

9 Appropriate Use of Intellectual Property

For the appropriate protection of licenses on intellectual property rights, Japan has a system for registering licenses held by licensees of patent rights and other industrial property rights, and has adopted a system that requires registration for countering third parties. However, there are indications that the current registration system does not comply with actual business conditions, and the system is not being fully utilized. Without registration, licensees risk facing difficulties in continuing their business activities after the licensor goes bankrupt or transfers the rights to a third party, and as such there have been calls for institutional measures to deal with such problems. Therefore, in this study, we have summarized the contract practices and demands of the industrial sector, surveyed the systems in place in foreign countries, and examined the legal nature of non-exclusive licenses, etc. as a basis for designing a new system. Based on these surveys and examinations, we have formulated two system proposals: (1) protection of licensees by way of a new registration system (a licensing contract registration file system); and (2) a desirable non-exclusive license registration system.

I Introduction

1 Background of This Study

Intellectual property not only needs protection, but also the effective use thereof needs to be promoted. One of the important methods aimed at such use is the licensing of intellectual property. Since there are cases where licensees face difficulty continuing their business as a result of dissolution of the licensing relationship, some legal protection is required for intellectual property licenses.

In this regard, Japan has a system under law for registering licenses (or rights of use) held by licensees and achieves protection of licenses by adopting a system that requires registration for countering third parties.

Nevertheless, there have been indications that the current patent registration system is not sufficiently responsive to actual business conditions. Indeed, the system for registering non-exclusive licenses on patent rights and other industrial property rights is not being sufficiently utilized.

Although such problems have yet to become notable in Japan, licensees face the risk of difficulty in continuing their business under the current system. Thus, there are calls for discussion of an institutional review

of the current system.

2 Purpose and Outline of This Study

The purpose of this study is to review the non-exclusive license registration system under the current Patent Act and to examine a new registration system or method of protection other than the registration system (a system of requirements for countering third parties) based on the current conditions and needs in the industrial sector, thereby enhancing the protection of licensees.

First of all, as a premise for designing a new system, we have summarized the current contract practices and demands of the industrial sector (specifically the IT/electronics industries and the pharmaceutical/biotechnology industries). In addition to a questionnaire survey targeting Japanese companies, we carried out a survey of overseas systems. Furthermore, we examined the legal nature of non-exclusive licenses, etc. and have formulated proposals for a new system.

II Industrial Needs and Current Status of Licensee Protection Systems

Problems concerning the protection of licensees of non-exclusive licenses have yet to surface in the industrial sector, but there is obviously a potential risk of such problems. Therefore, we have discussed the need for licensee protection and proposed a desirable protection system for each license category involving such potential risks, and have conducted statistical analyses of industrial needs based on the results of a questionnaire survey. In addition, we conducted an overview of practices pertaining to the transfer of intellectual property rights and the current non-exclusive license registration system. Moreover, we summarized results of the survey of registration systems and legal systems concerning licensee protection in foreign countries.

1 Industrial Needs

We identified the following industrial needs in regards to licensee protection, based primarily on practices in the IT/electronics industries and the pharmaceutical industry:

- (i) A system that can protect non-exclusive licenses under comprehensive licensing agreements without imposing any additional burden on users (a new system that serves as an alternative to the current registration system rather than a system that complements it)
- (ii) A system that can protect sub-licenses
- (iii) A system that can deal with licenses that involve multiple parties, such as patent pools related to standard technology (i.e. a system that can secure the use of technology the use of which is needed by multiple parties and secure the stability of such use)
- (iv) A system that can also protect licenses on rights that arise in the future based on patent applications
- (v) A system that can protect licenses that are not suitable for registration, such as licenses for computer programs and licenses on trade secrets such as know-how
- (vi) A licensee protection system that is

harmonized with those in place in foreign countries

2 Practices Concerning Transfer of Intellectual Property

To date, the transferring of patent rights and other types of intellectual property rights has not been particularly widespread in terms of actual business. There have been cases where control over certain business has been transferred or where patents no longer in use have been transferred individually, but patents are not frequently transferred as business tools. The average number of transfers per patent right totaled 0.03 times (with the average number of transfers for patent rights that have been transferred at least once being 1.1 times).

However, the number of transfers may increase as the distribution and flow of intellectual property becomes more active in the future. In addition, we cannot overlook the fact that there have been actual cases of compulsory execution through the seizure of intellectual property rights, although such cases remain small in number.

