

IP in business transactions: Japan overview

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OVERVIEW OF MAIN IPRS

1. What are the main IPRs in your jurisdiction? How are they protected?

Patents (including utility model rights)

Japan has a two-tier patent system:

- The Patent Act, which covers exclusive rights to inventions based on technical ideas using natural laws.
- The Utility Model Act, which covers exclusive rights to devices based on technical ideas using natural laws in connection with a device's shape, structure, or a combination of them.

The differences between the two Acts are the protected subject matter and the required level of technical complexity. The scope of the subject matter protected by the Utility Model Act is narrower than that protected by the Patent Act, and the level of technical complexity required by the Utility Model Act is lower than that required by the Patent Act.

Both patent rights and utility model rights are protected through registration with the Japan Patent Office (JPO).

The legal requirements to obtain patent rights and utility model rights are:

- Novelty.
- Inventive step.
- Susceptibility to industrial application.
- Non-existence of a claim under a prior application.

The categories that are excluded from patent protection are:

- Ideas in which the laws of nature are not used.
- The laws of nature themselves.
- Techniques.
- Unfinished inventions.
- Medical operation processes or the treatment or diagnosis of human beings.
- Matters liable to adversely affect public order, morality or public health.

The JPO provides guidance on the procedures for obtaining patents on its website (www.jpo.go.jp).

Trade marks

Any mark that consists of a character, figure, sign, three-dimensional shape, colour, or any combination of them, or a sound, that is used in connection with goods or services for commercial purposes, can be registered and protected under the Trade Mark Act.

If unregistered marks are widely-recognised or well-known, they can be protected under either or both the Unfair Competition Prevention Act and the Civil Code. Registration with the JPO is necessary for protection under the Trade Mark Act and is highly recommended for the protection of trade marks.

The JPO can refuse to register a trade mark on the grounds that it:

- Has no distinctive character.
- Is identical or similar to the mark of a national or international organisation.
- Is identical or similar to a registered or well-known mark.
- Is likely to cause confusion in connection with the goods or services pertaining to the business of another person.

The JPO provides guidance on the procedures for obtaining trade marks on its website (*see above, Patents (including utility model rights)*).

Copyright

Copyright arises automatically on creation of a work in which thoughts or sentiments are expressed in a creative way and which falls in the literary, academic, artistic or musical domain.

No registration is necessary under the Copyright Act when a work has been created. However, in the event of assignment, a copyright cannot be asserted against a third party unless it has been registered.

Registration must be made with the Agency for Cultural Affairs (www.bunka.go.jp/english) or, for computer programs, the Software Information Center (SOFTIC) (www.softic.or.jp/en/index.html) by submitting an application with supporting information. The Agency for Cultural Affairs and SOFTIC do not provide any guidance on applications in English on their websites.

Furthermore, the author's name, first publication date and so on of a copyrighted work can be registered with the Agency for Cultural Affairs (or SOFTIC for computer program registration).

An author's moral rights are exclusive to the author and cannot be transferred. An assignee should have the assignor agree to not exercise those rights against the assignee or its successors.

Design rights

Under the Design Act, a design means the shape, pattern, colour, or combination of these of an article which has an aesthetic sense. A graphic image that is provided for use in the operation of an article (limited to operations carried out to enable the article to perform its functions) and is displayed on the article itself or another article that is used with the article in an integrated manner can also be protected by the Design Act. Registration with the JPO is necessary for protection under the Design Act.

Note that pursuant to amendments to the Design Act (which will come into force on a date within one year from 17 May 2019), the scope of protected designs will be expanded to include:

- Graphic images not recorded or displayed on articles (for example, images stored on a cloud network and provided through such network, projected in virtual reality (VR) or augmented reality (AR), projected on walls or roads in projection mapping, and so on).
- Building exterior and interior design such as store designs.

The legal conditions to obtain design rights are:

- Industrial applicability.
- Novelty.
- Creativity.
- Distinctiveness and dissimilarity with any design previously filed.

The JPO provides guidance on the procedures for obtaining design rights on its website (see above, *Patents (including utility model rights)*).

Unregistered designs can be protected under the Unfair Competition Prevention Act if a configuration of goods, which means the external and internal shape of goods and the pattern, colour, gloss, and texture combined with this shape that can be perceived by consumers in normal use, is deemed to be unfair competition.

Further, unregistered designs in which thoughts or sentiments are expressed can also be protected as a copyrighted work under the Copyright Act. It is under discussion whether applied arts need to be more original than fine arts to be protected by the Copyright Act.

