2004 JAPANESE PATENT LAW AMENDMENT FOR REDUCING PATENT PENDENCY

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1. Japanese Intellectual Property Policy

In recent years, in the midst of the globalization of economic activity, the level of technology in Asian countries has risen greatly. With cheap labor, these countries have been able to succeed at low-cost, large-volume production of standardized products.

Japan, with its scant natural resources, has been transforming itself from a "goods manufacturing economy" to an "intellectual economy" which relies on economic growth fueled by a constant innovation. The realization of Japan as an "intellectual property nation" has become an urgent issue.

In July 2002, Japan laid out its General Principles of Intellectual Property Strategy, and in December of that year, the Basic Law on Intellectual Property was established. In addition, in July 2003, the Strategic Program for the Creation, Protection, and Exploitation of IP along with the Patent Strategic Plan were set down as key policies.

"Expediting Patent Examination" is a major issue in the Strategic Program for the Creation, Protection, and Exploitation of IP. As a practical measure to address this issue, the Japanese Diet passed the Patent Law Amendment for Reducing Patent Pendency on May 28, 2004 (Law No. 79 of June 4, 2004).

### Recent Japanese Intellectual Property Measures

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<th>Date</th>
<th>Measure</th>
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<tr>
<td>2002/7/3</td>
<td>General Principles of Intellectual Property Strategy</td>
</tr>
<tr>
<td>2002/12/4</td>
<td>Basic Law on Intellectual Property</td>
</tr>
<tr>
<td>2003/7/8</td>
<td>Strategic Program for the Creation, Protection and Exploitation of IP</td>
</tr>
<tr>
<td>2003/7/8</td>
<td>Patent Strategic Plan</td>
</tr>
</tbody>
</table>
2. The Aim of Japan's Patent Policy

A positive "Intellectual Creation Cycle" is considered indispensable to the realization of Japan as an "intellectual property nation." This cycle involves obtaining rights for superior research results without missing the timing of commercialization, securing profits based on the maximum utilization of the rights, and using these profits to reinvest into new research and development.

The key to this Intellectual Creation Cycle is obtaining the rights to the technology without missing the timing for commercialization. A requirement for this will be "expediting patent examination."
3. Status and Challenges Facing Japan’s Patent System

(1) Number of Applications and Registrations

The number of patent application in Japan declined in both 2002 and 2003 from the previous years, but on the whole the trend shows applications are on the rise. In 2003, the number of applications was about 413,000.

The number of patent registrations, however, has remained nearly constant since 2000, with about 123,000 registrations in 2003.


The number of cases awaiting examination is increasing year after year, and in 2003 reached 520,000 cases.

The average pendency until the first Office Action is becoming longer, and in 2003 it averaged 25 months from the date of request for examination.

The total time required to examine a patent examination reached an average of 31.3 months in 2003.

Trends suggest that the number of applications awaiting examination will only increase in the future.
(2) Addressing the Pendency Problem with More Examiners

The Japan Patent Office currently has 1,126 patent examiners. Due to efficiency measures, the average number of cases handled by one examiner is 204.2, far higher than the average in the United States or Europe.

However, as examination can be expedited with an increase in the number of examiners, the JPO plans to hire about 100 examiners a year over the next five years, for a total of 500 new fixed-term examiners.

### Increase of Patent Examiners

| Current Average Number of Patent Cases per Examiner |
|-----------------------------|-----------------|-----------------|
| No. of Examiners            | Japan | USA  | Europe |
| No. of Cases per Examiner   | 1126  | 3489 | 3157   |

No. of Cases per Examiner 204.2 79.3 63.4

JPO is to employ a total of 500 additional patent examiners with a 10-year term over the next 5 years.
(3) Relationship between R&D and Patents in Japan

In Japan, about 11.5 trillion yen is annually invested into research and development. The fruits of this research are about 420,000 patent applications a year in Japan.

Japan adopts an application examination system, and of the total 420,000 applications, about 57%, or 240,000 cases are pursued through requests for examination. Of the 240,000 cases examined, about 50%, or 110,000 applications, mature to registration.

