

PATENT AND  
KNOW-HOW LICENSING  
IN JAPAN  
AND THE UNITED STATES

Edited by

TERUO DOI

and

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## *Foreword*

The plan for this volume, as a joint effort of the Japanese Institute of International Business Law in Tokyo and the Asian Law Program at the University of Washington, goes back about ten years. The project was intended to fill a considerable gap in the literature for lawyers and licensing executives in a field of enormous intricacy and public importance to both Japan and the United States—Japanese/United States technology transfers. Scarcity of bilingual and bilingal talent suggested to us that binational teamwork might expedite publication. Actually, as it turned out, prompt publication was not one of our achievements for numerous reasons, but happily the volume is still timely and unique in its bilateral focus. If anything, its importance is enhanced by the increase in two-way, transpacific traffic in technology over a decade ago.

The dialogue between the two groups of authors—Japanese and American—began in September 1968, with a very rewarding five-day conference in Tokyo and Hakone. Arrangements made by the Japanese Institute enabled American authors to work over manuscripts with their Japanese counterparts in the congenial surroundings of the Industrial Club in Tokyo and in the mountain atmosphere of Hakone. The experts in attendance from Japan were: Sadanao Amemiya, Michiko Ariga, Teruo Doi, Yutaka Kubota, Kazuko Matsuo, Keiko Someno, Yoshinobu Someno, Yasuhara Nagashima, and Koe Toyosaki; and from the United States: John J. Cooper, Wilbur L. Fugate, Eugene H. Lee, John D. Lyon, Stephan H. Philbin, Robert A. Stenzel, and William R. Woodward; and from the sponsoring groups: Takeo Suzuki, Kazushige Ushimaru, Roy L. Prosterman, and Dan F. Henderson.

Since the conference was held, all manuscripts have been updated and revised twice. The volume has experienced the usual problems encountered in multiauthored books compounded by bilingual difficulties and bilateral aspects of a technical subject. Changes in American editorial responsibility and tardy authors on both sides have further slowed up publication. Nevertheless, this updated ver-

sion comes at a good time because Japanese regulations of foreign licensing have further been liberalized. In addition, the outflow of Japanese technology reached a new stage in 1974, having increased to the point where there were more new Japanese licensors worldwide than licensees, though total Japanese licensees' royalty payments (including old licenses) were still much higher than those received by Japanese licensors.

Special thanks go to the Asian Foundation and the Ford Foundation which provided some of the funds for the Japanese and American sides, respectively. As sponsors, we add our thanks to the authors for their efforts and expertise. They are indeed a select group of contributors. Finally, we owe much to the editors, Teruo Doi and Warren L. Shattuck for seeing this project through.

August 1976

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## *Preface*

This project was designed to provide practitioners engaged in licensing transactions between Japan and the United States with basic information concerning both substantive and procedural aspects of the patent systems, particularly, legal protection of know-how, law governing remedies, antitrust, and taxation, as well as the basics of licensing agreements.

The first chapter, jointly written by United States and Japanese authors, is a comparative sketch of the patent systems of the two countries. The second chapter, jointly written, discusses legal protection of know-how in the two countries. The authors point out that in the United States there is a body of case law giving remedies against misappropriation of trade secrets including know-how, but in Japan that law is still not fully established.

The third and fourth chapters, written separately by United States and Japanese authors, deal with the filing and examination of patent applications and other procedural matters. These two chapters show interesting differences in the two patent systems attributable to differences in the legal systems, practices, and tradition.

The fifth chapter, also a joint work by United States and Japanese authors, provides models and guidelines for drawing up licensing agreements under the law of both countries. Important provisions usually inserted in international licensing agreements are discussed, and sample provisions are listed at the end.

The sixth chapter, also jointly written, gives a broad survey of the law of both countries concerning remedies and dispute settlement procedures relevant to licensing transactions.

The seventh and eighth chapters, written separately by a United States author and a Japanese author, discuss regulation of restrictive practices in licensing transactions under United States antitrust law and the Japanese antimonopoly laws. Since the Japanese Antimonopoly Law is modeled after the United States antitrust law, the reader will find that the basic principles are similar, but enforcement measures differ greatly.

The last two chapters, also written separately, deal with tax aspects of licensing transactions between the two countries. This is an important addition to the book, because treatises on licensing usually do not cover this subject.

