

8 The Appropriate Protection of Intellectual Property License Agreements

Although the economic trend in Japan started to show signs of improvement, listed companies, including small and medium-sized companies continue to file for bankruptcy. In such an environment, intellectual property licensing has come to play an increasingly important role in companies.

Therefore, this research examined specific proposed measures for legal protection of licensees in the event that a licensee in ongoing business faces the bankruptcy of a relevant licensor, or relevant intellectual property is assigned to a third party, after conclusion of an intellectual property license agreement. This report summarizes the results of multidirectional discussions in deference to the current legal system of Japan and with an understanding of the actual conditions and requests of the industry.

Individual proposed measures are expected to be examined to form the basis for future policymaking.

I Actual Situation and Problems of Licensing in the Industry

1 Position of License Agreements

Intellectual property licensing has come to play an increasingly important role in corporate management strategy. Especially in the electronics industry, companies are now requested to conduct research and development with a more efficient use of development costs due to shortening of development time as required by the market and shorter product life cycles. In such circumstances, the utilization of patents and other intellectual property rights possessed by third parties through licensing has become one of the essential business strategies.

This chapter explains the actual situation of license agreements concluded in practical business while comparing the industrial form of the pharmaceutical industry and that of the electronics industry. It also introduces present and future issues and raises problems existing in each of them.

2 Issues Concerning License Agreements among Companies and Desirable System

(1) Comprehensive Cross-License Agreements

Comprehensive cross-license agreements concluded among companies (electronics/IT industries) are explained below.

(i) Although there are license agreements covering one or several patents, comprehensive cross-license agreements covering many patents are common and have the greatest significance in management strategy in many cases.

(ii) Generally, comprehensive cross-license agreements specify licensed products but do not specify licensed patents. In other words, licensed products are clearly defined in general even though

the scope of the products differs. For example, the details of a relevant product or system is defined by words such as "digital camera" or "information handling system," and relevant licensed patents are not specified by patent numbers but specified as "patents that may be exploited for defined licensed products." At any rate, specification by patent numbers is not conducted due to the enormous number of patents licensed extending from several hundred to several thousand, although the number differs for each case, and also because defined licensed products vary. This method is difficult and not practical. Needless to say, if a patent has not been established, it is impossible to specify the patent number thereof.

(2) Problems in the Current System

In terms of management strategy, companies in the same product field or the same technical field are often mutual parties to a comprehensive cross-license agreement. In such cases, the entire industry can receive a heavy blow if one of the companies goes bankrupt and the relevant agreement is thus terminated, and subject patent rights are assigned to a competing foreign company and the foreign company exercises its rights against existing licensees (design change is virtually impossible). The strengthening of Japan's industrial competitiveness cannot be expected at all if such an uneasy state is left as it is.

(3) Desirable System

It is most desirable to introduce not a system for setting up against a third party but a system similar to the U.S. Bankruptcy Code. However, since the revision of the Bankruptcy Law has already been presented, a system should be designed to enable the protection of non-exclusive licenses based on comprehensive cross-license agreements. As examples of such system design, there are systems for setting up against a third party as described in (i) and (ii) below.

(i) System in which licensees are protected based on a written license agreement

This is a desirable system from the viewpoint of providing convenience for licensees and enabling the unified protection of various intellectual property rights. It should be sufficiently examined from the standpoint of an intellectual property-based nation.

(ii) System in which a written agreement is deposited to a designated organization. The designated organization discloses this agreement only to interested parties, and this deposit enables interested parties to set up against third parties.

This system is desirable from the standpoint that patent rights are specified in comprehensive cross-license agreements.

(iii) Other systems

Proposed improvement of the registration system may solve some problems in the current registration system, but it is doubtful whether the improved system will fit into comprehensive cross-license agreements in which patent numbers are not specified. If comprehensive cross-license agreements are not protected, the improved system is meaningless. In addition, it has been pointed out as a problem that mere restriction on administrator's right of rescission is not sufficient to guarantee continuous exploitation by relevant licensees in the case that relevant patent right is assigned to a third party at the time of liquidation. In order to solve this problem, the system should ensure that (a) the administrator assigns relevant patent right on the condition that the assignee will not affect continuous exploitation by existing licensees, (b) the assignee is obliged not to exercise the right against continuous exploitation by existing licensees, or (c) statutory license is granted to existing licensees when the administrator assigns the patent right. In any case, the system should ensure that the licensees' position under the agreement would not change in effect.

(4) Conclusion

In order to strengthen Japan's industrial competitiveness, a system that is appropriate for an intellectual property-based nation and is effective for companies should be designed without excessively adhering to the existing system of law.