Trade secrets and confidential information

There is no registration system or form of protection for confidential information. However, confidential information, which is defined as technical or business information useful for commercial activities, such as manufacturing or marketing methods, that is kept secret and is not publicly known, can be protected under the Unfair Competition Prevention Act as trade secrets.

Grounds for an action for unauthorised use of confidential information include:

- Acquiring a trade secret by improper means, or using or disclosing a trade secret through wrongful acquisition.
- Acquiring a trade secret with knowledge or gross negligence of the fact that the secret was acquired through improper means, or using or disclosing a trade secret so acquired.
- Using or disclosing a trade secret with knowledge or gross negligence of the fact that the secret was acquired through improper means after acquiring the secret.
- For the purpose of acquiring illicit gains or causing injury to the holder, using or disclosing a trade secret which has been disclosed by the business operator holding the trade secret.
- Acquiring a trade secret with knowledge or gross negligence of the fact that the secret was disclosed through improper means, or using or disclosing a trade secret so acquired.
- Using or disclosing a trade secret with knowledge or gross negligence of the fact that the secret was disclosed through improper means after acquiring the secret.
- Assigning, delivering, displaying for the purpose of assignment or delivery, exporting, importing or providing through a telecommunications line articles manufactured by using a technical secret that was acquired wrongfully, except when such assignment is made by a person that was without knowledge that those articles originated from wrongful

acquisition, and was without gross negligence in not knowing so at the time of receiving them.

In addition, an amendment Act to the Unfair Competition Prevention Act came into force on 1 July 2019. The amendment protects certain types of "big data", which is defined as "limited provided data" (*gentei-teikyo* data) that meets all of the following:

- Technical and business data.
- Accumulated in substantial quantities.
- Managed by electromagnetic means (excluding data that is kept secret).
- Treated as data to be provided to a specific entity.

For further information on the main IPRs, see *Patents, trade marks, copyright and designs in Japan: overview*.

MAINTAINING IPRS

Search and information facilities

2. What facilities are available to conduct IP searches and obtain IP information on registered IP rights?

Patents (including utility model rights)

The JPO maintains a free, searchable online database of the texts of patents (including utility models) and the registrations of design rights and trade marks (www.j-platpat.inpit.go.jp).

The JPO also maintains information on new applications for each type of IPR on its online database. However, it usually takes six months for the JPO to publish that information.

It is highly advisable to consult an attorney (*bengoshi*) specialising in IP law or a patent agent/attorney (*benrishi*). *Benrishi* is a profession specifically licensed to practice intellectual property law, which is a different qualification than *bengoshi*.

Trade marks

See above, *Patents (including utility model rights)*.

Copyright

The Agency for Cultural Affairs and SOFTIC maintain information on registered copyrights. They have a free online database searchable by the name and registry number of a copyrighted work (this database is only available in Japanese, and detailed information on copyright registrations is only available on request to the Agency for Cultural Affairs or SOFTIC for a handling fee).

Design rights

See above, *Patents (including utility model rights)*.

Trade secrets and confidential information

There is no registration system for confidential information.

Maintenance of main IPRS

3. What steps must a business take to maintain the registration and legally protectable status of its main IPRS?

Patents (including utility model rights)

A patent right is effective on registration and expires 20 years (ten years for utility model rights) from the application filing date.

An applicant must pay the annuities for the first three years in a lump sum within 30 days of receiving notice of the granting of a patent (for utility model rights, payment must be made at the same

time as the application). Fees for the fourth annuity onwards must be paid by the end of the preceding year.

Details of maintenance and other fees are available on the JPO website (see *Question 1, Patents (including utility model rights)*). If a patented invention is not sufficiently and continuously used in Japan for three years or more, a person intending to use the patented invention can request that the patent owner or exclusive licensee (*senyo-jisshi-ken-sha*) hold a meeting to discuss granting a non-exclusive licence. If no agreement is reached or no meeting can be arranged, the person can request that the Commissioner of the JPO grant a non-exclusive licence (except for patents filed within the preceding four years).

Trade marks

An applicant must pay the registration fee within 30 days after receiving notice of the granting of a trade mark.

A registered trade mark expires on the ten-year anniversary of its registration and can be renewed by the holder of the trade mark filing a renewal application.

Details of maintenance and other fees are available on the JPO website (see *Question 1*).

If a registered trade mark has not been used in Japan for three consecutive years or more by the holder or a licensee without reasonable cause, any person can file an application to cancel the trade mark registration.

Copyright

Registration is not necessary to obtain copyright protection, and no fee is required.

