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Doing Business in Japan

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CHAPTER 6 Intellectual Property

3-6 Doing Business in Japan § 6.06

§ 6.06 Licensing¹

[1] Introduction

During the last three decades, and especially until 1970, the importation of foreign technology through licensing contracts and technical assistance agreements played a very important role in the development of the Japanese economy. Statistics show that during the two decades between 1950 to 1969, Japan paid U.S. \$2, 147, 000, 000 to foreign countries as royalties for imported technology, while receiving only U.S. \$180, 000, 000 for exported technology. This means that royalties received by Japan during this period amounted to only 8.4 percent of royalties paid to foreign countries.

There has been a change in this tendency since 1970. The export of technology from Japan has been gradually increasing. Between 1970 to 1975, Japan paid to foreign countries \$3, 638, 000, 000 as royalties and received \$555, 000, 000. In 1976, the payment to foreign countries was \$846, 000, 000 and the receipt was \$173, 000, 000. Received royalties in 1976 were more than 20 percent of paid royalties.

Although Japan's gap between received and paid royalties has narrowed, it should be pointed out that the paid royalties in 1976 (\$846, 000, 000) were the biggest annual payment since 1950. Japan still remains an important market for foreign industries desiring returns from the technology they have developed.

This chapter will focus on the general legal background which foreign parties should know when they are going to grant licenses to Japanese parties. Japan has learned much about the general rules and practices of licensing applied in international licensing agreements, and has adopted generally acceptable rules into the Japanese laws. Accordingly, this chapter will avoid repeating those general practices outlined in textbooks concerning licensing agreements. The article will be limited to those legal problems peculiar to Japanese law.

[2] Sources of Law

[a] Act Concerning the Application of Laws (*Horei*). ⁿ¹ The *Horei* is the statute in which the Japanese private international laws are codified. According to this statute, the law governing an international agreement, including a licensing agreement, must, first of all, be the law which is expressly specified by the parties in the contract. ⁿ² Therefore, except for the special case of statutory licenses, ⁿ³ the contractual aspects of licenses are determined by the law chosen by the parties to the agreement. However, it should be noted that when Japanese patents, utility models,

design registrations or trademarks are the subject of the license, the statutory requirements and effect of the licenses as specified in the Japanese Patent Act, n4 Utility Models Act, n5 Design Act n6 and Trademark Act n7 must be determined by these Japanese statutes, regardless of which country's laws are chosen as the governing law by the parties.

When the governing law is not expressly specified in the agreement, the law of the place of transaction, usually the place of offer is applicable. n8 However, before applying the law of the place of transaction, courts often try to find the "implied intention" or "reasonable intention" of the parties with respect to the governing law. n9

[b] Civil Code (*Minpo*). When a licensing agreement is governed by Japanese law, the "freedom of contract" rule is basically applicable when interpreting or deciding the validity and effect of that licensing agreement. However, when the agreement makes no specific provision on an issue, the issue is settled according to the Civil Code and the precedents under the Code. Since the Civil Code has no specific sections concerning licensing agreements, it is generally agreed that some of the provisions concerning "lease" n10 and "sale" n11 are applicable *mutatis mutandis* to licensing agreements. Further, general provisions concerning "contracts"--including breaches of contracts, n12 damages, n13 force majeure n14 and statutes of limitation--are also applicable to licensing agreements.

[c] Patent Act, Utility Models Act, Design Act and Trademark Act. These statutes expressly provide the legal background for and basic character of contractual licenses, although details of the scope and terms of the licenses are left to the agreement of the parties. n15 However, the creation and scope of statutory licenses are, of course, determined by these laws alone. n16

The provisions concerning registration of licenses at the Patent Office are also important for determining the validity and effect of the registered licenses on third parties. The rules for registration are provided in the Patent Registration Order, n17 Utility Model Registration Order, n18 Design Registration Order n19 and Trademark Registration Order n20

[d] Foreign Exchange and Foreign Trade Control Act (Revised FECA). International licensing agreements which concern the import of technology into Japan are subject to the Revised FECA, which went into effect on December 1, 1980. n21 The Foreign Trade Investment Act, which controlled a certain class of technology import, was abolished on that date. Under the Revised FECA, prior notice of intention to enter an industrial property right or know-how licensing agreement must be submitted to the Ministry of Finance and to the Ministry having jurisdiction over the industry involved. In addition, such a licensing agreement must comply with the procedures set out in various governmental orders and regulations issued in October and November of 1980 to implement the revised FECA. n22

[e] Antimonopoly and Fair Trade Maintenance Act (Antimonopoly Act). n23 The Antimonopoly Act, which regulates monopolies using patents and unfair business practices resulting from licensing agreements, requires that all international licensing agreements be reported to the Fair Trade Commission for screening. n24 The Guidelines for the Regulation of Unfair Trade Practices with respect to Patent and Know-How Licensing Agreements issued by the Fair Trade Commission in February 1989, are helpful in identifying what kind of restrictive clauses are illegal in Japan. n25

[f] Income Tax Act, n26 Corporate Tax Act n27 and Treaties Concerning the Avoidance of Double Taxation n28. The amount and rate of tax imposed on royalties are decided by the Income Tax Act and the Corporate Tax Act. Only those licensors who are nationals of a country with which Japan has concluded a double taxation treaty are protected from double taxation under these acts.

[3] Nature and Kinds of Licenses

[a] Nature of License. Under Japanese law, a license is something more positive than a mere promise by a licensor who has a patent or other industrial property right not to sue a licensee who would be committing an infringement if he were not licensed to practice the right. Specifically, the Japanese statutes define a license as the "right to work the patented invention, utility model or design as a business" n29 and the "right to use the registered trademark

with respect to described goods." n30

A license, even if it is an exclusive license, n31 is distinguishable from an assignment. For example, unlike an assignor, a patent owner who has created an exclusive license still has the right to sue an infringer for a claim for damages and for an injunction for discontinuance of the infringement. n32

Depending on the method of creation, there are three kinds of licenses. These are a contractual license, a statutory license and a compulsory license.

[b] Contractual Licenses. The statutes contain several important provisions as to contractual licenses under issued patents, registered utility models, designs or trademarks. For example, when an exclusive license created by contract is registered in the Patent Register at the Patent Office, the exclusive licensee obtains the right to exclude others, including the patentee, from working the invention or using the trademark. n33 In addition, a registered nonexclusive license remains valid against any subsequent assignee or subsequent exclusive licensee of the same patent, etc. n34

The licensing of pending or unregistered industrial property rights, although not provided for in the statutes, is permitted on a contractual basis, but offers no statutory protection to the licensee.

[c] Statutory Licenses.

Statutory licenses are obtainable when the following requirements are fulfilled:

[i] Employee Invention. An employer may obtain a nonexclusive, royalty-free license for an invention, utility model or design made by his employee if such invention, utility model or design is by its nature within the scope of the business of the employer and has arisen in the course of performance of the employee's present or past duties to the employer (employee's invention). n35 Further, the employer and employee may enter into an agreement under which the employer is assigned the patent or other right, or the right to obtain the patent or other right with respect to future inventions, utility models or designs made in service or under which the employer obtains an exclusive license for such future inventions, utility models or designs. In such event, the employee has the right to receive payment of reasonable consideration for such assignment or exclusive license. The amount of the consideration must be determined by taking into consideration the benefit which the employer may derive from such invention, etc., and the employer's contribution to the employee's accomplishment.

It should be noted that not only separate employer-employee contracts, but also provisions in company work regulations are effective in creating employee obligations. This is because, under Japanese labor law, company work regulations constitute a part of the employment contract and bind both the employer and employee. n36 However, if an agreement requires an employee to make an assignment or grant an exclusive license to his employer with respect to an invention, etc., which is not an "invention in service," such agreement is invalid and is not binding on the employee. n37

In *Naito v. Tohoku Denki Seitetsu K.K.*, the Supreme Court affirmed the holding by Tokyo High Court that the defendant employer had a nonexclusive royalty-free license on an invention made by the plaintiff, who was a technical director of the defendant, when the invention came within the employer's line of business, even though the plaintiff was only a nominal director in charge of technology and was given no specific orders or instructions from the defendant to carry out such research. n38

[ii] Prior Use. A person who, without knowledge of an invention claimed in a patent application by another, has accomplished the same invention himself, and who has been actually working or is preparing to work the invention as his business in Japan at the time of the filing of the patent application by that other person, has a nonexclusive license to work the invention, limited to the scope of the business actually done or being prepared for. The same prior-use license is provided for in the Utility Models Act and the Design Act. n39 With respect to trademarks, the prior use of the registered trademark or a trademark similar thereto by another person (prior user) results in a license to continue the use

of the same mark only when the mark is widely recognized among consumers as indicating the goods relating to the prior user and he uses the mark continuously. n40 These statutory licenses are nonexclusive and thus do not include any power to exclude the owner of the patent or other right or any third party from working the invention or other right.

A prior use right may also be established through use by a subcontractor. In *Arai v. Sassoon*, the Supreme Court affirmed the judgment of the Osaka High Court that an American company acquired a prior use right as to the registered design of the plaintiff when the American company had, prior to the filing date of the design application, products of similar design produced by a Japanese subcontractor. n41

[iii] Prior Use Right by Working Before Demand of Invalidation Trial. n42 If prior to the filing of a demand for an invalidation trial against a patent, a patentee, exclusive licensee (*senyojishshiken-sha*) or an ordinary registered licensee (*tsujojishshiken-sha*) of such patent begins preparations to work, or starts working the patented invention in his business without knowing that the patent is invalid, and then the patent is declared invalid through an invalidation trial, such patentee or his licensee is allowed to continue, as a nonexclusive licensee, the working of the invention even if there is a valid patent owned by a third person covering the same invention. However, he has to pay a reasonable counter value to the patentee or exclusive licensee of such other patent. The same kind of "intermediate working right" is also provided for in the Utility Models Act and the Design Act.

[d] Compulsory Licenses. A person who desired to work a patented invention or registered utility model may seek a nonexclusive license under the patent or other right by requesting the Director of the Patent Office for an arbitration decision:

- (1) When the patented invention has not been appropriately worked by the patentee or an exclusive licensee in Japan for three consecutive years or more. n43
- (2) When the applicant owns a patent, utility model or design which utilizes another person's patented invention, registered utility model or design. n44 The "utilization" of a patent means that the second invention fulfills all of the requirements of the first invention and adds some improvement to it.
- (3) When the working of a patented invention is particularly necessary for the public interest. n45

When a license is created by arbitration, the director of the Patent Office decides the scope of the license and the amount or rate of royalty to be paid by the licensee. Although the statutes provide the procedural details for such administrative arbitration, the Japanese Patent Office does not yet have sufficient experience in this area. It seems that this procedure has not worked well so far, or at least, there have been few applications filed for arbitration of this sort.

[4] Subject of License

[a] Patent.

[i] Issued Patent. The Patent Act specifically provides that a patentee may grant an exclusive or nonexclusive license on his patent. n46

A "patent" right comes into force when the issued right has been registered in the Patent Register. n47 Thus, the provisions concerning exclusive and nonexclusive licenses apply only to issued and registered patents.

[ii] Invention Claimed in Patent Application Published for Opposition. . An applicant for a patent has the exclusive right to work the invention claimed after his application has been examined and published for opposition. n48 Thus, a person who desires to use the invention covered by an application published for opposition must obtain a license under the pending application. An agreement granting such a license is considered to be legal, although no specific provisions exist in the Patent Act and there is no way to record such a license at the Patent Office.

