

5 Desirable Monopolistic License System ^(*)

In relation to patent rights and other industrial property rights under the current law, exclusive licenses (exclusive right to use) and monopolistic non-exclusive licenses (monopolistic non-exclusive right to use) are available as forms of monopolistic licenses that limit licensees to a single actor. Of these, registration is required for the coming into force of a statutory exclusive license (exclusive right to use). However, the amount of consideration for an exclusive license and other items were deleted from the matters to be registered through the 2008 legal revision.

However, the utilization ratio of the registration system is low, and the number of such exclusive licenses for patent registered annually remains around 300. In addition, although the system whereby a non-exclusive license can be asserted against a third party without registration was introduced in relation to non-exclusive licenses through the 2011 legal revision, the system is inconvenient in that, in relation to a monopolistic non-exclusive license (monopolistic non-exclusive right to use), the licensee can neither assert the monopolistic exploitation of the relevant patent right against a third party nor directly request an infringer who works the patented invention without authority suspend the infringement.

Therefore, this research study was conducted in order to prepare basic materials to be used in considering the necessity of establishing a new system that eliminates the problems of the monopolistic license-related systems under the current law.

I Introduction

1 Background and Purpose of This Research Study

In relation to patent rights and other industrial property rights under the current law, exclusive licenses (exclusive right to use) and monopolistic non-exclusive licenses (monopolistic non-exclusive right to use) are available as forms of monopolistic licenses that limit licensees to a single actor. Of these, registration is required for the coming into force of a statutory exclusive license (exclusive right to use). However, the amount of consideration for an exclusive license and other items that had been required to register an exclusive license were excluded from the matters to be registered through the 2008 legal revision.

However, the utilization ratio of the registration system is low for the reasons of a burden of registration and license tax and other expenses, administrative burden arising from the principle of joint application for registration, divulging of trade secrets arising from the disclosure of the scope of a license, and disharmony with the systems of other major countries. The number of exclusive licenses for patent registered annually remains around 300.

For monopolistic non-exclusive licenses, the system whereby a non-exclusive license can be

asserted against a third party without registration was introduced in relation to non-exclusive licenses through the 2011 legal revision. However, monopolistic working is nothing more than that based on an agreement between the parties concerned and cannot be asserted against a third party. Therefore, there is a limit that if the licensor assigns the patent right to a third party, the licensee cannot assert the monopolistic exploitation of the patent right, etc. against the third party. In addition, there is an inconvenience that the licensee cannot directly request an infringer who works the patented invention, etc. without authority to suspend the infringement.

This research study is intended to conduct basic research that is to be used as a premise of considering the necessity of establishing a new system that eliminates the aforementioned problems of the monopolistic license-related systems under the current law.

2 Method of Conducting This Research Study

In this research study, domestic questionnaire and interview surveys were conducted to understand practical problems and needs concerning monopolistic licenses. In addition, interview surveys were conducted with intellectuals, such as university professors and attorneys at law, to obtain knowledge from the

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perspectives of jurisprudence and legal practice. Furthermore, overseas questionnaire surveys were conducted for the United States, Germany, France, the United Kingdom, China and South Korea to understand the monopolistic license-related systems of other countries. Moreover, books, papers, court precedents and other materials were also studied and examined.

II Current Situation of the Monopolistic License-Related Systems

1 Current Monopolistic License-Related Systems in Japan (Mainly for Patents)

The Patent Act provides for two types of licenses, specifically, exclusive licenses and non-exclusive licenses. On the other hand, in practice, monopolistic non-exclusive licenses are widely used as one type of non-exclusive license though it is not provided for by law.

(1) Exclusive License

An exclusive license is a right whereby a person other than the patentee can work the patented invention in a monopolistic and exclusive manner, and it is understood as having the nature of a real right.

The establishment of an exclusive license does not come into force only through the conclusion of a contract, and it comes into force only after it is registered. If the establishment of an exclusive license comes into force through registration, the exclusive license can be asserted against a third party. It is thus possible to assert the monopolistic nature of the exclusive license (in relation to the scope for which the exclusive license has been established, only the exclusive licensee can work the patented invention, and neither the patentee nor the assignee of the patent right can establish or grant a license to another person) against a third party.