3 Results of the Questionnaire Survey

We carried out a questionnaire survey in order to gain an accurate understanding of the actual situation of the industrial sector and to acquire materials for consideration in designing a new system. Organizations surveyed were corporate members of the Japan Intellectual Property Association (JIPA), corporate members of the Japan Institute of Invention and Innovation (JIII), and companies whose number of patent filings exceeded a certain number (total number of companies: 3,012; return rate: 25%).

Licensing contracts have been concluded actively in the industrial sector (58.2%). Such activity has been particularly widespread in the automotive, construction, nonferrous metal, and pharmaceutical industries. About 200 companies had concluded licensing contracts with overseas companies.

In addition, nearly 40% of the companies responded that they had concluded

comprehensive licensing contracts. By industry, such contracts were particularly commonplace in the electric machinery and equipment industry. The number of patent rights (estimated) included in a single comprehensive licensing contract was less than 20 for most companies, but that number reached 100 or more for 15% of the responding companies.

About 40% of the companies had acquired patent rights, etc. from third parties in the past and had carried out surveys of published information such as the patent register and conducted due diligence reviews in such cases.

Under the current non-exclusive license registration system, the most frequently mentioned reason for not registering a non-exclusive license was that licensees do not become subject to patent enforcement in actual practice, followed by the need to keep the existence of licensing contracts secret. The troublesome procedures required for registration and the registration fees were also mentioned as reasons for not registering a non-exclusive license.

Since applications for the registration of non-exclusive licenses need to be filed jointly by the parties to the license, more than half of the companies were cooperating in the registration of licenses, while slightly more than 40% of the companies were not cooperating in such registration.

When asked what kinds of merits companies gained from inspecting the registered matters concerning non-exclusive licenses under the current system, nearly 60% of the companies responded that they did not gain any merits from such registered matters. The companies that gained merits seemed to use the information for strategic purposes. With regard to disclosure of the registered matters, a strong desire for non-disclosure, particularly in regards to information on the royalties, was expressed.

About 13% of all companies responded that the lack of infrastructure for protecting rights while applications were pending before the Japan Patent Office (JPO) was inconvenient. By type of industry, such

opinions were relatively prevalent in the nonferrous metal industry, in the communications/electronic/electric measuring equipment industries, the information and communications industry, and the pharmaceutical industry.

Not many companies (9.9%) responded that the lack of a sub-license registration system was inconvenient. However, this was regarded as a problem by the communications/electronic/electric measuring equipment industry and the building industry.

Besides patent rights, the rights to obtain patents, trademark rights, and trade secrets were being licensed. Copyrights were also being licensed.

Most companies were in favor of introducing a new registration system that does not register part of the current registered matters, stating that "the registration system is expected to become more accessible." There were also many companies in favor of introducing a system that allows provisional registration of licenses for rights related to applications that are still pending before the JPO, indicating that such system would promote use of the registration system and conclusion of licensing contracts.

Regarding the introduction of a system for countering persons in bad faith and a system for unconditionally countering third parties (a justified-protection system), many companies responded that such systems were expected to promote licensing contracts, but at the same time, concerns were indicated about how bad faith should be proved and the stability of rights.

4 Current Status of the Non-Exclusive License Registration System

A non-exclusive licensee may counter a third party as long as he/she has registered the license, even when the licensor of said non-exclusive license goes bankrupt or the licensed right is transferred (with the 2004 revision of the Bankruptcy Act, the bankruptcy trustee's right of rescission became limited in regards to "contracts

aimed at establishing rights for the purpose of use or profit” when requirements for countering third parties, such as registration, are satisfied with regard to said right [Article 56(1) of the Bankruptcy Act]).

A non-exclusive license is registered for each patent number, and the registered matters are made public (Article 186(1) of the Patent Act). Since registration of certain matters in the patent register has the function of making public the status of the patent right and other rights and allowing the general public to presume that the registered matters are true, it is naturally regarded as necessary to allow for perusal of those matters by the general public and to respond to requests for transcripts thereof.

Specifically, required information includes the names of the non-exclusive licensee and the licensor (patentee), the scope of the non-exclusive license (geographical area, period, and contents), and arrangements regarding the amount to be paid in royalties, payment method, and time of payment (Article 10(4) and Form 10 of the Ordinance for Enforcement of the Cabinet Order on Patent Registration), and these matters are to be disclosed to the public.