An amendment to the Copyright Act, arising from Japan's ratification of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (TPP-11), came into force on 30 December 2018, extending copyright duration. Namely, copyright protection starts from the creation of a work and continues for 70 years after the death of the author (for a cinematographic work, 70 years from publication).

For certainty, the following can be registered with the Agency for Cultural Affairs (or SOFTIC for computer program registration):

- Assignment of a copyright.
- Establishment of publication rights.
- Authors' names and dates of publication for anonymous works.
- Date of creation of a copyrighted program.

An assignment of copyright cannot be asserted against a third party unless it has been registered, but it is effective between the assignor and assignee.

Design rights

Design rights are registered on payment of the registration fee for the first year. The registration fee must be paid within 30 days after receiving notice of the granting of the rights. The registration fees for the second year onwards must be paid annually by the end of the preceding year.

The term of a design right expires after 20 years from the date of registration and cannot be renewed.

Please note that the duration of design rights will be extended to 25 years from the application date, once the amendments to the Design Act, which were enacted on 10 May 2019, come into force (see *Question 28*).

Details of maintenance and other fees are available on the JPO website (see *Question 1*). Protection of unregistered designs under

the Unfair Competition Prevention Act arises on creation and lasts for three years from the time the relevant article is first sold in Japan.

Trade secrets and confidential information

There is no registration system for confidential information.

Monitoring infringement

4. What steps can a business take to avoid infringing another party's IPRs and to monitor whether another party is infringing its IPRs?

Patents (including utility model rights)

For patents, utility model rights, trade marks, and design rights, before conducting business it is highly recommended to conduct a search for prior IPRs. Any person can search for prior rights using the JPO's free online database (see *Question 2*).

Under the Patent Act (amended in May 2014), any party can file with the JPO an opposition to granted patents within six months after issuance of the official gazette in which the patent is published. In addition, there is an option to file an invalidation trial. However, standing for an invalidation trial is limited to interested parties. For example, if a person or company is aware of a prior art similar to a newly granted patent of a competitor, it can either:

- File an opposition.
- File an invalidation trial as an interested party.

There is no official JPO system to monitor for infringement of IPRs by competitors.

Trade marks

See above, *Patents (including utility model rights)*.

Copyright

There is no special step for copyright protection.

Design rights

See above, *Patents (including utility model rights)*. However, any party can file an action for invalidation of granted design rights, but there is no option to file an opposition.

Trade secrets and confidential information

There are no special steps for confidential information.

EXPLOITING IPRS

5. What are the main steps in conducting an IP audit in your jurisdiction to determine the content of an IP portfolio?

Patents (including utility model rights)

For patents, utility model rights, trade marks, and design rights, the main step in an IP audit to determine the content of an IP portfolio is to conduct a search using the JPO's online database.

A right can still be held invalid after registration if a person files an invalidation trial with the JPO. Unlike the other IPRs, utility model rights are registered without the JPO examining the contents of the utility models, so utility model rights are often held invalid when challenged.

Trade marks

See above, *Patents (including utility model rights)*.

Copyright

Since the details of copyright cannot be searched through public sources, inquiries should be made with the author or copyright owner.

Design rights

See above, *Patents (including utility model rights)*.

Trade secrets and confidential information

Since confidential information cannot be publicly disclosed, it must be obtained from the holders of the confidential information.

ASSIGNMENT

Scope of assignment

6. On what basis can the main IPRs be assigned?

Patents (including utility model rights)

Patent rights, including the right to obtain a patent (future right), can be assigned in whole or in part.

Trade marks

Trade mark rights, including the rights deriving from an application for trade mark registration, can be assigned separately from goodwill. When several goods or services are designated for registration, a trade mark may be divided into each class and can be assigned separately.

Copyright

Copyright can be assigned in whole or in part, that is, any bundle of rights, such as the right of reproduction, exhibition, distribution, translation and so on, can be assigned.

Design rights

Design rights, including the right to obtain a design registration (future right), can be assigned in whole or in part.

Trade secrets and confidential information

There is no notion of assigning actual confidential information. However, confidential information can be disclosed (in whole or in part), if this is agreed. It is also possible to agree to disclose information obtained in the future.

Formalities for assignment

7. What formalities are required to assign each of the main IPRs?

Patents (including utility model rights)

To assign patents, utility model rights, trade mark rights and design rights, a written application for registration of the assignment must be filed (in principle, jointly by the assignor and assignee) with the JPO. The registration must be substantiated by submitting relevant documents evidencing that the parties have agreed to the assignment.

