

# Japan

## Recent amendments to the Patent Act

### Introduction

As technology has become more sophisticated and complex in recent years, companies can no longer rely solely on their own development activities. In order to speed up the development of new technologies and introduce to the market value-added products using such technologies, the use of outside resources is inevitable. Thus, there has been a trend towards open innovation, which is where a number of companies share technologies for research, development and production.

In order to respond to the changes in the innovation environment and to enhance the user-friendliness of patent procedures, on June 8 2011 the Act on Amendment of the Patent Act was promulgated; it is scheduled to come into force within one year. Although from time to time the Patent Act has been amended (the last being in 2008), the latest revisions are relatively major and have a significant impact on the practice and business of using patents or patented technologies.

The key points of the amendments are as follows:

- enhancement of the protection afforded by a regular licence;
- a remedy for misappropriated applications;
- the restriction of retrials; and
- expansion of the exception for loss of novelty.

This chapter considers these changes, focusing on the amendments to the regular licence system.

### Enhanced protection of regular licence

The licence system set out under the Patent Act is one of the most difficult parts of Japanese IP law to understand, especially for non-Japanese parties. Under the act, there are two types of licence: a registered exclusive licence (*senyo jisshiken*), and a regular licence (*tsujo jisshiken*, the literal meaning of which is ‘regular licence’, but which in practice is often translated as ‘non-exclusive licence’, which complicates matters). The two licences differ as follows:

- A registered exclusive licence guarantees exclusivity

under the Patent Act, while a regular licence has no exclusivity under the act. Although it can be exclusive if agreed by the licensor and the licensee, since such exclusivity cannot be registered, it is merely based on the agreement of the licensor and the licensee. The exclusivity of a registered exclusive licence is strong and, if granted, even the licensor cannot work the patented invention without the licensee’s consent. In contrast, the licensor of a regular licence can work the patented invention, unless it is restricted from doing so under the licence agreement.

- The licensee of a registered exclusive licence can seek an injunction or compensation for damages against the infringer of the patent (within the scope of the licence), while in principle, the licensee of a regular licence cannot seek an injunction or compensation for damages.
- Registration is necessary in order for a registered exclusive licence to take effect, and the licensor is obliged to cooperate with the registration. Registration is not necessary for a regular licence to take effect; however, under the current Patent Act, it can be registered. If registered, a regular licence can be asserted against those that are assigned the patent or those that are granted a registered exclusive licence. Furthermore, the licensor is not obliged to cooperate with the registration – if the licensee wants its licence to be registered, it should expressly include in the licence agreement the obligation of the licensor to cooperate with the registration.

The 2011 amendments target the registration system for a regular licence. As explained above, since the exclusivity of a regular licence (even if agreed) cannot be guaranteed under the patent system, regular licences can exist in an overlapping manner. Unless bound by an agreement, a patentee can grant regular licences for the same content to multiple persons

without the licensee's consent.

When a patentee assigns the patent right, it need not obtain consent from a licensee. Under the current Patent Act, a regular licensee cannot assert any right against the new patent owner without registration of the regular licence (a registered exclusive licence is always registered; thus, the licensee can assert its right against the new patent owner). Since registration of the regular licence is a requirement for asserting the licensee's rights against those that are assigned the patent or those that are granted a registered exclusive licence, an unregistered regular licensee would be at risk of being the target of an injunction or a damages claim from subsequent third parties.

In addition, under the Bankruptcy Act, in the case of bankruptcy of a licensor the bankruptcy trustee cannot terminate a licence agreement where the licensee has registered the regular licence. Therefore, the trustee can only sell the patent right subject to the licence.

However, the trustee may terminate a licence contract and may sell the patent right without a licence where the licensee has not registered the regular licence.

Although a regular licensee always faces the risk of suddenly being unable to use the patented invention, the registration system for regular licences has not been widely used. In fact, for several years the number of registrations for regular licences has been extremely low (around 200 to 500 each year).

The registration system for regular licences has not been widely used for the following reasons:

- The procedure and its cost are burdensome.
- In many cases the parties do not want to disclose publicly the existence and contents of the licence agreement.
- In comprehensive cross-licensing agreements the target patent rights are not identified by a patent number. Since the registration system is basically designed for registration by patent number, comprehensive cross-licences cannot, or are difficult to, be registered under the Patent Act.
- Both the licensor and licensee are required to apply for registration; however, a regular licensee has no right to demand that a licensor cooperate with registration.

Previously, since sales of patent rights were infrequent and the owners of licensed patents were usually large companies which rarely went bankrupt, the protection of licensees was not a major issue. However, in recent years there have been cases where large companies have become bankrupt and small or medium-sized companies, including start-ups, sometimes hold

the key patent right. Under the current Patent Act, companies often hesitate to obtain licences from small or medium-sized companies with a fragile management base, since there is a risk of becoming unable to use the patented invention and suffering significant loss. Therefore, it is difficult for a small or medium-sized company with unique or cutting-edge technology to grant a licence under this system – the system itself is the cause of the patent cycle's inefficiency.

In addition, given that other countries (eg, the United States and Germany) have systems where a licensee can assert its right against a patentee without registration, the registration system in Japan has been a problem in light of the international harmonisation of the patent system. As it is now common for licences to be granted globally, such harmonisation is important from a practical viewpoint.