The funding and sponsor organizations, their representatives and staff, and especially the authors on both sides deserve credit for persevering and seeing this volume through to completion. Writing in English was, of course, an extremely arduous task for some of the Japanese experts. This in turn cast burdens on the editors of both countries, who spent much time checking and rewriting some of the manuscripts, and in corresponding with each other and with the authors. Mr. Donald Swisher, presently a member of the Washington bar, deserves our thanks for his initial review of many of the manuscripts as an editorial assistant to the Director of the Asian Law Program.

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**PATENT AND KNOW-HOW LICENSING  
IN JAPAN AND THE UNITED STATES**



# *A Comparative Study of the Patent Laws of the United States and Japan*

MARCUS B. FINNEGAN  
KOE TOYOSAKI  
DAVID G. CONLIN

## I. INTRODUCTION

Both the United States and Japan are highly industrialized nations and major economic forces in the world community. The advanced technology of both nations has been a significant factor in their industrial growth. Contributing substantially to the technological development of both the United States and Japan—respectively, the first and the third largest economies in the world—have been their systems of patent law.

The patent system of each nation has been important to its own progress and prosperity, but it has become increasingly important to the other country as well. The extensive economic interaction between Japan and the United States, including the presence of a large market in each country for the products of the other, is largely responsible for the increasing instances of patent procurement by nationals of one country in the other.<sup>1</sup>

Both the United States and the Japanese governments have recognized the importance of a working relationship in the area of patents. The two nations are joined by patent provisions in the Treaty of Friendship, Commerce, and Navigation.<sup>2</sup> They are both members of

1. See ASUO HIRAKU TOKKYO (published by The Japanese Patent Office in 1968) at p. 204 for statistics showing the number of patents held in Japan by aliens in representative years during the period 1909–67. In UNITED STATES CHEMICAL AND PHARMACEUTICAL PATENT PRACTICE (published by the Practising Law Institute in 1972) at pp. 161–65, statistics are given showing the activity of aliens in filing and obtaining patents in the United States during the period 1965–69.

2. Treaty of Friendship, Commerce and Navigation with Japan, 15 September, 1953, 4 U.S.T. 2063, TIAS No. 2863.

the Paris Union,<sup>3</sup> and each is a signatory to the 1970 Patent Cooperation Treaty.<sup>4</sup>

In light of the increasing numbers of American and Japanese inventors who are attempting to secure protection for their discoveries, domestically as well as in foreign nations, an understanding of the patent laws of the United States and Japan, particularly their similarities and differences, is virtually essential. It is the need for such understanding that has prompted a comparative study of the fundamental principles of the patent laws of the two nations.

## II. A COMPARATIVE OVERVIEW OF THE JAPANESE AND AMERICAN PATENT SYSTEMS

The heart of the patent systems of both Japan and the United States is the body of patent laws enacted by the legislative branch of each country. Although there are striking similarities, as well as marked differences, in various provisions of the respective laws, the patent statutes of both countries spring from a singular perception of the role that a strong and viable patent system ought to possess in the overall economic, industrial, and material well-being and wholesome growth of the economy and populace of each nation.

Japan and the United States both maintain patent systems because each country has concluded that creative endeavors in the useful arts inject a vital and continuous flow of technological innovations into the industrial mainstream. Moreover, it has been determined that the granting of exclusive rights to a discovery is a just reward and a necessary incentive for inventors to persist in expending their time, effort, and money in such creative endeavors.

The United States Constitution empowers the Congress to "promote the progress of . . . useful arts, by securing for limited times to . . . inventors the exclusive right to their . . . discoveries."<sup>5</sup> Thus, the objective of the United States patent system is to promote progress in the useful arts. The method of realizing that objective is to secure to inventors, for limited times, the exclusive right to their discoveries.

The Patent Law of Japan<sup>6</sup> expresses a similar purpose. The object of

3. Convention of Paris for the Protection of Industrial Property, signed March 20, 1883, 25 Stat. 1372 (1887), T.S. No. 379.

