18 Intellectual Property Rights as "Property": A Basis for Discussion on Information Transaction Contracts(*)

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This report consists of three parts. The first part outlines the basis for justification of intellectual property rights that is actively discussed in the United States, with a focus on the origin and positioning of each theory. The second part reviews the arguments on property in the United States. Property is a compulsory subject in US law schools. This part gives an overview of the entire picture of property by discussing acquisition of property, details of the rights, the relationship between private individuals concerning property, and then the relationship between private individuals and governments concerning property. In relation to each point, intellectual property-related court decisions are introduced and compared. An attempt has been made to explore where intellectual property rights should be positioned in the United States where, unlike in the continental legal system, there is no concept of distinguishing between real rights and claims. The final part introduces some articles that serve as the key to thinking where to position intellectual property rights in the system of property, so as to contribute to future studies on the ideal design of intellectual property systems.

I Purpose of This Report

It is common knowledge that social interest in and expectations from intellectual property have grown markedly. Intellectual property has come to be regarded as the key to economic reconstruction. The word "intellectual property-based nation," which is used as the target vision for Japan, precisely indicates this fact. In addition, information, which had been traded in the form of tangible objects such as phonograph records and books, has become subject to trade in itself without such media due to the dissemination of digital technology.

It is only in the past decade that an awareness of "protection of intellectual property needs to be strengthened" has spread in society.

As a researcher of intellectual property law, the author does not deny that intellectual property should be protected. Rather, the author thinks that intellectual property should be protected actively. What the author finds to be an issue is that "appropriate information" should be protected "to an appropriate extent." As suggested by the move to extend the term of copyright protection, it seems that protection of intellectual property is being ever strengthened. However, strong intellectual property rights are like a two-edged sword. Strong intellectual property protection does indeed increase the current profits of the owners of the intellectual property rights, but when we turn our eyes to society as a whole, it is not necessarily clear whether such protection leads to increasing the interests of society. It is because an intellectual property right − be it a patent right or a copyright − results from a technological innovation or an activity to create a copyrightable work based on the achievements of its predecessors.

The purpose of this report is to review the discussions on property in the United States and to attempt to position intellectual property based on its relationship with the

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points at issue. While proceeding with the research in the United States, the author keenly felt the need to first examine where intellectual property rights should be positioned in the entire scope of property rights and then to explore the possibility of controlling those rights by contract. Intellectual property rights are understood to be monopolistic rights granted for pieces of information that have been selected as those that deserve to be the subject matter of the respective types of intellectual property rights from among the various kinds and large amounts of information that exist in society. They are no different from intangible objects in the sense that there is competition over acquisition of the rights, there is provision of and exclusion from access to the subject matter, and there is conflict between private individuals or between a private individual and the public. It will be an eventual goal to identify such common issues through the development of discussions on property.

II Basis for Justification of Intellectual Property Rights: Discussions in the United States

1 Major Four Theories Concerning Intellectual Property Rights

In response to the recent improvement in the economic and cultural status of intellectual property rights, arguments seem to have become ever more active in the United States concerning theories about intellectual property rights from the viewpoints of law, economics and philosophy. This chapter overviews US arguments over the basis for the justification of intellectual property rights, based on an article(*1) written by Professor William Fisher at the Harvard Law School outlining such arguments.

Professor Fisher indicates that arguments in recent years have been over the following four approaches.(*2)

The first approach is a utilitarian approach(*3) advocating that intellectual property rights should be designed in such a way as to maximize "net social welfare." In other words, intellectual property rights should be designed so as to optimize the balance between their characteristics as monopoly rights, which stimulate inventive and creative activities, and their characteristics as rights, which obstruct people in general from enjoying the results of such creative activities. This is called "utilitarianism."

The second approach, which has become prevalent recently, originates from John Locke's theory. It is based on the postulate that a person who labors upon resources that are either unowned or "held in common" has a natural property right to the fruits of his or her efforts - and that the state has a duty to respect and enforce that natural right. These ideas, originating from Locke's theory, are widely thought to be especially applicable to the field of intellectual property, where the pertinent raw materials (facts and concepts) do seem in some sense to be "held in common" and where (intellectual) labor seems to contribute so importantly to the value of the finished product. This is called the "labor theory."(*4)

The third approach takes a view that private property rights are crucial to the satisfaction of some fundamental human needs or interests and that policymakers should thus strive to create and distribute entitlements in ways that can satisfy such satisfaction. This theory has been derived from the work of Kant and Hegel. This is called the "personality theory."(*5)

