants for making MP3 files from compact discs and transmitting them over the Internet.

The arrests and subsequent convictions of the two individuals represent the first time criminal penalties have been imposed under Japanese copyright law for using file-sharing software, an important victory for the Japanese recording industry.

In a subsequent decision, the Tokyo District Court issued a provisional injunction (similar to a preliminary injunction in the United States) against MMO Japan, Ltd., for operating its Internet file-sharing service, called "File Rogue."[23] File Rogue is also the name of the software distributed for free by MMO, which allowed users to copy and transmit MP3 files containing musical works controlled by JASRAC. In this case, the court ruled that the act of distributing the software and making the MP3 files available to the public infringed the copyright owners' reproduction and transmission rights. Furthermore, the court ruled that, even though the MP3 files were exchanged by individual network users, MMO was nonetheless liable because it placed the subject musical works in a transmittable format, and profited from the transmission of these works.

This case is also noteworthy because of the relative brevity of the court's deliberations before issuing its order – just two months, which is highly unusual for the Japanese courts.

MMO no longer distributes its software, but indicated that it may appeal. According to published reports, the company was also considering establishing a

[22] JASRAC News Release, March 26, 2002, available at www.jasrac.or.jp/ejhp/news/2002.0326.htm.
[23] JASRAC News Release, April 11, 2002, available at www.jascrac.or.jp/ejhp/news/2002.0411.htm. See also, "Internet Song-Swap Site Loses Case," Asahi Shimbum, April 11, 2002.

mechanism to pay royalties to the owners of copyrighted works distributed through File Rogue, thereby taking steps similar to those attempted by Napster in the United States.[24]

B. Used TV Game Software

In another significant development, the Tokyo and Osaka high courts, in separate cases, ruled that the sale of used TV game software was legal.[25] As reported in the CASRIP Newsletter, Winter, 2001, these decisions by the two leading IP courts in Japan, resolved conflicts among the lower courts regarding the sale of used TV game software, although each court took a different path to reach its decision.

Both courts found TV game software to be a cinematographic work, as defined in Article 2, Para. 3 of the Japanese Copyright Act. Owners of cinematographic works are generally entitled to control their distribution. However, the Tokyo Court noted that the distribution right with respect to such works is intended to control the distribution of a relatively small number of copies to theaters. Because game software is not distributed to theaters, but rather sold directly to consumers, and because protection of cinematographic works under Japanese copyright law "is aimed at the unique distribution system for movie film," the court refused to recognize a distribution right for such works, and thereby concluded that the sale of used TV game software was permissible.[26]

The Osaka High Court, by contrast, ruled that an owner of TV game software was entitled to a royalty distribution, but ruled that the sale of used TV game software did not constitute copyright infringement because the right had been exhausted under the first sale doctrine. Preventing the distribution of such works, the court wrote, would "interfere with the free flow of goods in the market."[27]

The impact of this decision is expected to extend beyond TV game software to other types of used software and videotapes, although both parties have announced they would appeal.

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[24] "MMO Japan to Fight Court Decision," Music Media Watch, No. 16, May 8, 2002, ~~available at~~ www.japaninc.net/newsletters/nst-mmw&issue-16.

[25] *K.K. Enikkusu v. K.K. Josho, K.K.*, Judgment of Tokyo High Court, March 27, 2001; *Akuto v. K.K. Sega*, Judgment of Osaka High Court, March 29, 2001. Both cases summarized in Takenaka, Toshiko, "Sales of Used TV Game Software is Legal," CASRIP Newsletter, Winter 2001.

[26] Takenaka Toshiko, "Sales of Used TV Game Software is Legal," CASRIP Newsletter, Winter 2001.

[27] ~~Id~~.

C. ISP Liability

Japanese courts and the Diet have also addressed the issue of ISP liability in recent months. Although the issue has emerged primarily in the context of defamation actions, the holdings of recent cases, and the provisions in legislation recently passed by the Diet, clearly encompass acts of copyright and other types of intellectual property infringement.

The most well-known case in this area is the *Nifty Serve Modern Thought Forum.*[28] In this case, the Tokyo District Court held that ISP Nifty Serve and its system administrator had a positive obligation to promptly remove allegedly defamatory material posted in an electronic chat room known as the "Modern Thought Forum."[29]

On appeal, however, the Tokyo High court reversed, ruling that neither the system administrator nor the ISP had an absolute obligation to remove allegedly defamatory material from its server. The court did not, however, absolve Nifty Serve of all responsibility. Rather, the court stated that Nifty Serve had a duty to remove defamatory material – and by extension, material that infringed a party's intellectual property rights – "based on a rule of reason,"[30] thereby leaving it to Nifty Serve to make a legal determination regarding the defamatory nature of the material in question. The ambiguity of this portion of the decision has been most troubling to Japanese ISPs.

