

Technology Transfer and Licensing

Japan Patent Office
Asia-Pacific Industrial Property Center, JIII

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Introduction

The current economic and business environments are extremely severe, and global companies are facing fierce competition across the world. In addition, as technological innovation is increasingly speeding up and becoming cross-industrial, regardless of their size, companies often find it difficult to fully accomplish their business plans simply by relying on their own development capabilities and technologies.

Innovation is considered essential since sustainable development has become a basic principle of business management, and open innovation, such as technology transfer, is seen as the optimum choice for maximizing efficiency of innovation.

Under these circumstances, the need has arisen to promote licensing-in to complement a company's own development capabilities and technologies, as well as licensing-out to meet a company's business strategies and provide technical support to other companies. In other words, we are seeing the growing importance of technology transfer. It is also the case in recent years that the issue of intellectual property/intellectual property rights has become an extremely important subject for discussion. This is probably due to the progress of the borderless software-, service- and information-oriented economy, and the maturing of the issues surrounding intellectual property/intellectual property rights.

There are two basic perspectives on how to handle the issues surrounding intellectual property/intellectual property rights: the protection and acquisition of rights, and the use and exploitation of those rights. In discussing the maturing of the issues surrounding intellectual property/intellectual property rights, the latter perspective—the use and exploitation of rights—is seen as more important.

In discussing intellectual property/intellectual property rights from the perspective of their use and exploitation, technology transfer agreements and licensing agreements play an important role. It is often said that the focus in the actual management of intellectual property/intellectual property rights is shifting from merely acquiring the rights to using and exploiting them.

With this as a background, the establishment of technomarts for trading technologies, and technology licensing organizations (TLOs) are being promoted at a national level.

In many cases, technology transfer has materialized in the form of technical assistance agreements or licensing agreements. The way that these agreements are handled normally differs depending on whether you are in the position of granting or receiving technical assistance or a license. Thus the approach to and details of, for example, licensing strategies and practices also normally differ depending on your position. But whichever position you may be in, it is important to handle technical assistance agreements and licensing agreements appropriately to bring success to technology transfer.

I. Outline of Technology Transfer

1. Meaning of technology transfer

Technology transfer can be understood in the broad sense as a concept that includes technological disclosure, technical guidance, technical assistance, technology assignment, and licensing. It is also possible to consider technological disclosure, technical guidance, and technical assistance as a part of technology assignment and licensing. In whichever case, technology transfer is normally implemented by concluding technology transfer agreements of various types.

Although there is no fixed interpretation or definition of a technology transfer agreement, Article 30 of the Foreign Transactions and Foreign Trade Act, which sets out the provisions regarding technology introduction contracts—“a contract pertaining to the transfer of industrial property rights or other rights related to technology, establishment of the right to use these rights or guidance on technology related to business management”—may serve as a clue. A technology introduction contract is signed when a resident introduces technology from a non-resident, and it is considered to be a type of technical assistance agreement in the broadest sense.

Technical assistance agreements pertain to the transfer of patent rights and other industrial property rights related to technology, the establishment of the license and the right to exploit and use these rights or guidance on technology related to business management. Agreements for which the parties are located in different countries and concern international technical assistance are called international technical assistance agreements. International technical assistance agreements can be divided into two types: technology introduction (import) contracts to receive technical assistance from foreign countries; and technology export contracts to provide technical assistance to foreign countries.

Technical assistance agreements are synonymous with technology transfer agreements in the broadest sense, and as explained later, technology transfer agreements encompass 1) technology assignment agreements, 2) technology loan agreements, 3) service provision agreements, and 4) other types of agreements.

(1) Technology transfer agreements in the broadest sense can be summarized as follows:

- 1) Transfer of industrial property rights and other rights related to technology (know-how)

The transfer can be made on an onerous/gratuitous basis or through in-kind contribution of technology.

- 2) Granting of licenses pertaining to industrial property rights and technology (know-how)

Licenses can be granted on an onerous/gratuitous basis or through “in-kind” contribution of license rights.

- 3) Guidance on technology related to business management

Guidance concerning management of factories, companies, and offices

(2) Technology transfer agreements in the narrowest sense can be summarized as follows:

- 1) Granting of licenses pertaining to patent rights and utility model rights

- 2) Granting of licenses pertaining to currently claimed inventions and devices

- 3) Granting of the right to use know-how

These technology transfer agreements in the narrowest sense are also called intellectual property licensing

agreements.

(3) Outline of licensing agreements

Licensing agreements are agreements where one party (the licensor) grants the other party (the licensee) a license (the right to exploit and use) for the license targets (patent rights, copyright, know-how, etc.).

Licensing agreements can be outlined as follows:

- 1) Who is involved? ... Parties to the agreement, agent, patentee, owner of know-how
- 2) What is licensed? ... License targets (patent, know-how, etc.)
Patent right, right to obtain a patent, know-how, copyright
- 3) What is the content? ... Forms and conditions of the license, written agreement
Unilateral license, sublicense, cross license, exclusive/non-exclusive license, consideration, handling of improved technology, warranty, confidentiality, etc.
- 4) What are the legal grounds/regulations binding the agreement? ... Patent Act, Antimonopoly Act, etc.
Provisions concerning licenses in the Patent Act, Guidelines for the Use of Intellectual Property under the Antimonopoly Act
- 5) How do negotiations proceed? ... Negotiations between the parties/representatives
Who will present conditions/an agreement draft? What about the negotiation method?
- 6) How is the agreement signed and managed? ... Contract management
Who will sign the agreement? Who will be responsible for contract management? How will the agreement be managed at the company?

2. Objectives of and opportunities to start technology transfer

The primary objective and management principle for companies is to achieve sustainable development and increase competitiveness. Innovation is indispensable in achieving sustainable development, and the selective and complementary implementation of technology transfer and open innovation is helpful to maximize the efficiency of innovation.

Although the objectives of and opportunities to start technology transfer vary, they can be summarized as follows in the case of licensing agreements:

- 1) Avoid infringement of another's patent rights and other intellectual property rights.
- 2) Enable access to know-how, which is normally information kept secret by the other party.
- 3) Earn royalties, make business safer, and raise cost performance (buy time).
- 4) Opportunities for licensing agreements... When, where, and how.
Technomart, TLO, patent fair, magazine/newspaper, patent infringement warning

3. The need for technology transfer

The need for technology transfer, technical assistance, and licensing normally differ depending on whether you offer technical assistance (licensing-out) or receive technical assistance (licensing-in).

The need for technology transfer in each of the cases can be summarized as below.

(1) Offering technical assistance (licensing-out)

- 1) Technology transfer offers another useful means of earning besides the production and sales of products (= open innovation).
- 2) Companies can receive a higher reputation for their technological power that they can offer to other companies as technical assistance.
- 3) Surplus or idle technologies can be commercialized to reimburse technological development expenses

and maintenance fees incurred for those technologies.

4) Companies can receive a grant-back for improved technology developed by their licensees.

5) Technology transfer plays an important role in international strategies.

(2) Receiving technical assistance (licensing-in)

1) Cost performance increases because there is no need for technological development.

2) Time required for technological development can be reduced, and the company's position as the head starter can be secured.

3) Infringement of other companies' rights can be avoided by obtaining a license.

4) Companies' weak points can be made up for.

5) Access to and the right to use other companies' secrets and useful information can be obtained.

Summing up, companies need technology transfer, technical assistance, and licensing because, since the importance of a cross-industrial approach has been increasing recently, they need to secure their position as the head starter while saving time and labor for R&D, avoid infringing other companies' rights identified through prior investigation, build a network with business partners, and, if necessary, receive licenses, in order to survive business competition. Since innovation has become indispensable for companies to achieve sustainable development and enhance their international competitiveness, and as the need for the selective and complementary implementation of open innovation has arisen in order to maximize the efficiency of innovation, it has become urgently necessary to vitalize technology transactions—particularly transactions on an international scale.

4. Forms of technology transfer

Although there are various forms of technology transfer, they can be categorized as below.

4-1 Technology assignment-type agreements

Technology assignment-type agreements are agreements involving, directly or indirectly, the assignment of ownership of a particular technology (including a share of the ownership), a characteristic that differentiates this type of agreement clearly from licensing agreements, where the ownership of technology remains with the original owner and only a license is granted. Depending on the current form of technology, the assignment of technology ownership can be divided into the assignment of patent rights; succession to the right to obtain a patent after filing the patent application; succession to the right to obtain a patent prior to filing the patent application; and assignment of know-how.

According to Japanese law, the assignment of patent rights or the succession to the right to obtain a patent after filing the patent application takes effect only when the transfer is registered (Patent Act Article 98 paragraph (1)), or the succession is notified to the Commissioner of the Patent Office (Patent Act Article 34 paragraph (4)). The succession of inventions prior to filing the patent application (the right to obtain a patent) has no effect on any third party unless the successor files the patent application (Patent Act Article 34 paragraph (1)). The assignment of know-how takes effect upon conclusion of the agreement, but there is no legal framework, such as registration and notification, to protect the right against third parties.

Technology assignment-type agreements include the following agreements.

(1) Technology assignment agreements

These are agreements whose direct objective is to assign ownership of a particular technology from one party (assignor) to another party (assignee). The onerous assignment based on this type of agreement is called a "sale."

In cases where a technology to be assigned under the agreement includes patent rights and other intellectual property rights, it is important to clarify whether the patent rights will also be assigned thereunder. The moral rights of the author, one form of the author's rights, are personal and exclusive to the author and cannot be assigned (Copyright Act Article 59).

(2) Joint venture agreements

These are agreement for the management of a company established through a joint contribution from two or more companies. It is often the case that technical assistance is provided from a parent company to a joint venture under the agreement. Joint venture agreements are usually concluded to avoid competition and cut costs, and it is rare that they are signed only for the sake of technical assistance.

4-2 Technology loan-type agreements

Technology loan-type agreements are agreements that grant to the other party a license and the right to exploit and use a particular technology while the ownership of the technology remains with the original owner. The main agreements included in this type of agreements are as follows:

(1) Licensing agreements

Licensing agreements are, as has already been stated, agreements where one party (the licensor) grants a license for a particular technology to another party (the licensee). Under licensing agreements, licensees acquire the right to exploit a particular technology for an independent business that is separate from that of the licensor. Licensing agreements are therefore different from subcontracts where subcontractors simply exploit a particular technology as an organization working under their sponsors.

Patent licensing agreements are concluded mainly to avoid infringements, while know-how licensing agreements are concluded mainly to gain access to secret information.

The provisions regarding licenses in the Japanese Patent Act focus mainly on patent rights (*senyo-jisshiken* exclusive licenses, *tsujo-jisshiken* non-exclusive licenses, Patent Act Articles 77 and 78), but there are also provisions regarding the right to obtain a patent in the act (*kari-senyo-jisshiken* temporary exclusive licenses, *kari-tsujo-jisshiken* temporary non-exclusive licenses, Patent Act Article 34 paragraphs (2) and (3)).

(2) Option agreements

Option agreements are agreements where one party provides the other party with the information and documents necessary for evaluating and examining the possibility of industrialization of a particular technology, and gives the other party the option to decide whether or not to obtain a license for the technology within a prescribed period (option period). The other party is therefore granted the right to use the information and documents provided only for the purpose specified above during the option period, and, in principle, loses the right when the option period is over.

The content of the licensing agreement (principal agreement) to be signed at the end of the option period may be already determined at the time of the conclusion of the option agreement. If this is the case, the terms and conditions of the principal agreement are attached to the option agreement, and take effect immediately after the receiving party chooses to obtain a license. However, if the content of the principal agreement is not determined, the parties have to proceed to negotiations after the receiving party agrees to obtain a license to determine the terms and conditions of the principal agreement. The main checkpoints for option agreements include the scope of information and documents provided for evaluation, confidentiality, restrictions on use, option fee, the option period and the method of exercising that option, and actions to be taken if the receiving party chooses not to obtain a license.

4-3 Service provision-type agreements

Service provision-type agreements are agreements whose direct objective is to provide technical services. The agreements can be classified into “assignment-type service provision agreements” and “loan-type service provision agreements” depending on whether the ownership of technology disclosed in the course of providing services is transferred to the receiving party or not. Service provision-type agreements include the following agreements.

(1) Engineering agreements

These are agreements to provide a series of technical services for creating equipment (machinery, devices, wiring, piping, etc. that make up a functional system) used to exploit a particular technology—for example, chemical process technology. Important services provided under this type of agreement include the design, procurement, installation, and commissioning of equipment. The parties can decide if ownership of the engineering technology provided will remain with the provider or not. In either case, however, the receiving party is normally expected to assume some obligation, such as secrecy and not using the technology for other purposes than the agreed for a certain period.

(2) Technological assistance agreements

These are agreements where one party provides the other party with various services including advice, instruction, examination, consultation, and engineer training necessary for the exploitation of a particular technology. This type of agreement is often concluded as incidental to licensing agreements or engineering agreements. Technological assistance is usually provided at either or both of the assisting party’s and receiving party’s factories. This type of agreement can be said to be concerned with guidance and assistance for ensuring or enhancing technological feasibility.

Technological assistance agreements can be divided into the supervision type and the advice type. With the supervision type, the receiving party is obliged to follow the assisting party’s advice and instructions, and the assisting party is responsible for the results of its guidance. With the advice type, the receiving party does not have to follow the assisting party’s advice and instructions, and the assisting party is not responsible for the results of its guidance.

When entering into a technological assistance agreement, it is therefore preferable to make clear whether it is the supervision type or the advice type, and specify what actions will be taken when the results of the guidance do not meet expectations.

(3) Technical information provision agreements

These are agreements where one party collects information and documents regarding a particular technical field or equipment, and provides them to the other party with or without comments. Under this type of agreement, sources of such information and documents are often designated to some extent, such as patent gazettes (including publications of unexamined applications) published in a specific country after the conclusion of the agreement, technical documents, information and documents obtained in academic societies and business shows, and pamphlets published by competitors.

4-4 Other technology transfer agreements

Apart from the forms of agreement explained above, the following agreements are also common in the industrial world.

(1) Plant export agreements

These are agreements concerning international plant export. In addition to the export of plant equipment, the agreement also usually encompasses plant engineering, the procurement of machinery and devices

installed in the plant, technical guidance, and licensing. The agreement may also include the design and layout of the plant, making it appear to be a comprehensive consulting agreement.

A variety of agreements of a different legal nature are thus often contained in a plant export agreement.

(2) Franchising agreements

Franchising agreements are agreements where one party (the franchisor) grants the other party (the franchisee) a license to use a trademark, trade name, service mark, etc. for which goodwill has already been established and which embody the goodwill, and provides the franchisee with guidance and advice regarding production, labor, finance, shop management, and all other matters on the business so that the franchisee can offer to general consumers products or services of the same quality as those offered by the franchisor. Therefore, franchising agreements normally contain aspects of trademark and other licensing agreements and technological assistance agreements.

The most important checkpoint regarding franchising agreements is quality control. This is because the biggest reason why general consumers buy products or services from the franchisee is because they expect the franchisee to offer the same high quality as offered by the franchisor. However, it should be noted that if the franchisor forces the franchisee to purchase a particular raw material or other items without good reason under the name of quality control, or restricts the franchisee's handling of competitors' products, such acts may be regarded as unfair trade practices under the Antimonopoly Act.

II. The Technology Transfer Process

Technology transfer processes normally differ depending on whether the technical assistance and licensing is being provided or received. This chapter focuses on the latter.

The technology transfer process in the case of receiving technical assistance and licensing begins with identifying a candidate technology to be introduced, followed by the evaluation and screening of the candidate, selection of a licensor company, determination of introduction policies, and negotiations with the licensor company regarding basic terms and conditions.

If agreement is reached after the negotiations, a written agreement is prepared, signed, and stamped by the parties to complete the technology transfer process. However, that process is only one example, and is not always the case. There are many other variations to suit each actual situation.

For instance, in the case of a simple licensing agreement, it is often the case that the licensor company contacted by a company interested in receiving a license prepares a draft licensing agreement immediately, and presents it to the licensee company for negotiation. The draft is then altered and modified as needed before the final agreement is completed. However, even in this case, the activities conducted in the process described above are more or less followed, and it is therefore probably still worthwhile to explain each of them briefly here.

1. Identifying a candidate technology to be introduced

Companies interested in introducing some kind of technology first have to identify a candidate technology. Main opportunities to identify a candidate include (1) technical documents (publications of unexamined applications, patent gazettes, newspapers, journals, etc.), (2) market research (products, components, pamphlets, etc.), (3) intermediation and agency by third parties (trading firms, chambers of commerce and industry, industry associations, National Center for Industrial Property Information and Training (INPIT)), (4) promoting sales of technologies, (5) advertisements to notify that your company is looking for a technology to license, (6) patent disputes (infringement warnings, infringements, filing for invalidation trials, etc.), (7) others (technical exhibitions, trade fairs, etc.). Some opportunities may be more important than others depending on the relationship between the licensor company and the company introducing the technology. If they are competitors, technical documents, advertisements to notify that the company is looking for a technology to license, and patent disputes may become important opportunities.

To identify, evaluate and screen a candidate technology as quickly as possible, technological introduction information available in technology transaction markets is useful. If there are patents that are owned by companies but are not exploited, such patents may be licensed if appropriate licensees are found. This kind of patent is called a “licensable patent.”

Patent rights for technologies developed by universities and national and other public research institutions are also licensable patents, which are taken to be licensed to private companies from the outset. If these licensable patents are fully utilized to provide new products or services, and create new businesses, industry will be vitalized, and the R&D capabilities of private companies will also be enhanced along the way.

2. Evaluation and screening of a candidate technology

The candidate technology identified undergoes an evaluation and screening process. This process can be subdivided into three stages: technical evaluation and screening, economic evaluation and screening, and the

decision on whether or not to introduce the technology.

2-1 Technical evaluation and screening

Major checkpoints are as follows:

(1) Development stage of the technology

Is the technology in the laboratory stage, the prototyping stage, or the commercial production stage? Mature technologies that are closer to or in the production stage are, needless to say, more valuable.

(2) Level of difficulty of industrialization (relative to your company's technological power)

The technology may require commercialization R&D.

(3) Existence of competitive technology, (and if such technology exists) comparison with the technology that you are planning to introduce (quality, performance, production capacity, yield, production costs, etc.)

(4) Current form, status, etc. of the technology

First the technology should be checked to find out its current form: patent, published application, unpublished application, or know-how. If the technology is patented or published, its details can be ascertained immediately. If the technology is patented, it proves that the technology has novelty and inventive step.

If the technology is patented, the term and technical scope of the patent, as well as whether there are any grounds for invalidation, dependent/conflict relationships with a third party's patent, or a statutory non-exclusive license, should be checked. In the case of patent applications, their patentability, as well as whether any request for examination has been filed, should be checked. As for know-how, its useful life, expected duration of confidentiality, and possibility of infringing third party's rights should be checked. There is also a need to fully check documents (file wrapper envelopes) submitted to the Patent Office during the process of an examination or an appeal/trial before introducing the technology.

These checking procedures enable the company introducing the technology to identify the technical limit and problems, and acquire documents useful for negotiations regarding the terms and conditions of the agreement.

(5) Laws and regulations that may affect the exploitation of the technology

Every country has their own legislation regarding technology transfer and technical assistance. In the case of Japan, for example, the Foreign Exchange and Foreign Trade Act is in place to regulate international technology transfer and international technical assistance.

(6) Relationship with your company's own R&D plan

Measures should be discussed as necessary to coordinate the technology and your company's own R&D plan.

2-2 Economic evaluation and screening

Major checkpoints are as follows:

(1) Whether or not the licensor company is exploiting, or allowing a third party to exploit, the technology

If the technology is not exploited commercially, its economic evaluation and screening are often difficult and time-consuming.

