

22 Civil Liability of Patent Owners for Inoperative Inventions —Due to a Technical Defect—

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In order to make Japan more internationally competitive, we need to promote the proper use and protection of intellectual property. Recently, the Japanese government announced the Strategic Program for the Creation, Protection and Exploitation of Intellectual Property, which proposed “proactive” measures to enhance the environment for intellectual property exploitation including the introduction of TLOs and intellectual property trusts. However, the operativeness of a patented invention is not necessarily guaranteed under the current patent system. Thus, it is equally important to devise sufficient “reactive” measures in order to deal with such problems as the “inoperativeness” of a patented invention.

In the case where a person concludes a patent license agreement (hereinafter “license agreement”), if that person finds the patented invention inoperative, what civil liability must the patent owner assume? In practice, most license agreements have a warranty clause. Nonetheless, it is still difficult to create such a clause applicable to all events that might happen in the future.

It is therefore necessary to establish general rules based on which the provisions of license agreements should be created. Then, I will try to clarify the civil obligations of patent owners to licensees who find the inventions in question inoperative.

I Purpose of This Study

1 Issues to be addressed

In order to make Japan more internationally competitive, we need to promote the proper use as well as protection of intellectual property. Recently, the Japanese government issued the “Strategic Program for the Creation, Protection and Exploitation of Intellectual Property (2004/2005), which proposed “proactive” measures to enhance the environment for intellectual property exploitation (for example, the reexamination of the compulsory license system, establishment of the system of license of right, and the use of intellectual property trusts). This program, however, failed to propose sufficient “reactive” measures, which are equally important. “Reactive” measures are necessary to solve such issues as the “inoperativeness” of a patented invention.

In the case where a person concludes a patent license agreement (hereinafter “license agreement”), if that person finds the patented invention inoperative, what civil liability must the patent owner assume? In practice, most license agreements have a warranty clause. Nonetheless, it is still difficult to create such a clause applicable to all the events that might happen in the future.

It is also important to note who hold patents nowadays. In the past, for example, most patent owners were inventors themselves or experts in

the relevant technical fields who had obtained patents from third parties. In such a situation, in practice, even if a licensee finds the patented invention inoperative due to some problems, the patent owner could provide production know-how or production personnel to solve those problems. This situation has greatly changed since the enforcement of the “Law for the Promotion of Technology Transfer from Universities to the Private Sector” in 1998, which has led to the recent establishment of technology licensing organizations (hereinafter “TLO”). A TLO functions as an intermediary between inventors and third parties as follows. First, the TLO obtains a patent on an invention made by a scientist at a university or any other institution who does not intend to exploit its patent on a commercial basis. Then, the TLO concludes a license agreement with a third party.

In the case where the TLO is a patent owner, even if a licensee is unable to put the patented invention into production due to a problem, there would be no one to solve the problem. Such a problem could be solved if the patent owner were the inventor or an expert in the relevant field. In most cases, the TLO does not have experts on relevant fields because it only serves as a bridge between companies and universities or between companies and scientists at nearby universities. Sometimes, the TLO may have no knowledge about the technical field in question. The TLO

itself will not or does not exploit patented inventions for profit. Therefore, the TLO has no production know-how to provide to licensees even though it might be able to extend some other assistance. If a licensee is unable to exploit a patented invention by himself due to unclear or insufficient descriptions in the specification of the invention, is it appropriate to assume that the licensee has the right to demand technical information as a remedy from the scientist who had made that invention but transferred the patent? This question could also be asked from the side of scientists at a university or any other institution. Is any inventor who has transferred the patent obliged to provide technical information or any other assistance to a licensee so that the invention can be exploited in practice?

Moreover, the revision of the Trust Law last year allowed owners of an intellectual property right such as a patent to place such right in a trust. Consequently, more and more patents will be held by financial institutions and other organizations that have nothing to do with the manufacturing industry.