The fourth approach is an argument that property rights in general—and intellectual-property rights in

(*1) William Fisher, "Theories of Intellectual Property," Stephen Munzer, ed., *New Essays in the Legal and Political Theory of Property,* 168.
(*2) *Id.* at 169.
(*3) *Id.* at 169-170.
(*4) *Id.* at 170-171.
(*5) *Id.* at 171-172.

particular—should be shaped so as to help foster the achievement of a just and attractive culture. Persons who make this argument typically draw inspiration from theories including those of Jefferson and the early Marx. This approach has a similar theoretical direction as utilitarianism, but is different in that it places emphasis on a "desirable society" rather than the "social welfare" emphasized in utilitarianism. This approach is called the "social planning theory." (*6)

2 Summary

Professor Fisher indicates that these four approaches contain problems. (*7) Nevertheless, he discusses the usefulness of these approaches from the viewpoint that they can help identify resolutions of particular problems pertaining to intellectual property rights (such as the right of publicity) and that they can foster conversations among the various participants in the lawmaking process.(*8)

There are some arguments about such basis for the justification of intellectual property rights in Japan as well, but the arguments are far less active than in the United States. The arguments in the United States may not be directly applicable to Japanese intellectual property law, which has been largely influenced by civil law, but as Professor Fisher notes, these arguments could prove useful as a theoretical background when examining new issues.

III Discussions on Property Law in the United States(*9)

1 Introduction

Unlike civil law, Common law does not have the concept of distinguishing between property rights and contract rights. However, property and contracts are the two fields of study that roughly correspond to property rights and contract rights. It has gradually become clear recently that, in legal study, property has some connection with the study of civil law, as seen in researchers of American law focusing on the civil law principle that property rights shall be limited to those that are prescribed in statutes.

Study on property is also closely associated with intellectual property rights. The details of property have been formed historically through common law, but such details have changed over time. Moreover, the details of property should not necessarily be understood as those having been granted under natural law. Rather, the extent of property may be demarcated by government regulations or the like. Simply put, contract law and property law are two different kinds of rules concerning the attribution of "things," and in some cases they might be interchangeable. If so, when we think about an intellectual property right as well, it would be better to think what kind of property (or contract) it is and what kind of property or contract it should be positioned (or designed) as in order to be able to achieve its intended purpose, rather than simply thinking about whether or not it is property.

2 Acquisition of Property

How does a person acquire property? In arguments in the United States, the question

(*6) *Id.* at 172-173.
(*7) *Id.* at 176.
(*8) *Id.* at 194.
(*9) The discussions in this chapter owe much to the lectures given by Professor David Barron at the Harvard Law School in Academic Year 2006 to 2007 and the casebook written by Professor Joseph William Singer, which was used as the textbook for those lectures. See Joseph William Singer, Property Law: Rules, Policies, and Practices, 4th ed., (Aspen, 2006).

regarding this point is whether or not the competition for acquisition was fair. This question has been discussed firstly from the standpoint of which of the parties concerned gains possession of a wild animal(*10) or crude oil, and secondly from the same standpoint in regards to information. For example, in INS v. AP (1918),(*11) the court stated that prompt news reports known as hot news could be regarded as quasi property, and by finding a problem with regard to INS' act solely in relationship to AP, held that an act to prevent AP from gaining a return on investment was unfair competition (misappropriation), which is impermissible and can be suspended. In NBA v. Motorola (1997),(*12) the presence or absence of free riding affected the conclusion.

3 Access to Property and Exclusion from Access to Property

Who can access property? Is it possible to exclude other people from accessing property? Regarding these questions, there are various issues including adverse possession, limitation to exclusion from access to property based on public order, and public trust.

Particularly, in discussing access to property, we cannot avoid the question "in which cases is entry to property regarded as trespass," or from the owner's viewpoint, "what kinds of persons can be excluded." The most important court decisions regarding this question is State v. Shack (1971). (*13) In connection to this issue, it is interesting that, while the right of access tends to be mainly discussed with regard to public information in Japan, the original implication of the right of access had been related to property.(*14)

4 Development

This section examines how such arguments on the acquisition of and access to property relate to intellectual property rights. For example, in Sony Corp. v. Universal City Studios (1984),(*15) a famous case concerning fair use, the US Supreme Court concluded that Sony could not be held liable under theories of contributory infringement or vicarious liability for selling home video tape recorders. In relation to the issue discussed in this report, it is very interesting that the court has paraphrased "… violates any of the exclusive rights of the copyright owner" as "trespass" (trespasses into his exclusive domain).