(2) The track record of the technology (If the technology is already exploited)

If the technology is already exploited by the licensor company or licensees, it is easier to capture various information on the technology, such as the volume and amount of sales, production and sales costs, market share, sales territory, customers, date on which commercial production and sales started, industrialization

costs, and the number of licensees. Based on this information, the company introducing the technology can predict the expected period and costs required for industrialization as well as profitability. If the profitability is expected to be low, the technology is not worthy of introduction unless there are special circumstances.

(3) Availability of your company's own/affiliate's sales network

The availability of your company's own or affiliate's sales network should be checked. If the network is not available, alternative measures should be discussed.

2-3 Decision on introducing the technology

Each of the checkpoints in the technical and economic evaluation and screening are normally scored. But even when the total scores exceed the minimum required points, this does not necessarily lead to a decision to introduce the technology. This is because, even when the technology appears to be good overall, there may be serious problems in specific areas. If this is the case, the decision-making is ultimately left with management or the person in charge of the company introducing the technology.

When it is decided to introduce the technology, the company may also decide to attach some conditions depending on the seriousness of the problems. These attached conditions are presented to the licensor company for negotiation.

2-4 Gathering related information

Information and documents necessary for technical and economic evaluation and screening can be obtained mainly from the licensor company. These information and documents may include product catalogs, technical descriptions, drawings, and annual reports distributed by the licensor company. Product samples, product performance test results, and answers to questions raised by the company introducing the technology may also be obtainable upon request from the licensor company.

Technical descriptions may provide specific explanations regarding matters not contained in product catalogs (such as characteristics of the technology, comparison with competitive technologies, current status of the patent application/patent). Product samples usually require time-consuming and troublesome analysis and tests. Annual reports often offer data such as total and customer-by-customer sales results for the technology.

There are, however, cases where the necessary information cannot be obtained. In these cases, the company still should make the utmost effort to collect as much accurate information as possible by utilizing experts, research organizations, and other sources within and outside the company because such information could be very important and affect the decision to conclude a licensing agreement and negotiations on its terms and conditions.

3. Selecting a licensor company

If there are two or more companies that own similar candidate technologies, it is often the case that they are narrowed down to one company, although there are cases where two or more companies are selected and negotiations are started at the same time. Whatever the case may be, major criteria for the selection of a licensor company include the following:

- (1) General evaluation of the candidate technology owned by the licensor company
- (2) Completeness of the technology
- (3) Legal, technical and economic value of the technology
- (4) Current or potentially competitive/alternative technology

- (5) Possibility that technologies exploited/planned to be exploited by the company introducing the technology may conflict with the technology
- (6) Sincerity of the licensor company
- (7) R&D power of the licensor company
- (8) Existing relationship with the licensor company

Higher priority is given to some criteria than others depending on each actual case.

4. Determining an introduction policy

4-1 Introduction

After a licensor company is selected, negotiations start on the licensing terms and conditions. But before starting negotiations, it is preferable to establish an introduction policy regarding the production of a new product; commencement of sales; improvement of existing products in terms of quality, performance, and production costs; utilization of improved technology that may be developed by the licensor company; requests from customers; avoiding any infringement of industrial property rights; and securing and cultivating export markets. However, this type of rather “conceptual” policy alone is often not sufficient in the actual situation, and there is also a need to develop and determine a more specific policy based on this “conceptual” policy. For example, when introducing a technology for the purpose of improving the quality and decreasing the cost of existing products, it is important to determine specific target values regarding quality, performance, yield, and production capacity. Likewise, when introducing a technology for the purpose of securing or cultivating export markets, the company needs to determine a specific policy regarding export regions and export terms and conditions.

4-2 Specific policies

The company planning to introduce a technology should also anticipate counter-proposals that may be raised by the licensor company during negotiations on terms and conditions, and determine a policy in advance to deal with the proposals. For example, when introducing a technology to export products to Southeast Asia, the company introducing the technology should consider the following points and determine a specific policy beforehand so that the company can respond quickly to possible counter-proposals from the licensor company.

- (1) Do we have any specific countries in Southeast Asia in mind? At the least, which countries should be kept as export markets?
- (2) Does the licensor company hold the patent rights, or has the company filed a patent application, in any country in Southeast Asia? Is the licensor company exporting products that you wish to license (contract products) to any country in Southeast Asia? How would you respond if the licensor company demands a higher royalty rate for contract products to be exported to those countries?
- (3) What is your policy regarding various forms of export (unit export, incorporation export, component export, knockdown, etc.)?
- (4) How would you respond if the licensor company restricts export routes?
- (5) How would you respond if the licensor company demands that you should be responsible for any re-export of contract products to an export prohibited region by a company to which you exported the contract products?

5. Negotiating terms and conditions

5-1 Conditions of introduction

After determining an introduction policy, the company planning to introduce a technology begins negotiating with the licensor company regarding the conditions of introduction. It is not always the case that the licensor company accepts the proposal immediately. The company introducing a technology first has to submit the history and achievements of the company, an outline of the plan, the results of market research, and other information. Conditions of introduction are divided into basic conditions and other conditions, but negotiations at this stage usually focus only on basic conditions, with other conditions discussed as needed at later stages when the actual written agreement has been prepared. The content of the basic conditions varies depending on the policies of each party, but at least the following must be on the agenda for negotiation for the company introducing the technology.

(1) Form and scope of the licensed technology

Licensed technologies can take the form of a patent, patent application, know-how, and others, and it is important to decide whether the technology in question should be limited to a particular form, or contain all the forms. In the case of know-how, its scope should also be defined. (Does the know-how include know-how on factory design, engineering, production of products, inspection standards, raw materials, specifications of components, and the use and sales of products?)

(2) Type of license

In the case of patents, licenses are divided into *senyo-jisshiken* exclusive licenses and *tsujo-jisshiken* non-exclusive license (*tsujo-jisshiken* is subdivided into *dokusenteki-tsujo-jisshiken* semi-exclusive licenses and *hi-dokusenteki-tsujo-jisshiken* non-exclusive licenses). With regard to other types of technologies, licenses are divided into *dokusen-jisshiken* exclusive licenses and *hi-dokusen-jisshiken* non-exclusive licenses. Licenses are rights to manufacture, use, sell, and/or otherwise handle licensed technologies.

(3) Licensed territory and export region

For example, either whole or part of Japan can be designated as a licensed territory. Export regions may also be specified. There are also cases in which an exclusive export license is granted only for some regions, giving the licensee only a non-exclusive export license for other regions. These are cases where the licensor company wants to maintain its right to export contract products to the non-exclusive export regions in its future business, or where the licensor company has already granted an export license for those regions to other licensee.

(4) Royalties

There are three types of royalties: down payments (advance lump sum), running royalties, and minimum royalties. Broadly speaking, a down payment is not needed when only a patent is licensed, and there is usually no minimum royalty requirement in the case of non-exclusive licenses. With regard to running royalties, the parties need to discuss the method and percentage. In the case where a patent application is licensed, the company introducing the technology should ask the licensor company for a lower royalty rate than usual during the period up to completion of the registration.

(5) Term of the agreement

As regards a patent license, the term of the agreement is often equal to the duration of the patent. In the case of know-how, the term differs case-by-case. As for a license for a patent application, the actions to be taken if the technology fails to be patented should also be clarified.

In addition to the above agenda, a technology warranty; improvements to the technology; infringement of a

licensed patent; infringement of third party rights due to the exploitation of the licensed technology; cancellation; action to be taken at the time of cancellation; and most favored clause may also be included in the basic agenda depending on the policies of the parties.

5-2 Negotiating terms and conditions

Terms and conditions are negotiated between the parties or their representatives using various means of telecommunication or by holding meetings. It may take only one negotiation or it may take much more time-consuming negotiations before reaching agreement. There are also cases where the parties need to agree on the place to hold the negotiations before starting. Whatever the case may be, negotiations require the parties to respect each other's mutual interests, and generally do not go as planned. Thus negotiators should preferably be given a reasonable level of, if not complete, authority to make decisions.

Negotiators are expected to have a keen sense and knowledge of business and sales and a general knowledge of the technology to be introduced and contracts, as well as information on the other party's business. They must also possess, needless to say, skill and experience in negotiating.

There are no fixed rules for the techniques used in negotiations, and negotiators need to understand the standpoint of the other party, and consider how to negotiate based on that understanding in each actual case.

6. Reaching agreement

When agreement is reached on the basic conditions, the parties sometimes exchange a written proof of agreement (memorandum, counter guarantee, minutes, etc.). Since proof of agreement does not make the license effective immediately, a sentence like "This Memorandum provides only a foundation for a licensing agreement that will be executed by the parties later, and shall not be construed as making the license effective immediately" should be included in the proof to avoid any misunderstanding.

III. Outline of the Licensing Agreement

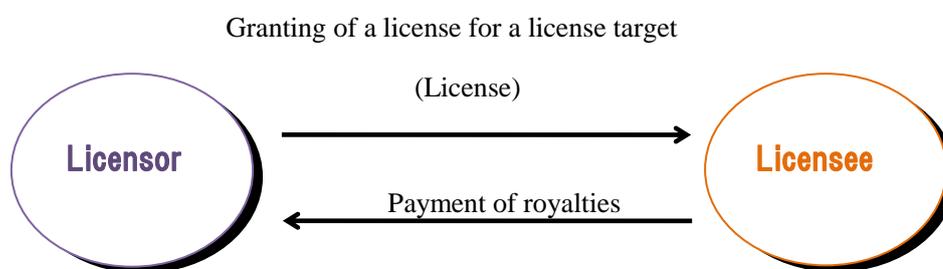
Licensing is the most important form of technology transfer. Licensing is embodied in a licensing agreement.

1. Meaning of the licensing agreement

A licensing agreement is an agreement regarding the exploitation, use, and utilization of intellectual property/intellectual property rights, classified as an innominate contract, rather than a nominate contract, 13 types of which are specified in the Japanese Civil Code. More specifically, a licensing agreement is an agreement where one party (the licensor) grants the other party (the licensee) a license to use and utilize a patent, know-how, or other license target in exchange for a certain consideration (royalties).

A conceptual diagram and key points of the licensing agreement are shown below.

< Conceptual diagram of licensing agreement >



< Key points of the licensing agreement >

Key Point	Description
Parties	Who are the parties?
Target	What is the license target?
License	What is the scope of the license?
Consideration	How much?

1-1 Parties

The most important thing is mutual trust between the licensor and the licensee. Although the standpoints of the granting party and receiving party are different, a win-win relationship is essential to make the agreement work effectively. In particular, issues such as how to handle improved technology, confidentiality, and infringement of third party's rights require cooperation between the parties to come up with solutions. When negotiating a licensing agreement, care must be taken to ensure that the terms and conditions are rational and comply with legislation (especially the Antimonopoly Act).

1-2 License target: intellectual property/intellectual property rights

License targets are intellectual property/intellectual property rights.

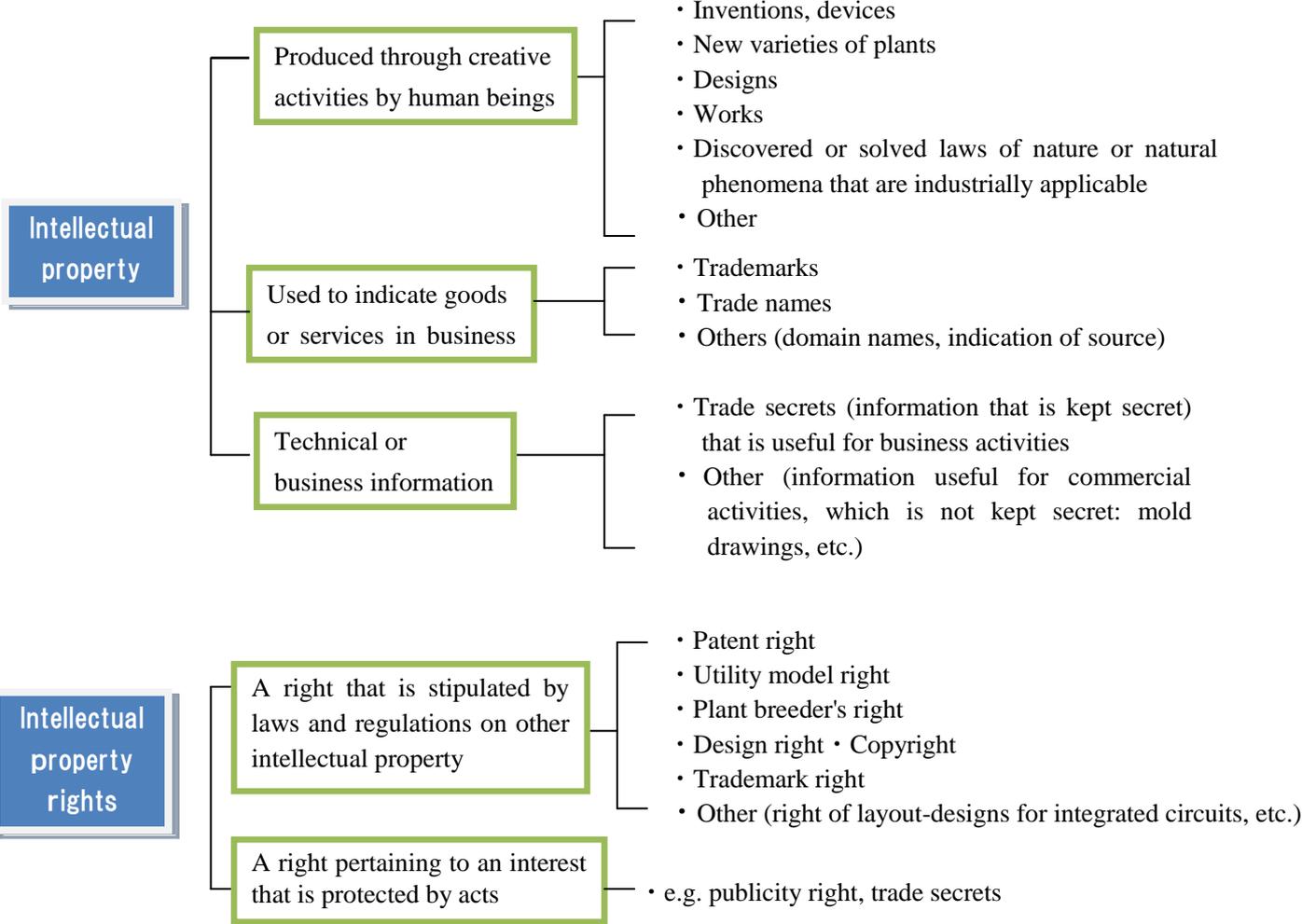
License targets have expanded and become more diverse recently. Patents, copyright, and know-how are particularly important in licensing agreements.

The definition of intellectual property/intellectual property rights used to vary widely, but they are now defined in Article 2 of the Intellectual Property Basic Act which went into effect on March 1, 2003.

In the act, intellectual property is defined as “inventions, devices, new varieties of plants, designs, works and other property that is produced through creative activities by human beings (including discovered or solved laws of nature or natural phenomena that are industrially applicable), trademarks, trade names and other marks that are used to indicate goods or services in business activities, and trade secrets and other technical or business information that is useful for business activities.” An intellectual property right is defined as “a patent right, a utility model right, a plant breeder's right, a design right, a copyright, a trademark right, a right that is stipulated by laws and regulations on other intellectual property or right pertaining to an interest that is protected by acts.”

Trade secrets are also included in intellectual property/intellectual property rights under the Intellectual Property Basic Act, but are not acknowledged as a right like a “trade secret right” in the Unfair Competition Prevention Act.

<Intellectual property/intellectual property rights chart>



(1) Patents, utility models, designs

Patents, utility models, and designs are the main license targets of licensing agreements. The stipulations of the Japanese Patent Act, Utility Model Act, and Design Act focus mainly on patent rights, utility model rights,

and design rights respectively (rights patented or registered for which absolute exclusivity is granted) (*senyo-jisshiken* exclusive license, *tsujo-jisshiken* non-exclusive license, Patent Act Articles 77 and 78), but there are also provisions regarding the right to obtain a patent in the act (*kari-senyo-jisshiken* temporary exclusive license, *kari-tsujo-jisshiken* temporary non-exclusive license, Patent Act Article 34 paragraphs (2) and (3)). With regard to devices for which utility model registration can be applied for under the Utility Model Act, where the non-substantive examination system has been adopted (the publication of unexamined applications has been abolished), as well as a creation that can be applied for design registration under the Design Act, which does not require the publication of unexamined applications from the outset, their details are, in principle, considered to be secret information while negotiating the licensing agreement, and therefore care must be taken over the best method to confirm their content. Patents, utility models and design rights are also protected as rights by each country under the principle of independence of patents.

(2) Copyright

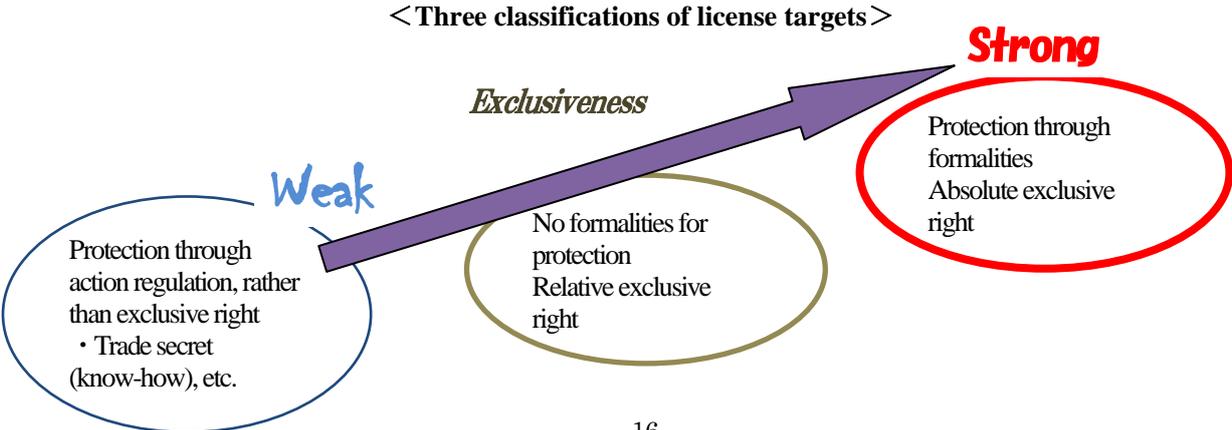
Works can also be a license target of a licensing agreement under the Copyright Act. Because the current Japanese Copyright Act legalizes the enjoyment of copyrights (property rights) and the moral rights of the author for every work (Copyright Act Article 17 paragraph (1)), and does not require any formal application or registration to generate or grant such rights (Copyright Act Article 17 paragraph (2)), whether or not the work is protected by the Copyright Act cannot be verified by checking whether or not the work is registered, unlike patents and trademarks that require formalities to be patented or registered. Furthermore, the moral rights of the author are personal and exclusive to the author (Copyright Act Article 59), and cannot be transferred or licensed.

While patent rights are protected on a country-by-country basis under the principle of independence of patents, copyrights are protected universally across the signatories of the Berne Convention for the Protection of Literary and Artistic Works and other international frameworks.

(3) Know-how

Know-how contains technical knowledge, trade secrets, and other secrets. Trade secrets are defined by the Unfair Competition Prevention Act as “technical or business information useful for commercial activities such as manufacturing or marketing methods that is kept secret and that is not publicly known” (Article 2 paragraph (6)) in Japan, and protected through action regulation. Trade secrets can be a license target of a licensing agreement, but because know-how cannot be made the exclusive target for protection, a know-how disclosure agreement, rather than a licensing agreement, is sometimes concluded.