3 Case Study of Responses in Practical Business in terms of License Agreements with Foreign Companies

At present, there are allegedly about 1,500 bio-ventures in both the United States and Europe. Many of these bio-ventures aim at research and development of pharmaceutical products. Japanese pharmaceutical companies has come to introduce pharmaceutical products, which were developed through research by bio-ventures in Europe and the

United States, by obtaining licenses thereof for the Japanese market or overseas market.

Some of these license agreements set provisions for protection of licensees in the event that the licensor goes into bankruptcy or liquidation proceedings because the bankruptcy of licensors (i.e. bio-ventures in Europe or the United States) is sufficiently possible since their financial strength is not always guaranteed.

Therefore, this chapter discusses problems that will arise in the case of bankruptcy of a licensor of a license agreement concluded by a Japanese pharmaceutical company with a U.S. bio-venture (the licensor) as well as responses to the problems, while citing such provisions as Section 365(n) of the U.S. Bankruptcy Code and showing specific wording of an agreement.

4 Problems in License Agreements among Semiconductor Companies -Problems of Concern-

This chapter discusses the characteristics of license agreements among semiconductor companies and the problems of concern in the case that a license agreement is rescinded due to the bankruptcy of the licensor, while including the writer's personal views. It is inevitable to use third parties' patents when putting forward the development of semiconductor products. Therefore, cross-license agreements are concluded in ordinary business transactions. In cross-license agreements, the parties concerned mutually grant licenses for their own patents related to products.

This chapter thus specifically shows the conditions of cross-license agreements and the conditions in the case of licensing specific subject technology. It also raises problems related to a licensor going bankrupt in the case where a Japanese company has concluded a license agreement for "IP" (intellectual property), which is necessary to develop a system LSI, with a company in Europe or the United States.

5 Problems Concerning Relationship between License Agreements and Bankruptcy, etc. in the Electronics/IT Industry

(1) Requests Related to the Appropriate Protection of License Agreements

According to the results of a questionnaire survey targeting member companies of the Legal and Intellectual Property Rights Committee of the Japan Electronics and Information Technology Industries Association (JEITA) (responses were received from 15 companies as of September 26, 2003), measures for the appropriate protection of license agreements as requested by the industry can

be briefly summarized as (i) and (ii) below.

(i) Measures in which a written agreement is made a requirement for setting up against a third party

Since the current registration system has many problems,^(*1) the industry does not desire an improved registration system but a system in which in the event that a patent has already been licensed in writing before bankruptcy filing, the exercise of the administrator's right of rescission is restricted by the fact and the licensees can set up against the assignee of the patent right.

(ii) Measures through introduction of a system similar to the U.S. Bankruptcy Code

Although this is an opinion that is difficult to realize at present after the direction of revision of the Bankruptcy Law was presented, several companies responded that it was desirable to introduce not a system for setting up against a third party, but a system similar to the U.S. Bankruptcy Code.

(2) Consideration

In light of the results of the questionnaire survey and subsequent discussions, the following are cited as matters to be considered when examining measures for the appropriate protection of licensees in license agreements for intellectual property rights (especially patents).

(i) Idea of making a written agreement a requirement for setting up against a third party

With regard to measures (i) that are requested by the relevant industry in the questionnaire survey, the Legal and Intellectual Property Rights Committee has pointed out various problems, such as lack of public notice and loss of equality among bankruptcy creditors. The measures are thus considered to have many inherent problems related to the basic structure of the legal system. Therefore, when putting forward examination of the measures in the future, it should be noted that sufficient discussions are required on whether problems related to the basic structure of the legal system as mentioned above can be overcome.

(ii) Introduction of a simple registration system

The introduction of a simple registration system is under consideration. Under a simple registration system, for example, the number of items to be disclosed is reduced, registration costs are reduced, and registration by licensees only is made possible in light of the current registration system. Such a simple registration system is

regarded as a system worth considering given that it has little trouble with the current system and that it can solve some problems ^(*2) in the current system. However, there are questions in terms of system design: (1) Does the system fit into comprehensive cross-license agreements that do not specify patent numbers and include not only currently effective rights but also rights to arise in the future, which are common in practice in the relevant industry?; (2) The revelation of the existence of a license agreement with a specific party concerned may disrupt business activities, and both licensee and licensor may request the avoidance of such disturbance, but can the system respond to such request? In addition, there seem to be many problems to be considered, including a possible structure of transitional provisions, since the necessity of protection arises equally for many patent license agreements that were concluded in the past at the time of introducing a new system.

(iii) Protection of know-how license agreements

In the industry in question, know-how license agreements also form an important category of agreements. Therefore, it is considered necessary to examine the issue with a view to a system that protects licensees in such agreements.