The Patent Act grants to an exclusive licensee the right to claim damages against a third party who works the scope of the patented invention for which the exclusive license has been established. The Act also grants to an exclusive licensee the right to claim an injunction against a third party who works or is likely to work the scope of the patented invention for which the exclusive license has been established.

The registration procedure requires that the exclusive licensee and the patentee jointly file an application for registration. However, the

exclusive licensee alone can register a license with the written consent of the patentee.

The matters to be registered include the area, period and content of an exclusive license in terms of the scope of the exclusive license as well as the domicile or residence and name of the exclusive licensee. The amount of consideration for the exclusive license or the method or time of payment thereof was deleted from the matters to be registered. All the matters registered are disclosed.

(2) Monopolistic Non-Exclusive License

A monopolistic non-exclusive license is consistently evaluated as a non-exclusive license under the Patent Act. Therefore, it is considered as having the nature of a claim. The granting of a monopolistic non-exclusive license comes into force through the conclusion of a contract. A license pertaining to a monopolistic non-exclusive license (the right to claim inaction by which the licensee requests the patentee, etc. not to exercise the right to claim an injunction or other rights) can be asserted against a third party as a non-exclusive license under the Patent Act. With regard to this assertion against a third party, the registration system was abolished through the 2011 revision of the Patent Act, and the system whereby a non-exclusive license can be asserted against a third party without registration was introduced.

There was a widespread practice where a person who receives the assignment of a patent right does not exercise the right to claim an injunction against a non-exclusive licensee even if the non-exclusive licensee has not been registered. However, actors who exercise a patent right have been diversifying in recent years, and this conventional practice has not been maintained. Therefore, there has been an increasing risk that a non-exclusive licensee who has not been registered becomes subject to a claim for an injunction, etc.

The monopolistic nature of a monopolistic non-exclusive license (the patentee cannot grant a license for the scope covered by the monopolistic non-exclusive license to another person) is understood as being effective only between the parties concerned based on a claim-like agreement. Therefore, a monopolistic non-exclusive licensee has no means of asserting monopolistic working against a third party such as the assignee of the patent right.

The Patent Act includes no provisions that grant to a non-exclusive licensee the right to

claim damages against a third party who works the patented invention without authority. The same goes for monopolistic non-exclusive licenses.

On the other hand, there are many court precedents in which a monopolistic non-exclusive licensee exercises the right to claim damages against a third party who works the patented invention, etc. without authority. In many court precedents, the court denied the right to claim an injunction specific to monopolistic non-exclusive licensees. However, in some of them, the court upheld the right to claim an injunction based on the obligee's subrogation. There is a view that such cases are those where the patentee, etc. at least is considered as having had imposed the obligation to eliminate infringement under an agreement on the monopolistic non-exclusive license, irrespective of explicitly or implicitly, and the patentee's failure to perform this obligation is required.

2 Status of Use of the "Monopolistic License-Related Systems" in Japan and Matters to be Considered

(1) Status of Use

With regard to exclusive licenses and exclusive right to use, the number of exclusive licenses for patents and exclusive right to use for trademarks are larger than exclusive licenses for utility models and that for designs. The number for patents is between 188 and 349 while that for trademarks is between 215 and 344.

According to the questionnaire survey, for patents, 5.5% of licensors and 12.9% of licensees use the exclusive license system. On the other hand, 26.2% of licensors and 20.2% of licensees use the monopolistic non-exclusive license system. According to the results of the domestic interview survey, monopolistic non-exclusive licenses/non-exclusive rights to use are mainly used as monopolistic licenses, and the number of cases where an exclusive license/exclusive right to use is used was 0 to 2.

Some answered that use of a monopolistic non-exclusive license/non-exclusive right to use suffices because the parties to a contract can arrange the person who decides litigation policy, the person who assumes command of the conduct of a lawsuit, and the person who bears costs of litigation. On the other hand, some pharmaceutical companies answered that they only use exclusive licenses as monopolistic licenses so that they can exercise the right to

claim an injunction without fail in order to eliminate generic drugs. In addition, multiple companies answered that they had registered their exclusive licenses when filing an application for registration of extension of the duration of the patent rights licensed.