Know-how is a type of secret information, and cannot be accessed unless a license is granted.



1-3 Types and scope of license

(1) Types of license

Licenses are divided into exclusive licenses and non-exclusive licenses, but there are several problems in practical terms as listed below depending on the license target and licensing-related legislation in individual countries.

- 1) *Senyo-jisshiken* exclusive license, *tsujo-jisshiken* non-exclusive license: *Senyo-jisshiken* (Patent Act Article 77) does not take effect unless registered (Patent Act Article 98 paragraph (1)).
- 2) Is a patent exclusive license in other countries equivalent to *senyo-jisshiken* in Japan (Patent Act Article 77)?
- 3) In the case of a *dokusenteiki-jisshiken* exclusive license, can the licensors preserve their self license?
- 4) Difference between exclusive license and sole license
- 5) Jointly owned patent rights cannot be licensed without the consent of the other joint owners (Patent Act Article 73 paragraph (3)).
- 6) When know-how is the license target, it is sometimes expressed as “know-how is disclosed,” “know-how is transferred,” etc., rather than “know-how is licensed.” What is the difference between these expressions?
- 7) Cross license

(2) Scope of license

The scope of license should be defined in terms of the content, region, and term. The main problems regarding the scope are as follows:

- 1) Content: How should production/use/sales be regulated? What about export/import?
- 2) Region: Which country/countries should be defined as the licensed territory in the case of an international licensing agreement? Parallel imports have caused controversy in their relations with intellectual property rights and antimonopoly laws, and this issue is also affecting the way licensing agreements are managed.
- 3) Term: In the case of a patent licensing agreement, should its term cover the entire duration of the patent, or be limited to a certain period? In the case of the licensing of know-how, a confidentiality period, royalty payment period, and the use of the know-how after the agreement is expired become an issue.

1-4 Consideration

There are various methods of classifying the types of consideration for licenses. Consideration classified with the focus placed on practicality can be divided into consideration irrelevant to business performance and consideration based on business performance.

(1) Consideration irrelevant to business performance

Consideration of this type is paid in the form of a down payment or initial payment independent of production, sales, and other business performance of licensed products. The consideration is usually paid at when signing the licensing agreement for the purpose of covering costs such as the licensor’s agreement negotiating costs, part of the R&D costs, and/or know-how disclosure fees.

(2) Consideration based on business performance

Consideration of this type is also called “royalties.”

Royalties can be roughly divided into running royalties and fixed-sum royalties.

- 1) Running royalties

Running royalties can be subdivided into percentage royalties, which are paid based on a predetermined percentage of sales, and per-quantity royalties, which are paid for each product sold. The types of consideration paid in connection with running royalties includes minimum royalty, maximum royalty, and advanced royalties.

2) Fixed-sum royalties

With this type of royalty, a fixed sum is paid for, say, each quarter.

Similar types of royalty include paid-up royalties and lump-sum royalties.

The types of consideration often used in licensing agreements include the following:

- i) Down payment: Consideration paid in a lump sum when signing the agreement
- ii) Running royalties: Royalties paid in accordance with the business results for the licensed products
- iii) Minimum royalty: Minimum royalty paid irrespective of the business results for the licensed products

2. Objective and policies of licensing agreements

(1) Objectives of licensing agreements

Licensing agreements are concluded as a result of agreement on terms and conditions reached between the licensor and the licensee through negotiation and adjustments. In other words, licensing agreements are the embodiment of the licensing policies of each party.

Licensing agreements are created and implemented from the perspectives of the different parties—the perspective of the licensor who will license-out their technology, and that of the licensee who will license-in the licensor's technology. Needless to say, agreements also undergo final adjustments after checking them against more objective indicators, such as legislation and guidelines concerning licensing agreements.

The main objectives of licensing agreements are, therefore, to earn royalties, or maybe, in the case of the licensor, to obtain a license for improved technology developed by the licensee, and, in the case of the licensee, to ensure safe business activities and enhance cost performance (buy time).

(2) Licensing policy

The importance of clarifying the strategic position of licensing agreements in corporate management has been recently increasing rapidly. It is vital that patent holders, know-how owners, copyright holders, and other licensors establish their licensing policies clearly to ensure success in their licensing agreements. The following are points requiring major consideration when establishing licensing policies.

- 1) Objectives of licensing
- 2) Is the basic principle of your company to publish technologies and patents or to keep them within your company?
- 3) Does your company develop its own required technologies and patents?
- 4) Is the focus placed on economy or the safety and credibility of transactions?
- 5) Type of licensing (exclusive, non-exclusive, sublicensing)
- 6) Are other transactions taken into consideration to make a holistic judgment, or is licensing considered separately from other transactions?
- 7) Is cross-licensing taken into account?

3. Types of licensing agreement

3-1 Classification by opportunity and purpose of the licensing agreement

There is no fixed method of classifying and defining licensing agreements. In this section, licensing agreements are classified mainly by opportunity and the purpose of entering into the agreement and explained

accordingly.

(1) Discretionary license and compulsory license

Decisions to conclude licensing agreements are generally made at the discretion of the parties under the principle of freedom of contract. In corporate management, the policy regarding licensing agreements, that is, the company's licensing policy, normally differs from one company to another. These discretionary licenses can be referred to as licenses based on the voluntary granting of rights.

On the other hand, a patent right is the right to control patented inventions exclusively, or absolute exclusive right. The main reason why an absolute exclusive right is given to patent holders is because it is considered to be beneficial to the development of industry, and therefore any absolute exclusive right that is judged as a hindrance to the development of industry may be subject to restriction. These restricted licenses are called "compulsory licenses," and, in the case of Japan, they comprise three types of arbitrary licenses (e.g. licenses for public interest (Patent Act Article 93)) and five types of statutory non-exclusive licenses (e.g. licenses for inventions by employees (Patent Act Article 35) and licenses based on prior use (Patent Act Article 79)).

(2) Active license and passive license

Licensing agreements can also be classified into active licenses, which are actively granted to other companies, and passive licenses, which are granted against the will of the licensor.

Active licenses are the normal form of license often used in the practices of the intellectual property business and licensing business.

The License of Right established in the United Kingdom and other similar systems can also be said to be connected with active licenses.

On the other hand, passive licenses include licenses granted as a result of the amicable settlement of a dispute and compulsory licenses explained above, as well as implied licenses which include the following.

- 1) Use and sales of products produced from licensed production
- 2) Use of products by third parties who purchased the products from a manufacturer to whom a license is granted for the patented use of the products
- 3) Use of another patented invention of the licensor in the case where its use is inevitable when the licensed patented invention is worked

The judgment as to whether or not such implied licenses are actually granted is made holistically by taking into account the purpose of the applicable licensing agreement and other related matters.

(3) Classification based on the parties' licensing policies

- 1) Single license and multiple licenses
- 2) Unilateral license and cross license
- 3) Onerous license and gratuitous license
- 4) Unlimited license and limited license
- 5) Exclusive license and non-exclusive license
- 6) Primary license and sublicense

3-2 Patent licensing agreement

A patent licensing agreement is an agreement where one party (the licensor) grants a license for a particular patent to the other party (the licensee). Under these agreements, licensees acquire the right to exploit a particular patent for an independent business that is separate from that of the licensor. These agreements are therefore different from subcontracts where subcontractors simply exploit a particular technology as an

organization working under their sponsors.

The Patent Act stipulates that patentees can grant licenses only on patent rights (Articles 77 and 78), but it is a common understanding that licenses can be granted for technologies other than patented inventions as well. Licensees who wish to grant a sublicense need to obtain approval from the licensor.

3-3 Know-how licensing agreement

A know-how licensing agreement is an agreement to license the use of particular know-how. Know-how is essentially confidential, and normally cannot be accessed unless an agreement is signed.

Because know-how is essentially confidential, the process of determining the terms and conditions of the license is usually different from that of a patent licensing agreement. In the case of know-how, there is a need to conclude a confidentiality agreement or an option agreement before the licensing agreement is signed, and it is important to discuss provisions regarding the disclosure and confidentiality of the know-how, term of the agreement, exploitation and patent application after the agreement is terminated, and other matters.

IV. Preparing and Managing Licensing Agreements

As technological innovation is increasingly speeding up and becoming cross-industrial, regardless of their size, companies often find it difficult to meet the needs of the times by simply relying on their own development capabilities and technologies. In this situation, the need has arisen to promote licensing-in to complement a company's own development capabilities and technologies, as well as licensing-out to meet a company's business strategies and provide technical support to other companies. We are seeing particularly the growing importance of technology transfer.

With this as a background, the establishment of technomarts for trading technologies and technology licensing organizations (TLOs) is being promoted at a national level, and various measures are being implemented to support venture businesses and small and medium enterprises (SMEs).

In many cases, technology transfer is embodied in the form of a licensing agreement. To ensure the success of technology transfer, it is important to be well aware of common practices and cautions in the preparation and management of licensing agreements.

Although documentation and legal compliance form the basic process to draw up intellectual property agreements, the most important step is to develop a strategy. Investigation and negotiation prior to entering into an agreement are also extremely important.

IV-1. Strategy for the Licensing Agreement

1. Introduction

One of the basic characteristics of intellectual property rights is that they can be owned exclusively. The objective of this exclusivity is to allow the right holder to exclusively exploit products protected by intellectual property rights, build a barrier to prevent competitors entering the market, and monopolize the market. However, this business strategy aimed at market monopolization is not always practical. As a matter of fact, absolute advantage cannot be expected in many cases, and achieving a comparative advantage is a more realistic option. For this reason, licensing strategy should be the next thing you consider after giving up the aim of monopolizing the market.

Licensing is a way to grant another company use of a particular intellectual property right owned by your company in exchange for consideration in the case where the intellectual property right is not being utilized or exploited by your company for the time being—or even when the right is being exploited—it is not perfect and faultless; or where a comparative advantage policy rather than an absolute advantage policy has been adopted as your company's business strategy.

Licensing is not a business strategy for monopolizing the market, but for sharing a particular technology in the market. The company to which the license is granted is an “offshoot” of the licensor, and the licensor and licensee work together under a licensing agreement to implement their market strategy.

The content of a licensing agreement, which can be described as a statement of the licensor's and licensee's market strategy, basically can be determined freely by the licensor and licensee under the principle of freedom of contract. However, if the content is judged as unfair, it may be subject to the restrictions of the Antimonopoly Act.

The criterion used to judge whether the content is subject to the restrictions or not is whether or not the content can be recognized as an act of exercising intellectual property rights (Antimonopoly Act Article 21).

For example, if the licensor compels the licensee to sell licensed products at a certain price under a licensing agreement, such a provision is not recognized as an act of exercising intellectual property rights, and is considered to be controlling the market and as such, violates the principle of fair competition. Intellectual property right holders are required to license their right under a fair licensing agreement that is not subject to the restrictions of the Antimonopoly Act, and benefit from licensing through business strategies such as acquiring consideration and obtaining the right to exploit improved technology. Refer to the Guidelines for the Use of Intellectual Property under the Antimonopoly Act published by the Japan Fair Trade Commission for guidelines on fair licensing agreements.

2. Strategic issues

Licensing agreements can be formulated and performed only when the licensing party and the licensed party successfully coordinate their requests and claims. Therefore, both parties need to be well aware of what will be at issue during negotiations prior to entering into a licensing agreement and in the course of performance of the agreement after it has been signed.

(1) License target

There are various problems regarding license targets, such as what the licensee should do when the licensor insists that non-essential patents be included in the scope of licensing (package license), which patent should be licensed, and, in the case of know-how, how licensed know-how should be specified. The major problems are as follows:

- 1) In the case of patent licensing agreements, should patent-applied inventions, as well as patented inventions, be included?
- 2) In the case of incomplete or unproven technology, should it be purchased rather than licensed?
- 3) Should improved technology be included as well?
- 4) In the case of know-how, how should licensed know-how be specified? Should an option agreement be used?
- 5) In the case of copyright, how should copyright holders, the content of works, etc. be checked?

(2) Types of license

Licenses are divided into exclusive licenses and non-exclusive licenses, but there are several problems in practical terms as listed below depending on the license target and licensing-related legislation.

- 1) Is a patent exclusive license in other countries equivalent to *senyo-jisshiken* in Japan (Patent Act Article 77)?
- 2) In the case of a *dokusenteki-jisshiken* exclusive license, can licensors preserve their self license?
- 3) Difference between exclusive license and sole license
- 4) When know-how is the license target, it is sometimes expressed as “know-how is disclosed,” “know-how is transferred,” etc., rather than “know-how is licensed.” What is the difference between these expressions?
- 5) Cross-licensing

(3) Scope of license

The scope of the license should be defined in terms of the content, region, and term. The main problems regarding the scope are as follows:

- 1) Content: How should production/use/sales be regulated? What about export/import?
- 2) Region: Which country/countries should be defined as the licensed territory in the case of an international licensing agreement? Parallel imports have caused controversy in their relations with the intellectual property rights and antimonopoly laws, and this issue is also affecting the way licensing

agreements are managed.

3) Term: In the case of a patent licensing agreement, should its term cover the entire duration of the patent? In the case of the licensing of know-how, how should the agreement term be defined, and how should the use of the know-how after the agreement expires be dealt with?

(4) Consideration

Consideration for a license is paid in the form of a per unit royalty, a percentage royalty, lump-sum payment, etc. and which one should be adopted is the most important issue in negotiations prior to entering into a licensing agreement. Although there are a wide variety of problems concerning consideration, the major problems are as follows:

1) What should be the royalty base? For example, if a license is granted for a particular component, should the royalty base cover the entire product or only the component?

2) In the case of an exclusive license, how should the minimum royalty, which is often set for an exclusive license, be defined? If the licensee requests the cancellation of the agreement, how should the minimum royalty for the remaining term be dealt with?

3) If the licensed patent becomes invalid, how should consideration already paid be returned? If the licensed patent is found to be infringing on a third party's patent, how should consideration payment be suspended or reduced?

4) What should be the amount of consideration for a grant-back for improved technology developed by the licensee, and how should it be paid and received?

5) If there are more than one licensed patent (for example, in a case where several patents need to be licensed to manufacture one product), how should the consideration be calculated?

(5) Restrictive provisions

Licensing agreements include various restrictive provisions, but the provisions listed below to which the licensee is required to commit themselves are particularly important for the development of licensing policies and compliance with the Antimonopoly Act and other legislation.

1) Improvement inventions and improved technology

The way that improvement inventions and improved technology are handled varies depending on the standpoint of each party, but this is often a very important issue particularly for the licensor. In the actual practice of preparing a licensing agreement, it is necessary to pay attention to the Antimonopoly Act. Improvement inventions and improved technology are usually either i) fed back, ii) granted back, or iii) assigned back.

2) Restriction on the handling of competitive technologies/products

The restriction on the handling of competitive technologies/products is considered to be more important in know-how licensing agreements than in patent licensing agreements because confidentiality and prohibition of use for unauthorized purposes are essential for know-how.

In the case of exclusive licensing agreements, this restriction is also seen as important, particularly by a licensor who wants to impose on the licensee an obligation to handle only the licensed technology/product. Care should also be taken so that the restriction will not violate the Antimonopoly Act.

3) Warranty

There are various warranties that the licensor may extend to the licensee and vice versa, but the licensor's warranties on i) technological feasibility, ii) validity of the patent, and iii) non-infringement of third party's rights, are particularly important.

4) No-contest obligation and the right to terminate the agreement

Prohibiting the licensee from contesting the validity of the licensed patent or know-how may constitute a violation of the Antimonopoly Act, and, instead of imposing incontestability, the licensor sometimes chooses to reserve the right to terminate the agreement.

3. Purposes for earning a consideration

In practical terms, consideration for licenses (royalty) is the most important issue and the greatest concern for the parties to licensing agreements.

As intellectual property/intellectual property rights and licensing agreements have matured, the importance of licensing agreements in corporate management has also increased.

For licensors, consideration obtained from licensees through their licensing business offers an effective means of increasing profits, while licensees strongly expect the consideration to be fair and reasonable for the license granted.

Consideration for licenses, which is the most important concern for the parties to licensing agreements, is money and other remuneration paid by the licensee for a license granted by the licensor.

The way to look at consideration normally differs between the licensor and the licensee. The major purposes for earning a consideration are described below.

(1) Licensor's purposes

1) To gain revenue

Licensing provides licensors with a source of revenue other than the production and sales of products. Licensors also can commercialize surplus or idle technologies and intellectual property to utilize them for their licensing business and increase revenue.

2) To cover R&D and other costs

Consideration helps licensors cover costs incurred in developing, and obtaining and maintaining intellectual property rights for technologies. Consideration can also be used to fund new projects.

3) To obtain licensees' technologies and rights

Consideration can be used to pay for licenses for licensees' technologies and rights obtained through cross-licensing agreements. Improved technology fed back or granted back by licensees may also be valuable.

(2) Licensee's purposes

1) To save on R&D costs

Licensees can compare the costs of implementing R&D by itself and obtaining a license to decide which is more cost efficient and profitable.

2) To reduce R&D time

Licensees can acquire the position of head starter with no need for, or with minimum R&D. Consideration paid to obtain licenses can be described as a cost to "buy time."

3) To prevent infringement of third party's rights

Obtaining licenses may help licensees prevent infringement on other company's technology and intellectual property rights when such technology and rights are found to exist in the middle of or after completion of R&D by a licensee. Consideration in this case can be described as a cost to complement the licensee's own technologies and rights, as well as a cost required for legal risk management.

(3) Factors to be considered when deciding the amount of consideration

1) Necessity of the license

2) Evaluation of the license target (patent, know-how, etc.)

- 3) Type of license, existence of a precedent
- 4) Costs of development, obtaining rights, and maintenance
- 5) Estimated revenue
- 6) Projection of royalty receipts from the license (prospect of licensee exploiting the license)
- 7) Term of the agreement
- 8) Evaluation of uncertainties

(4) Review of consideration

- 1) When the technology is found to be incomplete
- 2) When the technology becomes obsolete, or when competitive technology emerges
- 3) When the patent becomes invalid, or when the patent application is rejected
- 4) When the know-how becomes publicly known
- 5) When the technology is found to be infringing on a third party's rights
- 6) (In the case of a sublicense) when its primary agreement is terminated
- 7) (In the case of cross-licensing) when the other license terminates

4. Success factors and points of attention for licensing agreements

(1) Success factors

Patent licensing agreements are concluded as a result of fair negotiation between the licensor and the licensee. Mutual trust is therefore essential, and success normally cannot be expected if the agreement is advantageous to only one of the two parties.

Licensing agreements can be said to be successful when the licensee's business flourishes thanks to the license, and the licensor's revenue increases due to royalties, leading eventually to the economic development of each country. Main factors that are expected to bring about the success of licensing agreements are as follows:

- 1) Quality of the technology
 - i) Technological advantage Production efficiency, quality, cost
 - ii) Integrity of rights Validity, non-infringement
 - iii) Commercial advantage Marketability
- 2) Appropriateness of agreement terms and conditions
 - i) Appropriate consideration
 - ii) Follow-up for practical improved technology
 - iii) Grant-back on improved technology developed by the licensee
 - iv) Review and updating of terms and conditions

(2) Points of attention

The following are major issues that should be clarified when entering into a licensing agreement. The probability of success of a licensing agreement can be increased by paying attention to these points.

- 1) Opportunities to start thinking about a licensing agreement... When, where, how
Technomart, TLO, patent fair, magazine/newspaper, patent infringement warning, when prevention of infringement is found to be unavoidable as a result of investigation
- 2) What is the objective? ... Policies
Obtain consideration, make business safer, and raise cost performance (buy time)
- 3) Who are involved? ... Parties to the agreement, agent, patentee, owner of know-how
- 4) What is licensed? ... License targets (patent, know-how, etc.)

