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## *REQUESTS OR OPINIONS*

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To: Intellectual Property Policy Office,  
Economic and Industrial Policy Bureau,  
Ministry of Economy, Trade and Industry

April 17, 2003

Yasuo Sakuta, President  
Japan Intellectual Property Association

Re: New Legislation for Establishing Management Business on Patents,  
etc. Using Trust System\*

Dear Sirs/Madams,

Japan Intellectual Property Association (JIPA) is a non-government organization in relation to intellectual property (IP) comprising more than 800 enterprises in various industrial fields such as electric, machine, chemical and construction businesses, and our activities are to conduct survey and studies on the problems relating to IPs such as IP right, trade secret, copyright and others, and to present our opinions and suggestions.

The following suggestion for an IP rights trust, is made from industrial sector to facilitate efficient and unified control and exploitation of IPs, especially under each corporate group, from the viewpoints of appropriate protection and exploitation of IPs, inseparability of technologies and corporate management, and also from the viewpoint of strengthening industrial competitiveness of Japan. We highly appreciate your consideration.

**Suggestion:**

We suggest a new legislation for establishing management businesses on patents that use the trust system to enable centralized management and control of patents and other IPs within a corporate group\*, from the viewpoints of inseparability of technologies and corporate management, and of strengthening industrial competitiveness of Japan.

(\*Especially a corporate group with subsidiaries subject to consolidated accounting, from the viewpoint of sharing the same business strategy)

### **1. Necessity of Centralized Management of Patents within a Corporate Group**

Recently, more and more enterprises are spinning off their business divisions in line with their business restructuring plan. Under these circumstances, it has become an urgent issue for each corporate group to prevent its IPs such as patents which are assigned from a parent company, etc. to a spinning-off company, etc. along with its restructuring from being scattered and to centralize the management of those IPs. The reasons are as follows: (1) the comprehensive portfolio of IPs as a group has a significant meaning externally even if each division of the group independently performs business operations; (2) it is necessary to establish a comprehensive IP strategy covering the whole group and to promote such strategy in a consistent manner with clear and accurate understanding of the patents having close relation to the businesses of each group company; (3) it is necessary to develop highly qualified personnel responsible for the management and exploitation of patents and to accumulate

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\* "CHIZAI KANRI" (Intellectual Property Management), Vol.53 No.5 2003, pp.869-871

know-how for such operations; (4) it is necessary to take measures to reduce huge workload to be required for the management and exploitation of patents. For the reasons discussed above, we believe that the necessity of establishing a new legislation for facilitating centralized management of IPs within a corporate group (especially a corporate group with subsidiaries subject to consolidated accounting, from the viewpoint of sharing the same business strategy) is urgent for Japanese enterprises to get ahead of the global competition in their IP strategies.

## **2. Centralized Management of Patents within a Corporate Group Using Trust System**

Under the current legal system, enterprises implement centralized management of patents of the whole corporate group by (1) transferring those patents to a certain legal entity (transfer method) or by (2) contracting the management and exploitation of those patents to a certain legal entity (contract method). However, the former method entails some problems like the complication and difficulty in the evaluation of each patent that is required for such transfer, and the tax-related problems accompanying the reimbursement of profit resulting from the exploitation of the transferred patents to the ex-proprietor, or the uncertainty of the compensation to be made by such ex-proprietor to the inventors. The latter method also entails some problems like the disputes over the prices received by the legal entity for the contracted business in relation to the Lawyer Law and the Patent Attorney Law (even if such entity is within the same corporate group), or the difficulty in establishing a group strategy due to the fact that the acts of contracted entity is bound by the will of the company contracting the business. On the other hand, if we can use the trust system, which is not permitted for a general enterprise under the current laws, the contracted entity may at its own discretion operate the management and exploitation of the contracted patents, while the beneficiary right of the contracting company to the profit resulting from such exploitation is secured, thereby enabling to meet the necessity discussed in Section 1 above. Moreover, the problems of assignment tax or income tax are cleared. In this sense, the trust system would be most suitable as a method to operate centralized management of patents within a corporate group.