Looking at the patent applications which have been rejected, about 43% of all patent applications go abandoned without a request for examination. In addition, of the 110,000 patent applications issued a notification of reasons for rejection, about 50,000 are abandoned and finally rejected due to a lack of response to the JPO.

Applications abandoned without request for examination combined with the cases for which no reply is made to the JPO after issuance of a notification of reasons for rejection represent about 55% of all patent applications.

The possibility is high that these applications are unpatentable because of prior art, and that they represent duplicated research and development efforts.

![Diagram of R&D and Patent in Japan](image-url)
(4) Relationship between Rejected Patent Applications and Prior Art

Taking a closer look at the rejected applications, and looking specifically at the age of the prior art documents (patent laid-open publication) used to justify rejection, it is found that an application is rejected based on a prior art document (patent laid-open publication) that is on average 7.9 years prior to the date of the application.

In Japan, patent applications are laid open to the public 18 months after the application date, and therefore if laid-open publications are searched at the time of filing the patent application, it is expected that about 97% of the prior art documents used to reject the application should be found.

Assuming it takes 18 months from the start of research and development to the filing of a patent application, if laid-open publications are searched at the time research and development is begun, it is expected that 76% of the prior art documents used to reject the application should be found.

The above suggests that providing more information on prior art to patent applicants in Japan would help prevent duplicated research and development efforts along with reducing unneeded patent applications, and this in turn would be effective in expediting the application examination process.

The Patent Law Amendment for Reducing Patent Pendency (Law No. 79 of June 4, 2004) is designed to eliminate the waiting time for examination, and support more accurate examinations, with the following 4 main objectives:

(I) Expediting examination process
(II) Promoting proper application and request for examination
(III) Reinforcing the structure necessary for expeditious examinations
(IV) Creating an environment that encourages inventions

Main Points of Patent Law Amendment (Law No. 79 of 2004)

- Expediting Examination Process
- Promoting Application and Examination Request properly
- Reinforcement of Infrastructure for Expeditious Patent Examination
- Establishment of an Environment to Encourage Inventions

No Waiting Time for Examination
To achieve the objectives, the following specific revisions to the law have been made:

(I) Expediting examination process
   - Expand outsourcing of prior art search

(II) Promoting proper application and request for examination
   (i) Offer incentive for applicants to conduct search
   (ii) Publish Official Gazettes via the Internet
   (iii) Make utility model system more attractive

(III) Reinforcing the structure necessary for expeditious examinations
   - Expand the operations of National Center for Industrial Property Information

(IV) Creating an environment that encourages invention
   - Restructure the employee invention system

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**Detailed Changes in Japanese Patent System**

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<tr>
<th>Category</th>
<th>Description</th>
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<td>Cat. I</td>
<td>Expanding Capacity of Outsourcing to the Private Sector</td>
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<tr>
<td>Cat. II</td>
<td>Offering Incentives to Prior Art Search by Applicants</td>
</tr>
<tr>
<td>Cat. III</td>
<td>Improving Availability of Official Gazettes published via the Internet</td>
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<tr>
<td>Cat. IV</td>
<td>Improvement on Utility Model System</td>
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<td>Cat. V</td>
<td>Reinforcement of Infrastructure for Expeditious Patent Examination</td>
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<tr>
<td>Cat. VI</td>
<td>Establishment of an Environment to Encourage Inventions</td>
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</tbody>
</table>
I. Expediting Examination Process
   "Expanding previous outsourcing system for prior art search"

   Previously, prior art searches could be outsourced only to specified public interest
   corporations. Under the revised law, it is possible for companies other than the specified
   public interest corporations to conduct official searches as registered search companies.

   The result of this is that the JPO's capacity for outsourcing prior art searches has
   increased, which in turn should expedite examination.

( I ) Expanding Capacity of Outsourcing to the Private Sector

![Diagram showing current and after amendment systems for prior art search outsourcing]

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II. Promoting Proper Application and Request for Examination

(i) Offer incentive for applicants to conduct search

If the applicant submits with a request for examination a prior art search report from a company registered with the JPO, the JPO will reduce the examination fees for the application.

