Secured Transaction in IP

Nahoko Ono

Some scholars assert the needs to raise the copyright recordation system, and others claim the needs of government intervention in disseminating patented invention. I would like to challenge these pro-regulation moves in light of secured transaction. I elected secured transaction because it encompasses transfer, license, and other transactions. I argue that the pro-regulation move at the early stage would hamper the further dissemination, as evidenced by the failure of Japan practice, in particular its Patent Act.

Japanese patent system was first introduced in 1887, modeling mostly after the U.S. and French laws. With respect to the post-grant transaction, the simple framework had been maintained like most other countries that a patent right, as a private property, is assignable and can be a subject of licensing and that the registration will give a third-party effect. However, the present 1959 Patent Act completely changed the regulatory scheme. Under the objective to strengthen the protection of a patent right, the Act not only specifies a right to injunction, etc., but lays out detail provisions with respect to transaction. It includes the creation and contents of both exclusive and non-exclusive licensing, that the term “exclusive licensee” is inserted after “patentee” for every provision applicable, and that the registration effect is elevated from a third-party effect to a prerequisite to make a transaction valid for transfer, pledges, grant of exclusive license, and its transfer and pledges.

What is the consequence of the 1959 Patent Act? On the creation aspect, Japan became the top-ranked patent producer. In contrast on the utilization aspect, it is proved to be a failure resulting in far less utilization of those patents produced. The number of transfer decreased relatively. The de jure exclusive license is seldom used primarily due to the strict registration requirements, and people use non-exclusive license for exclusive license in the global business context reserving exclusivity as a contractual covenant, meaning no right to injunction. Non-exclusive license are so popular however, one government-commissioned survey reveals that 87.2% of non-exclusive licensees registered only 0-1% of them because of the strict disclosure requirements.

Such a strict registration system may enable the government or academia to keep track of those transactions. At the same time however, it is not designed for users.

To promote utilization of IPs from the user-friendly perspective has been the primary agenda for the recent reform discussion. Some incremental revisions were made, such as limiting the public disclosure to interested parties, and protection of non-exclusive licensee over the patent assignee without registration. However, more critical and fundamental topics raised (e.g. restructuring the exclusive license system) were put on the shelf, although people agreed on the needs. The reason was not directly relevant; “the Japan Patent Office (JPO) plans its system reform in 2014.” If the JPO is

so planning, now must be a rare opportunity to consider the fundamental reform. Nevertheless, as the JPO has already postponed the 2014 deadline, Japan goes into a deadlock, incapable of transforming from government-made market to the real market.

Japan experience tells us that government intervention may work to encourage IP creation, while it is likely to discourage post-grant transactions. This lesson may be more applicable to the later developing countries. Too much government intervention is likely to disregard that a patent is a personal property therefore the party autonomy or freedom of contracts first governs.

In addition, Japan experience can give following insights to how to design the regulatory system in the U.S. where the principle that a patent has the attribute of personal property is firmly recognized. First, the registration system ought to be designed from the user-friendly perspective. Second, strict registration may result in discouraging registration, and easy and minimum disclosure requirements are optimal. Third, it is worth examining what kind of information is needed for transparency. It may be different from the information necessary for public notice function in exchange for patent grant. A rise of portfolio transactions may not fit to a patent (right)-based recording system, which may affect the issues on conflict of laws (asset-based or debtor-based). And finally, an optimal regulatory regime for IP transactions ought to be introduced into IP laws only to the extent necessary beyond the existing laws applicable, such as the Uniform Commercial Code, Securities Regulation, and the like.