

Section 9 Patent Right as the Subject of a Transaction

A patent right, which is a property right, is subject to transaction. Accordingly, it can be assigned, can be made subject to a right of pledge, can be seized, can be made subject to licensing, and is treated similarly to other property rights.

Subsection 1 Transfer of Right

Since a patent right is a property right, it can be transferred freely¹, but certain successions must be registered in the Patent Register at the JPO in order to take effect (Section 98 (1) (i) of the Patent Law). Under the old Law (Law of 1921), registration was a requirement for countering third parties, similar to the case of real estate, but it was changed to a requirement for succession to take effect under the current Law. This measure was intended to clarify relations with other rights, and to secure safe transactions². Assignment of a patent right is usually conducted between experts, so there would be no inconvenience in making registration a requirement for the assignment to take effect³. In the case of a general succession, it is impossible to make the registration a requirement for the succession to take effect, so the effect of the transfer arises upon inheritance or corporate merger (description in brackets in Section 98 (1) (i) of the Patent Law). There is an obligation to report the transfer to the Commissioner of the JPO without delay in such a case, but that is unrelated to the effect of the transfer.

When a patent right is jointly owned, one's share of the patent cannot be assigned without the consent of the other joint owners (Section 73 (1) of the Patent Law). Unlike in the case of joint ownership under the Civil Code (Article 249 of the Civil Code), the joint owners of a patent right are not restricted to working the invention according to their respective share, but can work it without limitation in terms of

¹ The old Law stipulated that "a patent right can be transferred by either imposing or not imposing limitations" (Section 44 (1)). This was not a provision that particularly recognized the fact that a patent right can be transferred, but there was significance in that the right could be transferred by imposing limitations. This provision was deleted in the current Law because the content of a transfer with limitations was not necessarily clear, but the fact that the right can be transferred has become a natural premise.

² The registration does not serve as prima facie evidence, so it is possible to dispute the causal relationship. Therefore, even those who trusted in the registration would not be protected.

³ Assignment of real estate is often not registered, and if the effect of assignment were denied due to the lack of registration, there would be much inconvenience in actuality. On the other hand, assignment of a patent right is mostly conducted between experts, so the inconvenience would be small in making the registration a requirement for the assignment to take effect, and this measure would also be useful for clarifying the relations with other rights.

quantity. Thus, the question of who the other joint owners are is extremely important for the joint owners of a patent. This is why such a limitation was established (for details, see Chapter 1, Section 6, Subsection 2 “Joint Ownership”). Issues such as liability for defects that occur upon transfer of the right are settled according to the principle of the Civil Code.

Subsection 2 Security Rights

Item 1 Pledge

Since a patent right is a property right, it is subject to security rights, and the Patent Law provides for pledges (Section 95 of the Patent Law). Because valuation of a patent right upon conversion into money is unclear compared to cases of real estate or marketable securities, and there is hardly any market for buying and selling patent rights, pledges are not used frequently in reality. However, the security system for patents, including pledges, is expected to become more important in the future¹.

The rights subject to a pledge are, apart from the patent right itself, exclusive licenses and non-exclusive licenses (Sections 95, 77 (4) and 94 (2) of the Patent Law). A right to obtain a patent cannot be made subject to a pledge (Section 33 (2) of the Patent Law). A pledge on a patent right or an exclusive license must be registered in order to take effect (Section 98 (1) (iii) of the Patent Law). In contrast, in the case of a pledge on a non-exclusive license, the registration is a requirement for countering third

¹ For venture businesses that have no outstanding assets other than their technologies, the offering of technologies as security is an important means of obtaining loans for the working of the inventions. Financial institutions would also be able to expand their business chances if they could handle patent rights as security. To this end, it is insufficient for the provision on pledges to be stipulated in the Patent Law, but valuation standards and a patent market must be established first. If such a market were created, it would not only solve the issue of security, but would also increase patent transactions and could even make it possible to use the trust system. Above all, it would contribute to fostering companies that run businesses based on high-quality technologies. Compared to the United States, subcontractors are well developed in Japan, but it is said that there are fewer cases in which small or medium sized companies having original technologies make great developments by utilizing their technologies. A company does not develop merely by owning high-quality technologies, but it must make good use of them and, to this end, a method should be established to make the technologies their assets. With regard to assessment of intellectual property rights, see Institute of Intellectual Property, *Chiteki Zaisanken Tanpo Kachi Hyouka Shuhou Kenkyuukai Houkokusho* (Report of the Study Group on the Methods to Value Intellectual Property Rights as Security) (1996); edited by Yoshikazu Takaishi, *Chiteki Shoyuiken Tanpo* (Intellectual Property Security) (Ginko Kenshusha, 1997); Gordon Smith and Russel Parr (translated by the Institute of Intellectual Property), *Chiteki Zaisan To Mukei Shisan No Kachi Hyouka* (Valuation of Intellectual Property and Intangible Assets) (Chuo Keizaisha, 1996); Kouichirou Suda, “*Kougyou Shoyuiken No Tanpo No Jitsujou To Kaisei No Tenbou* (Actual Conditions of Industrial Property Security and the Prospect for Change),” Patent, Vol. 49, No. 2: p. 27; Special feature “*Chiteki Zaisanken Tanpo* (Intellectual Property Security)” (*Ginkou Houmu* (Legal Affairs of Banks), No. 516).

parties (Section 99 (3) of the Patent Law). Since registration in the case of establishing a non-exclusive license is not a requirement for the license to take effect, but a requirement for countering third parties, the same system is adopted for establishing a pledge on a non-exclusive license. A pledge on an exclusive license requires the consent of the patentee (Section 77 (4) of the Patent Law), and a pledge on a non-exclusive license requires the consent of either the patentee alone or the patentee and the exclusive licensee (Section 94 (2) of the Patent Law). It should be considered that once the patentee and the exclusive licensee give their consent, they can no longer make an objection against who the winning bidder is. There are also theories that require the consent of the patentee and the exclusive licensee again upon transfer of the right to the winning bidder, but that is equal to ruining the fundamentals of the pledge system and may destroy the function of the pledge, so the idea is hardly adoptable.

A pledge on a patent right is one kind of a pledge on rights, which virtually resembles a mortgage². Working of a patented invention often requires a substantial amount of investment and technology, and the existence of a pledge is temporary, so it would be inefficient to allow working of the invention by the pledgee. Therefore, it is often more desirable to have the pledger continue working the invention, and the pledgee receive payment in preference to others from the money obtained by the working. Thus, the Law provides that the pledgee cannot work the patented invention unless otherwise stipulated by an agreement, and the title to work the invention is held by the pledgee. In addition, apart from the remuneration for the right in pledge, the pledge can also be exercised against money or goods that the pledger, that is, the patentee, exclusive licensee, or non-exclusive licensee³ would be entitled to receive for the working of the patented invention, but an attachment order must be obtained prior to the payment or delivery of the money or property (Section 96 of the Patent Law). This is because, if exercise of a pledge is recognized as to an item that has mixed into the general property of the debtor, it is likely to damage the interests of other obligees.

When a pledge has been established, the patentee can neither abandon the patent right (Section 97 (1) of the Patent Law) nor demand a trial for correction (Section

² The report of the Industrial Property Council stated that “pledge” should be revised to “mortgage” (Explanation on the council report for amendment of the industrial property system: p. 38). However, in the process of legislation a problem was pointed out in relation to auctions, so it was decided the term “pledge” would be used, similarly to the old Law.

³ While Section 96 of the Patent Law only stipulates about money, etc. which the patentee and the exclusive licensee are entitled to receive, there is no reason to deny sublicensing of a non-exclusive license as long as the patentee has given consent, so the same idea should be analogically applied with regard to the money, etc. that a non-exclusive licensee is entitled to receive (Nakayama, *Chuukai Tokkyo* (Annotated Patent Law), Vol. 1: p. 817 [Takura]).

127 of the Patent Law) without the consent of the pledgee.

Item 2 Mortgage by Transfer

The Patent Law provides for pledges as part of the security system, but they are not used frequently. In practice, it is considered to be easier to use a mortgage by transfer or a sale with a right of return, but the actual conditions for their use are not quite clear.

A mortgage on a patent right by transfer is a transfer as a security, so its content is fundamentally the same as an ordinary mortgage by transfer. Registration cannot be made to the effect that the transfer is a mortgage by transfer.

Item 3 Foundation Mortgage and Enterprise Mortgage

A foundation mortgage is a way of establishing a mortgage on collective property consisting of a company's assets, including facilities under the Factory Hypothecation Law, etc. According to the Factory Hypothecation Law, industrial property can be considered as a constituent part of a foundation (Article 11 (5)). Although the concept of industrial property is questionable with respect to this point¹, there is no objection to the fact that patent rights are included.

The purpose of the Enterprise Hypothecation Law is for establishing a mortgage on the entire property of a stock company in order to secure the corporate bonds issued by that company, and there is no problem in that the mortgage can be established on patents and other industrial property.

Subsection 3 Compulsory Execution

¹ For instance, it is not clear whether the right to obtain a patent or a trade secret is also included in the concept. See the relevant part in Section 1, Subsection 4, Item 2, 3. (2) (D) "Foundation Mortgage and Enterprise Mortgage."

The Patent Law does not have provisions on compulsory execution, but as a patent right is a property right, there is no problem in making it subject to compulsory execution. Furthermore, patents are included in a bankrupt estate¹. When the court seizes a patent or cancels such a seizure, it requests the JPO to register or cancel the registration to that effect (Section 24 of the Patent Registration Order).

Provisional seizure and provisional disposition for securing execution only take effect upon registration (Section 98 (1) (iii) of the Patent Law).

Subsection 4 Licenses

Item 1 Significance of a License

Although the Patent Law does not obligate the working of the patented invention, an invention is only meaningful when it is worked. Of course, publication of the patent undeniably contributes to improving the technological level of society even without working the invention, but still, there is a great meaning in diffusing the technology through working it. Accordingly, the Patent Law provides for some system that regulates cases where the patentee grants the title to working the invention to another person even if the patentee does not work the invention himself/herself. Specifically, the Patent Law provides for exclusive licenses and non-exclusive licenses that are established by the intention of the patentee, the arbitrary license (compulsory license) that deems a ruling by the Minister of Economy, Trade and Industry or the Commissioner of the JPO to be the fictitious intention of the patentee, and the statutory license that naturally arises under law irrespective of the intention of the patentee.

¹ Article 6 (1) of the Bankruptcy Law stipulates that the entire property of the bankrupt shall be the bankruptcy estate, and since Article 197 (2) of the same law premises that patents are included in the bankruptcy estate, it is clear patents constitute part of such estate.

It is free for the patentee to grant whatever kind of title to the working of the invention to another person as long as it does not violate compulsory laws and regulations according to the principle of the freedom of contract, but the Patent Law provides for two kinds of licenses, exclusive licenses and non-exclusive licenses, as licenses based on an agreement. These two licenses are often respectively likened to superficies, which is a usufruct having a real right aspect, and the leasehold, which is a claim-like right to use in the world of real estate¹. However, the patent right itself is decisively different from real estate, so its licenses inevitably have different natures than superficies or the leasehold. Since real estate involves possession, both superficies and the leasehold only have meaning when one gains possession of the real estate.

On the other hand, the concept of possession does not apply to an invention, which is an intangible good, so it can virtually be worked by multiple persons at the same time. Thus, there could be multiple licensees. However, as there is also strong demand for exclusive working, the Patent Law specially provides for exclusive licenses. In other words, the difference between an exclusive license and a non-exclusive license is in whether or not the establishment of multiple licenses is allowed. Concretely speaking, an exclusive licensee has the right to exclusively work the invention within the scope of the license, so he/she has a similar status as the patentee, but multiple non-exclusive licenses with the same scope of agreement can be established, so the licensee is merely free from being subject to an injunction or claim for compensation for damages from the patentee (including the exclusive licensee in the case of a sublicense).

Although arbitrary licenses and statutory licenses are provided for as non-exclusive licenses under the Patent Law, their nature is quite different from ordinary non-exclusive licenses, so they should be discussed separately.

Item 2 Exclusive License

1. Nature of an Exclusive License

An exclusive license is an authorization to exclusively work a patented invention within the scope set by an agreement (Section 77 of the Patent Law).

¹ JPO, *Chikujou Kaisetsu* (Clause-by-Clause Explanation of Industrial Property Laws): p. 199.

While the old Law (Law of 1921) had a system to transfer a patent right within limits (Section 44 (1)), its legal nature was not quite clear and the system was hardly used. Therefore, under the current Law, the system was revised from the form of transfer to the form of a license having an exclusive nature. Since transfer with limitations under the old Law was often considered as analogous to a usufructuary real right, it can be regarded as almost identical to the system under the current Law¹.

Compared to a non-exclusive license, establishment of an exclusive license is said to be less frequent². An exclusive license is more likely to be established when the two parties are in a special kind of relationship³.

2. Establishment and Extinguishment of an Exclusive License

¹ The transfer of a right with limitations under the old Law, taking a form of transfer of a right, allowed retransfer without the consent of the patentee, but an exclusive license is different in that its transfer requires the consent of the patentee in principle (Section 77 (3) of the Patent Law).

² While the number of registrations of non-exclusive licenses was 105, the number for exclusive licenses was 92 (Patent Office Gazette, Vol. 48 (FY 1995): p. 279). However, as registration of a non-exclusive license is merely a requirement for countering third parties, most of those licenses are not likely to have been registered. Therefore, the actual number is estimated to be much larger than the number registered.

³ After the establishment of an exclusive license, the patentee cannot work the invention with respect to the scope covered by the license agreement without the consent of the exclusive licensee. So, the assumable situations include cases where the companies party to the agreement are affiliated companies, where the technology has been imported from overseas and is not worked by the patentee, and where a non-corporate inventor licenses the invention to a company.

Most exclusive licenses are established by an agreement, but one can also be established by a testament, or established in accordance with an employees' work rule or other stipulations in the case of an employee's invention (Section 35 (2) of the Patent Law). Although registration is a requirement for the license to take effect, it merely means that the license does not gain effect as an exclusive license as stipulated in the Patent Law without registration. This requirement has only been set up because an exclusive license, with which there is the right to demand an injunction, has a great influence on third parties. Thus, effects that are close to the intentions of the parties concerned should be recognized between themselves, as long as they do not conflict with compulsory laws and regulations. For instance, even if an exclusive license agreement that has been concluded were not registered yet, the license should be treated as a monopolistic non-exclusive license because the grant of the right to exclusively work the invention has already been agreed upon between the parties¹. With regard to an exclusive license, not only its establishment but any transfer (excluding an ordinary succession), modification, extinguishment, restriction on its disposal (Section 98 (1) (ii) of the Patent Law), or matter regarding a pledge on it (Section 98 (1) (iii) of the Patent Law) must be registered to take effect.

When a patent right is jointly owned, an exclusive license cannot be established without the consent of all the joint owners (Section 73 (3) of the Patent Law).

Since an exclusive license is established based on a patent right, it naturally extinguishes when the patent right lapses. In other words, the exclusive license also extinguishes when the patent right lapses due to a trial decision of invalidation becoming final and conclusive, on expiration of the term of the patent, abandonment of the patent right (however, this requires the consent of the exclusive licensee; Section 97 (1) of the Patent Law), absence of heir (Section 76 of the Patent Law), or annulment of the patent right (Article 100 of the Anti-Monopoly Law). There are also grounds for extinguishment of the exclusive license itself, which only take effect by registration (Section 98 (1) (ii) of the Patent Law). An exclusive license extinguishes upon termination of the agreement between the parties (expiration of the term of agreement, cancellation of the agreement, etc.), abandonment of the exclusive license, or annulment

¹ The Osaka District Court decision on February 28, 1979, Court Decisions Relating to Intangible Property, Vol. 11, No. 1: p. 92 (the Artificial Hair Transplantation Device case); the Osaka District Court decision on December 20, 1984, Court Decisions Relating to Intangible Property, Vol. 16, No. 3: p. 803 (the Hair Brush Design case) ([Annotation] Kazuo Morioka, *Tokkyo Hanrei Hyakusen* (100 Selected Patent-related Court Decisions) (Second Edition), Case 82); the Kobe District Court decision on March 18, 1987, The Law Times Report, No. 645: p. 234 ([Annotation] Kazuo Komatsu/Tooru Aoki, *Tokkyo Kanri* (Patent Management), Vol. 39, No. 1: p. 51). See Nakayama, *Chuukai Tokkyo* (Annotated Patent Law), Vol. 1: p. 731 [Nakayama].

of the exclusive license (Article 100 of the Anti-Monopoly Law). When the patentee and the exclusive licensee come to merge, the exclusive license extinguishes by merger. Registration is required for the extinguishment to take effect except in cases of merger and lapse of the patent right (Section 98 (1) (ii) of the Patent Law).

3. Content of an Exclusive License

(1) Scope of an Exclusive License

An exclusive license can either be established for the entire scope of a patent right or for a limited part of the patent right (Section 77 (2) of the Patent Law). Any working exceeding that limitation would not merely be a violation of the agreement, but would be a patent infringement. An exclusive license must be registered in order to take effect, and such limitation of the scope must also be registered at the same time (Section 44 (1) (i) of the Patent Registration Order). Unless the limitation of the scope is registered, the license would allow unlimited working of the invention. Therefore, even if the licensee works the invention exceeding that limitation, it would not cause a problem of a patent infringement, but if the limitation has been agreed upon between the parties, there would be a problem of default of an obligation due to the effect of the agreement.