5 Private Land Use

In this section, the relationship between multiple parties over land use becomes an issue from the perspective of the relationship between private individuals. Specifically, the points in question include easement, which corresponds to "chiekiken" (servitude) in Japan, and covenants, which developed as contractual arrangements between parties as a way of circumventing the courts' moves to restrain easement. Since a covenant is a contract, it should not be made effective against third parties. However, courts began to recognize the effects against third parties when a certain requirement had been satisfied.(*16) Such arguments concerning covenants would provide useful material for examining contracts on use of intellectual property rights from the standpoint of whether or not it is possible to claim the effects of a contract on use against third parties.

(*10) For example, Pierson v. Post, 3 Cai. R. 175, 2 Am. Dec. 264 (N.Y. 1805) and Elliff v. Texon Drilling Co., 210 S.W. 2d 558 (Tex. 1948).
(*11) *International News Service v. Associated Press*, 248 U.S. 215 (1918).
(*12) *National Basketball Association v. Motorola, Inc.*, 105 F.3d 841 (2d Cir. 1997).
(*13) *State v. Shack*, 277 A.2d 369 (N.J. 1971).
(*14) *Uston v. Resorts International Hotel, Inc.*, 455 A.2d 370 (N.J. 1982).
(*15) *Sony Corp. v. Universal City Studios*, 464 U.S. 417 (1984).
(*16) 48 *Spencer's Case*, 77 Eng. Rep. 72 (1583).

6 Public Land Use

There are also various points in question regarding land use from a public perspective, such as nuisances, zoning and taking. Zoning is the division of a region into separate districts with different regulations. Based on the general regulatory authority of the state government, the state authorizes municipalities to regulate land use. Meanwhile, taking, referred to in Japan as "kōyō shūyō" ([public] expropriation), is recognized only when property is taken for public use with just compensation. Such matters should be regarded as elements of an interconnected regulatory system for land use by private individuals as opposed to a collection of individual regulations.

A major court decision, Penn Central Transportation Co. v. New York City (1978),(*17) is examined below. The plaintiff, the owner of Grand Central Terminal located in the center of New York City, planned to construct an additional building overtop the station. However, New York City had an ordinance for preserving historical structures (zoning regulation), and the Landmarks Preservation Commission, which was authorized to approve changes to the exteriors of such historical structures, disapproved of the construction of an additional building. In this case, questions were raised as to whether or not this disapproval constituted a taking of the plaintiff's real estate. Although the court found that air rights were present in the space above Grand Central Terminal, it stated that taking of the land as a whole should be considered, and concluded that the disapproval did not constitute a taking as it was still possible for the plaintiff to earn a reasonable return on their investment in the land.

Such questions concerning land use are not unrelated to intellectual property rights. It may be possible to refer to this series of arguments when examining compulsory licenses or the possibility for extending or shortening the term of protection (although discussions are usually only held on the extension of the term). If a compulsory licenses or extension/shortening of the term is regarded as a taking, there will be a need for compensation. It will be an interesting experiment to examine this point, including making an assessment of the amount of compensation.

IV Suggestions on Intellectual Property Law: Insights from Calabresi and Melamed's Article and Hansmann and Kraakman's Article

1 Examination of Calabresi and Melamed's Article

One of the most important articles concerning property is "Property Rules, Liability Rules, and Inalienability: One view of the Cathedral"(*18) authored by Professor Calabresi and Mr. Melamed in 1972. This section examines the property rules, liability rules and inalienability that were proposed in this article.

According to this article, property rules(*19) are rules that grant a person absolute title to conduct a certain act or grant a person title to never being subjected to a certain infringement and liability rules(*20) are rules that require a person to accept an infringement by another person as long as there is a payment of money, such as compensation for damages, or that any person can conduct a certain act as long as the person pays money. In addition, inalienability(*21) is a rule that does not allow the trading of certain property even by a contract.

These three rules are extremely significant when thinking about the design

(*17) *Penn Central Transportation Co. v. New York City* 438 U.S. 104(1978)
(*18) 85 *Harvard Law Review* 1089 (1972).
(*19) Id. 18 at 1090.
(*20) Id. 18 at 1091.
(*21) *Id.* 18 at 1092.

of intellectual property right systems. In the case of patent rights, a system design based on property rules would fundamentally prohibit infringement, while a system design based on liability rules would allow any person to exploit patents as long as they pay license fees.

