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## Newsletter

In this issue, we summarize the following aspects of the Japanese Patent and Trademark system:

- Revision of the Employee Invention System
- Filing suit against a JPO Decision of Rejection (Patents)
- Likely extension of the patent right of regenerative medical products to 25 years
- On the judgment of the similarity of trademarks

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### 1 Revision of the Employee Invention System

As briefly mentioned in the last newsletter, as well as the newsletter before that, the *Research Committee Investigation into the Employee Invention System* is currently underway at the JPO and examining possible reform of the Employee invention system.

In this newsletter, after providing an easy-to-understand overview of the current Employee Invention System in Japan, we will briefly introduce what is being considered based on the records of the proceedings of the research committee published on the JPO website.

#### The current Employee Invention System

The current Employee Invention System, amended in 2004, is set out in Article 35 of Japanese Patent Law.

Put briefly, the content of paragraph 1 and 2 of Article 35 includes the following:

- Employers have the right to a non-exclusive license for patent rights for employee inventions (statutory non-exclusive license)
- The right to obtain a patent or the assignment of a patent for an invention made by an employee can be agreed upon in advance (contractually, or by company regulations, etc.) only for inventions classed as *employee inventions*.

These regulations are premised on the thinking that rights that result from the act of invention originally and always belong to the inventor, who is a natural (i.e. not judicial) person.

The Employee Invention System is continued in paragraph 3 through 5 of Article 35, which include the following points:

- When the right to receive a patent or a patent right for an employee invention is assigned to the employer, the employee has the right to receive “reasonable compensation” in return.
- What this “reasonable compensation” constitutes can be stipulated contractually, or by company regulations, etc.
- The compensation awarded as a result of said stipulations will be considered as “reasonable compensation”, provided that the payment that results from such stipulations is itself not recognized as unreasonable.
- The judgment of whether these stipulations are unreasonable will be based on the entirety of the procedures including everything up to and including the determination of the level of compensation.

- When the “reasonable compensation” is not stipulated or when the stipulated compensation is determined to be unreasonable, the amount considered to be reasonable will be determined based on the profit generated by the invention for the employer, their contribution and burden with regards to the invention, and their treatment of the employee, as well as any other relevant information.

In other words, by starting with the premise that rights that result from the act of invention originally belong to employees and recognizing that these rights can be assigned from employees to their employers, while securing the right of the employee to receive reasonable compensation, the current Japanese Employee Invention System strikes a balance between the desires of employers and employees.

Employers and employees can decide upon their own interpretation of “reasonable compensation”. However, there are occasions where it is not appropriate for the decision to be made entirely by the two parties alone (for example, when the employee is at a disadvantage because the standpoints of the two parties differ, or when the information available to the two parties is unevenly distributed in favor of the employer etc.). Because of the potential existence of such cases, the law can provide a certain degree of mediation.

The 2004 amendment of the Employee Invention System came into force on 1 April 2005. Following this, compensation paid to the inventor for assigning the right to receive a patent or a patent right to the employer is determined according to the amended Law. There have been no judicial precedents set subsequent to this amendment.

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## Research Committee Investigation into the Employee Invention System

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As stated above, under the current system, the rights associated with an employee invention belong to the employee.

Summary of the Research Committee’s proceedings:

Because the current system has been identified with an element of operational risk for companies during their global activity, the Research Committee is being held with the aim of considering amending the system so that the right to receive a patent for employee inventions is for example, either regarded as originally belonging to the employer or the decision of who initially possesses rights associated with an employee invention is left to the contractual agreements between employer and employee.

As long as the phrase “reasonable compensation” remains in the Patent Law, there is a risk that, in the event that the procedures for stipulating what “reasonable compensation” constitutes are found to be unreasonable, payment of a large sum of money is demanded as compensation. Therefore employers have asked that the right to receive a patent for an employee invention originally belong to the employer.

Furthermore, employers are of the opinion that the current law is unclear as to what specific type of procedures (to determine the “reasonable compensation”) would be determined to be “reasonable” by the courts. This lack of clarity is argued to undermine the ability of companies to make accurate business plans and thus impairs their ability to develop.

As yet, it is unknown whether the law will be amended and if it is amended, what the content will be. However, our office is watching the situation with interest and will inform you as soon as more detailed information becomes available.

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## **2** Introduction to the Japanese Patent system - Filing Suit Against a JPO Appeal Decision of Rejection

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The Japanese Patent system allows applicants to appeal against a Decision of Rejection issued by the JPO Examiner. In the event that the Appeal Trial Examiners find that the application is not patentable, an Appeal Decision of Rejection

is issued. Once this verdict is reached, the application concerned has reached the end of its processing by the JPO (with the exception of 3.1 below).

If the applicant is dissatisfied with the aforementioned appeal rejection, they can request a cancellation suit in order to revoke the Appeal Decision of Rejection at the Intellectual Property High Court (IPHC), a summary of which is as follows.