The modes of limitation include limitation in time, limitation in area, and limitation in the content.

In terms of time, any limitation can be imposed under the Patent Law as long as it is within the term of the patent. For instance, it is possible to limit the license for a short period of time such as one day or one hour. However, if the set time is excessively short, it could be considered as contravention of the public order and morality or an abuse of dominant bargaining position in some cases¹.

The same applies in the case of limitation in area, and any limitation would be valid under the Patent Law². The working could be limited to specific administrative

¹ Supposing there was such a short-term license, it would usually be a non-exclusive license, but the theory is also applicable to an exclusive license. The validity of such limitation is not an issue of the Patent Law, but an issue of laws such as the Civil Code or the Anti-Monopoly Law. For instance, as short a time as one day could be valid in the case of working the invention in an exhibition, but if a short-term license has been renewed repeatedly where a long-term agreement would normally be presumed, for the convenience of being able to stop the agreement any time, sudden rejection of renewal could cause a problem (the issue of continuous contractual relationship and renewal of agreement). In any case, that is not an issue of the Patent Law.

² It is possible to geographically limit the working, but once the patented product is legally placed in the distribution process, the patent right exhausts with regard to that product alone, so re-selling of the product outside the limited area would no longer constitute a patent infringement (See Section 8, Subsection 2, Item 6 “Exhaustion of Right”).

districts, or it could be limited to manufacturing within a specific factory or to sales only within *Shinkansen* bullet trains. Since a Japanese patent right is only effective within Japan, no limitation can be imposed regarding foreign countries where the patent right is not effective; in other words, the destination countries of export cannot be limited³. However, this only means that such limitation is not allowed under the Patent Law, or that it cannot be registered as limitation of the scope of an exclusive license, and in principle the parties are free to conclude such an agreement between themselves⁴.

Limitation in content of an exclusive license can take various modes. It is possible to limit the working of the invention to one or a number of the modes of working. Some of such examples are a license limited to sale, a license limited to exhibition, and a license limited to manufacture and sale. It is also possible to limit the working to working of only one of the multiple patent claims. Limitation can also be imposed regarding the product category. For instance, if the technology can both be used for radios and televisions, the working could be limited to radios alone.

The problem is limitation in quantity. The parties are able to impose a limitation in quantity by an agreement, as long as it does not conflict with other compulsory laws and regulations, but its registration as a limitation to the exclusive license should not be allowed⁵. The quantity of production by the working of a patented invention is unlimited in theory, so, if a limitation in quantity were recognized, it would mean that multiple exclusive licenses of the same content can be established. In other words, as long as the quantity is limited, multiple exclusive licenses would not conflict with each other, and that would be against the purpose of the system of exclusive license.

In actual exclusive license agreements, limitations are often imposed with respect to matters such as the supplier of raw materials, product specifications,

³ In the Tokyo District Court decision on May 18, 1963, Civil Court Decisions by Lower Courts, Vol. 14, No. 5; p. 979 (the Swelling Pressure Applied Washing Method case) ([Annotation] Daijirou Nagata, *Tokkyo Hanrei Hyakusen* (100 Selected Patent-related Court Decisions), Case 72), which was a case about a non-exclusive license, the court stated that “originally, a patent right is an exclusive right to commercially work the patented invention only inside Japan, so the act of exporting a product covered within that technical scope in itself is inevitably an issue outside the scope of the said right of the patentee unless it is included in the concept of assignment within Japan.” This idea is also directly applicable to an exclusive license.

⁴ How such an agreement would be evaluated under the Anti-Monopoly Law is a separate issue.

⁵ Similar views are revealed in Toyosaki, *Kougyou Shoyuiken Hou* (Industrial Property Law): p. 304; Oda/Ishikawa, *Shin Tokkyo Hou* (New Patent Law): p. 334 (this mentions the reason that recognition of such limitation would allow both the patentee and the exclusive licensee to own the right to work the invention, and would be against the purpose of Section 68 of the Patent Law.).

distribution channels, attachment of marks, and dispatch of executives. However, these are not limitations in the scope of an exclusive license under the Patent Law, but only limitations in the agreement between the parties.

(2) Effects of an Exclusive License

An exclusive licensee has a right equivalent to that of the patentee within the scope set by the license agreement (Section 77 (2) of the Patent Law). Accordingly, an exclusive licensee is able to demand an injunction against an infringer (Sections 100 and 101 of the Patent Law) and to claim compensation for damages in his/her own name.

Since an exclusive license is an exclusive right, the patentee cannot conclude any further exclusive license agreements or non-exclusive license agreements of the same content in an overlapping manner. However, any non-exclusive license that was registered before the registration of an exclusive license is effective against the exclusive license (Section 99 (1) of the Patent Law).

The patentee and the exclusive licensee each must gain the consent of the other regarding matters that would change the content of the right. Specifically, the consent of the other party is required regarding abandonment of the patent right, demand for a trial for correction, assignment of the exclusive right or establishment of a pledge on it, and establishment of a sublicense (a non-exclusive license agreement). From the viewpoint of the exclusive licensee, it is a right the content of which cannot be changed against the intention of the licensee.

(3) Obligations under an Exclusive License Agreement

Since an exclusive license takes effect by registration (Section 98 (1) (ii) of the Patent Law), the patentee is naturally obligated to register the license. The registration is either made jointly (Section 18 of the Patent Registration Order) or only by the person entitled to registration by attaching the written consent of the person who must have the registration made (Section 19 of the Patent Registration Order). Another natural obligation of the patentee is to maintain the patent right and its value. Specifically, this obligation includes payment of the annual fee for the patent, obtaining of the consent of the licensee when abandoning the patent right or demanding a trial for correction, and taking appropriate measures regarding a trial for invalidation.

While the content of the license agreement can be decided freely, the following can be said about a case where there is no explicit agreement. Firstly, with regard to the liability of the licensor for defects, any agreements on non-exclusive licenses or

pledges must be registered in order to counter against an exclusive license, so they cannot be considered as concealed defects. However, a statutory license is effective against an exclusive license without registration (Section 99 (2) of the Patent Law), so if the patentee had concealed the existence of a statutory license while knowing it, the patentee would be liable for the defect. Thus, if such a statutory license exists, the exclusive licensee is likely to be allowed to claim reduction of the license fee, and when the defect is serious, the license could be cancelled. Meanwhile, it should be considered that the patentee is not liable for defects regarding the validity of the patent, in principle¹. A patent right is always subject to the risk of being invalidated, and the patentee is often not aware of if and when that will happen, so, unless the patentee has specifically guaranteed the validity or is considered to have given such a guarantee from various circumstances, the patentee should generally be considered to be free of liability for the defect. However, if the patent is invalidated in a trial for invalidation, the exclusive licensee would no longer be able to exclusively work the invention, so the licensee can announce cancellation of the license. Nevertheless, the exclusive licensee had practically gained profits from the exclusive working until the patent was invalidated, so the patentee is not considered to be liable for return of the already-paid license fees in principle².

While a license agreement often includes an obligation of technical assistance or an obligation to provide technical information, the patentee would only bear such obligations when they have been agreed upon.

The most important obligation of the licensee is the obligation to pay the license fee, but this is also based on the agreement, so it is also possible to make the license fee free. The licensee only has the right to work the invention, and is not

¹ Toyosaki, *Kougyou Shoyuukun Hou* (Industrial Property Law): p. 310; Kenichirou Oosumi, “*Gijutsu Teikei* (Technical Cooperation),” (3) (A), note 2: p. 92.

² This interpretation is the prevalent theory. Toyosaki, note 1; Kenichirou Oosumi, note 1. However, there are various modes for payment of the license fee. If the license fee was paid in proportion to the quantity of production or the quantity of sale, there is no need to find for return of already paid license fees, but if it was paid in a lump sum, there would be a need to return the amount equivalent to the period during which the invention could not be exclusively worked. There must be various other in-between modes in actuality but, in any case, it should be considered that the patentee does not have the obligation to return the amount corresponding to the period during which the invention could be exclusively worked. If an agreement had been concluded to the effect that already paid license fees were not returnable, the license fees are not considered to be unjust enrichment, and the patentee does not have the obligation to return them (the Tokyo District Court decision on November 29, 1982, Court Decision Journal, No. 1070: p. 94/The Law Times Report, No. 499: p. 195 (the Instant Food Container case) ([Annotation] Yoshihiko Satou, *Houritsu Jihou* (Law Journal), Vol. 55, No. 11: p. 146; Yoshio Ishikawa, *Tokkyo Hanrei Hyakusen* (100 Selected Patent-related Court Decisions) (Second Edition), Case 74).

justifiably obligated to work the invention³.

There is a theoretical dispute over whether or not the licensee has the obligation of not disputing the validity of the patent (the non-dispute obligation)⁴. The question is whether it would or would not be against the fair and equitable principle for the licensee to enjoy profits on the assumption that the patent is valid on the one hand and to dispute its validity on the other. Since a licensee concludes an agreement on the belief that the patent right is valid in most cases, it would be too severe to make him/her continue to pay the license fee on the assumption that the patent right is valid even when a ground for invalidation was found at a later date. Even if the licensee had doubt about the validity of the patent upon conclusion of the agreement, it is often difficult both in terms of time and money to demand a trial for invalidation without concluding the agreement, and the result of the trial is unknown until it becomes final and conclusive. Thus, it is too severe for the licensee to always have to demand a trial for invalidation from the beginning, and mere conclusion of a license agreement cannot be interpreted as silent consent to the validity of the patent. Therefore, the licensee should be eligible to demand a trial for invalidation in principle⁵. Indeed, the non-dispute obligation should be recognized in some special cases. For instance, it would be more reasonable to recognize the non-dispute obligation when the licensee had concluded the license agreement knowing the existence of a ground for invalidation,

³ Toyosaki, *Kougyou Shoyuiken Hou* (Industrial Property Law): p. 313; Tatsuki Shibuya, “*Tokkyo Jisshi Keiyaku Ni Okeru Jisshikensha No Jisshi Gimu To Keiyaku No Houritsuteki Seishitsu* (The Licensee’s Obligation to Work the Invention in a Patent Licensing Agreement and the Legal Nature of the Agreement),” *Journal of the Jurisprudence Association, The University of Tokyo*, Vol. 85, No. 2: p. 197. The licensee may be judged to have the obligation to work the invention depending on the mode of payment of the license fee, but it is a matter of interpretation of the agreement in any case.

⁴ Theories recognizing the non-dispute obligation include: Yoshimitsu Noguchi, “*Tokkyo Jisshi Keiyaku* (Patent Licensing Agreements),” *Book Commemorating Judge Hara’s Retirement*, Vol. 2: p. 1043; Kenichirou Oosumi, “*Gijutsu Teikei* (Technical Cooperation),” note 1: p. 136, Mitsuishi, *Tokkyo Hou* (Patent Law): p. 530. Those that do not recognize the obligation include: Oda/Ishikawa, *Shin Tokkyo Hou* (New Patent Law): p. 445; Monya, *Chuukai Tokkyo Hou* (Annotated Patent Law): p. 273 [Dohi]; Daijirou Nagata, *Gijutsu Enjo Keiyaku* (Technical Assistance Agreements) (Yuhikaku, 1962): p. 210.

⁵ There is not so much reason to distinguish between an exclusive license and a non-exclusive license regarding this issue. If some kind of distinction were to be made, an exclusive licensee is often in a closer relationship with the patentee, so it would be easier to uphold the non-dispute obligation. However, the difference is not considered to be significant. The following decisions, though they were related to non-exclusive licenses, found the licensee to be eligible to demand a trial for invalidation as a general rule: the Tokyo High Court decision on January 31, 1963, *Court Decisions in Administrative Cases*, Vol. 14, No. 1: p. 95 (the Synthetic Resin Decorative Laminate case) (a case under the old Law); the Tokyo High Court decision on July 30, 1985, *Court Decisions Relating to Intangible Property*, Vol. 17, No. 2: p. 344 (the Faucet Splice Fitting Design case) ([Annotation] Yoshiyuki Tamura, *Jurist*, No. 919: p. 90).

when the licensee concluded the license agreement by withdrawing from a trial for invalidation by reconciliation, or when the parties were in a special kind of relationship. Moreover, any agreement to the effect that the licensee shall not dispute the validity of the patent right should be considered to be valid in principle⁶.

(4) Changes of the Parties

(A) Change of the Licensor (Patentee)

The patentee can freely assign the patent right even after establishing an exclusive license. Since transfer of an exclusive license only takes effect by registration (Section 98 (1) (ii) of the Patent Law), the exclusive licensee is always registered and is able to be set up against the assignee of the patent right. The problem in this case is the consequence of the exclusive license agreement concluded between the former patentee and the exclusive licensee.

⁶ An agreement can be made freely in principle, so in order to deny its effect, the agreement needs to be against a compulsory law or regulation. The act of providing for a non-dispute obligation under an agreement is not considered to contravene public order and morality to an extent that it would invalidate the agreement. However, if there were circumstances such as an act that contravenes public order and morality in the process of concluding the agreement or an abuse of dominant bargaining position, it would be a different matter, and the effect of the agreement could be denied in such cases.

Opinions conflict regarding this point, between a theory stating that the new patentee inherits the rights and obligations arising from the license agreement; in other words, the agreement is directly transferred to the new patentee¹, and a theory stating that although the patent right can be assigned freely, the status of the licensor cannot be assigned by a unilateral action because it also includes obligations apart from rights². The latter theory adopts the interpretation that the license agreement itself remains with the former patentee, but its concrete meaning is not quite clear. Since the main obligation of the licensor is maintenance of the patent right, as long as the patent right has been assigned, there is no longer a meaning in retaining such an obligation. Consequently, the former patentee would not be able to perform the obligation, and the exclusive licensee would only have the option to cancel the agreement, but that is practically equivalent to not being able to assign the patent right³. Accordingly, it is more reasonable to consider that the matters registered as the content of the exclusive license are transferred to the new patentee. Specifically, matters including the scope of license, the amount of license fee, and the timing of its payment would be effective against the new patentee with the same conditions, provided that they are registered. On the other hand, obligations under the agreement that are not registered or cannot be registered⁴ would remain with the former patentee. If the agreement cannot be performed as a result, it would be an issue of default of obligations.

(B) Change of the Exclusive Licensee

¹ This theory applies the idea about leaseholds stipulated in Article 605 of the Civil Code also to Section 99 (1) of the Patent Law. Koue Toyosaki, “*Tokkyoken No Jouto To Kyodaku Jisshiken No Chii* (Assignment of a Patent Right and the Status of the Licensee under Agreement),” Book Commemorating the Seventieth Birthday of Professor Oosumi, *Kigyuu Hou No Kenkyuu* (Study of Business Law) (Yuhikaku, 1977): p. 570; Oda/Ishikawa, *Shin Tokkyo Hou* (New Patent Law): p. 345.

² Kenichirou Oosumi, “*Gijustu Teikei* (Technical Cooperation),” *Keiei Hougaku Zenshuu* (Collected Articles on Business Law), Vol. 11, *Kigyuu Teikei* (Corporate Alliances) (Diamond, 1967): p. 152. The idea that obligations cannot be transferred by a unilateral action of the patentee is convincing, but even by applying this theory, the former patentee can only transfer the rights to the new patentee by assignment of the claims, and the obligations would remain with the former patentee. It goes without saying that the rights and obligations are transferred in a batch in the case of a general succession such as an inheritance or corporate merger.

³ It may not cause much problem in reality because the new patentee would maintain the patent right (e.g. payment of the annual fee to the JPO, taking appropriate measures for a trial for invalidation), but the former patentee could be made subject to a claim of default of obligations in legal terms. If the obligation was only payment of the annual fee, the former patentee could also perform the obligation because interested parties are also eligible to make the payment (Section 110 (1) of the Patent Law).

⁴ For instance, an obligation to provide technical information, an obligation to provide technical assistance, and an obligation to supply raw materials.

Since an exclusive license is a property right, its transfer should generally be allowed, similar to the case of superficies. However, the patentee has a serious interest in who the licensee is, so certain restrictions are stipulated. They have the same purpose as the restrictions on assignment of one's share of a jointly owned patent (Section 73 (1) of the Patent Law). The exclusive licensee can transfer the license only together with the business, with the consent of the patentee, or in the case of a general succession (Section 77 (3) of the Patent Law).

It is natural that transfers are allowed with the consent of the patentee or in the case of general succession. The problem is with a transfer together with a business. This stipulation was established because, if the exclusive license were not transferred when the business has been transferred, the business could not be continued and the facilities must be discarded as a result, which is not desirable for the national economy. The concept of business in this case is not necessarily clear. In other words, if transfer of the exclusive license was allowed even for a minute transfer of facilities, it would be equivalent to recognizing free assignment as a result. On the other hand, if transfer of the business was considered to mean assignment of the company's business transactions, it would often disable the transfer of facilities or lead to the discarding of facilities, which would be undesirable for the national economy. Ultimately, this is an issue of where to achieve balance between consideration of the national economy and protection of the patentee. From this viewpoint, the term "business" should be interpreted as meaning a business sufficient for working the patented invention. Its specific size should be determined case by case according to the content of the patented invention.