- Patent right, right to obtain a patent, know-how, copyright
- 5) What is the content? ... Forms and conditions of license, written agreement
Unilateral license, sublicense, cross-license, exclusive/non-exclusive license, consideration, handling of improved technology, warranty, confidentiality, etc.
 - 6) What are the legal grounds/regulations binding the agreement? ... Patent Act, Antimonopoly Act, etc.
Provisions concerning licenses in the Patent Act, Guidelines for the Use of Intellectual Property under the Antimonopoly Act
 - 7) How do negotiations proceed? ... Negotiations between the parties/representatives
Who will present conditions/an agreement draft? What about the method of negotiation?
 - 8) How is the agreement signed and managed? ... Contract management
Who will sign the agreement? Who will be responsible for contract management? How will the agreement be managed at the company?

IV-2. Prior Investigation and Negotiations for Licensing Agreements

1. Prior investigation

Licensing agreements are agreements in which a license to exploit, use, or utilize a certain license target—such as a patent right, utility model right, trademark right, copyright, right of layout-designs of integrated circuits, or know-how—is granted by one party (the licensor) to the other party (the licensee) in exchange of certain consideration (royalties). Licensing agreements whose parties are located in different countries and involve international licensing are called international licensing agreements.

Therefore, the major elements of licensing agreements comprise 1) the parties, 2) the license target, 3) the content of the license, and 4) consideration.

Prior investigation is important when conducting negotiations for licensing agreements. In the case of patent licensing agreements, prior investigation on what is to be licensed and who the other party is are particularly important. Negotiations for obtaining a license start when, as a result of prior investigation, the technology needed is found to be already patented by someone else, and infringement cannot be avoided technologically.

- 1) Investigation of the other party
- 2) Investigation of the license target
- 3) Related legislation and government regulations
- 4) Market situation of the technology
- 5) Negotiating steps (option agreement, confidentiality agreement, etc.)

(1) Parties to licensing agreements

Licensing agreements represent a continuous relationship between two companies based on a license granted by one company to the other company, or granted to each other, to use intellectual property rights owned or controlled by the respective companies. Because license targets, typified by intellectual property rights, are intangible, and a continuous contractual relationship has to be maintained despite differences in ways of thinking between the two companies, licensing agreements involve many uncertainties.

1) Importance of prior investigation

Due to the characteristics of licensing agreements described above, it is extremely important to conduct a prior investigation regarding the other party.

However, one of the problems with regard to prior investigation is that its focus points differ depending

on whether you are going to license-out or license-in. For example, if you are going to license-out, the focus point may be the quality level of the other party as a company, and if you are going to license-in, you may be more interested in how the target intellectual property right owned by the other party is evaluated.

Major investigation points are as follows:

- i) Is the other party a developer, right holder, or agent?
 - ii) How about the track record? Does the other party have experience of licensing-out/licensing-in?
 - iii) Is importance attached to compliance with agreements?
 - iv) How high is the basic technological level?
 - v) Is the management foundation stable?
- 2) Changes in the other party after the agreement is concluded

To ensure rational contract management, it is important to prepare appropriate measures when signing the licensing agreement for possible changes in the other party after the agreement is concluded.

As mergers and acquisitions (M&A) have increased particularly among Western corporations recently, there may be cases where licensing agreements, and their rights and obligations, are transferred to someone else, causing a change in the party. Because licensing agreements are concluded based on trust between the parties, and taking into account the technological level at the time agreement was signed or expected to be reached soon after, and the credibility and corporate policies of the parties, any change in either party during the term of the agreement may result in a serious problem. It is therefore important to take precautions against possible changes in the other party, including special cases such as M&A, by paying careful attention to the terms and conditions of the agreement.

For example, it may be a good idea to insert a provision such as “If either party enters into a situation in which its management is seriously affected by a third party, the other party may terminate this Agreement.”

Anyhow, determining in advance what to do if the other party changes due to M&A or for other reasons—whether to continue or terminate the agreement—is very important.

3) Relationship between the licensor and the licensee

Is the licensor the licensee’s supplier? (If yes, how much is the amount of business?) Competitive manufacturer? Do their technologies complement each other? Is there a possibility that the relationship may develop into a joint venture? What about the possibility of cross-licensing (now or in the future)? Is the other party bound by another agreement?

4) Relationship with a third party

Relationship with a third party when a licensing agreement is concluded

(2) Prior investigation regarding the right to be licensed

Prior investigation is important when conducting negotiations for licensing agreements. In the case of patent licensing agreements, prior investigation into the right to be licensed is particularly important. Negotiations for obtaining a license start when, as a result of prior investigation, the technology needed is found to be already patented by someone else, and infringement cannot be avoided technologically.

With regard to a patent discovered as a result of an investigation, there is also a need to further investigate whether you can claim that the patent is invalid, in how many countries a patent for the technology in question is registered; and whether there is any similar patent. Through this investigation, the technological and economic value of the patent for which you are planning to conduct negotiations to obtain a license will be made clear, giving you an important clue to decide whether you will proceed with the agreement, what will be

the conditions surrounding the consideration, and other crucial matters.

Investigation regarding patents also makes it possible to:

- 1) determine the possibility of obtaining a patent for your company's technology by checking publicly known technologies;
- 2) check whether there are any technologies, products, or companies that will compete with the target technology to be developed, and thereby clarify the position of the technology;
- 3) judge whether the target technology to be developed will infringe any prior patent registered by someone else; and
- 4) utilize any extinguished patent right discovered during the investigation to enhance the efficiency of development.

(3) Relationship with the market

1) Market environment

Marketability of the patented product; the size of the market and the possibility that it will expand; competitive products and the possibility that they will increase; the market share of the licensee and the possibility that it will increase

2) Influence on the market

Will the licensor's market division result in lost opportunities?

(4) Legal restrictions

Restrictions by the Patent Act (joint ownership of a patent, etc.); taxation associated with technology transfer; consumption tax, income tax, corporate income tax, etc.; restrictions under the Antimonopoly Act or when rights are considered to be abused

2. Negotiations

Licensing agreements are agreements entered into with a company with a different philosophy and circumstances necessitating the agreement. Particularly in international licensing agreements, the parties are from different countries where the legal system, customs, and business practices differ greatly, and these differences, as well as the intangible nature of license targets, give rise to many uncertainties surrounding licensing agreement negotiations.

Because basic requirements differ from one licensing agreement to another, and the licensing policies of the parties also vary, issues that arise during negotiations are different case by case.

To ensure the success of the licensing agreement, it is essential to carefully develop a policy and conduct investigation prior to negotiations so that nothing is overlooked during the negotiations. The important points to observe to make sure that licensing agreements can be concluded successfully are explained below.

In the practice of preparing a licensing agreement, making adjustments through negotiation is very important for the licensor and the licensee to achieve their respective licensing policies.

Issues are discussed from the parties' respective standpoints—the standpoint of the licensor if you are going to license-out and that of the licensee if you are going to license-in. Needless to say, discussion results must always be checked against and adjusted according to objective indexes—legislation and guidelines.

If the licensor or the licensee insists on and sticks to unfair terms and conditions in favor of itself during negotiations, the result is most likely to be failure to achieve agreement. Even if an agreement is signed, it still usually fails to produce overall success because there is no trust between the parties and it is difficult to maintain an ongoing contractual relationship. Furthermore, terms and conditions that benefit only one of the parties may be regarded as unfair trade practices under the Antimonopoly Act.

If the licensor insists unreasonably on unfair terms and conditions, the licensee inevitably gives up using the licensor's patent or know-how, and changes its direction to develop the necessary technology itself at any cost and obtain a patent to exploit the technology. On the other hand, if the conditions presented by the licensee are excessively unprofitable for the licensor, the licensor loses enthusiasm toward maintaining the agreement, leading to the failure to continue to execute the agreement.

To sum up, the most important point is to conclude a licensing agreement based on appropriate policies of the parties and fair terms and conditions. In this way, it can be ensured that licensing can be carried out properly in the current age, one in which intellectual property/intellectual property rights and licensing agreements have reached maturity.

(1) Negotiation strategy

Since the practices of preparing a licensing agreement are generally already at a mature stage, recently companies tend to be more concerned about their negotiating strategy than drafting the licensing agreement or legislation related to it.

For companies, the most important issue in preparing a licensing agreement is now to successfully complete negotiations. The following are points that companies should consider in developing a negotiation strategy.

1) Points regarding basic policies

- i) Position of the licensing agreement in corporate management; effect of the agreement
- ii) Standpoints of the licensor and the licensee toward the licensing agreement
- iii) Negotiation strategy (persuasive and convincing elements)
- iv) Reason for starting negotiations (licensing business (active reason) or perhaps to avoid infringement of third party's rights (passive reason))

2) Points regarding who will conduct negotiations

- i) The parties to the agreement
- ii) Negotiators (organization of a team, negotiating skills)

3) Points regarding the license target

- i) Intellectual property/intellectual property right to be licensed
- ii) Information and materials necessary for negotiations

4) Points regarding procedure

- i) Issues of negotiations (terms and conditions, legislation)
- ii) Claim and persuasion during negotiations

5) Factors that bring success to negotiations

- i) Economic factors.....Profits can be expected from the agreement. Infringement of third party's rights can be avoided with the agreement.
- ii) Legal factors.....The terms and conditions of the agreement comply with the Antimonopoly Act and other legislation.
- iii) Negotiation factors.....Logical and powerful persuasion

(2) Framework of negotiations

- i) Utilization of checklists
- ii) Development of policies
- iii) Negotiation steps (option agreement, confidentiality agreement, escrow agreement, etc.)

(3) Practice of negotiation

- 1) Shift of focus to negotiation

The practices of preparing the licensing agreement are now at a mature stage, and the focus is shifting from legal compliance and drafting to negotiation.

- 2) Types of licensing agreement negotiations
 - i) Negotiations to conclude an agreement
 - ii) Negotiations during the performance of the agreement (negotiations for solving disputes)
 - iii) Negotiations when the agreement is terminated
- 3) Negotiator, negotiating team
 - i) Organization of a negotiating team
 - ii) Representative
 - iii) Selecting criteria for negotiators
- 4) Basic direction
 - i) Policies of the parties
 - ii) Advantages and disadvantages of the parties
 - iii) Materials useful for negotiations
 - iv) Fair and effective claims (due process of law)
- 5) Data used during negotiations
 - i) Right relations
 - ii) Prior art
 - iii) Technological development
 - iv) Market research
 - v) Related legislation and regulations
 - vi) Policies, other data related to negotiations
- 6) Success factors in negotiations
 - i) Preparation
 - ii) Cooperation
 - iii) Decisiveness
 - iv) Action

(4) Drafting, negotiating, and signing the licensing agreement

The steps in signing a licensing agreement are as follows:

- 1) Prior investigation
- 2) Selecting the other party
- 3) Developing a policy
- 4) Selecting the negotiators
- 5) Signing a confidentiality agreement/secrecy agreement/nondisclosure agreement
- 6) Preliminary negotiations
- 7) Signing an option agreement
- 8) Negotiations (negotiators, place, method)
- 9) Signing a letter of intent
- 10) Drafting the licensing agreement

Draft agreements are prepared separately by the licensor and the licensee for a patent, know-how, or other intellectual property that they wish to license-out/license-in.

- 11) Negotiations and confirmation of terms and conditions

Each party presents their drafts and starts to negotiate. Basic, applied and strategic matters are discussed

from the viewpoints of law, documentation, and strategy to persuade and convince the other party.

12) Signing the licensing agreement

The parties sign an agreement that contains terms and conditions agreed as a result of negotiations.

Agreed terms and conditions should preferably be based on win-win principles and be accepted favorably not only by your own company but also by the other party and society.

IV-3. Drafting the Licensing Agreement

There is no fixed process for drafting a patent licensing agreement, and drafters need to develop their own rules based on their experience and wisdom. However, when drafters prepare an agreement at the request of the licensor or the licensee, the process will normally comprise the following steps.

- 1) Gathering the information necessary for drafting the agreement (first step)
- 2) Analyzing the information gathered (second step)
- 3) Drawing up of a table of contents (structure of the agreement) (third step)
- 4) Writing the draft agreement (fourth step)

In practice, however, these steps are often difficult to distinguish clearly, and the transition from one step to the next is not so abrupt but rather more smooth and sometimes proceeds without thinking.

The content of an agreement and checkpoints that the drafters must pay attention to naturally differ depending on whether they are going to draft an agreement on behalf of the licensor or the licensee. The following drafting process is for an agreement drafted on behalf of the licensee.

1. Gathering the information necessary for drafting the agreement (first step)

To begin with, the drafter needs to gather accurate information necessary for drafting the patent licensing agreement. Without the necessary information, the agreement drawn up will not contain the appropriate content. The following information is important for the drafter, who works on behalf of the licensee:

- 1) Information on the licensor
- 2) Information on the patent to be licensed
- 3) Matters agreed between the parties
- 4) Requests from the licensee
- 5) Management, business, and technological information
- 6) Legislation, judicial precedents, theories, etc.

2. Analyzing the information gathered (second step)

The drafter needs to analyze the information gathered in the first step above— matters agreed between the parties and requests from the licensee in particular—to see how they can be incorporated into the draft.

- 1) Analyze the matters agreed between the parties
- 2) Analyze any requests from the licensee

3. Drawing up of a table of contents (third step)

Drawing up a table of contents means creating the structure of the agreement. Matters that need to be stipulated in the agreement are arranged in order. A table of contents is similar to the basic design of a building. Like a basic design that is drawn up and examined before starting to construct a building, the table of contents should be created and checked before drafting the agreement unless it is an extremely simple

agreement. A table of contents helps the drafter to prevent overlapping or overlooking terms and conditions, and helps to write the draft in a more efficient and focused manner.

4. Writing the agreement (fourth step)

The draft is usually written based on the finalized table of contents in the following steps:

- 1) Writing of the first draft
- 2) Checking and modification of each article
- 3) Checking and modification of the overall draft
- 4) Checking and modification by a third party
- 5) Finalization

5. Basic checkpoints

When the table of contents of the agreement is completed, it is time to start writing the draft. The drafter's focus is now on the task of writing, in other words, how to express the content of each article. Although specific expressions used in each article differ greatly depending on the type of licensing agreement, matters agreed between the parties, and the policies of the licensee, the basic checkpoints to which particular attention should be paid are described below.

(1) Clarity

Each article must be clearly expressed. If expressions are not clear, it may cause doubt in the interpretation of a provision and a dispute at a later date. Lack of clarity of expression can be caused by various factors.

(2) Conformity

The content of the agreement must satisfy the matters agreed between the parties and the policies of the parties. Even when each article is clearly expressed, they are not effective unless they conform to those requirements. In this sense, conformity should be given a higher priority than clarity.

(3) Legality

Needless to say, the content of the agreement must be lawful. Particular attention should be paid to the Antimonopoly Act.

(4) Enforceability and adequacy

Terms and conditions of an agreement are expressed in the form of the rights and obligations of each party. However, it is not always the case that the other party performs its obligations at all times. Drafters therefore need to devise solutions that can be implemented if the other party fails to perform its obligations. For example, it is recommended that drafters examine what solutions are permitted lawfully; whether relying on such solutions—even when they are lawful—is adequate; and if they are judged as inadequate, what alternative solutions are available. If there are any adequate alternative solutions, they should be stated in the draft.

(5) Completeness

Completeness means covering all the matters agreed between the parties, the policies of the parties, and all other stipulations necessary for protecting the benefits of the parties. Although completeness is checked at the stage where the table of contents is drawn up, it should be checked again here in detail to ensure that the agreement contains everything it should.

IV-4. Compliance with the Antimonopoly Act

1. Introduction

The purpose of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade (Antimonopoly Act) is to promote the democratic and wholesome development of the national economy. If anyone who owns a patent right or other intellectual property rights in a particular technology 1) inhibits any other party from using the technology; 2) limits the scope of use of the technology; 3) restricts the use of the technology; or 4) imposes other restrictions (such as obligations of the non-assertion of rights), and if such conduct is judged as an abuse of the right and thereby a violation of the act, the exercise of the right by the right-holder is restricted so that innovation will ultimately be promoted. However, Article 21 of the act stipulates that the provisions of the act do not apply to acts recognizable as an exercise of patent rights or other intellectual property rights.

What are “acts recognizable as an exercise of patent rights or other intellectual property rights”? According to the Guidelines for the Use of Intellectual Property under the Antimonopoly Act (hereinafter, “Guidelines”) published by the Japan Fair Trade Commission on September 28, 2007 (partially amended on January 1, 2010), any act that is “found to deviate from or run counter to the intent and objectives of the intellectual property systems” is not recognizable as an exercise of the rights. Article 21 is therefore understood as a measure to promote innovation.

Although, in principle, intellectual property right licensing agreements can be concluded freely under the principle of freedom of contract, they are also subject to regulation by the Antimonopoly Act.

2. Purpose of the Intellectual Property Basic Act and the Antimonopoly Act

According to Article 1 of the Patent Act, the purpose of the act is “through promoting the protection and the utilization of inventions, to encourage inventions, and thereby to contribute to the development of industry.” And as an effect of patent rights, Article 68 permits patentees to “have the exclusive license to work the patented invention as a business.” However, patent rights and other intellectual property rights are not unrestricted rights, and restrictions under the Antimonopoly Act need to be observed to ensure fair utilization of intellectual property rights.

Article 1 of the Antimonopoly Act states that the purpose of the act is “...by prohibiting private monopolization, unreasonable restraint of trade and unfair trade practices, by preventing excessive concentration of economic power and by eliminating unreasonable restraint of production, sale, price, technology, etc., and all other unjust restriction on business activities through combinations, agreements, etc., to promote fair and free competition, to stimulate the creative initiative of entrepreneurs, to encourage business activities, to heighten the level of employment and actual national income, and thereby to promote the democratic and wholesome development of the national economy as well as to assure the interests of general consumers.” Article 10 of the Intellectual Property Basic Act also stipulates that “In promoting measures for the creation, protection and exploitation of intellectual property, consideration shall be paid to secure the fair exploitation of intellectual property and public interests and to promote fair and free competition.”

Guidelines for the Use of Intellectual Property under the Antimonopoly Act “The legal frameworks to protect intellectual property (Note 1) in relation to technology (hereinafter referred to as “intellectual property systems”) may encourage entrepreneurs to conduct research and development and may serve as a driving force for creating new technologies and products based on the technologies. They can be seen as having pro-competitive effects. In addition, technology transactions assist in promoting competition by enabling

increased efficiency in the use of technology through combinations of different technologies, the formation of new markets for technologies and their associated products, as well as an increase of competing parties. In a free market economy, intellectual property systems motivate entrepreneurs to actualize their creative efforts and contribute to the development of the national economy. It is important to ensure that their basic purposes are respected and that technologies are traded without impedance.

Under intellectual property systems, however, competition in technologies and products may be diminished if a right-holder does not allow other entrepreneurs to use its technology or grants other entrepreneurs a license to use the technology on the condition that their research and development, production, sales or any other business activities are restricted (“restrictions pertaining to the use of technology”), depending on how such refusal or restrictions are imposed and the specific conduct to which the restrictions apply. Consequently, when applying the Antimonopoly Act with respect to the restrictions pertaining to the use of technology, it is important for competition policy to insulate competition in technologies and products from any negative effect caused by any restrictions that deviate from the intent of the intellectual property systems, while making every effort to facilitate competition through the intellectual property systems.”