(2) Status of Consideration at Councils, etc. in the Past

(i) Content of Consideration at a Private Study Group of the Commissioner of the JPO, "Patent System Study Group"

The Patent System Study Group, which is a private study group of the Commissioner of the JPO, was established in January 2009. "Desirable monopolistic license-related system" was mentioned in the summary of issues concerning promotion of utilization of patents that is intended to improve convenience for patentees and licensees and promote innovation by active utilization of patent rights. The members of the Study Group expressed their views about a claim for an injunction made by a monopolistic licensee who has not been registered, problems with registration and disclosure concerning monopolistic licenses, and consistency between litigation law and substantive law, in considering a new monopolistic license system.

(ii) Content of Consideration at the 25th Meeting of the Patent System Subcommittee of the Intellectual Property Policy Committee under the Industrial Structure Council in April 2010¹

The members of the Subcommittee considered the coming into force of a license, requirements for asserting a license against a third party, matters to be registered/disclosed, and the propriety of granting to a licensee who has not been registered the right to claim an injunction/damages against a person who works the patented invention without authority, under the following idea: "Exclusive licenses and monopolistic non-exclusive licenses under the current system are not considered as sufficiently satisfying the needs of those who intend to use monopolistic licenses. The development of the following monopolistic license system should be considered in order to satisfy these needs."

- (iii) Content of Consideration at the 34th Meeting of the Patent System Subcommittee of the Intellectual Property Policy Committee under the Industrial Structure Council in February 2011²

Exclusive licenses and monopolistic non-exclusive licenses under the current law are not considered as sufficiently satisfying the needs of those who intend to use monopolistic licenses. Therefore, discussions should be held toward the development of a new monopolistic license system that satisfies these needs.

On the other hand, with regard to a desirable monopolistic license system, the members of the Subcommittee concluded that although it is necessary to comprehensively review the current systems in many respects, such as the requirements for the coming into force of a license, matters to be registered/disclosed, the right to claim an injunction, and the right to claim damages, it is appropriate to hold discussions while paying attention to the extensive remodeling of the JPO's operational system before developing a new system.

- (iv) Content of Consideration at the 39th Meeting of the Patent System Subcommittee of the Intellectual Property Policy Committee under the Industrial Structure Council in February 2013³

With regard to a desirable monopolistic license system, it is necessary to comprehensively review the current system in many respects, such as the requirements for the coming into force of a license, matters to be registered/disclosed, the right to claim an injunction, and the right to claim damages, through comparison with those for the current exclusive licenses. The system whereby a non-exclusive license can be asserted against a third party without registration was introduced through the 2011 legal revision, and the revised law came into force in April 2012. The members of the Subcommittee concluded that discussions would be continuously held on the necessity of the reform of the system by finding out the need for introduction of a new monopolistic license system while understanding the actual conditions of use of said system.

(3) Matters to Be Considered (Mainly for Patents): Results of the Domestic Questionnaire Survey

- (i) Propriety of Granting the Right to Claim an Injunction based on a Monopolistic

Non-Exclusive license

For Q-E8 of whether the respondent would use a system whereby the right to claim an injunction is granted in relation to a monopolistic non-exclusive license for a patent if the existence of a special provision on the monopolistic nature of the license is proven, 17 respondents (6.0%) answered "Definitely want to use the system" while 96 (33.7%) answered "Want to use the system as the occasion arises." Approximately 40% of all respondents answered that they want to use the system, and they seem to wish to use the claim for an injunction system.

- (ii) Whether Exclusive Licenses Should be Abolished

For Q-B4 of whether the respondent has come to think of promoting establishment of exclusive licenses due to reduction of the matters to be registered for an exclusive license," 22 respondents (7.7%) answered that they have come to think of promoting the establishment of exclusive licenses. It thus seems that the reduction made the system more user-friendly to some degree.

Many of those who do not use exclusive licenses but do use monopolistic non-exclusive licenses answered that the "licensor also works the invention in relation to the scope for which a license has been established" (26 respondents (35.1%) for Q-B2 and 35 respondents (45.5%) for Q-C1). This seems to point out that the respondents use the exclusive license system and the monopolistic non-exclusive license system on a case-by-case basis, for example, the monopolistic non-exclusive license system is used in cases where the licensor also works the invention.