4. A copy of the Patent Cooperation Treaty appears at 876 O.G. [U.S. PATENT OFFICE GAZETTE] 341 (1970).

5. U.S. CONST., art. 1, §8, cl. 8.

6. All references herein to the Patent Law of Japan are to the Foster-Ono translation of Articles of Law No. 121 of 13 April, 1959, as amended, Law No. 140 of 1962, Law No. 161 of 1962, Law No. 148 of 1964, Law No. 81 of 1965, Law No. 91, of 1971, in R. FOSTER and M. ONO, *THE PATENT AND TRADEMARK LAWS OF JAPAN* (1970). The Patent Law of Japan is to be distinguished from the Utility Model Law of Japan which is concerned with "devices" rather than "inventions" and defines "device" as "the creation

the Patent Law is "the promotion of the protection and utilization of inventions, with a view to encouraging inventions and thereby contributing to the development of industry."<sup>7</sup>

The common essence of both the American and Japanese patent systems can be found in these expressions of objective. Any philosophical discussion of either system, as well as any practical inquiry into the statutory structure of each system, must begin with an understanding of this essence. From it emanates several broad principles and concepts that are shared by the patent systems of both Japan and America.

The important concepts derived from the objective of both patent systems are that the nature of the inventions that relate to the purpose of the patent systems are those that fall in the fields of the useful arts or pertain to industry in its broadest sense; that inventors who make discoveries in these fields that relate to the purpose of the patent systems are to be given protection against unauthorized appropriation of their inventions by others; and that such protection is warranted where an invention can be expected to contribute to the progress of the useful arts or the development of industry. These three broad concepts translate into particular provisions in the patent laws of the United States and Japan directed to the nature of subject matter that may or may not be patented, the rights of the inventor and the enforcement of these provisions, the standards of patentability to be used to determine whether a particular invention deserves patent protection, and the requirements of public disclosure necessary for the realization of the full benefit of inventive discoveries. In some cases, there is correspondence between the provisions of the patent laws of the two countries, whereas in others there is divergence.

There is at least one major conceptual difference in the way in which the patent laws of the two countries have been drawn. United States statutes have been drafted with a view toward broadly defining the elements of the American patent system and leaving the courts to imprint the fine texture of the system by statutory interpretation on a case-by-case basis. The Patent Law of Japan is a comparatively more rigorous legislative effort. The difference is one of practice, which would be reflected in other areas of law as well, but it is one that should be appreciated at the outset, for it does have an impact.

The current patent law in force in the United States is the Patent

of a technical idea utilizing natural laws." See Foster and Ono, at 105-12; A. KUKIMOTO, SUMMARY OF JAPANESE PATENT LAW 29 (1971). The present paper does not deal with utility model registrations.

7. Article 1.

Act of 1952, which is actually Title 35 of the United States Code.<sup>8</sup> Within the last ten years there has been mounting pressure for revision, but no new patent legislation has thus far been enacted.

#### A. THE RIGHTS CONFERRED BY PATENTS

An appropriate starting point for a comparative evaluation of the patent laws of the United States and Japan is an analysis of the nature of patent rights afforded under the respective laws of each nation. An understanding of patent rights provides a suitable perspective against which to view the prerequisite conditions that must be fulfilled in order to obtain a patent.

The cornerstone of the rights conferred by a patent in either country is the vesting of the exclusive right to the invention in the patentee.<sup>9</sup> Under the Patent Law of Japan, a patentee has the exclusive right to work the patented invention as a business<sup>10</sup> for a period of fifteen (15) years from the date of publication of the application, but not longer than twenty (20) years from the filing date of the patent application.<sup>11</sup> A United States patent has a term of seventeen (17) years from the date of issuance of the patent and affords the patentee the right to exclude others from making, using, or selling the invention throughout the United States.<sup>12</sup>

No payment of post-issuance annuities is required in the United States. In contrast, Article 107 of the Patent Law of Japan prescribes a schedule of fees that must be paid in order to maintain the patent in force.

Unauthorized use of a patented invention constitutes an infringement under the laws of both nations. In fact, where a patented invention is such that it utilizes an earlier patent, Article 72 of the Patent Law of Japan and judicial interpretation of the United States statute both prohibit the use of the later patented invention, absent the license to do so, from the owner of the earlier, more comprehensive patent.

In both nations, upon evidence of infringement, the infringer can be ordered to cease use of the patented invention.<sup>13</sup> The infringer can

8. All references to the United States Patent Statute are to sections of Title 35 of the United States Code, designated as 35 U.S.C.