3. Regulation under the Antimonopoly Act as an exception to the principle of freedom of contract

Although, in principle, intellectual property right licensing agreements can be concluded freely under the principle of freedom of contract, they are also subject to regulation under the Antimonopoly Act.

The legal structure of regulation under the Antimonopoly Act pertaining to intellectual property right licensing agreements is as follows:

- 1) The principle of freedom of contract
- 2) Antimonopoly Act (mandatory law)
- 3) Acts recognizable as an exercise of intellectual property rights: Exemptions from the Antimonopoly Act (Article 21)
- 4) Unfair trade practices (15 items)
- 5) Guidelines for the Use of Intellectual Property under the Antimonopoly Act

The Japan Fair Trade Commission’s Guidelines are designed to provide the regulatory criteria for the Antimonopoly Act pertaining to intellectual property right licensing agreements.

(⇒ <http://www.jftc.go.jp/e-page/legislation/index.html>)

4. Acts recognizable as an exercise of intellectual property rights and the Antimonopoly Act

Article 21 of the Antimonopoly Act acknowledges that the act does not apply to acts recognizable as an exercise of patent rights or other intellectual property rights. This article, however, can also be understood as intending to emphasize that the Antimonopoly Act applies to any acts—even when they seem to be an exercise of patent rights or other intellectual property rights—that are found to deviate from the intent of the technology protection systems aimed at encouraging invention or run counter to that objective, for such acts cannot be recognized as an exercise of the rights and may even hinder the promotion of innovation.

These acts include those that appear to be or take the form of an exercise of patent rights or other intellectual property rights, but that are in fact conducted as part of or as a means to effect unreasonable restrictions on trade or private monopolization under the pretense of an exercise of the rights. And when such acts are judged as deviating from the intent of the technology protection systems aimed at encouraging invention, or as running counter to that objective, they cannot be recognized as an exercise of the rights and are subject to regulation under the Antimonopoly Act.

In addition to the above, any acts that appear to be or take the form of an exercise of patent rights or other intellectual property rights, but that are judged on a case-by-case basis as deviating from the intent of the technology protection systems aimed at encouraging invention, or as running counter to that objective, as a result of analyzing their intent, manner, or degree of impact on competition, also cannot be recognized as an exercise of the rights and may be subject to regulation under the Antimonopoly Act.

What then are acts recognizable as an exercise of intellectual property rights? Let's look at them in more detail.

(1) In the Patent Act and other laws, acts recognizable as an exercise of the rights are acts related to the use of, earning revenue from, and disposition of patented inventions that patentees are entitled to conduct as a form of their exclusive property right, as well as restrictions on time, geography, or the licensed content when the right is licensed to others, where any violations of the restrictions are considered to be an infringement of the patent right. More specifically, the following acts are generally regarded as acts recognizable as an exercise of the rights.

- 1) To use rights (to exploit, or choose not to exploit, a right by yourself; or to eliminate the unauthorized use of a right by others through such means as requiring an injunction); to earn revenue from rights (to license or sublicense, or choose not to license or sublicense, a right; or to offer a right as security); or to dispose of rights (to assign a right)
- 2) To restrict the working of licensed patents in terms of time, geography, or content (to limit a license to production, use, sales, or other specific area; to limit the territory in which a license can be used; to limit the time for which a license can be used; to limit a license to a specific technical area; or limit the quantity of products for which a license is used (as for the restriction on quantity, it is still a matter of dispute whether or not exceeding the limit in production, etc. by the licensee will constitute an infringement.))

(2) Acts that appear to be or take the form of an exercise of the rights, but that are, in fact, not conducted appropriately—in other words, acts that deviate from the intent of the technology protection systems, or whose manner or content run counter to the objective of the systems—may not be recognized as an exercise of the rights.

(3) As examples of acts that, while deviating from the intent of the technology protection systems or running counter to the objective of the systems, are conducted under the pretense of an exercise of the rights, the Guidelines provide specific cases of unreasonable restrictions on trade and private monopolization. These cases are considered to be anti-social acts that severely restrict competition, and deviate from the original intent behind the exercise of patent rights.

The following are example clauses that cannot be regarded as an exercise of intellectual property rights.

- 1) The Licensee shall not export the licensed product outside Japan for three (3) years after the Agreement is concluded.
- 2) The Licensee shall not produce or sell products that compete with the licensed product even after the Agreement is terminated.
- 3) The ownership of all improved technology that may be developed by the Licensee for the licensed products shall belong to the Licensor.
- 4) The Licensee shall not contest, directly or indirectly, the validity of the licensed patent.
- 5) The selling price of the licensed product, if sold by the Licensee, shall be XX yen per piece.

5. Regulation under the Antimonopoly Act pertaining to intellectual property right licensing agreements

In the Japan Fair Trade Commission's Guidelines, regulation under the Antimonopoly Act pertaining to intellectual property right licensing agreements is discussed under the following headings:

(1) Viewpoints from private monopolization

- 1) Inhibiting the use of technology
- 2) Limiting the scope of the use of technology
- 3) Imposing conditions on the use of technology

(2) Viewpoints from unreasonable restraint on trade

- 1) Patent pool
- 2) Multiple licensing
- 3) Cross-licensing

(3) Viewpoints from unfair trade practices

- 1) Inhibiting the use of technology
- 2) Limiting the scope of the use of technology
 - i) Licensing rights in part
 - a. Function-specific licensing
 - b. Limiting the license period
 - c. Limiting the field in which the technology may be used
 - ii) Restrictions pertaining to manufacturing
 - a. Limiting the area in which manufacturing is allowed
 - b. Limiting the quantity of products or the number of times the technology is used in manufacturing
 - iii) Restrictions pertaining to export
 - iv) Sublicensing
- 3) Imposing restrictions in relation to the use of technology
 - i) Restrictions on raw materials and components
 - ii) Restrictions on sales
 - iii) Restrictions on selling and resale prices
 - iv) Restrictions on manufacturing and sale of competing products or on transactions with competitors
 - v) Best effort obligations
 - vi) Obligations to protect confidentiality of know-how
 - vii) No-contest obligation
- 4) Imposing other restrictions
 - i) Unilateral termination provisions
 - ii) Establishment of royalties unrelated to the use of technology
 - iii) Restrictions after extinction of rights
 - iv) Package licensing
 - v) Addition of functions to technology
 - vi) Obligation of non-assertion of rights
 - vii) Restrictions on research and development activities
 - viii) Obligations to assign improved technology or to grant exclusive licenses for improved technology
 - ix) Obligations to grant non-exclusive licenses for improved technology
 - x) Obligations to report obtained knowledge and experience

5-1 Viewpoints from private monopolization and unreasonable restraint on trade

With respect to restrictions pertaining to the use of technology, a question is raised as to whether Article 3 of the Antimonopoly Act (prohibition of private monopolization or unreasonable restraint on trade) is applicable. An infringement of the provision in Article 3 occurs with any conduct that complies with the behavioral criteria described below and that causes, contrary to the public interest, a substantial restraint on competition in any particular field of trade. Trade associations violate the provision in Article 8 if they substantially restrict competition in a particular field of trade. On the basis of the principles on identifying the market described in Part 2-2 of the Guidelines, the particular field of trade is identified according to the scope of influence of the conduct, in the light of the objects, other parties, areas and modes of trade in the technology or product market.

“Substantially restrict competition” refers to establishing, maintaining and strengthening a state of market control. With respect to the meaning of “substantially restraining competition in any particular field of trade” as provided for in Article 2, paragraph (5) of the Antimonopoly Act, there are court rulings that defined it as a state in which there actually appears or at least is going to emerge a situation in which a specific entrepreneur or trade association can control the market by controlling the price, quality, quantity or other conditions freely at its own will to a certain degree as a result of reducing competition in a market.

5-1-1 Viewpoints from private monopolization

Restrictions pertaining to the use of technology will be examined from the viewpoint of applying provisions regarding private monopolization if they “exclude or control the business activities of other entrepreneurs” (Article 2, paragraph (5) of the Antimonopoly Act). Whether a restriction pertaining to the use of technology is classified as “exclusion” or “control” may not be uniformly determined according to the manner of the conduct. It should be judged specifically by examining the intent and effects of the individual conduct.

(1) Inhibiting the use of technology

Restrictions by the right-holder to a technology such as not to grant a license for the use of the technology to an entrepreneur (including cases where the royalties requested are prohibitively expensive and the licensor’s conduct is in effect equivalent to a refusal to license) or to file a lawsuit to seek an injunction against any unlicensed entrepreneur using the technology are seen as an exercise of rights and normally constitutes no problem.

However, if any such restriction is found to deviate from or run counter to the intent and objectives of the intellectual property systems, it is not recognizable as an exercise of rights. It then constitutes private monopolization if it substantially restrains competition in a particular field of trade.

(2) Limiting the scope of the use of technology

When a right-holder to a technology grants other entrepreneurs a license to use the technology within a limited scope, it is seen as an exercise of rights and normally constitutes no problem. However, any acts of specifying and enforcing the scope within which the use of technology is authorized could be deemed acts of controlling the business activities of licensees. As a result of examination, if it is found to deviate from the intent of the intellectual property systems, etc., it is not recognizable as an exercise of rights. It then constitutes private monopolization if it substantially restrains competition in a particular field of trade.

(3) Imposing conditions on the use of technology

When the right-holder to a technology sets a condition for granting a license for the technology to other entrepreneurs, it may correspond to an act of controlling the business activities of licensees or of excluding the business activities of other entrepreneurs, depending on the particular circumstances. If it causes a substantial restraint of competition in a particular field of trade, it will be deemed to constitute private monopolization.

5-1-2 Viewpoints from unreasonable restraint on trade

Restrictions pertaining to the use of technology will be examined from the viewpoint of applying the provision regarding unreasonable restraint on trade if “an entrepreneur in concert with other entrepreneurs, colludes to restrict or engage in their business activities” (Article 2, paragraph (6) of the Antimonopoly Act).

It is necessary to examine this from the viewpoint of unreasonable restraint on trade especially in the situation in which the parties involved in the restrictions pertaining to the use of technology compete. Possible examples include a patent pool and cross-licensing among competitors and a multiple licensing scheme under which numerous competitors are licensees of the same technology.

5-2 Viewpoints from unfair trade practices

From the viewpoint of applying unfair trade practices, restrictions pertaining to the use of technology will be examined to determine if they comply with certain behavioral criteria and tend to impede fair competition (“tendency to impede fair competition”). With respect to the type of tendency to impede fair competition, the Guidelines focus on what can be judged from the following criteria in accordance with the method of analyzing the effect of reducing competition mentioned in Part 2-3 thereof.

(i) Whether or not an entrepreneur (including any entrepreneurs that have a close relationship with it) may deprive its competitors and other parties of trading opportunities or directly impede the ability of the competitors and the others to compete.

(ii) Whether or not the restriction may reduce competition in pricing, acquiring customers and other means.

Apart from criteria (i) and (ii), whether or not the conduct constitutes unfair competition or an infringement of the basis for free competition must in some cases be examined with regard to the tendency to impede fair competition. In this event, judgment should be made by an overall consideration of the details and degree of influence on the licensees’ business activities, the number of other parties engaged in the conduct and the duration or repetitiveness of the conduct, etc.

5-2-1 Restrictions on selling and resale prices

In the case in which a licensor places a restriction on licensees on the selling or resale prices of products incorporating licensed technology, this restriction limits the most fundamental means of competition in the business activities of licensees and distributors purchasing such products from them, and it evidently reduces competition. Therefore it is in principle recognized as constituting an unfair trade practice. (Paragraph (13) of the General Designation)

5-2-2 Restrictions on the manufacture and sale of competing products or on transactions with competitors

If any licensor imposes a restriction on licensees in relation to the manufacture or selling of any product that competes with the licensor’s products or the acquisition of a license for a competing technology from a competitor of the licensor, the conduct has the effect of impeding licensees from effectively using technology and obstructing technology transactions, with the effect of depriving competitors of trading opportunities. Such a restriction therefore constitutes an unfair trade practice if it has the tendency to impede fair competition. (Paragraphs (2), (11) and (13) of the General Designation)

Notwithstanding the above, it is thought that such restrictions to the extent necessary to maintain confidentiality are likely to be recognized as not tending to impede fair competition if the licensed technology

is concerned with know-how and there exists no other means of preventing disclosure or unauthorized use of the technology. This applies also to restrictions that remain effective for a short period after the termination of the agreement.

The restriction on the handling of competing technology/products is often seen as more important in know-how licensing agreements than in patent licensing agreements. This is because confidentiality and the prohibition of use for unauthorized purposes are an essential issue for know-how. In the case of exclusive licensing agreements, this kind of restriction is important particularly for a licensor who wants to impose on the licensee an obligation to handle only the licensed technology/product.

5-2-3 No-contest obligation

Imposing an obligation by a licensor on its licensees not to contest the validity of rights for licensed technology is recognized to have aspects that promote competition by facilitating technology transactions and is unlikely to reduce competition directly.

However, it may constitute an unfair trade practice when it is found to tend to impede fair competition by continuing rights that should be invalidated and by restricting the use of the technology associated with the said rights. (Paragraph (13) of the General Designation) In principle, stipulating the termination right of the agreement for the technology with any licensee that challenges the validity of rights may not constitute unfair trade practices. “Obligation not to contest the validity of rights” refers to, for example, an obligation to agree not to initiate legal action for the invalidation of patents for licensed inventions. It differs from the obligation of non-assertion of rights, which prohibits licensees from exercising any right owned or to be acquired by them against the licensor and other parties.

5-2-4 Obligations of the non-assertion of rights

When a licensor imposes on licensees an obligation to refrain from exercising, in whole or in part, the rights owned or to be acquired by them against the licensor or any entrepreneurs designated by the licensor, this obligation could result in enhancing the influential position of the licensor in a product or technology market or could impede the licensee’s incentive to engage in research and development, thereby impeding the development of new technologies by restricting the exercise of the licensee’s rights, etc. It therefore is an unfair trade practice if it tends to impede fair competition. (Paragraph (12) of the General Designation)

However, as with the obligation to grant non-exclusive licenses for improved technology, it does not constitute an unfair trade practice in principle if the licensees are, in effect, merely obliged to grant a non-exclusive license for improved technology developed by them.

5-2-5 Restrictions on research and development activities

Restrictions by the licensor relating to free research and development activities on the part of licensees, such as a provision set forth by the licensor to prohibit licensees from independently or jointly with any third party conducting research and development activities concerning the licensed technology or any technology that competes with it, generally affects research and development competition and ultimately reduces future competition in the technology or product market. Such restrictions are recognized as having the tendency to impede fair competition and are in principle recognized as an unfair trade practice. (Paragraph (13) of the General Designation)

On the other hand, when the licensed technology is protected and controlled as know-how, restricting licensees from jointly performing research and development activities with any third party to the extent

necessary for preventing disclosure of the knowhow or its use for unauthorized purposes is generally not recognized as having the tendency of impeding fair competition and does not constitute an unfair trade practice.

Generally, a prohibition on modifications to computer program works is seen as an exercise of rights under the Copyright Act. However, licensees are allowed to modify licensed software to use it more effectively under Article 20, paragraph (2), item (iii) and Article 47-2 of the Copyright Act. Restraining such conduct, therefore, is not recognizable as an exercise of rights.

5-2-6 Obligations of licensees with regard to improving inventions

Obligations may be imposed on licensees to assign back, grant back, or feed back any inventions developed by them to improve the licensed patent.

(1) Obligations to assign improved technology or to grant exclusive licenses for improved technology

(a) If a licensor imposes on licensees an obligation to hand over to the licensor or any designated entrepreneurs the rights to improved technology developed by them or to grant the licensor an exclusive license for it, this conduct enhances the position enjoyed by the licensor in the technology or product market and discourages licensees from working on research and development by obstructing them from using their improved technology. Normally it is not thought that there is any justifiable reason for instituting such restrictions. In principle, it constitutes an unfair trade practice to impose any such obligation. (Paragraph (12) of the General Designation)

b) An obligation that forces licensees to co-own the rights to improved technology they invent with the licensor restricts the freedom of use or disposition of the results of the licensees' own improvements or applied research, although the degree to which the obligation discourages them from undertaking research and development activities is less than the restrictions stated in (a) above. It may also constitute an unfair trade practice if it has the tendency to impede fair competition. (Paragraph (12) of the General Designation)

(c) However, in a case in which the improved technology created by a licensee cannot be used without the licensed technology, the obligation imposed on licensees to assign the rights to the improved technology in exchange for fair consideration could be recognized as essential to promote technology transactions. Moreover, it is not recognized as detrimental to the licensees' motivation for research and development. It is generally confirmed to have no tendency to impede fair competition.

(2) Obligations to grant non-exclusive licenses for improved technology

(a) When a licensor imposes on licensees an obligation to grant the licensor non-exclusive licenses for improved technology attained by licensees, it may not constitute an unfair trade practice in principle as long as the licensees may still freely use their own improved technology. This obligation has little impact on licensees' business activities and is not recognized as being likely to discourage the licensees from undertaking research and development.

(b) However, if the obligation accompanies a limit on the parties that can be licensed to use the improved technology, for instance by imposing an obligation to grant no license to any competitor of the licensor or to any other licensee, it may reduce the motivation of licensees to undertake research and development and possibly enhances the position enjoyed by the licensor in the technology or product market. It therefore constitutes an unfair trade practice if it has the tendency to impede fair competition. (Paragraph (12) of the General Designation)

In a case where the improved technology created by a licensee cannot be used without the technology owned by the licensor, it may in principle not constitute an unfair trade practice to impose an obligation to obtain

from the licensor approval for granting a license to any other entrepreneur.

(3) Obligations to report obtained knowledge and experience

Imposing on licensees an obligation to notify the licensor of knowledge or experience they obtain in the process of using the licensed technology will enhance the incentive for the licensor to offer licenses and will not reduce the motivation of licensees to undertake research and development. It does not therefore constitute an unfair trade practice in principle. However, if imposing an obligation to report knowledge or experience owned by licensees effectively means forcing licensees to grant the licensor a license for their acquired know-how, it will constitute an unfair trade practice if it has the tendency to impede fair competition according to the viewpoints described in (1) and (2) above. (Paragraph (12) of the General Designation)

IV-5. Managing Licensing Agreements

1. Introduction

Licensing business aimed at the effective utilization of intellectual property/intellectual property rights often involve disputes. Discussion is therefore currently underway to introduce an insurance scheme as a countermeasure against such disputes, and alternative dispute resolution (ADR) as an alternative means of solving such disputes in place of litigation. These new trends are expected to impact on, directly or indirectly, licensing agreements and licensing business.

In the practices of managing licensing agreements, licensing agreement policies are becoming increasingly complex, and the importance of contract management is rising recently as license targets are becoming diversified. In addition, in the face of recent problems concerning intellectual property/intellectual property rights, as well as the maturing of the practice of managing licensing agreements, businesses are now placing focus on the use and utilization—rather than just protection—of intellectual property/intellectual property rights, and are beginning to attach importance to licensing agreements in this regard.

As a matter of fact, intellectual property/intellectual property rights need to be protected and utilized in a balanced manner, and a legal framework for licensing is being strongly required to regulate, especially, the use and utilization of the rights fairly and reasonably. Furthermore, establishing the practice of appropriate management of licensing agreements has also become indispensable.

Although the focus has been placed mainly on the management of international licensing agreements until today due to the internationalization and borderless development of the economy, as well as due to its sluggish nature, it is expected in the future that attention will be paid equally to licensing agreements with Japanese companies due to the shift in focus among companies from the acquiring of rights to the use and utilization of rights.

