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PATENT SOLICITATION AND LICENSING IN JAPAN
THE HIDDEN DIFFERENCES

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It's a real pleasure and a distinct privilege to be up here once again and talk to you about Patent Solicitation and Licensing in the Land of the Rising Sun– but do so with a twist. Over the past thirty years I have gained some insights into Japan for the most part through my Ciba-Geigy and my PIPA (Pacific Industrial Property Association) and LES (Licensing Executives Society) activities that are quite interesting. In particular, I'd like to discuss some hidden differences or some special syndromes that you should be aware of and keep in mind in setting out to do business or make a deal or solicit a patent in Japan and I'd like to do this in preference to nuts and bolts issues in drafting license agreements with Japanese partners or in prosecuting patent applications in the JPO (Japanese Patent Office).

Now before I go into these hidden differences or unique syndromes in greater detail, which I hope I'll be able to do without any bias on my part, let me mention that the first licensing experience I had in Japan was close to thirty years ago when it was still a bit uncommon. I mention it not to crow about involvement in licensing in Japan for several decades but because it was very very interesting for other reasons. It was a licensing-in situation for us where we the Ciba-Geigy U.S. subsidiary obtained a know-how and patent license from Musashino for the manufacture of cyanuric chloride by the catalytic trimerization of cyanogen chloride. American Cyanamic had a basic patent position which involved the use of charcoal as catalyst. Musashino improved upon it early on by developing a special activated carbon for this purpose. We got a ten-year royalty-bearing license, approved and blessed, of course, by MITI (Ministry of International Trade & Industry). After a lapse of ten years the license was to have been paid up. But, believe it or not, before the ten years ran out MITI came calling and insisted that Musashino had not been adequately remunerated and additional royalty payments would have to be made. We objected strenuously but ended up making one further sizable payment for a paid-up license. We believe that in those days MITI did this to other companies also and that other companies also gave in.

Now, of course, life is easier as MITI, formerly the inevitable third party to any license, is no longer involved. I remember an LES meeting in New York City around 1980 where a JETRO (Japan External Trade Organization) official, who was the luncheon speaker, announced with considerable fanfare that MITI controls were a thing of the past. Indeed, all that remains now is an FTC (Fair Trade Commission) antitrust review

for any possible illegal clauses. I understand that only about ten per cent of the agreements are found objectionable nowadays and have to be revised. And where there is an objection the matter can be settled informally.

Now on to the three special uniquely Japanese syndromes which I call the Black Ships, the Totem Pole and the Black Hole syndromes. But believe me, I did not make these up. I am not trying to be funny. They are as real as anything.

First, the Black Ships syndrome. When IBM moved its Far Eastern headquarters plus 200 families to Tokyo in 1984 the Japanese press made some ado about the "Black Ships" having arrived again. This is a reference to Commodore Perry's sailing intoTokyo harbor in black ships in 1854. It is still an expression in the Japanese language and it simply means that foreigners, i.e., Americans have come to exert pressure on Japan.

When a PIPA delegation of 23 chief or international patent counsel which I was privileged to head up because I was the President of PIPA at the time, arrived in Tokyo also in 1984 for a five-day meeting with the JPO, the "Black Ships" issue came up immediately. We attended this conference which the JPO termed "International Conference of the Patent Leaders Teams of U.S. Firms and the Japanese Patent Office" upon invitation by Mr. Wakasugi, the then-Director General because the question had been raised as to whether the JPO was completely impartial vis-a-vis foreign applicants and Mr. Wakasugi wanted to prove to us on a "seeing is believing" basis that there was no discrimination. (Of course, we never thought there was but that any problems encountered with Japanese patent practice were due to language and cultural differences and a lack of effort to learn the system.).

This conference was an historic event and an unprecedented first opening of the JPO and its inner workings to the foreign patent world. In his opening remarks Mr. Saida, the Engineer General, used the "Black Ships" analogy and waived a list of "60 complaints" that he expected us to voice. This list was based on surveys among Japanese patent examiners and Tokyo patent agents representing participating companies. However, Mr. Saida allowed as how we were "Gray Ships" inasmuch as we had been invited. After we had broached only five problems during the conference, Mr. Saida became quite conciliatory and friendly which was very clear from his keynote speech on the last day. No doubt, we had accomplished more by a

low key approach than by barging in like Black Ships.