In response to Q-B3 on whether there have been cases where the respondent concluded a contract on establishment of an exclusive license but it did not actually lead to registration of the exclusive license, one respondent answered as one of the reasons for such cases that the "registration procedures are cumbersome." For other questions (Q-B4, Q-B2, and Q-C3), a certain number of respondents answered that the "registration procedures are cumbersome," as a reason for not using (or not intending to promote the use of) exclusive licenses. It thus seems that some users consider the cumbersome registration procedures a problem with the exclusive license system.

(iii) Necessity of a Registration System

The results of Q-E1 about deletion of matters to be registered revealed that the majority (202 respondents; 70.9%) answered “no item should be deleted” from the matters to be registered in registering an exclusive license under the current law. For Q-E2 of whether the respondent would want to actively use exclusive licenses if the item(s) the respondent chose in Q-E1 are deleted from the matters to be registered for an exclusive license, no respondent answered “Definitely want to use,” 21 respondents (7.4%) answered “Want to use as the occasion arises,” and 150 respondents (52.6%) answered “No opinion.” In addition, 44 respondents (15.4%) answered “Will not use.” As reasons thereof, they answered that they want to secure working by the licensor and that there is no need to use exclusive licenses. In Q-E3, 65 respondents (22.8%) answered “Yes” in response to a question of whether deletion of a matter to be registered would cause any inconvenience from the standpoint of a third party (or licensor or licensee).” As specific examples of inconvenience, many respondents answered that the relationship of rights would become difficult to understand. Taking into account that many respondents answered that no item should be deleted from the matters to be registered in Q-E1, it seems that the existence of many matters to be registered is not a reason for users’ not using the exclusive license system under the current law.

(4) Matters to Be Considered (Mainly for Patents): Domestic Interview Survey

(i) Propriety of Granting the Right to Claim an Injunction

There was the following opinion: For a monopolistic non-exclusive license, the status of a person who has monopolistic control over a patented invention and can enjoy profits therefrom in a monopolistic manner is created based on a contract; therefore, a monopolistic non-exclusive license can be equated with a real right in terms of the content of right, and thus, there seems to be theoretically no problem in granting the right to claim an injunction based on a monopolistic non-exclusive license.

On the other hand, there was also an opinion that the right to claim an injunction is strong right to affect for business, then the right to claim an injunction should be granted to a person who registered and noticed the right to public.

(ii) Whether Exclusive Licenses Should be Abolished

Opinions on whether exclusive licenses should be abolished were divided depending on the way of designing a new system. If a monopolistic license system that is close to the current exclusive license system is created, exclusive licenses should be abolished. In addition, it is desirable to have registration serve not as a requirement for the coming into force of a license but as a requirement for asserting a license against a third party. There was also the following opinion: With regard to transfer of a patent right, registration is required for the coming into force of the transfer; however, in the situation where the effect of an administrative disposition, such as a decision in a trial for invalidation and a ruling, is questioned, the system whereby registration is required for the coming into force should be maintained for the sake of determining the parties concerned.

(iii) Necessity of a Registration System

Some said that not coming into force without registration has some meaning while others said that it is better not to introduce a registration system as a new system because a registration system is cumbersome for both the JPO and users.

There was an opinion that although a registration system is desirable from the perspective of a system whereby the relationship of rights is clearly organized, if Japan adopts a system that is not often adopted in other countries, it would be necessary to consider making law from the perspective of harmonization, apart from the perspective of which system is superior. On the other hand, many answered that public notice is necessary as it is better in that they can know who can exercise rights.

3 Other Countries’ Monopolistic License-Related Systems

Surveys were conducted on working by the licensor in monopolistic licensing, assertion of a license contract against a third party, succession of a monopolistic license contract to the assignee of the patent right, etc. in cases where the licensor assigns the patent right, etc., the licensor’s exercise of the right to claim an injunction or the right to claim damages after concluding a monopolistic license contract, the licensee’s exercise of the right to claim an injunction and the right to claim damages, and the

license registration system.