Nevertheless, it has been pointed out that the current non-exclusive license registration system has a number of characteristics that make the system difficult to use in practice, and furthermore that the system is not being sufficiently used (the estimated license registration rate is only 3%).

5 Systems in Foreign Countries

Licensees who are granted licenses on intellectual property in foreign countries are protected by the protection systems of the respective countries, but the protection systems currently differ between countries, and there have been indications that the Japanese licensee protection system is insufficient. Since discussions are currently being held on the harmonization of intellectual property protection systems, it is necessary to examine the systems in place in foreign countries from such a viewpoint as

well.

Therefore, we carried out an overseas survey to gain a detailed understanding of the non-exclusive license registration systems and licensee protection systems of foreign countries and to use these findings as useful materials for examining the establishment of a new system.

(1) United States

- Registration system

Registration of a licensing contract does not have any legal effect. Registration of a license is recognized in terms of public interest as a means of letting third parties know about equitable rights and other matters relevant to patent ownership.

The submitted information is fully disclosed, but registration of matters concerning royalties is not required. A license cannot be registered without specifying the application or patent number. A license can be registered for a patent application. Either party to the license may register the license unilaterally.

- Licensee protection system

A licensee has to prove the existence of an effective license in order to claim rights based on the license in question, but the transferee is not required to be aware of the contract. There is no requirement to register a license either. The transferee does not succeed the licensor in terms of contractual status under the licensing contract.

(2) Germany

- Registration system (exists only for exclusive licenses)

In principle, registration does not have substantial effects. Registration of matters concerning royalties is not required. Among the registered matters, the name of the licensee is not disclosed. A license cannot be registered without the specification of the patent number, but even when a patent has yet to be granted, an application for registration can be filed as long as the patent application has already been filed. The consent of the other party to the contract is required for registration.

- Licensee protection system

A licensee can claim the license against the patent transferee by proving the existence of the licensing contract, regardless of whether or not the transferee is aware of the licensing agreement or whether or not the licensee is aware of the transfer. Registration of the license is not required either. The transferee does not succeed the licensor in terms of contractual status under the licensing contract.

(3) United Kingdom

- Registration system

Registration of the license is not a requirement for countering third parties. However, when a license is registered, a third party who acquires the right is deemed to have been aware of the existence of the licensing contract. A license cannot be registered without specifying the patent number. Registration of matters concerning royalties is not required.

Licenses can also be registered for patent applications. Registration applications can be filed by either party to the contract, and there is no fee required.

- Licensee protection system

In the case where the transferee was aware of the license, the licensee can claim the license against the transferee. Registration of the license creates the legal fiction that the transferee was aware of the license. The licensee can claim all of the registered matters against the transferee. The contractual relationship between the licensee and the licensor does not expire.

(4) France

- Registration system

Registration has the result of rendering patent licenses effective against third parties.

Registration of matters concerning royalties is not required. Registration can be made for individual licenses, but the patents covered by the licensing contract must be clearly specified in the contract by way of the application or publication number. Registration applications can be filed by

either party to the contract. An extra fee is charged for all patents or patent applications within a single licensing contract up to a total of ten, but no extra fees are charged for any further patents or patent applications covered by the contract.

- Licensee protection system

In the case where a license is registered or when the transferee of the patent right subject to the contract was aware of the existence of the license, the licensee can claim the license against the transferee.

The transferee succeeds the licensor in terms of contractual status under the licensing contract. The new patentee will assume the obligations entailed by said status in place of the previous owner of the patent.

(5) South Korea

- Registration system

A licensee can claim the license against the transferee only when the license has been registered and when the transfer has taken place after the registration.

There are provisions requiring statements about royalties if any, but in practice this is optional. Registration can only be made for individual patent rights, and the patent number must be specified. A licensing contract cannot be registered for an invention that has yet to be patented. Registration applications must be jointly filed by both parties to the contract.

- Licensee protection system

As mentioned above, a licensee can claim the license against the transferee only when the license has been registered and when the transfer has taken place after the registration. When the license has been registered, the licensee can claim the registered matters against the person to whom the patent right was transferred after the registration, but the licensee cannot make a claim against the patent transferee in regards to any matters under the contract between the licensee and the patent transferor that are not registered.

The transferee succeeds to all matters under the licensing contract that are

registered. Matters that are not registered remain effective between the transferor and the licensee.