[iii] Invention Claimed in an Application Laid Open for public Inspection. When one year and six months have elapsed from the date of the patent application, the patent application is laid open for public inspection in the Official Patent Gazette. n49 After such disclosure, the applicant is entitled to warn any person who is working the invention covered by the pending patent and to demand payment of compensation for such person's working of the invention between the date of warning and the date of publication of the application for opposition. Even when no warning is issued, a person who is knowingly working such an invention, may be liable for compensation. n50

Although the applicant doesn't have the right at this stage to exclude others from working the invention, it may still be beneficial for the applicant and a person who desires to use the invention to enter into an agreement in order to avoid future disputes. It has generally been considered that the applicant may grant a license under such publicly disclosed application on a contractual basis although there is no specific provision in the Patent Act.

In *Suzuki v. Makino*, the Tokyo High Court held that a licensing agreement granting a right to use an invention covered by a pending patent application is valid even if the Examiner rejected the patent application afterwards. n51

[iv] Invention Covered by a Patent Application Which Has Not Been Published or Publicly Disclosed. An invention covered by an unpublished patent application is kept in confidence and therefore the invention has the same character as "know-how." Thus, a license at this state is deemed to be a know-how license on a contractual basis.

[b] Utility Models. Corresponding to the above four classes, the following Utility Models may be the subject of licenses:

- (1) Registered utility models; n52
- (2) Utility models claimed in a utility model application published for opposition; n53
- (3) Utility models claimed in an application laid open for public inspection; n54
- (4) Utility models covered in utility model applications which haven't been published or publicly disclosed (a know-how license).

[c] Designs. Unlike patents and utility models, pending designs are neither published for opposition nor laid open for public inspection. A design is published in the Official Design Gazette only after the design application has been accepted and registered in the Design Register. n55

There are two classes of licensable designs:

- (1) Registered Designs: the Design Act provides for exclusive and nonexclusive licenses by contract of registered designs. n56
- (2) Designs claimed in pending applications: any license at this stage is one for confidential information and can be classified as a kind of know-how license.

[d] Know-How. The Foreign Exchange and Foreign Trade Control Act (revised FECA) applies to the licensing by a foreign licensor to a Japanese party of industrial property rights and "other rights concerning technology." It specifically applies to managerial expertise n57 and it is generally considered that the term "other rights concerning technology" covers so-called "know-how," including secret formulas, specifications, processes or any other secret technical information. (Trade secrets may also be included in the term "know-how.") Thus, the courts have held that "know-how" may be the subject of licensing agreements. n58

[e] Future Inventions. Future inventions, utility models or designs may also be the subject of a license on the

basis of the "freedom of contract" doctrine. Thus, a party to a development contract or consulting contract may agree to grant a license to the other party for the right to use an invention, utility model or design to be created in the future under such a contract. However, as to parties in an "employer-employee" relationship, it should be noted that any contract under which an exclusive license is to be granted to the employer with respect to future inventions created by the employee outside the scope of or unrelated to the employee's service is void. n59 On the other hand, when the license to be obtained by the employer is a nonexclusive one (either royalty bearing or royalty-free), such a contract for future inventions, etc., is acceptable even if the invention is not related to the employee's service.

[f] Trademarks.

[i] Registered Trademarks. A trademark right comes into existence by registration thereof in the Trademark Register. n60 It does not stem from the actual use of the mark or the filing of a trademark application. A trademark license for a registered mark, either exclusive or nonexclusive, is permissible regardless of whether the goodwill of the licensor is transferred to the licensee. n61

[ii] Unregistered Trademark, Service Marks, Trade Names. Under the Trademark Act, the owner of an unregistered trademark does not have the right to exclude others from using the same mark even if the trademark application is pending before the Patent Office. Further, Japan has no system of service mark registration, and registration of a trade name in the Commercial Register only provides protection as to the same city. n62

However, if an unregistered trade name, trademark or service mark is well-known in Japan as an identification of an enterprise of person or of its products or services, the Unfair Competition Prohibition Act n63 and the Commercial Code n64 may entitle the enterprise or person to prohibit others from using such identification when such use may cause confusion in the market. Therefore, it is necessary for a Japanese party who desires to utilize a famous but unregistered foreign trademark, trade name or service mark to obtain the foreign owner's consent and agreement not to sue the Japanese party under the above law. Although it is not clear yet whether such consent is included in the concept of "industrial property rights or other rights concerning technology" of Article 30 or the concept of "service transaction" of Article 25 of the revised Foreign Exchange and Foreign Trade Control Act, it is unlikely that the Japanese government would raise an objection against such a contract or against the payment of consideration for such consent. Moreover, in *National Football League Properties and Sony Kogyo K.K. v. Marutake Shoji, K.K.*, the Osaka District Court held that Sony Kogyo K.K., an exclusive licensee of the unregistered but famous symbols of the American football teams, had the right to prevent the defendant from using such symbols. n65

[5] Parties to Licensing Agreements

[a] Parties Who May Be Licensors.

[i] Owners of the Patent or Other Right. An owner of the legal title of a patent or any other right described in § 6.04 may grant a license within the scope of his right. An owner who has already created an exclusive license does not have the right to license the subject matter of such exclusive license to others within the scope of such exclusive license since the exclusive licensee's right to exclude others includes the patent owner himself. n66

[ii] Co-owner of the Patent or Other Right. When a patent or other licensed right is jointly owned by several co-owners, a single co-owner cannot create any license without the consent of all the other co-owners. n67 A license covering a co-owned patent or other right may be created either by one of the co-owners with the consent of all other co-owners or jointly by all of the co-owners. This rule also may apply to licenses for unpatented inventions, know-how or other unregistered rights or interests, even though there is no specific provision in the statutes to this effect.

Licensing of an invention by one of the co-owners must be distinguished from the co-owner's working of the invention through a subcontractor. If one of the co-owners of a patent allows a third party to manufacture the patented products under a subcontract agreement and all of the products are sold back to such co-owner, no infringement will be found for

the reason that any of the co-owners can work the invention by himself. However, in *Izumi v. K.K. Kawasaki Seisakusho*, the Akita District Court found that the subcontractor agreement between one of the co-owners and the defendant was only a disguise and the real situation was a licensing contract. n68 The Sendai High Court reversed the judgment for the reason that, since the purchase of materials and quality of products were strictly controlled by one of the co-owners and all products were delivered to a company wholly owned by the co-owner, the transaction should be considered a "subcontracting." n69 The Supreme Court affirmed the finding by the High Court.

[iii] Licensee. The statutes provide that an exclusive licensee under a registered patent or other registered right may grant a nonexclusive sublicense only when he obtains the consent of the licensor. n70 Although the statutes have no provision allowing a nonexclusive licensee to grant a sublicense, it is considered that, according to the freedom of contract doctrine, a nonexclusive licensee also may create a nonexclusive sublicense if he obtains the consent of the licensor. The same is also true for contractual licensees of unregistered inventions, know-how, or other rights or interests.

[b] Parties Who May Be Licensees. The only requirement for qualification as a licensee is that the licensee must have the legal capacity to own a right or title in its own name in accordance with the general rules of the Civil Code. A foreign individual or corporation may be a licensee in Japan. n71

A Japanese subsidiary owned by a foreign corporation may also be a licensee with respect to patents owned by the foreign parent corporation. Under Japanese law, a subsidiary is a legal entity different and independent from its parent corporation. Therefore, even when the parent corporation obtains a license under a patent, its subsidiary does not have the right to work the invention covered by the license unless the licensor consents to the subsidiary's being a sublicensee of the parent corporation or another direct licensee.

[6] Creation of License

[a] Formation. A licensing contract may be concluded by an agreement between a licensor and a licensee. As long as an offer is made by one party and is accepted by the other in accordance with the general rules of contracts, no consideration is required to make the licensing contract valid. n72 However, special *sen'yo* exclusive licenses n73 must be registered and the Revised FECA requires that notice be given to the Ministry of Finance and other competent ministry through the Bank of Japan before a technology import agreement is concluded. n74 There is no precedent on whether an agreement concluded without giving said prior notice is valid. However, since the Supreme Court once held that a guaranty contract concluded without government approval as required under the former FECA was valid and binding on the parties, n75 it is possible for courts to hold that a technology import agreement is valid even when the parties fail to give prior notice.

A licensing agreement may be concluded either by oral or written agreement although it would be difficult for a licensee to prove the existence of an agreement in the absence of a written contract. n76 The license may be either express or implied. In *Inazumi v. Nihon Gas Assetsu Co., Ltd.*, the defendant-company was organized by the plaintiff-inventor and some other persons to carry on business using the plaintiff's patented invention. n77 The plaintiff joined the defendant's board of directors as an executive director, but later left the company. The Tokyo District Court found an implied license for the defendant for the whole duration of the patent although no express or written agreement had been concluded.

[b] Defects in Agreement. Since a licensing agreement is a contract subject to the general rules of the Civil Code, no contract exists if there is no real agreement, i.e., offer and acceptance between the licensor and licensee. Further, if a contract is made under a mistake in regard to any essential elements, the contract is null and void. n78 However, in *Suzuki v. Makino*, the Tokyo High Court held that, when the licensee entered into a licensing agreement with respect to an artificial marble stone manufacturing process covered by a pending patent application, the fact that the application was rejected by the Patent Office did not constitute a mistake to an essential element. n79 The Court found that since the licensee was experienced in the marble stone business and had himself evaluated the prospects of the invention and

business, he could not withdraw from the contract even though he knew that the patent application would not be registered in the near future. On the other hand, in the *Nakajima* case, an individual defendant who had no knowledge about industrial property rights entered into a design license agreement because the defendant was persuaded by the plaintiff owner of the design that the defendant's products infringed on the plaintiff's design right, although in fact, they did not. n80 The Osaka District Court found that the design license contract was invalid because of the defendant's misunderstanding of an essential element.

A licensing agreement induced by fraud or duress is voidable by the non-guilty party. n81

[c] Formalities. Generally speaking, there are no formalities required for a contract to take effect. However, with respect to a *sen'yo* exclusive license under an issued patent, registered utility model or registered design (*sen'yojisshi-ken*) or that of a registered trademark (*sen'yoshiyo-ken*), the licensing agreement does not take effect until it is registered in the Register kept by the Patent Office. n82 In order to register the exclusive license at the Patent Office, an application for registration accompanied by a licensing agreement signed or sealed by at least the licensor is required, although the contract may be very simple.

A nonexclusive licensee who desires his license to be registered also needs a written contract for the registration procedure. Registration of a nonexclusive license only affects the subsequent purchaser of the patent or other right. n83

Special requirements exist for international licensing agreements. Under the Foreign Exchange and Foreign Trade Control Act, they must be submitted to the Japanese Government prior to entry, and they must be reported to the Fair Trade Commission within thirty days after the execution. n84 Therefore, for international licensing agreement, a written contract is necessary.

[7] Exclusive and Nonexclusive License

[a] Definition. The Patent Act, Utility Models Act and Design Act provide that the owner of an issued patent, registered utility model, or registered design may create a right for another person to work exclusively the invention, utility model or design as a business. n85 These exclusive rights are called *sen'yo jisshi ken*, which means "exclusive working right." Also, the Trademark Act provides that the owner of a registered trademark may create an exclusive right for another person to use exclusively the trademark. n86 This exclusive right is called *sen'yo shiyo-ken*, which means "exclusive use right."

With respect to nonexclusive licenses, the Patent Act, Utility Models Act and Design Act provide that the owner may create an ordinary right for another to work the patented invention or other registered right, n87 and the Trademark Act provides that the owner may create an ordinary right for another to use the trademark. n88 These nonexclusive rights are called *tsujo jisshi-ken* and *tsujo shiyo-ken*, which means "ordinary working right" and "ordinary use right," respectively.