It is therefore necessary to establish general rules concerning license agreements. Even if most agreements have a warranty clause, it will be important to clarify underlying general rules and the civil obligations of patent owners to licensees who find the inventions in question inoperative.

This paper will focus on a patented invention that turns out to be inoperative due to a technical defect. For the purpose of simplification, this paper will not address other cases where an invention is found legally inoperative due to an infringement on a right (Article 72 of the Patent Law) or due to an administrative disposition.

2 Judicial precedents, theories, and related issues

There was a judicial precedent^{(*)1} in which a licensee was unable to put a patented invention to production due to unclear and insufficient descriptions given in the specification. The court did not review the patent system itself but provided the licensee with a legal remedy on the basis of the fact that an essential element of the license agreement was null and void derived from a mistake (Article 95 of the Civil Code). Some people support this remedy, saying it is natural for a patent owner to assume civil liability for the inoperativeness of its patented invention.^{(*)2} Other people have adopted the same standpoint as shown in this precedent.^{(*)3} These people, however, seem to have reached their conclusions without thoroughly studying the Patent Law, the Civil Code, and the issue of initiative expected of licensees. Unfortunately, no studies have been conducted in recent years to question the appropriateness of these standpoints. It will be meaningful to reexamine these viewpoints as the groundwork for the creation of a better environment for intellectual property exploitation through “reactive” measures.

This study has reached the following conclusion. Under the Japanese patent system, the examiners are not obliged to check whether the invention described in a patent application is operative. It means that a patent could be granted on an inoperative invention. Article 69 (1) of the Patent Law is considered to be a provision that allows any party to conduct some testing or research on an invention to supplement the examination carried out by the Patent Office. Despite the existence of this provision, if a licensee fails to check the operativeness of a

(*)1 Ruling given by the Tokyo Appeal Court, October 27, 1938: *Houritsu Shimbun* (Newspaper on laws), no. 4359-8, *Tokkyo Hanrei Hyakusen* (Dai2han)) (100 patent cases (Second edition)), (Yuhikaku, 1986), page 147, no. 3, page 260

(*)2 Shigeaki Mitsuda, the said *Tokkyo Hanrei Hyakusen* (Dai2han) (100 patent cases (Second edition)), page 147

(*)3 Yoshinobu Someno, “*Tokkyo Jisshi Keiyaku*” (Patent license agreement), “*Keiyaku Hou Taikai IV (2)*” (Overview of contract laws), (Yuhikaku, 1963), page 381; Kenichirou Oosumi, “*Tokkyo Jisshi Keiyaku Ni Okeru Jisshi Kyodakusha No Sekinin*” (Obligations of the licensor under a patent license agreement), *Hougaku Ronzen*, vol. 78, no. 1 and no. 2 (1965), page 150; Yoshimitsu Noguchi, “*Gijyutsu Jisshi Kanousei No Kekkan Ni Taisuru Tokkyo Jisshi Kyodakusha No Tampo Sekinin I, II*” (Defect liability of the licensor under a patent license agreement for an inoperative invention due to a technical defect); *Kougyou Shoyuiken Hou Kenkyu*, (Hanabusa Kougyou Shoyu Ken Kenkyujo Shuppambu), vol. 13, no. 3, (1967), page 14 and no. 4 (1967), page 27; the said “*Tokkyo Jisshi Keiyaku*” (Patent license agreement), *Hara Masuji Hanji Taikan Kinen, Kougyou shoyuiken No Kihonteki Kadai Ge* (Commemoration of the retirement of Judge Masuji Hara, basic issues of intellectual property, vol. 2), (Yuhikaku, 1972), page 1013; Shiro Mitsuishi, *Tokkyo Hou Shousetsu*, (Detailed explanation on the Patent Law), (Teikoku Chihou Gyosei Gakkai, 1967), page 396; Tatsuki Shibuya, “*Tokkyo Jisshi Keiyaku Ni Okeru Jisshikenjya No Jisshi Gimu To Keiyaku No Houritsuteki Seishitsu*” (Obligations of the licensee of a patent license agreement and the legal characteristics of the agreement), *Hougaku Kyoukai Zasshi*, vol. 85, no. 2, (1968), page 191; Tadahiko Amamiya, *Tokkyo Jisshi Keiyaku Ron* (Patent license agreement outline), (Nihon Kougyou Shimbunsha, 1985), page 89, page 97 onward