(6) China

- Registration system

A licensor can claim the license against the transferee without registering the license, and there is no need to satisfy any other legal requirements.

Among the registered matters, matters concerning the scope of the license and the royalties are not externally disclosed. Registration can be made for each license, and when multiple patent rights are covered by the licensing contract, the patent numbers will be listed on the licensing contract registration certificate. (The patent numbers need to be specified as a precondition.) A licensing contract for application rights can also be registered. A party to a patent licensing contract cannot register the contract unilaterally. There is no need to pay any fee for registration.

- Licensee protection system

There are provisions that patent or trademark right transfers do not have any legal effect on licensing contracts that were already in effect at the time of the transfer. Whether or not the patent licensing contract is registered and the scope of the externally disclosed matters do not have any effect on the licensee's claim of rights against the transferee. The transferee succeeds to the contractual status of the licensor.

III Legal Summary of the Licensee Protection System

In regards to legal issues concerning the licensee protection system, we have summarized the legal nature of non-exclusive licenses, the legal nature of the rights to obtain patents and the effect of non-exclusive licenses to counter third parties.

1 Legal Nature of Non-Exclusive Licenses

A non-exclusive license is considered to

be a legal title aimed at preventing the patentee, etc. from seeking abatement of nuisance or claiming damages against the licensee's commercial exploitation of a patented invention - in other words, the right to request that the patentee, etc. not exercise these two claims.

On the other hand, a licensing contract can be considered to center on the granting of such non-exclusive licenses but also include ancillary contents. The contents of the ancillary component can be determined at the discretion of the parties under the principle of freedom of contract. Therefore, there is a difference between a non-exclusive license and a licensing contract.

We have summarized the legal characteristics of non-exclusive licenses by way of comparison with lease contracts, the relationship between non-exclusive licenses and licensing contracts, and legal issues concerning comprehensive cross-licensing contracts.

2 Legal Nature of Rights to Obtain Patents

A right to obtain a patent does not bear monopolistic exclusivity in and of itself, and therefore the Patent Act does not provide for non-exclusive licensing for the right to obtain a patent. In practice, however, licensing contracts are concluded at the stage of rights to obtain patents. It is therefore necessary to examine a licensee protection system for licensing contracts pertaining to rights to obtain patents as well.

As a premise, we compared the legal nature of the right to obtain a patent with the effects of the inventor's right of honor, and also compared the former with the effects of patent rights, and summarized matters concerning licenses for rights to obtain patents. We have concluded that a license for a right to obtain a patent enshrines, at its core, the right to seek non-enforcement of the patent right with a condition precedent, and that it maintains different claimant rights for before and after the laying open of the patent application.

3 Effect of Non-Exclusive Licenses to Counter Third Parties

It has been indicated that the concept of the legal effect of non-exclusive licenses to counter third parties under the current non-exclusive license system is unclear. Therefore, it is necessary to summarize the concept in regards to what a licensee can claim against third parties as the effects of countering third parties and what will happen to the licensing contract relations.

We examined these points using the following two approaches: (1) an approach based on the consideration that the transferee does not succeed to the licensing contract; and (2) an approach based on the consideration that the transferee does succeed to the licensing contract.

Approach (1) considers that the transferee of the right cannot deny the licensee's non-exclusive license, and, as a result, cannot enforce the right against the licensee. However, as for the direct effect of countering third parties, the transferee merely assumes the obligation not to enforce the patent right against the licensee and does not succeed to the licensing contract, and as such the transferee is not bound by the licensing contract. In contrast, Approach (2) considers that, as the effect to counter third parties, the transferee not only assumes the obligation of non-enforcement of the patent right, but also succeeds to the claims and liabilities under the licensing contract between the transferor and the licensee.

Based on these two approaches, we summarized the legal relations for a case where a non-exclusive license has an effect of countering third parties and the relationship with the Bankruptcy Act, based on the concept of the effect of a lease interest in countering third parties under the Civil Code.

IV Proposal of a New System

Based on the discussions above, the study committee has produced two system proposals: (1) protection of licensees by a new

registration system (a licensing contract registration file system); and (2) a desirable non-exclusive license registration system under the Patent Act, etc.

1 Licensing Contract Registration File System

We proposed a "licensing contract registration file system" wherein licensed patents can be specified without patent numbers and part of the registered matters can be kept undisclosed, and also examined practical issues and legal issues related to this system.