Although the concepts of exclusive working rights (*sen'yojisshi-ken*), exclusive use rights (*sen'yo shiyo-ken*), ordinary working rights (*tsujoshiyo-ken*), and ordinary use rights (*tsujo shiyo-ken*) are similar to those of exclusive licenses and nonexclusive licenses under the Anglo-American law, they are not identical. Therefore, in order to distinguish the Japanese concepts from the Anglo-American concepts we use the term *sen'yo exclusive license* for an exclusive working right or exclusive use right, and the term "ordinary nonexclusive license" for an ordinary working right or ordinary use right.

[b] *Sen'yo* Exclusive License. A *sen'yo* exclusive license does not take effect until it has been registered in the Register at the Patent Office. n89 Even if the licensing agreement expressly provides for the exclusivity of the license, unless it is registered at the Patent Office, the licensee cannot assert his exclusive right against any party other than the licensor.

A *sen'yo* exclusive licensee has the right to exclude others from working the patented invention or other registered right

or from using the registered mark. Thus, the licensee has the right to seek an injunction and damages against an infringer. This action may be taken in the licensee's own name, independent of the licensor. n90

Since a *sen'yo* exclusive licensee has the exclusive right to work or use the patented invention or other registered right, the licensor (patentee or owner of the registered right) cannot work the patented invention or other registered right or use the registered mark without the actual consent of the licensee. However, with respect to a trademark license, the Osaka District Court held in *NMC Co., Ltd. v. Shuriro Trading Co., Ltd.*, that NMC Co., Ltd., the Japanese *sen'yo* exclusive licensee of the "Parker" trademark could not prevent the import of fountain pens manufactured by Parker U.S.A. and bearing the "Parker" trademark. n91 That is, "parallel importation" of the genuine products is allowed in Japan even if a *sen'yo* exclusive license is granted to the licensee.

Relying on the Parker case, the Ministry of Finance issued a regulation under Article 21 of the Tariff Office Act, under which the Tariff Office may refuse an application by the exclusive licensee of a trademark to prevent the importation of products infringing the trademark right when those products have been manufactured by a foreign company which is the trademark owner or its licensee. n92 Furthermore, in the guidelines issued by the Fair Trade Commission (FTC), the FTC has adopted the position that it is illegal for the parties to a sole distributorship agreement to agree to prohibit the parallel import of genuine products. n93

Registration of a *sen'yo* exclusive license also works as constructive notice to third parties who later acquire interests competitive or conflicting with the license. n94 *The licensee may assert its right against not only an assignee of the patent or other right who purchases the right after the registration of the sen'yo exclusive license, but also an assignee or exclusive licensee who obtained the right earlier than the registration of the sen'yo exclusive licensee but failed to register it in the Register.* This is because when a *sen'yo* exclusive license has been created by the registration thereof, the right of the patentee is restricted by such *sen'yo* exclusive license. n95 With respect to the constructive notice function of registrations in the Patent Register, Utility Model Register, Design Register and Trademark Register, the general rules as to Japanese registration systems in the Real Estate Register (*Fudosan Tokibo*) apply.

It is generally considered that a licensor who grants an exclusive license is obligated to register the license at the Patent Office on behalf of the licensee, especially when the contract defines the license as a *sen'yo* exclusive license. This is because the licensor is obliged to make the license effective and a *sen'yo* exclusive license cannot be effective unless it has been registered. The Supreme Court, in a judgment which denied that the licensor of an ordinary *nonexclusive* license had an obligation to register the license, distinguished the obligation of the licensor of an ordinary *nonexclusive* license from that of the licensor of a *sen'yo* exclusive license. n96 Therefore, if the latter type of licensor fails to register the license, the *sen'yo* exclusive licensee may obtain a court decision ordering the licensor to register the license, and the registration may be made by the licensee on the presentation of such decision to the Patent Office.

[c] Ordinary *Tsujo* Exclusive License. Unless registered, a license doesn't have legal effect as a *sen'yo* exclusive license even if the licensing contract called it a *sen'yo* exclusive license. However, such an unregistered exclusive license is binding on the parties to the contract. Thus, the licensor is contractually obligated not to grant any other person a conflicting license. n97 Further, when an exclusive license agreement provides for something less than the usual *sen'yo* exclusive license, (for example, when the licensor-patentee reserves the right to work the patented invention), the Patent Office will only allow the license to be registered as an ordinary license even if the licensing contract expressly uses the phrase *sen'yo* exclusive license. This kind of exclusive license is also generally called an ordinary *tsujo* exclusive license. As there are no provisions in the statutes defining such ordinary *tsujo* exclusive license, the legal effect of such a license is not clear. However, the Tokyo District Court has held that an ordinary *tsujo* exclusive license, when registered, gives the licensee the right to exclude an infringer by application for a provisional or interlocutory injunction order. n98 A licensee of such registered ordinary *tsujo* exclusive license may also demand damages from the infringer. n99

[d] Ordinary *Tsujo* Nonexclusive License. An ordinary *tsujo* nonexclusive license takes effect without being

registered, and even if it is registered, it gives no right to exclude others. However, the registration of a license as an ordinary *tsujo* nonexclusive license works as constructive notice to a subsequent purchaser, exclusive licensee or other person who later obtains conflicting interests. n100 Thus it is still beneficial for a nonexclusive licensee to register his license at the Patent Office.

In *Kido Kensetsu Kogyo Co., Ltd. v. Minamino*, the Supreme Court held that a nonexclusive licensee has no right to require the licensor to register his license at the Patent Office unless the licensor agreed to do so in the contract. n101 Therefore, for the benefit of the licensee, a licensing agreement should expressly require the licensor to register at the Patent Office.

It is generally held that an ordinary *tsujo* nonexclusive licensee cannot prevent others from infringing his licensed rights by instituting a regular infringement injunction action or provisional or interlocutory injunction procedures, although such licensee has the right to obtain the damages from the infringer. n102

[e] Position of Licensor (Patentee or Right Owner) After Creation of License. If a *sen'yo* exclusive license is registered, the licensor-patentee is left with very limited rights. Generally, his only interest is to receive a royalty or some other consideration from the *sen'yo* exclusive licensee. However, in *Tanaka v. San'yo Plastics Kogyosho*, the Yamaguchi District Court held that a licensor-patentee is entitled to bring an action against an infringer for an injunction and damages even though a *sen'yo* exclusive license without any restrictions has been registered on behalf of an exclusive licensee. n103 Furthermore, in *K.K. Okamoto v. M. Tsuchida*, the Nagoya District Court held that it is necessary for a licensor-patentee to be able to seek a provisional or interlocutory injunction, even after a *sen'yo* exclusive license has been registered, because the mere recovery of monetary damages does not sufficiently protect the licensor-patentee. n104

When there is a *sen'yo* exclusive licensee, nonexclusive licensee or a pledgee of the licensed right, the licensor-owner of the licensed right cannot abandon or waive the licensed right unless he has obtained the consent of the licensee or pledgee. n105

A licensor holding an issued patent or a registered utility model cannot demand a trial for correction of the specification or drawings of the patent or utility model when there is an exclusive licensee, nonexclusive licensee or pledgee under the licensed right n106 since any such trial for correction could narrow the scope of the claim and later the scope of the license. n107

[8] Procedure for Registering Licenses

[a] Documents Required. An application for registration of a license must be filed with the Patent Office. It usually takes two or three months from the filing date before registration is completed. The required documents are as follows: n108

- (1) an application for registration;
- (2) an original copy of the license agreement;
- (3) a power of attorney and a certificate showing the licensor's nationality (for a company, a corporation certificate);
- (4) a power of attorney and a certificate showing the licensee's nationality (for a company, a corporation certificate);
- (5) the written consent of the co-owner(s) when the licensed right is jointly owned;

(6) the written consent of the owner of the licensed right when the license is a sublicense granted by a *sen'yo* exclusive licensee;

As of December 31, 1980, the Patent Office had not yet decided whether applicants must file any evidence showing clearance under the Revised Foreign Exchange and Foreign Trade Control Act.

An individual nationality certificate may be executed by a Notary Public or any other competent governmental official of the home country. In the case of a corporation or other legal entity, a certified copy of the Commercial Register, a certificate from a state government official or a certificate executed by a Notary Public is acceptable. Such certificates or some other document must include a statement to the effect that the person who has signed the power of attorney is a representative of the corporation or otherwise duly authorized to execute any necessary documents on behalf of the corporation.

Unlike the recording procedures in the United States Patent Office, an application for registration at the Japanese Patent Office must be filed jointly by the licensor and licensee. n109 However, if the licensor has expressly agreed in the license agreement or in an independent written document that the licensee may apply for registration at the Patent Office in the licensee's own name, the application may be filed by the licensee alone. n110 This special agreement is useful for a licensee who expects that the licensor will not cooperate with the licensee for the registration of the license, since without this agreement the licensee would have to bring a court action to obtain a judgment ordering the licensor to register the license.

[b] Items to Be Registered. The Register has a separate page for each patent, utility model, design and trademark number. The items to be recorded in the Register are the scope of the license and, when consideration is to be paid to the licensor, the amount, the manner, and the time in which the consideration must be paid. n111 Thus, to obtain registration, the licensing agreement must be in writing and must express the following items:

- (1) Identification of the licensed right (patent number of the patent concerned, or registration number of the utility model, design or trademark);
- (2) scope of license, --i.e., licensed products--type of license, (*sen'yo* exclusive or ordinary *tsujo* nonexclusive license classification), duration and territory;
- (3) Amount and/or rate of any lump sum or royalty to be paid, and the manner and time of the payment thereof.

For registration purposes, the licensing agreement may be very simple and may be signed by the licensor only. The original copy of the licensing agreement is endorsed by the Patent Office and returned to the licensee when the registration has been completed. n112 Since anyone may inspect the Register at the Patent Office, the basic terms of the licensing agreement become public knowledge after registration.

[c] Recommended Provisions. In order for the licensee to avoid any trouble at the time of registration, it is recommended that the licensing agreement contain the following provision:

- (1) In the case of an exclusive license under an issued patent:

"The license granted herein shall be deemed to be a *Sen'yo Jisshi-Ken* as specified in Article 77 of the Japanese Patent Act. The Licensor agrees that the Licensee shall take all the necessary procedures to register the *Sen'yo Jisshi-Ken* at the Patent Office in the sole name of the Licensee."

(2) In the case of a nonexclusive license under a pending patent application:

"When a patent is issued on the above described patent application(s), the license granted herein shall be deemed to be a Tsujo Jisshi-Ken as specified in Article 78 of the Japanese Patent Act. The Licensor agrees to register the said Tsujo Jisshi-Ken for the Licensee at the Patent Office and the Licensor shall, upon request of the Licensee, prepare and submit to the Licensee any document required for such registration procedure."

[9] Scope of License

[a] General. A licensor (patentee or other right owner) may grant a total or limited license within the scope of his own right. Limitations or restrictions may be made with respect to the manner of working or practicing the licensed right and as to the extent of the territory and duration of the licensed right.

[b] Field of Use.

