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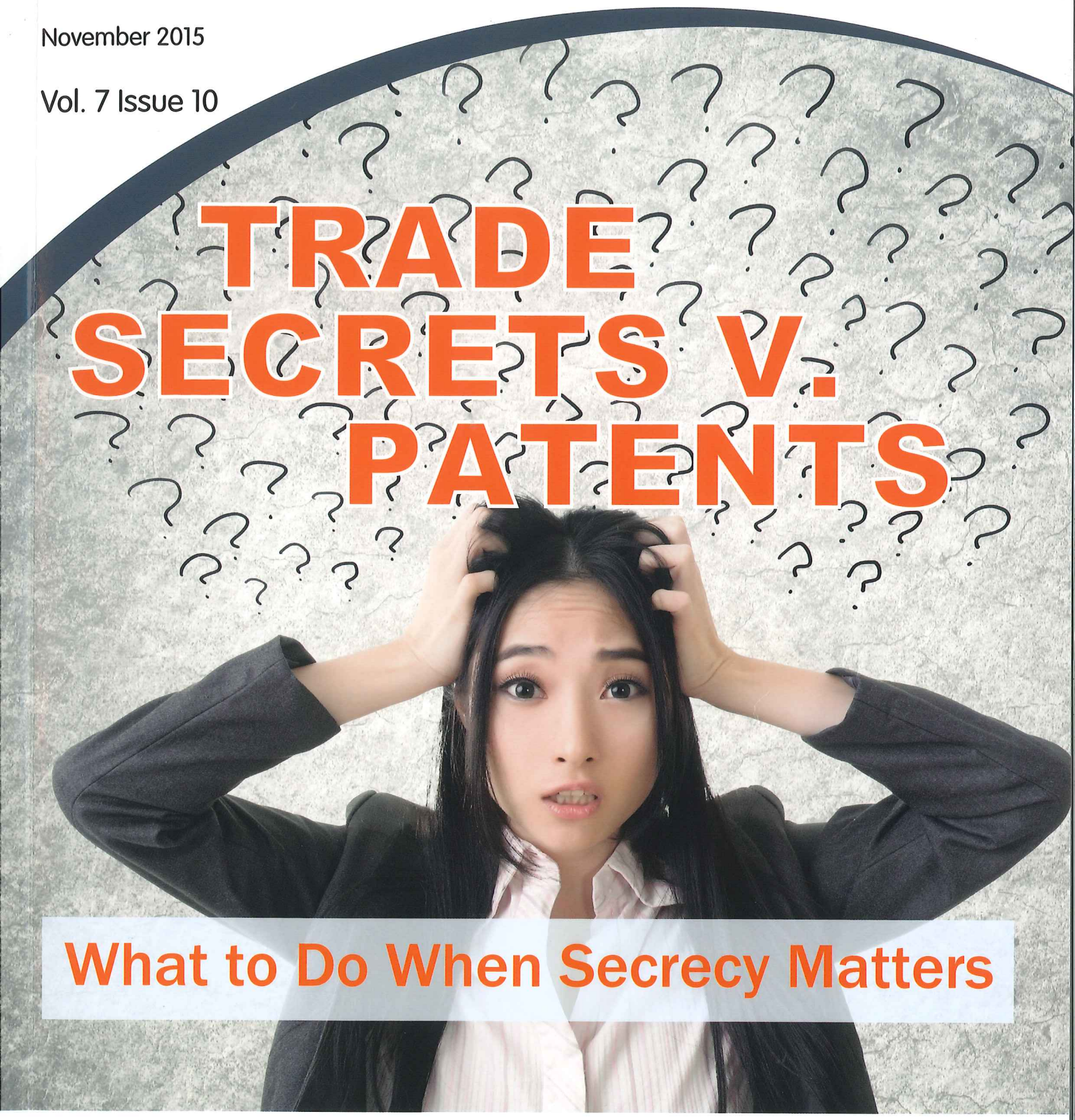
TRADE SECRETS V. PATENTS



What to Do When Secrecy Matters

Apex Asia

Trade Secrets v. Patents

When a creation is born, its owner can apply for a patent, but what happens before the birth? Do the components and technologies that go into the process need to be protected and, if so, what channels should be pursued? Lawyers in Japan have all the answers for **Johnny Chan**.