In order to remedy the problems in the system and to protect the position of regular licensees, there have been various attempts to improve the registration system. In 2007 the registration system for a regular licence under a comprehensive cross-licensing agreement was introduced. Subsequently, in 2008 the Patent Act was amended and some items (ie, the name and address of the licensee, the scope of the licence and the licence fee) were removed from the list of publicly disclosed items, so that it would be easier to register a regular licence.

However, despite these attempts, the number of registrations under the new system has remained extremely low. Therefore, the amendments introduce a system in which a licensee can assert its right against third parties without registration in order to protect regular licences properly and to secure the stability and continuity of companies' businesses. Accordingly, in the case of the bankruptcy of a licensor, the bankruptcy trustee will be unable to cancel a licence agreement where the licensee shows the existence of a regular licence agreement, even if the licensee has not registered that regular licence. The amendments will abolish the current registration system for regular licences under the Patent Act. Similar amendments were made to the Utility Model Act and the Design Act, which have similar licence systems; however, the trademark licence system has not been amended.

Since the above amendment to the regular licence system will make significant changes to licence practice, new legal issues may arise, which should be closely monitored. In addition, when obtaining a patent right from others (through a merger or otherwise), it will become more important to check the existence of the regular licence agreements carefully during due

diligence, since the buyer may be unable to confirm the existence of the regular licence through checking the registration, as well as ensuring that the licence has proper representations and warranties and an indemnity clause.

### **Remedy for misappropriated application**

Under the Patent Act, the person that originally makes an invention acquires the right to obtain a patent in that invention – this is known as the inventor system. A patent right itself is not automatically granted to the inventor, but is granted to the inventor that files the application first. Under the inventor system, only the true inventor and the successor to the true inventor's right can obtain a patent. As a matter of course, the inventor system principle prevents a patent from being granted to a person that files another person's invention without succeeding to the right to obtain a patent for that invention. Such a filing by a person that does not have the right to file a patent application is called a misappropriated application.

In addition, where multiple persons jointly make an invention, the inventors' rights are shared among all of the inventors; accordingly, only those that jointly own the rights can file a patent application for the invention. Therefore, if just one of the joint owners of the rights opposes the filing, the other owners cannot file a patent application for the invention.

In recent years, as it has become increasingly common for multiple companies or universities to be involved in joint research and development projects, it has become more difficult to ensure that all involved apply jointly for the patent right on an invention resulting from such a project. For instance, one or more parties may opt to apply without the involvement of the other parties, or there may be a dispute as to whether the invention is a direct product of the joint research and development in question.

However, under the current Patent Act, although a misappropriated application constitutes a reason for refusal and a reason for invalidation after registration, there is no provision for a right to demand the return of the right in the patent. Therefore, if the patent right is obtained by some of the joint inventors, the remedy available to the remaining joint inventors could be limited to invalidation of the patent right.

The case law as to whether the true rights holder would be able to demand that the person that filed the misappropriated application return the patent to it is unclear. The lack of clarity as to whether a patent could be transferred to the true rights holder in order to remedy a misappropriated application was particularly

troublesome for jointly developed inventions, where an unscrupulous party may register for patent protection without the other contributors' consent. The Japan Patent Office (JPO) has estimated that approximately 95% of businesses or universities have contributed towards the development of an invention jointly with another party and, problematically, approximately 40% of these entities have had a jointly developed invention registered without their consent.

On the other hand, a system that allows the true rights holder to demand that the person that filed the misappropriated application return the right to obtain the patent has been adopted in Germany, the United Kingdom and France.

In response to the problems with the current system and requests from industry, the 2011 amendments clarify the remedies available for claims involving a misappropriated application by permitting true rights holders to request the return of patent rights granted pursuant to a misappropriated application.

### **Double track and restriction of retrial**

Under the Patent Act, regarding litigation concerning the infringement of a patent right, where it is held that a patent should be invalidated, the patentee's right may not be exercised against the adverse party. Therefore, the rights holder must defend the validation of the patent in two procedures: a trial for invalidation and an infringement lawsuit (known as the 'double track' issue).

Thus, it is possible for different judgments to be issued in the trial and the infringement lawsuit. An appeal may be entered by filing an action for retrial against the final judgment in an infringement lawsuit, where the JPO's decision in which the final judgment was based has been modified by a subsequent invalidation trial decision by the JPO under the Civil Procedure Code.

Although the parties involved in the infringement lawsuit have the right to challenge and defend the validation of the patent in the lawsuit, the current retrial system has been criticised for resurrecting disputes, thereby harming their resolution and business stability.

Therefore, the 2011 amendments will prohibit parties to a patent infringement lawsuit for which the court has issued a final judgment from filing a subsequent claim with the JPO asserting the invalidity of the patent.

### **Extension of grace period**

In general, under the Patent Act, once an invention is publicly known it loses its novelty and ceases to be

patentable. The act provides that academics can disclose their inventions in writing only at seminars and conferences hosted by groups specifically approved by the JPO; otherwise, their inventions are deemed to have lost their novelty and to be unpatentable.

The 2011 amendments will expand on the exception to this general rule by providing that an invention will not be deemed to have lost its novelty where the invention is disclosed by a person with the right to obtain a patent for such an invention and the application for the patent to the invention is filed within six months of the disclosure date.

The 2011 amendments seek to encourage academic

discussion by expanding the disclosure exemption to allow inventors to maintain the novelty of their inventions.

### Conclusion

In addition to the changes discussed above, the 2011 amendments will introduce other improvements to the Patent Act, such as the extension of the period for a patent fee reduction or exemption. However, under the new system, including those mentioned above, there remain various issues whose impact cannot be predicted, and which therefore should be monitored closely.



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