[i] Patent, Utility Model and Design. In the Patent Act, the "working" of an invention is defined as meaning:

- (1) In the case of the invention of a product, the acts of producing, using, assigning, leasing, displaying for the purpose of assignment or lease, or importing such product;
- (2) In the case of the invention of a process, the act of using such process;
- (3) In the case of the invention of a process for producing a product, in addition to the act mentioned in the preceding item, the act of using, assigning, leasing, displaying for the purpose of assignment or lease, or importing the product produced by such process. n113

The definition of "working" under the Utility Models Act and Design Act employs the same wording as subparagraph [A] above. n114

[ii] Trademark. With respect to trademark rights, the key word is "use" rather than "working." "Use" of a trademark is defined as:

- (1) The act of affixing a mark to goods or their packaging;
- (2) The act of assigning, delivering, displaying for the purpose of assignment or delivery, or importing goods on which, or on the packaging of which, a mark has been affixed;
- (3) The acts of displaying or distributing advertisements, price lists or business papers relating to goods on which a mark has been affixed. n115

[iii] Limited Field of Use or Working. To restrict the license to one legal act within the definition of "working" or "use" is acceptable. For example, a licensor may grant to his licensee, A, the right to make a patented manufacturing machine and to "use" it himself, but not to "sell" it. He may then grant to another licensee, B, the right to "make" and "lease" the same machine but not to "sell" it, and to a third licensee, C, the right to "import" and "sell" the machine. n116

Another acceptable practice is to restrict the manufacture of patented goods or the use of patented processes. For instance, when the licensor owns a patent on a new engine which can be used in automobiles, boats and agricultural

machines, he may grant a license on the condition that the licensee only manufacture the patented engine for agricultural uses. n117

[c] Territory.

[i] Territorial Restriction Within Japan. It is held to be a proper exercise of a patent right for the licensor to restrict the license to a limited area within the whole area covered by the patent. n118 Accordingly, the licensor may divide the market in Japan among several licensees by granting them different areas based on the territorial application of the Japanese patent or other statutory exclusive right.

[ii] Export Restriction. To place a restriction on the export of patented products to foreign countries or to divide up foreign markets is not a proper exercise of a Japanese patent right since such a patent has no jurisdictional control over the licensee's acts in foreign countries. In *K.K. Hayashi Seisakusho v. Horikawa Press K.K.*, Horikawa had a license to manufacture and sell the patented washing machines "in the whole area of Japan." n119 Even though there was no express clause prohibiting Horikawa from exporting the washing machines to foreign countries, Hayashi, the plaintiff, demanded an injunction to prohibit Horikawa from exporting the products. The Tokyo District Court held that unless the act of exporting goods falls under the concept of a "sale" made in Japan, such an act is outside the exclusive right given to the patentee under Japanese law. The case was dismissed.

The territorial jurisdiction of Japanese patents and other industrial property rights is prescribed by the definitions of "working" and "use," which omit any reference to the term "export." Thus, any territorial restriction in foreign countries raises a problem outside the scope of the Japanese industrial property laws.

As to the antimonopoly laws, the FTC Guidelines of 1968 declare that as a general rule, it is an unfair business practice for a licensor to restrict the area to which the licensee may export goods covered by Japanese patents or other rights. In *In re Takeda Yakuhin Kogyo K.K. et al.*, Takeda, a Japanese manufacturer of pharmaceutical products, and Chiba A.G., a Swiss corporation, entered into a patent licensing agreement in 1940, in which Takeda was obliged not to export the patented medicine to any area outside Japan, Korea, Taiwan and other areas occupied by Japan at that time. n120 *The Japanese Fair Trade Commission (FTC) found that such a contract clause was illegal because it violated Articles 6 and 8 of the Antimonopoly Act, and it ordered Takeda and Chiba to delete the clause. The FTC has also ordered clauses restricting exporting by Japanese licensees to be deleted from licensing agreements in In re Fuji Denki Seizo K.K., n121 In re Furukawa Denki Kogyo K.K. et al., n122 In re Gadelius Shokai K.K., n123 In re Nikkatsu K.K., n124 In re Kawasaki Jukogyo K.K., n125 In re Diesel Kiki K.K., et al. n126*

However, the FTC Guidelines of 1968 also specify three important exceptions to the general rule. A restriction on exporting is allowable:

- (1) When the licensor has registered patents or other rights in the area to which the licensee's export is restricted;
- (2) when the licensor is selling the goods concerned in the restricted area in his normal business; or
- (3) when the licensor has granted to a third party an exclusive license to sell in the restricted area. n127

According to the FTC's staff office, n128 exception (1) is not applicable when the licensor has only a pending application, or is planning to file an application for patent, in the restricted area. As for exception (2), when the licensor has established a local branch or sales office in the area concerned, the licensor is deemed to be conducting "normal business" in such area.

[iii] Parallel Importation of Genuine Products. As discussed *supra*, concerning the parallel importation of genuine products marked with a trademark registered in Japan, in the *Parker* case the Osaka District Court held that a

Japanese exclusive licensee of the PARKER trademark could not prevent the importation by a third party of fountain pens made by the licensor in the United States. n129 With respect to a patent case, however, the Tokyo District Court in *Brunswick Corp. v. Orion Kogyo Co., Ltd.*, n130 held that since the patent policy of each country is established in accordance with the peculiar economic situation of that country, a patent issued in one country is independent from a corresponding patent issued in another country. Therefore, the plaintiff, Brunswick, could prevent the importation of patented bowling pin setters manufactured by the plaintiff's licensee in Australia, by virtue of the plaintiff's valid patent in Japan.

[d] Duration of License. While it is legal to grant a license for a limited period within the life of the patent right, n131 it is illegal for the licensor to receive royalties or other counter value after the expiration of the patent. n132 If a licensing agreement covers both a Japanese patent and its corresponding U.S. patent and the Japanese patent expires first, the licensor can request the payment of royalties on products exported to the United States after the Japanese patent expires, but not on products manufactured and sold within Japan. n133

The licensor may, however, freely fix the duration of a trademark license or a know-how license, since a trademark right may be renewed, and know-how has no statutory duration. Therefore, the duration of the contract may be longer than the life of the patent involved if either a trademark or know-how is licensed in addition to the patent. So far, neither court nor Fair Trade Commission decisions have required a licensor to make two separate agreements when licensing a patent together with know-how or a trademark, or to specify the royalty for the patent separately from the royalty for the trademark or know-how.

[e] Sublicense. A licensee under the Japanese statutes (even a *sen'yo* exclusive licensee) can only grant a sublicense when he has obtained the consent of the licensor. n134 Such consent may be given comprehensively or on a case-by-case basis.

A sublicense must be within the scope of the original license under which the sublicense is granted. Further, a sublicensee owes his obligations not only to the licensee, but also directly to the licensor (patentee), even if there is no specific provision to such effect in the licensing contract. n135

A sublicense must be distinguished from a subcontract. A subcontractor manufactures the products for the licensee and not for any other person. In addition, a subcontractor must deliver the products to the licensee and cannot sell them to any third person on his own account.

When a licensing agreement specifically grants the right to "have made" the licensed products, it is deemed that the licensor has given the licensee the right to subcontract. In fact, even if the contract does not include such a specific "have made" clause, it is generally considered that the owner of the right to work the invention may have the products made by a subcontractor. In *Masaki v. Kato*, the plaintiff co-owned a utility model registration with a co-owner A. n136 Without the consent of the plaintiff, co-owner A entered into a contract with the defendant under which the defendant manufactured products covered by the utility model for A. A provided all the materials and specifications and the manufactured products were delivered to A. The Great Court of Judicature held that the manufacture by the defendant in this case constituted a part of A's own act of working the utility model. It also held that such a subcontractor is different from a licensee who works an invention as an independent business for his own account, and thus, it dismissed the plaintiff's claim to enjoin the defendant's act. Said rule was confirmed in 1974 by the Supreme Court in *Izumi v. K.K. Kawasaki Seisakusho*. n137

Therefore, it is advisable for a licensor to state a specific prohibition on subcontracting if he wants only the licensee to work the invention.

A sublicense based on a *sen'yo* exclusive license may be registered in the Register at the Patent Office, but only as an ordinary *tsujonon* exclusive license. n138 such registration acts as constructive notice to any subsequent purchaser of the

patent or of the exclusive license.

As a result of the 1979 revision of the Foreign Exchange and Foreign Trade Control Act and the abolishment of the Foreign Investment Act, neither prior notice to the government nor governmental approval is required to validate a sublicensing contract, even if the license agreement on which the sublicensing agreement is based is subject to the FECA.

[10] Obligation-Duties of Licensor

[a] General. Although many of a licensor's obligation-duties are contractually created by the parties in accordance with the "freedom of contract" doctrine, some essential obligation-duties are considered to stem from the character of the licensing agreement itself, even if no specific provisions exist in the contract. The following are the licensor's essential obligation-duties.

[b] Obligation to Make the Licensed Right Available to Licensee. A licensor must make the invention or other licensed right available to his licensee and must not prevent the licensee from using the licensed right. Accordingly, a licensor must provide the licensee with sufficient specifications, drawings or information disclosing the licensed right, in accordance with the kind of subject of the license.

[c] Obligation to Maintain the Licensed Right in Good Condition. A licensor must keep the patent or other right in good condition. Just as a licensee must pay royalties for the licensed patent, a licensor of an unissued patent bears an obligation to prosecute pending patent applications covered by the licensing agreement and to defend them against opposition or other attacks on them. Further, a licensor of a know-how license must keep the licensed technical information confidential.

[d] Warranty.

Generally speaking, unless a licensing contract has a specific "no warranty clause," the Civil Code obligations of a seller with respect to defects in title or product may be applicable *mutatis mutandis* to a licensor. n139 However, this point has not yet been firmly established.

[i] Defect in Title. When a licensor entering into a licensing contract does not possess the right to grant a license, or when the right is owned by another person, the licensor must acquire that right from the true owner so that the licensee can enjoy the licensed right. n140 However, if the licensor fails to acquire the right, the licensee may cancel the contract, and if he is a *bona fide* licensee, he may claim damages from the licensor. n141

Further, if, at the time of entering the contract, the licensed patent does not exist or has already expired, the contract is invalid.

When a defect in title concerns only a part of the rights covered by the license, and the economic value of the license is affected because of that defect, the licensee may demand a reduction in the royalty or other payment for the license. n142 Also, if a *bona fide* licensee cannot attain the purpose of the contract with the remaining licensed rights, he may cancel the contract and claim damages. n143

However, it is generally considered that, without a specific agreement, a licensor does not warrant the validity of the licensed patent or the patentability of an invention covered by the licensed patent application since parties to a licensing agreement usually recognize the possibility that a patent may be invalidated for an unknown reason or that a patent application may be rejected. n144 Therefore, although the Patent Act deems a patent not to have existed from the beginning when a patent is declared invalid as a result of a trial for invalidation, n145 the licensee cannot recover from the licensor any money which the licensee has already paid before the Patent Office's invalidation decision is made. n146

[ii] Defect in Technical or Commercial Value. It is generally thought that, without a specific agreement, a licensor warrants the workability of the invention in a laboratory, but not its industrial or commercial success, since the reduction of an invention to practice is not a prerequisite for patentability under the Japanese statutes. However, in a case where the licensor knew at the time of entering the licensing agreement that his patented process could not be used for the production of the licensed products, the court held that the licensed agreement was invalid and ordered the defendant to return to the licensee the amount which the licensee had paid. n147

[e] Obligation to Register the License. Since a *sen'yo* exclusive license takes effect only after it has been registered at the Patent Office, a licensor who grants a *sen'yo* exclusive license is obliged to cooperate with the licensee in obtaining registration. With respect to a nonexclusive license, the courts have held that, without a specific agreement, a nonexclusive licensee has no right to require the licensor to register the license. n148

[f] Obligation Regarding Prior Notice Under FECA. Prior to entering into international licensing contracts importing technology into Japan, the parties must notify the Japanese government in accordance with the Foreign Exchange and Foreign Trade Control Act. The prior notice must be filed jointly by the licensor and licensee. Therefore, the licensor must cooperate with the licensee regarding such notice. n149

[g] Contractual Obligation-Duties of Licensor. A "sen'yo" exclusive licensee has the right to initiate infringement litigation in his own name and a nonexclusive licensee usually expects that other persons will work the same invention. Accordingly, a licensor is not considered to have an obligation-duty to initiate infringement litigation unless he has agreed to include such obligation-duty in the licensing agreement.