Now, what is the Totem Pole syndrome all about?

Have you noticed a certain reluctance on the part of your Japanese associates or representatives in Japan to deal with government agencies face to face? Did you ever wish they would be somewhat more aggressive? An article in the October, 1988 Journal of the American Chamber of Commerce in Japan (p.12) states that there is a "lack of aggressive Japanese patent attorneys in many cases." This is apparently based on vestiges of the caste system which is still in existence in Japan albeit a bit under the surface.

It came as quite a revelation to us when we learned at an American Embassy breakfast meeting in Tokyo during that "International Conference" in 1984 that, e.g., patent examiners are as government/MITI officials apparently considerably higher on the "totem pole" in Japanese society than lawyers, patent agents or practitioners. In fact, immediately before the 1984 Tokyo Conference I was asked by some of our Japanese associates to "to help them help us" vis-a-vis the JPO – a phrase which I didn't fully understand at first.

On the subject of Japanese lawyers and associates or agents let me put it this way: while we need them more than in any other country because of the language barrier, we can't rely on them completely. For American tastes, they are indeed not aggressive and confrontational enough – and can't be expected to be. As a rule they are even reluctant to face up to examiners and hold interviews. Why? Because of the Totem Pole syndrome and by bringing this out I do not mean to denigrate them at all. On the contrary! They are very competent and dedicated professionals.

It is of course not possible for obvious reasons to hold interviews in the JPO without one's Japanese associates or agents but it is advisable to use them more as facilitators and interpreters than as advocates. They don't seem to mind if the U.S. practitioner plays the role of the advocate.

"Developing strategy for Japan is your job. No one is going to help you. Your agent will give you advise but only if you have thought out beforehand what questions to ask. So, largely what happens in Japan is

under your control. ...(T)he point to remember is to use the Japanese rules to your advantage. In other words, join the game. Do not simply sit back and complain." This is advise that Gary Samuels stressed in a paper on "Using Japanese Strategies for American Procurement of Patents In Japan" which he gave at a BNA Conference in Washington in November 1988.

To come back to interviews. Even before the 1984 Conference Mr. Wakasugi had made a ringing "formal declaration" at the PIPA Congress in Washington in October 1983 that the JPO would henceforth be "open and transparent except for confidential material and receptive to all direct and indirect contacts." We considered that proclamation as a significant milestone.

The JPO had indeed stayed open and remained receptive and late in 1988 in another JPO/PIPA meeting, the fourth in the continuing series, the present JPO Commissioner Mr. Yoshida, and other JPO officials reiterated and reconfirmed that the JPO is "open to all problems, all people, at all times" and that they want to make their patent system more "user friendly." Based on my experience and involvement, it is my opinion that these statements are not just empty words. I for one believe that they mean what they say. In this connection JPO officials, however, always cautioned us that this "presupposed familiarity with the Japanese system" on the part of foreigners dealing with the JPO.

In fact, we have a standing invitation from the JPO to drop in any time for interviews with examiners or chats with JPO officials. I have done so and so have other U.S. practitioners, corporate as well as private. I am sure it was as rewarding and fruitful an experience to other U.S. practitioners as it was to me.

In one case, for example, I held a successful interview with several JPO officials in a difficult administrative appeal case which involved a grace period issue in a PCT application.

In this regard Alexander P. DeAngelis, head of the National Science Foundation's Tokyo office, had this to say in a recent issue of Chemical and Engineering News (C&EN, 1/2/89, p.14): "Too much...is made of the (cultural) differences or the special knowledge that's needed. I find officials there are very accessible and very open. It's easy to call up an agency and say I'd like to come up and talk. There's not a lot of protocol."

Precisely! I couldn't agree more! This confirmed my experience and helps to demystify the notion that everything in Japan is formal and the Japanese are inscrutable. And this shows that what I said about the JPO also goes for other governmental agencies in Tokyo.