Transfer of an exclusive license requires registration in order to take effect except in the case of a general succession (Section 98 (1) (ii) of the Patent Law).

Compulsory execution with regard to an exclusive license should be considered to also require the consent of the patentee, since it results in a transfer of rights.

The consent of the patentee is also required when establishing a pledge on the exclusive license or when granting a non-exclusive license to another person (Section 77 (4) of the Patent Law).

Item 3 Non-Exclusive License

1. Nature of a Non-Exclusive License

A non-exclusive license, which is an authorization to work the patented invention, is different from an exclusive license in that its monopoly and exclusivity are not guaranteed under the patent system. Therefore, non-exclusive licenses can exist in an overlapping manner. Unless being bound by an agreement, the patentee

(hereinafter only the patentee will be mentioned, although it could also be an exclusive licensee) is able to grant non-exclusive licenses of the same content to multiple persons without the consent of any licensee. In that sense, a non-exclusive license can be regarded as a right to demand inaction from the patentee in not exercising the right to demand an injunction or the right to claim compensation for damages¹. Naturally, various contents can be assumed for actual non-exclusive license agreements, so there could be licenses whose content exceeds the mere right to demand inaction, but a non-exclusive license as under the Patent Law is a right to demand inaction². The

¹ There is a theory that recognizes the legal duties of a non-exclusive licensee based on the legal text that “a non-exclusive licensee shall have the right to commercially work the patented invention.....” in Section 78 (2) of the Patent Law (Tsunekazu Kojima, “*Tsuujou Jisshiken No Fukashinsei* (Inviolability of a Non-Exclusive License),” *Asia Law Review*, Vol. 19, No. 1/2 (combined issue): p. 155; Masahiko Amemiya, “*Tokkyo Jisshi Keiyaku Ron* (Discussions on Patent Licensing Agreements),” Vol. 1: p. 411 states that there is no ground under positive law to consider a non-exclusive license as a right to demand approval for working the invention). However, such a discussion is meaningless. Relaxation of the exclusive right on a patent in favor of a specific person (the licensee) means, from the licensee’s standpoint, being granted the right to work the patented invention and the provision merely states the same thing in a converse expression. It is more important to focus on the actual conditions.

² There are wide-ranging modes to non-exclusive licenses. On one end, there is a monopolistic non-exclusive license where the patentee specially agrees not to grant a license to any other party, or a non-exclusive license having a relationship similar to a cartel. On the other end, there is an implicit non-exclusive license that occurs by giving silent approval to working of the invention by another person under a certain situation. As a special mode, there could also be a case where parties that had been in dispute over the validity of a patent right reconcile and conclude a non-exclusive license agreement. These various modes of licenses are all non-exclusive licenses, and their common denominators are expressed as a non-exclusive license under the Patent Law. If so, a non-exclusive license is an authorization to be free from a demand for an injunction or a claim for compensation for damages even if the licensee commercially works the invention; in other words, it is inevitably a right to demand inaction. (The following Supreme Court decision holds the same view concerning the nature of a non-exclusive license in relation to the obligation of registration: the Supreme Court decision on April 20, 1973, Civil Court Decisions by the Supreme Court, Vol. 27, No. 3: p. 580 (the Punching Construction Method case); other court decisions with the same stance include: the Tokyo District court decision on September 23, 1989, Court Decision Journal, No. 205: p. 23 (the Air-filled Vinyl Toy case) ([Annotation] Yumi Gaku, *Tokkyo Hanrei Hyakusen* (100 Selected Patent-related Court Decisions), Case 74 (a case under the old Law)); the Tokyo District Court decision on November 20, 1961, Civil Court Decisions by Lower Courts, Vol. 12, No. 11: p. 2808 (the Book Rack Supporter case) (a case under the old Law) ([Annotation] Nobuo Monya, *Tokkyo Hanrei Hyakusen*, Case 82); the Osaka District Court decision on April 26, 1984, Court Decisions Relating to Intangible Property, Vol. 16, No. 1: p. 271 (the Super Joiner case) ([Annotation] Kazuo Morioka, *Hatsumei* (Invention), Vol. 81, No. 10: p. 98); the Osaka District Court decision on December 20, 1984, Court Decisions Relating to Intangible Property, Vol. 16, No. 3: p. 803 (the Hair Brush Design case) ([Annotation] Kazuo Morioka, *Tokkyo Hanrei Hyakusen*, Case 82); its appellate instance, the Osaka High Court decision on June 20, 1986, Court Decisions Relating to Intangible Property, Vol. 18, No. 2: p. 210 ([Annotation] Keita Satou, *Jurist*, No. 974: p. 99)). A non-exclusive license agreement often includes provisions on an obligation to cooperate in actually working the invention, an obligation of registration, an obligation to provide know-how, and an obligation to eliminate infringements, among other matters, but these matters do not derive naturally from the non-exclusive license itself, but they are matters of individual agreements. (This is

clear when considering a non-exclusive licensing agreement or an implicit licensing agreement that is concluded when the licensee already entirely owns the technology, but cannot work it due to the existence of the patent.) An opposing theory (a theory stating that the licensor naturally bears obligations including an obligation to cooperate in working the invention) is advocated in the following: Toyosaki, *Kougyou Shoyuiken Hou* (Industrial Property Law): p. 309 (it states that the licensor is liable to explain the specification and the drawings, as well as teach the process of working and cooperate in necessary registration); Yoshinobu Someno, “*Tokkyo Jisshi Keiyaku* (Patent Licensing Agreements),” *Keiyaku Hou Taikei* (Outline of Contract Law) VI (2) (Yuhikaku, 1963): p. 381; Kazuo Morioka, *Hatsumei*, Vol. 81, No. 10: p. 98. These academic theories confuse the non-exclusive license itself with the agreement. The Osaka District Court decision on December 26, 1964, *Civil Court Decisions by Lower Courts*, Vol. 15, No. 12: p. 3121 (the Polypropylene case) ([Annotation] Nobuo Monya, *Shouji Hanrei Kenkyuu* (Study of Commercial Court Decisions), FY 1964: p. 417; Yoshimitsu Noguchi/Masahiko Amemiya, *Kougyou Shoyuiken Kenkyuu* (Study of Industrial Property), No. 9: p. 21; Yoshinobu Someno, *Court Decision Journal*, No. 438: p. 167; Yoshinobu Someno, *Tokkyo Hanrei Hyakusen* (Second Edition), Case 101; Keiko Someno, *Tokkyo Hanrei Hyakusen*, Case 70; Tatsuki Shibuya, *Tokkyo Hanrei Hyakusen* (Second Edition), Case 73). In this decision, the court stated as follows in obiter dictum: “It is reasonable to consider that in addition to an obligation to authorize the non-exclusive licensee to work the patented invention (the obligation of inaction), the licensor has an obligation to stop illegal patent infringements by third parties in order to make the working of the invention complete also in the practical sense (a legal duty).” However, there seems to have been a special agreement in this case to the effect that “the patentee shall file and conduct in good faith lawsuits against any patent infringers, as required, in order to prevent practical infringements,” and the actual judgment also mentioned that “as a liability based on the license agreement, the licensor” has an obligation to eliminate infringements. Therefore, this decision cannot be considered to have stated the general

actual content of a non-exclusive license centers on the right to demand inaction with various other matters added to it.

The greatest feature of the non-exclusive license is that multiple licensees can concurrently exist, unlike the leasehold. This feature is not specific to the non-exclusive license for a patent right, but originates from the characteristic of intellectual property. Unlike in the case of a tangible property, intangible property can be used without possession, so multiple persons can concurrently use a single intangible property in principle. Therefore, in order to establish a property right to it, an exclusive right must be granted by law. The holder of the exclusive right (the patentee) can either exercise or not exercise the exclusive right against a third party, and if he/she does not exercise the right, the third party can work the invention, which is what a non-exclusive license is. The act of not exercising the exclusive right is either based on an explicit agreement or by an implicit agreement. Since it is merely a passive benefit of not exercising the right, multiple non-exclusive licensees could concurrently exist in theory.

2. Types of Non-Exclusive Licenses

The non-exclusive licenses provided for under the Patent Law are the non-exclusive license by agreement, the arbitrary non-exclusive license, and the statutory non-exclusive license. The latter two shall be described in detail in Items 4 and 5, and only the non-exclusive license by agreement shall be discussed here.

rule for non-exclusive licenses.

The content of a non-exclusive license by agreement can be freely decided by an agreement. Due to various needs, a special agreement to not grant the license to any other person is often concluded between the parties (this is called a monopolistic non-exclusive license). Also, it is possible to conclude a special agreement to the effect that the patentee shall no longer work the invention (this is called a completely monopolistic non-exclusive license). Since this is a matter of agreement, there are no particular provisions about it under the Patent Law, but there is no special reason to deny the monopolistic effect either. However, it is not possible to register the fact that the license is monopolistic¹, so the licensee cannot counter third parties regarding the monopoly. If the patentee grants a license to another person in violation of the agreement, the monopolistic non-exclusive licensee can only hold the patentee liable for default of an obligation. Incidentally, whether or not a license is monopolistic is merely decided by an agreement and, under some circumstances, a monopolistic non-exclusive license can also be established by an implicit agreement².

3. Establishment and Extinguishment of a Non-exclusive License

In most cases, a non-exclusive license takes effect by an agreement. It takes effect by an agreement between both parties, and unlike in the case of an exclusive license, registration is a requirement for countering third parties (Section 99 (1) of the Patent Law). Registration is also a requirement for countering third parties regarding the transfer, modification, extinguishment or restriction on disposal of a non-exclusive license or regarding a pledge on a non-exclusive license (Section 99 (3) of the Patent Law).

When the patent right is jointly owned, a non-exclusive license cannot be granted without the consent of all the joint owners (Section 73 (3) of the Patent Law). This aspect is the same as in the case of an exclusive license.

Since a non-exclusive license is established based on a patent right, it naturally extinguishes when the patent right lapses. In other words, the non-exclusive license

¹ The question of whether or not a certain matter can be registered is decided by whether it is mentioned as a registration item in the Patent Registration Order. The fact that a license is monopolistic is not mentioned as a registration item.

² The Tokyo District Court decision on May 7, 1962, Civil Court Decisions by Lower Courts, Vol. 13, No. 5: p. 972 (the Gas Pressure Welding Method case) ([Annotation] Nobuo Monya, Jurist, No. 320: p. 108; Daijirou Nagata, *Tokkyo Hanrei Hyakusen* (100 Selected Patent-related Court Decisions), Case 73; Yoshihiko Satou, *Tokkyo Hanrei Hyakusen* (Second Edition), Case 88); the Osaka District Court decision on February 28, 1979, Court Decisions Relating to Intangible Property, Vol. 11, No. 1: p. 92 (the Artificial Hair Transplantation Device case). An invention made by the representative of a privately-managed stock company could be acknowledged to be monopolistic in some cases judging from the relationship between the inventor and the company.

also extinguishes when the patent right lapses due to a trial decision of invalidation becoming final and conclusive, expiration of the term of the patent, absence of an heir, abandonment of the patent right (however, this requires the consent of the non-exclusive licensee; Section 97 (1) of the Patent Law), or annulment of the patent right (Article 100 of the Anti-Monopoly Law). When the non-exclusive license has been granted by an exclusive licensee, the non-exclusive license also extinguishes when the exclusive license extinguishes. The grounds for extinguishment of the non-exclusive license itself are extinguishment of the contractual relationship between the parties (e.g. expiration of the term of agreement, cancellation of the agreement), abandonment of the non-exclusive license, or annulment of the non-exclusive license (Article 100 of the Anti-Monopoly Law). When the patentee and the non-exclusive licensee come to merge, the non-exclusive license extinguishes by merger.

4. Content of a Non-Exclusive License

(1) Scope of a Non-Exclusive License

The scope of a non-exclusive license can be decided by an agreement as in the case of an exclusive license. The agreed scope of a non-exclusive license must be stated when applying for registration of the non-exclusive license (Section 45 (1) (i) of the Patent Law). Unlike an exclusive license, registration of a non-exclusive license is not a requirement for the license to take effect, but a requirement for countering third parties, so the scope of the license also becomes effective against third parties only by registration.

There is a theory stating that sublicensing of a non-exclusive license cannot be recognized, because unlike in the case of an exclusive license (Section 77 (4) of the Patent Law), there is no such provision under the Patent Law¹. However, sublicenses are actually being granted and the prevalent theories recognize them. The only party having an interest in the sublicensing is the patentee, so as long as the patentee gives consent, there should be no problem in allowing sublicensing². This is because an

¹ Oda/Ishikawa, *Shin Tokkyo Hou* (New Patent Law): p. 346.

² Even if a non-exclusive licensee grants a sublicense, it cannot be registered, so this matter would mainly be an issue of theoretical structure. It would be possible to consider it both as a grant of a sublicense by the non-exclusive licensee and as a direct grant of a non-exclusive license to the sublicensee by the patentee. However, the sublicensee tends to pay the license fee to the sublicensor and various agreements tend to be concluded between the sublicensee and the sublicensor, so it would be more straightforward to consider it as a sublicense, instead of a direct grant of a non-exclusive license by the patentee. It goes without saying that there is no theoretical inconsistency between considering a non-exclusive license as a right to demand inaction and recognizing sublicensing.

agreement between the parties should be recognized according to the agreed content unless it is against a compulsory law or regulation.

(2) Effects of a Non-Exclusive License

The most disputed point regarding the effects of a non-exclusive license is whether or not compensation can be claimed and an injunction can be sought against an infringement based on the license¹. First, there is a question of whether or not working of the invention by a third party having no such authorization can constitute a violation of a claim. Theories are greatly diversified regarding this point². As this is an issue of violation of a claim under the Civil Code, its details shall be left to the books in that field, and only an overview shall be introduced here.

In theory, violation of a claim can constitute an act of tort. However it has hardly ever been recognized in practice, and it is said that matters including the nature of a claim and the mode of infringement must be sufficiently taken into account for violation of a claim to be recognized as an act of tort. The modes of violation of a claim are generally divided into three categories; namely, violation of attribution of a claim, violation of a claimable benefit, and participation in default of an obligation, and it must be examined whether or not infringement of a non-exclusive license corresponds to them.

In the case of a non-monopolistic non-exclusive licensee, the licensee is able to continue working the invention without being obstructed even after a third party works the invention without being authorized to do so, so there is no violation of attribution of a claim. Since a non-exclusive license is, as mentioned earlier, a right to demand inaction, there would be no violation of a claimable benefit either³. In addition, the

¹ An infringement of a non-exclusive license here indicates a case where a third party without an authorization to work the invention works the patented invention. Acts where a third party practically obstructs realization of a non-exclusive license, obstructs the working of the invention by stopping supply of raw materials or funds, or obstructs the working by blocking transportation are not issues of infringement of the patent right or license, but are issues concerning acts of tort or criminal law. The following was a copyright related case involving this issue: the Yokoyama District Court decision on October 29, 1985, Court Decision Journal, No. 1176: p. 126/The Law Times Report, No. 609: p. 98 (the Case of a Bird with a Flower in Its Beak) ([Annotation] Eimi Takura/Youichi Tsuji, *Chosakuken Hanrei Hyakusen* (100 Selected Copyright-related Court Decisions), Case 84).

² For details of the theories, see: Nobuhiro Nakayama, “*Tsuujou Jisshiken No Shingai* (Infringement of Non-Exclusive Licenses),” Articles in memory of Professor Nakamatsu: p. 483; Nakayama, *Chuukai Tokkyo* (Annotated Patent Law), Vol. 1: p. 748 [Nakayama]; Kazuo Morioka, “*Jisshikensha No Sasidome Seikyuuken* (A Licensee’s Right to Demand an Injunction),” *Touyou Hougaku* (Journal of the Association of Law, Toyo University), Vol. 20, No. 1: p. 79.

³ Violation of a claimable benefit may arise with regard to the various agreements accompanying a non-exclusive license, but that is a matter of ordinary violation of a claim, and not an issue specific

patentee is free to grant a license to other third parties or give silent approval to working of the invention by a third party, so there is no question of participation in the patentee's default of an obligation against the licensee. Accordingly, a non-exclusive licensee may have an economic interest, but not a legal interest in the working of an invention by a third party who has no authorization, so the act would not be an act of tort against the non-exclusive licensee⁴.

A monopolistic non-exclusive license is, on the other hand, an authorization to monopolistically work the invention under an agreement, so if a third party works the invention without being authorized, the monopoly is formally violated, and it could constitute violation of a claim. Although the Patent Law provides for the exclusive license as a monopolistic license, there is no particular need to deny a monopolistic non-exclusive license. Court decisions also tend to recognize a specific right to claim compensation for damages of a monopolistic non-exclusive licensee⁵. Meanwhile, there is no relation between constitution of an act of tort and registration, so no

to a non-exclusive license.

⁴ This is the consistent stance taken by court decisions including the Osaka District Court decision on April 26, 1984, Court Decisions Relating to Intangible Property, Vol. 16, No. 1: p. 271 (the Super Joiner case). By the way, only one kind of license was stipulated under the old Patent Law, and there was no distinction between an exclusive license and a non-exclusive license. However, in practice, accessory registration to the effect that the license was monopolistic had been recognized, so licenses with such registration can be considered to be close to the exclusive license under the current Law. Therefore, attention should be paid to this point when examining court decisions under the old Law.