## **3. New Legislation for Establishing IP Management Business Using Trust System**

The management business on patents using trust system can be optionally considered, as a form of businesses enabled by the revision of the Trust Business Law (The system presently examined by the Financial Services Agency and the Ministry of Economy, Trade and Industry seems to be in line with this concept). However, in the cases where the purpose of introducing such business is the centralized management of patents using the trust system, the strict regulations of the Trust Business Law assuming the current financial businesses (such as the prohibition of side-businesses and the prevention of the conflict of interest) does not necessarily benefit the enterprises from the viewpoint of the inseparability of technologies and corporate management (management business of patents is nothing but a corporate management strategy based on technologies) and of the strengthening of industrial competitiveness, and therefore it is not realistic that an enterprise operates its management business on patents as a form of a financial business. In view of the above, management business on patents using the trust system should be enabled by the new legislation in line with the currently existing "Law on Management Business of Copyright and Neighboring Rights", not by the revision of the Trust Business Law. (It is possible under the current legislation to establish a form of centralized management system for patents subject to the trust [civil/ non-chargeable trust] system under the Trust Law. However, in such case, the trust must be provided on a non-chargeable and non-commercial basis, and therefore we cannot establish a management of patents as a business.)

## **4. Note to difference between "Management Business of Copyright" and "Management Business of Patents"**

We assume that new legislation is necessary in line with the Law on Management Business of

Copyright and Neighboring Rights, as shown in Section 3 above, for the establishment of management business on patents by using the trust system. We should also be aware, upon legislation, that the management of patents may require different treatment from the management of copyrights, due to the difference in nature of respective rights. For example, under the Law on Management Business of Copyright and Neighboring Rights, it is required to report to the competent governmental agency any contracting agreement executed and the fee schedule under the principle of opening its use. However, in cases of patents, the acts made by the operator of the management business, such as the calculation of license fees and the terms and conditions of agreements, or whether to execute such agreements, shall be based on the discretion of the entity contracted to do so, because the licensing of patents heavily depends on the market conditions and the business strategy of each corporate group.

## **5. Reduction or Exemption of Registration Tax**

For any trust of patents in Japan, the registration of the trust under the Patent Registration Order or other relevant regulation is required for validating such trust. Therefore, if we are to implement a centralized management of the tremendous number of patents within a corporate group using the trust system, we will face some problems in respect of registration taxes. One problem is that we would be required to pay a considerable amount of tax for the registration of all necessary patents. Another problem is that, when we utilize the trust system for preventing the scattering of patents transferred to the new company established by spinning-off a business unit, we would be required to pay two types of registration taxes at the same time, one is for the registration of the transfer of patents to the newly established company, and the other is for the registration of the trust of those patents. Upon legislation for the establishment of the management business on patents using the trust system, it would be necessary to take those tax problems into account for realizing a user-friendly system.

## **6. Relation to the Lawyer Law and the Patent Attorney Law**

Under Article 72 of the Lawyer Law, the contracted acts for the negotiation with a third party and for the drafting of a contract are reserved exclusively for lawyers. Japan Federation of Bar Associations has seen that there is no problem in maintaining the framework of Article 72 of the Lawyer Law and considering that only the acts of parent companies representing their 100% owned subsidiaries in any legal matters may be deemed as substantially the same as the acts conducted in any legal matter for themselves. Accordingly, under the current legislation, an act of the parent company intending to execute a comprehensive cross-license agreement on behalf of itself and each of its subsidiaries within the corporate group in view of the centralized management and exploitation of intellectual properties within such corporate group shall be deemed as a violation of the Lawyer Law. As discussed above, from the viewpoint of strengthening of industrial competitiveness, this kind of act (centralized patent management, etc.) should be treated as an exception of Article 72 of the Lawyer Law, under the growing needs of the establishment of management business on patents using the trust system, enabling a centralized management of patents within a corporate group.