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## 1. Filing suit against the Appeal Decision of Rejection

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A suit can be filed at the IPHC within 120 days (30 days for residents of Japan) of the transmittal date of the Appeal Decision of Rejection.

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## 2. Trial at the Intellectual Property High Court (IPHC)

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The court determines whether the Appeal Decision of Rejection, as an administrative action, was made in accordance with the requirements relating to administrative actions prescribed by Japan Patent Law; specifically, the requirements of appeal trial proceedings including those relating to evaluation of patentability and issuance of the Appeal Decision. If the IPHC finds that the Appeal Decision of Rejection did not fulfil the above-mentioned requirements (i.e. the decision is not legal), said decision is revoked. Otherwise the suit against the decision is dismissed and the decision stands.

Accordingly, the burden of proof to demonstrate that the decision was not made in accordance with the above-mentioned requirements falls upon the plaintiff (i.e. the patent applicant). Typically, the plaintiff must demonstrate in an argument the existence of errors made by the Appeal Trial Examiners, such as mis-evaluation of the gist or heart of the claimed invention, mis-evaluation of the technical contents of the cited literature, failure to find differences between claimed invention and cited invention, and mis-evaluation of differences between claimed invention and cited invention (e.g. whether a person skilled in the art could have readily arrived at the invention). These errors must be such that they affected the result of the Appeal. Furthermore, **amendments and divisional applications cannot be filed during the court proceedings**. Consequently, the argument and proof must be based upon the invention described in the claims pending at the JPO at the time that the Appeal Decision was issued.

The following is typical (though the details depend on the specific case):

- The plaintiff submits their written argument against the Appeal Decision of Rejection
- The defendant (i.e. the JPO) submits their written rebuttal
- The plaintiff submits their written surrebuttal
- Oral proceedings (typically formal and brief)
- Verdict issued

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## 3. Ruling by the IPHC

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### 3.1 The Appeal Decision is judged to not be appropriate.

The IPHC revokes the Appeal Decision of Rejection.

If this judgment is made final and conclusive, the IPHC then remands the case back for further appeal examination at the JPO by the Appeal Trial Examiners. The Appeal Trial Examiners then make a decision (for example, to issue a patent) according to the conclusion of the IPHC trial decision and the matters stated therein. The JPO Appeal

Trial Examiners must accept the ruling of the IPHC as binding but can issue a further Appeal Decision of Rejection based on reasons which were not included in the IPHC trial. Consequently, there is a possibility that a new Appeal Decision of Rejection will be issued based on a different reason.

To reiterate, the court evaluates the Appeal Decision of Rejection as an administrative action. If the court rules the action does not fulfil the above-mentioned requirements, it revokes said decision and remands the case back to the JPO for further prosecution. The court itself does not have the power to directly issue a patent.

### **3.2 The Appeal Decision is judged to be appropriate.**

The suit is dismissed. In response to this decision, a final appeal may be made to the Supreme Court. However, acceptable reasons for making such a final appeal are limited. For example, cases where the IPHC has made an error in interpreting the constitution, violated an important procedure, or has run contrary to Supreme Court precedent.

If no final appeal is made or if the final appeal is rejected, then the result of the trial proceedings at the IPHC and the Appeal Decision of Rejection become binding. Consequently, there is no means by which the patent application in question can obtain a patent.

During the suit against the Appeal Decision of Rejection the application is not assessed in terms of its patentability, but rather a determination is made as to whether or not the Appeal Decision of Rejection fulfilled the above-mentioned requirements regarding administrative actions prescribed by Japan Patent Law. This means that it is typically necessary to prove the existence of a critical flaw in the proceedings by the Appeal Trial Examiners which would have affected the Appeal Decision. The difficulties in establishing the existence of such a flaw are considerable and generally speaking, getting the Appeal Decision overturned is not a trivial matter. According to the 2012 data released by the JPO, 3% of Appeal Decisions of Rejection are challenged and of those, there is a 25% success rate for having the decision overturned.

It is thought that a major cause of the low success rate is the prohibition on making amendments to claims after filing suit.

When an attempt made to maintain a main claim of excessive scope in a patent application has resulted in an Appeal Decision of Rejection, it is extremely difficult to demonstrate a critical flaw in the JPO Appeal Trial proceedings but on the other hand it is also no longer possible to restrict the scope of the claim, regardless of whether one or more of the inventions contained in the application actually have patentability. And so, once a suit has been rejected, the door to obtaining a patent, even for the above-mentioned invention with patentability, is completely closed. Thus, to avoid this sort of unfortunate conclusion to a patent application, it is highly desirable to make appropriate amendments during the proceedings at the JPO (i.e. before any potential suit against an Appeal Decision of Refusal is filed) and the earlier the better (since under Japanese practice, the chances to make amendments are strictly limited). Furthermore, if a patent application contains more than one invention, one possible effective approach is to split the inventions into separate applications via the filing of divisional applications in order to reduce the risk associated with any one application.