If a right is jointly owned, a joint owner cannot assign or pledge the right without the consent of all the other joint owners.

Trade marks

See above, *Patents (including utility model rights)*.

Copyright

No formalities are necessary to assign copyright. However, to assert a copyright assignment against a third party, a written application for registration of the assignment must be filed with the Agency for Cultural Affairs (or SOFTIC for computer programs). The registration must be substantiated by submitting relevant documents evidencing that the parties have agreed to the assignment.

Design rights

See above, *Patents (including utility model rights)*.

Trade secrets and confidential information

There is no notion of assigning actual confidential information. However, confidential information can be disclosed (in whole or in part), if this is agreed. It is also possible to agree to disclose information obtained in the future.

Main terms for assignments

8. What main terms should be included in an assignment of IPRs?

An assignment of IPRs should include:

- The terms of the assignment.
- Co-operation relating to assignment registration procedures.
- Consideration for the IPRs.

Representations and warranties, confidentiality, and governing law and jurisdiction provisions are not essential, but it is highly recommended to include them.

For copyright assignment, the right of adaptation and the right of the original author relating to the exploitation of derivative works are presumed to be reserved to the assignor, unless otherwise specifically referred to in the assignment agreement. Since an author's moral rights are exclusive to the author and cannot be transferred, the assignee should have the assignor agree not to exercise those rights against the assignee or its successors.

LICENSING

Scope of licensing

9. On what basis can the main IPRs be licensed?

Patents (including utility model rights)

For patents, utility model rights, trade marks, and design rights, the right holder can grant both exclusive licences (the exclusive right to use the rights for commercial purposes (*senyo-jisshi-ken*) and non-exclusive licences (*tsujyo-jisshi-ken*).

The scope of a licence is determined by the contract between the right holder and the licensee (permissible to be in whole or in part). There is no explicit jurisdictional restriction. However, rights under Japanese law are only effective in Japan, and registrations contrary to this are not allowed.

An exclusive licence (*senyo-jisshi-ken*) under Japanese law has a unique meaning compared to exclusive licences under foreign IP laws. In Japan, once an exclusive licence is granted by agreement and is registered, the right owner (licensor) can no longer use the licensed right or license the right to another person, unless otherwise agreed between the licensor and the licensee.

Other than by contract, a provisional non-exclusive licence can be granted to a person who, without knowledge of an invention claimed in a patent application, has been using the invention prior to the filing of the application. For patents, utility model rights and design rights, there is also a ruling system for the granting of compulsory licences by the Commissioner of the JPO in cases where it is inevitable that a licensee will infringe the licensor's right in the course of using its own licensed right and where no agreement can be reached with the licensor.

Trade marks

See above, *Question 9*.

Copyright

For copyright, the right holder can grant both exclusive licences (allowing the use of the rights for commercial purposes) and non-

exclusive licences. The scope of a licence is determined by the contract between the right holder and the licensee.

Since copyright is a bundle of rights, such as the right of reproduction, exhibition, distribution, translation and so on, copyright can be partially licensed.

When the holder of a copyright that is made public is unknown, a ruling system grants a compulsory licence from the Commissioner of the Agency for Cultural Affairs on deposit of the ordinary amount of royalty for the copyright.

A broadcaster may also seek a ruling granting a compulsory licence from the Commissioner of the Agency for Cultural Affairs if it intends to broadcast a copyrighted work but fails to reach an agreement with the right holder of the copyrighted work. There is a similar ruling system for the commercial use of copyrighted recordings.

There is no explicit jurisdictional restriction. However, copyrights under the Copyright Act are only effective in Japan.

Design rights

See above, *Patents (including utility model rights)*.

Trade secrets and confidential information

Confidential information can be licensed in whole or in part where agreed without any jurisdictional restrictions.

Formalities for licensing

10. What are the formalities to license each of the main IPRs?

Patents (including utility model rights)

For patents, utility model rights, trade marks, and design rights, licences require no formalities. Registration with the JPO is necessary for the exclusive licences (*senyo-jisshi-ken* or *kari-senyo-jisshi-ken*, which is a provisional exclusive licence for patent pending rights) to be enforceable against a third party.

In relation to non-exclusive rights (*tsujyo-jisshi-ken* or *kari-tsujo-jisshi-ken*, which is a provisional non-exclusive licence for patent pending rights), registration was formerly required to assert those rights against a third party. However, the registration system for these non-exclusive rights was abolished in April 2012 (the Trade Mark Act has not been amended and, for trade marks, registration of non-exclusive rights is required continuously).