(3) Conclusion

Flexible system design with sufficient consideration given to compliance with the existing system of law and from the viewpoint of minimizing effects on corporate activities is desirable in examining measures for the appropriate protection of licensees in license agreements.

6 Relationship between License Agreements and Bankruptcy in the Biotechnology/Pharmaceutical Industry-Results of a Questionnaire Survey and Considerations

It takes a period of more than 10 years and development costs exceeding several tens of billions of yen to bring a pharmaceutical product to the market through search, research, development, and approval. Furthermore, the pharmaceutical business cannot survive unless a company has both data unique to the relevant pharmaceutical product that guarantees the effectiveness and safety of the pharmaceutical product and a patent right or license that assures market monopoly. On the other hand, with the development of biotechnology, there are

(*1) Especially, in the case of comprehensive cross-license agreements, a great number of patent rights are covered by one agreement, and not only existing rights but also rights to arise in the future are included. Thus, in some cases, the scope of an agreement has yet to be defined at the time of concluding an agreement. If all patent rights, including less important ones, are carefully examined and registered in terms of such an agreement, there will be the issue of the enormous burden of registration costs and license management.

(*2) Some examples are the problem of costs for registration fees under the current registration system, the situation where details of a license agreement are made public, and the point that licensees alone cannot register.

increasingly more companies specialized in research and development that are called bio-ventures. In many cases, such bio-ventures provide pharmaceutical development/sales companies with materials such as genes as well as experimental techniques (devices) used for research and development. In the event of concluding a license agreement with a bio-venture, the provision of such materials or devices (corporeal things) is accompanied in general. In light of the structure of pharmaceutical business, especially bio-pharmaceutical business, and the form of license, as well as problems, a questionnaire survey was conducted through a related private body and the results thereof are reported here.

In particular, from the position in relation to bankruptcy, the rescission of license agreements is a special circumstance and is different from the rescission of other kinds of agreements. Also, there is no solution without solving problems such as the handling of data unique to the relevant pharmaceutical product obtained by licensees. In other words, many respondents answered that it is necessary to create a mechanism in which the licensee's position is protected even if requirements for setting up against a third party under the current Bankruptcy Law are not fulfilled. Respondents had a strong awareness that the protection of rights for data unique to pharmaceutical product, know-how, and corporeal things, as well as copyrights, must be examined in such a mechanism. In the event that a license is rescinded due to bankruptcy, not only protection of patent licenses, but also special measures to ensure access to know-how, copyrights, and corporeal things or to enable the assessment of corporeal things, are considered necessary.

II Response to the Bankruptcy of a Licensor in Practical Business

7 Intellectual Property Rights and Bankruptcy Proceedings-Some Specific Examples-

As for case examples in which intellectual property rights become a problem in the bankruptcy proceedings, this chapter introduces several examples (from (1) to (4) below) that the writer experienced in the past.

- (1) **Lynx case:** A court case among a company that has taken over golf business-related assets, including a trademark in Japan, from a U.S. corporation, Lynx, which went bankrupt in the United States, a subsidiary of Lynx in Japan, and a company that has obtained the right of sublicensing.
- (2) **Camera joint patent ownership case:** A case in which a co-owner of a U.S. patent possessed by a company that was declared bankrupt in Japan gave a

warning on patent infringement to several Japanese companies by using the relevant patent.

(3) **Card issuance system case:** A case in which a company that possesses a patent for a card issuance system instituted a patent infringement suit in question against another company on the basis of the patent in question, but subsequently filed a petition for civil rehabilitation proceedings.

(4) **Maruko case:** A case in which regarding hotels possessed by Maruko, which was under bankruptcy proceedings in the United States, a management consignment agreement was revised in cooperation with a U.S. hotel management company that was entrusted to manage these hotels by using the right of rescinding a bilateral agreement.

Finally, the present situation of practices in liquidation-based bankruptcy proceedings and reconstruction-based bankruptcy proceedings are discussed including the writer's personal views.

8 Registration Procedures for Establishment of Non-Exclusive Licenses

This chapter points out the actual situation and problems of the current registration procedures for non-exclusive licenses.

Starting from the conclusion, the current registration procedures are not considered suitable for the practices of license agreements because expensive registration costs and cumbersome registration application procedures are required in the case of comprehensive cross-license agreements and license agreements covering many patents.

III Position of the Bankruptcy Law and License Agreements

9 Intellectual Property License Agreements and the Revision of the Bankruptcy Law

In the case that a licensor that is the party to an intellectual property license agreement has gone bankrupt, relevant licensees will suffer a serious loss if a bankruptcy administrator rescinds the agreement in accordance with Article 59(2) of the Bankruptcy Law.

