

2 Further Exploitation of Intellectual Properties

In recent years, the number of the transferring of the patent right has been increasing as activating the company recognition across the border, and so on. Against this background, the Patent Act was revised from a licensor's standpoint. The registration system of license to the right to obtain a patent is established, and the disclosure of the registration for non-exclusive license is limited, and so on. In the discussion of this revision, two points of the argument was left. One issue is the patent law system for exploitation of the right to obtain a patent, and the other is of the monopolistic non-exclusive license.

Because of these factors, this research and study was executed about the patent law system for exploitation of the right to obtain a patent, and of the monopolistic non-exclusive license. This study and research was executed through the establishing a committee, the questionnaire surveys, the interview surveys, and the overseas surveys.

I License System

1 Introduction

In recent years, open innovation has become a growing trend. Against this background, the importance of licensing has increased as a means of exploitation of intellectual properties. In many cases, a patented invention licensed to a company, etc., forms the foundation of its business. If the exploitation of the patented invention becomes impossible, it would greatly damage the company, etc. Therefore, it is important to ensure legal protection for licenses.

Under the current system, a non-exclusive license of a patent cannot be asserted against a third party without registration with the Patent Office. However, in view of the actual business practices, some people point out that such registration would be very difficult. The system to perfect non-exclusive licenses needs to be revised in order to provide proper protection to non-exclusive licensees.

In some cases, a license is granted only to a specific licensee. This is generally called monopolistic licensing. There are two types of monopolistic licenses: (1) an "exclusive license" defined in the current Patent Act as a type of monopolistic license and (2) a "monopolistic non-exclusive license," which is a type of non-exclusive license defined in the Patent Act but granted only to a specific licensee under a license agreement. Both types of licenses have their own limitations. It has been pointed out that an exclusive license is inconvenient because it does not take effect without registration and that a monopolistic non-exclusive license does not ensure sufficient protection for the licensee. To

improve the situation, the monopolistic license system needs to be revised in order to adapt to the actual business practices.

2 Outline of the current system

The Patent Act specifies two types of licenses: exclusive license and non-exclusive license.

(1) System to perfect a non-exclusive license

A non-exclusive license takes effect upon conclusion of a license agreement. However, registration is required to assert the license against a third party.

This means that, in a case where a non-exclusive license of a patent is licensed, if the patent is assigned to a third party, the third party could exercise the right to request an injunction against the licensee unless the licensee has registered the non-exclusive license.

(2) Monopolistic license system

(i) Exclusive license

An exclusive license of a patent entitles a person other than the patentee to monopolistically and exclusively exploit the patented invention.

An exclusive license does not take effect upon conclusion of a license agreement. It takes effect only upon registration.

The exclusive licensee may assert the exclusivity against a third party. It is explicitly stipulated that the exclusive licensee is entitled to exercise the right to demand damages and the right to request an injunction against a third party.

The information about an exclusive license that is required to be registered includes the “name of the exclusive licensee,” the “scope of the exclusive license,” etc. The registered information will be open to the public.

(ii) Monopolistic non-exclusive license

A monopolistic non-exclusive license is regarded as a non-exclusive license under the Patent Act. It takes effect upon the conclusion of a license agreement.

The holder of a monopolistic non-exclusive license is not entitled to assert the exclusivity against a third party. There is no explicit provision stipulating that the holder of a monopolistic non-exclusive license has the right to demand damages and the right to request an injunction. In reality, (1) there have been many cases where the court recognized the licensee’s right to demand damages, while (2) there have been few cases where the court recognized the licensee’s right to request an injunction. However, there have been a few cases where the court recognized that the holder of a monopolistic non-exclusive license was entitled to exercise the right to request an injunction on behalf of the right holder.