Therefore, non-exclusive rights to patents, utility model rights and design rights do not need to be registered, and licensees are able to assert their rights against a third party without registration. However, it is highly recommended that an agreement be entered into in writing.

Trade marks

There are no formalities to license trade marks. Registration with the JPO is necessary for the exclusive licences (*senyo-shiyo-ken*) to be enforceable against a third party.

Non-exclusive rights (*tsujyo-shiyo-ken*) must be registered to be asserted against a third party (subsequent trade mark assignee, exclusive licensee, bankruptcy trustee, and so on), except for general successors by inheritance or merger.

Copyright

Copyright licences do not need to be registered. However, it is highly recommended that an agreement be entered into in writing.

Design rights

See above, *Patents (including utility model rights)*.

Trade secrets and confidential information

There are no formalities required for confidential information. However, for a licensor to ensure that information remains confidential, it is advisable for a confidentiality agreement to be in writing.

Main terms for licences

11. What main terms should be included in an IP licence?

The following are the main terms that should be included in an IP licence:

- The scope of the licence, that is:
 - identification of the rights licensed;
 - exclusivity;
 - duration;
 - territory; and
 - terms of exploitation
- Payment terms.
- Audit.
- Warranties and indemnities.
- Proceedings for infringement.
- Assignability.
- Term of agreement.
- Termination.
- Governing law and jurisdiction.

TAKING SECURITY

12. What are the key issues in taking security over the main IPRs?

Pledges can be taken over each type of IPR. An assignment by way of security (*joto-tampo*) is also commonly taken over each type of IPR.

The most difficult aspect of taking security over IPRs is the valuation of secured IPR assets. IPRs can be invalidated by failure to pay the registration or maintenance fees or the filing of an invalidation trial by a third party, and the economic value of an IPR often decreases due to low market demand.

When enforcing security, a limited resale market can pose a problem, as many IPRs are only created for internal use (the resale market is also related to the problem of asset valuation).

13. What are the main security interests taken over IPRs?

Patents

For patents, utility model rights, trade marks, and design rights, security interests take effect through registration with the JPO.

Trade marks

See above, *Patents*.

Copyright

No formalities are necessary to take security interests in copyright. However, registration with the Agency for Cultural Affairs (or SOFTIC for computer programs) is necessary to assert a security interest in copyright against a third party.

Design rights

See above, *Patents*.

Trade secrets and confidential information

No security interests can be taken in confidential information.

M&A

Due diligence

14. What IPR-related due diligence is commonly carried out in both a share sale or merger and an asset sale?

In both share sales and asset sales, the steps commonly taken during IP-related due diligence are as follows:

- Identifying all the IPRs either used or owned by the target that are necessary to conduct its business.
- Gathering further information, such as:
 - for each IPR, the details regarding the territory covered, ownership, registration number, registration date and expiry/renewal date, and ensuring the payment of periodical fees (maintenance or renewal);
 - details of proceedings or claims, actual or threatened, affecting the IPRs owned or used by the target;
 - details of all assignments, licences or other authorisations, research and development agreements and collaboration agreements, including the main clauses of these agreements, such as exclusivity, warranties, scope and term; and
 - details of security interests relating to the IPRs owned or used by the target.

Warranties/indemnities

15. What IPR-related warranties and/or indemnities are commonly given by the seller to the buyer in both a share sale or merger and an asset sale?

In both share sales and asset sales, the following warranties are typically given by the seller, that (among others):

- The seller owns the IPRs.
- There are no proceedings, claims or other disputes involving the seller in relation to the IPRs.
- There are no infringements by third parties of the IPRs and absence of any infringement by the seller of third-party IPR.

Transfer of IPRs

16. How are the main IPRs transferred in both a share sale or merger and an asset sale?

Share sale or merger

A share sale does not affect the ownership of the IPRs held by the target company. In a company split (demerger) (*kaisha bunkatsu*), the IPRs are automatically transferred to the successor. However, change of control clauses in existing licence or other agreements involving the relevant IPRs may require the written consent of the other party to the agreement before the share sale or merger.

Asset sale

As an asset sale affects the ownership of IPRs, the buyer must ensure that:

- No assignment clause in existing agreements with the target can prevent the transfer of the IPRs.
- The asset purchase agreement includes a complete and accurate list of the IPRs to be transferred.

In addition, the assignment of the IPRs is required to be registered to be enforceable against a third party (*see Question 7*).

JOINT VENTURES

17. Is it common for companies to set up joint ventures in your jurisdiction to develop projects that heavily involve IPRs?

