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Any Improvement? “Reasonable Remuneration” of Employee Inventions under New Article 35 of the Japanese Patent Law

(First published in *Managing Intellectual Property's Innovation Focus 2004*)

1. Epoch-making court decisions under the old Article 35 of the Patent Law

Many Japanese corporate intellectual property managers enjoying the usual business lull in Japan at the beginning of the new year of 2004 were rudely awakened by shocking news: a pair of court decisions on “reasonable remuneration” of employee inventions. In the *Hitachi* and *Nichia* cases, two former employees sought such remuneration from two leading high-tech firms. In particular, the *Nichia* court ordered payment of ¥20 billion—about US \$181 million—to Professor Shuji Nakamura, the inventor of the blue LED and currently on the faculty of the University of California, Santa Barbara, but calculated reasonable remuneration at ¥60 billion. *Nichia* case, Judgment of January 30, 2004, Tokyo D. Ct., 1852 *Hanji* 36. The *Hitachi* case also frightened Japanese companies with the prospect of having to consider not only patents filed at the Japan Patent Office, but also foreign patent applications of that same patent former employees, in the calculation of reasonable remuneration. This calculation reached ¥970 million (about US \$8.8 million) in total in the *Hitachi* case. *Hitachi* case, Judgment of January 29, 2004, Tokyo H. Ct., 1848 *Hanji* 25.

The Supreme Court's *Olympus* decision marked the start of this trend under old Article 35, Paragraph 4 of the Patent Law. The Supreme Court held that a court can set any additional amount of reasonable remuneration of an employee invention if the initial amount is not sufficient in view of the total economic interests arising out of the business of a patented invention that appears in certain products and services. It also means that the courts have very broad discretion to determine what amount is retrospectively the most appropriate of “reasonable remunera-

tion” of a particular employee invention many years after the invention was assigned from the employee to the employer. *Olympus* case, Judgment of April 22, 2003, Sup.Ct., Vol.57 Issue 4 *Minshu* 477. Thus, even though an employer in advance carefully provides a specific calculation of reasonable remuneration through its own efforts together with the employee, e.g. in a labor contract, regulation or other stipulation, it may be ignored by the court if it is considered insufficient reasonable remuneration in the view of the judge.

This logic of the Supreme Court has been strongly criticized by corporate IP managers on primarily two points. The first doubts courts' capacity—through judges alone—to review the history and all factors of the patented invention's success. The second point of criticism is that many corporations cannot predict in advance how successful a particular patented invention will be in significantly contributing to the company's products and services at the time when their employee assigns the patentable invention to them. Unusually large amounts of reasonable remuneration cannot be predicted, a fact that can seriously hurt a company's business projection. Despite the criticism, however, these problems stem from the original very unclear wording of the old Paragraphs 3 and 4. The provision provided only as follows:

“Article 35 [Before the 2004 Amendment]

(3) The employee, etc. shall have the right to a reasonable remuneration when he has enabled the right to obtain a patent or the patent right with respect to an employee's invention to pass to the employer, etc. or has given the employer, etc. an exclusive right to such invention in accordance with the contract, service regulation or other stipulations.

(4) The amount of such remuneration shall be decided by reference to the profits that the employer, etc. will make from the invention and to the amount of contribution the employer, etc. made to the making of the invention.”

[See, “Japanese Laws Relating to Industrial Property, Patent Law,” AIPPI/JAPAN, pp.14-15 (2004)]

The old Article 35, Paragraphs 3 and 4 can be traced back to

1921 Patent Law and were succeeded by still 1959 Patent Law, as still being effective to present, even after World War II. Around 1921 Patent Law was enacted, the social democratic movement could arise after World War I. It is said that such social environments pushed Japanese legislators to consider the old Article 35 to promote more incentive of researchers and engineers as employee of corporation.

However, this wording was too simple to provide either a manageable standard or a grand scheme to think about "reasonable remuneration." As the Japan Intellectual Property Association, the association of corporate IP managers, once pointed out, economic interests result not merely from a patent invention. They are hybrids resulting from various factors, particularly marketing, branding, and from further improvements and development after the invention is assigned from the employee to the employer. On the other hand, researchers and engineers can be fairly treated and promoted through other forms of recognition in the company or community. However, if this is so, why did the former employees, who could be fairly treated by their former employers, choose to sue *Hitachi* and *Nichia*? Because they are unhappy with the current working condition and the recognition of the fruits of their research, especially patented inventions? If so, how can the Patent Law balance their interests with the profitability of their employer, which permits good research environments for researchers and engineers to be maintained?

2. New Amendment of Article 35

The 2004 Amendment of the Patent Law was finally enacted on May 28 by the upper house of the Japanese Diet and was proclaimed on June 4, 2004. This is a sort of omnibus amendment including not only measures to expedite patent examination and enforcement but also a revised scheme to resolve the reasonable remuneration issue. The provisions on reasonable remuneration of employee inventions will come into effect on April 1, 2005. New Paragraphs 3, 4 and 5, particularly the latter two, are intended to clarify two major steps and include very basic factors in properly calculating reasonable remuneration.

The new Paragraphs 3, 4 and 5 of Article 35 read as follows:

"Article 35 [2004 Amendment of Patent Law]

(3) Where the employee, in accordance with any contract, employment regulation or any other stipulation, permits the right to obtain a patent for an employee invention or the patent right for an Employee invention, to vest with the employers or grants an exclusive license therefor to the employers the said employee shall have the right to receive appropriate remuneration.

(4) Where a contract, employment regulation or any other stipulation provides for the remuneration provided in the preceding paragraph, the payment of remuneration in accordance with the said provision(s) shall not be considered unreasonable in light of the situation, including the fact that a consultation between

the employer and the employee had taken place in order to set standards for the determination of the said remuneration, that the set standards had been disclosed, and that the opinions of the employee on the calculation of the amount of the remuneration had been heard.

