

International Relations and Licensing

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Japanese industry perspective on various aspects of worldwide intellectual property rights

SIGNIFICANCE OF THE U.S. OMNIBUS LAW OF TRADE AND COMPETITIVENESS

The technological revolution of the past decade or so has changed the flow and structure of the world economy, and has also had a profound impact on the areas of trade, finance, politics, and economics, influencing and transforming lifestyles around the world.

As a result, global politics and economic structures are today in a state of flux. In the broad sweep of history, recent events may appear insignificant or momentary, but when compared with only a decade ago, major transformations are evident.

What are the reasons for this? The world today is beset by a number of problems with complex and interconnecting causes, which are beyond the scope of this article to analyze. However, put simply, the author feels that since the U.S. has been the leading force in world political and economic affairs, much difficulty can be attributed to transition occurring as a result of the relative weakening of American trade competitiveness.

The United States has not lost its absolute power, and indeed at comparatively it still possesses the strongest potential power in the world. In spite of this, its present difficulties can definitely be said to be the consequence of economic and political mismanagement. In an attempt to rectify this situation, and following extensive debate that drew international attention, the American people as a solution opted for the 1988 Omnibus Law of Trade and Competitiveness.

This law was created by the United States as a essential measure for the double deficits it suffers, and consequently contains articles that will have domestic as well as international ramifications. Since the goal is to stimulate and strengthen the competitiveness of American industries, extensive measures for domestic reform such as appropriate educational and training programs, and the establishment of a comprehensive policy council, are prescribed by this law.

Concerning international trade, a number of protectionist provisions were included in order to provide some special advantage over trading partners. Contrary to appearance, many of these provisions may not be of ultimate benefit to the United States, and should they be applied indiscriminately, the confusion and even instability that might be generated could in turn, increase the danger of conflicts between nations.

Recent media reports in Japan have largely dealt with the negative aspects and consequences of this law for trading partners, and do not adequately convey either its true functions or its positive elements.

When various articles of this law are examined in detail, there certainly can be cause for alarm, and for the trading partners affected it would be necessary to prepare a course of action to comply with each individual provision where conflict arose. This being said, the fact remains that if the United States falls with this approach, cannot overcome its present difficulties, and remains unable to regenerate its competitiveness, few trade countries, including Japan, cannot avoid the repercussions.

♦ Interconnected ♦

The international market and economy have become increasingly in-

terconnected, and especially concerning U.S.-Japan economic relations. For better or worse, the two countries are stuck in the same boat. They have continued to take temporary and makeshift measures to patch up problems as they arise, yet the United States has come to a point where that is no longer adequate. It must be clearly understood by Japan that the new omnibus law was created under such circumstances and it must be reoperated in with care and calm.

Of course, even this legislation has makeshift elements with inconsistencies and discriminatory provisions for trading partners. A notable example is that when a country receives a disadvantageous judgment from through such judgment is temporary, and the U.S. eventually concludes that it had been mistaken, there is no recourse for the affected country to demand compensation for the loss of business opportunity or for damage incurred.

Such laws and practices are considered and seriously lacking in fairness. With industrial structures becoming multinational and research and development increasingly conducted on a global basis, trade and technological protectionism can curtail the fruits of this research, and obstruct the expansion of free trade. Therefore, the United States must make every deliberate effort so that the negative direction this law could take-are be prevented. Global problems will remain difficult to solve, there will be no other solution but to redraft respective national policies among the countries concerned.

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through bilateral and especially multilateral negotiations.

GATT and other international institutions exist for that purpose. There can also be room for optimism that bilateral trade negotiations can succeed as long as they remain fair, and outstanding political policies do not become contentious issues. But more than ever before, leading trade nations must reassess their policies from a global standpoint, must comply with agreements, exercise restraint and good judgment, and unreservedly support the expansion of free trade. All this will be necessary to relieve if not resolve the present contentious situation.

U.S. PATENT POLICY REFORMS

As mentioned above, the new U.S. Omnibus Law of Trade and Competitiveness is a set of diverse articles deemed necessary by the United States to invigorate its trade and competitiveness, and including changes and amendments to the law concerning intellectual property rights. In Japan, where patents play such an important role, these changes were singled out and became subjects for wide ranging and heated discussion.

In particular, debate focused on the amendment of Section 337 of the Tariff Act of 1930, in "The Protection of Intellectual Property Rights" under Subtitle C: "Response to Certain International Trade Practices" in the new act (TITLE I, Subtitle C, Part 3). This revision was made to establish dispute procedures and criteria for conduct within the International Trade Commission (ITC). As the press has already pointed many articles and editorials on the subject, details can be found in these sources. (See Notes 1, 2.)

