

9 Licensing of Intellectual Property Rights and Trade Secret Management in Connection with Japanese Companies' Expansion to Emerging Countries ^(*)

To enhance Japan's international competitiveness, it is vital to bring emerging countries' growing markets into the Japanese economic bloc. To that end, it is essential for Japanese companies to expand their presence in such emerging countries with a sufficient understanding of the legal systems and commercial practices therein. Particularly, in emerging countries, intellectual property systems and their operation are undeveloped in comparison to Japan. Accordingly, issues remain, such that information on the actual conditions of the operation of intellectual property license agreements and trade secret protection, which is essential for business expansion, is unclear, and there are concerns about institutional and practical restrictions. Yet, the present situation does not allow for the easy obtaining of sufficient and accurate information. Taking this situation into account, in this research study, the actual conditions of and developments in the regulations on the intellectual property license agreements and trade secret protection in emerging countries as well as the matters to be noted in relation thereto were researched, organized and analyzed, and further studies were made to find the appropriate response in practice. Specifically, domestic questionnaire surveys, domestic interview surveys, overseas interview surveys, as well as domestic and overseas surveys on literature including judicial precedents were performed and studies were made by a committee based on the results thereof.

I Introduction

1 Background and Objective of this Study

In order to enhance the international competitiveness of Japan, it is vital to bring the markets of emerging countries—which are expanding rapidly and seen as growing markets, i.e. Asian markets—into the Japanese economic bloc. Accordingly, it is essential for Japanese companies to grasp the needs of these markets and to advance business cooperation with companies in emerging countries and business expansion such as joint research and development projects, with a sufficient understanding of the legal system and the commercial practices therein.

The research conducted by Japan Bank for International Cooperation (JBIC), showed that the emerging markets were promising markets for business expansions in the medium to long term but mentioned the “uncertainty in the operations of legal systems” as one of the priority issues to be solved in these promising markets. Hence, Japanese companies may face major challenges in business expansion in relation to the actual operations of the legal systems, including intellectual property systems, in emerging countries.

A particularly important element to be taken

into consideration in expanding business overseas is the utilization of intellectual property. However, as intellectual property systems and their operation in emerging countries are underdeveloped in comparison to Japan, the actual conditions of the conclusion of intellectual property license agreements and trade secret protection, which are essential to business expansion, remain unclear, and there are concerns about institutional and practical regulations in cases of implementing joint research and development projects. Moreover, information related to such issues has neither been sufficiently accumulated nor organized in a systematic manner for strategic use in Japan due to the fact that Japanese companies have not been active in conducting intellectual property related activities in emerging countries.

Given this situation, this research study was performed to carry out research, organization, and analyses on the actual conditions of and developments in regulations on intellectual property license agreements and trade secret protection in emerging countries, as well as the matters to be noted in relation thereto, studies to find the appropriate response to be made in practice by Japanese companies in expanding their business to emerging countries, and eventually, to prepare basic data for studying possible measures for Japan to take in relation to

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the matters to be taken into consideration in these emerging countries.

II Results of the Domestic Questionnaire and Interview Surveys

1 Domestic questionnaire surveys

The questionnaire survey was sent to 935 companies which were selected at random with preference given to companies expanding to multiple countries from among the 1700 companies which have expanded to emerging countries (i.e. India, Brazil, Russia, Thailand, Indonesia and Vietnam) (approximately 150 companies were selected from each country, starting from the countries with the least Japanese corporations), and was answered by 200 companies (response rate: 21%).

While most of the Japanese companies had concluded license agreements with companies which they had funded, some companies had concluded agreements with non-Japanese companies. Of the companies which answered that they had “concluded agreements,” 20% stated that they faced problems in connection with license registration. Among the countries where the companies faced problems, Brazil showed the largest number as well as the highest rate of occurrence. Although no large bias was found in the characteristics of the parties involved in the problem other than the companies, more problems were found in relation to the agreements concluded between Japanese companies and non-Japanese companies in Brazil. Regarding trade secret management, only one company answered that it faced problems and therefore, no significant results could be obtained from this survey.

Further, approximately 37% of the companies expressed their requests to the State and public bodies to collect and organize intellectual property-related information. At the same time, many of the companies stated their demands for practical tools to avoid problems which may occur in the future, in the free space of the questionnaire.