(5) Where no provision setting forth the remuneration as provided in the preceding paragraph exists, or where the payment of the remuneration in accordance with the provision(s) of the previous paragraph is considered unreasonable, the amount of the remuneration under Paragraph 3 shall be determined in light of the profit to be received by the employer from the invention, the burden borne and the contribution made by the employer and the benefit received by the employee, in relation to the invention and any other factors."

[See, "The Case Studies of the Procedures under the New Employee Invention System (draft)" by the Japan Patent Office, pp.10-11 (August 2004)]

New Paragraph 4 applies to situations in which "reasonable remuneration" is based on a specific formula and procedure as provided by "contract, employment regulation or any other stipulation." This new Paragraph clearly respects the mutual efforts of employee and employer to set certain rules to calculate the amount of reasonable remuneration. In particular it directs more attention to the process used to determine the amount in the relevant employment terms and conditions by referring some factors, such as "the circumstances of consultations conducted between the employer and the employee in order to set standards for the determination of the said remuneration, where the standards set had been disclosed, and where the opinion of the employee on the calculation of the amount of the remuneration had been heard."

This new provision may give impression of deciding everything on mere procedural grounds. It may be considered a kind of procedural fail-safe, instead of serious and perhaps uncompromised discussion about the substantive reasonableness of "remuneration." However, careful steps to determine the amount of reasonable remuneration can also of course take into account substantive factors. Even if the proper procedural steps are followed as provided in advance by the contract or any other regulation or stipulation between the employee and the employer, the reasonableness of the amount determined as remuneration of a patented invention can be still be challenged by the employee. In order to avoid this situation, the employer should pay attention also to substantive content in the due process. If the employer, at a minimum, carefully handles the procedure including the substantive factors, the amount determined as reasonable remuneration will not be subject to doubt, at least in the view of judges. In other words, insofar as the provisions of new Paragraph 4 are properly applied, the judge cannot arbitrarily determine that a given amount is "unreasonable" without careful consideration of these provisions. In this context, new Paragraph 4 should limit the scope of the Supreme Court's *Olympus* judgment.

New Paragraph 5 is intended to cover a different situation, one

in which “no provision setting forth the remuneration as provided in the preceding paragraph exists, or where under the preceding paragraph, the payment of the remuneration in accordance with the provision(s) is considered unreasonable.” At first glance, this provision seems not much of an improvement over old Paragraph 4. However, new Paragraph 5 is not used to determine “reasonable remuneration” unless certain procedural steps designated by new Paragraph 4, as mentioned above, do not exist or are not sufficiently well performed to ensure the reasonableness of the remuneration. Therefore, new Paragraph 5 shows up only after new Paragraph 4 has failed to apply to the situation. The determination of reasonable remuneration under new Paragraph 4 is the general rule, while new Paragraph 5 is an exception, applying to situations in which new Paragraph 4 does not work. Thus, “reasonable remuneration” as determined by new Paragraphs 4 and 5 is different from the same term used under old Paragraph 4, which was a specific amount of remuneration retrospectively decided by the court, such as in *Olympus*, *Nichia* and *Hitachi*. The new “reasonable remuneration” under new Paragraphs 4 and 5 means a more relative evaluation of “reasonableness” in view of procedural and substantive factors related to the true value and contribution of the patented invention for employers.

New Paragraph 5 also indicates some leading factors to be considered in calculations of “reasonable remuneration” even without any pre-determined or well-performed procedure under new Paragraph 4. Comparing with old Paragraph 4, which simply provides “the profits that the employer, etc. will make from the invention” and “the amount of contribution the employer, etc. made to the making of the invention,” new Paragraph 5 adds the “burden borne by and the contribution made by the employer and the benefit received by the employees in relation to the invention and any other factors.” This does not look like a big change in the provision but does provide legal requirements for the judge to consider in more detail than before when assessing a situation of “reasonable remuneration” between the employer and the employee. For example, patent application cost, contribution of co-employees, cost of establishing business utilizing the patented invention, cost of improvement of the original patented invention in order to produce a cost-efficient product, marketing and branding for successful business for the patented invention, any promotional or economic interest given to the employee, risk that the employer takes in the process of establishing business for the patented invention, etc. In a practical sense, these factors help the employer to justify minimizing the skyrocketing amounts of reasonable remuneration..

3. Story to be continued---Can the Case Studies Help the New Provisions of Article 35?

Finally, can new Paragraphs 3, 4 and 5 of Article 35 banish the employer’s risk of post facto calculation of excessive reasonable remuneration? Can the employee as researcher or engineer feel appropriately treated under these new provisions? Perhaps it is too early to answer these questions definitively. Some answers can be attempted, however. The risk of litigation itself

will likely not decrease significantly in the near future, because some ambitious employees are still motivated primarily by maximizing their amount of reasonable remuneration as their incentive to contribute to the company’s research and development. Some litigators may also remain motivated by the chance of obtaining billable work and fame. On the other hand, employers should also revamp their old-fashioned, rigid system for calculating remuneration for patented inventions in order to keep the “best and brightest” R&D staff for future competition in the market. However, it is at least true that the new provisions of Article 35 can, more wisely than the old, handle the process and factors to be considered in the calculation of “reasonable remuneration.” Without the old provisions of Article 35, judges may be released from the onerous duty of groping about to specify a certain specific amount of “reasonable remuneration. This is expected to lead gradually to a reduced risk of excessive uncertainty and belated requests for “reasonable remuneration” and to a decrease in the total number of employee invention suits.

In August 2004, the Japan Patent Office announced the opening of its draft “Case Studies of the Procedures under the New Employee invention System” for public comments. See, http://www.jpo.go.jp/iken_e/200408_newep.htm. These Case Studies intend to provide examples to support interpretation of new Paragraphs 4 and 5 of Article 35. They are also expected to provide more “reasonable” talk about “remuneration” under Article 35 between the employer and the employee. The Case Studies indicate (i) preferable ways of setting standards for the determination of the remuneration, (ii) preferable contents of such standards, (iii) preferable ways of disclosing the standards, (iv) preferable way of soliciting the employee’s views in calculation of reasonable remuneration.”