Unfortunately, the ambiguity found its way into legislation submitted to the Japanese Diet on October 30, 2001, and approved one month later.[31] This legislation, which entered into force on May 27, 2002, sets forth a framework for imposing liability on ISPs when a user's posting infringes the rights of a third party.

Specifically, under Article 3 of the legislation, an ISP will not be liable for infringing material distributed through its server *unless* it is technically possible to take

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[28] Hanji 1610, Tokyo District Court (May 26, 1998), rev'd in part on September 5, 2001, Tokyo High Court (citation not available).
[29] See Okamura, Hisamichi, "Liability of Internet Service Providers," presented at Tenth Softic Symposium, October 2001.
[30] See Etsuo Doi, "Recent Developments on Internet Related Laws and Regulations in Japan," paper presented at Triennial New Zealand Law Conference, October 5, 2001. Paper available at http://www.conference.co.nz/law2001.
[31] Law No. 137-2001, November 22, 2001. Unofficial translation by Toru Maruhashi available at: www.isc.meiji.ac.jp/~sumwel_h/doc/codeJ/provider-e.htm.

down the infringing material, *and* the ISP *knew or should have known* that the material was infringing.

Article 3 also exempts ISPs from liability for taking down infringing material (i.e., liability to the sender of the information) when either (1) the ISP *had reason to believe* the material in question was infringing, *or* (2) the ISP gives the sender of the allegedly infringing material seven (7) days to respond to the complaint, and the sender fails to respond.

Similarly, Article 4 allows an ISP to disclose information regarding the sender of information when (1) it is "obvious" that the material in question is infringing, or (2) where disclosure of the information is necessary for the complaining party to enforce its claims,[32] but will not hold it liable for *not* disclosing information as long as such non-disclosure was not willful or grossly negligent. [33]

All of these provisions leave it to the ISP to make the legal determination. It is therefore not difficult to imagine a scenario in which an ISP is required to pay damages for taking down material it incorrectly deemed to be infringing, or for disclosing sender information based on its incorrect determination about the legal status of the material complained of.

Japanese ISPs have voiced concern about this legislation because it fails to prescribe specific procedures to follow when they become aware that allegedly infringing or defamatory material has been posted on their servers. Furthermore, they believe the broad language in the bill leaving it to their discretion to determine if material is infringing, or if sender information should be disclosed, creates an excessive burden that leaves them vulnerable should a court later find unjustified their decision to take down material or disclose sender information.[34]

These concerns notwithstanding, this legislation has been enacted. It is now up to the Japanese courts to interpret its provisions.

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[32] Translation and discussion in Tsuneaki Hagiwara, "Liability of Internet Service Providers," at 5-7, presented at Tenth Softic Symposium, October 2001. Available at www.softic.or.jp/symposium/open_materials/10th/en/hagiwara1-en.pdf.

[33] Id.

[34] Id. at 7.

IV. PATENT LAW

A. Legislative Developments

In perhaps the most significant development in this area, the Japanese Diet approved amendments to both patent and trademark laws, which entered into force on September 1, 2002.[35] These revisions were driven by a perceived need for the law to catch up with rapid advances in the field of information technology, and in particular, the transmission of software and other forms of intellectual property over global computer networks. Simultaneously, the legislation attempts to improve the efficiency of the patent examination process in Japan, reduce the applicant's burden in the patent application process, and expand the provisions for finding indirect patent infringement.[36]

In particular, the law amends Section 2(3) of the Patent Law to clarify that a computer program is a product, and expands the definition of "exploitation" of an invention to specifically include distribution of the computer program (i.e., the product) over telecommunications lines.[37]

Accordingly, the unauthorized transmission of a patented computer program now clearly constitutes patent infringement under Japanese law, regardless of the fact that the computer program was never incorporated into a tangible media such as a CD-ROM.

The new law also expands the provisions for finding indirect infringement of a patent. Under the old law, an act of "manufacturing, assigning, leasing, importing or offering for assignment or lease of . . . articles to be used *exclusively* for the manufacture of a product" (or working of a process) constituted indirect infringement.[38] (emphasis added). To avoid liability, defendants therefore had to show merely that the product in

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[35] Trademark law amendments discussed supra, Section II.

[36] See, "Legislation and Practice Changes," Japan Patent Office (April 26, 2002), available at www.jpo.go.jp/infoe/patent_law.htm.

[37] Law No. 121 of April 13, 1959, as amended, §2(3). See also See, Takenaka, Toshiko, "JPO's New Bill to Revise Patent and Trademark Law Will Prepare Japan for Network Society," CASRIP Newsletter (Winter 2002).