Interviews with JPO examiners, previously rare or unavailable, are now rather standard practice. And this is a very significant liberalization, since it can be very helpful in any country to interview a patent examiner to clarify and advance patentability issues. And this especially true in Japan where office actions were often rather brief if not cryptic.

Now a few words about the Black Hole syndrome.

In his fascinating book "The Reckoning" (William Morrow & Company, New York, 1986) which relates the histories of the Nissan and Ford Motor Companies, David Halberstam has a special "Author's Note" at the end in which he describes (p. 730) that it was relatively easy to do research for his book in Detroit but that the "Japanese section was harder to do, not because of language problems but because the Japanese have a very different attitude toward divulging what they know." He refers to the Japanese intellectual Tadao Umesao as having pointed out that in "terms of communications Japan is like the Black Hole of the universe: It receives signals but does not emit them (since) the getting of information has a positive social value while the giving of it is considered worthless or even harmful."

Through PIPA we feel that we have been able to neutralize the Black Hole quite a bit. At PIPA Congresses the Japanese group members often deliver excellent papers on various aspects of intellectual property law and practice in Japan. On several occasions we suggested that these papers be published for the edification of the IP community and as valuable source materials on Japanese intellectual property law and practice. However, the Japanese group leadership always demurred saying that these papers were only for the PIPA family. We could never quite understand why they took this position but the Black Hole syndrome appears to explain it adequately.

Another forinstance, in licensing situations it's been noted that the Japanese partners always resist auditing provisions which are standard or even boiler plate for us. Japanese licensees would rather pay sizable lump sums

or other fixed periodic payments to avoid auditing provisions and this can also be explained by reference to the Black Hole syndrome.

This ties in with the motto "Silence is gold, eloquence is silver" that Kou Kunieda of Mitsui Petrochemical Industries refers to in his "les Nouvelles" article on "The Japanese Culture and Licensing" (September 1987, p.111). Great talkers don't fare well in Tokyo. Japanese don't express opinions in definite terms. The higher the rank the vaguer their expressions. They try to avoid definite commitments even in negotiations. Americans, on the other hand, are excited and proud over technical achievements and disclose everything gladly and freely, even impulsively. The Japanese hold back. As one Japanese manager noted, "We don't feel any need to reveal what we know. It's not an issue of pride with us. We're glad to sit and listen. If we're patient we usually learn what we want to know." (Gary Hamel et al, "Collaborate with Your Competitors – and Win", Harvard Business Review, January-February 1989, pp. 133, 138). In other words, the Japanese are reluctant to "open the kimono" or, as we would say, they "play it close to the vest."

As regards the silence-is-gold motto you may have heard the story about three U.S. businessmen going to Japan to sell tractors. They made a great presentation at a Japanese company including pricing. There was no reaction on the part of the Japanese. The Americans got nervous and lowered the price. The Japanese kept quiet. The Americans again lowered the price way beyond their plan. They didn't realize that silence did not equate rejection. The Japanese were just quietly thinking it over (Nation's Business", March 1989, pp. 54, 56).

In this regard, there is the story of another group of American businessmen sitting down for negotiation with Japanese one Monday morning. There is lot of small talk on the part of the Japanese. The Americans get impatient and the delegation head finally loses his patience, pounds the table and says "Let's get down to business, we have a plane to catch on Friday. We've got to have it all wrapped up by then" (Edward Hall, et al, "Hidden Differences – Doing Business with the Japanese," Anchor Press, Garden City, N.Y., 19897, p.119). Such behavior of course will get anybody off to a bad start.

Yet another story: a team of American businessmen gets so frustrated after ten days of what they considered "dilly-dallying" and "stalling" on the part of the Japanese counterparts that they packed up and left in a huff just at the point when according to the Japanese everything was going swimmingly according to plan and the deal could have been wrapped up in short order.

This is where relationships, friendships come in in a big way. If you've never met your Japanese counterparts, it'll take a week or two of socializing and fraternizing till you can sit down for serious negotiations and, as Kou Kunieda calls it, "heart-to-heart communications" (Kunieda, ibid).