Patents, which are derived from statutes, grant exclusive rights to an inventor for a limited period of time in exchange for public disclosure of an invention. They are often the more visible forms of IP. Trade secrets, on the other hand, are much less visible as they are useful information that is not generally known or readily obtained, and that gives its owner a competitive business advantage, says Naoki Yoshida, managing partner of Finnegan, Henderson, Farabow, Garrett & Dunner's Tokyo office. "Additionally, trade secret owners must take reasonable precautions to ensure that the information remains secret. Unlike patents, trade secrets are lost forever if the information becomes public."

"Just about anything can be a trade secret and they come in different forms, such as technical information, processes, know-how, business and financial information, and other information or data relating to a company's trade or business. However, subject matter that is generally known to the public or ascertainable cannot be a trade secret. This includes, for example, reverse engineering. Therefore, if the information you have is something that is very difficult to preserve the secrecy of, will be in public use or disclosure, or can be readily reverse engineered, a trade secret may not provide sufficient protection, but perhaps patents do," Yoshida says. "Furthermore, trade secrets may protect the information potentially indefinitely in duration. The protection is lost if the information becomes generally known or ascertained. But so long as its secrecy is kept, trade secret protection may be available. Thus, if you are seeking protection that is potentially indefinite in duration, trade secrets may be more suitable."

In addition to the above, trade secrets and patents differ in filing and administrative costs, litigation considerations, available remedies, and each of them needs to be carefully considered in deciding whether to seek trade secret protection or patent protection, adds Yoshida.

How Have Patent Law Developments Affected Distinguishing Patents And Trade Secret?

Masaki Ishioroshi, director at Craftsman LPC in Tokyo, says that there have been no recent developments in Japan's patent laws that would affect the calculus of the decision of whether to protect something by a patent or a trade secret. Basically, it is up to the nature of the IP, he says. "For instance, if the IP is related to a manufacturing method, it would be worth considering whether or not such property should be protected by maintaining confidentiality of the method rather than applying for a patent."

In the case where a patent application is filed as regards a manufacturing method, sooner or later the method is disclosed to the public by means of a gazette, he notes. "So, for anybody who finds the gazette, it is easy to imitate the same method. The fact that others imitate the manufacturing method is very difficult to discover, which means it is difficult for the patent holder to seek an injunction or other patent protection order from

a court," Ishioroshi says. "In addition, if the patent is not issued as regarding such application, the invention becomes open to anyone, and it becomes impossible to protect."

Therefore, Ishioroshi says, if the confidentiality of an invention such as a manufacturing method, algorithm, or any other know-how must be maintained, it would be worth considering to protect the invention as a trade secret.

If you are seeking protection that is potentially indefinite in duration, trade secrets may be more suitable.

- Naoki Yoshida, managing partner, Finnegan, Henderson, Farabow, Garrett & Dunner, Tokyo

It may depend on future developments of patent law but, in general, Japanese companies are encouraged to pursue patent protection in foreign countries, says Hideaki Kobayashi, an attorney at law at Ohno & Partners in Tokyo.

When Are Trade Secrets Preferred?

Section 9(1), Items 4-9 of Japan's Unfair Competition Prevention Act defines some types of acts which may constitute unfair competition.

A trade secret must (i) be administered as a secret, (ii) be useful technical or trade information; and (iii) not be known to the public (defined in Section 2(6) of the Unfair Competition Prevention Act).

"In case competitors can easily achieve the same effect with technical information without implementing the same method, trade secret protection will be preferable for such technical information," says Kazuhiro Seto, a patent attorney at SETO Administrative Law Office in Osaka.

For information not completely categorized as technical information (e.g., a business model involving manual operations), trade secret protection will also be preferable, adds Seto.

"If the process covering the company's goods or services cannot be reverse engineered or discerned, trade secret protection is preferable if the company has the sufficient internal capacity and structures to maintain and protect such trade secrets," says John A Tessensohn, a director at Shusaku Yamamoto in Osaka.

Strategizing Patents and Trade Secrets

The decision whether to rely on trade secret rather than patent protection depends substantially on the type of product or service for which protection is sought.

Technologies that are process oriented, such as the service industry, benefit from the advantages of trade secret protection including no limit on lifetime and a relatively low cost of maintenance.

- Stefan Koschmieder, partner, Oblon, McClelland, Maier & Neustadt, Tokyo

As Tessensohn noted, trade secret protection is not suitable for products that can be easily reverse engineered (such as electronic devices), because the enforcement options for reverse engineered copies are few, says Stefan Koschmieder, a partner in Oblon, McClelland, Maier & Neustadt's chemical patent prosecution group in Tokyo. "Technologies that are process oriented, such as the service industry, benefit from the advantages of trade secret protection including no limit on lifetime and a relatively low cost of maintenance."