⁵ The Osaka District Court decision on February 28, 1979, Court Decisions Relating to Intangible Property, Vol. 11, No. 1: p. 92 (the Artificial Hair Transplantation Device case); its appellate instance, the Osaka High Court decision on January 30, 1980, Court Decisions Relating to Intangible Property, Vol. 12, No. 1: p. 33; Osaka District Court decision on December 20, 1984, Court Decisions Relating to Intangible Property, Vol. 16, No. 3: p. 803 (the Hair Brush Design case) ([Annotation] Kazuo Morioka, *Tokkyo Hanrei Hyakusen* (100 Selected Patent-related Court Decisions) (Second Edition), Case 82); its appellate instance, the Osaka High Court decision on June 20, 1986, Court Decisions Relating to Intangible Property, Vol. 18, No. 2: p. 210 ([Annotation] Keita Satou, *Jurist*, No. 974: p. 99); its final instance, the Supreme Court decision on January 20, 1987 (not published in the collection of court decisions) ([Annotation] Kazufumi Dohi, *Hatsumei* (Invention), Vol. 84, No. 8: p. 94 (the appeal was dismissed extremely easily)); the Kobe District Court decision on March 18, 1987, *The Law Times Report*, No. 645: p. 234 (the Pile Burying Method case) ([Annotation] Kazuo Komatsu/Tooru Aoki, *Tokkyo Kanri* (Patent Management), Vol. 39, No. 1: p. 51); the Kyoto District Court decision on December 21, 1987, *Tokkyo To Kigyō* (Patent and Enterprise), No. 230: p. 79 (the Textile Coloring and Patterning Method case). There is a question of whether the presumptive provision on the amount of damages (Section 102 of the Patent Law) and the provision on presumption of negligence (Section 103 of the Patent Law) are applicable. Application of these provisions was recognized in the Osaka High Court decision on January 30, 1980; the Osaka District court decision on December 20, 1984; and its appellate instance, the Osaka High Court decision on June 20, 1986 (this was a case of a completely monopolistic non-exclusive license by which the profits from the design right could be monopolized) mentioned in this note 5.

registration is required, either, for an act of tort caused by an infringement of a monopolistic non-exclusive license⁶. As the right to demand an injunction based on a tortious act is not recognized in principle at present, court decisions have not recognized such right with regard to an infringement of a monopolistic non-exclusive license⁷. Incidentally, an infringement of a non-exclusive license does not constitute an offense of infringement based on the principle of legality.

Next is the question of whether or not a specific right to demand an injunction can be recognized based on a non-exclusive license. This is basically an issue of the right to demand abatement of a nuisance based on a claim. It is natural that the right to demand abatement of a nuisance is not recognized for a non-monopolistic non-exclusive license, but the question arises with regard to a monopolistic non-exclusive license. A claim-like right to use real estate has a long history and there had been social demands to make this right stronger, so particularly in cases of leased land or leased houses, the right to use real estate has come to be recognized as having strong effects quite similar to a real right. On the other hand, a non-exclusive license is fundamentally different from the case of real estate in that it can be used in an overlapping manner. In addition, the Patent Law particularly provides for an exclusive license system based on which demand for an injunction is allowed. This issue is basically dependent on the theory of the Civil Code, but there is a problem in immediately discussing this issue on the same plane as the claim-like right to use real estate under such present circumstances, so it is considered unrealistic to recognize a specific right to demand an injunction based on a monopolistic non-exclusive license.

Another question is whether or not a non-exclusive licensee can claim compensation for damages and demand an injunction from the infringer in subrogation of the patentee. Many of the theories that recognize the right to claim compensation for damages or the right to demand an injunction based on a non-exclusive license suppose application of the action subrogatoire. However, subrogation is not

⁶ Toyosaki, *Kougyou Shoyuiken Hou* (Industrial Property Law): p. 299 and Oda/Ishikawa, *Shin Tokkyo Hou* (New Patent Law): p. 342 advocate an opposing theory, stating that it could also balance with the fact that registration is a requirement for an exclusive license to take effect. However, an infringement of a monopolistic non-exclusive license is an issue of an act or tort caused by violation of a claim, while an infringement of an exclusive license is an act of tort caused by one kind of infringement of a real right, so there should be no need to achieve balance between the two.

⁷ The following court decisions did not recognize the right to demand an injunction based on a monopolistic non-exclusive license: the Osaka District Court decision on December 20, 1984 (note 5) (a case in which the action subrogatoire was not recognized); and its appellate instance, the Osaka High Court decision on June 20, 1986 (note 5). As an opposing theory, Oda/Ishikawa, *Shin Tokkyo Hou* (New Patent Law): p. 343 states that Section 100 should be analogically applied regarding demands for an injunction and claims for compensation for damages.

recognized for all claims under the Civil Code. The system of action subrogatoire was originally not a system for conservation of particular claims, but it had required insolvency of the obligor. Later, court decisions and academic theories came to recognize application of the provision of action subrogatoire to conservation of particular claims regarding the claim-like right to use real estate. The action subrogatoire must be recognized for real estate, because the overlapping use of real estate is physically impossible and the lessor of real estate has an obligation to make the real estate available for use by the lessee. Unlike in the case of real estate, a non-exclusive license can be used in an overlapping manner. The patentee is free to grant a license to another third party, and unless there is any special agreement, a non-exclusive licensee has no right to demand that the patentee eliminate infringements. If the action subrogatoire were recognized under such a situation, it would result in unjustly depriving the freedom of the patentee, and unfairly expanding the right of the non-exclusive licensee. Meanwhile, working of the invention by a third party without authorization does not obstruct the non-exclusive licensee from working the invention, so there is no need to recognize violation of a claim. However, in the case of a monopolistic non-exclusive license, the status of its use resembles the case of the claim-like right to use real estate, so recognition of the action subrogatoire could be useful under some circumstances⁸.

(3) Obligations under a Non-Exclusive License

⁸ In the following decision, the court stated that the monopolistic non-exclusive licensee can be subrogated to the patentee's right to demand an injunction in the obiter dictum: the Tokyo District Court decision on August, 31, 1965, *The Law Times Report*, No. 185: p. 209 (a case under the old Law in which the license was considered to involve a monopolistic agreement; however, the demand was dismissed in the conclusion).

The most debated obligation of a patentee (licensor) is the obligation of registration. Court decisions have consistently denied the obligation of registration¹. On the other hand, opinions are divided in academic theories. The opinions can be roughly divided into a theory that recognizes the right to claim registration, a theory that does not recognize this without a special agreement, and a theory that recognizes the right to demand registration when an implicit agreement can be found as a result of reasonable interpretation of the intentions of the parties concerned².

A non-exclusive license itself is merely a right to demand inaction, so a right to demand registration cannot be considered an inevitable product of a non-exclusive license³. This fact is clear when considering the implicit non-exclusive license. If a

¹ In case law, this issue has been settled by a Supreme Court decision. The Supreme Court decision on April 20, 1973, Civil Court Decisions by the Supreme Court, Vol. 27, No. 3: p. 580 (the Punching Method case) ([Annotation] Koue Toyosaki, Journal of the Jurisprudence Association, The University of Tokyo, Vol. 91, No. 10: p. 535; Yoshihiko Satou, *Houritsu Jihou* (Law Journal), Vol. 46, No. 1: p. 107; Shigetoshi Matsumoto, Court Decision Journal, No. 724: p. 134; Tomio Kawaguchi, *Housou Jihou* (Bar Journal), Vol. 26, No. 4: p. 747; Tadashi Takura, The Law Times Report, No. 301: p. 70; Tsunekazu Kojima, Patent, Vol. 27, No. 2: p. 27; Takashi Honma, *Tokkyo Kanri* (Patent Management), Vol. 25, No. 10: p. 1037; Fumio Satou, *Tokkyo Hanrei Hyakusen* (100 Selected Patent-related Court Decisions) (Second Edition), Case 72). Although this Supreme Court decision was rendered under the old Law, it has value as a precedent even under the current Law, and later lower court decisions have followed this Supreme Court decision. The Shizuoka District Court Hamamatsu Branch decision on March 29, 1978, The Law Times Report, No. 369: p. 403 (the Motorcycle Fuel Tank case) ([Annotation] Kinji Katayama, *Tokkyo Kanri* (Patent Management), Vol. 29, No. 11: p. 1279); the Tokyo High Court decision on April 9, 1980, *Tokkyo To Kigyuu* (Patent and Enterprise), No. 137: p. 73 (the Petrol Engine case). Similar decisions before this Supreme Court decision include the Tokyo District Court decision on September 23, 1959, Court Decision Journal, No. 205: p. 23 (the Inflated Vinyl Toy case) ([Annotation] Yumi Gaku, *Tokkyo Hanrei Hyakusen*, Case 74).

² For the details of the academic theories, see Nobuhiro Nakayama, “*Tsuujou Jisshiken To Touroku Seikyuuken* (Non-exclusive License and the Right to Demand Registration),” *Gakkai Nenpou* (Annual of Industrial Property Law), No. 2: p. 24; Nakayama, *Chuukai Tokkyo* (Annotated Patent Law), Vol. 1: p. 756 [Nakayama].

³ Naoto Komuro, “*Kyodaku Ni Yoru Tsuujou Jisshiken No Seisitsu* (The Nature of a Non-exclusive License by Agreement),” *Tokkyo Kanri* (Patent Management), Vol. 30, No. 3: p. 291; Nakayama, *Chuukai Tokkyo* (Annotated Patent Law), Vol. 1: p. 755 [Nakayama]. An opposing theory in Toyosaki, *Kougyou Shoyuiken Hou* (Industrial Property Law): p. 310 is described as follows: “Since registration has the important aspect of also extending the effect of the license to anyone subsequently acquiring an exclusive license on the patent, the obligation of cooperation should be recognized.” “Otherwise, we would have to recognize a contradictory phenomenon where the licensor makes the working impossible as a result of assigning the patent right or granting an exclusive license to it, while bearing the obligation to cooperate to make the working possible. Then, the licensee would be put in an unstable position of having no other option but to hold the licensor liable for default of the obligation.” However, this opinion is questionable. If such an interpretation were possible, there would be no need for the Land and House Lease Law. (The lessee of real estate is also in an unstable position like a non-exclusive licensee. Although registration is stipulated as a requirement for countering third parties based on the leasehold of real estate under Article 605 of the Civil Code, a lessee does not justifiably have the right to demand registration. Therefore, the Land and House Lease Law has been enacted to remedy such an unstable position, but

right to demand registration were to arise, it is the result of the effect of a special agreement between the parties. That agreement does not necessarily have to be explicit. If an agreement to effect the registration could be found as a result of investigating the reasonable intentions of the parties, it would be appropriate to recognize the right to demand registration. Although in principle the determination would be made case by case according to the specific cases, since it is a matter of how the individual agreements are interpreted, it is still possible to break the determination down into patterns.

Firstly, in the case of a monopolistic non-exclusive license, an agreement of registration is quite likely to be found since the parties are in a relationship similar to the case of an exclusive license⁴.

As for a non-monopolistic non-exclusive license, an obligation of registration should not be easily found as the reasonable intentions of the parties, considering that most of the licenses are actually not registered and that inconveniences analogous to fraudulent speculation in real estate have hardly ever occurred. However, it is appropriate to recognize the obligation of registration in some special cases. When two parties have filed applications for the same invention on the same date, and one of them has withdrawn the application after consultation between the parties and has acquired a non-exclusive license, the reasonable intention of the parties would often be to register the license.

Many of the cases that appeared in court decisions were cases in which two parties who had been in dispute over the validity of a patent concluded a non-exclusive license agreement by reconciliation. Some people may decide that it is not desirable to have a patent that should essentially be invalidated shared between the two parties and have the court help with the registration for accomplishing such an act. However, a trial for invalidation often consumes a lot of time and cost, and its result is often unforeseeable. Due to such a situation, the parties cannot be condemned for reconciling with each other, and since third parties can demand a trial for invalidation separately, it would not have a very harmful effect. Accordingly, even in the case where a non-exclusive license was granted by reconciliation, the obligation of registration should not be uniformly denied, but the reasonable intentions of the parties

no legislative measure has been taken with regard to non-exclusive licenses.) If it were considered reasonable to recognize the obligation of registration, the registration of a non-exclusive license should be made a requirement for the license to take effect, though this is a legislative approach. (It is questionable whether this is possible in the actual practice.)

⁴ This is also basically a matter of interpretation of the agreement, so it is no wonder there were cases in which the parties were found to have agreed not to register.

should be investigated.

The obligation of registration is considered to be denied in most of the cases of implicit non-exclusive licenses. The patentee is not likely to bear any obligations besides the obligation of inaction in the case of such licenses. In any case, it would be a matter of interpretation of the content of the agreement.

Apart from these, the issue of whether or not the patentee has the obligation to maintain the patent right and its value is also basically a matter of a special agreement. The patentee is not likely to have the obligation to maintain the patent right in the case of an implicit non-exclusive license. In reverse, it is hardly unlikely for the parties to preclude an explicit or implicit obligation to maintain the patent right when concluding a non-exclusive license.

Although the main obligation of the licensee is the obligation to pay the license fee, this is a matter of agreement, and the fee could even be free. With regard to the non-dispute obligation, the conditions are the same as for an exclusive license.

(4) Changes of the Parties

Similar to the case of an exclusive license, a patentee can assign the patent right even after granting a non-exclusive license. Since registration of the non-exclusive license is stipulated as a requirement for countering third parties, a non-exclusive licensee whose license has not been registered cannot set up against the new patentee or the new exclusive licensee (Section 99 (1) of the Patent Law). Therefore, if the patent right were assigned, it would be the same as fraudulent speculation, and the non-exclusive licensee would not be protected, but would only be able to claim compensation for damages from the former patentee based on the default of an obligation. However, in reality, no problems seem to have been caused by fraudulent speculation despite the fact that an overwhelming portion of non-exclusive licenses is unregistered, and no law like the Land and House Lease Law has been legislated for the protection of non-exclusive licensees.

With regard to the transfer of a non-exclusive license, registration is not a requirement for the transfer to take effect, but is a requirement for countering third parties (Section 99 (3) of the Patent Law). A non-exclusive license may be transferred only with the consent of the patentee, together with the business in which it is worked, or by general succession (Section 94 (1) of the Patent Law). First of all, an issue of countering a third party cannot arise in the case of general succession. In the case of a transfer together with the business in which it is worked, overlapping assignments can

hardly ever occur¹. As for the consent of the patentee, it is possible for the patentee to give consent to each of the overlapping assignments. However, what kind of dispute could occur between the assignees of such overlapping assignments if the patentee were to give consent in an overlapping manner? Since a non-exclusive license involves neither the right to claim compensation for damages nor the right to demand an injunction, neither party has any right of demand against the other party. Therefore, no litigation could arise between the assignees in principle², and if so, the issue of countering a third party cannot occur³. Furthermore, most non-exclusive licenses are unregistered, so their transfers are hardly ever registered either⁴. Accordingly, even if

¹ Unlike the transfer of business under the Commercial Code, the assignment of business in this case could also mean the assignment of a part of the business. There could be an exceptional case where a non-exclusive licensee, who had been working the same invention in two factories, assigns each of the businesses to separate people together with the non-exclusive license, but that is not an issue of overlapping assignments.

² However, the right to claim compensation for damages is recognized under a case law regarding a monopolistic non-exclusive right, and there are also court decisions that have recognized the demand for an injunction by applying the provision on the subrogation of the obligee (See the relevant part in (2) Effects of a Non-Exclusive License). Then, there would remain a possibility for litigation to occur between the assignees.

³ A dispute could occur between the patentee and an assignee without registration, but that is an issue of whether or not there had been consent, and not an issue of countering a third party.

⁴ A non-exclusive license must be registered as a premise for registering the transfer. To this end, the registration of creation of the license would be first required for a non-exclusive license by

disputes were to occur, most of the cases would be disputes between parties without registrations, so Section 99 (3) of the Patent Law would be meaningless⁵. Consequently, Section 99 (3) of the Patent Law means that the transfer would be effective against the new patentee if the patent right were assigned (which would be the same as Section 99 (1)).

Item 4 Compulsory License

1. Compulsory License on an Invention Not in Use (Section 83 of the Patent Law)

agreement, but unless there is either an explicit or implicit agreement, the non-exclusive licensee has no right to demand the registration (See the relevant part in (3) Obligations under a Non-Exclusive License). On the other hand, registration of preservation is first required for a statutory non-exclusive license. The registration is made ex officio in the case of an arbitrary non-exclusive license.

⁵ A dispute could occur between overlapping assignees in the case of a monopolistic non-exclusive license, but this would be a dispute between people without registrations, who cannot counter against each other, so they would both be able to work the invention. That, then, would be the same as the patentee granting a monopolistic non-exclusive license to both of them, which would present an issue of default of an obligation.