3 Direction of the system to perfect a non-exclusive license

(1) Issues

(i) Issues related to the registration-required perfection system

Companies have pointed out that the registration of a non-exclusive license is difficult in reality for the following practical reasons: (1) A license agreement often licenses a package of many and a variety of intellectual properties such as a patent and related know-how without specifically describing each of them, (2) Since license registration imposes certain monetary and procedural burdens on a licensee, it is burdensome to register a license every time a license agreement is concluded because the conclusion of such an agreement takes place frequently, (3) It is also burdensome to register a license every time a license agreement is renewed or otherwise modified, (4) A license agreement itself is a subject of secrecy obligation in some cases, (5) It is sometimes difficult to obtain cooperation from the other party in registering a license or deleting it, and (6) Since many other countries do not require registration of a license for the perfection thereof, it is

sometimes difficult to obtain cooperation from another party in registering an international license.

In fact, a non-exclusive license is not registered in most cases. Companies have pointed out that most licenses are unregistered except for cases where the licensor’s risk of bankruptcy is high.

In practice, however, any person who requests transfer of a patent is expected to exercise due diligence. The person needs to directly check with the patentee whether the patent has been licensed to another party and, if yes, under what conditions. In principle, a transferee of a patent is expected to respect the existing licenses including unregistered non-exclusive licenses.

(ii) Necessity to revise the registration-required perfection system

In recent years, an increasing number of patents have been licensed or transferred. Under the current registration-required perfection system, which is rarely used in practice due to the difficulty in registration, a non-exclusive licensee could find itself unable to continue its business if the company that has purchased the patent exercises the right to request an injunction against the licensee.

In order to provide proper protection to the rights of a non-exclusive licensee, such a system that required registration needs to be revised. It would be appropriate to adapt the system to the actual business practices and introduce a new system that is in line with the corresponding systems in other countries.

(2) Major systems of other countries

In the United States and Germany, a licensee is entitled to assert its license against a third party as long as the licensee can prove the existence of a license agreement. No official public notification by such means as registration needs to be made.

In France, the United Kingdom, and China, a licensee is entitled to assert the license against a third party in bad faith even if the license is unregistered.

In South Korea, a licensee is not entitled to assert the license against a third party unless the license is registered.

(3) Possible new systems

In view of the fact that registration is difficult in practice, a new system that does not

require registration should be introduced. Possible new systems are as follows.

(i) System of automatic perfection

Under this system, a non-exclusive licensee is entitled to assert the license against a third party as long as the licensee can prove the existence of a license agreement even if the license is unregistered.

(ii) System of perfection against a third party in bad faith

Under this system, a non-exclusive licensee is entitled to assert the license against a third party in bad faith even if the license is unregistered.

(iii) Relaxed requirements for perfection

Under this system, a non-exclusive licensee is entitled to assert the license against a third party as long as the licensee satisfies the requirements that are relaxed in the sense that registration is not required.

(4) Direction of the system

(i) Basic principle

Under the system of perfection against a third party in bad faith or the system that imposes relaxed requirements for perfection, if a blanket license agreement is concluded, which is often the case in practice, it would become impossible to distinguish a perfected license from the one not perfected. Under the system of perfection against a third party in bad faith, whether a license is perfected or not would be determined by a third party's subjective decision. On the other hand, in order to adopt relaxed requirements, it would be necessary to newly set other requirements that are clear and open to the public. In either case, a non-exclusive licensee and a third party would find itself in a precarious position. In contrast, under the system of automatic perfection, all non-exclusive licensees are equally protected. Therefore, this system would provide higher predictability in comparison with the system of perfection against a third party in bad faith and the system that imposes relaxed requirements.

The system of automatic perfection conforms to the actual business practices where any person who requests transfer of a patent is expected to exercise due diligence and where any transferee of a patent is expected to respect any existing licenses.

Furthermore, the introduction of the system

of automatic perfection is considered to be appropriate from the legal and practical perspectives as follows.