patented invention before the conclusion of a license agreement, such failure should be considered to be negligence, to say the least, on the part of the licensee as a merchant. For these reasons, it is not appropriate to expect patent owners to assume defect liability (Civil Code 559 and 570) or allow licensees to claim the license agreement to be null and void due to the existence of a mistake (Civil Code 95). Nevertheless, any licensee who finds the patented invention inoperative should be allowed to cancel the license agreement because it would be unreasonable under the principle of fairness and equity to keep the licensee bound by the license agreement.

3 Method used in this study

In Japan, there are almost no judicial precedents and studies with regard to this issue. Therefore, it is useful to overview and study the situations in foreign countries to obtain insights. As a subject of this study, French laws are chosen for the reasons described below.

This issue will be clearly tangible in nations that have adopted the first to file principle. Under the principle, the date to file will be one of the most important things to grant a patent. Therefore applicants may describe premature specifications voluntarily or involuntarily to apply.

On the other hand, in the United States (which should be referred as comparison from the aspect of practice), it has adopted the prior invention system. Applicants can apply after an invention has got matured. Therefore, I hesitate to select the Act of the United States as comparison but to select French Law which has adopted the first to file principle.

It is inevitable that some people regard patent examination under French laws as unreliable because the French patent system has adopted the principle of non-substantive examination. Ironically, thanks to the low reliability, many fruitful study results have been publicized on the legal obligations of a patent owner whose invention fails to operate properly, which is, as mentioned earlier, the very subject of this paper. These study results must be very insightful for us who have admittedly largely ignored this issue.

There is another reason for selecting French laws. In consideration of the tremendous waste of time and money that would be caused by an inoperative invention, it would be desirable if a company that is going to conclude a license

agreement for a patented invention is allowed to reexamine whether the invention is operative before the conclusion of the agreement. In Japan, such prior checking is considered to be allowed under Article 69 (1) of the Patent Law, which specifies “the effect of a patent shall not extend to any exploitation of the patented invention that is conducted for the purpose of testing or research.” This provision, however, is unclear about to what extent such testing and research are allowed in terms of purpose and subject under Article 69 (1) of the Patent Law. The ruling of the Supreme Court on April 16, 1999, did not clarify the general rules either.

On the other hand, in France, since the establishment of the relevant law in 1968, it has been specified that “the effect of a patent shall not extend to any act that is conducted for “a personal purpose or an uncommercial purpose” (L.613-5 (a): Article 30, Law of 1968). According to this provision, any company exploiting a patented invention is considered to be infringing a patent. However, L.613-5 (b) sets forth that “the effect of a patent shall not extend to any testing of the object of a patented invention” (underlined by the author). In sum, any testing conducted by a company in order to ensure the patentability of an invention does not constitute a patent infringement.

As mentioned above, this paper is based on the assumption that Article 69 (1) of the Japanese Patent Law allows any party to check an invention to supplement the examination carried out by the Patent Office.

Furthermore, a reexamination of French laws would be very beneficial because some people refer to French laws to defend their opinion that it is natural for a patent owner to assume civil liability for the inoperativeness of its patented invention.

In this study, I will review what has been agreed or disagreed in Japan (II), then outline and examine the issues under discussion in France (III), and finally, based on the findings discussed in the preceding chapters (IV), reconsider the civil obligations of a patent owner whose invention fails to operate properly.