However, processes, just like products, are at risk of unintentional disclosure and/or leakage through personnel changes and regulatory disclosure requirements, Koschmieder says. "Even unintentional disclosure can result in loss of trade secret protection so generally, trade secret protection suffers from several well-recognized risks."

Options for enforcement vary from country to country and often require placing other trade secrets at risk in order to be effective, Koschmieder says. "More importantly, if a trade secret is independently developed and patented by another party, the originator of the

trade secret may be precluded from use of their own technology."

Trade secret protection is unsuitable when it is a company's only option for protecting and using a particular product or process technology, adds Koschmieder.

Since trade secrets cannot enjoy registration in public media such as a patent publication, there are more difficulties in maintaining and enforcing the rights of a trade secret. "Even the definition of 'trade secret' depends on each country's law," says Yoshihiro Nishikawa, an associate at Yuasa and Hara in Tokyo. "A holder of a trade secret needs to keep appropriate contractual arrangements with his employees and related business partners on confidentiality of trade secret information."

The trade secret holder should also impose an appropriate non-competition clause and other labour obligations on their employees to avoid unauthorized disclosure of trade secret. Even in enforcement, if the case goes into a stage of court procedure, the trade secret holder needs to take efficient and proper measures to protect its trade secret in an open court room by utilizing a protective order or one of its substitutes, says Nishikawa. "An ability to prove unauthorized disclosure in any provisions of evidence law is also critical for the trade secret holder in the court room. In the Japanese Unfair Competition Prevention Law as amended in 2015, it is prohibited to make an unauthorized disclosure of a trade secret, a use of a trade secret as disclosed without authorization or even sales of goods which used a trade secret with unauthorized disclosure. Japanese law also provides an assumption of damage amount. However, it is not guaranteed to find the same level of trade secret protection in other countries."

Compared with these burdensome measures for trade secret protection, patent protection can be clearer and simpler than trade secret protection because a public disclosure by publication of the patent can illustrate a certain outline of the protected technology. "An assumption of damage and a transfer of the burden of proof on fault by a counterfeiter are [commonly used] to assist a proof of patent infringement in some leading countries' patent laws," Nishikawa says. "In addition, although an injunction can work only on unauthorized disclosure and use in case of trade secret protection generally, an injunction based on patent rights can still be obtained against any continuing infringement like sales, use of patented invention, etc. in most of leading countries' patent law. In such a sense, a patentee needs to decide which kind of technology development and invention should be congenial to patent protection and/or trade secret protection and how long they would like to exclusively maintain a certain technology and its related know-how in their hands."

Can Both Patent And Trade Secret Protection Be Pursued Simultaneously?

To qualify for protection as a trade secret" under the Japanese unfair competition law, it is required that the information is not publicly known, is useful, and is managed as a secret by, for example, denoting "SECRET" on the face of a document and managing it separately from other non-secret documents, says Takashi Fujita, a patent attorney and vice president of Hiraki & Associates in Tokyo. "Basically, a trade secret must be kept secret."

In contrast, a patent application is published 18 months after filing. Furthermore, eligibility for patent protection and protection as a trade secret are different. Basically, patent protection is available for an invention which was not known and cannot easily be made by a person in the art. Protection as a trade secret is available for information (e.g. know-how) that is managed as a secret, is useful, and is not publicly known, says Fujita.

"A holder of a trade secret needs to keep appropriate contractual arrangements with his employees and related business partners on confidentiality of trade secret information."

- Yoshihiro Nishikawa, associate, Yuasa and Hara, Tokyo

Thus, some innovations may be patentable while some may not be, but those may still be protected as a trade secret. Moreover, the effect of patent protection is different from protection as a trade secret. Thus, for any specific information or innovation, either patent or trade secret protection may be more appropriate. "For example, patent protection of a chemical process is not easily enforceable because it is not always easy to identify who has infringed the patent. In addition, patent protection requires publication of the process to the public so in this case, protection as trade secret might be more appropriate than patent protection," Fujita says. "On the other hand, if a product produced by the process is a commercial product, then patent protection should be pursued as the product cannot be kept a secret and it is relatively easy to detect the infringement."

