

# Using Japanese Professionals When Licensing in Japan

## By Taro Yaguchi

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Hello. My name is Taro Yaguchi. Today, I would like to talk to you about some of the business practices that you will encounter when licensing in Japan. And to state my conclusion first, I am going to stress the importance of working closely with a Japanese professional if you wish to achieve even a small success. My talk will deal with licensing to Japanese companies in Japan, and not to those companies operating in the US.

So, first you must know your "enemy." I am going to describe a well-known Japanese invention, and I want you tell me what it is. Here are my 3 hints.

Hint 1 -This object experiences less than 10 seconds of delay annually.

Hint2 - This object runs at an average speed of 261kph or 163 mph.

Hint 3 -This object can run as long as 400 m or 1/4 mile in length.

Some of you may already know the answer. I am, of course, describing the Japanese bullet train or Shinkansen, as it is called in Japan. Here are some more amazing facts about this high-speed train:

- The average delay time of less than 10 seconds includes delays caused by all natural and human accidents.
- Trains leave at 4 minute intervals- a frequency equivalent to the densest inner city transit system.
- All the lines combined carry 775,000 passengers a day.
- Since the Shinkansen was inaugurated 40 years ago, there have been no derailments or collision accidents whatsoever.
- There have been no passenger fatalities except for one due to doors closing on a passenger.

Does anyone know the average delay-time for AMTRAK? It's too scary to even imagine, isn't it?

So the Japanese bullet train's safety, punctuality and speed records are quite an

impressive engineering feat. But I mention these facts not to boast about Japanese ingenuity, but to drive-home the point that it is necessary to use a Japanese professional when doing business with the Japanese. Why? For one, the Japanese are a formidable adversary. Two, regardless of how well we may speak English, the Japanese have a real problem understanding spoken English. Most of us nod our heads in agreement, but it would be a grave mistake to interpret that as comprehension. We probably understand about 30% of what is being said! The third problem is that Japanese and English laws use legal terminology differently from each other, and a straightforward Japanese translation of an English licensing contract may not have legal bearing under Japanese law. Finally, I would like to stress upon you that, even though we may appear Westernized on the surface, there are vast cultural differences that are hard to grasp for average Americans.

For these reasons, I strongly recommend you work closely with a Japanese attorney and not try to do business on your own. Many companies have come to me and remarked that they would have saved a lot of time and money, not to mention aggravation, if they had sought help sooner. And if I may, I would like to make a second recommendation; employ a team comprised of a Japanese and an American legal specialist for even better results. This business model would assure the best communication between you and your Japanese business partners.

I would now like to give you concrete examples of Japanese licensing practices that may pose problems to foreign companies in Japan.

### **What is a “dummy” system?**

In Japan, it is a legal, if not a sanctioned, business practice for a licensee to covertly challenge a licensor’s patent. The patent is challenged by using bogus third-party names - usually of a distant relative or people unrelated to the business - and these are commonly referred to in Japan as “dummies.” The use of a “dummy” is more rampant among big Japanese corporations. I was involved in an arbitration once where a major Japanese company was exposed for using a dummy to challenge a licensor. Even when the evidence clearly showed that they were guilty, they insisted to the end that it was not their name and therefore were not culpable. To them, this was a legitimate defense.

### **Corrections to Patent Specifications Must be Approved by the Licensee**

Let us say a challenge was filed, or a request was made for an invalidation trial against your patent, and you need to make patent amendments. In Japan, unlike the U.S. or

Europe, you must first obtain the consent of a licensee before making amendments. Neglecting to do so can ultimately cost you your patent. Few foreign companies are aware of this statute and many have landed themselves in court because of it. Their Japanese licensees, for the most part, knowingly let this one slide, since they wanted nothing better than to see their competitor's patent rights revoked.

This statute exists to protect the licensee, and from that stand point, this makes sense. But what if the licensee opposes the patent using a "dummy"? If the licensee is the opposing party, chances are pretty good that they will not be consenting to corrections - at least not voluntarily. The best way to prevent problems from occurring in the first place is to include a clause in your licensing agreement that requires licensees to approve all "reasonable" amendments made to a patent specification.

### **Should exclusive licenses be registered?**

This situation pertains to you as a licensee, not a licensor. In Japan, any person or legal entity who has been granted an exclusive license must register it with the JPO. If it is not registered, the license will be deemed "non-exclusive" and you will lose your exclusive rights, so it's important to keep this in mind. Once the exclusive license is registered, your name will be made public, and the respective rights against third-party activities become effective. It is also important to keep in mind that both parties - the licensee and the licensor - must agree to register, either jointly, or by the licensor signing a consent form. Foreign companies are not aware of this statute, and again, Japanese licensors are rarely helpful in these instances. Therefore, it would be wise, to include a clause that requires the licensor to agree to register the exclusive license when drafting an agreement.

### **Can warning letters be sent in English?**

Whether you hold a patent or an exclusive license, the discovery of suspected infringement is usually followed by sending a warning letter. For a warning letter to have legal standing in Japan, it must be translated into Japanese and sent from within Japan as "content-certified-mail". If you send the warning letter in English, not only will it be rejected, it may be used against you, so it is best to seek the advice of a Japanese attorney.