(ii) Safety of transactions

In practice, when a person exercises due diligence, the person is always expected to check not only the registry but also directly with the patentee. Therefore, the introduction of the system of automatic perfection would not increase the burden of due diligence. Moreover, it has been pointed out that the patentee is expected to provide correct information to any person who is exercising due diligence. The authenticity of information provided to such a person can be guaranteed by contract liability or criminal liability as well. Therefore, the introduction of the system of automatic perfection would not unreasonably damage the safety of transactions conducted by third parties.

(iii) General principles of the Civil Code

Although the system of automatic perfection would be interpreted as an exception to the general principles of the Civil Code, there are sufficient needs and capacities for the introduction of the system especially in consideration of the facts that (1) the use of the current registration system is extremely rare, (2) there is a great need for appropriate protection for non-exclusive licensees, and (3) in comparison with the right to use a tangible object defined in the Civil Code, a non-exclusive right imposes relatively relaxed restrictions on the rights of others.

(iv) Bankruptcy of a patentee, etc.

In a case where a patentee, etc., that has granted a non-exclusive license becomes bankrupt, if the non-exclusive licensee has a "record or registration or is otherwise entitled to assert the license against a third party," the right of the bankruptcy trustee to cancel the license agreement, etc., would be restricted.

In a case where the system of automatic perfection is introduced, if the Patent Act specifies that a non-exclusive licensee may assert the license to a third party as long as "the licensee satisfies the requirements to be entitled to assert the license against a third party," the right of a bankruptcy trustee to cancel a non-exclusive license agreement, etc., may be restricted.

4 Direction of the monopolistic license system

(1) Issues

(i) Issues related to exclusive licenses

The monopolistic license system is used mostly by universities, which rarely exploit their own patented inventions, and pharmaceutical companies, etc.

Although an exclusive license is explicitly defined in the Patent Act as a type of monopolistic license, monopolistic non-exclusive licenses are more often granted than exclusive licenses. As the reasons, it has been pointed out that exclusive licenses, which take effect only upon registration, are inconvenient (1) because the registration of an exclusive license is difficult for the same reasons as those that make the registration of non-exclusive licenses difficult in practice and (2) because the public disclosure of such registered data as the “name of the exclusive licensee” and the “scope of the exclusive license” is highly disadvantageous because they are corporate trade secrets.

(ii) Issues related to monopolistic non-exclusive licenses

Monopolistic non-exclusive licenses, which take effect without registration, are more convenient than exclusive licenses. However, since monopolistic non-exclusive licenses are regarded to be the same as non-exclusive licenses under the Patent Act, the holder of a monopolistic non-exclusive license may not assert the exclusivity to a third party. Furthermore, while there have been many court decisions where the court recognized that the monopolistic non-exclusive licensee’s right to demand damages, the court often denied the licensee’s right to request an injunction. Consequently, the monopolistic non-exclusive license system cannot meet the needs of the holders of monopolistic licenses for the perfection of the exclusivity of the license and for the right to request an injunction.

(iii) Necessity to review the monopolistic license system

As described above, the monopolistic license system has failed to satisfy the practical needs regardless of which type of monopolistic license is granted, either (1) an exclusive license, which takes effect only with registration or (2) a monopolistic non-exclusive license, which does not allow the holder of the license to assert the

exclusivity or to request an injunction. Therefore, it is necessary to review the current system and create a new monopolistic license system that will fulfill the practical needs.

(2) Major systems of other countries

In the case of an exclusive license granted in the United States, Germany, France, and the United Kingdom, and an exclusive right to exploit a patent granted in China, a license takes effect upon conclusion of a license agreement. Registration is not necessary for a license to take effect. On the other hand, an exclusive license in South Korea takes effect upon registration.

Furthermore, the holder of any of the aforementioned licenses is entitled to demand damages and request an injunction.

(3) Direction of the system

(i) Basic principles

In view of the facts that (i) few Japanese registration or recording systems require registration as a prerequisite for the registered subject to take effect, (ii) few monopolistic license systems of other countries require registration as a prerequisite for the registered license to take effect, (iii) there are needs among the holders of monopolistic licenses to be entitled to assert the exclusivity and to request an injunction, a new system should not require registration as a prerequisite for a monopolistic license to take effect and should grant the holder of an unregistered monopolistic license certain rights exercisable against a third party.