At any rate, the most important points in the practice of managing licensing agreements are as follows:

- 1) Development of clear licensing policies
- 2) Fair and reasonable approach based on a legal framework for licensing
- 3) Trust between the parties is the basis of licensing agreements, and negotiations are important at every stage, including at the conclusion, performance, and termination of an agreement.
- 4) The legislation and practices pertaining to licensing agreements are very changeable and technical. Good human resources and a solid organization are essential to ensure sufficient management.

2. Management issues for licensing agreements

The management of licensing agreements in a broad sense encompasses all the operations related to

licensing agreements, but in this section, management is, in a general sense, defined as covering only the operations after the conclusion of the licensing agreement.

- 1) Checking the agreement term
- 2) Checking how the license target technology/product is being exploited
- 3) Payment of consideration; managing the money received
- 4) Maintaining the license (payment of patent fee)—basic obligation
- 5) Administrative procedure for licensing agreements
- 6) Following up improved technology/improvement patent
- 7) Monitoring any infringement by a third party
- 8) Responding to an infringement claim from a third party
- 9) Monitoring any similar or competitive technology
- 10) Dealing with the issue of technological viability/commerciality

3. Management issues for technical assistance agreements

The management of technical assistance agreements in a broad sense encompasses all the operations related to technical assistance agreements, but in this section, management is, in a general sense, defined as covering only the operations after the conclusion of the technical assistance agreement.

- (1) When services related to factory planning/the design and construction of a factory building are provided
 - (2) When services related to the design, procurement, construction, and commissioning of a plant are provided
 - (3) When services related to the design, procurement, assembly, installation, and commissioning of a particular machine are provided
- 1) Verifying whether the technology to be introduced is completed
 - 2) Market research; cost calculation
 - 3) Investigating and examining the content of the technology to be introduced
 - 4) Planning, designing, constructing, and commissioning a factory/plant
 - 5) Procuring devices, equipment, and machinery
 - 7) Providing information and data
 - 7) Providing improved technology
 - 8) Warranty on technical effects
 - 9) Communicating know-how
 - 10) Technical guidance

V. Methods of Preparing Technology Transfer Agreements

As explained earlier, the way that technology is transferred varies widely, and in practical terms the transfer is conducted in the form of a technology assignment agreement or a licensing agreement. The license targets of these agreements are intellectual property/intellectual property rights.

Licensing agreements are agreements on the exploitation, utilization, and use of intellectual property/intellectual property rights, concluded taking into account the economic value of the intellectual property and the exclusivity of the intellectual property rights. Intellectual property/intellectual property rights are thus a very important element of intellectual property assignment agreements and licensing agreements.

V-1. Intellectual Property (Right) Assignment Agreements

The objective of this type of agreement is to assign intellectual property/intellectual property rights. One of the important things with this type of agreement is to accurately evaluate the value of the patent right/the right to obtain a patent pending, as well as other elements of the assignment.

1. Evaluation of the value of the patent right/the right to obtain a patent pending, as well as other elements of the assignment

	Elements to be Evaluated	Details
1	Rights	<ul style="list-style-type: none"> • Validity • Incompatibility (identity) • Exclusivity • Duration /remaining period of the right
2	Technological advantage	<ul style="list-style-type: none"> • Originality • Possibility/ease with which alternative/improved technology can be developed • Obsolescence (sustainability) • Ease of free riding and dead copying
3	Marketability	<ul style="list-style-type: none"> • Alignment with market needs • Possibility/ease with which newcomers can enter the market
4	Contribution to corporate management	<ul style="list-style-type: none"> • Credibility of management (quality of management) • Corporate value • Royalty revenue

- 1) Accuracy of validity: Patent Act Article 104-3
- 2) Extent of the right: Possibility of developing alternative technology
- 3) Scope of the right: Validity period, content (intellectual property to be assigned; method), geographical area, global rights situation
- 4) Essentiality of the patent
- 5) Possibility of exploiting a product with a single intellectual property: A product cannot usually be exploited with a single intellectual property. Cross-licensing, multiple licensing, or a patent pool is

necessary in many cases.

- 6) The product lifecycle is not the same as the intellectual property lifecycle.
- 7) Buying time; head start; quality; risk management; securing trust in management and the business of the company
- 8) Sticking excessively to exclusivity leads to lower cost performance.

(1) Evaluating the value of the rights

1) Validity

Intellectual property rights are generally either rights which, like patent rights and other industrial property rights, grant absolute exclusivity by certain formalities, or rights which, like copyrights, grant relative exclusivity automatically without the need of formalities. However, intellectual property rights are not always perfect or faultless.

The strength and extent of intellectual property rights vary, and there are even cases where their validity is denied.

Therefore, to effectively utilize intellectual property rights as part of a business strategy, their strength and extent should always be taken into account. The strength and extent of the intellectual property right affect the height and size of the barrier (exclusivity) to prevent other companies entering the market.

2) Incompatibility (identity)

The scope of intellectual property rights is not infinite but limited. Securing a wider scope for the right to exclude similar products and services by competitors is very important to maintain your company's competitive advantage. The wider the scope is, the stronger the rights are, and the greater the competitive advantage is. Needless to say, if there is any deficiency in the intellectual property rights owned by your company, it becomes impossible to maintain your competitive advantage.

3) Exclusivity

If any one of or several intellectual property rights owned by your company has strong exclusivity, it is possible to secure absolute advantage through a competitive advantage strategy, and build a protective barrier against competitors entering the market. It is also possible to prevent competitors from dead copying or taking free rides.

4) Duration/remaining period of the right

The duration of an intellectual property right differs depending on the type. It is therefore necessary to consider the type and the remaining period of validity for each intellectual property right when intending to utilize them as part of your business strategy.

(2) Evaluating the technological advantage

1) Originality

Intellectual property rights are protected from the viewpoint of the government's industrial and cultural policies, and their protection period is basically limited. To ensure that the intellectual property rights owned by your company can be utilized effectively as part of its business strategy during the limited protection period, technological advantage should be evaluated particularly in the case of patent rights and other industrial property rights.

One of the basic preconditions for technological advantage is originality; unique features that meet the needs of the times.

2) Possibility/ease of developing alternative/improved technology

Even when your company intends to utilize intellectual property rights strategically to establish a competitive advantage, it is impossible to exercise the rights effectively if there is a way to—or even if it is

easy to—detour around the scope of the rights.

The intellectual property rights of technologies for which alternative or improved technologies can be easily developed have no absolute advantage, and your company has to follow a strategy based on comparative advantage. This kind of intellectual property right is also easily diluted, and particularly in the case of a technical creation, it may be wiser to think about developing a differentiation strategy aimed at avoiding competition by owning it as know-how, rather than filing for a patent.

3) Obsolescence (sustainability)

Patent rights and other intellectual property rights become obsolete over time as new technology emerges and consumers' need change. Products based on obsolete intellectual property rights lose competitiveness, and cannot sustain their competitive advantage. Therefore, when intending to utilize intellectual property rights as part of a business strategy, there is a need to obtain or own the rights to the latest technologies that meet the current needs of consumers.

(3) Marketability

1) Aligning with market needs

The value of intellectual property rights usually cannot be calculated as an exact figure, and is determined in relation to the market for the product for which the intellectual property right in question is being exploited.

Therefore, to utilize intellectual property rights as part of a business strategy, it is necessary to evaluate the marketability and the alignment with market needs of the product as well.

2) Possibility/ease with which newcomers can enter the market

Because intellectual property rights can be granted on an exclusive basis, someone else may already have a product on the market protected by intellectual property rights. If this is the case, newcomers cannot enter the market because of the barrier presented by those rights.

On the other hand, if no one else holds intellectual property rights in the market, newcomers can enter the market with a product protected by their intellectual property rights, and secure a competitive advantage by establishing a legally-guaranteed, solid foothold.

(4) Contributing to corporate management

1) Credibility of management (quality of management)

Due to the rapid progress of information-oriented, borderless, and cross-industrial business, the need for strategic alliances is increasing. To bring success to a strategic alliance, it is essential to evaluate the credibility of the partner. Obtaining or owning intellectual property rights required for the project for which the alliance has been formed plays a decisive role in winning the trust of the partner.

2) Corporate value

When evaluating the corporate value of the other party prior to a merger and acquisition (M&A), there is a need to evaluate the intellectual property rights owned by the other party. The Discounted Cash Flow (DCF) Method is often used to evaluate corporate value, but this method is not always appropriate for evaluating the value of intangible property like intellectual property rights because there are many uncertainties over intangible property in comparison with tangible property.

Intellectual property rights are often unstable and imperfect, and destined to be obsolete. For example, the Japanese patent system is based on the substantive examination principle, and because perfect and faultless examinations are generally impossible, there is always the possibility that, even when granted, patent rights may have grounds for invalidation, making the rights inevitably subject to instability. In addition, since the content of patent-applied inventions is usually published before a patent right is granted,

there is a risk that someone may develop improved technology to detour the scope of the right, making the right imperfect. In addition, intellectual property rights become obsolete sooner or later due to technological innovation or other changes.

3) Royalty revenues

Intellectual property rights can be utilized strategically by the right-holders themselves exploiting them by licensing or selling them. Licensing is an important element of business strategy, and royalty revenues from licensing is one of the important factors in evaluating the value of intellectual property rights.

To exploit intellectual property rights strategically in corporate management, it is necessary to identify which element of each intellectual property right obtained or owned by your company has high value, apply the identified value to actual business using a marketing mix approach, and implement an appropriate business strategy based on that value to establish a competitive advantage. In this way, your company can expect to enjoy value chain benefits.

For example, in the case of a patent right that has a long period remaining, strong exclusivity, and for which it is difficult or there is a low possibility of developing alternative/improved technology, the best business strategy may be to build a solid barrier to prevent newcomers entering the market to monopolize it. On the other hand, in the case where the remaining period is short and obsolescence is detected, it is probably better to license the patent to another company while it is still valid to earn royalties.

2. Sample of an intellectual property (right) assignment agreement

Intellectual Property (Right) Assignment Agreement

THIS AGREEMENT is made and entered into by and between XXXX Co., Ltd. (hereinafter referred to as “Assignor”) and XXXX Co., Ltd. (hereinafter referred to as “Assignee”) with regard to the assignment of the patent right and the right to obtain a patent owned by Assignor.

WHEREBY IT IS AGREED AS FOLLOWS:

Article 1 (Rights to be assigned)

Assignor shall assign the patent right and the right to obtain the right specified below to Assignee, and Assignee shall accept them.

Patent No. XXXXX, Title of the invention: XXXX

Request for patent No. (year)-XXXX, Title of the invention: XXXX

Article 2 (Registration procedures and costs)

1. Assignor shall issue documents specified below to Assignee by (date).

Deed of assignment, one copy each

Sole application authorization, one copy each for the rights specified in the preceding article

2. Assignee shall bear all costs incurred for assignment registration and change of applicant’s name.

Article 3 (Consideration and payment method)

1. Assignee shall pay XXXX yen to Assignor as consideration for the assignment of the rights specified in Article 1 hereof.

2. Assignee shall remit the consideration specified in the preceding paragraph to Assignor's bank account (XX Bank, XX Branch, Account No. XXXX) in two installments. The amount and due date of each installment are indicated below.

XXXX yen by (date)

XXXX yen by (date)

Article 4 (obligation to maintain the rights)

Assignor shall be obliged to maintain the rights specified in Article 1 hereof until Assignee receives the documents issued by Assignor as set forth in Article 2 hereof, and the whole procedure to change the applicant's name for the rights specified in Article 1 hereof is completed.

Article 5 (Confidentiality)

Assignor shall not disclose the invention specified in Article 1 hereof to any third party until the patent application is laid open.

Article 6 (Term of the Agreement)

This Agreement shall become effective on (date) (date of execution), and continue until (date).

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in duplicate, signed and sealed by their duly authorized representatives, and each original copy to be retained by each party.

(date)

Assignor:

Assignee:

V-2. Licensing Agreements

1. Introduction

Licensing agreements are agreements entered into with a company with a different philosophy and circumstances necessitating the agreement. Particularly in international licensing agreements, the parties are from different countries where the legal system, customs, and business practices may differ greatly, and these differences, as well as the intangible nature of license targets, give rise to many uncertainties surrounding licensing agreement negotiations.

To ensure the success of the licensing agreement, it is essential, first and foremost, to develop policies carefully, conduct a prior investigation, and conclude negotiations to your satisfaction before entering into the agreement.

2. Use of checklists

When determining the content of a licensing agreement, the both licensor and licensee need to decide their strategies by utilizing checklists. The results are then reflected in a terms sheet, which outlines the terms and conditions of the licensing agreement.

3. Licensor's and licensee's approach to drafting the agreement

The licensor's and licensee's approach to drafting the agreement generally differ greatly. The licensor's

approach is described below.

(1) Licensing party

The licensing party can be a patentee or a sublicensor. In a sublicensing agreement, where a sublicense is granted from a licensee to whom a license is already granted, the licensee acts as an “offshoot” of the licensor.

(2) License target

The licensor need to consider whether patent rights in Japan and overseas, as well as the right to obtain a patent, should be included. Needless to say, in the case of know-how licensing agreements, the know-how is the license target. There may be cases where a combination of know-how and rights form the license target.

(3) Type of license

If a *senyo-jisshiken* exclusive license is granted, the licensor cannot exploit the licensed right (Patent Act Article 68, Article 77 (2)). Therefore, it may be wise for the licensor to choose a *dokusenteki-jisshiken* exclusive license, rather than a *senyo-jisshiken*. At any rate, the licensor needs to examine the available options, including a *tsujo-jisshiken* non-exclusive license and a *hi-dokusenteki-jisshiken* non-exclusive license, holistically and strategically.

(4) Scope of license

The scope of license must be defined in terms of time, geographical area, and content. The duration of the license in particular should be determined by taking into account the market prospects, the licensee’s exploitation plans, and other factors. The license target and the scope of the license in the case where a patent similar to the patent registered in Japan exists in other countries should also be determined.

(5) Reserving a self license

If a *senyo-jisshiken* exclusive license is granted, the licensor cannot reserve a self license. Even in the case of a *dokusenteki-jisshiken* exclusive license, the licensor needs to consider including a statement in the agreement that expressly says that the licensor reserves a self license.

(6) Type and amount of consideration

The consideration paid under a licensing agreement consists basically of a down payment and running royalties. In the case of an exclusive licensing agreement, the amount of the minimum royalty needs to be specified.

(7) Sublicense

A sublicense should not be granted unless the licensee is positioned as an “offshoot” of the licensor in the sublicensing agreement. For the licensee, it is preferable to secure the right to sublicense the licensed technology to its affiliates.

(8) Obligation to maintain a licensed patent

Maintaining a patent licensed to the licensee is a basic and intrinsic obligation of the licensor. During negotiations, the licensor may request the licensee’s consent to any trial for correction that the licensor may file in cases when a trial for invalidation of the patent or opposition to granting the patent is filed by a third party, but the licensee usually wants to leave the option open so that it can decide whether to

consent to the trial for correction on a case-by-case basis after consultation with the licensor.

(9) Handling improvement inventions

Improvement inventions developed by the licensee can be 1) fed back, 2) granted back (as an exclusive, single, non-exclusive, or other license), or 3) assigned back (whole assignment, sharing, etc.). The licensor may request either of these to be specified as a stipulation of the agreement according to its licensing policy and to the extent that such stipulation does not violate the Antimonopoly Act. The licensee, however, usually prefers to avoid such stipulation so that it can decide on a case-by-case basis after consultation with the licensor.

(10) Prohibiting the handling of competing technology

Prohibiting the handling of competing technology is generally regarded as an unfair trade practice and a violation of the Antimonopoly Act. Therefore, the licensor should decide whether such prohibition is really necessary after reviewing its overall licensing policy.

(11) Registering the license

Senyo-jisshiken exclusive licenses take effect upon registration, and cannot be denied. However, the registration of a *tsujo-jisshiken* non-exclusive license is a requirement for setting up against a third party, and there is no obligation on the part of the licensor to grant the registration. The licensor should decide whether to grant the registration or not after considering the pros and cons.

(12) Licensor's warranties

Licensor's warranties that may be given to the licensee include i) technological feasibility, ii) validity of the licensed patent, secrecy of the licensed know-how, and iii) non-infringement of third party rights. The content of the warranty provision should be determined after taking the consideration and other factors into account as well as from the viewpoint of risk management.

(13) Licensee's obligation to exploit the rights

The licensee's obligation to exploit the rights and minimum royalty are important particularly in the case of an exclusive license.

(14) Licensee's no-contest obligation

Provisions that prohibit the licensee from contesting the validity of the licensed patent/know-how may constitute a violation of the Antimonopoly Act in some cases. However, the licensor may include a no-contest obligation provision in the agreement from the viewpoint of maintaining a trusting relationship, and also reserve the right to terminate the agreement for assurance against the licensee violating the provision. The Guidelines published by the Japan Fair Trade Commission on September 28, 2007, state that there is, in principle, no problem with the no-contest obligation since it has "aspects to promote competition by facilitating technology transactions."

(15) Confidentiality

Confidentiality is a basic and intrinsic obligation of the licensee, particularly in the case of know-how licensing agreements, but it should be stipulated expressly by way of reaffirmation in the agreement to re-affirm the obligation. Prior approval by the licensor regarding patent applications filed by the licensee is especially important. On the part of the licensee, a provision that imposes confidentiality obligations on the licensor, as well as the licensee, is preferable.

(16) Prohibiting subcontracting

Subcontracting by the licensee involves problems regarding any subcontractor's interpretation of "exploitation" of patents in the case of patent licensing agreements, and problems regarding the licensee's obligation to maintain confidentiality. Subcontracting should be prohibited or otherwise restricted according to the licensor's licensing policy.

(17) Restrictions on the selling price

Restrictions on the selling price are generally regarded as an unfair trade practice and a violation of the Antimonopoly Act. Therefore, if such a restriction is necessary, the decision on whether to implement the restriction or not should be made according to the licensing policies of the parties.

4. Preparing a licensing agreement

(1) Preparation flow

Selecting a licensor/licensee → Preliminary meeting → Negotiating terms and conditions → Drafting → Negotiating the final terms and conditions → Checking, examining, and adjusting the draft agreement → Final decision → Creating a formal agreement → Signing

(2) Notes on preparing an agreement

- 1) Basic principles in preparing an agreement: Accuracy, conciseness, plainness, clarity, consistency
- 2) Examine the structure of the agreement and the order of articles carefully.
- 3) Examine the content, terms and conditions, and problems of the agreement carefully.
- 4) Pay attention to the actual and special circumstances, results of the negotiation, prior examination results, and others.
- 5) Use sample formats, forms and text only for reference, and ensure that the terms and conditions match the actual needs.
- 6) Review and adjust any binding or restrictive provisions carefully prior to entering into the agreement.

(3) Determining the content of the licensing agreement

1) Parties

Patentee, person authorized to grant a license (in the case of sublicensing), copyright holder, know-how owner; change of party

2) Target

Patent right, the right to obtain a patent, know-how (technical intellectual property), copyright; moral rights of the author are not included.

3) License

- i) Primary license, sublicense
- ii) *Senyo-jisshiken* exclusive license, *tsujo-jisshiken* non-exclusive license
- iii) Scope: content (manufacture, use, sales), time, geographical area

4) Consideration

- i) Down payment
- ii) Running royalties
- iii) Minimum royalty

5) Obligations of the parties

- i) Contractual obligations: Payment of consideration, elimination of infringements, grant back for improved technology

ii) Basic (intrinsic) obligations: Maintenance of licensed patents, confidentiality, cooperation in registering a *senyo-jisshiken* exclusive license, non-granting of sublicenses

iii) Legal obligations: Warranty of non-infringement of third party's rights, warranty of technical effects (Chinese ordinance)

(4) Composition of the agreement

- 1) Title
- 2) Preamble
- 3) Purview
- 4) Afterward
- 5) Date
- 6) Signatures and seals of the parties

5. Concluding the agreement

Licensing agreements are concluded when the parties reach full agreement after drafting and negotiations. Agreements are normally signed and sealed by the parties themselves.