(1) Monopolistic Licenses in the United States

It is considered that there are two types of monopolistic licenses in the United States. An “exclusive license” enables the licensee to exclude all persons, including the patentee, for the scope for which the license has been established. This type of license also eliminates working by the licensor for the scope for which a license has been established, and is a monopolistic license in a real sense. Another type of license is a “sole license,” which contains an agreement that the licensor will not grant a license to another person for the scope for which the license has been established. These types of licenses differ in the advisability of working by the licensor. Both the licensees of exclusive licenses and those of sole licenses can file a lawsuit under their own names and can seek remedies for infringement, including an injunction. However, the patentee is deemed to be an indispensable party for a lawsuit filed by the licensee without substantial right of an exclusive license or a sole license. Therefore, such a licensee can file a lawsuit only jointly with the patentee. The licensee with substantial right can file a lawsuit. After concluding a monopolistic license contract, the licensee can assert the relationship of rights that has been established between the parties against the licensor and a third party other than the licensee. Whether a monopolistic license contract is succeeded or not differs depending on the terms of the contract. Although there is no license registration system under law, it is possible to record a license in a file stored by the USPTO.

(2) Germany

It is considered that there are two types of monopolistic licenses in Germany. “Exclusive license” is one type of license whereby all persons, including the patentee, are excluded for the scope for which the license has been established. Another type of license is “sole license” whereby the licensor and the licensee agree that no license would be granted to another person for the scope for which the license has been established and the licensor can work the patented invention even after the granting of the license without obtaining a non-exclusive license from the licensee. These types of licenses are not different in the succession of a license contract and other points, except the difference in terms of

working by the licensor. A licensee can claim against a third party an injunction and damages for the scope for which a license contract has been concluded. It is possible to register a license, but registration only has a confirmatory effect. It is impossible to register a monopolistic license for a trademark right. The register describes only the fact that a monopolistic license has been granted and does not describe either the parties to the license contract or the scope of the license.

(3) France

It is considered that there is one type of monopolistic license in France. French intellectual property law does not define exclusive license. A licensor can file an infringement lawsuit. In addition, monopolistic patent licensees are governed by the conditions stipulated in Article L615-2 of the Intellectual Property Code of France. That is, “Infringement proceedings shall be instituted by the owner of the patent. However, the beneficiary of an exclusive right of working may, except as otherwise stipulated in the licensing contract, institute infringement proceedings if, after notice, the owner of the patent does not institute such proceedings.”

Where a monopolistic licensee files an infringement lawsuit by him/herself or where a monopolistic licensee intends to obtain a provisional injunction, it is necessary that the relevant monopolistic license contract has been registered. In order to make it possible to exercise rights against a third party, it is necessary to have a license contract registered on a related register (that is, patent register, trademark register or design register according to the type of the intellectual property right subject to a license). However, registration of a license contract is not one of the conditions for the effectiveness of a contract between a licensor and a licensee.

(4) United Kingdom

It is considered that there are two types of monopolistic licenses in the United Kingdom. “Exclusive license” is a license that excludes all persons (including the patentee or the patent applicant) other than the licensee while “sole license” reserves the licensor’s right to work. With regard to assertion of a license contract against a third party, for an exclusive license, the licensee can also assert rights against another licensee who has subsequently obtained rights equivalent to those of said licensee for the same

patent only where the license has been registered or the third party (said another licensee) is aware of the license. However, in order to claim an injunction and damages, a licensee must file a lawsuit jointly with the licensor. On the other hand, the licensee of a sole license has no right to file a lawsuit concerning a patent infringement. Therefore, where a licensee files a lawsuit concerning infringement committed by a third party, it is necessary to conclude a contract to the effect that the licensee does so on behalf of the patentee. It is considered that a license contract is not naturally succeeded. However, once a license is registered, an assignee who subsequently obtains the right cannot deny being aware of the license.

There is a license registration system for patents and trademarks as well as designs registered in the United Kingdom. There is no license registration system for unregistered designs in the United Kingdom.

(5) China

There are two types of monopolistic licenses in China, and “monopolistic license (Article 25 of the Interpretation of Some Problems with Application of Law in the Proceedings of Technical Contract Disputes)” corresponds to the exclusive license system in Japan. On the other hand, “exclusive license (Article 25 of the Interpretation of Some Problems with Application of Law in the Proceedings of Technical Contract Disputes) corresponds to the monopolistic non-exclusive license system in Japan. A monopolistic license does not reserve the patentee’s right to work while an exclusive license reserves the patentee’s right to work. The licensee of a monopolistic license can file a lawsuit against infringement with the court and, prior to filing such a lawsuit, can apply with the court for an injunction against the infringer’s act of infringing the patent right. Moreover, such a licensee can apply with the administrative management department for processing. On the other hand, the licensee of an exclusive license can file a lawsuit jointly with the patentee, and can file an infringement lawsuit by him/herself if the patentee does not file an infringement lawsuit. These types of licenses are the same in other points, and it is considered that a licensee can assert rights covered by a monopolistic license contract against the licensor and third parties other than the licensee.