In the case of the holder of a registered monopolistic license, in view of the facts that (i) the difficulty of registration and the demerits of information disclosure have been recognized and (ii) there are needs among the holders of monopolistic licenses to be entitled to assert the exclusivity and to request an injunction, it would be appropriate to entitle the holder of such a license to assert the exclusivity and request an injunction. With regard to registration, only the minimum amount of information should be required for registration and subject to disclosure.

(ii) Proposed new system

It would be reasonable to abolish the current exclusive license system and establish a new monopolistic license system (“monopolistic licenses (tentative name)”).

Under the new system, a monopolistic license should take effect without registration.

The holder of a registered monopolistic license should be entitled to assert the exclusivity against a third party and also entitled to exercise the right to demand damages and the right to request an injunction against any third party including a third party that is in a competitive relationship with the licensee. On the other hand, the holder of an unregistered monopolistic license should not be entitled to assert the exclusivity against a third party and should be entitled to exercise the right to demand damages and the right to request an injunction only against a third party that is not in a competitive relationship with the licensee.

When a monopolistic license is registered, only the “name of the licensee, etc.” should be registered. The “scope of license” should not be required for registration. Regarding information disclosure, only the information on whether a monopolistic license has been “granted or not” should be disclosed to the public. The “name of the licensee, etc.” should be disclosed only to the interested parties.

5 Direction of the sublicense system

(1) Outline of the current system

The Patent Act explicitly permits an exclusive licensee to grant a non-exclusive license to a third party if the patentee’s consent is obtained. On the other hand, the Patent Act does not explicitly permit a non-exclusive licensee to grant a non-exclusive license to a third party. However, in practice, it is common for a non-exclusive licensee to grant such a license to a third party.

(2) Issues

(i) Issues related to the registration system

Under the Patent Act, a sublicense granted by a non-exclusive licensee is regarded as a non-exclusive license granted by the patentee to the sublicensee. Therefore, under the current registration-required perfection system, in order for a sublicensee to assert its non-exclusive license against a third party, the sublicensee has to register its license jointly with the patentee, with which the sublicensee often has no direct relationships. It would be unrealistic to require such registration.

(ii) Necessity to review the registration-required perfection system

Under the current registration-required perfection system, it is difficult for a sublicensee

to satisfy the requirements to be entitled to assert the sublicense against a third party. Therefore, it is necessary to review the registration-required perfection system and introduce a new perfection system.

(3) Direction of the system

If the current registration-required perfection system for non-exclusive licenses is replaced with a system that perfects such licensees without registration, a sublicensee would be able to assert its non-exclusive license against a third party even if the sublicensee has not registered the license jointly with the patentee.

Therefore, the system of automatic perfection should be introduced in order to provide proper protection to sublicensees as well.

II Further Exploitation of the Right to obtain a patent, etc.

1 Introduction

In recent years, there has been an increase in the economic and proprietary value of not only a patent, which is a registered intellectual property right, but also the right to obtain a patent, which is an unregistered intellectual property right. Against this background, there are needs for exploiting such right as security in fund raising activities or as a subject matter of a license or trust.

However, under the current system, (1) it is prohibited to establish a pledge on the right to obtain a patent and (2) there is no system to register or publicly notify the right to obtain a patent. Therefore, the current system should be reviewed in order to promote the exploitation of the right to obtain a patent.

2 Direction of the system to establish a pledge on the right to obtain a patent

(1) Outline of the current system

There are two types of security right that can be established on intellectual properties: a pledge or mortgage. While a pledge may be established on a patent, it is explicitly prohibited to establish a pledge on the right to obtain a patent regardless of whether or not the patent application has been already filed.

Therefore, the right to obtain a patent may be used as subject matter of security under the mortgage system.