The lesson to be learned: Patience is important. And what's to be kept in mind also is that the Japanese have a different concept of time. Japan has a polychronic culture which is discussed in great detail in the book "The Hidden Differences." (Supra, p. 16 ff.)

Just to summarize briefly, in polychronic cultures such as in the Mediterranean and the Japanese cultures, there is simultaneous occurrence of many things, great involvement with people, more emphasis on completing human transactions than on holding on to schedule. This contrasts with the North American and Northern European pattern of linear monochronic time where schedules become sacred. Japanese-style consensus building is clearly polychronic, although vis-a-vis foreigners, however, the Japanese can appear quite monochronic.

What should also be kept in mind on a mission to Japan is that there is a great difference in the legal systems and in the role lawyers play in Japanese and U.S. societies. (See Richard Parker, "special Report – Why the Japanese Do Not Like American Lawyers," Invention Management, October 1985.)

U.S. society is organized around its legal system which plays a central role. Law and politics are all important here. In the Japanese society law plays only a peripheral role. In fact, Japan can function without law. Why?

The Japanese society has been homogeneous for ages. There are deep-seated traditions and social conventions. Tribal forces have prevailed to this day over social forces of industrialization and modernization. What governs social relations in Japan is "giri" – natural standards of appropriate

conduct–and "ninjo" – correct feeling while acting in a correct way. Thus, Japanese act in accord with giri with appropriate ninjo and that's what being Japanese is all about.

U.S. society on the other hand is heterogeneous with a short history and significant immigration throughout its history. There are no cultural traditions – law and order is the glue that holds the society together.

Japanese society is trusting, harmonious; Americans are suspicious, litigious. There is no horse trading in Japan. American style hard bargaining produces suspicion and paranoia.

In Japan resort to law presupposes a total breakdown in social harmony and is virtually the equivalent of violence. Litigation is always a disgrace.

Thus, it's logical that the Japanese don't like lawyers. Lawyers have an image problem in Japan, to say the least. They are a sign of trouble and low on the totem pole. Lawyers must keep a low profile, as low as possible and preferably stay out of sight. (Incidentally, this is also true in certain European countries, especially in Switzerland.)

Keeping a low profile is the reverse of the conduct of lawyers in the U.S. where they have to be forceful, even aggressive and confrontational.

In this regard Halberstam has an interesting passage about Katayama, a Nissan Chairman in the sixties, and his reaction to lawsuits. "The only thing about America he really did not understand and truly hated and feared was lawsuits. When even a minor suit was filed, he began to shiver. Suitcases, he called them, because his lawyer was always talking about the suit and the case. 'You have to save me from these suitcases,' he would say. 'They want to kill me with them.'" (Halberstam, id. at 435)

Your objective in Japan must be not to write tighter legal agreements but rather to establish better personal and business relationships. I for one am impressed with terse agreements like you encounter in Japan, Switzerland some other countries. There is merit in such agreements and they work and the proof of the pudding is that they have been successfully used in these countries for a long time. The American rule: If you don't have it in writing, you don't have it, is clearly incongruous with Japanese practice: a

verbal agreement is just as binding.

Incidentally, what I said about Japan goes for Korea as well.

In Korea, the pragmatic and contractual terms of an agreement are generally less significant than the process. Human relationships based on mutual trust and benefit are far more important than a detailed contract. Contracts should be simple and as free from detail as possible. Koreans dislike lawyers, contracts which indicate a lack of trust, contracts which, through complex legal formulas, limit flexibility, and contracts full of details.

One should not try to rush into a contract, but allow the Korean side ample time for their collective decision making process to work. Westerners, particularly Americans, are very direct and like to get right to the point but Koreans are conversely vague. Patience and dignity and not pushing any issue too hard are very important. Western self-confidence and assuredness are often perceived as arrogance. (See "Licensing Law and Business Report," Vol. 11, No. 5, January/February 1989, p. 57.)

In conclusion, let me wish you good hunting in Japan (and Korea) whether it be patents or licenses but please keep in mind the Black Ships, Totem Pole and Black Hole syndromes.