II Remaining Issues in Japan

1 Legal characteristics of a license

Under the Japanese Patent Law, either of the two types of license, exclusive license (Senyo Jisshi Ken ; Article 77 of the Patent Law) or

non-exclusive license (Tsujo Jisshi Ken ; Article 78 of the said Law), is granted to any person other than the patent owner as a title that allows the licensee to exploit the patented invention. An exclusive license is similar to a patent in terms of legal characteristics as far as the scope specified in the license agreement is concerned. On the other hand, according to judicial precedents and prevailing theories, a license is the right to request omission. In other words, a license prohibits the patent owner from taking legal action against any exploitation of the patented invention within the scope of the license agreement on the grounds of a patent infringement. Neither exclusive license nor non-exclusive license obliges the patent owner to assist the licensee to exploit the patented invention.

2 Legal characteristic of a license agreement

Even if we study the legal characteristics of a license itself, it is impossible to find legal grounds for obliging the patent owner to assist the licensee to exploit the patented invention. Therefore, it would be a good idea to discuss the legal characteristics of an agreement under which a license is granted (hereinafter “license agreement”). This section will examine each element of a license agreement, which is (1) type of organization, (2) purpose, (3) consensual nature, (4) payment, and (5) term.

Let me start with (1) type of organization. In most cases, a patent owner is a company engaging in exploiting a patented invention on a commercial basis. In some cases, a patent owner is an individual, researcher, or, these days, the TLO. Needless to say, a company is a merchant. Also, a licensee can be regarded as a merchant because a licensee intends to pursue financial benefits through the exploitation of a patented invention under license from the patent owner. Therefore, a license agreement is an agreement concluded between merchants.

Regarding (2) purpose, it can be said that a patented invention is disclosed in the patent gazette to such an extent that a party in the relevant field can exploit it. Based on the disclosed information, any party can exploit the patented invention without obtaining a license from the patent owner. However, a license is necessary to prevent the patent owner from taking legal action against such exploitation on the grounds of a patent infringement.

The next one is (3) consensual nature. As

mentioned earlier, a patented invention is disclosed in the patent gazette to such an extent that a party in the relevant field can exploit it. Therefore, when a license agreement is concluded, the patent owner is not obliged to provide the licensee with written information about the patented invention. A license agreement can be concluded between a patent owner and a licensee solely on their consent.

With respect to (4) payment, the Patent Law does not have any provisions that require a license agreement to be onerous. Therefore, the conclusion of a gratuitous license agreement is possible.

Finally, about (5) term, it should be noted that a license agreement is concluded on the presumption that an underlying patent exists. As a result, the term of a license agreement can not be longer than the term of the patent.

3 Issues related to legal remedies provided through Civil Code approaches

Based on the above-described overview of the legal characteristics of a license and a license agreement, it is safe to conclude that the grant of a license does not oblige the patent owner to assist the licensee to exploit the patented invention. However, it would be unreasonable if a licensee is given no legal remedy when he finds the patented invention inoperative after the conclusion of a license agreement.

According to judicial precedents and previous studies, three approaches were proposed to provide legal remedy to a licensee who has found a patented invention inoperative: (1) agreement unimplementable since before its conclusion, (2) defect liability, and (3) null and void derived from mistake in a license agreement.

These approaches, however, are not in line with the legal characteristics of a license or a license agreement and seem inappropriate in the following ways. With regard to the Approach (1), which tries to provide legal remedy on the grounds that the agreement in question has been unimplementable since before its conclusion, the agreement can not be regarded as unimplementable since before its conclusion because the patent owner can be considered as satisfying its obligations by not taking legal action against the licensee on the grounds of a patent infringement. About the Approach (2), which tries to provide legal remedy on the grounds of defect liability, the patent owner is not obliged to assume defect liability because Article 570 of the Civil Code,

which defines “latent defect,” is not applicable to this case where the patented invention has been publicized through the patent gazette. The Approach (3), which tries to provide legal remedy on the grounds of the existence of mistake, seems also unreasonable for the following reasons. Article 95 of the Civil Code prohibits any declarant (licensee) who has committed gross negligence from claiming the nullification of any act of law. A licensee who has found the patented invention inoperative can be considered grossly negligent in consideration of the fact that he is a merchant who intends to exploit a patented invention on a commercial basis and also that he could have reexamined before the conclusion of the license agreement what technical idea the patented invention was made from. Furthermore, such reexamination is possible because the patented invention has been publicized by the patent gazette. Moreover, the “testing or research” on the patented invention is allowed under Article 69(1) of the Patent Law.

