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ESSAY

INBOUND TRANSFERS OF JAPANESE TECHNOLOGY RIGHTS: SOME PRACTICAL CONSIDERATIONS

I. INTRODUCTION

In recent years there has been a dramatic shift in Japan away from their traditional role as a technology rights importer towards that of a technology rights exporter. This shift is evidenced by the fact that while in 1972 Japan paid out four times more in license royalty payments than it received, by 1980 Japan paid out only one and a half times more in royalty payments than it received. The United States, in the form of licensing agreements, is increasingly becoming an importer of Japanese technology rights. Japan's R&D efforts are also indicative of their interest in becoming a technology rights exporter. Efforts singled out for future emphasis include engineering, fine ceramics, high polymers, new metallic compounds, biotechnology, fiber optics, and semi-conductors.

As with any technology transfer, a domestic entity may find that the acquisition of rights to Japanese technology or know how by way of licensing (as opposed to independent development) to be comparatively cost efficient. When seeking technology rights or know-how from Japanese entities, the potential domestic licensee (and hence their legal counsel) must take into consideration a number of important variables not necessarily present on the domestic licensing scene. As well, the potential Japanese licensor will, in many cases, come to rely on local counsel for aid in forming a


2. Prospects for technological transfer, supra note 1, at 9.


4. See Prospects for technological transfer, supra note 1, at 9; see also USITC Pub. 2054, supra note 3, at 20.
licensing agreement. In either case, due consideration should be given to the cultural and legal milieu from which the Japanese licensor will be operating. This essay seeks to highlight several important variables within the Japanese legal framework that will impact and influence the final form of any potential licensing agreement with a domestic technology rights importer.

II. THE JAPANESE MILIEU

Both the domestic licensee of Japanese technology rights and local counsel representing a Japanese licensor seeking to enter a licensing agreement with a domestic entity should be aware of a number of factors that tend to shape Japanese expectations regarding the form and content of the technology licensing agreement. Of particular importance in understanding the legal and cultural milieu from which the Japanese licensor operates is the form and degree of protection afforded intellectual property in Japan.

A. Aspects of Japanese Intellectual Property Law

The legal protection given intellectual property in Japan will, to a large extent, set the parameters for the Japanese licensor's expectations when seeking to license technology abroad. Knowing the difference between rights as they exist in Japan and those that exist in the U.S. can provide important insights that may help pave the way for an agreement that meets the needs and expectations of parties on both sides of the transaction.

1. Japanese Copyright Law

Copyright considerations are becoming increasingly important in international licensing as computer software rights are transferred with greater frequency. A review of Japanese copyright law indicates that, although Japan’s Copyright Act has been amended to specifically provide for the protection of database type compilations and computer programs, the basis for and extent of protection for program software is significantly different than in the United States.

5. USITC Pub. 2065, supra note 1, at 30.
6. Copyright Act, § 12(2).
7. Copyright Act Art. 10(1)(9) provides for the protection of “program work[s]” but Art. 10(3) stipulates that the “programming language, rules or algorithm used for creating the said work” are unprotected. At the same time, there is some indication that copyright protection is available for a program which has been stored in a ROM chip. See Taito Corporation Case, 14 pt. 3 Mutai-Shu 796 (1982). For a complete discussion of copyright protec-
Japanese protection for databases and computer programs is restricted and impliedly covers only the non-literal aspects such as the structure, organization, and user-interface components of the database or program. For example, protection for databases is a function of the creativity used in selecting and organizing the data.\(^8\) Protection for computer programs appears to be quite limited with explicit exclusions for the underlying "programming language, rules, and algorithms."\(^9\)

A Japanese licensor will find that U.S. copyright law affords a much greater level of protection for his computer program or database, and hence a more valuable copyright, than does Japanese law. In contrast to Japanese law, Title 17 defines a computer program as "a set of statements or instructions to be used . . . in a computer."\(^10\) Title 17 also provides for the protection of those statements and instructions.\(^11\) Courts in the United States have extended copyright protection to the literal as well as the non-literal aspects of computer programs. Both the source and object codes which comprise the program's language have been found to be subject to protection.\(^12\) As well, it is recognized that a program's structure, sequence, and organization may be protected.\(^13\) Where Japanese law fails to provide protection for a program's underlying language and object code, U.S. law does if there is sufficient originality.

To the extent that a licensor's software is likely to receive greater protection under U.S. copyright law, the program acquires greater value. Yet, given the limited protection for programs provided by Japanese law, the licensor may not be aware of the appreciation flowing from the protections provided by U.S. law. Consequently, the potential licensee may be able to form a comparatively advantageous royalty or other compensation package by recognizing the licensor's relatively low expectations. Even where the potential licensor has retained local counsel and is aware of the increased value of his subject matter, the U.S. licensee may still be

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\(^8\) Copyright Act, art. 12(2).