2 Domestic interview surveys

Research was implemented on 29 companies selected mainly from the abovementioned respondents to the questionnaire survey.

As the matters taken into consideration in

entering into an agreement, many of the companies stated that they gave weight to the preliminary survey conducted by the counterparty to the agreement and pointed out the importance of collecting local information by reason the agreement was to be concluded in an emerging country. Some of the companies were using external tools in addition to the research they conducted themselves.

In almost every case, license agreements were directly entered into by the companies themselves. In some industries, the companies needed a sales company, a joint venture company incorporated in the relevant emerging country in relation to such agreement, or a trading company to participate in the agreement as the contracting party, due to various reasons.

Regarding trade secret management, while some of the companies deliberately transferred information, the leakage of which would be of no problem, to the companies in emerging countries, others had no specifically established criteria for managing trade secrets or were leaving such management in the hands of the local business department.

Generally, many of the companies managed trade secrets at the same level as the head office in Japan, but there were cases where excessive management caused adverse effects. Some cases showed that companies provided training as appropriate to their employees who may have access to trade secrets or placed the obligation of confidentiality or duty not to compete on resignees. Nevertheless, the same amount of companies had left the actual management of trade secrets in the hands of the local business department and therefore, in many cases, the head office of such companies lacked the correct understanding of the actual conditions of such management.

III Results of Overseas Research (interviews and research on literature)

1 Legal system and practical operations concerning licensing of intellectual property rights and trade secret management in India

India has no provisions that impose restrictions on the designation of governing laws. Accordingly, in cases where a license agreement or confidentiality agreement is to be governed by the laws of Japan, a judgment rendered in Japan

may be enforced in India, under the letter of the laws of India. However, a judgment rendered in Japan may not be enforced as it stands in India, and an action must be filed with the court in India to enforce such judgment. India is a member state of the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (hereinafter referred to as the “New York Convention”), and therefore, the place of arbitration may be situated outside India and the arbitral award would be enforceable without any problem so far as the place of arbitration is in the member state of the New York Convention.

While registration of a patent license is an essential requirement, registration of a trademark license is a requirement for perfection vis-à-vis third parties. Although the registration of a trademark license is not an essential requirement, the use of trademarks by a registered user of a trademark shall be deemed to be the use by the proprietor thereof (Article 48 of the Trademark Act). Regarding trade secret licenses, there is no system of registration. The licensee shall submit the prescribed forms and relevant agreement, and shall not be refused such license as long as the documents submitted are in the correct format.

With the revision of the tax laws in 2010, foreign companies are recommended to acquire a Permanent Account Number (PAN) in relation to the remittance of royalties. Only when a foreign company has obtained a PAN shall the reduction or exemption from the taxes to be withheld from local companies at the time of the remittance of royalties be allowed. Note that it takes one to two months to complete the procedures to obtain a PAN and that the obtainment of a PAN gives rise to the obligation to file tax returns.

Although India has no statutes on the protection of trade secrets, it is permitted to have protections based on agreements (e.g. confidentiality agreements, employment agreements, or technical knowhow agreements) or on equity principles. Even if the parties have not entered into any agreements, the obligation of confidentiality for trade secrets may find its grounds in common law. The provisions of Article 27 of the Indian Contract Act 1872 prohibit the establishment of a clause imposing the duty not to compete, and a clause for keeping a former employee from joining a competitor. The law has no specific provisions regarding the limitation on the period for the continuation of the obligation of confidentiality after retirement, and thus, such period is to be decided by the parties under an agreement.

2 Legal system and practical operations concerning licensing of intellectual property rights and trade secret management in Brazil

There are no legal constraints in deciding the governing law in license agreements or confidentiality agreements, and it may be determined by an agreement between the parties. Moreover, no limitation shall be imposed in selecting Japan as the place of arbitration. However, in cases where enforcing a judgment rendered in Japan, the satisfaction of the requirement as to whether the judgment does not contravene the public order of Brazil shall be confirmed after completing certain procedures at the Superior Court of Justice (SCJ) of Brazil. As Brazil is a member state of the New York Convention, no limitation shall be imposed on the designation of the place of arbitration.