In this sense, patent and trade secret protection tend to supplement each other, rather than being applied simultaneously, Fujita says. "As long as a patent application has not been published, the relevant information/innovation may be maintained as a trade secret, but this would only be for the very limited time window from filing of the patent application to its publication."

Regarding proprietary information, a company may have to decide its strategy as to whether it files a patent application or keeps it as a trade secret, Fujita says. "Also, in the context of the so-called Open-Close Strategy, a trade secret would be used for closed innovation, and patent protection may be used for either closed innovation or open innovation."

According to a recent report, the Japan Patent Office plans to set up a new secured database which will accept and store date-stamped encrypted proprietary data for the benefit of companies, which aims at improving the utility of trade secret protection, Fujita says. "Industries now appear to be increasingly filing for trade secret rather than patent protection."

Since an employee's invention belongs to the employer from the time of completion of the invention in Japan, even if the employee leaves the company, the invention and the patent of the invention still belongs to the company. Therefore, in the case where a company can utilize its patent, it is unusual for many Japanese companies to apply the provisions concerning protection of trade secrets. "However, if you wish to protect your technical information in countries where no patent is granted or patent is invalidated, it might be a good idea to apply the provisions concerning protection of trade secrets as an alternative countermeasure," says Hiroshi Uesugi, a Japanese patent attorney at Nakamura & Partners in Tokyo. "In the famous *Nippon Steel & Sumitomo Metal Corporation v. POSCO* (regarding grain-oriented electrical steel sheet), the plaintiff (Nippon Steel Sumitomo Metal Corporation) seemed to have relied on its patent rights in South Korea and the US, and relied on the provisions related to protection of trade secrets in Japan."

In Japan, the provisions concerning protection of a trade secret are included in the Unfair Competition Prevention Act, which may be useful for protecting technical information as know-how that should not be publicized. Japanese employees who are well acquainted with a technique often leave their company by being invited by a competitor offering high rewards, Uesugi says. "In 2014, in the case where important information regarding flash memory was leaked form Toshiba to a Korean company through a former employee of Toshiba who was well informed about the techniques regarding flash memory, the ex-employee was charged with relying upon the Unfair Competition Prevention Act."

Under the circumstances, the revised Unfair Competition Prevention Act was approved by the Diet in July this year and will probably be in force in January 2016. "By this new Unfair Competition Prevention Act, the scope of illicit acquisition of trade secrets has been broadened and protection of trade secrets has been strengthened. As a result, acquisition by resale of illicitly acquired information has also become illicit acquisition, and illicit acquisition of information stored in a server computer installed in other country has also been prohibited," Uesugi says. "Last but not least, the criminal penalties have become more severe." AIP

Japan: Global Patent Tactics

While Japanese patent protection is solid, companies still need to consider global protection for growth, which means lots of money and time spent. So what decision should one make? Local lawyers reveal all options and associated pros and cons to **Johnny Chan**.

Patent application filings worldwide are growing.

According to the data published by the World Intellectual Property Organization, China, the United States and Japan have been the top three countries in terms of the number of patent applications filed. The filings of US patent applications, including utility patent and other types of patent, exceeded 600,000 in 2013 and 2014. These figures are historical highs.

Approximately half of the US patent filings were US origin, and the rest were foreign origin. This trend in the US is expected to continue for 2015.

There are several reasons for the increasing number of US patent applications. "First, the US continues to be one of the most important markets in the world, and companies are filing to protect their inventions in the US," says Naoki Yoshida, managing partner at Finnegan, Henderson, Farabow, Garrett & Dunner's Tokyo office. "Second, the increasing filings may be driven partly by the first-to-file system implemented by the US in 2013. Under the first-to-file system, rights to an invention are granted to the one who filed for the patent protection first. Last but not least, the US patent system provides relatively strong patent protections to inventions, so all of those advantages motivate patent owners to file applications in the country. There have been some 'anti-patent' decisions by the US courts recently but, nonetheless, the nation still provides very strong patent protection."

On the other hand, the number of patent filings in Japan has been decreasing.

After recording a historical high number of patent filings in 2005, filings in Japan have been gradually decreasing. During the same time period, however, Japan has been recording slight increases in Patent Cooperation Treaty international patent applications. "This may indicate that applicants in Japan are choosing to file more PCT international patent applications to be more selective in deciding for which inventions they need to seek patent protection," Yoshida says. "Applicants in Japan recognize the importance of patent protection but they may be looking at their inventions with more critical eyes."