There are the following two major interpretations of protection of licensees under the current Bankruptcy Law. (1) The first interpretation is that if a license, etc. for the subject intellectual property right has been registered, the bankruptcy administrator's right of rescission will not be admitted. Against this interpretation, there is a criticism that this is not an appropriate method to protect licensees because real estate lease agreements and intellectual property license agreements are different. However, there is a counterargument against the criticism that the

problems pointed out in the criticism should be solved by measures under substantive law, such as admitting the obligation of licensors to cooperate in registering non-exclusive licenses. Although being registered is used as a standard, it is not regarded as a problem related to setting up against a third party in a strict sense. Being registered is used as a standard on the basis of the judgment that it is basically an appropriate standard for demarcating rights that are worth being protected under the Bankruptcy Law and is also substantially reasonable. (2) The second interpretation is that bankruptcy administrator's right of rescission is restricted in some cases due to limitations under Article 59 of the Bankruptcy Law and such restriction also extends to license agreements.

The revision of the Bankruptcy Law is now in progress. The Bankruptcy Law Taskforce and the Sectional Meeting on the Bankruptcy Law in the Legislative Council of the Ministry of Justice discussed the protection of licensees in the case of licensor's bankruptcy. Discussions were divided reflecting opinions mentioned in (1) above. However, it was determined that the rule that the provisions of Article 59 of the Bankruptcy Law shall not be applied to a case where a party to a lease agreement, etc. fulfils the requirements for setting up against a third party shall extend to the case of bankruptcy of a licensor in a license agreement for a right sufficient to set up against a third party, such as a non-exclusive patent license. The General Meeting of the Legislative Council of the Ministry of Justice resolved the "Outline of the Review of the Bankruptcy Law, etc." to such effect in September 2003, and the outline was submitted to the Minister of Justice. In response to this, the Cabinet Office submitted a bill for the revision of the Bankruptcy Law to the 159th Session of the Diet in February 2004.

As for the desirable protection of licensees in intellectual property license agreements under the new Bankruptcy Law, there are the following possible directions: (1) direction toward making laws to facilitate registration of licensees, and (2) direction toward specifying cases where bankruptcy administrator's right of rescission is restricted in the area of license agreements. On the other hand, (3) direction toward protecting unregistered licensees (not admitting bankruptcy administrator's right of rescission) despite the existence of the registration system for non-exclusive licenses involves problems related to the basics of legal system and has many problems. Even if direction (1) or (2) is taken, it is necessary to clarify the scope of protection and grounds for protection.

10 Disposition of License Agreements by Bankruptcy Administrators and Consequences Thereof

This chapter organizes and analyzes the disposition of contractual relationship at the time of licensor's bankruptcy and consequences thereof on the basis of types of agreements such as cross-license agreements and comprehensive cross-license agreements. In doing so, Section (3) discusses a simple form of agreement in which a licensor grants a license to a licensee in a one-sided manner, and overviews the disposition of contractual relationship and consequences thereof from the standpoint of determining the application of Article 59 of the Bankruptcy Law on the basis of whether the requirements for setting up against a third party are fulfilled. Next, Section (4) discusses cross-license agreements and comprehensive cross-license agreements, and individually considers the application of Article 59 of the Bankruptcy Law after dividing agreements into three types on the basis of whether or not royalty is paid for the part for which a party grants a license and the part for which the party obtains a license-(1) both are royalty-free, (2) one is royalty-paying while the other is royalty-free, and (3) both are royalty-paying ((4)(i), (ii) and (iii)). Moreover, Section (4)(iv) discusses a question of whether a position of receiving licenses for intellectual property rights possessed by other parties to the agreement is also transferred to an assignee in the case that intellectual property rights licensed in a cross-license agreement are assigned by a bankruptcy administrator to a third party, and states that a position of the licensee will not be transferred to the assignee without the approval of the other parties to the agreement (licensors) and then considers the consequences of contractual relationship in accordance with the above-mentioned types. In addition, Section (2) considers relationship between discussions over the nature of bankruptcy administrators as third parties and the rule for Article 59 of the Bankruptcy Law, and concludes that there is no need to bring up the issue of setting up against a third party (the nature of bankruptcy administrators as third parties) in relation to the disposition of license agreements and that it is sufficient to consider the issue in relationship to the rule for Article 59 of the Bankruptcy Law.