Previous studies point out that the patent owner is obliged to assist the licensee to exploit the patented invention in practice. There are, however, few legal grounds that support this view. Despite this lack of reliable legal grounds, these previous studies have remained unchallenged for a long time. As these previous studies are based on French laws, we are going to shed light on the situations in France in the next chapter.

III French Laws

1 Characteristics of the French patent system

The French patent system has adopted the non-substantive examination principle since the establishment of the Patent Law in 1791. Under this system, no substantive examination is conducted by any administrative agency. For this

reason, some people consider a patent granted under the French system unreliable because it has been granted without substantive examination. To make it more reliable, the French patent system has been reformed in many ways. For instance, two documents are attached to a patent when it is granted: a prior art search report prepared by Search Division of the European Patent Office and an opinion paper, which is prepared to carry opinions of the applicant and third parties about the novelty and inventive activity. In the case where a prior art is pointed out in a report about novelty, the Industrial Property Office is allowed to reject the application if the applicant fails to submit a written amendment or opinion.

2 Legal characteristics of a license

(1) First of all, a license is a right for a licensee to be exempt from being considered as committing a patent infringement (interpretation of L.613-8 of the Intellectual Property Code (Code de la Propriété intellectuelle) from the contrary). (2) Second, an exclusive licensee is allowed to institute a lawsuit against a patent infringement under his own name if the patent owner fails to do so (L. 615-2). (3) Third, any licensee is allowed to intervene in a patent-infringement lawsuit instituted by the patent owner in order to obtain compensation for damage he has personally sustained (L. 615-2).

These characteristics under the Intellectual Property Code, however, do not give a licensee the right to demand assistance from the patent owner for the exploitation of the patented invention.

3 Legal characteristics of a license agreement

With regard to the legal characteristics of a license agreement, both judicial precedents^(*4) and prevailing theories^(*5) have concluded that a license

(*4) Trib.comm.Seine,18 janvier 1888: Ann.propr.ind.,1893,p.173; Civ.29 juillet 1891,D.P.1892..150; Orléans 13 juillet 1892:D.P.1893,2,p.329 ;Tribunal civil de Seine 20 octobre 1922: Ann.propr.ind., 1923,p.288Paris; Tr.comm.Seine, 2 mai 1928: Ann.propr.ind., 1929,p.186; Paris 21 oct.1999:D.2002.Somm.1195,obs. Schmidt-Szalewski: PIBD 2000, III,p.181

(*5) H. Allart, *Traité théorique et pratique des brevets d'invention, Paris, 1911, 3e édition, p.229*, E.Pouillet, *Traité théorique et pratique des brevets d'invention et des secrets de fabrique*, Paris, 1915 6e édition, par A. Taillefer et C.Claro p.355, Paul Roubier,*Le droit de la propriété industrielle*, Recueil Sirey, tome II ,1954, p.260; Jean-Jaques Burst, *Libraires Techniques* 1970, P.17; A.Casalonga,*Traité technique et pratique des brevets d'invention*,1949, tome I , p.432; J.M.Mousseron, *Encyclopédia Dalloz*, n°452; R.Joiet, *Le contrat de licence en droit belge et français*, Revue trimestrielle de droit commercial 1982, p.167; Albert Chavanne & Jean-Jaques Burst, *Droit de la propriété industrielle*, 3me édition, 1990, p.215; Jean Foyer & Michel Vivant, *Le droit des brevets*, Presses Universitaires de France, 1991, p.432; Joanna Schmidt-Szalewski& Jean-Luc Pierre, *Droit de la propriété industrielle* 3e édition, Litec, 2003, p.110

agreement is similar to a lease agreement^(*6).