There is a license contract registration system in China. Trademark license contracts can

be registered with the Trademark Office while patent license contracts can be registered with SIPO. Although a license comes into force without registration, registration serves as a requirement for asserting the relationship of rights that has been established between the parties to the license contract against a third party.

(6) South Korea

There are two types of monopolistic licenses in South Korea. An “exclusive license (Article 100 of the Patent Act)” is a license that excludes all persons, including the patentee, other than the licensee for the scope for which the license has been established. On the other hand, a “monopolistic non-exclusive license (not stipulated by law or regulation” is a license that is characterized by that the patentee (the licensor) and the licensee agree that no license would be granted to another person and by that the patentee (the licensor) can use the patented invention with no constraint without waiting to obtain a non-exclusive license from the licensee even after the granting of the license. An exclusive license does not reserve the patentee’s right to work while a monopolistic non-exclusive license reserves the patentee’s right to work. An exclusive license comes into force through its registration, and registration enables the licensee to assert the license against a third party and exercise the right to claim an injunction and the right to claim damages under the licensee’s own name. On the other hand, the monopolistic nature of a monopolistic non-exclusive license cannot be registered. However, registration of a monopolistic non-exclusive license as a non-exclusive license makes it possible for the licensee to assert the license against the assignee of the patent right, etc. in cases where the licensor has assigned the patent right, etc. In addition, the licensee of a monopolistic non-exclusive license is neither permitted to assert the license against a third party nor to claim an injunction or damages.

III Documents Concerning Monopolistic License-Related Systems

With regard to the granting of the right to claim an injunction specific to monopolistic non-exclusive licensees, many scholars say that such right should not be granted. Moreover, they say that it is necessary to be careful in granting the right to claim an injunction to such licensees

for the purpose of preventing causing unanticipated disadvantage to third parties.

There are some court precedents that monopolistic non-exclusive licensees are to be granted the right to claim damages specific to them. Even if the patentee is not recognized as having the obligation to eliminate infringement, the monopolistic non-exclusive licensee who has the right to claim no granting of a license to another person has interests protected by law. Therefore, it is also considered that an obligee's subrogation by deeming such interests protected by law to be a preserved claim should be permitted.

With regard to exercise of subrogation, there is an idea that subrogation is permitted only where there is a special provision on the obligation to eliminate infringement based on which the patentee exercises the right to claim an injunction and the right to claim damages. In this case, such special provision is not limited to either an implicit or explicit one. In addition, it is considered that if a patentee grants a license to another person in violation of the contractual obligation to the monopolistic non-exclusive licensee, the monopolistic non-exclusive licensee cannot exercise rights against said another person.

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¹ 25th Meeting of the Patent System Subcommittee of the Intellectual Property Policy Committee under the Industrial Structure Council, Material 3 “Legislative Challenges of the Patent System,” pages 7 to 8.

http://www.jpo.go.jp/shiryoutoushin/shingikai/pdf/tokkyo_shiryouto25/3.pdf

[Last access date: February 20, 2014]

² 34th Meeting of the Patent System Subcommittee of the Intellectual Property Policy Committee under the Industrial Structure Council, Material 1 “Legislative Challenges of the Patent System (draft report),” pages 11 to 12.

http://www.jpo.go.jp/shiryoutoushin/shingikai/pdf/tokkyo_syiryouto34/01.pdf

[Last access date: February 20, 2014]

³ 39th Meeting of the Patent System Subcommittee of the Intellectual Property Policy Committee under the Industrial Structure Council, Material 2 “Toward Early Establishment of Strong and Stable Rights and Improvement of User-Friendliness (draft report),” page 30

http://www.jpo.go.jp/shiryoutoushin/shingikai/pdf/tokkyo_shiryouto39/02.pdf

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