11 Intellectual Property Rights, License Agreements, and the Bankruptcy Law in International Cases

This chapter first confirms the relationship between intellectual property rights and license agreements from the position of private international law, and then considers the issue of protection of licensees in the case that a licensor or an administrator has assigned relevant intellectual property right to a third party. Subsequently, it confirms current discussions under private

international law and foreign judicial precedents affecting these discussions in terms of the question of which country's law is applied to the situation of international bankruptcy in relation to the authority to change agreements (denial is a representative example but the right of rescinding a bilateral agreement is also included) that is specially granted to administrators under the Bankruptcy Law, and then considers the issues of administrator's right of rescinding a license agreement and protection of licensees in the situation of international bankruptcy.

As a result of consideration, the following was confirmed. In an international case in which intellectual property rights established in several countries are licensed by one agreement, it is impossible to find an answer to the question of whether licensees are protected when relevant intellectual property rights are assigned by a licensor or administrator, without considering legislation for each intellectual property right established in each country, regardless of the existence of law applicable to the relevant license agreement. There may thus be phenomena that licensees are protected for intellectual property rights in some countries but are not protected for those in other countries despite that all intellectual properties are licensed under the same license agreement.

On the other hand, the following was also confirmed. With respect to the administrator's right to rescind a bilateral agreement fulfilled by neither party under the Bankruptcy Law in the case of international bankruptcy in which other party to the agreement is located in a foreign country or a law applicable to the agreement is a foreign law, it is a possible consequence, depending on the way of thinking about the international bankruptcy law, that a license agreement that is not protected in Japan is protected due to a foreign law becoming an applicable law. In other words, it is impossible to find an answer on the question of whether licensees are protected without examining problems under the international bankruptcy law in relation to this issue.

IV Proposed Measures for the Protection of Licensees in License Agreements

12 Protection of Licensee's Position at the Time of Licensor's Bankruptcy-Response by Establishing Rules for Patent Transactions

In order to protect licensees, it is appropriate to prepare the following two measures.

First of all, for cases where a patent right is disposed of by a third party, in general, a

non-exclusive right based on a license agreement shall be capable of setting up against an obtainer of the patent right after establishment of the license without taking any measures, including registration. The form of disposition of the patent right (voluntary disposition or compulsory disposition) does not matter. As far as requirements for setting up against a third party are concerned, a non-compulsory license based on an agreement shall be treated the same as a statutory license (Section 99(2) of the Patent Law). This measure is considered to be appropriate for the reasons that (1) a balance can be achieved between the promotion of patent license transactions and the safety of sales transactions (2) in line with the actual conditions of sales transactions of patent rights subject to licensing and the present situation where non-exclusive licenses are scarcely registered, and (3) dispute settlement costs can be minimized.

Next, although a bankruptcy administrator may rescind a license agreement in the case that a relevant licensor has gone bankrupt, a license granted to a licensee shall not lapse due to the rescission. Bankruptcy administrator's right of rescission is limited to the extent that is necessary for bankruptcy liquidation, i.e. release from the obligations other than the obligation to allow the existence of the license (non-exercise of the patent right against licensees). This is considered to be an appropriate measure in the point that (1) the purpose of the system of rescission by a bankruptcy administrator, i.e. smooth bankruptcy disposition, can be achieved (2) while avoiding the consequence that is also unreasonable in terms of national economy, that is, licensees lose licenses due to licensor's bankruptcy, which is a situation not attributable to licensees.

13 Revision of Article 59 of the Bankruptcy Law and Protection of Licensees in the Case of Licensor's Bankruptcy

This chapter examines the protection of licensees in the case of licensor's bankruptcy, including legislation theories, from the viewpoint of seeking possible measures while pursuing harmonization with the system and philosophy of the Bankruptcy Law. The results of examination can be first summarized by the idea of requiring the direction toward appropriate protection of licensees on the basis of the approach based on the requirements for setting up against a third party, in which the fulfillment of the said requirements is used as a standard for deciding exemption from the application of Article 59 of the Bankruptcy Law. However, it is not always sufficient to leave the protection of licensees, which cannot be protected by the approach based on requirements for setting up against a third party, to the interpretation of law.

Therefore, in addition to adoption of an approach based on requirements for setting up against a third party, from the viewpoint of legislation, (1) the scope of licensees protected by such approach shall be substantially expanded by improving the system of requirements for setting up against a third party under current intellectual property laws to make its use easier. In addition, (2) a system applicable to bilateral agreements fulfilled by neither party in general shall be newly established. In the system, although a case where a licensee does not fulfill the requirements for setting up against a third party is subject to the application of Article 59 of the Bankruptcy Law, other party may file a petition of disapproval of the rescission of an agreement by a bankruptcy administrator. If such a petition is filed, the exercise of the right of rescission is entrusted to a permission of the court. If the rescission causes significant disadvantage to other party to the agreement, the exercise of the right of rescission will not be permitted. Also, (3) another proposed measure is to establish the legislation that admits statutory licenses under given requirements in each intellectual property law in order to guarantee licensees' licenses even if intellectual property rights subject to licensing were converted into money by a bankruptcy administrator. This chapter concludes that only by taking the above comprehensive measures, it is possible to achieve the appropriate protection of licensees in the case of the licensor's bankruptcy while keeping compliance with the system and philosophy of the Bankruptcy Law.