It is common for companies to set up joint ventures in Japan. The following IP-related provisions, among others, should be included in joint venture agreements:

- Scope and duration of the joint venture.
- License to joint venture of the existing IPRs necessary for the project and related warranties.
- Terms of ownership of the IPRs developed by the joint venture and related registration and maintenance duties.
- Terms of revenue sharing.
- Termination and post-termination provisions.

COMPETITION LAW

Main provisions and common issues

18. What are the main provisions of your national competition law that can affect the exploitation of the main IPRs?

The exploitation of IPRs can be affected by the Anti-monopoly Act, which prohibits:

- Private monopolisation.
- Unreasonable restraint of trade.
- Unfair trade practices.

19. What are the most common national competition law issues that arise in the exploitation of the main IPRs?

It is difficult to establish uniform standards for private monopolisation, unreasonable restraint of trade and unfair trade

practices. However, the following, among other things, are at risk of being considered prohibited acts:

- Patent pools.
- Multiple licensing.
- Cross-licensing.
- Bundle licensing.
- Resale price fixing.
- Prohibition of competing products after licence termination.
- Unilateral termination.
- Non-assertion covenants.
- Refusing to license or bringing an action for injunction against a party who is willing to take a licence by a FRAND (fair, reasonable and non-discriminatory)-encumbered Standard Essential Patent holder.

(Guidelines for the Use of Intellectual Property under the Anti-monopoly Act, issued by the Japan Fair Trade Commission.)

It is highly advisable to consult an attorney specialising in IPRs and competition law at the time of making an IP-related agreement to manage the legal risk.

Exclusions/exemptions

20. What exclusions or exemptions are available for national competition law issues involving the exploitation of the main IPRs?

Lawful parallel importation is considered to promote price competition. Accordingly, obstruction of lawful parallel imports presents a problem under the Anti-monopoly Act if it is conducted to maintain the price level of a product covered by contract.

Under Article 21 of the Anti-monopoly Act, the Act does not apply to acts recognisable as the exercise of rights under the Copyright Act, the Patent Act, the Utility Model Act, the Design Act and the Trade Mark Act. This means that the Anti-monopoly Act still applies to restrictions on the use of technology that is essentially not considered the exercise of rights. The Guidelines for the Use of Intellectual Property under the Anti-monopoly Act issued by the Japan Fair Trade Commission set out certain examples of restrictions on the exploitation of IPRs that are prohibited under the Anti-monopoly Act (see Question 19).

ADVERTISING

21. To what extent do advertising laws impact on the use of third party trade marks?

Ads and any signs (including trade marks) used for commercial purposes that mislead general consumers as to the contents of products or services are prohibited (*Act against Unjustifiable Premiums and Misleading Representations (Act No. 134 of 1962)*).

The Act against Unjustifiable Premiums and Misleading Representations does not prohibit the comparative advertising of products or services of competitors itself. However, the following types of comparative advertising would be deemed misleading representations that are prohibited under the Act because they are likely to unduly affect the selection of products or services by general consumers:

- Comparisons of matters that have not been proven or are incapable of being proven.

- Comparisons based on unfair grounds, such as an emphasis on importance, which are inconsequential to the selection of products or services by consumers, or an arbitrary selection of the products compared.
- Advertising that disparages competitors or their products or services.

(Guidelines for Comparative Advertising under the Act against Unjustifiable Premiums and Misleading Representations, issued by the Consumer Affairs Agency.)

EMPLOYEES AND CONSULTANTS

22. Who owns each of the main IPRs created by an employee in the course of his employment? Must compensation be paid to the employee? What main steps can an employer take to ensure it owns each of the main IPRs?

Ownership

For patents, utility model rights and design rights, in principle, the right to obtain the IPRs created by an employee in the course of employment was held by the employee without exception, and the employer only had a non-exclusive licence of the right. However, the Patent Act, the Utility Model Act and the Design Act (amended in May 2015) have made it possible for employers to reserve, from the outset, the right to obtain the IPRs in employee inventions if they so provide in employment contracts, work rules, or any other stipulations.

Copyright in a work created by an employee in the course of employment vests in the employer unless otherwise stipulated by contract, work rules, or similar instruments.

Compensation

When the right to obtain IPRs is obtained by an employer or is assigned by an employee to an employer, the employer must provide reasonable consideration for the assignment. The compensation can be payable in cash or other economic benefits. An employer can stipulate in advance how to determine the content of the consideration in an employment contract, work rules, or through other appropriate procedures. If the consideration provided is unreasonable or the method for determining the consideration is not stipulated in advance, a court can decide the amount of the consideration by taking into account the profit earned by the employer, along with any other circumstances relating to the IPRs. The Minister of Economy, Trade and Industry has formulated and issued guidelines that provide the standards for the said appropriate procedures.