Regarding the license contracts for patent rights, industrial designs, and trademarks, the provisions of Articles 62, 121 and 140 of the Industrial Property Law provide to the effect that “The license contract must be recorded with INPI so that it becomes effective regarding third parties.” Moreover, the registration of the license contract with INPI is established as a requirement for remitting royalties (Foreign Capital and Profit Remittance Law) and for including royalties in losses (Income Tax Law and Ordinance of the Ministry of Finance). This means that the license contract is effective even if the license was not registered with INPI but without such registration, no royalties may be remitted overseas nor any tax deductions are available. INPI does not consider knowhow as a property right, nor does it allow any trade secret license agreements where the licensee becomes unable to use the relevant technology upon the termination of the agreement. Knowhow license agreements are treated as technology transfer agreements.

In Brazil, the requirements for including royalties in losses are provided in tax laws in a detailed manner, and further, it was confirmed that limitations on the amounts of remittances made between affiliated companies are still in existence today. According to the interviews made with the local law firms, as far as they knew, there have not been any recent problems regarding the registration of intellectual property licenses. Their view was that problems were

avoided by utilizing experts familiar with the system.

Trade secrets and confidential information, including knowhow, are protected under the Industrial Property Law, Law 10.603/002 and the Criminal Code. Although the concept of trade secrets is not provided in any Brazilian domestic law, the provisions of Article 195(XI) of the Industrial Property Law prescribing that the infringement of trade secrets constitutes a crime of unfair competition may be regarded as providing such concept. Article 209 of the Industrial Property Law provides that the aggrieved party has the right to recover damages as compensation for losses caused by acts of unfair competition. Concluding confidentiality agreements placing on the employees a continuing obligation of confidentiality after retirement seems not to cause any problems, but agreements providing the duty not to compete may.

3 Legal system and practical operations concerning licensing of intellectual property rights and trade secret management in Russia

In Russia, parties to a contract may select the governing law, which does not have to be a Russian law (Article 1210 of the Civil Code of the Russian Federation [hereinafter referred to as the “Civil Code”]). At the same time, the parties may also select jurisdiction outside Russia. However, as Russia and Japan have not concluded any agreement on mutual recognition of foreign judgments, so far, no judgments rendered in Japan have been recognized in Russia. Yet, Russia is a member state of the New York Convention, and therefore, any arbitration award is enforceable in Russia so far as it has been awarded in any of the member states of the New York Convention.

The provisions of Articles 1235 through 1238 of the Civil Code cover the range of matters related to license agreements. The Civil Code provides that a trade secret itself shall not be treated as a subject matter in civil transactions and instead, exclusive rights on such trade secret may be transferred or licensed in such transactions (Article 1468, paragraph (1) of the Civil Code). While intellectual property license agreements are required to be registered with the Russian Patent Office, knowhow license agreements require no registrations and shall be effective between the parties from the day the agreement was signed.

In making a remittance of license fees to foreign countries, the remitter must submit to the bank any evidence that serves as the grounds for such remittance. In cases where a license agreement based on a patent right or trademark right has been entered into, a copy of the original agreement or agreement on which a seal certifying the registration of the license is affixed shall be submitted to demonstrate the basis for the foreign remittance. In cases where the remittance of license fees is based on a trade secret license, e.g. a knowhow license, such remittance shall be allowed if a copy of the agreement with no certification of registration is submitted. However, in cases where the amount of foreign remittance exceeds USD50,000, a resident is required to open an account for a transaction passport at the bank.

“Part 4 of the Civil Code of the Russian Federation” and the “Federal Law on Commercial Secrets” are the main laws dealing with the protection of trade secrets. The definition of trade secrets prescribed in Article 1465 of the Civil Code contains requirements such that trade secrets are managed. As the law does not provide for imposing the duty not to compete on employees after their retirement, it seems difficult to prohibit such employees from joining rival companies. On the other hand, an obligation to maintain the confidentiality of the secret information which the employee came to know in the course of his/her duties may be continuously imposed on such employee after his/her retirement, by concluding an agreement.

In the event of a dispute involving infringement of the exclusive right based on trade secrets or breach of the license agreement, settlement through commercial arbitration is available in addition to relief available under civil law, administrative law or criminal law.