2 Suggestions from Hansmann and Kraakman's Article

Although not directly quoting arguments on property rules and liability rules, Hansmann and Kraakman's article(*22), has applied the ideas of Calabresi and Melmand's article.

Professor Hansmann and Professor Kraakman argue that, when two people jointly own rights for a single piece of property, there is a need for a means to confirm that they share a common recognition of their rights (the coordination problem). Furthermore, even if this problem were resolved, there is a need to ensure that a party would not intrude into the other party's rights opportunistically (the enforcement problem). Resolution of these two problems depends on whether or not there is sufficient means of verification, but basically, a contract is the primary means for resolving the coordination and enforcement problems. Nevertheless, people having property rights for a certain piece of property are not always in a contractual relationship, so the central role of property is to provide a mechanism for resolving the verification problem.

Meanwhile, possession is the most primitive and typical verification rule. It is possible to establish rules that are based solely on possession for all types of assets. However, although it is possible to create rights that do not involve possession by a contract, such rights are not effective against a third party. At the same time, rules solely based on possession are limited inasmuch as they do not enable use of certain divided rights. Under these circumstances, verification rules other than possession have become necessary, and such rules have been created in all legal domains.

In order to examine these rules, Professor Hansmann and Professor Kraakman focused on the rights of artists, particularly the right of integrity. Based on an assumption that the following four types of rules concerning the right of integrity would be used, they examined the outcomes of the respective rules: (1) a rule in which the right of integrity cannot be altered by contract (fixed rights, no contracts), (2) a rule in which rights are recognized under the law and they can be altered by way of contracts (fixed rights with contractual alterations), (3) a rule in which property rights are established by means of labeling (property rights by labeling), and (4) a rule in which property rights are established based on registries (property rights by registry). (*23)

V Closing Remarks

The discussions in this report can roughly be divided into three sections.

Chapter II, following Chapter I, outlined the arguments on the basis for justification of intellectual property rights in the United States. Discussions in this field are not very active in Japan. These arguments are expected to be useful when thinking about protecting new types of information in Japan in the future.

Then, Chapter III reviewed court decisions and arguments related to property rights in general. First, the acquisition of property rights and the competition for such an acquisition were discussed, followed by discussions on access to property and exclusion from access to property. The discussions revealed that the relationship between people carries more weight than the

(*22) Henry Hansmann and Reinier Kraakman, "Property, Contract, and Verification: The Numerus Clausus Problem and the Divisibility of Rights," 31 *Journal of Legal Studies*, 373 (2002).
(*23) *Id.* 22, at 386-395.

relationship between a thing and a person with regard to property. Next, in the section about private land use, the relationship between people concerning land was examined from the viewpoint of whether the contract was effective against third parties. The examination provided suggestions on the relationship between intellectual property rights and contracts. Finally, public land use was discussed. In this section, the question of whether or not property use was restrained in the relationship between private individuals and the public (actual governments [federal or state governments] rather than public in the vague sense). In this manner, the viewpoint concerning conflicts over property was shifted from the relationship between private individuals to the relationship between private individuals and the public.

Chapter IV indicated that the current intellectual property right systems are not the absolute systems by referring to the discussions in Calabresi and Melamed's article and Hansmann and Kraakman's article. It is possible to change the degree and method of protection for things (including information) by using contract and by other means. Also, there is a potential for diverse variations. The author kept it in mind to make this section into useful material that could contribute to future discussions on the design of intellectual property right systems.

The fact that the current intellectual property right systems are not absolute has also been clarified by a system called "Noank Media,"(*24) which is a new type of system created mainly by Harvard Law School professors. In Noank Media, copyright owners such as record companies and film companies grant Noank licenses to distribute digital copies of their copyrighted works in certain countries. Noank concludes contracts with Internet service providers (ISPs) allowing them to provide the copies to their customers. Each ISP pays a fee to Noank on behalf of its customers. While the idea of making copyright a right to remuneration had been suggested by Professor Nobuhiro Nakayama in his book Maruchi media to chosakuken (Multimedia and copyright) in as early as 1996, Noank can be considered as one type of the embodiment of this idea.

The author is deeply grateful for being able to gain, in this long-term overseas research, a valuable opportunity by taking the time to learn and examine in depth the entire picture of property, regarding which no sufficient materials can be found in Japan. The author would like to use the knowledge acquired in this research as the basis for examining the ideal protection of intellectual property rights in the future. It is hoped that this report will serve as the basis for discussing the justification of restraints from the property right aspect.

(*24) For the outline of the system, see http://www.noankmedia.com