4 Rights and obligations of the parties concerned

The fact that a license agreement is similar to a lease contract suggests that the patent owner is obliged to assist the licensee to exploit the patented invention in practice. Therefore, if the specification of the patented invention is not clear and sufficient enough for the licensee to exploit it, the patent owner needs to provide the licensee with necessary information such as know-how. In the case of a patented invention that has a material defect, the licensee is allowed to cancel the license agreement (Article 1183 of the French Civil Code). If a license agreement is cancelled, the licensee has the right to demand from the patent owner damages for the lost expectation interest (Article 1184 (2) of the French Civil Code)

5 Exploitation of a patented invention to confirm patentability

As long as a license agreement is regarded as similar to a lease contract, the licensee who has found the patented invention inoperative can be given legal remedy. However, even if such remedy is provided, the licensee will have already suffered great damage to its actual business operation by the time the remedy is provided. It is therefore too late for a licensee to find the patented invention inoperative and request a legal remedy after the conclusion of a license agreement. It would be desirable if a licensee is allowed to check whether the patented invention is operative before the conclusion of a license agreement. This prior checking is especially important under French laws, which has adopted the non-substantive examination principle.

Under French laws, it is specified that the effect of a patent does not extend to any testing of the object of a patented invention (L.613-5 (b)). Under this provision, a licensee is given an opportunity to check the operativeness of the patented invention before the conclusion of a

license agreement.

IV Review of the “Liability of a Patent Owner for His Inoperative Invention”

1 Comparison with French laws

Both under Japanese laws and French laws, the examination of the legal characteristics of a license itself has revealed that a licensee has no right to demand from the patent owner assistance to exploit the patented invention.

However, Japanese laws and French laws are different in the legal characteristics of a license agreement. Under Japanese laws, a license agreement is defined as a contract that is concluded between a patent owner and a licensee for the establishment or grant of a license. According to this definition, it is difficult to determine the rights and obligations of the patent owner and licensee with regard to the exploitation of the patented invention. On the other hand, under French laws, a license agreement is regarded as similar to a lease contract in terms of its structure. By analogy, the rights and obligations of the parties to a lease contract are considered the same as those imposed on a patent owner and a licensee under a license agreement. If a patented invention turns out to be inoperative, the patent owner is obliged to provide assistance such as know-how to the licensee so that the patented invention can be exploited in practice. In the case of a patented invention with a material defect, the licensee is allowed to cancel the license agreement.

Some people might doubt the meaning of studying French laws if they are so different from Japanese laws in the legal characteristics of a license agreement as described above. It would be meaningful, however, to learn from French laws as to what measures should be allowed to confirm patentability before the conclusion of a license agreement.

Under French laws, it is explicitly specified that “the effect of a patent does not extend to any testing of the object of a patented invention.”

(*6) There was a theory regarding the legal characteristics of a license agreement that argued that a license agreement gives the licensee the right to request the patent owner not to take legal action against the licensee. This approach is the same as the one taken by the precedent of the Japanese Supreme Court and the prevailing theory. (M.Planiol, note sous Orléans 13 juillet 1892:D.P.1893,2, p.329; J.Morel, De la licence d'exploitation en matière de brevets d'invention, thèse Lyon, 1926, p.11) This theory, however, did not receive much support. According to Mathély's theory, on the other hand, a license agreement is not similar to a lease contract while it is believed so in prevailing theories. He argues that a license agreement is an atypical contract. (Paul Mathély, *Le Nouveau Droit Français Des Brevets D'invention.*, Libraire du Journal des Notaires et des Avocats, 1991.p.322)

This provision allows a licensee to check the operativeness of the patented invention before the conclusion of a license agreement, contributing to increasing the reliability of a patent, which is said to be low due to the non-substantive examination principle adopted by French laws.