4 Legal system and practical operations concerning licensing of intellectual property rights and trade secret management in Thailand

The governing law in general agreements may, in principle, be determined by an agreement of the parties. As no treaty concerning court proceedings has been entered into between Japan and Thailand, the judgments rendered in Japan are not enforceable in Thailand. However, license agreements may contain arbitral clauses concerning disputes, and the arbitral awards are recognized even if a third-country body is

designated as the arbitral body, as Thailand is a member state of the New York Convention.

A license contract of a patent must be in writing and registered with the government of Thailand (Article 41 of the Patent Act) and such registration is a requirement for the license contract to take effect. If a patentee licenses another person to use the rights contrary to the obligation of registration, there is a risk of cancellation of patent rights (Article 55, paragraph (2) of the Patent Act). Trademark license agreements shall be in writing and registered with the government of Thailand (Article 68 of the Trademark Act), and such registration is a requirement for the license agreement to take effect. No requirements for registration are provided in the Trade Secrets Act for trade secret license agreements. In filing an application for license registration, a written application and written license agreement shall be submitted to the Department of Intellectual Property (DIP). Information on registration is not disclosed on websites or an official gazette, but any person may inspect the examined items at the Department of Intellectual Property (DIP) upon application.

Upon remitting royalties, the remitter shall fill in the application form for remittance at a commercial bank and shall be required to submit the written agreement and any proof for the reasons for the remittance (the same shall apply in the case of purchase of goods or provision of service). However, in practice, such confirmation is limited to checks on invoices. In cases of a foreign remittance, the branch office of the Revenue Department confirms whether or not the remitter must pay value-added tax based on the tax identification number stored in the data base of the Revenue Department.

The Trade Secrets Act provides the definition of a trade secret and the protection measures therefor (i.e. Infringement of Trade Secrets provided in Article 6 of that Act, Injunctions provided in Article 8, and Penalties provided in Articles 33 through 36). From the results of the interviews, trade secrets seemed to be managed properly, but it remains unclear whether it is a general practice among Thai companies.

Duty not to compete and obligations of confidentiality after retirement may be imposed. As there are no provisions in laws that limit the confidentiality period, it will be decided based on the agreement between the parties, in principle. Moreover, no guidelines setting a reasonable

period have been established.

5 Legal system and practical operations concerning licensing of intellectual property rights and trade secret management in Indonesia

The parties to license agreements, etc. generally have the option to select the applicable law from any country for the agreement. However, attention should be paid to the fact that, in practice, Indonesia has no regulations to domestically enforce judgments rendered in other countries, and therefore, such enforcement may technically be impossible. Yet, Indonesia is a member state of the New York Convention and therefore, the arbitration award will be recognized even if a third country body is designated as the arbitral body.

License agreements shall be regarded as a general agreement complying with the provisions of the Indonesian Civil Code unless duly registered with the Directorate General of Intellectual Property Rights (DGIPR) and such license agreement shall have legal effects only on the parties bound (Article 72 of the Patent Law). Although Article 73 of that Law provides that further provisions concerning license agreements shall be regulated by a Governmental Regulation, no regulations have been enacted under the present circumstances and therefore, none of the practices including the receipt of applications, examination for registration and publication of registered patents have been conducted. The same is true for industrial designs, trademarks, and trade secrets.

At present, there are no regulations concerning the royalty amount or royalty rate. If the licensee submits the Certificate of Domicile of Non Resident for Indonesian Tax Withholding (COD) before paying royalties, and the payment is approved as a royalty, the withholding tax rate at the time of remittance of the royalty shall be reduced or exempted. At one time, the Indonesian government made a strict application of transfer pricing taxation on priority industries and as a result, no royalty was approved. However, Regulations (PER) No. 43 and 48 issued by the Tax Office of the Ministry of Finance specifically provided for the rules for implementation of such taxation and relaxed the criterion for approval of royalties.

The Law of the Republic of Indonesia Number 30 of Year 2000 Regarding Trade Secrets

provides the definition of trade secrets (Article 1), scope of protection (Article 2), requirements for protection (Article 3), license (Articles 6 through 9), settlement of dispute (Articles 11 and 12), infringement (Articles 13 through 15), investigations (Article 16) and criminal provisions (Article 17). It is important for the person managing trade secrets to properly restrict access to trade secrets and maintain such trade secrets by appropriately telling the users of confidential information about its nature and having them report their compliance with the confidentiality obligation on a regular basis.