As reported, this revision is not favored solely in Japan, and is principally aimed at eliminating all unfair imports, and therefore is properly administered a need not be a daunting challenge to Japan. The law has been amended to cover companies registered in the U.S., and to include investments in intellectual property rights in engineering, research and development as well as licenses. In fact, if a third

party wishes Japan or another nation, and to export a product to the United States employing an American patent held by a Japanese, the Japanese patent holder can apply this law in order to have the ITC bar such unfair imports into the United States by the third party.

While in Japan there is no particular institution like the ITC, legislative means can be applied to stop import procedures simply by proving that there is infringement. While it might be said that Japanese laws are stricter than American on this point, in actuality the Japanese customs service is not structured to handle such matters. When problems arise they must be settled in prolonged court sessions, thereby making the process all but useless in the control of business activities.

◆ Dramatic Change ◆

The most dramatic change concerning intellectual property rights is the revision of Chapter 4 of the Law on patent provisions and patent laws. It is written primarily to enforce intellectual property rights, and the revised patent law stipulates to detail the protective measure against infringement of American patents. Included in it are articles and clauses similar to those already in effect in Japan. (See Note 3.)

For example, Section 9002 "Rights of owners of patented processes" amending Article 137 of the Tariff Act of 1930, and the amendment to Chapter 28, Title 28, Section 2954 of the United States Code, under the title "Presumption: Product Made by Patented Process" — both are articles that have long been covered by Japanese law. Apparently, the United States did not feel the necessity for such legislation until now.

Since these revisions provide equal protective measures for foreigners holding U.S. patent rights. Done of us with valid and applicable U.S. patents will naturally benefit by this law, just as we have patent policies that cover Americans in Japan, the time has come for us to exercise our patent rights in the U.S. Through this perspective, the revisions include many

attractive points for Japan.

In addition, the United States has strengthened by Patent and Trademark Office, enforced the structure and administration of courts, modulated the anti-trust laws against unfair infringement of patents, and adapted other steps to increase patent protection. The establishment of a higher court in Washington, D.C. specializing in patents has increased the rate of favorable verdicts for patent holders from 50 to 75%, providing further evidence that the United States itself is reexamining its position and is concentrating on the subject of protecting intellectual property.

The new omnibus law was enacted to protect their patent policies to the area of trade as well. Some of the articles do reflect extended protections, which could be troublesome when it is implemented. If and when problems occur, they must be handled through fair-minded and impartial discussion, and, further, appeals to eliminate protectionist policies must continue through state-level or multilateral negotiations.

INTERNATIONAL DEVELOPMENTS CONCERNING INTELLECTUAL PROPERTY RIGHTS

The present debate surrounding intellectual property rights has been triggered by the United States, and as a result increased attention has been focused on the intended spirit and practical details of intellectual property systems. It also appears that the U.S. has come to favor the prompt standardization of international systems based on their own views. As might be expected, some have reacted with misgivings, but realistically no matter how reasonable the requests for prompt standardization may be, it is unlikely that U.S. desires can be fulfilled in a short period. U.S. moves, though, have been very effective in stimulating broad discussions concerning the often global-like posture of interests of international systems and in reviewing assessments of the need for adjustments and improvements.

As noted below, present international debates on the subject all involve the leadership and/or parti-

riptions of the U.S. Much has been published in this area, and for the sake of brevity details will be omitted and only the following main items will be dealt with.

Executive Meetings of Relevant Patent Authorities From Japan, the U.S. and Europe

Presently, talks are moving forward concerning the harmonization of world patent systems and only recently the Club of D (Japan, the U.S., Switzerland and the U.K. countries) has been organized to promote and formalize discussion on patent laws.

Outstanding in these discussions is the U.S. expressed willingness to change from the present "first invented" to the "first filed" system to promote harmonization among major countries. It seems to be seen how the American constitutional protection for inventor's rights would be altered by this change, but it can be said that the U.S. has exhibited unwavering determination in the pursuit of worldwide harmonization even at the expense of altering 200 year old tradition.

During the course of the present discussions, if each country were to target minor differences of opinion and instead focus on making progress in a spirit of unity, it would strengthen the prospects for bringing about an epoch-making agreement. (See notes 4, 5, 6)

Protection of Intellectual Property Rights GATT

It is known that in the new multilateral trade negotiations of the Uruguay Round, the protection of intellectual property rights is the area of trade has been brought up. However, as these discussions are being held at the government level, there is at present the way of lowering their exact content or status.