The provisions on employee inventions under Article 35 of the Patent Law are not only an incentive for the employee as inventor. They of course provide another incentive for creative management by the employer. Therefore, “fair” procedure and the consideration of the necessary factors should continue to be sought in the application of new Article 35 by all stake holders.

Kozo Yabe (Mr.);
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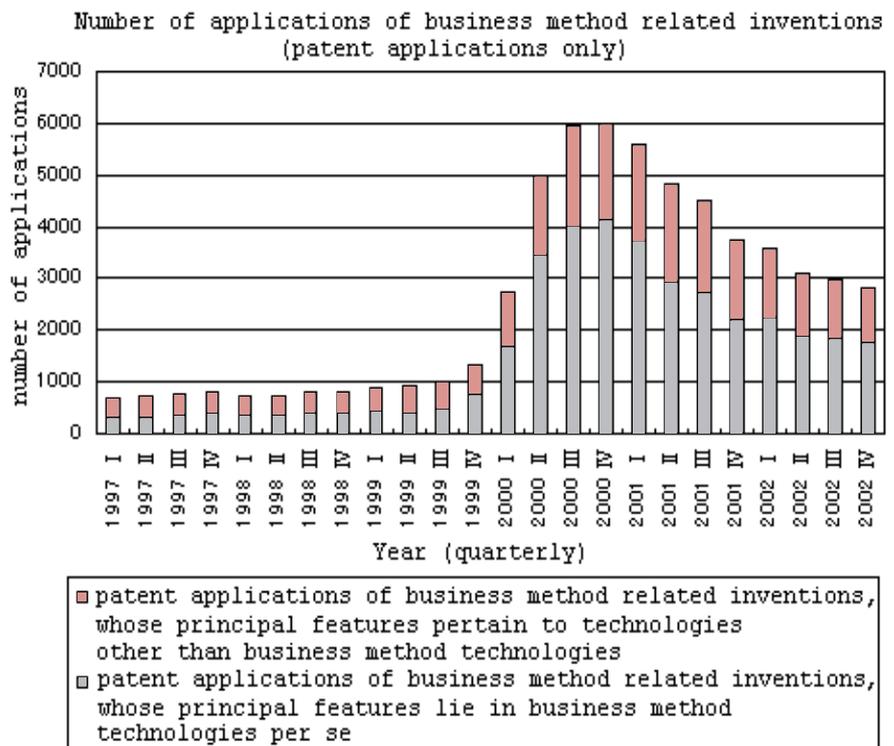
Recent Trends in Business Method Inventions

Introduction

The number of patent applications for business methods grew exponentially in the year 2000. Since then, while the number of such applications has subsided somewhat, the number filed in 2003 was still three times greater than the number filed in any year before 2000. Overall, application-filing data shows a continuing strong interest in business method patents. However, the percentage of business method applications that reach a successful conclusion, resulting in a grant of patent, remains relatively low as compared to other types of applications. To inform applicants about the lack of patentability of a majority of business method applications, in April, 2004 the Japanese Patent Office published a report on such applications in Japan. This paper provides a summary of the report.

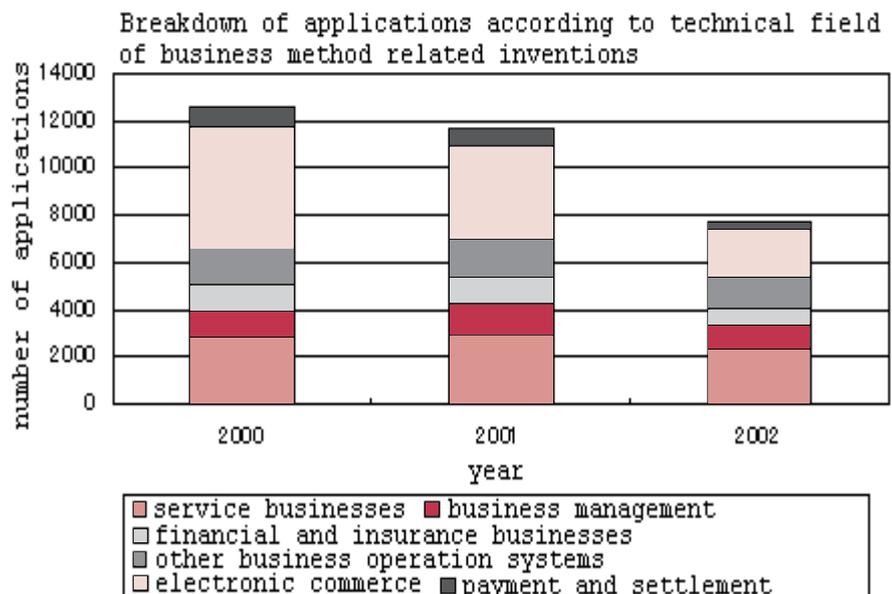
1. Trends in applications

Although only around 4100 business method patent applications were filed with the Japanese Patent Office in 1999, the number of such applications grew by a significant amount in the first quarter of 2000, and by the end of the year a total of around 19600 applications had been filed in 2000, which is nearly five times the number of such applications that were filed in 1999. The number of these applications peaked in the third and fourth quarters of 2000, and subsequently, the number gradually dropped from around 19000 in 2001 to around 12000 in 2002.