14 Protection of Patent License Agreements and Utilization of the Notary System

This chapter explains the legal nature of patent license agreements, the mechanism of the current notary system, the registration system as a requirement for non-exclusive licenses setting up against a third party, and then give specific proposals concerning the utilization of the notary system as a requirement for restricting the exercise of the right of rescission by bankruptcy administrators.

More specifically, it seems appropriate to set a provision that restricts the exercise of the administrator's right of rescinding a patent license agreement under the provisions of Article 59 of the Bankruptcy Law under given requirements. However, balancing with the benefit of bankruptcy administrators in general, it is considered inappropriate to provide that the mere existence of a written agreement can prove the existence of the license agreement before a bankruptcy declaration.

Therefore, a solution that is considered most reasonable from the nature of the notary system is to determine that administrators cannot exercise justifiably the right of rescission against license

agreements to which a fixed date was given before filing of a petition in bankruptcy. A private deed with fixed date given does not authenticate the contents of an agreement, but the existence of the agreement on the date when the fixed date was given is publicly proven. In addition, there is no possibility at all that the contents of the agreement are made public. Only a ledger of fixed dates exists at the notary public office, and there are also no legal grounds for a third party to ask for inspection of the ledger. Therefore, license agreements are kept confidential.

The restriction of the exercise of the bankruptcy administrator's right of rescission is considered to be sufficiently reasonable if it is understood as part of national intellectual property strategy in line with the purpose of the Basic Law on Intellectual Property, i.e. to prevent the vitalization of industrial society through use of intellectual property rights from being inhibited due to licensees' suffering serious damage in the case of licensor's bankruptcy.

15 Notary System and Requirements for Setting up against a Third Party regarding Patent Licenses

This chapter considers the possibility of using the notary system as a means of fulfilling the requirements for setting up against a third party regarding non-exclusive licenses. The examination focuses on the actual impact of the system rather than theoretical points, and concludes that a licensee can subsequently set up against third parties in the case that a document specifying patent rights subject to non-exclusive license has been notarized or that a certification of private signature or a fixed date has been obtained for such document.

The first point of argument is whether the power of setting up against a third party without public notice should be approved in relation to the adoption of a system that is originally not planned to be made public, such as the notary system. This point is examined from the standpoint of safety in the exploitation of a patented invention by a third party and the effects of patent rights as property rights on the economic value. To conclude, the public notice of non-exclusive licenses is not necessary from the viewpoint of safe exploitation, and although it is difficult to deny the necessity of public notice from the viewpoint of the value of patent rights as property rights, it is not impossible in terms of industrial policy to admit the power of setting up against a third party without public notice and promote license transactions in consideration of the characteristics of patent rights.

Next, regarding desirable systems in the future, the advantage of a system using the notary system

is demonstrated through comparison with the registration system and the U.S. approach. Specifically, the following points are examined: (1) the convenience of dispute settlement and the predictability of costs should be emphasized as long as a system without public notice is adopted, (2) efficient property administration should be made possible, and (3) from the viewpoint of equality, the users of patent licenses should bear basic costs for dispute prevention and such costs should not be ascribed to the public through use of the court, etc. The examination of these points reaches the conclusion mentioned at the beginning that a system should be adopted in which a licensee can subsequently set up against third parties in the case that a document specifying patent rights subject to non-exclusive license has been notarized or that a certification of private signature or a fixed date has been obtained for such document.

16 Possibility of Restricting the Bankruptcy Administrator's Right of Rescission in the Case of Licensor's Bankruptcy and Limitation of Such Right

On the premise of protection of licensees based on the fulfillment of the requirements for setting up against a third party, it is necessary to examine the possibility of restricting administrator's right of rescinding unfulfilled bilateral agreements in respect to licensees who cannot fulfill the requirements or who can fulfill them but lack them. In the first place, Article 59(1) of the Bankruptcy Law stipulates that a bankruptcy administrator may choose to rescind or perform an unfulfilled bilateral agreement, but it does not set any specific standards for cases where the agreement should be rescinded or performed.