[38] Law No. 121, §§101(i) and (ii). Translation by AIPPI, Japan.

question had an alternative application, which explains why only a small number of defendants in cases alleging indirect infringement have been found guilty.[39]

The recent revisions eliminate this loophole by making it an act of infringement to manufacture, lease or sell a product, the use of which is essential for solving the problem to be solved by a claimed invention, "where the defendant had knowledge [of the patented product or process], and the product was going to be used in the working of" the patented product or process.[40]

Stated differently, the new law looks to the intent of the defendant. Where there is an intent to sell a product for use in the manufacture of an infringing product, the new law will make it easier to find the defendant guilty of indirect infringement.

With a view toward improving the patent examination process, the new law also establishes new requirements for applicants to disclose prior art. Under the previous law, the disclosure of prior art was voluntary. Under the new law, which falls short of the duty of candor imposed under United States law, an examiner can request that an applicant identify prior art. If the applicant fails to do so, the examiner will have the authority to reject the application. A failure to disclose, however, will not constitute a basis for opposing or later holding a patent invalid.[41]

In order to harmonize Japanese practice with the Patent Cooperation Treaty ("PCT") requirements, the new law also mandates that patent claims will no longer be deemed part of the specification.[42] These provisions, however, will not be in force until April 2003.

The legislation also extends the domestic transition period of international applications under the PCT to thirty (30) months for patent and utility models, and gives applicants an additional two months to submit translations.[43]

In separate legislation, the law governing the admission and practice of Japanese patent attorneys (*benrishi*) was amended to grant *benrishi* the authority to serve as counsel in intellectual property infringement lawsuits, so long as they appear together in

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[39] See Shusaku Yamamoto, "Proposed 2002 Revisions of Japanese Patent and Trademark Law," I.P. Japan, at 2 (Spring/Summer 2002).
[40] Id. at 2
[41] Id. at 2
[42] Id. at 3.
[43] Id. at 3.

court with an attorney at law (*bengoshi*), and so long as they have passed special qualifying examinations.[44] This amendment was driven by the increasing amount of patent litigation in Japan, and a general recognition that the expertise of patent specialists in order to improve the efficiency of patent litigation proceedings.

B. Judicial Administration

As noted above, the Tokyo High Court is one of Japan's two leading courts for intellectual property matters. To enhance the capacity of this court to handle the rising number of intellectual property cases being filed in Japan, the court increased the number of judges dedicated to intellectual property cases from four to sixteen. The court also added an additional section to handle intellectual property cases, thus increasing the number of such sections from three to four, and added two new researchers with a background in foreign patent law.[45]

C. Cases

1. *Damages*

In an important victory for patent owners, the Tokyo District Court awarded a patent plaintiff more than $63 million (¥8.4 billion), the largest amount of damages for patent infringement ever awarded in Japan.[46] In this case, the Plaintiff Aruze Corporation, which holds a dominant share of Japan's lucrative *pachinko* market, successfully proved that the defendants had infringed its patent for slot machine system controller. To calculate damages, the Court multiplied the amount of Aruze's profits per machine times the number of infringing units sold by the defendants (altogether more than 40,000) to arrive at the damage award.

This decision serves as the most recent indicator of the increased willingness of Japanese courts, who in the past have been criticized for the relatively small damage

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[44] Patent Attorney Law, Law No. 10, 1921. Summary of revision available at www.jpo.go.jp/infoe/patent_attorney_law.htm.

[45] "Supreme Court to Boost Judicial Capacity to Hear Patent Cases," Nikkei Net, February 21, 2002, available at www.harakenzo.com/English/whatsnew/news/040203.htm.

[46] *Aruze Corp. v. Sammy Corp.*, H-11 (wa) No. 23945 and *Aruze Corp. v. Net Co.*, H-11 (wa) No. 13360, Tokyo District Court (March 19, 2002), summarized in John A. Tessensohn and Shusaku Yamamoto, "2002 Pro-Patentee Record Setting Patent Infringement Damage Award," I.P. Japan, at 14 (Spring/Summer 2002), upon which this discussion is based.

awards granted in patent cases, to mete out stiff penalties in patent infringement cases, thereby giving Japanese patent holders a greater incentive to resort to litigation to resolve patent disputes.