6 Legal system and practical operations concerning licensing of intellectual property rights and trade secret management in Vietnam

As Vietnamese laws have no provisions restricting the designation of governing laws and jurisdiction, under the letter of laws, any country may be designated. Arbitral clauses may be contained in agreements without any limitation. Vietnam is a member state of the New York Convention and therefore the place of arbitration may be situated outside Vietnam. However, note that enforcement of the arbitral award is accepted to the extent that it is not contrary to Vietnamese law, as in the case of judgments.

License agreements for registered intellectual property rights such as patent rights, utility model rights, industrial design rights, and trademark rights shall be registered with the National Office of Intellectual Property of Vietnam (NOIP) and technology transfer agreements for knowhow shall be governed by the Ministry of Science and Technology (MOST).

Registration of license of intellectual property rights and technology transfer of knowhow are provided in the Intellectual Property Law and Law on Technology Transfer, respectively. Industrial property object license contract (e.g. patent rights and trademark rights) shall be valid as agreed upon by the involved parties and by establishing it in the form of written contracts (Article 141(2) of the Intellectual Property Law). Moreover, license contracts shall be legally effective to a third party upon registration with NOIP (Article 148, Clause 2 of that Law). Registration of technology transfer only has the effect of perfection against third parties. Prior to the enforcement of Decree 133/2008/ND-CP, the period of a technology transfer contract was limited to a maximum of

seven years in principle, but today, this limit has been removed and the period may be decided by an agreement between the parties. In remitting royalties, submission of copies of invoices and contracts shall be required to confirm the actual demand.

Regarding trade secrets, the Intellectual Property Law provides the definition (Article 4(23) of that Law), establishment of rights (Article 6(3)(c) of that Law), conditions for protection (Article 84 of that Law) and acts of infringing (Article 127(1) of that Law). Duty not to compete may not be imposed, but continuing confidentiality obligation after retirement may be contained in labor-management agreements. No limitation is imposed for deciding the period of contracts.

No past cases were found in which confidentiality was in dispute. At present, it is unlikely that an action filed with the court shall be fully understood and that an appropriate judgment shall be rendered. Under the present conditions, the Vietnamese Labor Code provides stronger protection on employees and it is difficult for employers to receive relief even if they are suffering a disadvantage.

IV Conclusion

The results of the domestic questionnaire and interview surveys carried out for this research study showed some cases of problems related to license agreements and trade secrets in the emerging countries surveyed (i.e. India, Brazil, Russia, Thailand, Indonesia and Vietnam), but most of the problems had been resolved and currently, no big issues exist.

One of the reasons for this result may be drawn from the answers obtained in the interviews, which stated that the deficiencies found in the emerging countries' legal systems more than 10 years ago have been corrected and their legal systems as well as the operations thereof have been much improved. Particularly, there were cases where the problems concerning the remittance of royalties were eased by the amendment of the legal system and cases where the limitation on the period for technology transfer agreements had been removed.

Moreover, in terms of protection of trade secrets, there were some cases where material technical information leaked due to the insufficient protection of trade secrets at the local business office in the past. However, no cases of leakage of trade secrets were heard in this

research survey as a result of the rise in the awareness of protection of trade secrets in the companies expanding their businesses into emerging countries.

However, although the actual conditions of the legal system, the operations thereof and the trade secret management in emerging countries may be insignificant for companies with rich experience in expanding their business overseas, companies with less or no experience in overseas expansion may face difficulty in grasping the actual conditions and taking appropriate measures.

To avoid such difficulties, the following are possible measures:

- 1) Creation of a Data Base that collects and dispatches information held by the public and private sectors in a uniform and systematic manner.
- 2) Refraining from entering into license agreements or technology transfer agreements, without due consideration, with local companies with no capital relationships in emerging countries.

Finally, attention should be paid to the fact that the actual conditions of the system of registration of license agreements and the system of trade secret protection in emerging countries, as reported by this research study, are based on current information obtained from the sources set forth in the method of implementation of this research study. As the economies and legal systems of emerging countries see rapid development advancing from day to day, information on any changes in these countries should be collected and analyzed on an ongoing basis, and studies should continuously be made on future appropriate reactions to be taken by Japan from the standpoint of operations of systems and practices.

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