Regarding the case in which an administrator for a bankrupt member of a deposit-based golf membership agreement (requiring annual membership fees) chose to rescind the agreement to receive the return of deposits, the Supreme Court made a decision on February 29, 2000 that the exercise of the right of rescission shall not be admitted because it is significantly inequitable to the other party. According to the decision, whether the exercise of administrator's right of rescission is "significantly inequitable" to the other party should be determined through comprehensive consideration of various circumstances, such as (1) whether the contents of benefits, which both parties to the agreement should regard as restoration, are balanced, (2) to what extent the other party's disbenefit is restored by the provisions of Article 60 of the Bankruptcy Law, and (3) whether outstanding debts on the bankrupt side are essential/central in, or incidental to, the relevant bilateral agreement.

In order to generalize this Supreme Court

theory, this chapter presents a method of determining motivation (incentive) of administrators and other parties for choosing either rescission or performance of an agreement by using means of legal and economic analysis.

The restriction of an administrator's right of rescission is unstable as a means of protecting licensees at present when no judicial precedents have been accumulated. In addition, there is no clear anticipation that judicial precedents related to license agreements will accumulate in the future. However, this theory covers the rescission of bilateral agreements fulfilled by neither party in general, so it is sufficiently expected to be clarified as a general theory. In addition, there are a huge variety of license agreements, and individual license agreements have to be disposed of in the bankruptcy proceedings. Therefore, this theory is proposed as a standard for determining the propriety of the rescission of an agreement by an administrator in specific cases.

17 Modification and Utilization of the Registration System

This chapter especially examines the idea of modifying or newly establishing the license registration system, out of positions of requiring licensees to fulfill requirements similar to the requirements for setting up against a third party under a license agreement as the requirements for protecting licensees (eligibility requirements for protection of rights) by keeping contractual relationship through restriction of bankruptcy administrators exercising the right of rescinding a bilateral agreement fulfilled by neither party (Article 59 of the Bankruptcy Law) in the case of licensor's bankruptcy. As a result, the following conclusion was drawn.

First of all, the eligibility requirements for protection of licensee's rights at the time of licensor's bankruptcy and the requirements for setting up against a third party on ordinary times under a license agreement should be the same from the following three viewpoints-"vertical balance" between ordinary times and the time of bankruptcy, "horizontal balance" with agreements that establish rights to be used for profits other than intellectual property rights, and the "effectiveness of protection of licensees" at the time when an administrator converts intellectual property rights into money.

Secondly, in order to make parties to one of the two incompatible legal relations acknowledge that their relation holds a subordinate position to the other relation, either of the following is strongly required: (1) Parties in the subordinate relation could avoid entering the subordinate legal relation through preliminary research since the superordinate legal relation had been perceivable in

advance by some means; or (2) A subsequent remedy system be available if the parties in the subordinate legal relation could not avoid entering such a legal relation in advance. Therefore, the requirements for setting up against a third party and the eligibility requirements for protection of rights should include public notice to third parties in one way or another.

Thirdly, in using the registration system as a requirement for setting up against a third party or an eligibility requirement for protection of rights, the four problems-(1) confidentiality of the existence and contents of a license, (2) labor and costs required for registration, (3) applicant for registration, and (4) the possibility of an unestablished right being registered-arise depending on the nature of rights. In many cases, these problems can be resolved by devising the details of the registration system, such as by limiting contents to be made public and those who receive such public notice or by reducing registration costs.

18 Examination of Requirements for Setting up against a Third Party

The correct direction of discussions on the protection of license agreements is probably oriented toward examining requirements for setting up against a third party regarding intellectual property rights in general without limiting the examination to protection at the time of bankruptcy based on the idea that the right of rescission of bankruptcy administrator, etc. is restricted only when the requirements for setting up against a third party are fulfilled as long as the system of the requirements for setting up against a third party is presumed.

In addition, the theories of abolishing the requirements for setting up against a third party/considering the requirements to be unnecessary are untenable due to consistency with the system of the requirements for setting up against a third party regarding other kinds of rights and for the reason that problems pointed out in these theories seem to be resolvable through system design. Therefore, system design for the requirements for setting up against a third party should be examined.

Reviewing requirements for setting up against a third party regarding rights other than intellectual property rights, the degree of public notice is diversified. It thus seems possible to design a system as appropriate without restraint when considering the requirements for setting up against a third party regarding license agreements.

In addition, given the situation where the requirements for setting up against a third party become an issue in terms of license agreements as

well as the functions requested in such situations, it must be at least ensured that an assignee or a pledger confirms the existence of license agreements in advance in the case of assignment or pledging as security. On the other hand, in the case of seizure and legal bankruptcy, it seems sufficient if relevant license agreements are subsequently clarified to a seizing creditor or a bankruptcy administrator.

Various proposals have been made with respect to requirements for setting up against a third party, but the idea of requiring documentation is untenable because it is basically equivalent to the idea of unconditional protection (the theories of abolishing requirements for setting up against a third party/considering the requirements to be unnecessary). Therefore, the improvement of the registration system should be considered.