2. *Biotech Invention Completed Where Claimed Invention Subsequently Proved*

In a decision with important ramifications for the Japanese biotechnology and pharmaceutical industry, the Tokyo High Court ruled that an invention claimed in a patent application would be deemed completed if the results claimed in the invention are subsequently proved.[47]

This case involved an invention for human brain natriuretic peptides (BNPs). As summarized in *I.P. Japan*, "the specification . . . disclosed the claimed family of human BNPs . . . cloned by homology with porcine and canine BNPs. However, the human BNPs were not actually produced, and their natriuretic activity was therefore not demonstrated in the specification."[48]

Although the Court ultimately found that the claimed invention had not been completed, it accepted a more flexible standard for making this determination than that employed by the JPO. In particular, whereas the JPO generally holds, with respect to pharmaceutical and biotechnology inventions, that an invention is not completed under Section 29 of the Japanese Patent Law where the results of the invention are not referred to in the specification, the Court ruled that such an invention will be deemed completed if "its activity could have been predicted based on the disclosure of the specification and common general knowledge as of the priority date, *and* this activity was *subsequently* proved."[49]

3. *Compensation for Employee Inventions*

Section 35 of the Japanese Patent Law entitles employee-inventors to reasonable compensation for the assignment of their invention to their employer, the sum of such

[47] Heisei 10 (gyo-ke) 393, Tokyo High Court (March 13, 2001). Summarized in John A. Tessensohn and Shusaku Yamamoto, "Important 2001 Japanese Patent Law Developments in Biotechnology," I.P. Japan, at 4 (Spring/Summer 2002).
[48] John A. Tessensohn and Shusaku Yamamoto, supra at n. 47.
[49] Id. at 5 (emphasis added).

compensation based on an estimation of the profits an employer will make from the invention, the amount of the employer's contribution to the invention, and the employer's regulations.[50] As a matter of practice, however, the amount awarded to an employee-inventor, which has been determined unilaterally by corporations as part of their patent management policies, has been rather low, and inventors do not receive additional remuneration when the profits earned by their inventions exceed the employer's original expectations.

Japanese corporations have, for obvious reasons, preferred this system, noting the difficulty of predicting future profits and the need to preserve corporate patent management policies and systems that have been in place for many years. In a recent decision, however, the Tokyo High Court questioned the legality of these systems, and thereby gave employee-inventors greater leverage to challenge an employer when they believe the amount of compensation they receive for assigning their patent to their employer is too low.[51]

In this case, the plaintiff invented a pick-up (i.e., a data detection head) used with video disc devices. In accordance with company policy, rights to the invention were assigned to his employer. Upon approval of the patent in 1992, the employee received ¥211,000 (approximately US $2,000).

Through a series of licensing agreements entered into between 1990 and 1996, most but not all of which incorporated the subject patent among a group of related patents, the employer earned more than ¥14 billion (approx. US $120 million).[52]

Believing he was entitled to a portion of these profits, the plaintiff sued, asking for ¥200 million as "reasonable compensation" for his invention. Notwithstanding questions regarding the validity of the patent and the degree to which the invention was used under the various licenses, the lower court awarded the plaintiff ¥50 million, based upon revenues earned by the employer from the licenses and the defendant's contribution to the invention, which the court assessed at 95 percent. Both the plaintiff and the defendant appealed to the Tokyo High Court.

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[50] Law No. 121, April 13, 1959, as amended, § 35(3) and (4).

[51] *Tanaka v. Olympus Optical Industry*, Hesei 11 (NE) 3208, Tokyo High Court (May 22, 2001), discussed in "Tokyo High Court Ruling Regarding Compensation for Assignment of Employee's Work Invention," Journal of JIPA, Vol. 2., No. 1., at 39 (July 2002).

[52] Id. at 41-42.

The Tokyo High Court, which affirmed the ruling of the lower court, had to decide whether an employer could unilaterally regulate the assignment of the employee's invention per the provisions of Section 35 of the Patent Law. The Court ruled that such unilateral regulation was improper because it unfairly favored the employer. Consequently, it held that an employee could seek additional compensation if the original amount decided by the employer turned out to be "unreasonable."[53]

This decision has created considerable consternation among Japanese corporations, who have expressed concern that the decision raises more questions than answers because it fails to provide a formula for calculating "reasonable compensation," and may encourage employees to litigate rather than to raise issues directly with their employers.[54]

Both parties have filed requests to appeal this decision to the Supreme Court.

IV. CONCLUSION

The preceding material demonstrates the ongoing evolution of Japanese intellectual property law. New issues raised by rapid advances in technology and the increasingly litigious nature of Japanese intellectual property owners are driving changes to Japan's intellectual property laws, and the way those laws are interpreted by Japanese courts. Western practitioners with Japanese clients and/or clients with business in Japan should therefore keep abreast of these changes to ensure that their clients' intellectual property assets are protected to the greatest extent possible.

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[53] Id. at 44.
[54] Id. at 45-46.