An obligation-duty to provide the licensee with improvements made after entering the contract must also be provided for by contract. The scope of the improvements covered as well as the type and scope of any license to be concluded thereon is subject to the agreement of the parties.

[11] Obligation-Duties of Licensee

[a] Royalty Clause.

[i] General. Under Japanese law, no consideration is required to make a contract effective. Therefore, a unilateral contract under which a licensor grants a license without any money payment or exchange of rights may be effective.

[ii] Liberalization of Importation of Foreign Technology. Before 1968, the importation of foreign technology under licensing agreements was rather strictly controlled by the Japanese government by a system similar to the present control system of the transfer of technology statutes in Central and South American countries as well as some other East Asian countries. The government was especially interested in examining and checking the amount of royalties to be paid to foreign countries and sometimes foreign licensors were requested by the government to reduce the amount of royalties.

Starting in 1968, the government gradually liberalized its policy and finally, government intervention concerning royalty amounts was completely abolished. Therefore, amounts are now simply decided by the agreement of the parties, although Japanese licensees must still notify the government before remitting royalties to foreign licensors where certain kinds of licensing contracts are involved.

[iii] Types of Royalties. As a result of the liberalization of the importation of foreign technology, there are no administrative regulations controlling or limiting the amount of royalties and types of payment permissible. Therefore, the following methods of payment, which are familiar to foreign licensors, are allowed in Japan:

- (1) lump sum payments;

- (2) installment payments;
- (3) fixed annual payments;
- (4) running royalties
 - (a) percentage basis
 - (b) fixed sum per unit sold;
- (5) minimum royalty payments;
- (6) maximum royalty payments; and,
- (7) payments paid-up clauses.

The distribution of royalty rates in the licensing agreements approved in 1979 is shown in Table 1.

[iv] Time of Payment. The time or period of payment of royalties must be specified in the contract. In the abovementioned prior notice procedure, the government will request this to be clarified, since the chief purpose of the procedure is for the government to centralize information relating to foreign exchange. Accordingly, the period for payment of consideration should be expressly specified in the contract.

[v] Interest. Under the Japanese Civil Code and Commercial Code, when a licensee fails to pay a royalty on the due date, the licensee is obliged to pay interest on the amount due, even if not required by any specific provision in the contract. n150 Unless the parties have specifically agreed to a different rate of interest, the rate of 5 percent per annum n151 for non-commercial transactions or 6 percent per annum for commercial transactions n152 is applied.

[vi] Antitrust Considerations Concerning Royalty Clauses. It is illegal to charge royalties on goods which do not utilize the licensed technology. n153 In *In re Mitsubishi Zosen K.K. and Sulzer Freres, Societe Anonyme*, Mitsubishi agreed to pay Sulzer, a Swiss corporation, a royalty for all two-cycle engines having a piston diameter wider than 300mm and a power greater than 1 h.p., even though they were not covered by the licensed patents. n154 The Fair Trade Commission ordered Sulzer and Mitsubishi to delete this clause from their licensing agreement.

In *In re Diesel Kiki K.K.*, in a patent licensing agreement with Robert Bosch GmbH, Diesel agreed to pay Robert Bosch royalties for the sale of products manufactured by any company which, during the term of the contract, became Diesel's subsidiary or which Diesel supported financially. n155 The definition of products included products "similar to" the patented products. The Fair Trade Commission ordered Diesel to delete this clause from the contract.

In *In re Takeda Yakuhin Kogyo K.K. and Chiba A.G.*, Takeda, a patent licensee, agreed to pay a royalty on sales of medicines regardless of the scope of the patents to be acquired in the future on the novel medicines. n156 Pursuant to the decision of the Fair Trade Commission, this clause was deleted.

Another illegal practice is to charge royalties on products manufactured and sold in countries where there is neither a registered patent nor applicable know-how concerning the products. To charge a royalty after the patent expires is also illegal. n157

In theory, the unfair business practice of "affording to certain entrepreneurs, without justifiable reason, substantially _____ unfavorable treatment with regard to the terms or execution of transactions" specified in Article 10 of the Fair Trade Commission's Notification dated September 1, 1953, may apply to the situation where a discriminatory royalty is

demanded from a specific licensee as compared to the royalties demanded of other licensees for the same licensed right. However, the licensee's differing circumstances, e.g., as to financial stability or sales scale, may justify the difference in royalties. So far no court decisions have discussed royalty discrimination.

[vii] Other Obligations. Obligations to keep accurate records, to send the licensor reports concerning sales of the products concerned and the calculation of royalties, and to allow the licensor to inspect the licensee's records may be adopted by agreement of the parties. In *Nichiro Gyogyo K.K. v. Fujino*, an employee of the licensee intentionally continued to send the licensor incorrect reports about the number of sales of the licensed products. n158 The Tokyo District Court held that the defendant-employee's act constituted a tort against the licensor and ordered the licensee to compensate the licensor for the damage caused by such false statements.

[b] Obligation to Practice License. An exclusive licensee is deemed to bear the obligation to carry on in good faith the business of actually exploiting the licensed patent or other right even if there is no specific agreement to that effect. Otherwise the licensor will be deprived of any fruits from the licensed right. However, when a licensee agrees to pay the licensor a minimum royalty regardless of whether the licensee actually manufactures or sells the products concerned, the licensee is released from the obligation to practice the license. Further, a nonexclusive licensee is thought to have no obligation to practice, unless otherwise agreed.

In *Sakata v. K.K. Ikegami Seisakusho*, the Osaka District Court held that an agreement by a licensee to "do its best to begin selling the licensed products as soon as possible" is not obligatory and that therefore, a delay cannot constitute a breach of the contract unless the delay is caused intentionally or in bad faith by the licensee. n159

[c] Non-contestability. An agreement not to contest the validity of the licensed patent or other right is thought legal. As to whether a licensee bears an obligation not to contest the validity of the licensed right even when the contract has no specific provision concerning non-contestability, in *Sumitomo Bakelite K.K. v. K.K. Hitachi Seisakusho*, the court held that the licensee had the right to contest the validity of the licensed patent in said situation. n160

[d] Grant-back Clause. A grant-back clause, under which a licensor secures access to improvements made by the licensee, is allowed under Japanese law. However, if the licensee's obligation under a grant-back clause is not balanced by the licensor's obligation to make the licensor's improvements available to the licensee, the legality of the clause will be denied. n161 The Fair Trade Commission considers it illegal to "make it obligatory for the licensee to inform the licensor of newly obtained knowledge or experience regarding the licensed technology, or to assign the licensee's right with respect to an improved or applied invention to the licensor, or to grant the licensor a license thereon; provided, however, that this should not apply where the licensor bears similar obligations and the obligations of both parties are equally balanced in substance." n162

In *In re Nikkatsu K.K. et al.*, Nikkatsu agreed in a licensing contract to assign to the licensor all patent applications and patents covering Nikkatsu's future inventions all over the world if the inventions were related to sound recording and reproduction equipment covered by the licensed patents. n163 *The Fair Trade Commission held this clause to be an unfair business practice and ordered Nikkatsu to delete the clause from the contract. Also, in In re Yamatake Keiki K.K.*, the Fair Trade Commission ordered the deletion of a clause under which Yamatake was obliged to inform Brown Division of Minneapolis Honeywell Regulators, Inc. of all inventions made by Yamatake prior to filing patent applications. n164

The proviso of Article 1, paragraph 7 of the FTC's 1968 Guideline specifies that a balance must exist between the obligations of the licensor and licensee with respect to improvements or future inventions. n165 First, "kinds" of obligations must be similar. Thus, if the licensor agrees to inform the licensee of improvements, the licensee may only be required to inform the licensor of improvements. When the licensor grants the licensee a license to use improvements made by the licensor, but the grant-back clause requires the licensee to assign to the licensor his improvements, the obligations of both parties are not similar. Secondly, the obligations of both parties must be "balanced in substance." This balance is required with respect to the scope of mutual licenses--namely, territory, duration, consideration,

exclusivity, etc. For example, the obligations are considered to "unbalanced" where the licensee's territory is limited to Japan while the licensor acquires a license to use the licensee's improvements in all countries outside Japan. n166

[e] Restriction on Use of Competitive Technology. Clauses prohibiting a licensee from adopting or exploiting technology or from manufacturing products which are competitive with the licensed technology or products are generally illegal. n167

There are sixteen trial decisions by the Fair Trade Commission declaring the illegality of such restrictive clauses. n168 For example, in *In re Hitachi Seisakusho K.K.*, the Fair Trade Commission ordered Hitachi to delete a clause in a licensing contract with a French licensor, under which Hitachi agreed to manufacture only the licensed evaporators and not to manufacture any substitutes thereof in other designs. n169

However, in the event that the licensor grants an "exclusive" license and does not restrict the use of any technology which is already being utilized by the licensee at the time of entering the contract, a restriction on using other competitive technology may be legal. This is because a restriction in such a case is considered to be reasonable in order to make the exclusive licensee concentrate his efforts on using the licensed technology. n170

[f] Tie-in Clause. The FTC considers it illegal to make it obligatory for a licensee to purchase raw materials or parts from the licensor or a person designated by the licensor. n171 In *In re Yamatake Keiki K.K.*, Yamatake had an obligation to purchase component parts made by the licensor, Minneapolis Honeywell Regulator, Inc., or to use those approved by Honeywell in assembling the licensed products in Japan. n172 The Fair Trade Commission held that this tie-in clause was illegal and had to be deleted since it unreasonably compelled Yamatake to exclude Honeywell's competitors. The FTC repeated the same rule on tie-in clauses in *In re Fuji Denki Seizo K.K.*, *In re Furuwaka Denko K.K. et al.*, and *In re Kawasaki Jukogyo K.K.* n173

According to the FTC's staff office, the illegality of a tie-in clause cannot be overcome by the fact that to purchase parts or materials is required by the licensor for maintaining the good quality of the licensed products because the licensor may attain the purpose of maintaining the quality standard by other means (such as sample analysis). n174

[g] Price Fixing Clause. Generally speaking, the FTC considers it legal for the licensor to fix the licensee's selling price for licensed products since to fix such a price is reasonable in order for the licensor to secure a minimum income. n175 However, if the licensor and multiple licensees in competition with each other try to fix the price among themselves, this may be deemed a kind of price fixing cartel.

On the other hand, resale price maintenance by the licensee's customers is illegal. n176 In *In re Kodansha K.K. et al.*, Japanese licensees (Kodansha and King Records) agreed to fix the retail prices through negotiation with a German licensor. n177 The FTC found this practice illegal and ordered the clause fixing the retail price deleted.

[h] Quantity Control. According to The Fair Trade Commission Guidelines 1968, it is legal for a licensor to restrict the amount of output or the amount of sales of patented goods or to restrict the frequency of the use of patented processes. n178 For example, a licensor may set the maximum number of licensed products to be sold by the licensee.

However, it is thought that a quantity control clause may be illegal if its purpose is to permit the licensor to control the market by adjusting the supply-demand ratio--as in a clause that gives the licensor the right to specify every month the number of licensed products to be sold by the licensee. However, there has been no precedent on this issue.

[i] Export Price Fixing. It is illegal to restrict the licensee's export prices of licensed goods. n179 In *In re Diesel Kiki K.K.*, the Fair Trade Commission ordered the deletion of a clause in the contract with Robert Bosch GmbH under which Diesel had to export the licensed fuel pumps at prices not lower than Bosch's prices. n180

[j] Sales Channel Restriction. The FTC considers it illegal for a licensor to require the licensee to sell the

licensed products through the licensor or a person designated by the licensor. n181 This restriction frequently has been inserted in trademark licensing contracts where licensors have desired their goods to be distributed in shops approved by themselves. The Commission has always recommended deletion of such clauses.