In the case of movable property, no disadvantage is caused to other people even if it were not in use. Other people can merely make the same thing, in principle, and no particular problem would occur. However, as a patent right is an exclusive right, the non-working of the patented invention does not just mean that it is dormant upon the right, but has an active effect of obstructing the working by other people. From that perspective, it is more desirable to obligate the working of the patented invention for the development of industry¹. On the other hand, it is detrimental to obligate the working of all inventions. A patentee raises the level of technology in society by making public an invention, which could fundamentally be kept secret, by filing a patent application, and makes a certain contribution to society even without working the invention by himself/herself. If the obligation to work the invention were imposed for all patented inventions, there would be the threat of new technology being kept secret. In that sense, a forcible obligation of working would not be desirable.

The issue of the obligation of working is disputed not only as an issue of what kind of system would be desirable for industrial development in Japan, but also as an issue causing serious conflict between industrialized countries and developing countries. On the part of developing countries, a company of an industrialized country obtaining a patent in a developing country would not contribute to promoting employment in the developing country or to promoting the transfer of technology but, instead, would obstruct business promotion in the country, if that company did not manufacture the products there but only used the patent as a right to exclusively import the products. Accordingly, developing countries have a need to protect their interests by confiscating, canceling or granting a compulsory license to patents on inventions that are not worked² within the country. However, on the part of companies in industrialized countries, it is difficult to work the invention by means of manufacture in all of the countries in which they have obtained patents, and they desire to manufacture the products in the most efficient country and export the products from there to countries around the world. This conflict was the major cause for WIPO's long-term inability to function properly and it served as a notable point of dispute in the discussions toward the TRIPs

¹ As it is both difficult and unreasonable to force the patentee to work the invention, the actual measure would be to indirectly force the working by imposing a disadvantage, such as confiscation, cancellation, or establishment of a compulsory license based on the patent.

² Since this is an attempt to eliminate the adverse effects caused only by importing the products and not manufacturing them, "working" in this context does not include the act of importing. Although the act of importing is included in the definition of "working" in Section 2 (3) of the Japanese Patent Law, there is a dispute over whether or not the act of only importing the products is included in sufficient working (note 7).

Agreement in the Uruguay Round of GATT (the present WTO)³.

Generally, the common practice is to impose a strong obligation of working when the level of technology is low and to gradually relax the obligation along with the progress of technological development. Thus, in Japan, the Patent Monopoly Act of 1885 had adopted a forfeiture system for patents on non-worked inventions (Section 15 (1)) and the Patent Law of 1909 had adopted a cancellation system for such patents (Section 47). In the Law of 1921, a cancellation system and a compulsory license system were concurrently adopted (Section 41 of the Patent Law), and upon the amendment of 1938 a provision was established to enable (a) the granting of a compulsory license for an invention that had not been sufficiently worked for three years or more if there were such a need for public interests, and (b) the cancellation of the patent if the invention had not been worked for another two years or more (Section 41 (1) and (2) of the Patent Law). The system has been even more relaxed under the current Law by the abolishment of the cancellation system and the adoption of only the compulsory license system (Section 83 of the Patent Law). This transition is considered to have taken place along with the development of technology in Japan.

Under the current Law, when an invention has not been sufficiently worked inside Japan for a continuous period of three years or more, a person who intends to work the invention can request that the patentee or the exclusive licensee hold a consultation on the grant of a license, and if the consultation fails, the person can make a request to the JPO Commissioner for an arbitration decision⁴ (Section 83 of the Patent Law). Even if an invention has not been worked for three consecutive years, the above does not apply unless four years have passed from the filing of the patent application on the invention (Proviso of Section 83 (1) of the Patent Law), but as examinations are not

³ Article 4 A of the Paris Convention provides that each member country can establish a system of compulsory license based on the non-working of the invention, and only when that is insufficient, the country can further establish a system for canceling the patent. See Article 31 of the TRIPs Agreement.

⁴ It is natural that a consultation can be held even without Section 83, but the existence of this provision means that failure of the consultation is required in order to request an arbitration decision. It seems to be based on the idea that autonomous settlement between the parties should be given priority. The same applies to the arbitration decision on a dependent invention under Section 92. Until the amendment of 1971, the Law had provided that a consultation could be sought with the authorization of the JPO Commissioner, but the provision was amended to that under the current Law by *Kyoka Ninka Nado No Seiri Ni Kansuru Houritsu* (Law concerning Reorganization of Authorizations and Permissions) (Law No. 96 of 1971) to simplify administrative procedures. Regarding the arbitration system, see Katsujirou Kida, “*Tokkyo Hatsumei Nado No Jisshi Ni Kakaru Saitei Seido Ni Tsuite* (Regarding the Arbitration System concerning the Working of a Patented Invention),” *Jurist*, No. 605: p. 78. At the end of that article, “*Saitei Seido No Unyou Youryou* (Implementation Outline of the Arbitration System),” which had been decided on in December 1975, is appended as a reference material.

completed within one year in the present examination practice, there has been no invention that had not been worked for three years and for which the patent application had been filed within the past four years. Nevertheless, since urgent efforts are being made to shorten the examination period, examination completion may occur within one year in the near future. Then, this provision will take on its meaning in actual practice. Even if an invention had not been worked for three years or more in the past, a request for an arbitration decision could not be made if it were being worked at present. As the purpose of legislation of the compulsory license system is not to impose a sanction against the patentee, but to promote the working of the invention, there would be no need to recognize an arbitration decision if the invention were being worked at present. Accordingly, an arbitration decision cannot be made if the invention were sufficiently worked by the time of the decision⁵.

One question concerns the meaning of “sufficient working.” Nominal working, merely for avoiding an arbitration decision, would not be considered sufficient working⁶. The most disputed case is the case in which the patentee only imports the products without manufacturing them inside Japan. Although Section 2 (3) of the Patent Law defines an act of importing as also being a mode of working, it is unclear whether this can be considered “sufficient working.” This issue is also connected to the purpose of the Patent Law. If the Patent Law were considered to be a system for protecting and fostering the national industry, an act of only importing the products has a strong aspect of exerting pressure on the national industry, so a request for an arbitration decision should be recognized⁷. However, the patentee cannot manufacture

⁵ Toyosaki, *Kougyou Shoyuiken Hou* (Industrial Property Law): p. 268; JPO, *Chikujou Kaisetsu* (Clause-by-Clause Explanation of Industrial Property Laws): p. 210; Yoshifuji, *Tokkyo Hou* (Patent Law): p. 457. Meanwhile, a system to cancel trademarks not in use is also stipulated in Section 50 of the Trademark Law, but as Section 50 (2) provides that the trademark will be cancelled unless there is proof that the trademark has been used within “three years prior to the registration of the demand for the (cancellation) trial,” the determination is made based on the time of registration of the demand for the trial in the case of the Trademark Law. Although a provision on prevention of last-minute use (Section 50 (3) of the Trademark Law) was added upon the 1996 amendment, the base time for determination has not changed. On the other hand, Section 83 of the Patent Law does not provide for the base time for determination, so the decision about that is made by interpretation.

⁶ “*Saitei Seido No Unyou Youryou* (Implementation Outline of the Arbitration System)” states that “when the working is found to be extremely small in scale and only nominal compared to the size of the demand,” it does not correspond to sufficient working.

⁷ This is the commonly held view. Yoshifuji, *Tokkyo Hou* (Patent Law): p. 459; Toyosaki, *Kougyou Shoyuiken Hou* (Industrial Property Law): p. 268; Oda/Ishikawa, *Shin Tokkyo Hou* (New Patent Law): p. 400; Hashimoto, *Tokkyo Hou* (Patent Law): p. 265; Mitsuishi, *Tokkyo Hou* (Patent Law): p. 290. Further, “*Saitei Seido No Unyou Youryou* (Implementation Outline of the Arbitration System)” states that “such cases as where the products are merely being imported and are not manufactured domestically correspond to it [author’s note: insufficient working], in principle.”

the products in all of the countries in which he/she has obtained a patent, and for a company this would make it difficult to plan a global strategy. Therefore, if the purpose of the Patent Law were to be viewed more broadly as the development of the international economy, a request for an arbitration decision should not be granted in the case where sufficient import is taking place. From such a perspective, an act of only importing the products should also be recognized as sufficient working⁸.

If there were a legitimate reason for the failure to sufficiently work the invention, the JPO Commissioner could not render an arbitration decision, and the request would be dismissed (Section 85 (2) of the Patent Law). The legitimate reason is determined individually for each case, but some assumable reasons are: preparation for commercialization is in progress, a disaster at the factory, and difficulty in obtaining the raw materials.

When the JPO Commissioner renders an arbitration decision, he/she gives an opportunity to the patentee, the exclusive licensee, or other persons with any registered rights relating to the patent (e.g. non-exclusive licensees, pledgees) to submit a written reply (Section 84 of the Patent Law), and he/she must hear the views of the Council prescribed by a cabinet order (the Industrial Property Council is specified by Section 13*bis* of the Patent Law Enforcement Order) (Section 85 (1) of the Patent Law). Nevertheless, the Council is only an advisory body, so the Commissioner is not bound by its views⁹. A non-exclusive license granted by an arbitration decision is a paid license, and the arbitration decision must set forth the scope of the license, remuneration for the license, and the method and time of payment (Section 86 (2) of the Patent Law). When a copy of an arbitration decision has been transmitted to the parties, an agreement is deemed to have been reached by the parties, and a non-exclusive license is established as prescribed by the arbitration decision (Section 87 (2) of the Patent Law).

Opposing theories include: Nakayama, *Chuukai Tokkyo*, Vol. 1: p. 786 [Nakayama]; Kazuhiko Takeda, *Tokkyo No Chisiki* (Knowledge of Patents): p. 434 (this states: “The idea that the patented products must be manufactured in each country in order for the invention to be sufficiently worked is considered to be already outdated. It is unrealistic to manufacture the products in each country considering the advantages that could be achieved through cost reduction by mass production and effective plant location from an international point of view.”).

⁸ Since technology in Japan is now at the world’s highest level, the Patent Law should not be interpreted merely from a narrow perspective of protecting the national industry. While it goes without saying that the situation in developing countries must be taken into consideration to some extent, in light of the fact that the patent system and trade issues are inseparable matters nowadays, interpretation should be made in such a way that the patent system does not serve as a non-tariff barrier, from the viewpoint of the healthy development of the world’s trade.

⁹ JPO, *Chikujou Kaisetsu* (Clause-by-Clause Explanation of Industrial Property Laws): p. 212; Nakayama, *Chuukai Tokkyo* (Annotated Patent Law), Vol. 1: p. 791 [Ishikawa]; Mitsuishi, *Tokkyo Hou* (Patent Law): p. 643.

When a person who has received the grant of a non-exclusive license does not sufficiently work the invention, the arbitration decision can be cancelled upon the request of an interested person or ex officio (Section 90 (1) of the Patent Law). As a result of the cancellation, the non-exclusive license is extinguished (Section 91 of the Patent Law). If dissatisfied with the arbitration decision, the person can appeal under the Administrative Appeal Law, and if still dissatisfied with the decision, the person files a suit in accordance to the Administrative Case Litigation Law. However, a suit can be directly filed concerning the amount of remuneration fixed in the decision, so it cannot be made the reason for making an appeal under the Administrative Appeal Law (Section 91*bis* of the Patent Law).

A license by an arbitration decision is a non-exclusive license. Since Section 99 (1) of the Patent Law only provides for non-exclusive licenses in general, and no special provision is established for an arbitrary license, registration would also be required for the arbitrary license to counter third parties based on it¹⁰. However, as the license is registered ex officio (Section 16 (5) of the Patent Registration Order), no problems arise in practice. Transfer of the license with the consent of the licensor and establishment of a pledge based on the license are not allowed for a non-exclusive license granted by an arbitration decision (Section 94 (1) of the Patent Law; Article 5 A (4) of the Paris Convention).

When there is an exclusive license, the exclusive licensee must first be considered the demandee, but as a non-exclusive license cannot be established without the consent of the patentee (Section 77 (4) of the Patent Law), the patentee should also be considered the demandee¹¹.

Incidentally, such an arbitration decision for an arbitrary license based on non-working of the invention has never been given so far. However, the existence of this provision can promote success in voluntary license negotiations and serve as an incentive for working one's own invention, so it serves as a last resort. Though it is not clear how science and technology or the economic structure will change in the

¹⁰ Opposing theories include Kaneko/Someno, *Kougyou Shoyuukun Hou* (Industrial Property Law): p. 222. However, as the arbitrary license is stipulated as a non-exclusive license, there is no need to particularly make a different interpretation. Also, since the license is registered ex officio, there is hardly any benefit in discussing this matter (an issue could only arise when the registration had not been made by mistake).

¹¹ Yoshifuji, *Tokkyo Hou* (Patent Law): p. 458. Kaneko/Someno, *Kougyou Shoyuukun Hou* (Industrial Property Law): p. 222; Katsujirou Kida, "Tokkyo Hatsumei Nado No Jisshi Ni Kakaru Saitei Seido Ni Tsuite (Regarding the Arbitration System concerning the Working of a Patented Invention)," *Jurist*, No. 605: p. 81. Opposing theories include Monya, *Chuukai Tokkyo Hou* (Annotated Patent Law): p. 221 [Kawaguchi].

future, the system of arbitrary license based on the non-working of the invention seems to have the potential to serve as a regulatory function for influential patents, which are exclusive rights, and to contribute to the healthy development of industry¹².

2. Arbitrary License Required for Public Interest (Section 93 of the Patent Law)

Since a patent, an exclusive right to a technology, is a very powerful right, its existence could sometimes affect the public interest. Accordingly, some measure must be taken when it is harming the public interest. Various methods could be taken as such a measure. The old Law had provided that “when it is necessary for the public interest, the patent can be restricted or expropriated by the government and the patent can be cancelled or the patented invention can be worked by the government” (Section 40 (1) of the Patent Law). However, this system should not function as a sanction, and the restriction of a private right should be kept to a minimum. In addition, the government itself rarely works such an invention. Thus, the system was changed into the current system of granting a non-exclusive license by an arbitration decision.

¹² For details, see Nakayama, *Chuukai Tokkyo* (Annotated Patent Law), Vol. 1: p. 785 [Nakayama].

The question is the specific content of the public interest. “*Saitei Seido No Unyou Youryou* (Implementation Outline of the Arbitration System)¹” mentions the following: (i) when there is a particular need in a field directly related to national life, such as the lives of the citizens, preservation of property, and construction of a public facility; and (ii) when the act of not granting a non-exclusive license on the patented invention obstructs the healthy development of the overall industry, and substantial harm is found to be caused to national life as a result.

Apart from the above mentioned examples in the implementation outline, the report by the expert committee of the Foreign Capital Council² (March 15, 1968) also mentions a case where any of the following incidents occurs and where it has a serious impact on the national economy as a result: (i) it causes confusion, such as corporate failures, in the industry in which the patented invention is expected to be used, and is likely to result in large-scale unemployment; (ii) it causes corporate failures in the industry in which the patented invention is expected to be used, and existing facilities that are worth a vast sum, which could have been used if the patented invention could be worked, are likely to be retired as a result; or (iii) it causes confusion, such as corporate failures, in the key industry, important export industry, or industry in the field of advanced technology, in which the patented invention is expected to be used, and is likely to considerably obstruct the healthy economic or technological development of these industries.

First of all, there should not be much of a problem in the case where there is a serious impact on the lives of the citizens, preservation of property, or public works³. However, even if it were related to the interest of the public, a request for an arbitration decision should not be allowed when there is a need merely in relation to costs or when there is a method that can substitute for the use of the patented invention.

The problem is whether or not an arbitration decision can be requested for an economic reason. A person who has obtained a patent naturally has an economic advantage over others, and if the request for an arbitration decision were recognized due to that advantage, the significance of the patent system would be lost. In addition, it is natural that the facilities of those who have infringed another person’s patent should be

¹ Published in Jurist, No. 605: p. 84.

² Published in Jurist, No. 399: p. 123.

³ A textbook example is a case where an infectious disease spreads and the patentee cannot sufficiently meet the demand alone. In actuality, such a case would require prompt action, so the issue is likely to be settled as a political issue rather than an issue of the Patent Law. Therefore, Section 93 of the Patent Law would very unlikely be discussed in such a case, but the provision is considered to serve as a last resort.

retired, and it does not matter whether the facilities are worth a vast sum. Since the report by the expert committee of the Foreign Capital Council was released at a time when Japan was shifting to an open economy, it has an excessive tone of protecting the national industry. Therefore, it is not reasonable to directly apply it at present. Theoretically, it may be possible to grant an arbitrary license to protect public interest when the patent deals a severe blow to Japanese industry⁴, but it is hardly likely to be applied in reality, and in fact, Section 93 of the Patent Law has never been applied in the past.

The provision for the case of the non-working of the invention (Section 93 (3) of the Patent Law) is applied *mutatis mutandis* to the arbitration procedure in this case. The effects of the license are also the same as the case of the non-working of the invention⁵.

Although a request for an arbitration decision could only be made by the government under the old Law, it can be made by anyone who intends to work the invention under the current Law. The State and local public entities can also make the request. The demandees are the same as in the case of the non-working of the invention. However, unlike in the case of non-working, a defense based on a legitimate ground is not recognized. This is because the interest of the public is prioritized to the individual circumstances of the right holder. Due to the same reason, the request can be made anytime without any restricted period unlike in the case of the non-working of the invention.

The person who gives the arbitration decision is, unlike in the case of the non-working of the invention, the Minister for Economy, Trade and Industry. This is because the content of arbitration is not merely an issue of the Patent Law, but a higher level issue which concerns public interest, and also because a request could be made by other government offices.