9. References herein to the "patentee" or "inventor" are understood to include more than one patentee or inventor as the case may be and to refer to the assignee, heir, or other successor of the patentee or inventor if ownership of the application or patent has been transferred.

10. Article 68.

11. Article 67.

12. 35 U.S.C. §154.

13. See Article 100 of the Patent Law of Japan and 35 U.S.C. §283. See generally Nakamura, *Patent Infringement—A Comparison of the United States and Japan*, 56 J.P.O.S. 504 (1974); Yoshii, *Patent Infringement Litigation in Japan*, 54 J.P.O.S. 383 (1972).

also be compelled to pay damages to the patentee adequate in compensation for the patentee's loss, and in no case will the award be less than that of a reasonable royalty for the use.<sup>14</sup>

The patent systems of Japan and the United States are therefore fundamentally similar in the benefits afforded. These patent rights are granted to induce practical, industrial innovation and its disclosure. The right to bar other members of the public from using an invention is a substantial and significant endowment by the respective governments of these two nations, and is given only in those classes of cases in which the desired inducement can be expected to be realized. The various requirements for patentability imposed by each country, discussed in detail below, are designed to insure that patent rights are only conferred where the public benefit is commensurate with the public sacrifice that accompanies the granting of patent protection.

In Japan, the infringing manufacture or use of a patented invention must be in connection with a business and not, for example, for a household purpose.<sup>15</sup> In addition, the patent right does not extend to permit prohibition of the use of a patented invention for the purpose of test or research, or to vessels or aircraft merely passing through Japan or equipment used therein, or to things that existed in Japan prior to the time the patent application was filed.<sup>16</sup>

Direct infringement in the United States is constituted by the making, using, or selling of the patented invention without authority.<sup>17</sup> Non-business use and experimental use are not exempted from actionable infringement by either statute or judicial interpretation. However, a charge of infringement has rarely, if ever, been brought against an ordinary, individual consumer. Also, damages are not normally recoverable for experimental use unless the use is for a commercial purpose.<sup>18</sup> The United States Patent Statutes exempt vessels, aircraft, and other vehicles, temporarily within the United States, from patent infringement.<sup>19</sup>

Where direct infringement is shown, one who knowingly and intentionally causes, encourages, or otherwise actively induces another to commit that direct infringement can also be held liable as an infringer,<sup>20</sup> as can one who contributes to the direct infringement by

14. See Article 102 of the Patent Law of Japan and 35 U.S.C. §284. Note that in the United States, interest and costs are awardable, 35 U.S.C. §284, as well as reasonable attorney fees, although the latter applies only in "exceptional" cases.

15. Article 68.

16. Article 69.

17. 35 U.S.C. §271(a).

18. *Northhill Co. v. Danforth*, 51 F.Supp. 928, 58 U.S.P.Q. 575 (N.D.Cal. 1942); *Radio Corp. of America v. Andrea*, 90 F.2d 612, 34 U.S.P.Q. 312 (2d Cir. 1937).

19. 35 U.S.C. §272.

20. 35 U.S.C. §271(b). See *Fromberg v. Thornhill*, 315 F.2d 407, 137 U.S.P.Q. 84 (5th Cir. 1963).

providing a material part of the invention, knowing it to be specially adapted for use in infringement.<sup>21</sup>

In determining whether a particular product, machine, or process infringes a particular United States patent claim, the first step is to assess whether there is "literal" infringement, i.e., whether the product, machine, or process that allegedly infringes falls within the meaning of the terms of the claim.

In the interpretation of claims, the language used is of primary importance. In his patent specification, the inventor is permitted to define the terms he uses in the claims, even if his definitions are slightly at variance with the established meanings of the terms.<sup>22</sup> However, while the claims will be interpreted in light of the specification in order to ascertain their meaning and scope, the specification may not be used to change or expand the meaning of the claims.<sup>23</sup>

If there is no literal infringement, the patentee will still have an action of infringement if the elements of the suspect product, machine, or process perform substantially the same function in substantially the same way to achieve substantially the same results as the patented invention.<sup>24</sup> This is known as the "doctrine of equivalents."