\(^9\) Copyright Act, art. 10(3).


\(^12\) Apple Computer, Inc. v. Franklin Computer Corp., 714 F.2d 1240 (3d Cir. 1983).

\(^13\) Whelan Assoc. v. Jaslow Dental Laboratory, Inc., 797 F.2d 1222 (3d Cir. 1986), cert. denied, 479 U.S. 1031 (1987). Regarding the importance of unique expression within the non-literal components of a program, see Johnson Controls, Inc. v. Phoenix Control Sys., Inc., 886 F.2d 1173 (9th Cir. 1989).
able to advantageously rely on the additional U.S. protection by attempting to negotiate for lower up front payments and lower annual royalties since the greater protection may provide for a low risk, long lifespan license.

On the other hand, local counsel representing a Japanese licensor will need to articulate for his clients the additional protection afforded computer programs under U.S. law. The licensor's local counsel may find themselves in the unenviable position of having to convince their Japanese clients of the increased value of their subject matter while at the same time attempting to negotiate an agreement with terms beyond the licensor's original expectations.

2. Japanese Trademark Law

It is quite common for a licensing agreement to include the transfer of trademark rights in addition to, or independent of, patent and other technology rights. The role of trademark licensing is becoming increasingly important for Japanese licensors as the value of the tangible goodwill surrounding their product's trademarks increases. The licensing of a mark which identifies or distinguishes the products of a manufacturer from those of another carries the risk that the licensee's manufacturing will not meet the licensor's quality standards with a resulting diminution in the value of the licensor's mark. Consequently, a licensor has a vested interest in shaping a potential licensing agreement that insures his control over the quality of the trademarked product. This is particularly true in the case of Japanese licensors.

In Japan, the protection of trademarks is based on the registration of the mark with the Japanese Patent Agency. Registration provides the mark owner with rights to exclusive use of the specific goods listed on the registration for a period of only ten years, subject to renewal. Under Japan's first-to-file system, prior use of a mark is of little value and the date of application determines the

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14. Goldscheider, Technology Management § 18.02 (1990). The author notes that under the trademark law of both Japan and the U.S., the idea of licensing trademark rights would appear to be a contradiction in terms to the extent that the law is based upon the notion that a trademark allows for reliable identification of the product's manufacturer. If a trademark is assigned or licensed, the consuming public is getting a product from a manufacturer whom the product does not identify. For this reason, the quality control aspects of licensing agreements are particularly important in the case of trademark assignments.


16. Trademark Act, art. 18(1).

17. Trademark Law, arts. 19(1) and 25.
priority of rights to use the mark. It is also important to note that under Japanese law a trademark is defined as "any word, figure or mark or any combination thereof . . . ." As such, it is unclear as to whether a design or configuration mark is registrable. A failure on the part of the mark owner to use the mark for a period of three or more years will subject the mark to cancellation proceedings.

Although both United States and Japanese trademark law have as a primary mission the protection of marks which have come to distinguish the products of manufacturers from their competitors where those marks have acquired secondary meaning, U.S. law is to a notable extent different. Unlike Japanese law, U.S. trademark law gives a great deal of weight to prior use of the mark before registration. U.S. trademark law also allows for the registration of design and configuration marks where either the design or the configuration of a product has acquired secondary meaning and consists of qualities that are not purely functional. U.S. law places its greatest emphasis on the prevention of confusion. As a result, trademark protection on one product will prevent others from using the mark whenever it is likely to confuse the public as to the source of the goods in question. Where a mark owner has failed to "use" the mark for a period of two or more years, abandonment will be presumed and subject the registration to cancellation. Otherwise, a trademark is protected for twenty years and is indefinitely renewable for an additional twenty year period.

A Japanese mark owner seeking to license his trademark in the United States will inevitably be concerned with controlling the quality of trademarked products being manufactured and those concerns will most likely manifest themselves in the form of a licensing agreement granting broad quality control powers to the licensor.

18. Trademark Act, art. 8(1).
19. Trademark Act, art. 2.
20. Trademark Act, art. 50.
21. Lanham Act, 15 U.S.C. §§ 1051 and 1127 (West Supp. 1990). Under § 1127 a mark may be placed on products and entered into the stream of commerce to satisfy the requirements of "use." Section 1051 allows the applicant to allege and provide evidence of "use" in order to secure federal registration of the mark.
26. The Japanese licensor will find some support for his position under 15 U.S.C.
Local counsel representing the Japanese licensor will need to be aware of their client's higher expectations and be ready to translate those expectations into acceptable terms. At the same time though, local counsel will be cognizant of the fact that the domestic licensee is likely to balk at constraints that do not allow him to quickly adapt a product to the domestic market.