Table 1

Statistics on Royalty Rates n182 in the Technology Import Agreements n183 approved by n184 the Japanese Government in 1979

Consideration	Fields					Total
	Chemicals	Metal	Mechanics	Electronics	Others	
Royalty-fee	28	2	18	13	54	115
Initial <i>Yes</i>	100	26	282	115	129	652
<i>No</i>	91	25	197	208	412	933
Running Royalty						
less than 2%	13	5	20	25	39	102
2%--5%	42	14	125	64	136	381
5%--8%	24	7	116	26	162	335
More than 8%	8	3	33	23	28	95
others n185	58	21	105	159	166	509
none	46	1	80	26	10	163
Minimum <i>Yes</i>	30	15	87	20	235	387
<i>No</i>	161	36	392	303	306	1,198
Total of contracts with pay- ment	191	51	479	323	541	1,585
Total of contracts	219	53	497	336	595	1,700

[12] Validity, Effective Date, Duration, Termination and Renewal

[a] Validity and Effective Date. As stated above, under the former FECA and the now-abolished Foreign Investment Act, government approval had to be obtained before entering into certain technology import agreements, whereas under the revised FECA, the parties need only give prior notice to the government. In *Ryukyu Bank K.K. v. Tokai Denki Koji K.K.*, the Supreme Court held that a contract took effect and bound the parties even if the parties failed to obtain the at that time required approval. n186 Therefore, although there haven't been any official statements or court decisions with respect to the validity of a technology import agreement which the parties enter into without giving prior notice to the government, it is probable that such an agreement is binding on the parties because the "approval" required under the former FECA was a heavier obligation than the "present notice" requirement.

Although a *sen'yo* exclusive license does not take effect until it is registered, the contract itself may become effective before the registration and payments for the license may be permitted regardless of the completion of the registration procedures.

[b] Duration and Termination. The duration of a license may be contractually agreed upon by the parties, within the statutory period of the licensed patent, utility model or design. With respect to a know-how license, the duration will be determined by the expected life and value of the licensed technology.

Under the revised FECA, the Japanese government will not examine the duration of a license. However, it may be checked by the Fair Trade Commission when the duration of a know-how contract is unreasonably long and the contract binds the licensee even after the know-how has lost its secrecy and economic value. n187

In Japanese domestic licenses, it is usual for the parties to a licensing agreement not to specify the duration of the license, especially when the licensor and licensee have such a relationship as parent company-subsidary, etc. The same situation may occur when the license may automatically be renewed after its initial period has expired but the contract does not specify the length of the renewal period.

Thus, a question arises as to when the contract terminates. If governed by Japanese law, the contract's implied agreement (i.e., the implied intention of the parties) must first be investigated. Such factors as the character and kinds of licensed rights, the licensee's intention as shown by his conduct (e.g., constructing a new factory or purchasing a new machine for the purpose of carrying out the license), and other such elements will be considered in order to find any implied agreement as to duration. In accordance with the general rules of the Civil Code, when no implied agreement can be found, the contract may be terminated at any time by either party giving notice to the other party within a reasonable time prior to termination. n188 However, in *Suzuki Jidosha Kogyo K.K. v. Maruchi Koken K.K.*, the Tokyo High Court held that it is unreasonable to apply Article 597 of the Civil Code *mutatis mutandis* to a royalty-free license agreement. The court said: "Even when no express provision specifying the duration of an ordinary nonexclusive license exists in the contract, courts should find the implied agreement as to the duration by reasonably examining the factual situation. It will sometimes be possible to interpret that the absence of an expressed agreement as to the duration just means that the license is to exist for the whole duration of the subject patent." n189

[c] Renewal. A contract may be renewed in accordance with the procedure specified in the contract. Under the general rules of the Civil Code, when a contract does not specify the length of a renewal period, the contract becomes a "contract without a specific duration," and either party may terminate the contract by giving the other party prior notice within a reasonable time prior to the contract's termination. n190 There have been no court decisions as to whether the rule shown in *Suzuki Jidosha Kogyo K.K. v. Maruchi Koken K.K.* is also applicable to a renewal period.

In *Oya et al. v. K.K. Oyalax*, the Tokyo District Court found that a trademark license contract was deemed to have been renewed by an implied agreement when the licensor renewed the duration of the licensed trademark at the Patent Office and did not raise any opposition to the licensee's continuing the use of the mark. n191

In *Bell Agy K.K. v. K.K. Mori Hanae*, the plaintiff-licensee argued that the opposition made in due time by the licensor to a renewal of the license constituted an abuse of the licensor's right since the licensee had made, in good faith, its best effort and considerable expenditures in developing and promoting the licensed goods and had achieved reasonable sales. n192 However, the Osaka District Court held that although the licensee acted in good faith, the issue should still be decided in accordance with the "freedom of contract" doctrine and the licensor's refusal to renew the contract was not an abuse of its right.

[d] Obligation after Termination. It is generally held that when the license agreement terminates, the licensee must cease to work the licensed patent or other right or to use the licensed trademark. Unless the agreement states otherwise, the licensee does not have the right to dispose of the inventory of the licensed products manufactured before the termination. There are no specific provisions in the statutes relating to rights or obligations after termination.

After the termination of the license, the licensee must cooperate with the licensor during the Patent Office procedure for cancellation of the registered license in the Patent Register or other registers. This obligation stems from the general obligation in the Civil Code to restore the licensed right to its original condition. n193 When the licensee does not cooperate with the licensor in said cancellation procedure, the licensor may seek a judgment ordering the licensee to cancel the registration of the license. Such judgment may be used in place of the licensee's consent. n194

In *Troy of California International Incorporated v. K.K. Troy*, the Osaka District Court found that the licensor and licensee had agreed in the contract that the licensee would file trademark applications in Japan for the "trademarks of the licensor" in the name of the licensee and that, after the termination of the contract, the licensee would cease to use the trademarks and change the name of the registrant to the licensor. n195 The defendant-licensee asserted that three registered trademarks--"Troy Bros.," "CASTAWAY" and a "pipe device" mark--and one trademark under a pending application--"SUNFAIR"--were not the "trademarks of the licensor" since they were chosen and used by the licensee. On goods sold, these trademarks were used with the description "LICENSED BY TROY OF CALIFORNIA, U.S.A." The court found that "Troy Bros.," "CASTAWAY," and "SUNFAIR" were created by the licensor and that the trademark applications and registrations were kept by the licensee as the licensor's trustee. It therefore confirmed the licensor's ownership of these trademarks and ordered the defendant-licensee to register the name change at the Patent Office. However, with respect to the "pipe device" mark, the court found that since the licensee chose the design as a trademark, it belonged to the licensee even if the licensee used it with the description "LICENSED BY TROY OF CALIFORNIA, U.S.A."

FOOTNOTES:

(n1)Footnote 1. This section will be revised shortly.

(n2)Footnote 1. *Horei*, Law No. 89, 1898.

(n3)Footnote 2. Act Concerning Application of Laws (*Horei*), Art. 7, para. 1.

(n4)Footnote 3. See § 6.06 [3][d] *infra*.

(n5)Footnote 4. Patent Act (*Tokkyo Ho*), Law No. 121, 1959.

(n6)Footnote 5. Utility Models Act (*Jitsuyo Shin'an Ho*), Law No. 123, 1959.

(n7)Footnote 6. Design Act (*Isho Ho*), Law No. 125, 1959.

(n8)Footnote 7. Trademark Act (*Shohyo Ho*), Law No. 127, 1957.

(n9)Footnote 8. *Horei*, Art. 7, para. 2. See Vol. III, Ch. 2 § 2.03[f].

(n10)Footnote 9. Multi Products Int'l v. Toa Kogyo K.K., Tokyo District Court, 863 Hanrei Jiho 100, April 22, 1977; Chetandas v. Bank of India, Osaka High Court, 326 Hanrei Jiho 21, Oct. 18, 1962.

(n11)Footnote 10. Civil Code (*Minpo*), Art. 601-621. See Ch. 2 § 5.01.

(n12)Footnote 11. *Id.*, Arts. 555-578. See Ch. 2 § 2.01

(n13)Footnote 12. *Id.*, Arts. 412-415, 541-548.

(n14)Footnote 13. *Id.*, Arts. 416-422.

(n15)Footnote 14. *Id.*, Art. 563.

(n16)Footnote 15. Patent Act (*Tokkyo Ho*), Arts. 77-78; Utility Models Act (*Jitsuyo Shin'an Ho*), Arts. 18-19; Design Act (*Isho Ho*), Arts. 28-29; Trademark Act (*Shohyo Ho*), Arts. 30-31.

(n17)Footnote 16. Patent Act, Arts. 79-93; Utility Models Act, Arts. 20-23; Design Act, Arts. 29-33; Trademark Act, Arts. 32-33.

(n18)Footnote 17. Order No. 39, 1960.

(n19)Footnote 18. Order No. 40, 1960.

(n20)Footnote 19. Order No. 41, 1960.

(n21)Footnote 20. Order No. 42, 1960.

(n22)Footnote 21. Foreign Exchange and Foreign Trade Control Act (*Gaikoku Kawase Oyobi Gaikoku Boeki Kanri Ho*), Law No. 228, 1949.

(n23)Footnote 22. Foreign Exchange and Foreign Trade Control Act, as amended in 1979, (*Gaikoku Kawase Oyobi Gaikoku Boeki Kanri Ho*), Arts. 29-30. See § 10.04 for further discussion.

(n24)Footnote 23. *Shiteki Dokusen no Kinshi Oyobi Kosei Torihiki no Kakuho ni Kansuru Horitsu*, Law No. 54, 1947.

(n25)Footnote 24. Antimonopoly and Fair Trade Maintenance Act (Antimonopoly Act) (*Shiteki Dokusen no Kinshi Oyobi Kosei Torihiki ni Kansuru Horitsu*), Art. 6.

(n26)Footnote 25. See Ch. 9, § 9.09[2][g] for further discussion.

(n27)Footnote 26. *Shotoku Zei Ho* (Law No. 33, 1965).

(n28)Footnote 27. *Hojin Zei Ho* (Law No. 34, 1965).

(n29)Footnote 28. Income Tax Act (*Shotoku Zei Ho*), Arts. 161-165, 167-180; Corporate Tax Act (*Hojin Zei Ho*), Arts. 138-140; The Treaty Between Japan and the United States of America for the Avoidance of Double Taxation, March 8, 1967.

(n30)Footnote 29. Patent Act, Art. 77, para. 2, and Art. 78, para. 2; Utility Models Act, Art. 18, para. 2, and Art. 19, para. 2; Design Act, Art. 27, para. 2 and Art. 28, para. 2.

(n31)Footnote 30. Trademark Act, Art. 30, para. 2, and Art. 31, para. 2.

(n32)Footnote 31. For a discussion of exclusive and nonexclusive licenses, see § 6.07 *infra*.

(n33)Footnote 32. *Tanaka v. Sanso Plastics K.K.*, Yamaguchi District Court, 14 Kakyu Minshu 331, Feb. 28, 1963.

(n34)Footnote 33. Patent Act, Art. 98; Utility Models Act, Art. 26; Design Act, Art. 36; Trademark Act, Art. 35.

(n35)Footnote 34. Patent Act, Art. 99; Utility Models Act, Art. 26; Design Act, Art. 36; Trademark Act, Art. 35.