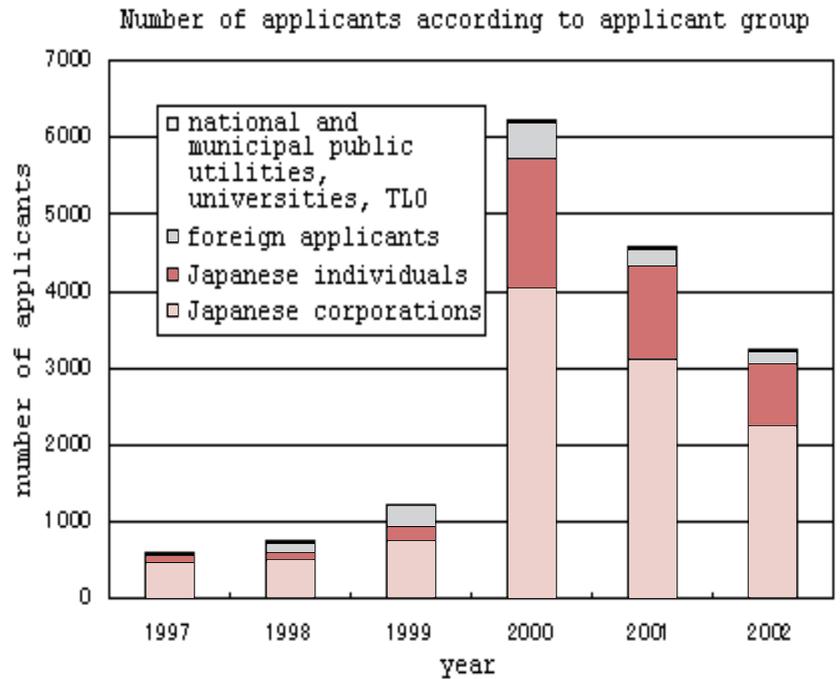
2. Trends in applications according to technical field

Of all the patent applications of business method related inventions filed since 2000, the number of applications of business related inventions whose principal features lie in business method technologies per se has steadily been decreasing, and much of this decrease may be attributed to a significant drop in the number of patent applications of electronic commerce-related inventions.



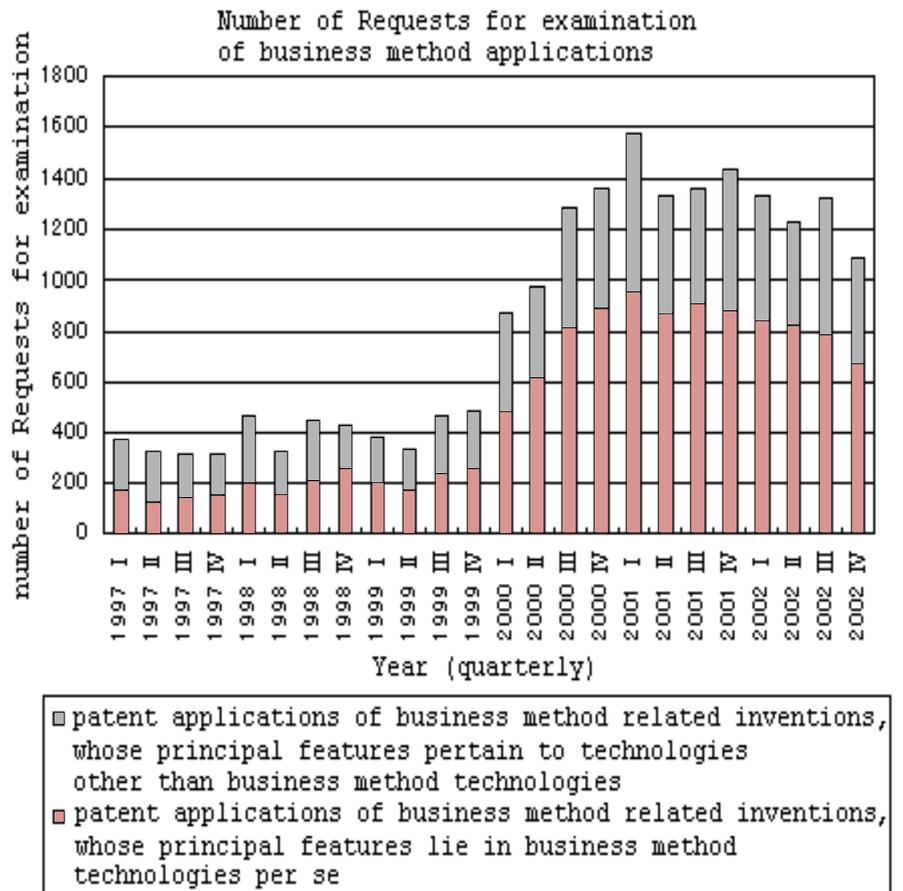
3. Trends relating to applicants

The number of applicants of business method patents jumped from about 1200 in 1999 to about 6200 in 2000. This sudden growth is attributable to the dramatic increase in the number of Japanese individuals (as opposed to corporations, universities and other institutions), 8.6 times more than in the previous year, who filed business method patent applications in 2000. After the peak in 2000, the number of applicants has steadily decreased and the year 2002 saw a total of about 3200 applicants, which is almost half the number during a peak.