In response to calls from the Intellectual Property Committee (IPC), a private U.S. organization, for support of these GATT discussions, Japan's Federation of Economic Organizations and the Industrial Union of the European Community (IUEC) have joined the IPC in private and unofficial three-sided talks. The goal of these meet-

ings as seen by private and especially Industrial Union is to focus discussion, to clarify and consolidate the minimum necessary demands regarding protection of intellectual property which are to be discussed at GATT. A report on this subject was submitted to GATT authorities. (See Notes 7, 8)

Originally, GATT was not designed for nor was it thought to be the proper forum to discuss intellectual property systems, and it can be expected that there will be opposition among developing nations to such discussions being held at GATT. However, there is reason to hope that a resolution can somehow be reached through cooperation and compromise among all member nations.

Developments in the World Intellectual Property Organization (WIPO)

Efforts continue to promote discussion on the issue of intellectual property rights at WIPO, an organization within the United Nations, the pending questions are:

1. Amendment of the Paris Treaty.
2. Increasing worldwide compatibility among patent systems of member countries.

Although discussions of the former are presently deadlocked and show no sign of progress, in the latter area, substantive debate is being conducted by committees of specialists from member countries and apparently progress is being made toward concluding a new treaty. WIPO, as the sole private, world organization for the protection of industrial proprietary rights, and with members from many countries, is cooperating on all fronts in support of the activities of WIPO.

The exact relationships between the aforementioned Club of D, GATT and WIPO will be clarified in due time, but in the interim laws are concerned, it appears they will in the end be dealt with under multilateral treaties among countries in WIPO.

Promotion of American-Style Rules Based on Bilateral Negotiations

While pursuing a resolution of intellectual property problems through GATT and WIPO, the U.S.,

feeling that it could lose its advantageous position in this area, has been conducting bilateral negotiations simultaneously with a number of countries. It is understood that already the U.S. has made agreements on its promoting negotiations with several countries. These separate agreements do contain positive and practical elements, and as long as they do not violate existing treaties or previously established international customs they should not be problematical. However, it would appear beneficial to the U.S. to avoid agreements some of which have been reported to be considered in its own favor.

Recently, the U.S. has been making efforts of Japan to hold such bilateral negotiations, but between countries that already possess modern and well-developed systems, such as Japan's, the problems of which adjustments should be made is extremely complex. Because of this complexity, speedy resolution of differences cannot be expected, and it would be considered most practical instead for the U.S. and Japan to work together toward an agreement on this matter in the context of a multinational forum.

Looking Into the Age of Intellectual Property

This period in history has been called the era of intellectual property or intellectual value. Certainly, intangible assets have never before been so discussed and so highly valued within the context of international business transactions. For Japan, which has had appropriate laws covering intellectual property but traditionally has placed little value on intangible assets such as knowledge, this is clearly a period of change and reform. It is more than ever difficult for any individual country to avoid coming into contact with world trends by sticking to the laws and regulations that spring from their own history and tradition.

Though the motives remain unclear, during the past several years an energetic movement has been underway to strengthen the protection of intellectual property rights in international trade and this has

led to efforts to increase the integrity and comparability of protection systems. If this movement proves useful for world economic development and normalization of trade relations, it warrants our closest attention.

It must be remembered that intellectual property systems and the ways they are applied have been developed by industrial countries based on local cultural and social environments, although several international treaties have provided some agreement on standardization. Of course, each country's unique circumstances may make it more difficult to reach agreement with other countries, but if instead regional barriers are created and nations cling to their own systems, the hoped-for progress in compatibility and integration in this area can never be realized.

Today, the problem of intellectual property rights is being discussed worldwide, but our activities are restricted because of entanglements with political and economic matters. To further awareness and understanding in this area, the author would like to outline below some important points to keep in mind regarding intellectual property rights from the perspective of industry.

1. Today, business leaders and managers should recognize that intellectual assets are a powerful tool for enhancing competitiveness and that this importance has given further impetus to the worldwide effort to unify and standardize patent laws.

2. It has become a basic corporate strategy for investments in research and development to equal or exceed those in plants and equipment. Consequently, if the importance of protecting the intellectual property rights flowing from this research is not clearly recognized, these investments will lose their value. Indeed, intellectual property rights will make possible the dissemination of research investments, and play an increasingly important role in the development of both the survival of companies.

3. Business leaders and managers in Europe and America have well-developed opinions and a philo-

sophy regarding intellectual property rights. Our country's leaders should also have their own concepts and be proficient in the vocabulary of the field, and have the specialized knowledge and a philosophical standpoint necessary to engage in debate with them in international meetings or business forums.