⁴ The report by the expert committee of the Foreign Capital Council also states in its note as follows: "It is considered difficult to interpret that a patent is against the 'interest of the public' merely by the reason that it causes confusion in the industry. However, application of this provision could be assumed when monopoly of the patent right causes corporate failures and confusion in the industry, and has a serious impact on the national economy as a result." It is hard to imagine a situation where the mere existence of a patent puts the national economy into a great confusion and causes social problems such as unemployment. Such great confusion of the economy is likely to be addressed as an issue outside the Patent Law.

⁵ However, since Section 94 of the Patent Law, which provides for the transfer and the establishment of a pledge on the license, does not exclude the non-exclusive license for public interest granted under Section 93, the arbitrary license required for public interest is treated similarly to a non-exclusive license by agreement in that respect. However, since the transfer of a non-exclusive license by agreement and establishment of a pledge on such a license require the consent of the patentee, there would not be a large difference in conclusion.

3. Arbitrary License of a Dependent Invention (Section 92 of the Patent Law)

The purpose of the patent system is to raise the level of technology in society by having inventions published, and thereby promoting new invention. To put it strongly, one of the purposes of the patent system is to promote inventions of improvement. In reality, basic inventions are often not sufficient to create valuable products, and more valuable products can be expected by the existence of a large number of inventions of improvement. However, even if one obtains a patent on an invention that utilizes another person's patented invention, the working of that dependent invention would infringe the patent of that other person (Section 72 of the Patent Law). In many cases, this problem would be solved by concluding a cross-license agreement through consultation between the parties, but if the consultation fails, there would no longer be a way to work the dependent invention, which could cause an undesirable situation for industrial development. Thus, the arbitrary license system was also established for dependent inventions.

While the old Law provided that a trial could be demanded (Section 49), it has been changed under the current Law so that a request for an arbitration decision can be made to the JPO Commissioner. Though the old Law had a provision on cross licensing, it was once abolished upon the 1959 amendment. Nevertheless, it was revived upon the 1975 amendment with the introduction of the substance patent system. That is because, if the right holder for the dependent invention alone could request an arbitration decision, the right holder for the basic invention would be one-sidedly disadvantaged¹, particularly in the case of a substance patent. Accordingly, as a means to counter a request for an arbitration decision, the demandee side was permitted to request cross licensing within the designated time limit for submission of the written reply (Section 92 (2) of the Patent Law). This is a provision for achieving equity between the parties.

In order to request an arbitration decision, the invention must have the dependency as prescribed in Section 72 of the Patent Law (Section 92 (1) of the Patent Law). In other words, the invention must utilize another person's patented invention, registered utility model or registered design or a design similar to that under an application filed prior to the filing date of the patent application concerned, or the patent

¹ Most of the dependent inventions of substance patents are process inventions or selection inventions, so the patentee would be one-sidedly disadvantaged if such an improved method could only be worked by the inventor of the dependent invention and not by the right holder of the substance patent.

right must conflict with another person's design right under an application for registration of a design filed prior to the filing date of the patent application concerned.

If the dependent invention were to unduly injure the interests of another person, the JPO Commissioner would not be able to give a favorable arbitration decision on it (Section 92 (5) of the Patent Law). Although the specific criteria are not clear, as there is not a single actual example, two elements, the technical gap between the two inventions and the economic gap between the parties, should be taken into consideration. According to the implementation outline for the arbitration system², "the determination shall be made by comprehensively considering the contents of the senior patented invention and the junior patented invention, as well as the financial capacity and the business situation of the respective parties; and a case where the demandee's interests would be considerably injured, such as when the grant of a non-exclusive license would make it difficult to continue the demandee's business, would fundamentally correspond to such a case." A case where an arbitration decision is requested for an important basic invention based on a trivial invention on an improvement or where such a request is made for a small company's basic invention by a large company that has an incomparably large financial capacity would also correspond to such a case³.

The effects of the arbitrary license in the case of a dependent invention are the same as those in the case of the non-working of an invention.

The arbitration procedures are also the same as in the case of the non-working of an invention, because provisions under Section 84 onwards of the Patent Law are applied *mutatis mutandis* (Section 92 (7) of the Patent Law). However, there is a difference from the case of non-working in that there is no limit to the period for the request, and the request can be made anytime after the registration of the patent (under the old Law, the request could not be made until three years had passed since the date on which the patent took effect (proviso in Section 49 (1))).

The persons who can request an arbitration decision are the patentee and the exclusive licensee of the dependent invention. It cannot be requested by a non-exclusive licensee, and even if the patentee obtains an arbitrary license, it cannot be sublicensed, so a non-exclusive licensee does not have the opportunity to enjoy the benefits of the arbitrary license system as a result. There may be room to consider

² Published in Jurist, No. 605: p. 84.

³ Oda/Ishikawa, *Shin Tokkyo Hou* (New Patent Law): p. 403; Yoshifuji, *Tokkyo Hou* (Patent Law): p. 375; Nakayama, *Chuukai Tokkyo* (Annotated Patent Law), Vol. 1: p. 804 [Nakayama]; Shouji Matsui, "Riyuu Hatsume Ni Motozuku Saitei Jisshiken Seido No Kousatsu (Examination of the Arbitrary License System Based on a Dependent Invention)," *Tokkyo Kanri* (Patent Management), Vol. 39, No. 12: p. 1490.

some measure for non-exclusive licensees under a legislative approach.

Similarly to the arbitration system in the case of the non-working of an invention, no arbitration decision has been given under this system in the past. Although the reason is not clear, it has been pointed out that a request for an arbitration decision is difficult because it has an effect that is virtually similar to confessing an infringement in infringement litigation. Therefore, a possible legislative measure would be to establish some kind of connection between infringement litigation and the request for an arbitration decision.

As for the arbitrary license in the case of a dependent invention, a supplementary explanation must be provided regarding the establishment of the WTO's TRIPs Agreement (which entered into force on January 1, 1995) and the establishment of the Japan-U.S. Agreement (the memorandum of understanding between the Japanese ambassador to the United States and the U.S. Commerce Secretary on August 14, 1994).

The issue of arbitrary licensing was subject to severe North-South conflict between industrialized countries and developing countries, so an agreement could not be reached for a long time in WIPO. However, a certain agreement could be reached in the WTO (Other Use Without Authorization of the Right Holder, Article 31 of the TRIPs Agreement). As the minimum standards for granting an arbitrary license concerning a dependent invention, the TRIPs Agreement⁴ requires that the dependent invention should involve an important technical advance of considerable economic significance in relation to the patent on which the arbitration decision is sought, the interests of the patentee who developed the basic technology should be assured, and the grant should not have a large adverse effect on the incentive for the development of basic technologies. As Japan's arbitrary license system does not conflict with this agreement, there is no need to amend the Japanese Patent Law.

The problem is the Japan-U.S. Agreement. It provides that an arbitration decision shall not be granted in connection with a dependent invention, except for the purposes of correcting a practice that has been judged to obstruct competition and for cases of the public and non-commercial working of the invention. Although this agreement sets requirements that are much more severe than the requirements for arbitration as prescribed in Section 92 of the Patent Law, the Patent Law has not been amended. The legal nature of this Japan-U.S. Agreement is not necessarily clear, and

⁴ Regarding the TRIPs Agreement, see Akira Ojima, "*Uruguai Raundo TRIPs Kyoutei Goui An No Kaisetsu* (Explanation of the Draft TRIPs Agreement at the Uruguay Round) (Part 1- Part 30)," serial articles published since the August 1992 issue of *Nichibei Tsuushou Sangyou Chiteki Zaisan Jouhou* (Japan-U.S. Trade and Industry Intellectual Property Information) (Japan Machinery Exporters' Association; to be published in book form in the near future).

it is not even definite whether or not it takes preference over the Patent Law as a treaty. However, as it is an international commitment made by the Japanese government, the JPO Commissioner is expected to implement practices in accordance with this Japan-U.S. Agreement in the future; so in actuality, this agreement is expected to serve as future practice guidelines. (Of course, the consequence of a case that developed into litigation is a different issue.)

Item 5 Statutory Non-Exclusive License

1. Statutory Non-Exclusive License for an Employee's Invention (Section 35 of the Patent Law)

When an employee makes an "employee's invention," the employer justifiably obtains a non-exclusive license (Section 35 (1) of the Patent Law). This issue is described in detail in Section 1, Subsection 1, Item 3 "Employees' Inventions," so it shall be omitted here.

2. Statutory Non-Exclusive License based on Prior Use (Section 79 of the Patent Law)

To whom the registration should be recognized is determined based on the filing date, but if the first-to-file principle were strictly observed, a person who had been working or preparing to work the invention when another person filed a patent application for it would not be able to work the invention once the other person obtained the patent right. In light of one of the purposes of the patent system being to grant an exclusive right in return for raising the level of technology in society by publishing the invention, a patentee who published the invention by filing a patent application may deserve secure protection, but it is not desirable if it results in forcing people who have made inventions to file patent applications without fail. While there is also a freedom to retain an invention as know-how, strict observation of the first-to-file principle may lead to denying know-how. Furthermore, the fact that a person who has actually been working the invention becomes no longer able to continue working it only because another person obtained the patent for it is also against equity. Therefore, the Patent Law protects the prior user by granting a non-exclusive license to a person who has been working the invention or has been making preparations for it prior to the filing of a patent application on the invention by another person (Section 79 of the Patent Law). The prior user's right had often been explained from the viewpoint of protecting the

national economy¹, but recently, the theory of securing equity has been more prevalent². A similar provision had also existed under the old Law (Section 37).

In actual litigation, the prior user's right is often claimed as a defense by the defendant's side in infringement lawsuits, but the Patent Law constructs it as a non-exclusive license instead of a defense. However, unlike a non-exclusive license by agreement, a non-exclusive license based on prior use does not derive from the patent right itself, but practically functions as a restriction on the effects of the patent, so the legislative approach as in the current Law is somewhat questionable. As the interpretation of the current Law, however, there is no other way but to consider it one kind of non-exclusive license³.

¹ The Supreme Court (in prewar Japan) decision on February 4, 1938, Civil Court Decisions by the Supreme Court, Vol. 17: p. 37 ([Annotation] Tooru Ariizumi, *Hanrei Minji Hou Kenkyuu* (Civil Law Study Based on Court Decisions), FY 1938, Case 4); the Tokyo District Court decision on February 25, 1955, Civil Court Decision by Lower Courts, Vol. 6, No. 2: p. 342 (the Completely Non-gas Fuse case) ([Annotation] Koue Toyosaki, *Jurist*, No. 154: p. 67). Incidentally, despite a third party's inability to learn about the invention during the period from the filing of the application to the laying-open of the unexamined application, the prior user's right does not take effect even if a person starts working the invention during this period. If the economic viewpoint alone were to be taken into consideration, the legislation should recognize the prior user's right as long as the person works or makes preparations for it by the time the unexamined application is laid open.

² The Osaka District Court decision on June 29, 1966, Civil Court Decisions by Lower Courts, Vol. 17, Nos. 5/6: p. 586 (the Teething Ring case) (a case under the old Law) ([Annotation] Shouichi Kidana, *Tokkyo Hanrei Hyakusen* (100 Selected Patent-related Court Decisions) (Second Edition), Case 84; Nobuo Monya, *Jurist*, No. 449: p. 134); the Osaka District Court decision on November 21, 1966, Court Decision Journal, No. 478: p. 69 (the Dried Kelp case); the Osaka District Court decision on July 10, 1967, Civil Court Decisions by Lower Courts, Vol. 18, Nos. 7/8: p. 784 (the Aerosol Container case) ([Annotation] Shigeaki Manda, *Jurist*, No. 489: p. 152 ff. The court stated that the system of prior use recognized one kind of protection for the exclusive status); the Tokyo High Court decision on May 27, 1975, Court Decisions Relating to Intangible Property, Vol. 7, No. 1: p. 128 (the Synthetic Fiber Heat Treatment Device case) ([Annotation] Kouzou Mimino, *Tokkyo Hanrei Hyakusen* (Second Edition), Case 85). The equity theory can be considered the commonly-held view (See Hidesato Iida, "Senshiyouken (1) Hassei Youken Jijitsu (Prior user's right (1) Facts Required for the Right to Take Effect)," Makino, *Kougyou Shoyuiken Soshou Hou* (Industrial Property Litigation Law): p. 299). However, there is no need to explain the prior user's right based only on the equity theory. A reasonable conclusion should be derived by also taking into account the national economic aspect with the fundamental focus on the equity viewpoint. The important point of the policy is to what extent the effects of a patent should be recognized. To extend the effect of a patent even to third parties who had been working or making preparations to work the invention prior to the filing of the patent application is equivalent to forcibly expropriating third parties' property by the grant of the patent right, and there would be a problem in recognizing the effects of the patent to such an extreme level. The question of whether the timing of the creation of the prior user's right should be at the time of filing or on the date of laying open the unexamined application is subject to policy-based determination.

³ Since the prior user's right is constructed as a non-exclusive license, the scope of the right is premised to be identical to the patented invention or a part of the patented invention (Iida, note 2: p.305). If it were legislated as a defense, the scope would not necessarily have to be identical to that of the patented invention. Meanwhile, Toyosaki, *Kougyou Shoyuiken Hou* (Industrial Property Law): p. 257 states that there is no need to recognize the prior user's right, because anyone is free to

Thus, there is the issue of the requirements for the prior user's right to take effect.

Under the old Law, working in good faith was stipulated as the requirement (Section 37), but under the current Law, it was revised into "without knowledge of the contents of an invention claimed in a patent application, a person has made the invention by himself/herself or, without knowledge of the invention in the patent application, has learned of the invention from another person who has made the invention." As long as this provision is read at face value, it discusses the route of learning and requires that the patented invention and the prior user's invention be inventions from different routes (double invention), which means that the prior user's right is not recognized if the invention is from the same route⁴. However, if such an interpretation is applied, the prior user's right would not be claimable by an inventor whose invention was filed as a misappropriated application, an inventor who has assigned the right to file the patent application but is working the invention⁵ or a person working a publicly known technology when a patent has been registered for the already publicly known invention. These cases may be resolved by demanding an invalidation trial, concluding a contract, or by a defense of publicly known technology/defense of invalidity, but that should not obstruct recognition of a claim for prior user's right⁶. There is no trace of a detailed examination having been made on this point when shifting from the old Law to the current Law. Nevertheless, it is explained that the

work a technology that is not covered within the technical scope of the patented invention. In theory, however, a claim that the invention is not covered within the technical scope and a claim for prior user's right are different in respect to requirements and effects, and there is no inconvenience in having both systems, so there should be no theoretical contradiction in recognizing both. It is only that, as the prior user's right is constructed as a non-exclusive license under the current Law, as a conclusion the scope of the right must be identical to or a part of the scope of the patented invention.

⁴ Nakayama, *Chuukai Tokkyo* (Annotated Patent Law), Vol. 1: p. 762 [Matsumoto].

⁵ The Sapporo High Court decision on December 26, 1967 (note 8) was related to such a case.

⁶ The fact that there is a means to demand an invalidation trial does not mean that other means should be denied. The demand for an invalidation trial and the demand for the prior user's right are different in terms of requirements as well as ease of proof. In addition, according to the currently prevalent view, the validity of a patent causes unauthorized working of the invention to constitute an infringement until a trial decision of invalidation of the patent becomes final and conclusive. However, if there is a system for prior users' rights, the person working the invention can avoid constitution of an infringement by claiming the prior user's right even while the patent is valid; so there is significance in adopting the two means in the patent system. As an opposing theory, Tomoko Takii, "Senshiyouken No Han'i (Scope of the Prior User's Right)," *Kigyō Hou Kenkyū* (Study of Business Law), No. 238: p. 18 writes that if any error were made in the substantive examination, justice should fundamentally be recovered by means of correcting it, and the system of prior user's right itself has no relation to such an objective.

meaning of “good faith” under the old Law has been clarified⁷. Since there is no practical reason to discriminate in the recognition of the prior user’s right based on whether the two inventions come from the same route or different routes, the current Law should be interpreted so as to recognize the prior user’s right for inventions from the same route as well, considering the meaning of the provision instead of being bound to the literal wording, although there would remain a slight problem regarding the wording⁸.

The next requirement is that the person has been commercially working the invention or has been making preparations for it in Japan at the time of the filing of the patent application. Although it was “a person who owns business facilities” under the old Law, the provision was revised under the current Law⁹. There is not so much of a problem regarding the working, but arguments have been made concerning the preparations for working. In order to be considered as preparations, the invention cannot be in the experiment or research phase, but the invention itself must be completed¹⁰. Many of the earlier lower court decisions had interpreted the requirements for “preparations” strictly, and had not recognized constitution of the prior

⁷ The Explanation of the Report of the Council on the Amendment of Industrial Property Systems: p. 29. However the descriptive document also mentions in continuation of this topic that the amendment is in accordance with the original purpose of the prior user’s right, because it focuses on the route of learning about the technology instead of whether or not the person knew of the invention at the time of the filing. Meanwhile, Yoshifuji, *Tokkyo Hou* (Patent Law): p. 495 suggests that the current Law should be considered as a representative example of recognition of the prior user’s right.