Main steps

An employer can stipulate in advance that it holds or is assigned the right to obtain IPRs in employment contracts, work rules or similar instruments. Many companies have these types of provisions in their work rules.

23. Who owns each of the main IPRs created by an external consultant? What main steps can a business take to ensure it owns each of the main IPRs?

Ownership

IPRs created by an external consultant are in principle owned by the consultant.

Main steps

It is preferable to negotiate an assignment of IPRs created by an external consultant before they are created.

TAX

24. What are the main taxes payable by a licensor on the licensing of the main IPRs?

Income tax

Royalties paid for the use of IPRs in Japan are subject to the Income Tax Act.

A licensee must withhold income tax at the rate of 20% on any royalty payments, unless a reduced rate or exemption is available under tax treaties.

Consumption tax

Royalties paid for the use of IPRs registered in Japan (for copyright, royalties paid to a licensor whose residence is in Japan) are subject to the Consumption Tax Act. Licensors must therefore pay consumption tax at the rate of 8% on royalty payments.

25. What are the main taxes payable by a seller on the disposal of the main IPRs?

Consideration paid for the sale of IPRs in Japan is subject to the same tax treatment as that for royalties (see *Question 24*).

CROSS-BORDER ISSUES

26. What major international IP treaties is your jurisdiction party to?

Japan is party to the following major international IP treaties:

- WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (1994) (TRIPS).
- WIPO Paris Convention for the Protection of Industrial Property (1883) (Paris Convention).
- Patent Cooperation Treaty (1994) (PCT).
- Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure (1977).
- Strasbourg Agreement Concerning the International Patent Classification (1971).
- Trademark Law Treaty (1994).
- Madrid Agreement Concerning the International Registration of Marks (1891) (Madrid Agreement).
- WIPO Protocol Relating to the Madrid Agreement (Madrid Protocol).
- Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks (1957).
- Berne Convention for the Protection of Literary and Artistic Works (1971) (Berne Convention).
- WIPO Copyright Treaty (1996).
- WIPO Performances and Phonograms Treaty (1996).
- Convention for the Protection of Producers of Phonograms Against Unauthorised Duplication of Their Phonograms.
- Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organisations.
- Geneva Act of the Hague Agreement Concerning the International Registration of Industrial Designs.

- Locarno Agreement Establishing an International Classification for Industrial Designs.
- Singapore Treaty on the Law of Trademarks (STLT).
- Patent Law Treaty (PLT).
- Beijing Treaty on Audiovisual Performances.
- Marrakesh Treaty to Facilitate Access to Published Works for Persons Who Are Blind, Visually Impaired, or Otherwise Print Disabled (Marrakesh VIP Treaty).

A detailed list of treaties can be found at <https://www.wipo.int/portal/en/index.html>.

27. Are foreign IPRs recognised in your jurisdiction?

Patents

Japan is party to the Paris Convention. Under the Paris Convention, an international application can be entitled to a priority right, based on the filing of a patent application for the same invention in a Paris Convention country within the preceding 12 months.

The JPO also accepts requests for the restoration of priority rights.

In addition, Japan is party to the PCT, under which the filing date of an international application is considered to be the actual filing date in each designated state, as well as having the effect of a normal national application.

Trade marks

Under the Paris Convention, an international application for a trade mark can be entitled to a priority right, based on the filing of an application for the same trade mark in a Paris Convention country within the preceding six months.

In addition, Japan is party to the Madrid Protocol. Under the Madrid Protocol, when an international registration application has been filed, the person whose name that application has been made in can obtain protection for his/her mark in the territory of the Madrid Protocol countries.

Copyright

Japan is party to the Berne Convention. Foreign copyright holders whose governments are party to the Berne Convention enjoy the same rights as Japanese nationals.

Design rights

Under the Paris Convention, an international application for a design right can be entitled to a priority right, based on the filing of an application for the same design right in a Paris Convention country within the preceding six months.

In addition, Japan is party to the Geneva Act of the Hague Agreement. Under the Geneva Act of the Hague Agreement, an international registration will, from the date of the international registration, have at least the same effect on each designated contracting party as a regularly-filed application for the grant of protection of the industrial design.

REFORM

28. Are there any proposals for reform?

Amendments to the Patent Act, the Utility Model Act, the Design Act and the Trade Mark Act were enacted on May 10, 2019. The key amendments are summarised below.