### **Problems in Translating an English Contract**

Next, I have three translation-related topics. In my experience, this is an area that

poses the biggest problems for foreign companies doing licensing business in Japan.

It is fair to assume that the Japanese have a pretty good grasp of the different use of English and Japanese legal terminology under the Japanese law. When drafting an English contract, they knowingly allow language to enter into the contract that has no legal bearing under Japanese law. A good example are the terms describing “provisional rights”. Pending patent applications are automatically laid open for publication 18 months after filing in Japan. Since the invention has been made public, the applicant’s rights against pre-issuance activities must be protected, and that is why provisional rights are granted. Under Article 65 of the Japanese Patent Law, once an applicant is granted provisional rights, they can receive royalties for activities performed by another between the dates of publication and patent issuance. The mistake I often see American patent applicants make when drafting a royalty agreement is define “provisional rights” as “the right conferred to claim damages against infringement before the patent is issued.” Under the Japanese law, “damage” and “infringement” are terms that only apply to patents, not pending patent applications. Therefore, if a licensor were to use such language in their royalty compensation agreement, the contract will be nullified. Most Japanese will recognize the mistake, but will feign ignorance or will not point it out if it serves their needs.

### **Mistranslation vs. Idiomatic Translation**

Are all translations errors a bad thing? Should they always be corrected? There are a lot of times when we have been helped by a translation error since it unintentionally widened the scope of a claim. The phrase we use in such instances is that the document was translated “idiomatically”

“Idiomatic translation,” far from being a mere euphemism for a translation error, is a valuable translation technique for which all translators should strive. Let us say a patent is being translated from English to Japanese. During this process, a translator comes across a term that doesn’t accurately describe the invention. Based on an in-depth knowledge of the inventor’s intent, the translator translates the term into Japanese using a more precise wording that is not in the original text. Would that be considered a mistranslation? I think not. A good translator should analyze and interpret all the features of the source language in order to produce an equivalent text in another language. Understanding the cultural, technical, and contextual background of the original text is par for the course. If the translation is based on these premises, the above would certainly not be considered a mistranslation.

It is also important to keep in mind that a little variant in the wording can result in the widening or narrowing of the scope of the patent claim. Even when there is a genuine need to amend a translation error, we have often met resistance from infringers who fear that the revision will jeopardize their position. In the past, there have been many disputes fought over whether or not to permit a correction to a translation error. I hope from my examples above, you were able to understand that a translation is never just a translation, but a critical part of one's patent strategy.

### **Translations Differ Depending on the Point of View of the Translator**

As you know, the scope of the patent right is defined by a patent claim. For foreign patents, this scope is further defined by the translation. The problem with translations is that it is a human activity. As such, it can change every time it's done, and the outcome can differ depending on who does it. This is especially true if the translations come from opposite sides of an infringement dispute. When two disputing parties translate a patent, the patentee tends to use widest of scope possible, while the infringer uses a narrow scope so as to fall outside of the patent claim. Since the ramifications are so great, it's hard to reconcile the two sides. Claim translations are considered technically the most challenging since the translator's ability to accurately decode the complete meaning of the invention's claims plays such a critical role.

### **Other restrictions and barriers**

Another problem U.S. patent holders experience with the Japanese system is the extremely long pendency period before a translated patent application becomes laid open. Normally, the application is sent to Japan after 30 months of filling the PCT, but the translation doesn't get published for another 1 to 2 years. Without publishing the translated patent application, foreign licensors are unable to obtain provisional rights to claim royalties for pre-issuance activity. Another problem for foreign applicants is that English-language patents take longer for examiners to examine since they are inherently more difficult to analyze. The best way to counter both these problems is to request for an "early examination". I recommend this highly, since all foreign applications automatically qualify. I've seen patents granted in as short a time as 4 months. If that were the case, you would be granted a patent even before the translation is laid open, rendering the provisional rights issue a moot point.

### **How can you get the best results?**

In order to protect yourself against the various tactics I've listed above, you might feel

that you need to arm yourself with even more knowledge. Do not assume that this is necessarily a desirable or even a practical approach. It is not possible to know everything there is to know about the Japanese licensing practice, and a little knowledge can make you overly confident which can be a dangerous thing. Therefore, my recommendation is to work closely with a Japanese professional.

In my experience as a Japanese patent lawyer, I have been involved in many American cases, including those that have been transferred over from other Japanese firms. Most of the problems that US firms have with the Japanese patent system can be traced to three things; language, cultural and legal differences between the two countries.

As a legal advisor, I enjoy working directly with American clients, but if at all possible, I recommend employing an outside American counsel in addition to a Japanese counsel for even better results. This is because, as two outsiders, the Japanese and American counsels are able to communicate more effectively, and this can mean savings in time, cost, and aggravation for you. So my second recommended model to do business in Japan is to employ a team of Japanese and American professionals for the very best results. I hope this has been helpful. Thank you for your time.