(2) Issues

It has been pointed out that there is a certain level of needs for the intellectual property-secured financing system because it would facilitate fundraising activities of companies with advanced technology. These days, there are many projects that take advantage of the right to obtain a patent. In some cases, the right to obtain a patent is the key factor in project evaluation. These trends suggest that there has been a rise in the needs for funds secured by the right to obtain a patent.

As mentioned above, under the current system, when the right to obtain a patent is used as security, a mortgage is established on said right. When a mortgage is established on the right, the ownership of the right will be transferred to the creditor. Consequently, the creditor will be in a position to follow the application procedure, conclude a license agreement, get involved in a dispute over the patent, etc. as the right holder. This is why the mortgage system is considered to be inconvenient in practice.

In reality, a complicated procedure is carried out as follows. First, a mortgage is established on the right to obtain a patent. The ownership will be returned to the debtor after the patent is registered. Then, a pledge is established on the patent.

Therefore, it is necessary to review the current provision that prohibits the establishment of a pledge on the right to obtain a patent.

(3) Major systems of other countries

Under the systems concerning the use of an intellectual property right as security in the United States, Germany, France, and the United Kingdom, the possibility of the use of an intellectual property as security does not depend on whether or not the intellectual property has been registered. Under those systems, no security right is required to be registered in order to take effect.

On the other hand, in China and South Korea, a pledge may be established on a patent. However, regarding the issue of establishing a pledge on the right to obtain a patent, China has neither an explicit provision nor an academic consensus on this issue. In South Korea, such a pledge is prohibited. Both China and South Korea require registration in order for a pledge to take effect.

(4) Direction of the system

The purpose of prohibiting the establishment

of a pledge on the right to obtain a patent under the current system has been a topic of academic discussions. However, this prohibition is not necessarily reasonable in the current state. For example, it has been criticized that, since the right to obtain a patent is uncertain, when a pledge is established on the right, the pledgee or a third party could suffer unexpected damage. This criticism has no grounds for the following reasons. In many precedents, the court permitted the establishment of a pledge on future receivables or other uncertain receivables as well. Furthermore, pledgees were aware of the uncertainty of the pledges in terms of application outcome, when they accepted the pledge.

There are sufficient needs and capacities for the establishment of a pledge on the right to obtain a patent in view of the facts that the economic and proprietary values of the right to obtain a patent have been increasing as exemplified in the creation of a tentative exclusive license system, that the right to obtain a patent is transferable, and that there are needs among companies for the use of the right to obtain a patent as security through establishment of a pledge on the right.

Therefore, it would be reasonable to permit the establishment of a pledge on the right to obtain a patent. Since it has been pointed out that there is a difficulty in identifying the contents and scope of the right to obtain a patent for which an application has not yet been filed, such a right should be excluded from the permission.

The newly created pledge system should satisfy the following conditions: (1) A pledge should be required to be registered not to take effect but to be perfected against a third party, (2) After a pledge is established on the right to obtain a patent, when the patent is registered, the pledge should remain effective in the registered patent, (3) After a pledge is established on the right to obtain a patent, the patent application may be amended or divided without the consent of the pledgee, and (4) After a pledge is established on the right to obtain a patent, the patent application may not be abandoned or withdrawn without the consent of the pledgee.

Similarly, with regard to a pledge established on a patent, it would be reasonable to permit the pledge to take effect without registration but to require registration to assert the pledge against a third party.

3 Direction of the newly created registration system for the right to obtain a patent

(1) Outline of the current system

(i) Registration of a change in a patent

Any change in a patent such as a patent transfer needs to be registered in the Patent Ledger at the Patent Office. The registration of a change in a patent must be made through joint application filed by both parties involved in a patent transfer, etc.

With regard to a transfer, any change caused by entrustment, extinction, or restrictions on disposal of a patent, registration is required for such changes to take effect.

(ii) Notification on a change in the right to obtain a patent

Concerning the right to obtain a patent, there is no system to register and publicly notify any change in the right.