4. Trends relating to requests for examination

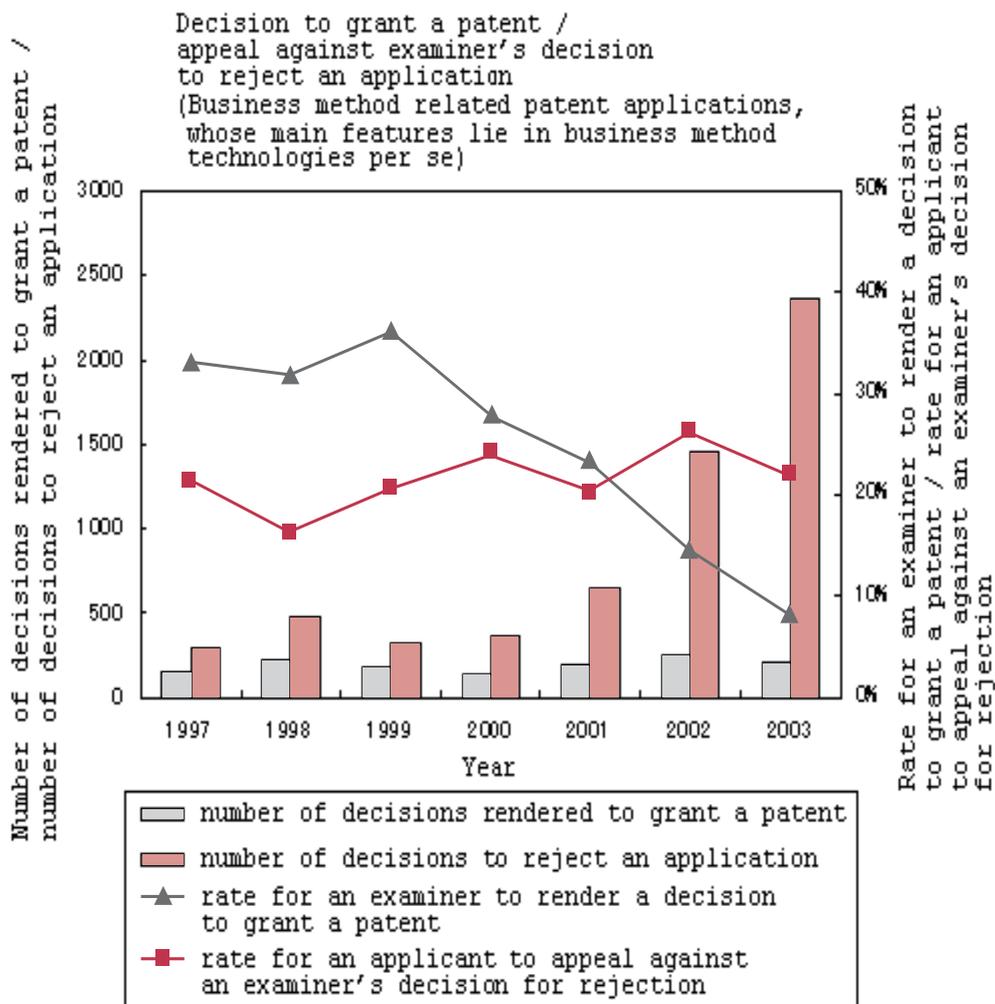
Requests for examination of business method patent applications, which numbered only about 1700 in 1999, increased significantly in the first quarter of 2000, and the total numbers of appeals for the years 2000, 2001 and 2002 are approximately 4500, 5700 and 5000 respectively.



5. Current state of appeal against an examiner's decision for rejection

A chance for the Japanese Patent Office to render a decision to grant a patent for a business method related invention, whose principal features reside in business method technologies per se, has been declining since 2000, and only 8% of the total business method patent applications filed at the JPO (as opposed to an average of 50% of the patent applications in the other techno-

logical fields) were granted patent in 2003, reflecting the fact that many of the business method patent applications filed in the so-called "business method crazed era" were not of patentable quality. However, it is notable that, despite the increase in examiners' decisions to reject business method patent applications since 2000, appeals against such decisions continue at a rate of 20% (as opposed to an average of 22% of patent applications in other technical fields).



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Revisions of Law relating to Utility Model System

The main points of the revision of the law governing Utility Models System are as follows: (1) Extension of term of Utility Model Right; (2) New system allowing Patent Application based on Registered Utility Model; and (3) Extension of Permissible Scope of Correction.

(1) Extension of term of utility model right (Art. 15 of Utility Model Law)

Under the current utility model law, the term of utility model right expires 6 years from the filing date of the utility model application. Under the revised law, the term will be extended to 10 years from the filing date.

(2) Patent application based on registered utility model (Art. 46^{bis}(46-2) of Patent Law)

Under the current utility model law, a new patent application based on a "registered" utility model is not permitted; however, it will be permitted under the revised law. Detailed explanations are as follow:

- a) The new patent application must be filed;
 - within 3 years from the filing date of the utility model application,
 - before the utility model right owner requests a Technical Opinion as to Registrability*,
 - within 30 days from issuance of a notice of a third party request for a Technical Opinion as to Registrability, or
 - within the term for filing a written reply against an invalidation trial.
- b) In the case of filing a new patent application, the utility model right must be abandoned.
- c) After filing the new patent application, a Technical Opinion as to Registrability of the registered utility model can not be requested.
- d) A divisional application can be filed based on the new patent application.

*Technical Opinion as to Registrability:

Under the current utility model law, a utility model right is registered without substantive examination. Thus, a determination about validity of the utility model right is basically placed with the utility model right owner and the defender. However, the utility model right owner and a third party including the defender can request the Japanese Patent Office to provide an objective opinion by an Examiner as to registrability. The utility model right is unenforceable without a statement of the Technical Opinion as to Registrability.

(3) Extension of permissible scope of Correction (Art. 14^{bis}(14-2) of Utility Model Law)

Under the current law, only cancellation of a claim(s) is permitted in a Correction procedure; however, not only cancellation of a claim(s) but also a restriction of the scope of a claim(s) etc. will be permitted under the revised law. Here, the term "Correction" means an amendment of a claim(s), specification or drawings after registration of the utility model. Detailed explanations are as follow:

- a) In addition to cancellation of a claim(s), restriction of the scope of a claim(s), correction of errors, or clarification of an ambiguous description will be permitted.
- b) A Correction can be filed only one time within 2 months from receiving a report of a technical opinion as to Registrability, or within the term for filing a written reply against an invalidation trial. However, a Correction for cancelling a claim(s) is not restricted to one time.
- c) The requirements of substantive registrability and the requirements of description of the claims, specification and drawings are examined during the Correction procedure. If the corrected claims, specification or drawings do not comply with the requirements, the Commissioner of the Patent Office may invite amendment. This defect constitutes one reason for invalidation.