⁸ Nobuhiro Nakayama, *Jurist*, No. 447: p. 137; Toyosaki, *Kougyou Shoyuiken Hou* (Industrial Property Law): p. 256. Yoshifuji, *Tokkyo Hou* (Patent Law): p. 495 states that it does not have to be clear who has made the invention, but it is sufficient for the person to have learned of the invention from the inventor. The following is a case in which the court, though not stating so explicitly, recognized the prior user’s right, regarding an invention learned from the same route: the Sapporo High Court decision on December 26, 1967, *Civil Court Decisions by Lower Courts*, Vol. 18, Nos. 11/12: p. 1187 (the Concrete Block Design case) ([Annotation] Nobuhiro Nakayama, *Jurist*, No. 447: p. 137). Incidentally, Germany has the requirement “when learned by a fair method” and four Scandinavian countries have the requirement “when it does not abuse the right of the applicant or the former right holder.” Such legislative approach seems superior. An in-between view is revealed in Iida, note 2: p. 310.

⁹ This is considered to have been intended for relaxing the requirements for the prior user’s right (JPO, *Chikujou Kaisetsu* (Clause-by-Clause Explanation of Industrial Property Laws): p. 203; Oda/Ishikawa, *Shin Tokkyo Hou* (New Patent Law): p. 293). Opposing theories include: Kenichi Tomioka, “*Senshiyouken No Youken To Shite No Jigyou No Junbi Ni Tsuite* (Preparations of Business as a Requirement of the Prior User’s Right),” *Tokkyo Kanri* (Patent management), Vol. 36, No. 4: p. 425; Nakayama, *Chuukai Tokkyo* (Annotated Patent Law), Vol. 1: p. 769 [Matsumoto] (this states that the two are hardly different from each other. If the business facilities under the old Law were interpreted to have included not only physical facilities, but also elements such as human allocation, it would not be different from the current Law).

¹⁰ Toyosaki, *Kougyou Shoyuiken Hou* (Industrial Property Law): p. 257.

user's right¹¹. Nevertheless, they were mainly cases on less complicated apparatuses, so a case on large plant equipment could not be discussed on the same plane. In a Supreme Court decision on October 3, 1986¹², which was a case about a huge plant, the court gave consideration to the special nature of a heating furnace in that it took quite a long time from receiving an inquiry to receiving an order and finally delivering the product, and that it was not subject to mass production, but was manufactured after receiving individual orders, so the parts were not readily purchased in advance. As a conclusion, the court recognized that "preparations" had been made although the product manufacturing was still in the phase of submitting the estimated specifications. With regard to what circumstances are required for being regarded as "preparations," the person should have the intention of immediately working the invention and there should be objective conditions that enable the person to work the invention. The specific standards are expected to differ by the field of technology and the nature of that technology.

¹¹ Court decisions in which the prior user's right was not recognized include: the Tokyo District Court decision on May 26, 1964, *The Law Times Report*, No. 162: p. 164 (the 8 mm Video Camera case) (it held that the phase of drafting a design drawing in which specific wiring has yet to be completed was not sufficient to be considered a preparation for working the invention); the Tokyo District Court decision on May 28, 1983, *Court Decisions in Suits Against Appeal/Trial Decisions*, 1973: p. 179 (the Grain Polishing Machine case) (it held that sale of only one machine cannot be considered preparation). On the other hand, cases in which the court recognized the right include: the Tokyo District Court decision on May 30, 1964, *The Law Times Report*, No. 162: p. 167 (the Block Manufacturing Frame case) (it held that if there have been facts such as the rendering of the drawings, conversion of the facilities for the manufacturing, purchase of tools, ordering of raw materials, and receipt of orders for the products, these can be considered preparations); the Osaka District Court decision on March 11, 1977, *Court Decisions Relating to Intangible Property*, Vol. 9, No. 1: p. 222 (the Candy Making Device case) ([Annotation] Shigeyoshi Sakuma, *The Law Times Report*, No. 367: p. 305; it held that if the person has purchased one of the facilities specific to the device, concluded a product supply contract with a third party, ordered production of the mould and the back metal, and completed the final design drawing, these can be considered preparations).

¹² The Supreme Court decision on October 3, 1986, *Civil Court Decisions by the Supreme Court*, Vol. 40, No. 6: p. 1068 (the Walking Beam Type Heating Furnace case) ([Annotation] Nobuhiro Nakayama, *Journal of the Jurisprudence Association, The University of Tokyo*, Vol. 105, No. 8: p. 1142; Takeshi Mizuno, *Jurist*, No. 881: p. 81; Shouichi Kidana, *Hatsumei* (Invention), Vol. 84, No. 2: p. 84; Shouichi Kidana, *Jurist*, No. 910: p. 241; Shigetoshi Matsumoto, *Journal on Civil and Commercial Law*, Vol. 98, No. 1: p. 98; Kenichi Tomioka, *Gakkai Nenpou* (Annual of Industrial Property Law), No. 11: p. 27); its first instance, the Nagoya District Court decision on February 27, 1984, *Court Decisions Relating to Intangible Property*, Vol. 16, No. 1: p. 91 ([Annotation] Kazuko Matsuo, *Tokkyo Kanri* (Patent Management), Vol. 35, No. 11: p. 1315; Shouichi Kidana, *Court Decision Journal*, No. 1136: p. 202). This was a case in which the existence of the prior user's right was disputed concerning an expensive plant, which was a walking beam type heating furnace to be used at a steel plant. Although the company had completed the invention and submitted the estimated specifications and the drawing in response to an inquiry by a steel plant, it did not create the final drawing since no order was placed. Nevertheless, the company had been continuing to put in tenders for orders. This court decision is noted for rendering a new decision on a special product like a plant.

There is also the problem of the scope of the prior user's right. Although the prior user's right is a non-exclusive license, its scope does not always coincide with that of the patented invention. The scope is limited to the invention which is being worked or for which the preparations for working are being made and to the purpose of the business (Section 79 of the Patent Law). Accordingly, if only a part of the patented invention has been worked, the prior user's right is also limited to that part¹³. Also, from the viewpoint of equity, there is no need to recognize the expansion of working to other types of businesses exceeding the purpose of the business. However, the expansion of size could be recognized within the scope of the same type of business¹⁴.

An invention is not necessarily worked in the same mode at all times, but it is more common for the mode to gradually change. Thus, there is a question of whether or not it is admissible for a prior user to work the invention by changing the mode of working. There is a conflict of opinions regarding this issue, between a theory stating that the working is limited to the mode in which the invention has been worked or for which preparations have been made for working (the working mode theory¹⁵) and a theory stating that the mode extends to the scope of the invention that has been worked or for which preparations have been made for working (the inventive concept theory; scope of invention theory¹⁶). Considering only the national economic viewpoint of preventing the retirement of facilities, it would be sufficient to recognize only the mode of working that had been adopted at the time of filing. However, from the equity viewpoint, which has become more prevalent in recent years, it would be too disadvantageous for the prior user, and thus, unreasonable, to disallow changes of

¹³ The Matsuyama District Court decision on November 19, 1996, Court Decision Journal, No. 1608: p. 139.

¹⁴ Toyosaki, *Kougyou Shoyuiken Hou* (Industrial Property Law): p. 258.

¹⁵ The Supreme Court (in prewar Japan) decision on April 5, 1938, Civil Court Decisions by the Supreme Court, Vol. 17: p. 642; the Tokyo District Court decision on April 8, 1974, Court Decisions Relating to Intangible Property, Vol. 6, No. 1: p. 83 (this decision was reversed by the Tokyo High Court decision on May 27, 1975 (note 2)). Recently, hardly anyone has argued this theory.

¹⁶ The Osaka District Court decision on July 10, 1967 (note 2); the Tokyo High Court decision on May 27, 1975 (note 2); the Nagoya District Court decision on February 27, 1984 (note 12). Yoshifuji, *Tokkyo Hou*: p. 497; Toyosaki, *Kougyou Shoyuiken Hou* (Industrial Property Law): p. 257; Nakayama, *Chuukai Tokkyo* (Annotated Patent Law), Vol. 1: p. 769 [Matsumoto]; Iida, "Senshiyouken (1) Hassei Youken Jijitsu (Prior User's Right (1) Facts Required for the Right to Take Effect)," Makino, *Kougyou Shoyuiken Soshou Hou* (Industrial Property Litigation Law): p. 312; Minoru Moribayashi, "Tokkyo Hou Ni Okeru Senshiyouken No Kouryoku (Effects of the Prior User's Right under the Patent Law)," *Kigyuu Hou Kenkyuu* (Study of Business Law), No. 198: p. 29; Tomoko Takii, "Senshiyouken No Han'i (Scope of the Prior User's Right)," No. 238: p. 21. However, as the invention subject to a prior user's right does not have a patent claim as in the case of a patented invention, determination of the scope of the invention can be expected to be quite difficult in reality.

modes within the same scope as that of the invention which had been worked at the time of filing. Finally, this idea was adopted in a Supreme Court decision¹⁷, and for all practical purposes the issue was settled. At times like the present, when technology is advancing at a high speed, a prior user's right is often meaningless if its working mode is not allowed to be changed at all. As this could destroy the meaning of the system of the prior user's right itself, the Supreme Court decision is considered to have been reasonable.

Although the prior user's right is a non-exclusive license, it justifiably takes effect as long as the statutory requirements have been met, and it is effective against anyone subsequently acquiring the patent or an exclusive license even without registration (Section 99 (2) of the Patent Law). Since there are no special provisions on assigning a prior user's right, the common rules for a non-exclusive license are applied. In other words, except in the case of an ordinary succession, the license can be transferred with the consent of the patentee¹⁸ or together with the business in which it is worked (Section 94 of the Patent Law). Nevertheless, although the Law sets forth that "the transfer, modification, extinguishment or restriction on the disposal of a non-exclusive license or the grant, transfer, modification, extinguishment or restriction on the disposal of a pledge relating to a non-exclusive license shall not be effective against any third party unless it is registered (Section 99 (3) of the Patent Law)," the prevalent theory is to deny application of this provision to the statutory license¹⁹. Section 99 (3) of the Patent Law is, however, mainly intended for determining the priority between the two assignees when the license has been assigned in an overlapping manner, so actually it is considered to have hardly any meaning²⁰.

¹⁷ The Supreme Court decision on October 3, 1986 (note 12). The court clearly stated as follows: "The mode of working should not be limited to the mode in which the prior user has actually worked the invention or has been making preparations to work the invention in Japan, but should also cover varied modes of working within the scope that does not lose identity with the technical idea, or the invention, materialized in that mode of working. When the invention that materialized in the mode of working only corresponds to a part of the patented invention, the effects of the prior user's right naturally extends only to that part of the patented invention, but if the scope of that invention coincides with the scope of the patented invention, the effects of the prior user's right should extend to the entire scope of the patented invention."

¹⁸ The Sapporo High Court decision on December 26, 1967 (note 8).

¹⁹ Nakayama, *Chuukai Tokkyo* (Annotated Patent Law), Vol. 1: p. 774 [Matsumoto]; Toyosaki, *Kougyou Shoyuiken Hou* (Industrial Property Law): p. 258 (however, the Sapporo High Court decision (note 8) cited here was not an ordinary case of assignment, but a case in which the party assigned the status of being a prior user together with the business in which the invention was worked).

²⁰ The implication is considered to be that although a statutory licensee can counter the patentee and the exclusive licensee without registration (Section 99 (2) of the Patent Law), there is no way other than registration to determine the priority in the relation between multiple persons who were

The status to enjoy the prior user's right already exists and the non-exclusive license can be transferred together with the business, even prior to establishing the

assigned the status by the statutory licensee. Nevertheless, the status of being able to counter another is not likely to be addressed as an issue in actual litigation. Since the prior user's right is a non-monopolistic non-exclusive license, it does not involve the right to demand an injunction or the right to claim compensation for damages. Accordingly, no dispute would arise between two parties that have been assigned a non-exclusive license. (As a non-exclusive licensee does not have a cause of action even against a third party with no title to the invention, the licensee naturally does not have a cause of action against the other non-exclusive licensee who was assigned the license in an overlapping manner.) While Section 99 (3) also provides for various cases other than transfer of the license, most of them are not likely to occur in reality. Hidesato Iida, "*Senshiyouken (1) Hassei Youken Jijitsu (Prior User's Right (1) Facts Required for the Right to Take Effect)*," (note 16): p. 312 explains that there is no room to apply Section 99 (3) of the Patent Law. Minoru Moribayashi, "*Tokyo Hou Ni Okeru Senshiyouken No Kouryoku (Effects of the Prior User's Right under the Patent Law)*," *Kigyuu Hou Kenkyuu (Study of Business Law)*, No. 198: p. 28 states that it is a careless legislation flaw. With regard to Section 99 (3), which is a provision on non-exclusive licenses in general, see: Subsection 4, Item 3, 4. "Content of a Non-Exclusive License," (4) "Changes of the Parties."

patent right²¹.

It is not a patent infringement to use the product manufactured by a prior user. Meanwhile, the claim of the prior user's right can also be made by a person whose working of the invention can be viewed as a working by the prior user (a person who acts according to the prior user's intention)²².

3. Statutory Non-Exclusive License Due to Working Prior to the Registration of Demand for Invalidation Trial (*Chuuyouken* (intervening right)) (Section 80 of the Patent Law)

When a patent is invalidated by the finalization of a trial decision of invalidation, the invention usually becomes available for use by all people including the original patentee who received the decision of invalidation, so there would be no problem. However, in the case of a double patent (registration of multiple patents for

²¹ Nakayama, *Chuukai Tokkyo* (Annotated Patent Law), Vol. 1: p. 773 [Matsumoto] states that, if the patentee has consented, it can be viewed as a conversion into a license by agreement. The same opinion is indicated in Hidesato Iida, "*Senshiyouken (1) Hasei Youken Jijitsu* (Prior User's Right (1) Facts Required for the Right to Take Effect)," (note 16): p. 312. This is only considered to be a matter of explanation.

²² The Supreme Court decision on October 17, 1969, Civil Court Decisions by the Supreme Court, Vol. 23, No. 10: p. 1777 (the Globe-shaped Transistor Radio Design case) (a case under the old Law) ([Annotation] Nobuhiro Nakayama, Journal of the Jurisprudence Association, The University of Tokyo, Vol. 87, Nos. 11/12: p. 1088; Kazuko Matsuo, The Law Times Report, No. 244: p. 89; Chousei Okumura, *Housou Jihou* (Bar Journal), Vol. 22, No. 4: p. 86; Ryyuichirou Senmoto, Journal on Civil and Commercial Law, Vol. 63, No. 6: p. 958); its first instance, the Tokyo District Court decision on December 23, 1961, Civil Court Decisions by Lower Courts, Vol. 12, No. 12: p. 3176 ([Annotation] Teruo Doi, *Tokkyo Hanrei Hyakusen* (100 Selected Patent-related Court Decisions), Case 76; Teruo Doi, Jurist, No. 257: p. 135; Nobuo Monya, Jurist, No. 323: p. 124). This matter is not an issue specific to the prior user's right, but an issue of the scope of the subject worked in general (See Section 6, Subsection 2 "Joint Ownership," note 2).

the same invention) or in a like case, another patent on the same invention may still exist after invalidation of a patent. In such a case, the original patentee whose patent has been invalidated would no longer be able to work the invention. If so, a person who has been working or preparing to work the invention by trusting in the JPO's disposition may have to retire its related facilities, which would be a harsh result. Thus, the Patent Law provides for a statutory license (also referred to as *chuuyouken* (intervening right)) as a remedy for such a case (Section 80 (1) of the Patent Law).

Specifically, a person, who is running a business working the patented invention or preparing the business before the registration of a demand for an invalidation trial (announcement of registration) without knowing the cause of invalidation, has a statutory non-exclusive license.

While the prior user's right is stipulated as a gratuitous license from the viewpoint of equity, *chuuyouken* is prescribed for an economic purpose to provide a remedy for persons who trusted the JPO's disposition and to prevent the scrapping of existing facilities, though the person is in fact not entitled to work the invention; thus the person must pay a reasonable remuneration for it (Section 80 (2) of the Patent Law). Although the standard for the license fee is undefined, the license fee for a non-monopolistic non-exclusive license by agreement is likely to serve as the standard. Since it is a remedy for those who trusted in the JPO's disposition, *chuuyouken* only takes effect for those who did not know the cause of invalidation (main text of Section 80 (1) of the Patent Law).

When a demand for an invalidation trial is made, an announcement of registration is made to that effect ex officio (Sections 3 (5) and 27 of the Patent Registration Order).

Chuuyouken takes effect with respect to the following persons: (i) in the case of a double patent the original patentee, whose patent was invalidated (Section 80 (1) (i) of the Patent Law); (ii) the original patentee in the case where a patent was granted on the same invention after the original patent had been invalidated (Section 80 (1) (ii) of the Patent Law); and (iii) a registered licensee when the patent has been invalidated in cases of either (i) or (ii) above (Section 80 (1) (iii) of the Patent Law). *Chuuyouken* takes effect with regard to an exclusive license and an arbitrary license, because they are registered licenses. In the case of a statutory non-exclusive license, *chuuyouken* takes effect even if the license is not registered¹. In the case of a non-exclusive license by

¹ Section 80 (1) (iii) of the Patent Law provides that *chuuyouken* arises for a non-exclusive licensee whose license has the effect as under Section 99 (1), and Section 99 (1) provides that for a registered non-exclusive licensee. In addition, Section 99 (2) provides that the statutory non-exclusive license

agreement, *chuuyouken* only takes effect when the license has been registered. Since most non-exclusive licenses are not registered, their licensees cannot enjoy the benefits of *chuuyouken*.

