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## Factors To Consider Before Making Any Patent Moves In Japan

Law360, New York (March 3, 2016, 10:24 AM ET) -- The scenario is familiar. Your company is expanding product sales worldwide or restructuring to form subsidiaries outside the U.S. New entities — whether third parties or corporate affiliates — need patent rights. Your company may think that a global license with distribution rights will accomplish this result. But does this license have the same effect everywhere? And when litigation arises, do your licensees have standing to take part and collect damages?

This issue is especially critical in Japan, the world's second largest pharma market and manufacturer of 25 percent of the world's technology products. Japan's patent system differs significantly from that of the U.S. Its system of licensing and the remedies available when patent disputes arise diverge from the rules so familiar in the U.S.

In the U.S., the basic rule is that the patent owner and exclusive licensee have standing to sue for patent infringement. Injunctions and damages are possible remedies to both the owner and the exclusive licensee. An exclusive licensee need not have all substantial rights to have standing and entitlement to damages. For example, rights in an exclusive field of use can be sufficient to establish standing. However, if the exclusive licensee does not hold all substantial rights, the patent owner is required to join the litigation. Nonexclusive licensees do not have standing to sue or even join as a party with the patent owner, and they are not entitled to damages. As a result, it is difficult for the patent owner to collect damages on behalf of its affiliate when the affiliate is not an exclusive licensee and cannot join as a party.

Japan has three types of licenses: (1) a senyo license; (2) an exclusive tsujo license; and (3) a nonexclusive tsujo license. Each type has different standing requirements and available remedies.

A senyo license is created only when an exclusive license is registered as such with the Japan Patent Office. A senyo licensee may hold less than all of the rights under the patent. A senyo licensee has standing to sue on its own for patent infringement and to seek both an injunction and damages.

A tsujo license grants the right to practice the patented invention. It can be nonexclusive or exclusive. An exclusive tsujo licensee has standing to sue for patent infringement on its own and can seek damages. However, under current interpretations of Japanese law, an exclusive tsujo licensee may not have standing to seek an injunction.[1] Only the patent



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owner can seek an injunction against an infringer. Nonexclusive tsujo licensees do not have standing to sue for patent infringement and cannot seek damages or an injunction for infringement.

Given the differences between jurisdictions, patent owners and licensees should consider these questions:

- What activities will each entity perform in a jurisdiction? Which entities will sell, manufacture, import and perform research and development, and regulatory and clinical testing? What rights are necessary to accomplish these activities?
- What considerations shape the choice between exclusive and nonexclusive licenses? For example, are there tax implications, particularly between company affiliates? Does the company have arrangements with multiple manufacturers and distributors that require non-exclusive arrangements or dividing the rights by territory? Has the company previously distributed patent rights to third parties that would prevent it from providing these rights on an exclusive basis, including to its affiliates?
- What possible future scenarios may arise with regard to potential patent infringers? In which jurisdictions may infringement likely occur? What remedies will be sought — injunction, lost profits, reasonable royalty? Which entities will seek remedies? What type of patent rights does each hold in each relevant jurisdiction?

Another set of differences between the U.S. and Japan may also require some consideration for your strategy, particularly if your company partners or collaborates with others. The two jurisdictions differ in their treatment of co-ownership of patents and the actions co-owners may take independently of one another.

In the U.S., patents may be jointly owned. Each co-owner has an independent right to practice the invention of the patent. This is the same in Japan; the default rule allows each co-owner to practice the patent without any permission or participation of the other owner. The differences between the US and Japan come into play in licensing and enforcement.

In the U.S., absent any agreement to the contrary, each co-owner can independently license the rights to the patent to a third party. This licensing does not require the permission or even the knowledge of the other co-owner. In contrast, for a Japanese patent, both owners have to agree to license to a third party. If the co-owners wish to license independently, they must first create a separate contract agreeing to this arrangement. Otherwise, the default rule of co-licensing will apply.

Japan and the U.S. also differ in their approach to enforcement against infringers. In the U.S., the general rule is that co-owners must join together to bring a patent infringement suit against a third party. This arrangement prevents a third party from being sued more than once on the same patent. In Japan, however, each co-owner can sue without joining the other, seeking its own damages and injunction against the infringer.

If your company partners or collaborates with an arrangement to jointly own the intellectual property, consider the following scenarios:

- A third party approaches your partner and asks for a license to the co-owned U.S. patent. Your partner grants a license even though this third party will compete with your company in the U.S. market.
- Your company is not marketing in Japan so you want to license the Japanese patent to a third-party distributor — but your Japanese partner will not agree to the license.
- A third party infringes your co-owned U.S. patent. Your Japanese partner does not want to bring the litigation.
- A third party infringes your co-owned Japanese patent. Your company does not want to bring suit because you are engaged in delicate negotiations with the same third party on other matters. Your partner brings litigation against the third party on the patent listing your company as a co-owner.

None of these scenarios is insurmountable. Your company and its partners and collaborators can agree to set aside the default rules for licensing and enforcement. However, understanding the variables you may encounter and keeping jurisdictional differences in mind from the outset is beneficial. These considerations will help your company tailor licensing agreements to fit your unique circumstances — whether the situation is distribution of rights within the company or managing patents shared with external partners and collaborators. Then, should trouble arise, the players will be positioned to seek appropriate remedies and enforce the patent when necessary.

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[1] Japanese law is not settled on this issue. Under rare circumstances, the licensee may have standing to seek an injunction by “using” the patent owner’s rights (for example, the patent owner and the licensee may have specifically agreed that the patent owner is obligated to take action against infringers).

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