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Amendment of Parts of the Court Organization Law, the Patent Law and other Laws

With a view to making procedures in judicial cases relating to intellectual property more substantial and efficient, the following changes have been implemented: (1) the powers of Court investigators engaged in judicial cases on intellectual property have been enlarged and clarified; (2) limits on the exercise of the right of a patentee and the like have been substantiated; and (3) trade secrets have been given stronger protection and the process of proving acts of infringement has been facilitated in litigation procedures concerning infringement of intellectual property. The measures for implementing these revisions are stipulated in the Law which was promulgated on June 18, 2004 and will become effective as of April 1, 2005.

The revisions cover not only the Court Organization Law but also the Code of Civil Procedure, the Law concerning the Costs

of Civil Procedure etc., the Patent Law, the Utility Model Law, the Design Law, the Trademark Law, the Prevention of Unfair Competition Act, and the Copyright Law. In this paper, the essential points of the revisions are outlined as they relate to the Patent Law.

(1) The powers of an investigator of the Court engaged in a judicial case on intellectual property have been enlarged and clarified

§57(2) of the Court Organization Law

An investigator of the Court, under the direction of judges, takes charge of an investigation and any other affairs stipulated in other laws relating to the procedure of judicial cases (limited, at district courts, to cases concerning intellectual properties or tax) and to the rendering of court decisions.

In Japan, most of the judges handling intellectual property cases do not have any technical background. To support the judges, officers from the JPO (Japan Patent Office), mostly appeal examiners, have been assigned as investigators of the Court, and have taken a part in the Court proceedings by providing the judges with technical advice. In recent years, civilians, such as scholars and patent attorneys have been assigned as investigators, and their number has significantly increased. However, the investigators' powers were not previously stipulated clearly in the law.

In line with such movement of enlargement of role of investigators of the Court, the above revision of the Court Organization Law is to enlarge and clarify the powers of the investigator. Further, in order to effect this provision of the Court Organization Law, affairs that can be handled by an investigator of the Court are listed in the Code of Civil Procedure (§92^{octies}) and it has been stipulated that the provisions on exclusion and refusal also apply to an investigator of the Court (§92^{novies}). In a judicial case concerning intellectual property, an investigator of the Court now has additional powers, such as to provide explanations to the parties concerned or to put questions to a witness or the like about a date fixed and the like, and to provide opinions to judges.

(2) Limits on the exercise of the right of a patentee and the like have been substantiated

(i) Limit on the exercise of a right based on an invalid right

§104^{ter}(1) of the Patent Law

If, in a litigation process concerning the infringement of a patent right or exclusive license, it is found that the patent at issue should be invalidated by a patent invalidation trial, the patentee or the exclusive licensee is not entitled to exercise their right against the other party.

In principle, validity of a patent right in Japan is determined by

only the Japan Patent Office. There has been great dispute as to whether the Court is entitled to determine validity of a patent right in a litigation process concerning the infringement of a patent right when the defendant argues abuse of a right based on an invalid right.

On this point, in the Kilby case, the Supreme Court ruled that if it is clear that a patent involves a reason for invalidation, making a request for injunction, claiming damages, etc. on the basis of that patent is an abuse of the right and is not allowed (the decision in SC case No. 1998(oh)364 rendered April 11, 2000). Following the Supreme Court decision, it has been practically recognized that the courts are substantially entitled to determine invalidity of a patent right if it is clear that the patent involves a reason for invalidation. The above amendment of the Patent Law Article 104^{ter}(1) is intended to expressly reinforce this practice.

It should be noted, however, that the only official organization which is entitled to finally invalidate a patent right is the Japan Patent Office. There has been no change in this point.

On the other hand, if the means of attack or of defense in making an argument for patent invalidation is found to have been produced with a view to unduly delaying litigation procedure, the Court may decide to dismiss such means (§104^{ter}(2) of the Patent Law). This provision is intended to prevent abuse of the right to present an argument for invalidating a patent.

The foregoing revisions to the Patent Law apply *mutatis mutandis* to the Utility Model Law, the Design Law and the Trademark Law.

(ii) Viable relationship between infringement suit and invalidation trial

The association between infringement suits (in the Court) and invalidation trials (in the Patent Office) has been reinforced. Specifically, if patent invalidation is asserted in an infringement suit, the Court shall notify this fact to the Commissioner of the Patent Office (§168(5) of the Patent Law) and the Commissioner can then ask the Court to send a copy of those documents which relate to the record of proceedings which are necessary for the invalidation trial (§168(6) of the Patent Law).

Similar provisions are introduced in the Utility Model Law under §40(5) and (6) and, as a result, the provisions of §40^{bis} of the Utility Model Law (motion for the suspension of litigation procedure for the reason that an invalidation trial has been demanded) are deleted. The foregoing revisions in the Patent Law apply *mutatis mutandis* to the Design Law and the Trademark Law.

(3) Trade secrets have been given stronger protection and the process of proving an act of infringement has been facilitated in the procedure of litigation concerning infringement of intellectual property

(i) Judicial order to produce documents

In light of the difficulty involved in the process of proving an act of infringement of an intellectual property right and the damages incurred by such an act, the Court may, upon request of either party, order the other party to produce documents (§105(1) of the Patent Law). However, the holder of the documents may refuse the order if he/she has a good reason to do so (§105(1) of the Patent Law) and a judicial proceeding for deciding whether there is a good reason or not is heard *in camera* and the holder of the documents needs only to present them to the Court (§105(2) of the Patent Law). This method, however, has been criticized because, in proving the act of infringement, substantial judgment is made solely on the basis of the testimony of one party, and impartial judgment is not guaranteed.

Therefore, a provision is introduced to the effect that where it is deemed necessary to hear an opinion to decide whether a holder of documents has a good reason to refuse an order to produce them, such documents may be disclosed to a party who asked the Court to issue an order to produce the documents, and/or his legal representative. (§105(3) of the Patent Law).