Any person who is succeeding to the right to obtain a patent is not required to register but is required to notify the Commissioner of the Patent Office to that effect. The information disclosed in the notification will be recorded in a file kept at the Patent Office.

While the Patent Act does not specify who should make such notification, either the assigner or the assignee may independently submit the notification together with a certificate for the reason.

On the other hand, regarding a change in the right due to entrustment, restrictions on disposal, and the establishment of a pledge, a notification may not be submitted.

(2) Issues

In recent years, the economic and proprietary value of the right to obtain a patent has been increasing. Consequently, the need for further exploitation of such a right has been growing. However, there are no systems to register and publicly notify a change in the right to obtain a patent that is currently pending. Regarding the lack of these systems, the following issues have been pointed out:

- (1) In the case of a transfer of the right to obtain a patent that is currently pending, either the transferor or transferee may independently submit a notification about the transfer. Therefore, it is relatively easy for any person who pretends to be a transferee to falsify a certificate for the reason and submit a notification about the transfer, for example;

- (2) Due to the lack of the systems to register and publicly notify the restrictions on the disposal of the right to obtain a patent that is currently pending, if a debtor disposes of such a right in violation of an injunction, an attaching creditor has no means to assert its right against a third party;

- (3) Due to the lack of the systems to register and publicly notify the entrustment of the right to obtain a patent that is currently pending, it is impossible to publicly notify to a third party that the right to obtain a patent is a trust property; and

- (4) If the right to obtain a patent that is currently pending is permitted to become an object of a pledge, it would be necessary to establish a registration and public notification system for such a pledge in order to assert its effect against a third party.

(3) Major systems of other countries

In the United States, Germany, France, and the United Kingdom, any change in the right to obtain a patent may be registered or recorded with their respective intellectual property offices. Such registration or recording is required for perfection of such a change against a third party. In China, there is a system to register a change in the right to obtain a patent that is currently pending. Registration is required for such a change to take effect. As is the case with Japan, South Korea does not have a system to register a change in the right to obtain a patent.

(4) Direction of the system

In order to solve the above-described problems caused by the lack of the system to register the right to obtain a patent that is currently pending and in order to harmonize the Japanese system with those of other countries, it would be reasonable to establish a system to register the right to obtain a patent that is currently pending.

The newly created system should satisfy the following conditions: (1) if a change in the right to obtain a patent that is currently pending has been registered, when the patent is granted and registered, said change in the right will remain effective in the registered patent, (2) In a case where a change is made in the right to obtain a patent that is currently pending, if the change is registered, any amendment or division of the right should be permissible without the consent of the parties who have interests in the change in the right, and (3) In a case where a change is

made in the right to obtain a patent that is currently pending, if the change is registered, the abolishment, withdrawal, etc., of the right should be permissible only with the consent of the parties who have interests in the change in the right.

4 Direction of the system concerning the entitlement to exercise the right to demand compensation, etc.

The Patent Act permits a patent applicant to demand compensation only after the registration of the patent.

Similarly, the current Patent Act and the precedents permit the exclusive licensee and the holder of a monopolistic non-exclusive license of a patent to demand damages from a third party who has exploited the patented invention without authorization. In view of these facts, it would be reasonable to permit the holder of a tentative exclusive license of a pending patent to demand compensation.

Meanwhile, under the current system, the holder of a pledge on a patent is permitted to extend security interest to the proceeds of the collateral. Further study would be necessary to determine whether compensation should be subject to the security interest of a pledge established on a patent or on the right to obtain a patent.

Also, further discussion would be necessary to determine whether such a pledgee should be entitled to give a warning that is required before exercising the right to demand compensation.

III Study on the Systems Concerning Utility Models, Designs, and Trademarks with the Focus on the Aforementioned Points

With regard to the systems concerning utility models, designs, and trademarks, further study would be necessary with the focus on the points addressed in Chapters I and II in consideration of the characteristics of and actual business practices under those systems.

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