As well, both local counsel and the potential licensee should know that the Japanese licensor may not appreciate the role of prior use under U.S. trademark law. It should be recognized then, that the licensor will seek added protection within the licensing agreement for what he may see as unnecessary exposure to a prior filing by a competitor. An important consideration regarding the value of the mark transferred is the trademark protection offered for the design or configuration of the product in question. The Japanese licensor may be unaware of the additional value flowing from the protection offered the creative arbitrary aspects of the product's design. The longer duration for trademark protection in the United States also adds value to the extent that the cost of administering the trademark are lower. Yet, this is offset by the costs, and risks, of entering the product into the stream of commerce prior to registration. As with copyright law, the U.S. trademark law provides greater protection than does Japan's. This allows the Japanese mark owner virtually exclusive use of the mark where confusion as to origin might occur. Again, the licensee may attempt to use this as a bargaining chip when negotiating the annual rate for royalties and up-front investment by the mark holder. On the other hand, local counsel will need to raise their Japanese client's expectations by fully contrasting the protection offered under U.S. law with that afforded by Japanese law.


The transfer of rights to use or manufacture a patented technology is very often the touchstone of any licensing agreement. As a result, the validity, duration, and scope of the governing patent is of elemental importance on both sides of a licensing transaction. In recent years there has been a dramatic increase in the number of U.S. patents granted to Japanese applicants. §1055 which allows for the licensing of trademarks as long as the public is not deceived as a result. In other words, §1055 implicitly requires the licensor to insure the nature and quality of the trademarked product produced by the licensee.

27. USITC Pub. 2065, supra note 1, at 9.
licenses from the Japanese patent holders, and those domestic enti-
ties that wish to take advantage of and patent Japanese technology
not yet applied for in the United States need to consider Japanese
expectations of patent protection. Patent licensing agreements ac-
count for the vast majority of Japanese technology rights transfers
with royalty payments usually forming the basis for compensation.28

As with trademark law, Japan’s patent law rests on a first-to-file system.29 Even where two separate applicants, one pursuing a
patent of invention and the other pursuing a utility patent on the
same subject matter apply on different dates, the first to file will be
granted the patent.30 Interestingly, only products which can be
"utilized in industry" may be patented as a patent of invention.31
Patent protection in Japan for invention patents endures for fifteen
years from publication but no more than twenty years from the date
of application while utility patents expire ten years from the date of
publication but no more that fifteen years from the date of applica-
tion. Design patents endure for fifteen years from the date of regis-
tration. An applicant for a patent may license the subject matter of
the application prior to the granting of the patent.32

Compulsory licensing requirements under Japanese patent law
mandate rather strict working requirements for patents which have
been granted. A patent may be subject to compulsory licensing if
the patent is not sufficiently worked within three years of the
grant.33 If the patent is co-owned, each of the co-owners must be a
signatory to the licensing agreement.34

Under U.S. law, the priority to patent rights vest once an appli-
cant has invented the subject matter and reduced it to practice, re-
gardless of first-to-file issues.35 The filing of a patent application is
considered a constructive reduction to practice.36 The term of a

30. Patent Act, supra note 29, art. 39(3). But note that where the two applicants were
formerly associated companies and it appears that the application of one of the parties may be
based on misappropriated technology secrets, only the inventor or his successors in interest
may apply for the patent. Patent Act, art. 39(6).
33. Patent Law, supra note 29, art. 83.
34. Patent Law, supra note 29, art. 73.
36. General Elec. Co. v. DeForest Radio Co., 17 F.2d 90 (D. Del. 1927); Ex Parte
712 (C.C.P.A. 1974).
U.S. patent, with few exceptions, is seventeen years from the date of registration. Unlike Japanese law, U.S. patent law does not contain provisions requiring the subject matter of the patent to be worked nor are there any provisions for compulsory licensing. As well, even if a patent is co-owned, either owner has full rights to license without the other owner's signature.

Again, the broader scope of protection offered under U.S. patent law will affect the value of the patent license positively. As regards the licensing agreement, a potential Japanese licensor, familiar with Japan's first-to-file system, will seek to insure that a patent is filed for the subject technology as soon as possible so as to preempt any possible misappropriation that might occur before filing. The potential Japanese licensor's sense of urgency is also piqued by timing of the start of patent protection, in Japan, at the time of first publication, not actual registration. As well, the Japanese licensor may seek, by U.S. standards, extra assurances that the patent subject matter will be worked sufficiently.

4. Japanese Protection of Know-how and Trade Secrets

Often, a licensing agreement consists of a package of products including specific knowledge regarding the most advantageous processes for production of, or means of using the patent or trademark subject matter. Such information and know-how, when compiled, constitute valuable trade secrets that often affect the final form of a licensing agreement. The amount of legal protection provided know-how and trade secrets directly affects the value of that information as part of the licensing package.