The doctrine of equivalents is an important aspect in determining whether or not there has been an infringement, since it is often the case that a literal infringement of a claim has been avoided. One limitation on the application of the doctrine of equivalents is the principle of "file wrapper estoppel." This principle comes into play when the patentee has amended his claims to avoid a rejection during the prosecution of his application in the patent office. The patentee may be precluded from asserting that his pre-amendment claim, which the accused infringer is now infringing, embraces equivalents entitled to protection.

Although the application of the doctrine of equivalents and the rule of file wrapper estoppel depends upon the circumstances of each individual case; as a general proposition, the scope of the patentee's protection can extend beyond the literal language of the claims to cover equivalent modes of operation, but does not include those modes that have been given up and sacrificed in order to obtain the patent.

The Japanese interpretation of the scope of the patent is similar to

21. 35 U.S.C. §271(c). See *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 141 U.S.P.Q. 681 (1964).

22. See, e.g., *Chicago Steel Foundry Co. v. Burnside Steel Foundry Co.*, 132 F.2d 812, 56 U.S.P.Q. 283 (7th Cir. 1943).

23. *United States v. Adams*, 383 U.S. 39, 49, 148 U.S.P.Q. 479, 482-83 (1966); *Seymour v. Osborne*, 78 U.S. (11 Wall.) 516, 547 (1870).

24. *Graver Tank & Mfg. Co. v. Linde Air Products Co.*, 339 U.S. 605, 85 U.S.P.Q. 328 (1950).

that of the United States. Under Article 70 of the Patent Law of Japan, the technical scope of a patented invention is determined in light of the specification and the claimed scope. Although the Patent Law of 1921 lacked such a provision, it had been the general practice of the courts in Japan to determine the scope of the patent in the light of the specification, particularly the description of the scope of the claims to the patent, together with the drawings.

Under Japanese law, the doctrine of equivalents is recognized,<sup>25</sup> as is the concept of the doctrine of file wrapper estoppel.<sup>26</sup> Recourse to the latter is infrequent in the Japanese courts, whereas it is very often raised in patent infringement litigation in the United States.

The interpretation of the scope of a patented invention is a critical facet of determining patentability, validity, and infringement. Under Japanese patent law, anyone can make a request to the patent office for an interpretation of the technical scope of a patented invention.<sup>27</sup> Upon receipt of such a request, the patent office will designate three trial examiners to render an interpretation. Under United States patent law, however, there is no comparable provision that allows for interpretation of the scope of a patent either by the United States Patent Office or by the courts.

Infringement is conduct against which the patent right may be enforced. However, there are limitations on the patent right, notwithstanding the existence of an infringement.

Only a valid patent can be infringed. Under 35 U.S.C. §282, every claim in an issued patent is presumed to be valid. However, this is not a conclusive presumption, and §282 also affords the accused infringer the right to assert, as a defense, the invalidity of the patent on the grounds that the patentee has failed to comply with the requirements of patentability. There are additional grounds on which a patent may be held to be unenforceable, such as laches;<sup>28</sup> fraud practiced in obtaining the patent;<sup>29</sup> and patent misuse which can include various antitrust violations such as illegal price-fixing arrangements,<sup>30</sup> resale

25. *Badische Anilin und Soda Fabrik A. G. v. Sekisui Kagaku Kogyo K. K.*, 12 Kakyū Minshū 937 (Osaka Dist. Ct. 1961).

26. *See Muranaka v. K. K. Daiwa Gomu Seisakusho*, 247 HANREI TAIMUZU 263 (Tokyo Dist. Ct. 1970).

27. Article 71.

28. *See Gillons v. Shell Co. California*, 86 F.2d 600, 32 U.S.P.Q. 1 (9th Cir. 1936), *cert. denied*, 302 U.S. 689, 37 U.S.P.Q. 842 (1937); *Pierce v. International Telephone & Telegraph Co.*, 147 F.Supp. 934, 112 U.S.P.Q. 175 (D.N.J. 1957).

29. *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172, 147 U.S.P.Q. 404 (1965); *Beckman Instruments, Inc. v. Chemtronics, Inc.*, 428 F.2d 555, 165 U.S.P.Q. 355 (5th Cir. 1970), *on remand*, 328 F.Supp. 1132, 170 U.S.P.Q. 466 (W.D.Tex. 1971).

30. *See, e.g., United States v. Univis Lens Co.*, 316 U.S. 241, 53 U.S.P.Q. 404 (1942).