The foregoing revisions to the Patent Law apply *mutatis mutandis* to the Utility Model Law, the Design Law and the Trademark Law. Similar provisions are introduced in the Prevention of Unfair Competition Act under §6(3) and in the Copyright Law under §114^{ter}(3).

(ii) Closing to the public an examination of the interested parties and other proceedings in litigation involving the question of trade secrets

One of the fundamental principles of the Constitution is that trials shall be conducted publicly (§82 of the Constitution). On the other hand, some litigation is required to protect of trade secrets. As a compromise, the requirements for and the procedure of closing a litigation proceeding to the public are expressly stipulated within the scope permitted by the Constitution (§105^{septies} of the Patent Law).

The requirements are as follows (§105^{septies}(1) of the Patent Law):

- ① that a party concerned (either himself or his legal representative) or the person who is to be examined as a witness be a concerned party or the like in litigation relating to the infringement of a patent right or exclusive license;
- ② that the examination be directed to a matter that constitutes a basis for making judgment about the existence of an infringement and which falls within the scope of the trade secret possessed by the concerned party;
- ③ that it be acknowledged that the concerned party or the like is unable to fully express an opinion about the matter in ② in an open courtroom, since expressing the opinion is sure to present a considerable obstacle to the party's doing business activities based on the trade secret, and that if no such opinion is

expressed, other evidence alone cannot guarantee an equitable trial for the existence of any infringement against a patent right or exclusive license which should be based on the matter in ②).

The court procedure is as follows:

- ① the court asks for an opinion of the concerned party or the like (§105^{septies}(2) of the Patent Law);
- ② if it is considered necessary, the court asks the concerned party or the like to present a paper that outlines the matters about which they are to express an opinion (§105^{septies}(3) of the Patent Law);
- ③ if it is considered necessary to ask for an opinion by disclosing a paper, the court discloses the paper to the concerned party or the like, the trial lawyer or the assistant (§105^{septies}(4) of the Patent Law);
- ④ if examination of the matter at issue is to be held *in camera*, the court makes a pronouncement to that effect, together with the reason, before it requires the public to withdraw from the courtroom and, when the examination of that matter ends, allows the public to be readmitted to the courtroom (§105^{septies}(5) of the Patent Law).

The foregoing revisions to the Patent Law apply *mutatis mutandis* to the Utility Model Law. Similar provisions are introduced in the Prevention of Unfair Competition Act under §6^{septies}.

(iii) Judicial order to preserve secrecy

Now that revisions have been made concerning the provisions for the order to produce documents in an infringement suit (§105 of the Patent Law) and provisions have been introduced that stipulate the closing to the public of examination of the concerned parties and other proceedings (§105^{septies} of the Patent Law), a concerned party and the like will be in a position to be aware of the trade secrets of the other party. To deal with this situation, a system is introduced concerning the order to preserve secrecy (§105^{quater}, §105^{sexies}, §200^{bis}, §201, etc. of the Patent Law).

If, in litigation concerning the infringement of a patent right or exclusive license, prescribed matters are established by *prima facie* evidence about a trade secret held by a concerned party, the Court can issue an order to preserve secrecy (§105^{quater} of the Patent Law), and inspection of the records of trial for the litigation is restricted (§105^{sexies} of the Patent Law) and a contravention of the order to preserve secrecy is subject to a criminal penalty (§202^{bis} and §201 of the Patent Law).

A "trade secret" to be protected by an order to preserve secrecy refers to a trade secret as stipulated under §2(4) of the Prevention of Unfair Competition Act and must satisfy the following four requirements: ① that it be controlled as secret; ② that it be technological or business information that is useful in the business activity; and ③ that it be not known publicly.

The prescribed matters that need to be established by *prima facie* evidence are as follows (§105^{quater}(1) of the Patent Law):

① that the trade secret possessed by a concerned party is described in a preliminary pleading or it is in the particulars of evidence;

② that the business activity of the concerned party based on the trade secret may potentially be hampered if such a trade secret is used for a purpose other than that of execution of the suit, or if it is disclosed and in order to avoid this possibility, there is a need to restrict the use or disclosure of such a trade secret.

However, the Court issues no order to preserve secrecy if, by the time an application is made by the concerned party or the like for issuance of such an order, the other party has acquired or retained the trade secret without relying upon the preliminary pleading or evidence in ①.

The order to preserve secrecy becomes effective at the time that a written decision is served on the person who was given that order (§105^{quater}(4) of the Patent Law). Immediate complaint may be raised against a court judgment that has dismissed the application for issuance of such an order (§105^{quater}(5) of the Patent Law).

An application for cancellation of an order to preserve secrecy may be filed on the grounds that the trade secret which is an object of that order fails to meet the above requirements ① and ② (§105^{quinquies}(1) of the Patent Law). A court judgment that cancels the order to preserve secrecy takes no effect unless it becomes binding (§105^{quinquies}(4) of the Patent Law).

In a case where the record of a trial in which an order to preserve secrecy has been issued is such that only the parties concerned may request the examination or the like of the record (§92(1) the Code of Civil Procedure), if the party who was not ordered to preserve secrecy makes a request for such examination, he/she is prohibited to examine the record for at least two weeks. If an application is made during the two-week period for asking the court to order that party to preserve secrecy, he/she is prohibited to examine the record until after a court decision on that application has become final and fixed (§105^{sexies} of the Patent Law).

The foregoing revisions to the Patent Law apply mutatis mutandis to the Utility Model Law, the Design Law and the Trademark Law. Similar provisions are introduced in the Prevention of Unfair Competition Act under §6^{quater}, §6^{quinquies} and §6^{sexquies} and in the Copyright Law under §114^{sexquies}, §114^{septies} and §114^{octies}.