In this system, the patent licensor and licensee can register a non-exclusive license established under a comprehensive licensing contract with the state's licensing contract registration file. (Even when the license also covers patent rights that will take effect after registration, non-exclusive license for such patent rights can also be registered.)

A possible method of specifying subjects to be registered upon, for example, the registration of a non-exclusive license granted under a comprehensive licensing contract concerning the manufacture, sale, etc. of a specific product could take the form of a requirement that matters pertaining to the contents of the non-exclusive license, such as the specific product, be disclosed.

A non-exclusive license that has been registered in a licensing contract registration file will have the effect of countering a third party who later acquires said patent right, to the extent of the registered matters concerning the non-exclusive license (the same effect as that under Article 99(1) of the Patent Act). A non-exclusive license for a patent right that has been granted after the registration is also regarded as having the effect of countering a third party after the grant as long as it is included among the registered subjects.

In this system, the basic idea would be to publicly disclose all matters with the exception of the name of the licensee and the contents of the non-exclusive license (i.e. the name of the licensor, the date of registration, the registration number, etc. are disclosed),

and to disclose the registered matters only to the parties to the registration and certain interested persons such as third parties countering the licensee.

At the same time, the system will have a scheme that allows for the licensee to defend him/herself by preventing registered matters that are irrelevant to the patent right acquired by the third party from being disclosed to said third party. Specifically, the licensee can register exclusion of the non-exclusive license for specific patent rights from the registration in the licensing contract registration file (hereinafter referred to as an "exclusion registration") by specifying the patent numbers. When such a registration is made, the licensee will not be able to claim the non-exclusive license for said patent rights against third parties.

In consideration of such a disclosure scheme, we examined how said scheme would function in typical cases where the effect of countering third parties becomes relevant (transfer [including compulsory sale] and bankruptcy).

With regard to the overall system, we conducted examinations with particular attention given to the following points: (i) the future direction of the licensing contract registration file system; (ii) transaction safety; (iii) the method of specifying the subjects to be registered; (iv) the relationship with the Special Act on Transfer of Movable Property and Claims; (v) matters concerning exclusion registration; (vi) rights that may arise in the future; (vii) the relationship with the current registration system; and (viii) disclosure of the name of the licensee.

2 Desirable Non-Exclusive License Registration System

We have conducted specific examinations as to how the non-exclusive license registration system can be reviewed in response to the needs of the industrial sector by taking into consideration the results of the aforementioned questionnaire survey of companies and the survey on the legal systems of foreign countries.

First, with regard to the demand for

maintaining the secrecy of licensing contracts, we examined the following measures: (1) limiting matters to be registered; and (2) maintaining confidentiality for certain registered matters.

As for (1) limiting matters to be registered, we deliberated on which matters for registration are truly necessary in light of the purpose and effects of the registration system. While licensors' names and addresses and the scope of the non-exclusive license should be maintained as the matters to be registered, matters concerning royalties for non-exclusive licenses could be excluded from the matters to be registered or could be made optional.

In respect to (2) maintaining confidentiality for certain registered matters, we deliberated over whether or not it would be possible to keep parts of the registered matters undisclosed with a view to achieving a balance between the demand for confidentiality and the need to ensure safe transactions, while making reference to the two-step disclosure system adopted in the Special Act on Transfer of Movable Property and Claims.

Next, regarding a non-exclusive license under a comprehensive licensing contract, there seems to be room for consideration of a measure to reduce the registration and license tax for registration covering a large number of patent rights, although such a measure could also be taken by way of introducing a licensing contract registration file system.

In addition, we also discussed registration systems for licenses on rights related to applications that remain pending before the JPO, sub-licenses of non-exclusive licenses, and exclusive licenses, as well as registration systems for industrial property rights other than patent rights. We recommended that continued study be made on these and other matters.

V Summary

The study committee was able to propose

a specific solution to the long-discussed issue of licensee protection by suggesting that a licensing contract registration system be established. Although this system does not satisfy all of the needs that have been indicated by the industrial sector, we expect such a system will produce good results.

Energetic discussions were also held on the subject of the reviewing of the current non-exclusive license registration system. We hope that the system will be reviewed with a view to creating a more user-friendly system, following further efforts to ascertain the specific needs therein and additional study of legal theories.

(Researcher: Takuya ASAOKA)