1) Drafting

Draft agreements are prepared separately by the licensor and the licensee for the patent, know-how, or other intellectual property that they wish to license-out/license-in.

2) Negotiations

Each party presents their drafts and begins negotiations. Basic, applied and strategic matters are discussed from the viewpoints of law, documentation, and a strategy to persuade and convince the other party.

3) Conclusion

The parties sign the agreement that contains the terms and conditions agreed upon as a result of negotiation. Agreed terms and conditions should preferably be based on win-win principles and accepted favorably not only by your own company but also by the other party and society.

6. Sample patent licensing agreement

Patent Licensing Agreement

THIS AGREEMENT is made and entered into by and between XXXX Co., Ltd. (hereinafter referred to as “Licensor”) and XXXX Co., Ltd. (hereinafter referred to as “Licensee”) with regard to the licensing of a patent owned by Licensor.

WHEREBY IT IS AGREED AS FOLLOWS:

Article 1 (Definitions)

In this Agreement, the following terms shall have the following meanings:

- (1) “Patents” means the patents owned by Licensor and specified in the Exhibit.
- (2) “Licensed Products” means products manufactured based on the Patents.

Article 2 (Granting the License)

1. Licensor grants to Licensee a *tsujo-jisshiken* non-exclusive license to manufacture and sell the Licensed Products based on the Patents.
2. Licensee may register the *tsujo-jisshiken* non-exclusive license granted pursuant to the preceding paragraph at the expense of Licensee, and Licensor shall provide the documents necessary for the registration to Licensee at the request of Licensee.
3. Licensee shall not grant a sublicense to any third party without the prior written consent of Licensor.

Article 3 (Maintaining the Patents)

Licensor shall maintain the Patents throughout the term of this Agreement.

Article 4 (Consideration)

In consideration of the license granted in Article 2 hereof, Licensee shall pay to Licensor royalties at the rate of three percent (3%) of the net sales of the Licensed Products manufactured and sold during the term of this Agreement.

Article 5 (Most Favored Clause)

If Licensor grants a license for the Patents to any third party with terms more favorable than those provided in this Agreement during the term thereof, this Agreement shall be modified to provide the same favorable terms as those granted to such third party.

Article 6 (Reports, Payment)

Licensee shall calculate the amount of royalties accrued during each calendar year, and report and pay the amount in cash to Licensor within thirty (30) days of the end of each calendar year.

Article 7 (Books, Inspections)

1. Licensee shall maintain books prepared specifically for the manufacture and sales of the Licensed Products for each calendar year, and keep them, together with other related documents, at Licensee’s Head Office during the term of this Agreement and for three (3) years after the termination hereof.
2. Licensor shall employ a certified public accountant to inspect the books and related documents kept pursuant to the preceding paragraph, and Licensee shall cooperate for such inspections.

Article 8 (No Warranty)

1. Licensor makes no warranty that there are not any grounds for invalidation of the Patents.

2. If the exploitation of any of the Patents by Licensee is restricted in any way by any third party's rights, Licensors and Licensee shall consult with each other on how to deal with the issue.

Article 9 (No-contest Obligation)

1. Licensee shall not contest, directly or indirectly, the validity of any of the Patents.

2. Licensors reserves the right to terminate this Agreement if Licensee contests the validity of any of the Patents.

Article 10 (Elimination of Infringements)

1. If Licensee discovers any infringement of any of the Patents by any third party, it shall promptly notify Licensors to that effect, and provide Licensors with evidence obtained on the infringement.

2. Licensors and Licensee shall consult with each other on how to deal with an infringement of the Patent discovered in the preceding paragraph, and Licensee shall cooperate with Licensors if Licensors decides to take legal action seeking an injunction or other remedy against the infringer of the Patent.

Article 11 (Improvement Inventions)

1. Licensee shall promptly notify Licensors of the details of any improvement invention that Licensee may develop in connection with any Patent during the term of this Agreement.

2. If Licensors requests a license for the improvement invention notified pursuant to the preceding paragraph, Licensee shall grant to Licensors the license with reasonable terms and conditions.

Article 12 (Obligation to Exploit the License)

Licensee shall at all times during this Agreement make its best efforts to manufacture and sell the Licensed Products.

Article 13 (Confidentiality)

Neither party shall disclose or divulge to any third party confidential information from the other party that it may come to know during the performance of this Agreement without the prior written consent of the other party.

Article 14 (Termination)

In case either Licensors or Licensee defaults in the performance of any of the provisions of this Agreement, and such default is not rectified within thirty (30) days from the date that notice was given by the other party requesting that the default be rectified, the other party shall have the right to terminate this agreement.

Article 15 (Term of the Agreement)

This Agreement shall become effective on the date of execution of this Agreement, and continue until the date of expiry of the last-to-expire of the Patents.

Article 16 (Consultation)

If any doubt arises as to matters not contained herein or the interpretation hereof, Licensors and Licensee shall consult with each other in good faith, and seek an amicable solution.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in duplicate, signed and sealed by their duly authorized representatives, and each original copy to be retained by each party.

(date)

Licensors:

Licensee:

Notes

(1) License target

The license target is not just the patent right, but also covers the right to obtain a patent (inventions for which patent is pending) in accordance with the principle of freedom of contract.

(2) Registering the license

Senyo-jisshiken exclusive licenses take effect upon registration, while the registration of a *tsujo-jisshiken* non-exclusive license is a requirement for setting up against a third party (Patent Act Articles 98 and 99).

(3) Sublicense

The licensee cannot grant a sublicense to a third party without the prior consent of the licensor. Patent Act Article 77 (4) stipulates— by way of reaffirmation —the need to obtain the consent of the patentee with *senyo-jisshiken* exclusive licenses. Although there is no such stipulation in Article 78 (Non-exclusive license) for *tsujo-jisshiken* non-exclusive licenses, it is a matter of course that a sublicense cannot be granted to a third party without the licensor's consent.

(4) Maintaining a licensed patent

In the actual implementation of licensing agreements, maintaining a licensed patent constitutes one of the licensor's basic obligations, and even when it is not stipulated expressly in the agreement, the licensor is required to fulfill their obligation. However, if for example, a request for an invalidation trial is filed against the licensed patent, and prior art is found as a result of this request, doubt may arise regarding to what extent the licensor has the obligation to maintain the licensed patent. It is therefore recommended that the obligation should be specified in the agreement in as detailed a way as possible by way of reaffirmation.

(5) Warranties

The licensor normally does not want to give any warranties regarding the licensed patent. However, if there is a claim from a third party that exploitation of the licensed patent by the licensee is infringing on the third party's rights, the licensor and the licensee, after prompt notification from the licensee, must discuss how to deal with the matter. And if the claim turns out to be true, the licensor and the licensee should review the intention to grant the license, or even consider terminating the agreement.

As technology becomes increasingly sophisticated and complex, and companies have begun to claim patent rights aggressively under the pro-patent policy, licensing is more likely than before to lead to disputes. This is no exception for patents licensed under licensing agreements. Therefore, the issue of warranties provided by the licensor to the licensee is very important from the viewpoint of corporate strategy—especially corporate risk management.

The issue of warranties provided by the licensor to the licensee includes 1) warranties regarding any deficiency or defect in the licensed patent that prevents the licensee from achieving the expected objective of the licensing agreement, and 2) warranties regarding any restrictions that may be imposed by third party's rights on the licensee's freedom to exploit the licensed patent.

As for 1), with regard to technological feasibility (technical effect), the licensee's insight is generally important except in the case of know-how licensing agreements. However, when it comes to patentability and invalidity of the licensed patent, it is important for the licensor to give an appropriate explanation to the licensee, including the progress of examining the application for a patent.

As for 2), the licensor should carry out an appropriate prior search for related patents owned by third parties, including applications for the patent currently under examination. The licensor is also responsible for explaining the results of the search to the licensee.

(6) Licensee's no-contest obligation

Licensing agreements are concluded on the assumption that the licensed patent or know-how is patentable, valid, and secret. However, there are cases, after the agreement is signed, where a doubt arises particularly on the part of the licensee as to the patentability or validity of the licensed patent or the secrecy of the licensed know-how.

In licensing agreements, the licensor sometimes imposes incontestability on the licensee to prohibit the licensee from challenging the patentability or validity of the licensed patent or the secrecy of the licensed know-how.

Depriving the licensee of the right to contest the licensed patent or know-how may be regarded as a violation of the Antimonopoly Act or other similar competition act in some cases, and, therefore, the licensor's right to terminate the agreement is often adopted as a substitute for the no-contest obligation.

(7) Handling improved technology

Improved technology developed by the licensee is usually either fed back, granted back, or assigned back. The reason why the licensor requests the licensee to feed back, grant back, or assign back improved technology is because the foundation of the improvements is the patent or know-how licensed to the licensee, which is therefore more or less used for and contributes to the development of the improvements.

In addition, by licensing a particular technology or patent, the licensor also expects the licensee to play the role of an "offshoot" of the licensor to develop innovation based on the licensed technology or patent, and because of this expectation, the licensor is normally inclined to request the licensee to assign back or grant back an exclusive license for any improvement invention developed by the licensee. However, because this kind of request may be regarded as a violation of the Antimonopoly Act due to its possible adverse effects on the licensee's motivation as well as its restrictive effects on the licensee's innovation activities, it is often the case that the licensor instead requests co-ownership or granting back of a non-exclusive license or allows the licensee to reserve a sole license. On the other hand, the licensee usually attempts to avoid any restrictions on improved technology developed or obtained by the licensee.

At any rate, a provision regarding improved technology can become a big issue depending on the intention and strategy of each party. It is important to pay attention to the applicability of the Antimonopoly Act, as well as the illegality of the provision regarding the licensee's obligation for improved technology.

Summary of approaches to improved technology

	Method	Description	Violates Antimonopoly Act?
1	Feed back	Notify the licensor of improved technology when developed.	No
2	Option back	Offer the licensor the option to acquire a license for the improved technology notified.	No
3	Grant back of non-exclusive license	Grant the licensor a non-exclusive license for the improved technology.	Yes in some cases
4	Grant back of exclusive license while permitting sole license	Allow the licensee to reserve a sole license while granting the licensor an exclusive license.	Yes in some cases
5	Grant back of exclusive license	Grant the licensor an exclusive license for the improved technology.	Yes
6	Co-ownership	Share the improved technology (invention) with the licensor.	Yes in some cases
7	Assign back	Assign the improved technology (invention) to the licensor.	Yes

(8) Obligation to exploit licensed patents

In the case where a *tsujo-jisshiken* non-exclusive license is granted to the licensee, if the licensee is prohibited from manufacturing or selling competitive products and obliged to only exploit licensed patents, this may be regarded as a violation of the Antimonopoly Act.

7. Sample of know-how licensing agreement

Know-how Licensing Agreement

THIS AGREEMENT is made and entered into by and between XXXX Co., Ltd. (hereinafter referred to as “Licensor”) and XXXX Co., Ltd. (hereinafter referred to as “Licensee”) with regard to the licensing of know-how owned by Licensor.

WHEREBY IT IS AGREED AS FOLLOWS:

Article 1 (Definitions)

In this Agreement, the following terms shall have the following meanings:

- (1) “Licensed Products” means.
- (2) “Licensed Know-how” means technical information required for the manufacture and processing of the Licensed Products, which Licensor reserves the right to license and disclose to Licensee.

Article 2 (Granting a License)

1. Subject to terms and conditions of this Agreement, Licensor hereby grants to licensee a license to manufacture and sell the Licensed Products in Japan under the Licensed Know-how.
2. Licensee does not possess the right to grant to a third party a sublicense for the license granted by Licensor pursuant to the preceding paragraph.

Article 3 (Providing Know-how)

1. Licensor shall provide Licensee with a written description of the details of the Licensed Know-how forthwith after this Agreement is executed.
2. Licensor shall answer any questions regarding the Licensed Know-how that Licensee may ask, and provide technical guidance according to a schedule determined separately.

Article 4 (Consideration)

In consideration of the license granted hereunder, Licensee shall pay to Licensor as follows:

- (1) An initial payment of _____ within thirty (30) days of the execution of this Agreement
- (2) Royalties of three percent (3%) of the net selling price of the Licensed Products manufactured using the Licensed Know-how

Article 5 (Payment, Reports)

1. Licensee shall submit to Licensor a report specifying customers, quantities sold, sales value, net selling price, and the amount of royalties to be payable for the Licensed Products manufactured and sold using the Licensed Know-how during each period of six (6) months ending June 30 and December 31 every year, as well as pay royalties within thirty (30) days of the end of each period of six (6) months.
2. Licensee shall keep and retain true and accurate records and accounts relating to the Licensed Products manufactured and sold using the Licensed Know-how, and permit Licensor, using a certified public accountant designated by Licensor, to audit such records and accounts at the expense of Licensor during

Licensee's normal working hours.

Article 6 (Improved Technology)

1. Licensee shall communicate to Licensor any information on improved technology in connection with the Licensed Know-how which Licensee may obtain during the term of this Agreement.
2. Licensee shall grant to Licensor a license for the information on improved technology communicated to Licensor pursuant to the preceding paragraph, when requested by Licensor, based on terms and conditions that Licensor and Licensee shall determine separately through mutual consultation.

Article 7 (Confidentiality)

Either party shall hold in strict confidence the Licensed Know-how and other confidential information disclosed by the other party under this Agreement, and shall not disclose such information to any third party without the prior written consent of the other party. However, the obligation under this Article with respect to confidential information shall not apply to information which is:

- 1) already known to the recipient at the time of disclosure hereunder; or
- 2) publicly known prior to or after disclosure without fault on the part of the recipient;
- 3) lawfully received from a duly authorized third party; or
- 4) independently developed by the recipient.

Article 8 (Unfair Competition of a Third Party)

If Licensee discovers any unfair competition caused by any third party with regard to the Licensed Know-how, it shall notify Licensor to that effect, and provide evidence of the unfair competition obtained to Licensor.

Article 9 (Obligation to Exploit the License)

Licensee shall at all times during this Agreement use its best efforts to manufacture and sell the Licensed Products.

Article 10 (Term and Termination of the Agreement)

1. This Agreement shall become effective on the date of execution of this Agreement, and shall, unless earlier terminated as provided herein, continue for a period of seven (7) years. The term of this Agreement may be extended upon the agreement of both parties.
2. In the event that either party breaches any of the provisions of this Agreement, and such breach is not rectified within thirty (30) days from the date of written notice given by the other party requesting that the breach be rectified, the other party shall have the right to terminate this Agreement after giving written notice to the breaching party.
3. Licensor reserves the right to terminate this Agreement if Licensee contests the validity of the licensed Know-how including its secrecy.

Article 11 (Licensee's Obligation after Termination)

Licensee shall not use the Licensed Know-how, and shall continue to hold in confidence the Licensed Know-how even after this Agreement has expired or been terminated.

Article 12 (Consultation)

If any doubt arises as to matters not contained herein or the interpretation hereof, Licensor and Licensee shall consult with each other in good faith, and seek an amicable solution.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in duplicate, signed and sealed by their duly authorized representatives, and each original copy to be retained by each party.

(date)

Licensor:

Licensee:

Notes

Major attention points regarding know-how licensing agreements, particularly in connection with the Unfair Competition Prevention Act, are as follows.

(1) License target and type of agreement

Many assert that as a license target, know-how is an intellectual property right based on secrecy. However, the Unfair Competition Prevention Act does not actively recognize know-how (trade secrets) as an intellectual property right, and even in academic theories and judicial precedents, exclusivity is generally ruled out for know-how.

The objective of a licensing agreement is to allow a right holder to grant a license for a particular right for which exclusivity can be granted, such as patent rights and copyright, to someone else. Know-how is a valuable asset, but it is not recognized as a right for which exclusivity can be granted like copyright. Therefore, the transfer of know-how is, in practical terms, often implemented under a know-how disclosure agreement or a technical assistance agreement, rather than under a know-how licensing agreement.

However, because the term “trade secret” is defined, and the right to seek an injunction against the illegal obtainment, use, and disclosure of trade secrets is acknowledged under the Unfair Competition Prevention Act, legal guidelines on know-how licensing agreements have now been created. In addition, trade secrets are acknowledged as an intellectual property/intellectual property right under the Intellectual Property Basic Act that came into force on March 1, 2003, and this has made trade secrets even more important in the actual management of licensing agreements.

Since the essential value of know-how lies in its secrecy, the process to determine know-how licensing conditions during negotiations is normally different from the process for patent licensing agreements. For the licensor, the details of the know-how in question, not to mention the whole picture, are something that the licensor least wants to disclose before signing an agreement, whereas for the licensee, it is important to know at least an outline of the know-how, if not the whole picture, to determine the licensing conditions.

Considering these different standpoints of the licensor and the licensee, an option agreement is sometimes used as a compromise. Option agreements for know-how are agreements where the licensee is given the opportunity to evaluate the know-how in question for a certain period before deciding to sign the know-how licensing agreement attached to the option agreement, and when satisfied with the evaluation results, can choose whether to conclude the know-how licensing agreement.

(2) Granting a license

As stated above, the objective of a licensing agreement is to allow a right holder to grant a license for a particular right for which exclusivity can be granted to someone else. In the case of know-how, whose essential value is its secrecy, the objective of a licensing agreement is to make it possible for licensees to access useful secret information.

The expression shown in Article 1 (2) in the sample agreement above—“Licensor reserves the right to license”—does not mean that the licensor owns the exclusive right for the know-how in question, but that the licensor is the lawful owner of the know-how.

Because exclusivity cannot be granted for know-how, even when an exclusive license is granted, an injunction usually cannot be issued against any similar know-how exploited lawfully

by a third party. It is important to take this into account when deciding the content of an agreement.

(3) Specifying the know-how, the owner of the know-how

In specifying licensed know-how, the normal practice is to define an outline of the know-how in the definition clause in the agreement, and specify it in more detail in a know-how book and other documents. However, specification is often difficult where documentation is impossible.

Know-how is an intellectual property/intellectual property right protected through behavioral regulation by the Unfair Competition Prevention Act, and only the owner of the know-how has the right to exercise the right to seek an injunction against any act of obtaining, using, or disclosing the know-how. It is therefore important to clearly identify the owner. Extra attention is required, particularly when a joint owner exists.

(4) Confidentiality

The essential value of know-how lies in its secrecy. Therefore, maintaining secrecy is the basic and intrinsic obligation of the licensee. However, since a trade secret is defined as information “kept secret” under the Unfair Competition Prevention Act, it is strongly recommended in the practices of preparing the know-how licensing agreement that a specific method to keep the know-how secret should be specified in the agreement. Such methods may include prohibiting the licensee from making patent applications or subcontracting work that contains information on the licensed know-how, from allowing third parties to enter the licensee’s factories, which may lead to the possible disclosure of the licensed know-how, and from publicizing their contractual relationship with the licensor.

(5) Warranty of technical effect

Since the essential value of know-how is its secrecy, know-how is usually kept under strict control by the licensor as secret information. It is therefore generally difficult for the licensee to check and evaluate the details of the know-how prior to signing the agreement.

In these circumstances, an important issue for the licensee is how the licensor’s warranty regarding the technical effect of the licensed know-how should be incorporated into the agreement. It is also necessary to take defect liability as stipulated in the Civil Code into account.

(6) Unfair competition by third parties

The amended Unfair Competition Prevention Act acknowledges the right to seek an injunction and the right to claim compensation for damages against any act of unfair competition regarding trade secrets (know-how), and even contains a provision that allows the know-how owner to presume the amount of damages.