Checklist for Obtaining Patents Outside Of Japan

Before obtaining a patent outside Japan, it is first necessary to consider (i) if the patent law and enforcement system are well established in that country, and (ii) the market of the product of the company and whether there is a likelycompetitor, says Hideaki Kobayashi, an attorney-at-law at Ohno & Partners in Tokyo. "The patent law system in a foreign country is important to consider. For example, it would be necessary to assess quality of examination, the period of time it will take to obtain a patent and the subject matter (e.g. computer program) to be protected. If the patent law in a foreign country is similar to Japan, it would be beneficial for management of a patent family."

The patent enforcement system is important. Even a strong patent would be useless if it is not effectively enforceable, Kobayashi says. "It is necessary to consider, for example, if

the court has enough patent litigation experience to render reasonable decision, if a country has a legal system to obtain evidence (i.e., accused infringer's product information, sales information), and if it is possible to claim injunction at customs."

The market – especially its size – in a foreign country is another factor. "Protection of the company's products is important, but it is also necessary to consider [whether it is necessary to] eliminate the competitor's product," Kobayashi adds. "If the company can obtain a strong patent, although not covered by the company's products, in a country of manufacture of a competitor's products, the competitor [may need] to consider changing the location of manufacture or obtain licenses."

"There have been some 'anti-patent' decisions by the US courts recently but, nonetheless, the nation still provides very strong patent protection."

- Naoki Yoshida, managing partner,

Finnegan, Henderson, Farabow, Garrett & Dunner, Tokyo"

If a patent is registered at the Japan Patent Office and is infringed in Japan, in most cases, it would be the best to seek patent protection in a local competent court. However, filing a lawsuit outside of Japan may be necessary or effective in some cases. "For instance, in cases in which infringing actions of a Japanese patent are made by more than one party, and a part thereof is made by a party located outside of Japan, and that such foreign party does not have any valuable assets in Japan that can be seized, it would then be necessary to consider filing a lawsuit outside of Japan," says Masaki Ishioroshi, director at Craftsman LPC in Tokyo. "In another case, a company that is located outside of Japan is infringing a Japanese patent, i.e., operating an infringing website in Japanese language mainly for customers in Japan, and such foreign company does not have any office in Japan nor any valuable assets in Japan that can be seized. It would be one of the best means for seeking patent protection to file a lawsuit in a country where such company is located."

Also, if an infringer in Japan ends its business there and has withdrawn from the country, it will usually be necessary to file a lawsuit in a country where the infringer is located, adds Ishioroshi.

"Lastly, suppose in another rare case that a party infringes a patent registered in Japan, but that an agreement has already been made between the infringer and the patent holder for a certain reason," Ishioroshi says. "In addition, an arbitration clause stipulating that any legal dispute between the parties should be settled in arbitration in a city or a country outside of Japan. In such case the patent holder might have to seek patent protection in such city or country by means of such arbitration procedure."

On the surface, a company pursuing patent protection outside of Japan seems to be sending a strong signal to its clients and customers that it is defending its business relationships with patent protection, says John A Tessensohn, a director at Shusaku Yamamoto in Osaka. "However, it is also sending a bigger message to its competitors that it is not only going to protect its technology outside of Japan, but it will enforce it, too."

A country's scope of patentability and strength of enforcement are important to a company's decision-making when deciding whether to pursue patent protection outside of Japan, adds Tessensohn.

Patent Protection Options

When pursuing patent protection outside of Japan, there are three options to consider:

Option 1. Directly filing a patent application only in the country where patent protection is sought. "This option is used when no application is filed in Japan, and patent protection is sought in only a few countries," says Takenori Hiroe, managing partner at Hiroe and Associates in Gifu. "If a Japanese application or PCT application has already been filed, however, there is virtually no advantage in taking this approach."

Option 2: Directly filing a patent application in the country where patent protection is sought based on an existing Japanese application claiming priority under the Paris convention. "In this option, filing the application in the foreign country within 12 months of the Japanese application lets the foreign application enjoy the benefits of the filing date of the Japanese application. Compared to Option 3, this option saves the initial costs that would be necessary when filing a PCT application. However, since application procedures must be made in each country where patent protection is sought, this approach may become troublesome and expensive when seeking protection in a large number of countries," Hiroe says. "Therefore, Option 2 is usually chosen when there is a corresponding Japanese application and patent protection is sought in a low number (about one to three) of countries."