Having applicants request their own search report is expected to encourage the applicants to be stricter in deciding which applications to pursue for examination.

(ii) Publish Official Gazettes via the Internet

The JPO plans to supplement the publishing of Official Gazettes on optical disk with a system by which the Gazettes will be released via the Internet (Special Provisions Law, Article 13).

With this measure, the time it will take for the JPO to extract and distribute the Gazettes will be reduced from 7 weeks to 4 weeks.

Publishing information on patent rights rapidly will support more appropriate application activities and the protection of patent rights.

(II) Improving Availability of Official Gazettes by Publishing via the Internet
(iii) Make utility model system more attractive

A more attractive utility model system would complement the patent system and provide an alternative to patent applications.

(1) Extending the term of utility model right

The term of the utility model right will be extended to 10 years from the date of the utility model application from the current 6-year term of validity (Utility Model Law, Article 15)

In addition, the registration fees for a utility model application are lowered (Utility Model Law, Article 31-1), which increases the usefulness of a utility model registration providing short-term rights.

(II) Improvement on Utility Model System

(1) Extension of the Term of a Utility Model Right

<table>
<thead>
<tr>
<th>Current System</th>
<th>After Amendment</th>
</tr>
</thead>
<tbody>
<tr>
<td>6 Years from Filing Date of the Utility Model Application</td>
<td>10 Years from Filing Date of the Utility Model Application</td>
</tr>
</tbody>
</table>

(2) Conversion of utility model right into patent application

Previously, registered utility model rights could not be converted into patent applications, but the revised law allows a patent application based on a registered utility model right after the right is granted if the patent application is made within three years of the filing date of the utility model application (Patent Law, Article 46-2).

This revision will provide right holders with an opportunity to obtain more stable rights secured through an examination process after the registration of the utility model right, as well as to extend the term of their property rights.

(II) Improvement on Utility Model System

(2) Conversion of a Utility Model Registration into a Patent Application


(3) Expansion of allowable scope of correction

In the past, corrections could be made only when the right holder cancelled a claim of the utility model registration. Under the revised law, the scope of allowable corrections has been increased to include restriction of claims, correction of errors, and clarification of ambiguity (Utility Model Law, Article 14-2).

The amended system will allow the right holder to restrict the claims of the utility model and make other corrections after reviewing a Technical Opinion or the contents of an invalidation trial.
III Reinforcing the Structure Necessary for Expeditious Examinations
   "Expand the operations of National Center for IP Information"

The operations of the National Center for Industrial Property Information will be expanded to include the functions of information supply and training currently performed by the JPO, while the name would be changed to the proposed National Center for Industrial Property Information and Training (Law for Incorporated Administrative Agency National Center for Industrial Property Information, Articles 2, 3, 10)

(III) Reinforcement of Infrastructure for Expeditious Patent Examination

- National Center for IP Information
  - Information Supply
  - Consulting
  - Patent Circulating
- JPO
  - Information Supply
  - Training Service
  - System Management
- National Center for IP Information and Training
  - Develop human resources for prior art search
  - Develop human resources of fixed-term examiners
  - Provide patent information to private companies, individuals, patent attorneys, etc.
IV. Creating an Environment that Encourages Inventions

"Restructure the employee invention system"

(1) Current system

In the current employee invention system, the right to obtain a patent and the patent right belong to the employee, and when the employee receives the patent, the employer has a non-exclusive license to the right (Patent Law, Article 35-1). When the employee, based on a contract or company regulations, transfers the patent right to the employer or provides the employer with an exclusive right to the patent, the employee has the right to reasonable remuneration (Patent Law, Article 35-3).

The reasonable remuneration will be decided based on the amount of profit the employer can obtain from the invention and the amount of contribution the employer made to the invention (Patent Law, Article 35-4).

Under the current system, the employer calculated and paid the remuneration based on contracts and company regulations.