(n36)Footnote 35. Patent Act, Art. 35; Utility Models Act, Art. 9, para. 3; Design Act, Art. 15, para. 3.

(n37)Footnote 36. *Yoshikawa v. Shuhoku Bus. K.K.*, Supreme Court, 22 Minshu 3459, December 25, 1968.

(n38)Footnote 37. Patent Act, Art. 35, para. 2.

(n39)Footnote 38. *Naito v. Tohoku Denki Seitetsu K.K.*, Supreme Court, 22 Minshu 2972, Dec. 13, 1968; Tokyo High Court, Jan. 31, 1967; Tokyo District Court, July 30, 1963.

(n40)Footnote 39. Patent Act, Art. 79; Utility Models Act, Art. 26; Design Act, Art. 29.

(n41)Footnote 40. Trademark Act, Art. 32.

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- (n42)Footnote 41. Arai v. L.A. Sassoon, Supreme Court, 23 Minshu 1777, October 17, 1969.
- (n43)Footnote 42. Patent Act, Art. 80; Utility Models Act, Art. 20; Design Act, Art. 30.
- (n44)Footnote 43. Patent Act, Art. 83; Utility Models Act, Art. 21.
- (n45)Footnote 44. Patent Act, Art. 92; Utility Models Act, Art. 22; Design Act, Art. 33.
- (n46)Footnote 45. Patent Act, Art. 93; Utility Models Act, Art. 23.
- (n47)Footnote 46. Patent Act, Arts. 77 and 78.
- (n48)Footnote 47. Patent Act, Art. 66, para. 1.
- (n49)Footnote 48. Patent Act, Art. 52, para. 2.
- (n50)Footnote 49. Patent Act, Art. 65-2.
- (n51)Footnote 50. Patent Act, Art. 65-3.
- (n52)Footnote 51. Suzuki v. Makino, Tokyo High Court, 868 Hanrei Times 46, July 20, 1977.
- (n53)Footnote 52. Utility Models Act, Arts. 18 and 19.
- (n54)Footnote 53. Utility Models Act, Art. 12.
- (n55)Footnote 54. Utility Models Act, Art. 13-3.
- (n56)Footnote 55. Design Act, Art. 20.
- (n57)Footnote 56. Design Act, Art. 27 and 28.
- (n58)Footnote 57. FECA, Art. 29.
- (n59)Footnote 58. Deutsche Buerft A.G. v. Chuetsu Waukeshire K.K., Tokyo High Court, 17 Kakyu Minshu 769, Sept. 5, 1966.
- (n60)Footnote 59. Patent Act, Art. 35, para. 2; Utility Models Act, Art. 9, para. 3; Design Act, Art. 15, para. 3.
- (n61)Footnote 60. Trademark Act, Art. 18.
- (n62)Footnote 61. Trademark Act, Arts. 30 and 31.
- (n63)Footnote 62. Commercial Code (*ShoHo*), Arts. 19 and 20.
- (n64)Footnote 63. Unfair Competition Prohibition Act (*Fusei KyosoBoshi Ho*), Art. 1, para. 1, item 1.
- (n65)Footnote 64. Commercial Code, Art. 21.
- (n66)Footnote 65. National Football League Properties and Sony KogyoK.K. v. Marutake Shoji K.K., Osaka District Court, 8 Mutai Zaisan 441, Oct. 5, 1976; *aff'd by Osaka High Court, Sept. 28, 1979 (unpublished)*.
- (n67)Footnote 66. Patent Act, Art. 77, para. 2; Utility Models Act, Art. 18, para. 2; Design Act, Art. 27, para. 2.
- (n68)Footnote 67. Patent Act, Art. 73, para. 3, Utility Models Act, Art. 26; Design Act, Art. 36; Trademark Act,

Art. 35.

(n69)Footnote 68. Izumi v. K.K. Kawasaki Seisakusho, Akita District Court, 664 Hanrei Jiho80, Feb. 7, 1972.

(n70)Footnote 69. Izumi v. K.K. Kawasaki Seisakusho, Akita District Court, 4 Mutai 19, Dec. 19, 1973; reversed by Sendai High Court, 753 Hanrei Jiho28, Dec. 19, 1973.

(n71)Footnote 70. Patent Act, Art. 77, para. 4; Utility Models Act, Art. 18, para. 3; Design Act, Art. 27, para. 3; Trademark Act, Art. 30, para. 4.

(n72)Footnote 71. See, as to the Civil Code Rules, 3 Doing Business in Japan, Ch. 2, § 2.01[5].

(n73)Footnote 72. See, as to contract making, 3 Doing Business in Japan, Ch. 2, § 2.01[1], § 2.01[3][iv], [v].

(n74)Footnote 73. See § 6.06[6][c] and § 6.06[7][b] *infra*.

(n75)Footnote 74. Foreign Exchange and Foreign Trade Control Act, Art. 29.

(n76)Footnote 75. K.K. RyukyuBank v. Tokai Denki KogyoK.K., Supreme Court, 29 Minshu 1029, July 15, 1975. Supreme Court, 19 Minshu 2306, Dec. 23, 1965.

(n77)Footnote 76. Maeshima v. Murata SangyoK.K., Osaka District Court, 98 Tokkyo to Kigyo56, Nov. 9, 1976. The Court denied the "license" defense by the defendant for the reason that, while usually written agreements were exchanged in the industry concerned, no agreement was executed in this case.

(n78)Footnote 77. Inazumi v. Nihon Gas Assetsu Co., Ltd., Tokyo District Court, 13 Kaminshu 972, May 7, 1962; Shibata v. Ishibashi, Osaka District Court, 4 Mutai Zaisan 118, March 29, 1972.

(n79)Footnote 78. Civil Code, Art. 95.

(n80)Footnote 79. Suzuki v. Makino, Tokyo High Court, 268 Hanrei Times 46, July 20, 1977.

(n81)Footnote 80. Nakajima v. Hatanaka, Osaka District Court, 61 Tokkyo to Kigyo 54, Nov. 28, 1963.

(n82)Footnote 81. Civil Code, Art. 96.

(n83)Footnote 82. Patent Act, Art. 98, para. 1, item 2; Utility Models Act, Art. 18, para. 3; Design Act, Art. 27, para. 3; Trademark Act, Art. 30, para. 4.

(n84)Footnote 83. Patent Act, Art. 99, para. 1; Utility Models Act, Art. 19, para. 3; Design Act, Art. 28, para. 3.

(n85)Footnote 84. Antimonopoly Act, Art. 6, para. 1.

(n86)Footnote 85. Patent Act, Art. 77; Utility Models Act, Art. 18; Design Act, Art. 27.

(n87)Footnote 86. Trademark Act, Art. 30.

(n88)Footnote 87. Patent Act, Art. 78; Utility Models Act, Art. 19; Design Act, Art. 28.

(n89)Footnote 88. Trademark Act, Art. 31.

(n90)Footnote 89. Patent Act, Art. 98, para. 1, item 2; Utility Models Act, Art. 18, para. 3; Design Act, Art. 27, para. 3.

(n91)Footnote 90. Patent Act, Arts. 100 and 102; Utility Models Act, Arts. 27 and 29; Design Act, Arts. 37 and 39; Trademark Act, Arts. 36 and 38.

(n92)Footnote 91. NMC Co., Ltd. v. Shuriro Trading Co., Ltd., Osaka District Court, 2 Mutai Zaisan 71, Feb. 27, 1970. Before this case, the Tokyo District Court had held that parallel importation of genuine products infringes "sen'yo" exclusive use rights under the Japanese Trademark Registration: Bayer v. American Drug Corp., Tokyo District Court, Digest of Japanese Court Decisions in Trademark and Unfair Competition by the American Chamber of Commerce in Japan (cited as Digest), p. 64. Feb. 29, 1964; Nestle Nihon v. Sankai Shoten, Tokyo District Court, Digest, p. 66. May 29, 1965; Shuriro Trading Co., Ltd. v. K.K. Akishokai, Tokyo District Court, Digest p. 68, June 1, 1964.

(n93)Footnote 92. "On Applications for Prohibition of the Importation of Products Infringing Intangible Property Rights," Ministry of Finance Ts tatsu No. 2885, dated May 31, 1966, as amended in 1975.

(n94)Footnote 93. FTC "Antimonopoly Act Guidelines for Sole Import Distributorship Agreements," dated Nov. 22, 1972, Art. 1, para. 2.

(n95)Footnote 94. Nihon Musen Tsushin K.K. v. Matsushita Denki Sangyo K.K., *et al.*, Tokyo District Court, 4 *Kakyu Minshu* 847, June 12, 1953.

(n96)Footnote 95. Patent Act, Art. 68 proviso.

(n97)Footnote 96. KidoKensetsu KogyoK.K. v. Minamino, Supreme Court, 27 *Minshu* 580, April 20, 1973.

(n98)Footnote 97. Japanese practitioners often call such an unregistered exclusive license an "ordinary ts jo exclusive license."

(n99)Footnote 98. Park Davis & Co. v. Yamanouchi Seiyaku Co., Ltd., Tokyo District Court, 6 *Kaminshu* 2690, 2755, Dec. 24, 1955.

(n100)Footnote 99. Tsukisaka *et al.* v. *Woko Shoji K.K. et al.*, Osaka District Court, 11 Mutai p. 92, Feb. 28, 1979, affirmed by Osaka High Court, 12 Mutai 33, Jan. 30, 1980.

(n101)Footnote 100. Patent Act, Art. 99, para. 1; Utility Models Act, Art. 19, para. 3; Design Act, Art. 28, para. 3; Trademark Act, Art. 31, para. 4.

(n102)Footnote 101. See N. 12 *supra*.

(n103)Footnote 102. Tajima v. Naito Tekkosho, Tokyo District Court, 12 *Kaminshu* 2808, Nov. 20, 1961; Monte Cattini Edison S.G.P.L. v. Mitsui Sekiyu Kagaku *et al.*, Osaka District Court, 15 *Kaminshu* 3121, Dec. 26, 1964.

(n104)Footnote 103. Tanaka v. San'yo Plastics Kogyosho, Yamaguchi District Court, 14 *Kaminshu* 331, Feb. 28, 1963.

(n105)Footnote 104. K.K. Okamoto v. Tsuchida, Nagoya District Court, 6 Mutai 202, July 25, 1974.

(n106)Footnote 105. Patent Act, Art. 97, para. 1; Utility Models Act, Art. 26; Design Act, Art. 36; Trademark Act, Art. 35.

(n107)Footnote 106. Patent Act, Art. 127, Utility Models Act, Art. 41

(n108)Footnote 107. Patent Act, Art. 126, para. 1, item 1; Utility Models Act, Art. 3, para. 1, item 1.

(n109)Footnote 108. Patent Registration Order, Arts. 30 and 44; Utility Model Registration Order, Art. 7; Design Registration Order, Art. 7; Trademark Registration Order, Art. 8.

(n110)Footnote 109. Patent Registration Order, Art. 18; Utility Model Registration Order, Art. 7; Design Registration Order, Art. 7; Trademark Registration Order, Art. 8.

(n111)Footnote 110. Patent Registration Order, Art. 19.

(n112)Footnote 111. *Ibid.*, Arts. 44 and 45.

(n113)Footnote 112. Patent Registration Order Enforcement Regulation, Art. 60.

(n114)Footnote 113. Patent Act, Art. 2, para. 3.

(n115)Footnote 114. Utility Models Act, Art. 2, para. 3; Design Act, Art. 2, para. 3.

(n116)Footnote 115. Trademark Act, Art. 2, para. 3.

(n117)Footnote 116. FTC Guidelines, 1968, III [1]. See also Vol. 2, Materials App. 4-1 *supra*.

(n118)Footnote 117. *Ibid.*, 1968, III [3] and [4].