As a result of the above consideration, various proposals regarding improvement of the registration system have been made with respect to registration methods, matters to be registered, the scope of capability of setting up against a third party, the necessity of public notice, the contents to be made public, registration of comprehensive licenses, and fees, on the basis of criticisms against the current registration system and by using the registration system for assignment of claim as reference.

19 Requirements for Setting up against a Third Party and Public Notice

The draft revision of Article 59 of the Bankruptcy Law stipulates that a bankruptcy administrator's right of rescission shall not arise for agreements that fulfill requirements for setting up against a third party. In relation to this, it has been proposed to make it easier to fulfill the requirements in order to protect license agreements. This report examines the purpose of the system of "requirements for setting up against a third party" from the viewpoint of the Civil Code, as basic work for examining the propriety of simplifying the requirements for setting up against a third party regarding license agreements.

Rights under a license agreement are like credits. However, since their protection is strongly required, the power of setting up against a third party is admitted for them. In the case of admitting such power for rights that are like credits, the fulfillment of the requirements for setting up against a third party accompanied by public notice is required in many cases in order to ensure safe transactions. However, some legislation stipulates that the fulfillment of a requirement for setting up against a third party without public notice, such as a fixed date, shall suffice. There are also examples in which parties concerned are allowed to set up against a third party without fulfilling any

requirements.

In terms of the draft revision of Article 59 of the Bankruptcy Law, there are following two questions: (1) The propriety of rescission by bankruptcy administrators is questioned, and isn't this question directly related to the existence of the power of setting up against a third party?; (2) Since the function as an "eligibility requirement for protection of right" is questioned out of various functions of the requirements for setting up against a third party, isn't a requirement for setting up against a third party without public notice acceptable? There is no point in these questions if voluntary disposition by an administrator cannot set up against a patentee, etc. Taking into account the balance with the case of compulsory auction, it is after all considered to be desirable to make the fulfillment of original requirements for setting up against a third party as a requirement for restriction of the right of rescission.

However, regarding rights under license agreements, it is possible in terms of legal technique (1) to make such rights be based on a simple system of requirements for setting up against a third party, such as a filing system, (2) to make the creation of a notarial document or the obtainment of a fixed date be a requirement for such rights setting up against a third party, and (3) to make such rights be capable of setting up against a third party without fulfillment of any requirements. Rather, the effect and necessity thereof have to be further considered from the viewpoint of industrial policy.

20 Protection of License Agreements through U.S. Bankruptcy Code-based Approach

As for measures to protect license agreements at the time of licensor's bankruptcy, there is the U.S. Bankruptcy Code-based approach separate from the approach based on requirements for setting up against a third party (including complementary measures thereof) in which licensees that fulfill the requirements are protected after licensor's bankruptcy. The U.S. Bankruptcy Code-based approach respects the intentions of parties to a license agreement in disposing of the agreement at the time of licensor's bankruptcy. Specifically, (1) if an administrator chooses to perform the agreement, the agreement will be kept valid. (2) If an administrator refuses to perform the agreement and a licensee agrees to the refusal, the agreement will be terminated. (3) If an administrator refuses to perform the agreement but a licensee does not agree to the refusal, the scope of licensee's rights to be protected will be limited and an eclectic solution in deference to both parties will be prepared.

Japan is now in a situation very similar to the

situation of the United States immediately after the Lubrizol case in which the court admitted the cancellation of a license agreement at the time of licensor's bankruptcy, given that Japan is facing the necessity of ensuring the legal security of license agreements. This report introduces the background to legal revision in the United States that solved the above-mentioned problem by revising the Federal Bankruptcy Code in 1988, as well as the details of its legal system, on the basis of the idea that Japan has to sufficiently take such experience of the United States into account when seeking measures to protect license agreements.

The following are the advantages of the U.S. Bankruptcy Code-based approach, which is based on a different idea of system design from that for the approach based on requirements for setting up against a third party: (1) the approach focuses on harmonization between the purpose of the protection of license agreements and that of bankruptcy proceedings, (2) the approach enables the more appropriate disposition of license agreements, which are of complicated forms of agreements, by emphasizing the intentions of parties to agreements and promoting negotiations among parties concerned on an equal footing, (3) existing license agreements are easily protected since licensees are not required to bear any additional burden to receive protection, and (4) the approach contributes to prompt bankruptcy proceedings since it releases licensors (administrators) from debts concerning specific performance.

This report recommends that Japan should seek a legal system that can achieve the above-mentioned advantages when examining measures to protect license agreements.

This summary was created by the secretariat by editing the summaries prepared by the committee members who wrote each chapter.

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