On discovering any act of obtaining, using, or disclosing licensed know-how by a third party, the licensee notifies the licensor to that effect, and the licensor takes legal action.

In order to exercise the right to seek an injunction to protect trade secrets (know-how) against a third party, licensed know-how needs to be information that is “kept secret.” Whether or not the licensor can exercise the right to seek an injunction greatly affects the content of the licensing agreement.

(7) No-contest obligation

Trade secrets (know-how) are defined by the Unfair Competition Prevention Act as information “kept secret,” and therefore it is essential to keep know-how secret at all times to

allow the licensor to claim the legal protection for know-how.

For this reason, in the practices of preparing a licensing agreement, the licensor considers it very important to impose confidentiality of licensed know-how on the licensee.

However, in practical terms, prohibiting the licensee from contesting the secrecy of licensed know-how when a doubt arises as to its secrecy may constitute a violation of the Antimonopoly Act. As a matter of fact, many agreements do not contain a no-contest obligation clause. If the licensee begins to contest the secrecy of licensed know-how while assuming confidentiality, this may pose a serious issue regarding the protection of trade secrets (know-how) because in Japan, in principle, trials are conducted in open court.

Considering a know-how licensing agreement is established based on a relationship of trust between the parties, it is often the case that a provision that allows the licensor to terminate the agreement when the secrecy of the licensed know-how is contested by the licensee is included in the agreement by way of reaffirmation.

(8) Term of the agreement

The essential value of know-how is its secrecy, and, generally speaking, know-how continues to be know-how as long as secrecy is preserved. Therefore, while the term of a patent licensing agreement is normally determined according to the duration of the licensed patent right, the term of a know-how licensing agreement is normally decided by taking the existence of secrecy into account.

In the practice of preparing a know-how licensing agreement, prohibition of the use of licensed know-how and the maintenance of confidentiality by the licensee after the agreement is terminated are the most important concerns for the licensor. These matters should be discussed between the parties taking the Unfair Competition Prevention Act, Antimonopoly Act, and other legislation into consideration, and stipulated appropriately after mutual agreement.

8. Sample confidentiality agreement

<p>Confidentiality Agreement</p> <p>THIS AGREEMENT is made and entered into by and between XXXX Co., Ltd. (hereinafter referred to as “Company A”) and XXXX Co., Ltd. (hereinafter referred to as “Company B”) with regard to the handling of one another’s Confidential Information in connection with (hereinafter referred to as “Project”) that may be disclosed .</p> <p>WHEREBY IT IS AGREED AS FOLLOWS:</p> <p>Article 1 (Confidential Information) In this Agreement, “Confidential Information” means any technical or business secret information owned by the other party, its affiliates, or suppliers of its customers that may come into knowledge in the course of discussing or conducting the Project.</p> <p>Article 2 (Management, Use, and Disclosure of Confidential Information) 1. The party that has received Confidential Information under this Agreement (hereinafter referred to as “Receiving Party”) shall keep Confidential Information in strict confidence.</p>

2. The Receiving Party may make Confidential Information accessible to its officers and employees to the extent necessary for performing its duties for the Project, provided, however, that such officers and employees shall assume at least the same level of confidentiality borne by Company B under this Agreement.
3. The Receiving Party may use Confidential Information only for the purpose of the Project, and shall not use it for any other purposes.
4. The Receiving Party shall not disclose or divulge Confidential Information to any third parties. However, the Receiving Party may disclose Confidential Information to third parties in cases where all of the following requirements are satisfied, and only if the Receiving Party assumes responsibility to the other party for any violation of confidentiality that may be committed by a third party to whom Confidential Information is disclosed:
 - 1) The Receiving Party shall obtain the prior written consent of the other party;
 - 2) The third party shall use Confidential Information only to the extent necessary for performing duties for the other party; and
 - 3) The third party shall assume at least the same level of confidentiality borne by the Receiving Party under this Agreement.

Article 3 (Return and Destruction of Confidential Information)

1. When requested by the other party, the Receiving Party shall delete all Confidential Information recorded on tangible media or destroy such media, as well as return to the other party all media containing Confidential Information received from the other party, according to the instructions of the other party, and notify the other party in writing when Confidential Information has been returned or destroyed.
2. The Receiving Party shall bear all expenses incurred for the return or destruction of Confidential Information.

Article 4 (Exceptions to Confidentiality)

The provisions set forth in the preceding Articles shall not apply to any information that is proven by the Receiving Party to fall under any of the following:

- 1) Information that is already publicly known at the time of disclosure or use by the Receiving Party without fault on the part of the Receiving Party;
- 2) Information that is already known to the Receiving Party at the time of disclosure by the other party;
- 3) Information that the Receiving Party has obtained lawfully from a third party; or
- 4) Information that is developed by the Receiving Party independently of disclosure by the other party.

Article 5 (Survival of Confidentiality)

The obligations arising under this Agreement shall survive termination of the Project performed by the parties.

Article 6 (Other)

1. Any matters not contained herein, or any doubt arising with respect to any provisions hereof shall be resolved in good faith through consultation between Company A and Company B.

2. Any dispute arising from this Agreement shall be submitted to the exclusive jurisdiction of the Tokyo District Court in the first instance.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in duplicate, signed and sealed by their duly authorized representatives, and each original copy to be retained by each party.

(date)

Company A:

Company B:

Notes

(1) Confidential information

If your company intends to exchange information with another company through a joint research and development agreement or other agreement, it is absolutely vital to identify confidential information and promise to maintain its secrecy.

In Article 2 (6) of the Unfair Competition Prevention Act, trade secret is defined as follows: “The term “trade secret” as used in this Act means technical or business information useful for commercial activities such as manufacturing or marketing methods that is kept secret and that is not publicly known.”

As this definition indicates, the point is whether or not the information is “kept secret.” If the information is not “kept secret,” it cannot be considered a trade secret, and therefore cannot receive legal protection.

(2) Maintaining secrecy

To maintain secrecy of confidential information in practical terms, it is important to 1) identify confidential information; 2) specify a maintenance method; 3) set a duration for which secrecy is maintained; and 4) clarify confidential information disclosure procedures.

(3) Confidentiality agreement

Confidentiality is often described as the basic and intrinsic obligation, but a confidentiality clause should be included in the agreement to ensure that the information in question will be “kept secret,” meeting the requirement for a trade secret as defined in the Unfair Competition Prevention Act.

9. Sample option agreement

Option Agreement

THIS AGREEMENT is made and entered into by and between XXXX Co., Ltd. (hereinafter referred to as “Know-how Owner”) and XXXX Co., Ltd. (hereinafter referred to as “Optionee”) with regard to Optionee’s evaluation of, and exercise of the option to acquire a license for, know-how for manufacturing XXX (hereinafter referred to as “Know-how”) owned by Know-how Owner.

WHEREBY IT IS AGREED AS FOLLOWS:

Article 1 (Disclosure of Know-how)

Know-how Owner shall disclose Know-how to Optionee within one (1) month of the execution of this Agreement.

Article 2 (Evaluation)

Optionee shall evaluate the technical effect and economic efficiency of Know-how to examine whether to exercise the option to acquire a license for Know-how.

Article 3 (Exercising the Option for a License)

Optionee shall decide whether to exploit Know-how or not, and notify Know-how Owner of whether Optionee intends to exercise or not exercise the option to acquire a license for Know-how within six (6) months of the execution of this Agreement.

Article 4 (Licensing Agreement)

If Know-how owner is notified by Optionee of its intent to exercise its option in accordance with the preceding article, Know-how Owner shall, within one (1) month of the date on which the notification is received, conclude with Optionee a licensing agreement to license Know-how under the following conditions (hereinafter referred to as “Know-how Licensing Agreement”):

- | | |
|--------------------|---|
| 1) Type of license | Non-exclusive license |
| 2) Territory | Whole of Japan |
| 3) Duration | Ten (10) years from the date of execution of the Know-how Licensing Agreement |
| 4) Consideration | Down payment: XXX yen
Running royalties: XX percent of net sales |

Article 5 (Option Fee)

In consideration of the disclosure of, and granting of an option to acquire a license for, Know-how (hereinafter referred to as “Option Fee”), Optionee shall pay XXX yen within thirty (30) days of the execution of this Agreement. The Option Fee shall not be returned to Optionee even in the case where Optionee declines to exercise its option.

Article 6 (Use of Option Fee to Pay Down Payment)

If the Know-how Licensing Agreement is concluded pursuant to Article 4 hereof, the Option Fee paid according to the preceding article may be used to pay a part of the down payment due under the Know-how Licensing Agreement.

Article 7 (Restriction on the Conclusion of Other Agreements)

Know-how Owner shall not conclude with any third parties any agreements with the same content as this Agreement, or in connection with Know-how, during the term of this Agreement.

Article 8 (Know-how Owner’s Obligation to be Observed After this Agreement is Terminated and Before the Know-how Licensing Agreement is Executed)

If Optionee notifies its intent to exploit Know-how pursuant to Article 3 hereof, Know-how Owner shall have the obligation not to disclose Know-how to any third parties, as well as the obligation set forth in the preceding article, even after this Agreement is terminated.

Article 9 (Optionee’s Confidentiality)

Optionee shall not disclose technical information disclosed by Know-how Owner pursuant to Article 1 hereof to any third party during the term of this Agreement and five (5) years thereafter, nor use such technical information for any purpose other than performing this Agreement.

When this Agreement is terminated, and in the event that the Know-how Licensing Agreement is not executed pursuant to Article 4, Optionee shall return to Know-how Owner all technical data disclosed by Know-how Owner.

Article 9 (Term of this Agreement)

This Agreement shall become effective on the date of execution of this Agreement, and continue until the date on which Optionee notifies Know-how Owner of its intent to exploit or not to exploit Know-how.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in duplicate, signed and sealed by their duly authorized representatives, and each original copy to be retained by each party.

(date)

Know-how Owner:

Optionee:

Notes

(1) Significance of option agreements

Option agreements, which are often used during negotiations for a know-how licensing agreement, are agreements where the licensee is given the opportunity to evaluate the know-how in question for a certain period before deciding to sign the know-how licensing agreement attached to the option agreement, and when satisfied with the evaluation results, can choose to conclude the know-how licensing agreement.

An option agreement may also be concluded in the case of a patent licensing agreement during examination or negotiations to acquire the exclusive negotiating right.

(2) Points for attention in option agreements

In the case of option agreements concluded during negotiations for a know-how licensing agreement, main points for attention are 1) disclosure of know-how; 2) confidentiality; 3) duration of the option; and 4) option fee.

(3) Relationship with licensing agreement

In an option agreement, the optionee is, in principle, provided with the right to conclude a licensing agreement immediately after showing its intention to exercise the option to conclude the licensing agreement.

For this reason, the option agreement is normally attached to a licensing agreement that can be executed at any time. There are cases, however, in which only the summary of a licensing agreement is attached. In these cases, negotiations have to be conducted later to discuss specific conditions, and the option agreement cannot fulfill its intended role.

10. Sample of patent and know-how licensing agreement

Patent and Know-how Licensing Agreement

THIS AGREEMENT, made this __ day of __, ____, by and between _____ (hereinafter referred to as “Licensor”), a corporation duly organized and existing under the laws of _____ and having its principal office at _____, and _____ (hereinafter referred to as “Licensee”), a corporation duly organized and existing under the laws of _____ and having its principal office at _____,

WITNESSETH:

WHEREAS, Licensor has developed _____ (hereinafter referred to as “Licensed Method”), owns precious and valuable Technical Know-how concerning the Licensed Method, and has filed patent applications for the Licensed Method;

WHEREAS, Licensee desires to obtain from Licensor an exclusive license, including sublicensing rights, to manufacture and sell certain products using the Licensed Method in the countries specified in Schedule B attached hereto under the above-mentioned Technical Know-how and Patents.

WHEREAS, Licensee is willing to grant such license to Licensee upon the terms and conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the premises and the covenants, hereinafter contained, the parties hereto agree as follows:

Article 1 (Definitions)

For the purposes of this Agreement, the following terms have the following meanings:

- (a) “Products” means products manufactured using the Licensed Method under the Patents and licensed know-how.
- (b) “Patents” means patent applications made, as well as patent rights obtained based thereon, in the countries listed in Schedule A attached hereto.
- (c) “Technical Know-how” means technical information concerning the Licensed Method owned by Licensor.
- (d) “Territory” means the countries listed in Schedule B attached hereto.

Article 2 (Granting a License)

- (a) Licensor hereby grants to Licensee a non-transferable, exclusive license to manufacture and sell Products using the Licensed Method in the Territory under the Patents and Technical Know-how.
- (b) Licensee shall have the right to sublicense the right to use the Licensed Method within the Territory to a third party.

Article 3 (Provision of Technical Know-how)

Licensor shall, from time to time during the term of this Agreement, provide Licensee with sufficient Technical Know-how required for using the Licensed Know-how in written form.

Article 4 (Technical Assistance)

- (a) Upon reasonable request from Licensee, and if Licensor finds it appropriate, Licensor agrees to accept employees of Licensee and/or its sublicensee at Licensor's plant, or send Licensor's personnel to a plant of Licensee and/or its sublicensee, in accordance with a reasonable schedule established by Licensor for the purpose of rendering technical assistance and advice.
- (b) Licensee shall bear all traveling and living expenses of Licensor's personnel, and also pay to Licensor a technical assistance fee not exceeding _____ per person per day for the technical assistance and advice rendered by Licensor's personnel.

Article 5 (Consideration)

If Licensee uses or grants a third party a sublicense to use the Licensed Method within the Territory, Licensee shall pay a minimum of _____ to Licensor.

Article 6 (Improved Technology)

Licensor shall disclose and offer to Licensee any improvement made in connection with the Licensed Method during the term of this Agreement. Licensee shall disclose and offer to Licensor any improvement made by itself or its sublicensee in connection with the Licensed Method during the term of this Agreement. Either party may obtain a license to use such improvement made by the other party upon reasonable terms and conditions as agreed upon by both parties.

Article 7 (Information Sharing)

Licensor and Licensee shall share information that is considered to be necessary and useful for performing this Agreement during the term hereof.

Article 8 (Sublicensing Agreement)

Licensee shall make its best efforts to grant a sublicense in the Territory. Licensee shall obtain the prior written consent of Licensor before granting a sublicense to a third party. Upon conclusion of a sublicensing agreement with a third party in the Territory, Licensee agrees to send one (1) copy of the agreement to Licensor within thirty (30) days of the execution thereof.

Article 9 (Infringement)

In the event that any infringement of any of the Patents licensed hereunder is discovered in the Territory, Licensee shall notify Licensor to that effect without delay. If such patent infringement occurs in the Territory, Licensee shall, in principle, take the necessary legal action under the name of and at the expense of Licensee to eliminate such infringement, whereas Licensor shall, upon request from Licensee, provide reasonable assistance for Licensee's legal action at Licensee's expense, as well as offer information and evidence instrumental in the legal action, if any.

Article 10 (No Warranty)

Licensor makes no representation or warranty against infringement of patent rights of third parties by reason of the use of the Technical Know-how, Patents, and Licensed Method granted by Licensor to Licensee under this Agreement. Licensor shall not assume any responsibility or liability for any patent infringement litigation or other claim by a third party that may result or arise from the use of the Licensed Method.

Article 11 (Confidentiality)

The Technical Know-how concerning the Licensed Method disclosed to Licensee hereunder shall be used solely for the purpose of this Agreement. Licensee shall hold all the Technical Know-how provided from Licensor in confidence, and either party shall keep secret and confidential all information obtained from the other party hereunder. Licensee may disclose the Technical Know-how provided from Licensor hereunder to its sublicensee to the extent necessary for using the Licensed Method. Licensee shall not disclose the Technical Know-how to any third party other than its sublicensee without the prior written consent of Licensor. Licensee shall take the necessary measures to ensure that its sublicensee will also hold the Technical Know-how in confidence pursuant to this article.

Article 12 (Term and Termination of the Agreement)

(a) This Agreement shall become effective on the date of execution of this Agreement, and shall, unless terminated earlier under other provisions of this Agreement, continue to be in force for ____ years thereafter. Licensee may extend this Agreement upon terms and conditions agreed upon by both parties by giving Licensor written notice to that effect at least three (3) months prior to the expiry date of this Agreement.

(b) In the event that either party defaults in the performance of any of the provisions of this Agreement, and such default is not rectified within ninety (90) days from the date of the written notice by the other party requesting that the performance be rectified, the other party, at its sole discretion, shall have the right to terminate this Agreement.

(c) If no sublicensing agreement is concluded pursuant to Article 8 hereof in the Territory within ____ years of the execution of this Agreement, or in the event that other circumstances occur that make continuing this Agreement appear unreasonable, both parties may terminate this Agreement after consultation.

(d) The obligations on both parties set forth in Article 11 hereof shall survive the termination of this Agreement.

Article 13 (Force Majeure)

Neither party shall be liable for any damage or failure in the performance of the provisions of this Agreement resulting from an act of God, fire, war, governmental regulations, or other causes beyond the control of both parties.

Article 14 (Governing Law)

This Agreement shall be governed by and construed in accordance with the laws of_____.

Article 15 (Arbitration)

All disputes between the parties arising out of or relating to this Agreement shall be finally settled by arbitration by one (1) or more arbitrators appointed in accordance with the rules of the International Chamber of Commerce.

Article 16 (Entire Agreement)

This Agreement constitutes the entire agreement between the parties pertaining to the subject matter hereof, and supersedes all prior written or oral communication, understandings, and agreements between the parties. No modification or amendment to this Agreement shall be binding unless executed in writing by both parties.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized representatives as of the date first above written.

Licensor:

Licensee:

Schedule A: Patents

Schedule B: Territory

Notes

(1) Improvement inventions, improved technology

The way that improvement inventions and improved technology are handled differs depending on the standpoint of each party, but they are generally considered to be important especially by licensors. During the process of preparing an agreement, it is important to take notice of the Antimonopoly Act and other similar competition acts. Improvement inventions and improved technology are usually 1) fed back, 2) granted back, or 3) assigned back.

In the case of licensing agreements, what to do with improvements to licensed patents and know-how developed or obtained by licensees often becomes an issue.

(2) Warranties

Warranties may be provided by the licensor to the licensee and vice versa. The most important warranties are those by the licensor regarding 1) technological feasibility, 2) validity of patents, and 3) non-infringement of third party's rights.

(3) The right to grant a sublicense

During the process of preparing a licensing agreement, the licensee's right to grant a sublicense to third parties often becomes an issue. Particularly in the case of patent licensing agreements, it is often the case that the licensee wishes to obtain the sublicensing right to make patented technology available among its affiliates or suppliers.

On the other hand, the licensor often prefers licensing patents itself, rather than granting the sublicensing right to its licensee, so that the licensor can expand the licensee base according to its own licensing policy.

Since sublicenses are indirect licenses, it is also natural to believe that they are not favorable from the viewpoint of the licensing business. However, in the case of exclusive licenses, because the licensor cannot grant the same license to others, the licensor may agree to grant the sublicensing right to the licensee.

At any rate, if the licensee is given the authority to grant a sublicense at its discretion, it means that the licensee is also given control over the licensing policy. The licensor therefore should be very cautious.

Major points for attention that need to be observed when granting a sublicensing right are as follows:

- 1) Whether or not to require the licensee to obtain the licensor's consent prior to granting a sublicense
- 2) Whether or not to limit the number of sublicensing agreements
- 3) Content of the sublicensing agreement
- 4) The extent of the licensor's authority regarding the decision on consideration for a sublicense

5) Protection of sublicensees in the event that the master agreement is terminated earlier than the expiry date for some reason

* * * * * END * * * * *