Section 80 of the Patent Law formally seems to take into account all cases of double patenting, but there are various kinds of invalidations of double patents. First is the case where the senior patent is invalidated. This is a typical example where the senior patentee could work the invention until the trial decision of invalidation became final and conclusive, but became unable to work the invention due to the existence of the junior patent, and *chuuyouken* takes effect as a result. Nevertheless, the senior patent is hardly ever invalidated in actuality.

The problem is the case where the junior patent is invalidated. The junior patentee on a double patent is essentially not entitled to work the invention², so it would be unreasonable if he/she became able to work the invention by obtaining a statutory non-exclusive license once the trial decision of invalidation has become final and conclusive. Since *chuuyouken* is a system for remedying those who were working the invention or making preparations for it by trusting in the patent, *chuuyouken* should not be considered to arise for those who are essentially not entitled to work the invention³.

The effects of *chuuyouken* are similar to the prior user's right except in respect to the consideration for the license, so readers are advised to refer to the part about the prior user's right in this book.

Despite *chuuyouken* having been constructed as a non-exclusive license, it is different in nature from a non-exclusive license by agreement. This matter is also

is effective against anyone subsequently acquiring the patent or exclusive license, so *chuuyouken* arises for the statutory non-exclusive license even if the license is not registered.

² Some theories state that the junior patentee on a double patent can also work the invention. However, it is too unjust to allow the patentee to work the invention when the invention is identical while the working is not allowed when the invention is dependent (Section 72 of the Patent Law). Setting aside the question of how the nature of a patent right should be understood, it should be interpreted that the junior patentee cannot work the invention in the case of a double patent.

³ Yoshiyuki Tamura, "*Chiteki Zaisanken Hou Oboegaki* (Memorandum on Intellectual Property Law)," Fifth anniversary of the Institute of Intellectual Property: p. 270.

mentioned in the section on the prior user's right.

4. Statutory Non-Exclusive License After Expiration of the Design Right (Sections 81 and 82 of the Patent Law)

Patent rights and design rights each protect different subject matters, but they conflict with each other on rare occasions¹. Since they protect different subject matters, no examination is conducted to determine whether the patent application or the design application was filed first, and they could both be registered as rights. If the design application were filed on or before the filing date of the patent application, the design right holder could work the design without any restrictions by reason of the patent right (See Section 26 of the Design Law). However, after the expiration of the term of the design right, the working of the design would conflict with another person's patent right, and it would constitute a patent infringement. The design right holder must have expected to be able to work the design even after expiration of the term of the design right, and it would be severe for the design right holder to be frustrated in that expectation just because of the sudden emergence of a patent right for which the application was filed on or after the filing date of the design application. The Patent Law provides for a statutory non-exclusive license for such a case (Sections 81 and 82 of the Patent Law).

First of all, the grant of the license is limited to a design right for which the application was filed on or before the filing date of the patent application. If the design application had been filed later than the patent application, the design right holder would not have the right to work the design in the first place (Section 26 of the Design Law), so it would not present a problem.

This statutory non-exclusive license can be granted to the original design right holder (Section 81 of the Patent Law), the exclusive licensee for the design, and a registered non-exclusive licensee (Section 82 of the Patent Law). The reason for recognizing this statutory non-exclusive license is that it is unjust for the original design right holder, who could work the entire scope of the design, to be suddenly obstructed from working the design right with the expiration of the term of the design only because a patent application had been filed on or after the filing date of the design application. Therefore, the license arises for the scope in which the original design right holder

¹ The frequently cited textbook example is the tire tread. The tire tread could be subject to a patent right from the technical viewpoint of preventing slipping, and could also be subject to a design right from the viewpoint of the tire design. Manufacture of a tire with that tread would both constitute a patent infringement and a design infringement.

could work the design in the first place; that is, the entire scope of the original design right (Section 81 of the Patent Law), regardless of whether or not the design right holder had been actually working the design. Unlike in the case of the prior user's right, there is no need to give consideration to the national economic aspect. In contrast, when the statutory non-exclusive licensee is the exclusive licensee or a registered non-exclusive licensee for the original design right, there is no need to recognize the statutory license for the entire scope of the design right, but it is sufficient to recognize it within the scope of the design right as well as within the scope of the original license (Section 82 of the Patent Law). In other words, it is not necessary to recognize a statutory license exceeding the scope in which the design could be originally worked. Also, the license is not gratuitous in the case of the licensee; he/she must pay a reasonable license fee to the patentee (Section 82 (2) of the Patent Law). A reasonable remuneration is required under the Law because it is usual for a licensee to have been paying license fees for the design in the past².

This statutory license is a non-exclusive license, and its nature is similar to other statutory non-exclusive licenses.

When an exclusive license has been granted for the patent right, this statutory non-exclusive license is established for the exclusive license on the patent as well.

This statutory non-exclusive license is only established when the design right extinguishes by expiration of its term, and not when the design right extinguishes due to reasons including a trial decision of invalidation becoming final and conclusive, abandonment, or default of payment of the annual fee³.

5. Statutory Non-Exclusive License Due to Working Prior to Registration of Demand for Retrial (Section 176 of the Patent Law)

When the trial decision becomes final and conclusive in a patent invalidation trial, people may start to work the invention by trusting in that disposition. However, if the patent were to be restored by a retrial, the patent right would be deemed to have

² Some licensees may not have paid any license fee (gratuitous license) or have only paid a small amount of license fee in the past. In such a case, they would have to pay higher license fees than in the past after the expiration of the original design right. However, the licensees had expected to work the original design freely and without charge after the expiration of its term, so there may be a need to review the reasonability in having them continue paying a license fee only because there was a later-filed patent.

³ Although the design right is not extinguished based on the right holder's intention in the case of an invalidation trial, and there could be an issue of achieving consistency with *chuuyouken*, it is clear from the provisions under the current Law that the statutory non-exclusive license is not established in such a case.

been valid from the start. If the people who worked the invention by trusting in the trial decision of invalidation were accused of a patent infringement in such a case, it would harm the legal stability of patents. Thus, the Patent Law provides for the establishment of a statutory non-exclusive license in such a case (Section 176 of the Patent Law). The statutory license arises when an invalidated patent or a patent relating to the invalidated registration of an extension of the patent term has been restored through a retrial, or when the establishment of a patent or the extension of the term of a patent with respect to a patent application or an application for registration of an extension of the patent term, which was refused by a trial decision, has been registered through a retrial. The person eligible for the license is a person who has, in good faith, been commercially working the invention in Japan or has been making preparations for it. The scope of the license is limited to the invention which is being worked or for which preparations for working are being made.

This statutory license is also a non-exclusive license, and its content resembles the prior user's right.

Incidentally, Section 175 of the Patent Law provides for the effects of a patent right that has been restored through a retrial. With regard to this point, readers are advised to refer to Section 7, Subsection 3, Item 3, 5. "Restriction on Effects of a Patent Right Restored by Retrial."

Section 10 Obligations Pertaining to a Patent Right

It is better for a patent right to be worked than to be kept dormant, so there is the issue of the obligation to work the patented invention. The current Law encourages the working by indicating that an arbitrary license could be established if the patented invention has not been in use (See Section 9, Subsection 4, Item 4, 1. "Arbitrary License on an Invention Not in Use").

In order to maintain the patent right, the patentee has an obligation to pay annual fees (Sections 107 onwards of the Patent Law). However, the JPO Commissioner can reduce the amount of annual fees or exempt the person from paying the annual fees if he/she cannot afford to pay them due to poverty or other reasons (Section 109 of the Patent Law). Since the patent right extinguishes if no payment were to be made (Section 112 (4) of the Patent Law), an interested person, such as a licensee or a pledgee, could pay the annual fees even against the will of the patentee (Section 110 (2) of the Patent Law). Even if the patentee could not pay the annual fee

within the prescribed time limit, he/she could pay the fee belatedly within six months from the expiration of that time limit (Section 112 of the Patent Law; Article *5bis* of the Paris Convention). In actuality, these patent fees considerably affect the filing trend, so determination of the amount of the fees and the balance between the filing fee and the examination fee are important issues which should be considered based on policy.

If third parties could easily judge whether or not a certain product is patented, it could prevent patent infringements. Thus, the Patent Law has a directive provision stating that efforts must be made to attach a patent notice¹ (Section 187 of the Patent Law). Such notice must indicate the name and the patent number of the product patent or the process patent (Section 68 of the Regulations under the Patent Law).

Furthermore, it goes without saying that a patent right is a property right, which must be exercised in good faith and in accordance with the principles of trust (Article 1 (2) of the Civil Code). Also, as a patent right is a powerful exclusive right, it presents problems with respect to the Anti-Monopoly Law. This problem shall be left to studies on the Anti-Monopoly Law, and shall not be discussed here.

¹ Article 5 D of the Paris Convention stipulates that no indication of the patent is required as a condition for recognizing the right, so the indication cannot be made obligatory as the basis of the right.

Section 11 Term and Lapse of a Patent Right

Unlike an ownership right, a patent right has a term during which it is valid. Although there are various theories concerning the ground for setting a time limit for a patent, ultimately the answer should be derived from the question of what would be the most effective length of the term of protection for the development of technology, or industrial development.

A patent right takes effect upon registration of its creation (Section 66 (1) of the Patent Law), and the term of the patent is twenty years from the filing date (Section 67 (1) of the Patent Law). Formerly, the stipulated term had been fifteen years from the date of publication of the examined application, not exceeding twenty years from the filing date. However, as the system of publication of the examined application was abolished, and the TRIPs Agreement did not allow the national law to stipulate a term shorter than twenty years from the filing date, the current stipulation of “twenty years from the filing date” was adopted (amendment of 1994). Since a patent right takes effect by registration, the actual term of the patent would differ depending on the time taken for the substantive examination conducted before registration. Apart from exceptional cases, such as an intentional delay by the applicant, it seems unfair to have the delay of examination affect the length of the patent term. Nevertheless, considering the fact that the ultimate purpose of the patent system is in promoting the development of industry by encouraging invention, granting an exclusive right for a technology that has taken an excessively long time since the filing could mean granting an exclusive license for an already obsolete technology, which is not desirable from the viewpoint of industrial policy¹. It is the world standard to limit the term of a patent to a fixed period from the filing date, and the current Japanese Patent Law follows suit. The actual term of protection has the nature of being determined based on historical grounds or policy grounds, and it is not something that can be decided theoretically².

¹ Under the current (1998) U.S. patent system, the term of the patent is not fixed based on the filing date, so if the examination is delayed, the patent could be established dozens of years after the filing date. There is no system of laying-open the unexamined application either, so third persons are sometimes surprised by the sudden appearance of a patent right (referred to as a submarine patent) without knowing about the existence of the application until the patent has been granted.

² Under the Law of 1921, the patentee could apply for an extension of the term for a period between three to ten years if he/she could not gain reasonable profits during the term due to a justifiable reason and if it was an important invention (Section 43 (5); Section 1 of the Patent Law Enforcement Order). Such a provision may be worth considering in theory, but it would be extremely difficult to determine whether or not the patentee gained reasonable profits in actuality.

Inventions, such as an invention of a pharmaceutical product, which require an approval for their working due to safety checks or other reasons sometimes cannot be worked immediately after establishing the patent right, and the actual patent term is shortened as a result. Thus, extension of the patent term was allowed in such cases upon the 1987 amendment (Section 67 (2) of the Patent Law).

In order to enjoy an extension of the term, the patentee needs to obtain an approval or other disposition, which is governed by provisions in laws intended to ensure safety, etc. in the working of the patented invention, and which is provided for in a cabinet order^{3, 4}, while at the same time, the patentee is required to have been unable to work the patented invention for two years or more. The patent term can be extended by a period not exceeding the period during which the invention could not be worked with five years as the maximum (Section 67 (2) of the Patent Law). This is an exception to the principle of the patent term being twenty years from the filing date (Section 67 (1) of the Patent Law), and when an extension is allowed, the patent term could last for twenty-five years from the filing date at a maximum.

When an application for the registration of an extension of the patent term is filed, the term of the patent is deemed to have been extended; but if the examiner's decision to refuse the application becomes final and conclusive, the extension is deemed to have not been made (Section 67bis (2) (v) of the Patent Law). After the extension of the patent term, the effects of the patent no longer extend to acts other than the working in respect of the product (if any specific use of such product had been specified in the disposition concerned, the product used for such specific use) which was the subject of the disposition⁵.

³ Section *Iter* of the Patent Law Enforcement Order stipulates dispositions under the Agricultural Chemicals Regulation Law and the Pharmaceutical Affairs Law as the dispositions for which extension of the term are possible. There may also be other dispositions that could be made subject to extension in theory, but those requiring urgency were specified by a cabinet order for the meantime.

⁴ Section 67 (2) of the Patent Law sets forth: "being such that, in view of the object of the relevant disposition, proceedings, etc., a considerable period of time is required for proper action for the disposition." This statement suggests that the extension measure only targets dispositions that take time due to their nature. Therefore, this system is not applied to dispositions that happened to take a long time due to the negligence of the administrative office. Such a case would be settled by other means such as state compensation.

⁵ The following case is often cited as a textbook example. When the patent term of a substance patent on nitroglycerin has been extended and the product has been approved as a medicine for angitis pectoris, the effects of the term-extended patent only extend to the working of nitroglycerin as a medicine for angitis pectoris, and not to a working as dynamite. While that is unarguable when the invention is used for completely different purposes as dynamite and medicine, as in the case of nitroglycerin, in the actual cases of pharmaceutical products, for instance, manufacture is hardly ever approved for the entire scope of the patent claim (e.g. a certain chemical substance), but

A patent right lapses upon the following events: expiration of the term of the patent (Section 67 (1) of the Patent Law); default of payment of the annual fees (Section 112 (4) of the Patent Law); absence of an heir (Section 76 of the Patent Law); abandonment of the patent right (Section 97 (1) of the Patent Law); a trial decision of invalidation becoming final and conclusive (Section 125 of the Patent Law); and annulment of the patent (Article 100 of the Anti-Monopoly Law).

Section 12 Criminal Penalties

The Patent Law, although belonging to civil law, also provides for some criminal penalties for enhancing patent protection and defending the interests of the general public.

The core of the criminal penalties is the offense of infringement (Section 196 of the Patent Law), but as this matter is discussed in Section 8, Subsection 3 “Criminal Penalties,” it shall be omitted here and other offenses shall be discussed here instead.

(i) Offense of fraud (Section 197 of the Patent Law)

This is an offense in which a person obtains a patent, a registration of an extension of the patent term, or a trial decision by means of a fraudulent act, such as by submitting false evidence to the examiner (imprisonment with labor not exceeding three years or a fine not exceeding three million yen).

(ii) Offense of false indication (Sections 198 and 188 of the Patent Law)

This is an offense in which a person not entitled to the patented invention attaches a patent notice, though a patent notice can only be attached when one’s invention has been examined and registered by the JPO. It is a provision for retaining the credibility of the patent system (imprisonment with labor not exceeding three years or a fine not exceeding three million yen).

instead, it is approved regarding the specified dosage method, dosage amount, and dosage form. However, such detailed approvals have no meaning under the Patent Law, and the effects of the patent extend to the working as long as the specified purpose is the same. Accordingly, if an approval has been gained for the product as powdered medicine, and the term of the patent has been extended, the effects of the patent will also extend to a person who manufactured the same product in tablet form. For details of the extension system, see Hirorou Niihara, *Kaisei Tokkyo Hou Kaisetsu* (Commentary on the Amended Patent Law) (Yuhikaku, 1987); Nakayama, *Chuukai Tokkyo* (Annotated Patent Law), Vol. 1, Sections 67, 67bis, 67ter, 67quater, and 68bis [Hirayama].

(iii) Offense of perjury, etc. (Section 199 of the Patent Law)

This is an offense in which a witness, expert witness, or interpreter who, having taken an oath under the Law, has made a false statement, has given a false expert opinion, or has interpreted falsely (imprisonment with labor for a term not less than three months nor more than ten years).

(iv) Offense of divulging secrets (Section 200 of the Patent Law)

While government officials have the duty of confidentiality (Article 100 of the National Public Service Law) the violation of which is subject to imprisonment with labor not exceeding one year or a fine not exceeding 30,000 yen (Article 109 of the National Public Service Law), a heavier penalty of imprisonment with labor not exceeding one year or a fine not exceeding 500,000 yen is imposed on JPO officials or former JPO officials in order to protect the rights of applicants and to maintain the credibility of the patent system.

(v) Dual liability (Section 201 of the Patent Law)

When a representative, attorney, or an employee of a legal entity or a natural person that conducts business has committed any of the above offenses, the legal entity or the natural person that conducts the business is also punished in addition to the natural person who has committed the crime. Meanwhile, a provision on heavy penalties on corporate bodies was established upon the 1998 amendment to impose fines not exceeding 150 million yen on corporate bodies.