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## **3 Likely extension of the patent right of regenerative medical products to 25 years**

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The JPO has announced the policy that the patent right duration of regenerative medicine products and associated apparatus will be extended to the maximum 25 years. It is expected that the official decision will be made by this fall, at the earliest. As soon as we know more details, we will let you know.

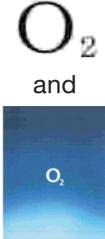
## 4 On the judgment of the similarity of trademarks

In Japan, trademark applications are examined with regard to similarity with older trademarks and this similarity is judged largely based on appearance, pronunciation and concept. Amongst these, particular importance has been given to pronunciation. However, in recent years the realities of business have been taken increasingly into consideration. If the following sorts of conditions exist, even if both trademarks are similar, they can both be registered as consumers will not confuse the origin of the goods and/or services. For example, the two groups of consumers of the goods/services carrying the trademarks are clearly different, the appearance of the trademarks are the most distinctive feature or if the trademark of the later application is already well known in the relevant field etc.

Furthermore, the importance attached to pronunciation has changed. This change is connected with the rise of modes of business other than the telephone. There has been an increase in the number of cases where two similarly or identically pronounced marks are determined to be dissimilar during examination and this follows comparable decisions at appeal and in court.

The following are examples of recent trial decisions where two trademarks which are either identical or similar in Japanese pronunciation were judged to be dissimilar.

TM1 (Later application)	TM2 (Prior application)	Comment on decision
WarpNet (Word mark)	WAAP Net with Katakana (Word mark)	Both trademarks are neologisms and do not convey a specific concept. However the degree of difference in their appearance is such that the impressions, memories and associations conveyed to traders and consumers differ and thus when everything is taken into consideration these trademarks are dissimilar. (Appeal No. 2011-23243)
SERVE (Word mark)	SAAB (Word mark)	Even though their pronunciation (in Japanese) is identical, as the mark "SERVE" conveys the idea of "to serve" or "to work for" while the mark "SAAB" is associated with the Swedish airplane and car maker and their appearances are clearly differentiable, overall they are judged to be dissimilar. (Appeal No. 2011-9459)
	 (TOP with Katakana)	The "publications and books" designated as the goods of TM1 are only intended for persons connected with the police and not sold in general book stores. In contrast, the "magazines and newspapers" designated as the goods of TM2 are sold in regular book stores and stalls etc. for general consumer use. Thus, as the sales areas, uses and consumers all differ, the designated goods are deemed dissimilar. (Appeal No. 2012-12499)

TM1 (Later application)	TM2 (Prior application)	Comment on decision
PING (Word mark)	PINGU with Katakana (Word mark)	Although their pronunciation in Japanese is similar, it can be differentiated and thus, together with the ability to differentiate the two by the presence or absence of the letter “U” and of the writing in Katakana, as well as the fact that TM1 conveys the noise of a flying bullet striking something metal, while TM2 conveys the concept of an animated character, they are judged overall to be dissimilar trademarks. (Appeal No. 2012-20998)
		TM1 and TM2 are pronounced the same and both convey the idea of oxygen. Their appearances are also so similar that one could be mistaken for the other. However, the service providers, content of service, business configuration and consumers etc. differ and thus the services are dissimilar. (Opposition No. 2012-900155)
AURORA (Word mark)	AURORA in Katakana (Word mark)	Both trademarks are identical in terms of pronunciation and concept, though their appearances differ. However, where these services are supplied, the consumers, types of businesses and dealers involved all differ and thus there is no risk that traders and consumers would confuse the origins of the two. Therefore the two services are not similar. (Appeal No. 2011-12088)
FRAME (Word mark)		Both trademarks have the same pronunciation in Japanese, however the degree of difference of their appearance and concept is such that the impressions, memories and associations conveyed to traders and consumers differ and thus when everything is taken into consideration these trademarks are dissimilar. (Appeal No. 2012-23848)
ROOT (Word mark)	Route (Word mark)	The pronunciation of both trademarks is the same but their appearance and concept differ considerably. Thus when judged overall, it cannot be said that they are similar to the point where the origins of the two may be confused. (Appeal No. 2013-5938)

However, as the decision is at the discretion of the examiner or appeal examiner, marks which are similar with, but possess differences to, existing marks may still be rejected based on grounds of similarity. Despite this, even if a reason for refusal were to cite an existing mark, we recommend challenging this decision as there is sufficient room for refutation when there are differences such as those mentioned above.

Finally, the introduction of a new trademark system, which includes sound, position and color scheme is being considered in Japan. When more details become available, we will inform you without delay.