Minako Matsuyama (Mrs.)
Patent Attorney of the Patent Division

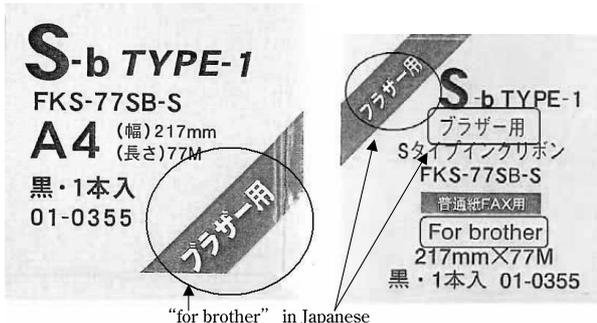
Court Case Review (Trademark): Brother Industries Case

In the Brother Industries case, HEI-15 (Wa) 29488, the Tokyo District court held that, in a case where a trademark is used on packages of substitutable products, that are designed to be used in conjunction with office equipment manufactured by an owner of the same trademark, and where the manufacturer of substitutable products are not the owner of the trademark used on the products, there is no trademark infringement so far as the trademark is used to indicate that substitutable products could be used in conjunction with the trademark owner's equipment.

The plaintiff in this case, Brother Industries, the owner of trademark registrations for "brother" and "brother in Katakana" in "Class 9- electrical communication apparatus and instruments" and "Class 16- inked ribbons and typewriter ribbons", sought an injunction against the defendant's use of the terms "for brother", and variations thereon, on the packages of inked ribbons and typewriter ribbons.

The facts

The defendant, OHM Electric Inc, a manufacturer of inked ribbons, used the term "for brother" on the packages of inked ribbons. The term "for brother" appears both in gothic characters and in outline type fonts, the fonts being smaller than those of



メーカー	適用機種名	純正リボン
ブラザー	FAX-750/750TA/750CL/750HS FAX-760/760CL/760HS/760CLT FAX-770J/800CL/800CLW	PC-300RF PC-304RF (4本)

"brother" in Japanese

other words which appear on the packages. Further, on the sides of the packages, the term “for new type of brother (in Japanese)” appears. On another side of the packages, a list showing compatible equipment appears. In this list, the word “brother” (without the word “for”) appears.

The issues of the trial

The issues of this trial are whether use of the trademark by the defendant constitutes infringement.

The assertion of the plaintiff

On the packages of the defendant’s goods, a mark “brother” is used in conjunction with a preposition “for”, both in English and in Japanese. The phrase “for brother” and its Japanese counterpart could generally be considered to indicate that the inked ribbons are compatible with the facsimiles manufactured by the plaintiff, Brother Industries. If and when the plaintiff could produce similar goods, they would use similar descriptions on the packages. This would clearly constitute usage of the Brother Industries’ trademark. Accordingly, the defendant’s use of these descriptions should also be regarded as use of the plaintiff’s trademark.

Further, the term “for brother” in English and in Japanese appear in 8 or 9 places on the packages. In contrast, the name of the defendant “OHM Electric Inc.” appears in only one place on the packages. The majority of users of facsimiles are aged persons who are not familiar with English. If they see the companies name “OHM Electric Inc.”, they will not be able to understand its meaning or its pronunciation, “o: - mu”. As the defendant is not well known, they would not recognize “OHM Electric Inc.” to be the name of the company which manufactured the goods. On the contrary, the term “brother” is a familiar English word in Japan. Therefore, use of the description “for brother” and its Japanese counterpart is likely to lead consumers to believe that Brother Industries manufactured the products. The plaintiff asserted that they actually received some inquiries from consumers about the defendant’s inked ribbons, and that this fact proved that there was confusion as to the source of the goods.

Consequently, the descriptions used on the packages of the defendant’s goods constitute the use as trademarks representing the origin of the defendant’s goods.

The assertion of the defendant

It is clear that the descriptions “for brother” and the corresponding Japanese description are used to show that these products are compatible with facsimiles manufactured by the plaintiff, Brother Industries. Therefore, nobody would consider that the descriptions imply that Brother Industries makes and sells the inked ribbons. There are many types of facsimile machines, using inked ribbons of different designs, and these descriptions are absolutely necessary to enable consumers to select an inked ribbon which is compatible with their own equipment. If these descriptions were considered to be trademark infringements, only the equipment manufacturer would be permitted to supply compatible accessories. Such a conclusion would be completely impractical and unreasonable.

The decision of the court;

The nature of the defendant’s product: The defendant’s goods are expendable or substitutable and are not reusable. That is to say, when an inked ribbon for inked ribbon facsimile machines is used up, it is discarded and a new one will be replaced. It is common to indicate the name of the compatible machines on the packages of the goods to prevent customers from purchasing wrong goods. When consumers purchase expendable goods, they refer to these descriptions to confirm compatibility. Additionally, it is widely known that companies manufacturing expendable goods are not always the same as companies manufacturing compatible equipment. Accordingly, consumers would recognize that the description “for brother” and the corresponding Japanese description on the packages of the inked ribbons, are used to inform consumers that this inked ribbon is compatible with facsimiles manufactured by Brother Industries.

Accordingly, it is indispensable to provide the information that the subject inked ribbons are used for the facsimile manufactured by the plaintiff, to ensure that consumers do not purchase the wrong type of inked ribbons.

Further, on the packages, a description of the goods “inked ribbons” and a comment “for normal paper-type facsimile” clearly appear. Also, as the word “for” is a basic word taught in junior high schools in Japan, most consumers would be able to understand the meaning of the description “for brother”; namely, that the product is compatible with facsimiles manufactured by Brother Industries.

Consequently, the descriptions used by the defendant are not recognized to constitute usage as trademarks, or to represent the source of the goods.

Postscript

After that, we heard that the plaintiff appealed to the Tokyo High court. Since it has just been appealed, the result has not come out yet. We think that the decision would be upheld, as the judgement of the district court appeared to be rational. Well, what a result would be brought?

Hanako Matsuda (Ms.);
Patent Attorney of the Trademark and Design Division

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