Option 3: Filing a PCT application and entering the national phase of the countries where patent protection is sought. "In this option, the international PCT application can be transferred into the national phase in the countries where patent protection is sought within the specified time period," Hiroe says. "While there are some initial costs for the PCT application, the following benefits can be enjoyed: 1) Filing a single application in accordance with the treaty will have the same effect as filing the application in all member states simultaneously, simplifying the application procedures; 2) Entry into the national phase is possible for generally 30 months after the initial priority date. This is 18 months longer compared to Option 2, giving the applicant ample time to choose countries to transfer the application into the national phase, and prepare translations of the application, etc; 3) It is possible to quickly receive search reports and written opinions from the international bureau, and to make amendments in accordance with Articles 19 and 34 of the PCT before transferring the application to national phases, which cuts down on the costs for amendments in each nation. As such, Option 3 is especially effective when patent protection is sought in a large number of countries."

For foreign applicants, the Japanese patent law defines the following limitations under Section 8(1): Unless otherwise provided for by Cabinet Order, no person domiciled or resident (or, in the case of a juridical person, with a business office) outside of Japan (hereinafter referred to as an "overseas resident") may undertake procedures or institute action against measures taken by a relevant administrative agency in accordance with the provisions of this Act or an order issued under this Act, except through a representative domiciled or resident in Japan, who is acting for such person in handling matters related to the person's patent (hereinafter referred to as a "patent administrator").

Usually a patent administrator is a lawyer or a patent attorney qualified and residing in Japan, says Kazuhiro Seto, a patent attorney at SETO Administrative Law Office in Osaka. "Basically, a foreign applicant can only file or receive any document concerning a Japanese patent application through a patent administrator designated by the applicant."

"Filing the application in the foreign country within 12 months of the Japanese application lets the foreign application enjoy the benefits of the filing date of the Japanese application."

- Takenori Hiroe, managing partner,

Hiroe and Associates, Gifu"

There are two exceptions in which a foreign applicant may directly file or receive documents without assistance of a patent administrator: a) in a case of an overseas resident having a patent administrator stay in Japan (defined in Cabinet Order); and b) in a case of an applicant of an international patent application who is an overseas resident undertaking procedures prior to the National Processing Standard Time (Patent Law Sec. 184-11(1)). "National processing standard time means a due date for filing national form papers or the time of requesting substantial examination before the due date for filing national form papers, as provided in Section 184-4(6) of the Patent Law," Seto says. "Sometimes, a foreign applicant tries to directly contact the JPO not in the above listed cases, but such contact does not have any effect."

Evaluating the Options

Pursuing patent protection, whether inside or outside of Japan, is ultimately a business decision that must be evaluated in the context of the nature of the business and whether patent protection furthers the goals of the business. "Patent protection generally allows a company to enforce its rights against those who make, use, or sell an infringing product or process without authorization. A business should first ask itself whether it would benefit from patent protection at all," says Yar Chaikovsky, a Palo Alto, California-based partner and global vice chair of the IP practice at Paul Hastings. "For example, a business that uses off-the-shelf software to perform accounting services for its clients likely would not benefit from patent protection. On the other hand, a business that sells a high-tech memory chip, for example, would likely benefit from patent protection to protect itself from other companies that might try to reverse engineer and copy the design of the chip."

Some businesses forego patent protection in favour of maintaining trade secrets, Chaikovsky notes. "A patent requires a public disclosure of the invention and some businesses may prefer to keep that secret. Another consideration is that pursuing patent protection takes time. If the technology to be patented has a limited lifespan, then the issuance of a patent covering that technology may come too late. It is not uncommon for patents to be issued over three years after the application date."

Once the business has determined that it would benefit from patent protection, the next question should be where to seek patent protection. "A patent is generally limited in geographic scope. For example, a US patent can only be enforced in American courts. The business should evaluate its global footprint – i.e., where it does business today and where it would like to do business in the future.

It should also consider pursuing patent protection where the business's products are manufactured as well as where its competitors make and sell their products. It is not uncommon to see large multinational companies file for patents on the same invention in patent offices around the world.