4. Government and corporations should have their own clear patent policies. Research and development has become increasingly advanced, intricate, and complex, paralleling the increased importance of "software" (ideas, information, etc.) in the economy and society. The patent management systems of only a few years ago have become obsolete.

An expansion of specialized legal staff departments is needed, so that the full scope of intellectual property rights under discussion internationally can be properly dealt with here in Japan. Presently, both government and industry in our country are ill-prepared to match the sophistication of European and American specialists in this field. A system for increasing the number of specialists and raising the general level of government must be instituted. As a practical measure, one may be a good time for us to consider implementing something like the American patent attorney system, where lawyer and patent attorney qualifications for dealing with specialized technical areas and general law, including intellectual property systems, are awarded, after national examinations, to those with university level training or those who have relevant practical experience. Academic and corporate circles, along with recognizing the necessity of such a system, should take concrete action to realize this goal.

5. Within individual corporations, it is important to strengthen the sections dealing with international law. At a minimum, an organizational structure and balanced knowledge must be developed for dealing with problems as they arise. Further, it will not suffice to leave to specialists matters regarding the establishment and improvement of multiple patent-for-sale standards. Managers themselves should take the lead, bringing to bear their unique perspective on indus-

trial development and business management. Our competitors are displaying an organized legal offensive with a coherent, overall strategy. If we are ignorant of those matters, we will lose without even putting up a fight.

6. The scope of intellectual assets has been expanding with the passing of time. As new types of intellectual property rights accompany advances in technology and changes in social structure, it is becoming clear that it will be almost impossible for our country to deal with those changes with its present legal system.

A case in point is that in Japan there are as yet no laws with which we can adequately respond to the proliferating incidents of international industrial spying or to problems related to computer hardware and software. Furthermore, even while acknowledging the commercial value of proprietary information and intelligence (collected by its trade secrets in the U.S.), legislation to protect this information is extremely deficient. Members of industrial circles should themselves come up with countermeasures and promote studies of appropriate legislation that can be reported to government and legislative bodies. In the absence of adequate legislation, companies must set up their own measures to protect themselves internally. (See Note 9.)

7. As mentioned, since intellectual property rights have come to have increasing importance in industrial policies, this area cannot be left to only one government office of a country. Even though industrial problems and cases in the area of intellectual property rights are being dealt with by the various appropriate government ministries, the issues at hand have reached a point where they should be responded to by the government as a whole.

Accordingly, all ministries of the government, in close cooperation with financial and industrial organizations, should take a unified stance in discussing and implementing policies for Japan on intellectual property rights. While maintaining harmony with other countries, we should also look out for our own country's interests. Various minist-

also ought to do away with their present fragmentary system of control, and set up a new, unified "Bureau of Intellectual Property Rights" to form policies, coordinate national policy, and be prepared to assume a position of international leadership in this area. Without clear recognition of the issues involved and without taking concrete actions such as these, it will be difficult for Japan to survive in the coming age of intellectual assets.

(The opinions expressed in this essay are those of the author and do not represent in any way the opinion of APTI, Japan

NOTES

1. Mitsuo Katada, *Shinkwa* (The Japan Economic Journal), August 1, 1988 (writing editor); Mitsuo Katada, *Shinkwa* (The Japan Economic Journal), October 11 and November 9, 1988, as well as others.

2. Roy Clarke (USA), Issues Relating to "The U.S. Policy of Strengthening Intellectual Property Protection," written for and by the International Trade Forum and Commission, APTI Japan, "APTI Bulletin," No. 26, October 1988.

3. Masao Miyake and Takashi Okano, "Revisions of Intellectual Property Rights in the International Law of Trade and Communications," APTI Japan (monthly), Vol. 15, No. 10, p. 26-27.

4. Mitsuo Katada, "Intellectual Property Rights and the New World Internationaliza-

tion," *Chemicals and Industry*, Vol. 11, No. 4 (1988).

5. Mitsuo Katada, "International Moves Concerning Intellectual Property Rights," *Monsters (Invention)*, No. 3, p. 26-33, January 1988.

6. Mitsuo Katada, "Dealing with the movement of Patent Systems," APTI Bulletin, No. 25, May 1988.

7. Kazuo Otsu, "Comparing Japan-U.S. Economic Private Sector Conflicts on Intellectual Property Rights," *Patent Studies*, No. 6, September 1988.

8. Aoki Mitsuo, "GATT and the Problem of Intellectual Property Rights," *Patent Management*, Vol. 26, No. 10, October 1988.

9. Kazuo Otsu, "Changes Due to Intellectual Property Rights Internationalization Age," *Information Management*, Vol. 11, No. 10, October 1988.