(2) Problems

In a case where the employee is dissatisfied with the amount of remuneration, the Supreme Court has ruled as follows:
"Even when remuneration has been paid in accordance with contract or service regulations as stipulated in Article 35-3, the employee can claim remuneration in accordance with Article 35-3, provided that the paid remuneration does not agree with Article 35-3." (April 22, 2004 Supreme Court decision in Olympus case)

Since the decision, there have been a number of court decisions ordering employers to pay large sums of compensation to inventors.

<table>
<thead>
<tr>
<th>Defendant</th>
<th>Paid Remuneration</th>
<th>Reasonable Remuneration</th>
<th>Decided by Court</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>OLYMPUS KOGAKU</td>
<td>¥210,000</td>
<td>¥2.5 million in 1st trial</td>
<td>1999/4/16</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>¥2.5 million in 2nd trial</td>
<td>2001/5/22</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>¥2.5 million in Sup. Court</td>
<td>2003/4/22</td>
<td></td>
</tr>
<tr>
<td>HITACHI SEISAKUSHO</td>
<td>¥1.07 million</td>
<td>¥34.9 million in 1st trial</td>
<td>2002/11/29</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>¥164 million in 2nd trial</td>
<td>2004/1/29</td>
<td></td>
</tr>
<tr>
<td>NICHIA KAGAKU KOGYO</td>
<td>¥20,000</td>
<td>¥60.43 billion in 1st trial</td>
<td>2004/1/30 (Appealing)</td>
<td></td>
</tr>
<tr>
<td>AJINOMOTO</td>
<td>¥10 million</td>
<td>¥2.0 billion</td>
<td>2004/2/24</td>
<td></td>
</tr>
<tr>
<td>HITACHI KINZOKU</td>
<td>¥1.04 million</td>
<td>¥12.3 million in 1st trial</td>
<td>2003/8/29</td>
<td></td>
</tr>
<tr>
<td></td>
<td>¥1.14 million</td>
<td>¥13.8 million in 2nd trial</td>
<td>2004/4/27</td>
<td></td>
</tr>
</tbody>
</table>

At present, for the employer, it is difficult to predict the total investment in research and development, and this can be an obstacle to active expansion of business.

On the other hand, for employees, they cannot contribute to deciding the level of remuneration, which can lead to a decline in their will to invent.
(3) Basic idea behind revision

If the remuneration paid to the employee is not unreasonable based on the independent setting of the amount between the employer and employee, then the remuneration is "reasonable."

If the remuneration is not agreed up and set independently between the employer and employee or if the remuneration decided upon between the parties is not reasonable, then the reasonable remuneration will be decided by a court.

(IV) Establishment of an Environment to Encourage Inventions

(3) Basic Idea of Revision

Propriety of the amount of remuneration

Is the process of calculating remuneration defective?

Defective

Not defective

The remuneration is "reasonable remuneration"

The amount of the remuneration will be determined by a court

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(4) Determination that remuneration is not reasonable (Revised 35-4)

Intervention into the process of independently deciding remuneration will be avoided, and the preparation for deciding remuneration will be emphasized, with the following points kept in consideration:

- Whether discussions are held between the employer and employee for deciding the standards by which to determine reasonable remuneration
- Whether the process for determining remuneration is disclosed
- Whether the employer is willing to hear the opinions of the employee about the calculation of remuneration

(5) Factors to consider in calculating reasonable remuneration (New 35-5)

The following are factors to consider in calculating reasonable remuneration:

- The profit the employer will earn from the invention
- The contribution of and burden on employer in creating the invention, as well as the treatment of the employee
- Other circumstances

(IV) Establishment of an Environment to Encourage Inventions

What is "defective" in the process of calculating remuneration?

<table>
<thead>
<tr>
<th>EmpHASIZE PROCEDURES FOR DECIDING REMUNERATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Discussion between the Management and the Employee in determining remuneration calculating process</td>
</tr>
<tr>
<td>• Disclosure of determined remuneration calculating process</td>
</tr>
<tr>
<td>• Hearing of opinions of the Employee in calculating the remuneration</td>
</tr>
</tbody>
</table>

If defective

Amount of remuneration is to be determined by a court. The employer’s business efforts including production and sales are taken into account.