The development of trade secret law protecting the exchange of know-how and other proprietary information is a fairly recent phenomena in Japan. Given the degree of corporate networking, it has traditionally been a business custom in Japan to freely exchange what in the United States would be considered trade secrets. As a result of international pressure, the Diet, in 1990, passed a bill providing protection for trade secrets. The new law defines trade secrets as (1) technical or business information, (2) which is useful or valuable for production, marketing, and other business activities,
(3) is kept secret, (4) and is not publicly known. Although not defined within the Act, information is presumably disclosed to the public, and thus not within the purview of trade secret protection, once it has been revealed in the form of a speech, articles, or technical proposals.

In order to meet the "kept in confidence" requirement of the Act, the trade secret owner must take active measures to insure that the information remains secret. Under the Act, any information that is of a technical or business nature and has economic value is protectible as a trade secret. This has been interpreted to include not just research results, drawings, and customer lists, but virtually any information that is licensable. Indicating a break with the past, the Act has been interpreted to impose liability on ordinary employees as well as upper level management and technicians.

Unlike Japanese law, U.S. trade secret law is state, not federal law. However, most states have adopted some form of the Restatement of Torts which defines trade secrets as "any formula, pattern, device, or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it." As well, the subject matter of the trade secret must be kept secret and not be a matter of public knowledge. In contrast to Japanese law, U.S. common law has interpreted the requirement for maintaining secrecy quite liberally. A trade secret owner need only take reasonable steps to protect the confidentiality of his trade secrets and prior limited public disclosures will not preclude trade secret protection. While it is recognized that upper level supervisors and managers may be under an obligation to maintain confidentiality when changing jobs, U.S. courts have been reluctant to impose an implied obligation of confidentiality on lower level employees in trade secret cases.

It is clear that a Japanese licensor is going to come to the bar-

42. Unfair Competition Act, supra note 41, art. 1(3).
44. Id.
45. Id.
46. Id.
47. RESTATEMENT OF TORTS § 757 (1939).
48. Id.
49. K-2 Ski Co. v. Head Ski Co., Inc., 506 F.2d 471 (9th Cir. 1974) (where the plaintiff had disclosed his ski construction at a trade show, but not to defendant's employees, and did not take active security measures at its production facilities).
gaining table with a mixed bag of expectations. On the one hand, his experience with trade secret law will be limited by the traditional Japanese approach to trade secrets. On the other hand, he is likely to have developed very strict views as to how to best protect his trade secrets based on recent legal developments in Japan. Because compensation for the Japanese rights package is usually in the form of royalty payments, the prospective licensor will be keen on insuring that all possible steps are taken to prevent the value of his technology rights package from being diminished by misappropriation. For the Japanese licensor's local counsel, this may mean negotiating for higher levels of plant or facility security in addition to requiring explicit confidentiality agreements by all of the licensee's employees. At the same time, the licensee, in some circumstances, may wish to seek assurances that the information or know how being transferred as part of the technology rights package is not divulged by the licensor through the licensor's corporate network in Japan.

III. CONTRACT LAW AND NEGOTIATION

As a general rule, Japanese law favors freedom of contract and the choice of law made by the parties to an agreement will govern the contract. The Japanese approach to contract negotiations tends to be less confrontational than that normally faced by the U.S. businessman. Where U.S. negotiations tend to focus on tangible legal and business aspects of the transaction, the Japanese tend to emphasize setting a basis for long term business relations. Consequently, negotiations with Japanese concerns tend to take a longer period of time than is usual for comparable U.S. companies.

While it is usually the case that U.S. negotiators to a licensing agreement have authority to assent to contract provisions, such is not true for their Japanese counterparts. Rather, it is typical for the Japanese to use a group decision making process where the proposed licensing agreement flows up the corporate ladder, not down. Once the proposed agreement has been reviewed by superiors and a consensus reached, authority to assent to the agreement passes down the chain of command. The frustrating aspect for U.S.

52. Act Concerning the Application of Laws (Horei), art. 7. Japanese contract law is contained in the Civil Code (Minpo), art. 521 et seq.
negotiators is that the entire process is often repeated for each significant provision within the agreement. Consequently, the potential U.S. licensee must anticipate not only the delays resulting from differing negotiation styles, but also the significantly different expectations of the Japanese licensor.

IV. CONCLUSION

As Japan becomes a technology innovator, U.S. industry is increasingly put into the position of having to import Japanese technology rights in order to maintain a competitive edge. In order to successfully shape mutually beneficial licensing agreements, it will be necessary for both the licensor's local counsel and the prospective U.S. licensee to anticipate and consider the expectations of the potential Japanese licensor as they are shaped by the potential licensor's own domestic intellectual property law. This essay has sought to highlight several potential areas of misunderstanding, and opportunity, as regards the primary subjects of licensing agreements.

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