For such companies that sell product in dozens of countries, the decision to file patents comes down to a cost/benefit analysis. The business may decide that the benefit to protecting an invention in the US and Europe outweighs the cost because the business sells a large amount of product in those regions and faces strong competition in those regions. The business may reach a different conclusion about filing for patents in Africa or Eurasia, where neither it nor its competitors might do as much business," says Blair Jacobs, a partner at Paul Hastings in Washington. "Another consideration is whether enforcement is practical in the foreign jurisdiction. A patent is not worth much if it cannot be asserted against an infringer. In the US, Europe, and Japan, it is easier to assert patents in court, although the costs of doing so are much higher than the costs of obtaining the patents in the first place."

There are different foreign filing strategies that can be considered. "Typically, a Japanese company will file a Japanese patent application to put a stake in the ground," Chaikovsky says. "Foreign applications may be filed that claim priority to the Japanese application via the Paris Convention. If the business decides to file in a few countries, it may then decide to file the foreign applications directly with the foreign patent offices as long as it does so within a year of the filing date in Japan. This approach will generally result in a shorter timeframe in which to obtain the foreign patents, but requires parallel effort in prosecuting the patent applications."

Another option is to make use of the PCT, which provides a streamlined two-phase approach to obtaining foreign patents in

148 countries around the world. In the PCT, the applicant files an application and designates the countries in which it would like patent protection. It also designates a patent office to perform a preliminary examination of the claims. In the 'international phase,' the designated patent office examines the patent application and issues a search report and, if requested, an examination report. "The applicant can amend the claims, if desired, to address issues raised by the designated patent office," says Chaikovsky. "The 'international phase' typically takes 30 or 31 months, at which point the materials are then transmitted to all of the patent offices designated by the applicant, and the 'national phase' begins. In the 'national phase,' the designated patent offices decide whether to issue patents."

A patent requires a public disclosure of the invention, and some businesses may prefer to keep that secret.

- Yar Chaikovsky, global vice-chair of IP, Paul Hastings, Palo Alto, California

The PCT route, while more efficient, can take longer than filing directly with the foreign patent offices, Chaikovsky notes. On the other hand, if the international search report reveals critical prior art, then the applicant can decide to abandon the application having only incurred the PCT fees. "Had the applicant filed directly with foreign patent offices, then it would have spent more in wasted filing fees. In addition to the PCT, there are also regional patent offices, such as the European Patent Office, where an applicant can pursue patent protection in all member countries in a single streamlined process."

A patent is not worth much if it cannot be asserted against an infringer.

- Blair Jacobs, partner, Paul Hastings, Washington

With an increasingly globalized economy, it is more important to pursue patent protection around the world. "The strategies for pursuing patent protection abroad can be very complex as laws and rules from many different countries and international treaties must be taken into account," Jacobs says. "However, when executed correctly, businesses can rest more comfortably knowing that they have legal recourse in the event a competitor uses their patented protection without permission."

The decision whether to seek foreign patent protection is not always as straightforward as it may appear. The decision is a balance of many factors including: (i) product lifetime, (ii) the size and profitability of the foreign market, (iii) the subject matter of the patent, (iv) the ability to enforce and/or license the foreign patent and (v) the impact of a foreign patent on the value of a company's intangible value assets, says Stefan Koschmieder, a partner in Oblon, McClelland, Maier & Neustadt's chemical patent prosecution group in Tokyo.

"Product lifetime is especially critical for technologies which have a short market lifetime. In some countries it may take as long as 10 years to obtain a foreign patent even if the parent domestic patent was granted quickly in a home country," Koschmieder says. "It does not make business sense to obtain a foreign patent if the product has an expected market lifetime that is shorter than the period required to obtain a foreign patent."

Enforceability and subject matter go hand-in-hand. "If the subject matter of a patent (e.g., a pharmaceutical composition) is not eligible for patenting in a foreign country, or is subject to severe restrictions, the value of the foreign patent may be substantially diminished," Koschmieder says. "Likewise, if a foreign country does not have a legal system that respects and enforces IP, the value of a foreign patent may be severely limited."

Despite some of the above-noted drawbacks inherent to foreign patents, a patent family that covers the major business geographies of a company's business may significantly boost the value of the company's intangible assets, Koschmieder adds. "This, in turn, may substantially increase the value of the business in case it is under consideration for divestment or transfer to another owner."

Patents usually secure exclusive economic rights of the patentee to enforce an injunction and provide an opportunity to collect damages or raise royalty income. On the other hand, patents also have a limited term and should, ultimately, be open for the public, says Kozo Yabe, a partner at Yuasa and Hara in Tokyo. "A patentee needs to note that a public publication of a patent may inspire a counterfeiter to copy and file modified technology as a patent application. In addition, the patentee has to watch whether or not there are any counterfeiters in the market and should make timely enforcement and other actions against copycats."