(n119)Footnote 118. *Ibid.*, III [2].

(n120)Footnote 119. K.K. Hayashi Seisakusho v. Horikawa Press K.K., Tokyo District Court, 14 Kaminshu 979, May 18, 1963.

(n121)Footnote 120. In re Takeda Yakuhin Kogyo K.K.*et al.*, FTC, 1 Dokusen Kinshiho Kankei Shuyo Shinketsu Hanketsu-shu (cited as Dokukinho) 599, June 14, 1950.

(n122)Footnote 121. In re Fuji Denki Seizo K.K., FTC, 1 Dokukinho 612, Nov. 10, 1950.

(n123)Footnote 122. In re Furukawa Denki Kogyo K.K. *et al.*, FTC, 1 Dokukinho 616, Nov. 10, 1950.

(n124)Footnote 123. In re Gadelius Shokai K.K., FTC, 2 Dokukinho 52, June 16, 1950.

(n125)Footnote 124. In re Nikkatsu *etc.*, FTC, 1 Dokukinho 609, Sept. 21, 1950.

(n126)Footnote 125. In re Kawasaki Jukogyo, FTC, 2 Dokukinho179, Oct. 27, 1950.

(n127)Footnote 126. In re Diesel Kiki K.K., FTC, 1 Dokukinho619, Jan. 13, 1951.

(n128)Footnote 127. FTC Guidelines 1968, Art. 2, para. 1.

(n129)Footnote 128. Y. Nakamura, "Commentary on the FTC Guidelines on Licensing Agreements" (Japanese) (1968), p. 49.

(n130)Footnote 129. NMC K.K. v. Shuriro Trading K.K. (*Parker case*), Osaka District Court, 625 Hanrei Jiho 975, Feb. 27, 1970; see also § 6.06[7][b],*supra*.

(n131)Footnote 130. Brunswick Corp. v. Orion Kogyo K.K., Tokyo District Court, 1 Mutai Zaisan 160, June 9, 1969.

(n132)Footnote 131. See N. 4, III [2] *supra*.

(n133)Footnote 132. *Ibid.*

(n134)Footnote 133. See Y. Nakamura, N. 16 *supra* at p. 94.

(n135)Footnote 134. Patent Act, Art. 77, para. 4; Utility Models Act, Art. 18, para. 2; Design Act, Art. 27, para. 3; Trademark Act, Art. 30, para. 4.

(n136)Footnote 135. Civil Code, Art. 613, para. 1.

(n137)Footnote 136. Masaki v. Kato, Great Court of Judicature, 15 Minshu 1104, Dec. 22, 1936.

(n138)Footnote 137. Izumi v. K.K. Kawasaki Seisakusho, Akita District Court, 4 Mutai 19, Feb. 7, 1972; *rev'd* by Sendai High Court, 753 Hanrei Jiho 28, Dec. 19, 1973.

(n139)Footnote 138. Patent Act, Art. 99, para. 1.

(n140)Footnote 139. Civil Code, Arts. 560-578.

(n141)Footnote 140. *Ibid.*, Art. 560.

(n142)Footnote 141. *Ibid.*, Art. 561.

(n143)Footnote 142. *Ibid.*, Art. 563, para. 1.

(n144)Footnote 143. *Ibid.*, Art. 563, para. 2.

(n145)Footnote 144. With respect to the rejection of a licensed patent application: Suzuki v. Makino, Tokyo High Court, 868 Hanrei Times 46, July 20, 1977.

(n146)Footnote 145. Patent Act, Art. 125; Utility Models Act, Art. 41; Design Act, Art. 50; Trademark Act, Art. 56.

(n147)Footnote 146. With respect to the invalidation of licensed patents: Hamaguchi Rail K.K. v. Yasuda, Osaka District Court, II Tokkyo Kanri Bessatsu Hanreishu (1977) 347, Jan. 28, 1977; Viviken K.K. et al. v. Yasuda K.K., Osaka District Court, II Tokkyo Kanri Bessatsu Hanreishu (1978) 122, Dec. 19, 1978.

(n148)Footnote 147. K.K. Kinkasha v. Nagasawa, Tokyo District Court, 353 Hanrei Times 260, Feb. 16, 1977; *aff'd* by Tokyo High Court, 115 Tokkyo To Kigyo 37, April 26, 1978.

(n149)Footnote 148. Kido Kensetsu Kogyo K.K. v. Minamino, Supreme Court, 27 Minshu 580, April 20, 1973.

(n150)Footnote 149. FECA, Art. 29.

(n151)Footnote 150. Civil Code, Arts. 415 and 419.

(n152)Footnote 151. *Ibid.*, Art. 404.

(n153)Footnote 152. Commercial Code, Art. 514.

(n154)Footnote 153. FTC Guidelines 1968, I[8]. See also Vol. 2, Materials, App. 4-1 *supra*.

(n155)Footnote 154. In re Mitsubishi Zosen Co., Ltd. and Sulzer Freres, Societe Anonyme, FTC, April 23, 1953, 1 Dokukinho Shinketsu Hanketsu Shu (cited as Dokukinho) 636.

- (n156)Footnote 155. In re Diesel Kiki K.K., FTC, 1 Dokukinho 619, Jan. 13, 1951.
- (n157)Footnote 156. In re Takeda Yakuhin Kogyo K.K. and Chiba A.G., FTC, 1 Dokukinho 599, June 14, 1950.
- (n158)Footnote 157. Y. Nakamura, "Commentary on the FTC Guidelines on Licensing Agreements" (Japanese) (1968), p. 94.
- (n159)Footnote 158. Nichiro Gyogyo K.K. v. Fujino, Tokyo District Court, 353 Hanrei Times 252, Nov. 19, 1976.
- (n160)Footnote 159. Sakata v. K.K. Ikegami Seisakusho, Osaka District Court, II Tokkyo Kanri Bessatsu Hanreishu (1979) 473, March 30, 1979.
- (n161)Footnote 160. Sumitomo Bakelite K.K. v. K.K. Hitachi Seisakusho, Tokyo High Court, 417 Sanko Shinketsu Hanketsushu, Jan. 13, 1963.
- (n162)Footnote 161. See N. 4 *supra*.
- (n163)Footnote 162. *Ibid*, I[7].
- (n164)Footnote 163. In re Nikkatsu K.K.*et al.*, *FTC, 1 Dokukinho 609, Sept. 21, 1950.*
- (n165)Footnote 164. In re Yamatake Keiki K.K., FTC, 1 Dokukinho 605, June 26, 1950.
- (n166)Footnote 165. See N. 4 *supra*.
- (n167)Footnote 166. Y. Nakamura *supra*, pp. 61-67.
- (n168)Footnote 167. See N. 4, I[3] *supra*.
- (n169)Footnote 168. In re K.K. Hitachi Seisakusho, FTC, 1 Dokukinho 597, April 6, 1950; In re Nihon Air Brake K.K., FTC, 2 Shinketsushu 3, April 6, 1950; In re Mitsubishi Denki K.K. (Westinghouse Air Brake), FTC, 2 Shinketsushu 6, April 6, 1950, In re Takeda Yakuhin KogyoK.K. FTC, 6 Dokukinho 599, June 14, 1950; In re K.K. Gadelius Shokai, FTC, 2 Shinketsushu 52, June 14, 1950; In re K.K. Gadelius Shokai, FTC, 2 Shinketsushu 55, June 14, 1950; In re K.K. Gadelius Shokai, FTC, 2 Shinketsushu 58, June 14, 1950; In re Mitsubishi Denki K.K. (Neumatic), FTC, 2 Shinketsushu 65, June 28, 1950; In re Yamatake Keiki K.K., FTC, 1 Dokukinho 605, June 26, 1950; In re Mitsubishi Denki K.K., (Westinghouse), FTC, 1 Dokukinho 607, June 28, 1950, In re Nissan Kagaku Kogyo K.K.*et al.*, *FTC, 2 Shinketsushu 94, Sept. 5, 1950; In re Higashi Nihon Jukugyo K.K., FTC, 2 Shinketsushu 175; Oct. 27, 1950; In re Fuji Denki Seizo K.K., FTC, 1 Dokukinho 612, Nov. 10, 1950; In re K.K. Kodansha et al., FTC, 2 Shinketsushu 187, Nov. 10, 1950; In re Diesel Kiki K.K., FTC, 1 Dokukinho 619, Jan. 13, 1951; In re Nihon Kogaku Kogyo K.K., FTC, 1 Dokukinho 623, Sept. 3, 1962; In re Kawasaki Juk gyo K.K., FTC, 2 Shinketsushu 179, Oct. 27, 1950.*
- (n170)Footnote 169. In re K.K. Hitachi Seisakusho, N. 19 *supra*.
- (n171)Footnote 170. See N. 4, I[3] proviso *supra*.
- (n172)Footnote 171. *Ibid*.
- (n173)Footnote 172. In re Yamatake Keiki K.K., N. 15 *supra*.
- (n174)Footnote 173. In re Fuji Denki Seizo K.K., In re Furukawa Denko K.K., In re Kawasaki Jukogyo K.K., N. 19 *supra*.
- (n175)Footnote 174. Y. Nakamura, p. 71 *supra*.

(n176)Footnote 175. Y. Nakamura, p. 79 *supra*.

(n177)Footnote 176. See N. 4, I[6] *supra*.

(n178)Footnote 177. In re Kodansha K.K.*et al.*, N. 11 *supra*.

(n179)Footnote 178. See N. 4, III[5] *supra*.

(n180)Footnote 179. *Ibid*, I[2].

(n181)Footnote 180. In re Diesel Kiki K.K., N. 19 *supra*.

(n182)Footnote 181. See N. 4, I[5] *supra*.

(n183)Footnote 182. The Official Gazette (*Kanpo*), Nov. 5, 1980, p. 8.

(n184)Footnote 183. These statistics cover technology import agreements with terms longer than one year which were approved in 1979 by the Japanese Government in accordance with the Foreign Investment Act which was abolished on Dec. 1, 1980.

(n185)Footnote 184. "Others" in the classification of fields of industry includes foods, textiles, clothing, articles for daily use, etc. Further, among 541 cases in these fields, 332 cases were related to trademark licenses.

(n186)Footnote 185. "Others" here refers to cases in which royalties were calculated on a "fixed sum per unit sold" basis

(n187)Footnote 186. K.K. Kyukyu Bank v. T kai Denki Koji K.K., Supreme Court, 19 Minsh 2306, Dec. 23, 1965.

(n188)Footnote 187. See N. 4, II, Vol. 2, Materials, Appendix 4-1 *supra*.

(n189)Footnote 188. Civil Code, Art. 597, para. 3: termination of a gratuitous loan for use; Civil Code, Art. 617: termination of a lease contract.

(n190)Footnote 189. Suzuki Jidosha Kogyo K.K. v. Maruchi Koken K.K., Tokyo High Court, Tokkyo News No. 5235, May 9, 1979.

(n191)Footnote 190. Civil Code, Arts. 617 and 619.

(n192)Footnote 191. Oya *et al.* v. K.K. Oyalax, Tokyo District Court, I Tokkyo Kanri Bessatsu Hanreishu (1979) 267, June 29, 1979.

(n193)Footnote 192. Bell Acy K.K. v. K.K. Mori Hanae, Osaka District Court, 353 Hanrei Times 260, Feb. 16, 1977.

(n194)Footnote 193. Civil Code, Arts. 545 and 598.

(n195)Footnote 194. Patent Registration Order, Art. 30, para. 2.

(n196)Footnote 195. Troy of California International Inc. v. K.K. Troy, Osaka District Court, Tokkyo News No. 5581, Nov. 28, 1980.