The Patent Act

A new evidence collection system has been introduced, which allows an independent third party technical expert to conduct on-site inspections to collect evidence of an alleged patent infringement.

Under this system, upon the request of an owner or an exclusive licensee (*senyo-jisshi-ken-sha*) of the patent, and if certain prescribed requirements are met, a court may order an independent third-party expert to conduct inspections to collect evidence of the alleged patent infringement at the site of the alleged infringer (for example, at its manufacturing site).

This system is expected to be used in patent litigation in the field of technology in which conventional procedures for collecting evidence of patent infringement are not sufficiently effective. Examples of patents for which the existing evidence collection system is not sufficiently effective are:

- Patents on manufacturing methods.
- Patents on business to business products that are not readily available on the open market.
- Patents on software for which it is difficult to verify the state of operation based on documents alone.

This amendment to the Patent Act will come into force on a date within one and a half years from 17 May 2019, which will be designated by a Cabinet Order.

Another change introduced by the amended Patent Act is patentee-friendly revisions to damage calculations. A new methodology has been adopted to calculate compensation for damages against patent infringement. The current Patent Act provides a rebuttable presumption of the amount of damage and lost profits that can be compensated for patent infringement (*Article 102(1), Patent Act*). Such losses are calculated by multiplying the amount of profit per unit of product that the patentee (patent owner or exclusive licensee (*senyo-jisshi-ken-sha*)) would have earned, if there had been no infringement, by the quantity of products sold by the infringer, subject to limitations arising from the patentee's manufacturing or selling capacity.

Under the amended Patent Act, a patentee may seek a reasonable royalty for products sold by the infringer even if the quantity claimed is beyond the patentee's manufacturing or selling capacity. This royalty can be claimed in addition to the lost profits for the quantity of products that the patentee would have sold within its manufacturing or selling capacity.

The amended Patent Act also increases the amount of damages that may be claimed for reasonable royalties in patent litigation. The current Patent Act provides that patentees can seek damages for the amount the patentee would have been entitled to receive as reasonable royalties for the infringing products. The amendments to the Patent Act stipulate that a court may determine the amount of

reasonable royalties to be compensated for by considering the amount the patentee would be entitled to receive if the patentee and the infringer had entered into an agreement, on the basis that the patent is valid and has been infringed.

This damages calculation methodology will also apply to calculations for damages against infringements of utility models, designs and trade mark rights.

This amendment to the Patent Act will come into force on a date within one year from 17 May 2019, which will be designated by the Cabinet Order.

The Design Act

The amendments to the Design Act, which will come into force on a date within one year from 17 May 2019, provide among other changes the following:

- Expansion of the scope of designs protected under the Design Act, which means that graphic images that are not recorded or displayed on articles and interior and exterior designs of buildings will be included in the scope of designs.
- Enhancement of the protection of "related designs" (*kanren-ishou*), which allows an applicant to register a design similar to the design for which the applicant has filed an application for registration. Pursuant to these amendments an applicant can:
 - register a related design within ten years after the filing date of the principal design; and
 - register a design similar only to the related design.
- Extension of the duration of design rights from 20 years from the registration date to 25 years from the filing date of the application for registration.
- Expansion of the scope of indirect infringement, whereby a third party that manufactures or imports a component may be deemed to have committed an indirect infringement under certain conditions. Under the current Design Act, if a third party manufactures or imports the main components of a finished product for which a design right exists, such manufacturing or importing will not constitute design infringement because the protection of the design right cannot be extended to individual components. The amendment will enable registered designs for finished products to be protected more effectively.

The Trade Mark Act

Under the amendments to the Trade Mark Act, which came into effect on 27 May 2019, the national government, local municipalities, national or public universities and other public interest organisations are able to license the right to a well-known trade mark representing that organisation.

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- Representing an international software company and a social game developer in lawsuits regarding software copyright infringement.
- Won various infringement lawsuits regarding software patents, copyrights in picture books and famous unregistered trade marks, including the first case adjudicated by the Grand Panel of the IP High Court of Japan (www.ip.courts.go.jp/eng/documents/pdf/g_panel/decision_summary2005ne10040.pdf).

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Publications

- *The Legal 500: Intellectual Property Country Comparative Guide (Japan Chapter)* (Legalease Ltd, July 2017).
- *The IP in Business Transactions Global Guide 2018/19 (Japan Chapter)* (Thomson Reuters, August 2018).
- *Intellectual Property Law Guide 2013/14* (LexisNexis, January 2014).
- *International eCommerce Business and Legal Issues* (CH Japan Limited, March 2001).

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