Based on these general characteristics, a company that wishes to obtain patent protection outside of Japan should pay attention to the following points:

1) Quality and speed of patent examination by an IP office to obtain a broader but clear cut enforceable patent. "[Wording of a patent claim which is] too broad leads to concerns of invalidity by lack of inventive steps and/or clear meaning," Yabe says. "Consistency between the patent claim and specification is ideal after a qualified patent examination."

2) Patent enforcement effectiveness and efficiency at an IP office, a court or Customs to make timely injunction and damage claim. "Although effectiveness varies from country to country – like some rely on more administrative agencies while others trust court procedures – shoreline counterfeit suspension is usually handled by customs," Yabe says. "However, as you can imagine, a tendency of patent policy can depend on societal situations and a system's limitation," such as the level of proof required for infringement, interpretation of patent claims, and the speed with which orders and judgments are issued.

If the subject matter of a patent is not eligible for patenting in a foreign country, or is subject to severe restrictions, the value of the foreign patent may be substantially diminished.

- Stefan Koschmieder, partner, Oblon, McClelland, Maier & Neustadt, Tokyo

3) Level of protection on technical knowhow as trade secret to supplement patent protection. "An invention disclosed in a patent publication still needs to have appropriate technical knowhow to perform smoothly in the industries, so a scope and proof level for trade secret protection depends on the system of each country," Yabe says. "We should therefore pay attention to the level of trade secret protection each country where a patent application is filed."

4) Cost to obtain patent to be granted, because financial source of patent applicant is usually limited. "Even though PCT applications and PPH treatments have become popular, it is still costly to obtain patents for 'all' countries," Yabe says. "A patent applicant has to select countries where they wish to keep their exclusive patent rights in view of their business needs."

Domestic Companies v. Foreign Trolls

Japanese manufacturers appear to be increasingly involved in troll-related situations in foreign countries, and consequently are paying more attention to the activities of patent trolls, says Takashi Fujita, a patent attorney and vice president of Hiraki & Associates in Tokyo. "Japanese manufacturers often file a large number of patent applications in foreign jurisdictions, which provide them with an advantageous position against genuine competitors, but it is unclear whether this strategy will be effective against patent trolls."

There seems to be many Japanese companies that are implicated in patent lawsuits filed by patent trolls in the US. However, there does not seem to be a perfect countermeasure against patent trolls. "A possible countermeasure is to find patents which are related to the company's businesses and continuously monitor them. A patent troll often brushes up its patent or claims before filing a lawsuit in order to have an advantage over the defendant by using the re-issue and/or re-examination system," says Hiroshi Uesugi, a Japanese patent attorney at Nakamura & Partners in Tokyo. "Therefore, if you find a patent which underwent a re-issue or re-examination when you are monitoring the patent, then you may have to be more cautious in watching the development of the patent."

The US government has been trying to enact legislation against patent trolls (for example, a system in which the plaintiff – the patent troll – has to absorb the fee for the attorney of the defendant when the plaintiff loses the case). Therefore, says Uesugi, it will be interesting to see how such legislation is going to play out.

In Japan, even when a warning letter is sent to a company by a patent troll, many legal disputes raised by patent trolls are settled by negotiation without a lawsuit ever having been lodged, so it is difficult to estimate the number of disputes raised by patent trolls, Uesugi says. "But according to an attorney-at-law in our firm who is well-acquainted with patent troll cases, the number of warning letters sent by patent trolls has increased in recent years."

Uesugi says here is no provision in the Japanese laws that influences the judgment of a lawsuit (whether an infringement exists or not, or whether an injunction is approved or not) based on whether or not the plaintiff is a patent troll. On the other hand, he says, it seems that the Japanese court has a negative impression against patent trolls because there are few patent lawsuits which a patent troll – of the true meaning – has won,. In this case, Uesugi says, 'a patent troll of the true meaning' represents a patent assertion entity or a patent monetizing entity, for example, which buys a patent which is not relevant to its businesses from a third party and, without conducting any patent-related business, files a lawsuit based on the patent as only a matter of economic self-interest.

"Since it is uncertain whether the current attitude of the Japanese court will remain the same in the future, I want the government to consider enacting legislation against patent trolls with a view to enhancing protection against patent trolls." AIP