On the other hand, Article 69(1) of the Japanese Patent Law sets forth that “The effect of a patent shall not extend to any exploitation of a patented invention that is conducted for the purpose of testing or research.” The language of this provision is unclear about what kind of testing or research is allowed under this Article 69(1). The Supreme Court also failed to clarify the general principles applicable to Article 69(1) of the Patent Law. Prevailing theories argue that any testing or research conducted for the purpose of checking the patentability should be allowed under Article 69(1) as long as the testing or research contributes to “technical progress.”

We need to examine the appropriateness of requiring “technical progress” as a prerequisite for “testing or research.” Let me start with an overview of the Japanese patent system.

The Japanese patent system has adopted the substantive examination principle, which requires each invention to go through an examination by an administrative agency before patented. Unlike the case of the Seed and Seedlings Law, the substantive examination principle, however, does not oblige the examiners to try out each invention based on the specification to check whether it is operative in practice. Therefore, the establishment of a patent does not guarantee the operativeness of the patented invention in reality.

This lack of guarantee should be regarded as a sufficient reason to allow the exploitation of a patented invention even if it does not contribute to “technical progress.” It does not mean, however, to automatically allow any exploitation of a patented invention as long as it is conducted under the name of “testing or research.” The applicability of Article 69(1) should be determined depending on whether the products produced as a result of the “testing or research” are distributed in a market. This is because the purpose of this provision is to protect the patent owner’s financial interest in the patent, which will not be damaged by the mere production of the patented invention.

2 Review of the liability of a patent owner

As far as the interpretation shown by judicial

precedents and prevailing theories are applied, the above-described overview of the legal characteristics of a license and a license agreement under Japanese laws has led to the conclusion that a licensee does not have the right to demand assistance from the patent owner for the exploitation of the patented invention. Under the Japanese laws, the patent owner is considered to be fulfilling its obligations by taking no legal action against the licensee as long as it exploits within the scope of the license. Therefore, no legal remedy may be provided to a licensee who has found the patented invention inoperative. However, it would be unreasonable if a licensee has to remain bound by a license agreement even after finding the patented invention inoperative. Thus, legal remedy should be provided to the licensee under the doctrine of good faith (Article 1(2) of the Civil Code).

Under this doctrine, any licensee who has found the patented invention inoperative is allowed to cancel the license agreement. Upon cancellation, the patent owner is obliged to refund to the licensee the already paid royalty.

According to Article 545(3) of the Civil Code, any person who has exercised the right of cancellation is not precluded from demanding damages. This means that a licensee who has exercised the right of cancellation is not precluded from demanding damages from the patent owner under laws. However, it remains unclear whether a licensee should be allowed to demand damages as well.

It would be useful to examine the legal characteristics of damages under Article 545(3) of the Civil Code. Judicial precedents and prevailing theories argue that damages should be paid to compensate the lost expectation interest caused by nonperformance. As shown by the above examination of the legal characteristics of a license, the patent owner can be considered as performing its obligations by not taking legal action against the licensee on the grounds of a patent infringement. Therefore, nonperformance does not exist on the part of the patent owner. It should be concluded that a licensee who has found the patented invention inoperative is not allowed to demand damages from the patent owner on the grounds of nonperformance.

It is certain that the inoperative invention has caused the licensee to suffer such financial damage as a raw material cost. A careful study is necessary to determine whether the patent owner should be obliged to compensate such damage.

In the case of a license agreement, unlike a sales agreement, the patented invention, which is an essential element of the license agreement, has been publicized by the patent gazette. Moreover, the licensee could have conducted “testing or research” on the invention because, in my opinion, such “testing or research” is allowed under Article 69 (1) of the Patent Law even if it does not contribute to “technical progress.” Therefore, it would be safe to conclude that the gross negligence exists on the part of the licensee as a merchant who is expected to be vigilant enough to carry out such “testing or research” in advance. As a result, the patent owner is not obliged to compensate the licensee for the damage in principle.

