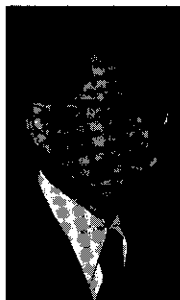


Japanese Experience in Licensing

A review of history, a look at current practices, a view of what future holds

BY YOSHIRO TAKAHASHI*

I will review the grounds and conditions of licenses that have led to today's economic growth of Japan, and I will discuss the direction I believe licensing activities will develop in the future.



The licensing success attained by Japan is also a reflection of success in licensing attained by licensors, which are mostly U.S. companies. I have been engaged in licensing activities at Nippon Electric Co., Ltd. about eleven years since 1965. Before getting into discussions of my today's subject, I would like to briefly introduce Nippon Electric, not in a sense of advertisement but as one of the major bases on which my today's discussion rest. Representatives from a number of U.S. companies having license relationships with Nippon Electric appear to be present at this meeting. These gentlemen are all good friends of Nippon Electric, and I am sure they are already well familiar with our company. But to those of the audience from the industrial sectors other than electronics, the name "Nippon Electric" might sound rather foreign. However, if I explain to you that Nippon Electric is the company established about 77 years ago as a subsidiary of Western Electric, which is a manufacturer of telephone equipment, the most convenient tool for business communications, I think you might consider Nippon Electric much closer to you. When you utilize telephones in international licensing negotiations, our products are there in telecommunications satellites, satellite earth stations, microwave communications systems, and undersea communication systems operating always with high fidelity.

NEC last year recorded the sales of \$1.8 billion. These sales are composed of telecommunications equipment, computer equipment, semiconductor devices, home appliances, and other electronic products. In every field of these, we had close licensing relationships with U.S. companies in the past, and in some of the fields we still maintain such licensing relationships with a host of U.S. companies.

For example, Western Electric, who was our parent but later sold its child to others, has been continuing to offer us licenses in telecommunications and semiconductor fields.

**Manager, Licensing, Nippon Electric Co., Ltd.*

BACKGROUND OF TECHNOLOGICAL INTRODUCTION BY JAPAN

Today, Japan like the United States, has grown to be one of the most industrially developed nations in the world. However, it was only in the 19th Century (1853)

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when Commodore Perry visited Japan by the "black ships" and demonstrated a steam engine locomotive of a small type and a telegraphic machine, which he brought to Japan as gifts, that Japan was amazed at and awoke to the modern technology embodied in those gifts. This modern technology was quite a new type of civilization represented, above all, by "steam" and "electricity." At that time, Japan was in the Tokugawa Era and was content in finding peace in the state of harmony with the nature, the nature viewed in the traditional Japanese way as symbolized by "flowers, birds, wind, and the moon."

Isolating herself from the rest of the world, Japan in the Far East, was enjoying herself in the spiritual culture of her own. As a social hierarchy, the four classes existed, made up in the descending order by Samurai, the farmer, the manufacturer, and the merchant, thus industry and commerce was given a lower priority. Occupation was hereditary, and changing one's occupation was not permitted.

In the meantime, in Europe the modern science born in the 17th Century expanded into various areas such as dynamics, optics, materials, biology, thermology, and electricity, and materialized in the 19th Century as the modern industrial technology. This modern industrial technology became a power to the nations possessing it, and this power was going to be used in an aggressive manner.

Split Opinion

When Japan faced this reality, she was split in opinion into the two, one advocating the idea "Expel the Barbarians", as we called foreigners at that time, and the other favoring the opening of the door of Japan to the outside world. This serious split of the nation disrupted its peace, and put Japan in a position vulnerable to foreign influence.

One of those who took such a situation most gravely was Lord Shimazu of the "Satsuma Dominion" situated in the southernmost part of Japan, which even during the time of isolation continued secret contacts with Western countries and for this reason had the recognition of real power of the Western modern technology. It turned out to be "Samurai" of this "Satsuma Dominion" in concert with in-

telligent lords of other dominions and their "Samurai" that led Japan into the "opening of the country" in 1868.

The New Meiji government led mainly by "Samurai" gave its first priority to transforming Japan into a modernized nation capable of maintaining its self independence in the wake of foreign pressures backed by their modern technology. The crux of this national policy lay in the industrialization and armament of the nation through the introduction of the modern technology from the West. The social hierarchy of the four classes I mentioned earlier was abolished. All resources of the nation, political, economic, educational, social or otherwise, were directed toward the attainment of this national policy.

I would like to find the original source of today's licensing in Japan in the fact that the introduction by the Meiji Government of European technologies started with the definite and acute aim of "preventing the colonialization of Japan and developing Japan into an independent state compatible with European nations."

One of the measures first taken as the most effective and immediate was to send promising young men and women abroad for study and to invite European and American engineers to Japan as instructors for educating Japanese students.

These positive efforts for the introduction of foreign technologies bore fruit, and Japan transformed herself into a modern state at a rapid pace which even European nations found surprising. After the Meiji Era, Japan was to find herself involved in a series of tragic wars. This experience gave Japan a number of lessons, and one of these was the re-realization of the fact that "technology is power." In the post World War II period, the introduction of foreign technology by Japan was directed mainly toward peace industry, and the zeal with which it was carried out was comparable to that in the Meiji Era.

Such a zeal was particularly evident in the electronics field in which Nippon Electric operates. For example, licensing relationships Nippon Electric entered into in the post-war period, including pure patent licenses, included the following:

1. Relationships with two leading U.S. companies in the telecommunications field.
2. Relationships with two reputable U.S. main-frame makers in the computer field.
3. Relationships with several leading U.S. companies in the semiconductor field.

All these relationships still exist today. The notable trend in such relationships is that, whereas at the time the relationships were formed the flow of technology was mainly unilateral from licensor to licensee for which we as licensee paid monetary consideration only, now after a series of agreement renewal the flow of technology has become bilateral between licensor and licensee, creating the so-called cross-license relationships, as our technological level rose to the international level. In case the technological levels of licensor and ourselves are found identical, relationships are now on a free-cross basis. In case there still exists a difference in technological level, then such a difference is compensated for by a monetary compensation of a balancing nature. This trend applies not only to Nippon Electric but also to other Japanese companies which have successfully reached the licensor's technology level.

I would like to point out that such a change was realized

on the foundation of Japan which made it possible to fully understand the introduced new technology and to combine this technology with her traditional wisdom of adaptation and improvement. I may give you one example.

As you know, the history of semiconductor technology dates back to 1948 when Drs. W. Shockley, J. Bardeen and W. H. Brattain invented transistors at Bell Telephone Laboratories. Major U.S. electronics makers reacted to this epoch-making invention quickly, and vigorously pursued their own R&D efforts. These R&D efforts resulted in a number of useful inventions of their own, and the semiconductor field came to be covered by a net of patents owned by various U.S. companies.

It is estimated that between major U.S. electronics makers themselves, the royalty burden for the use of the other's patents was not large because of cross-license relationships commonly established between major U.S. makers. However, when Japanese electronic makers entered the semiconductor field, they found themselves completely tied up with patents of U.S. forerunners, with no way of avoiding the use of them, and the Japanese makers, without any patent weapon to set up against U.S. makers, were required to pay a plurality of royalties to a plurality of U.S. patent owners in return for the license. Sometimes, the cumulative royalty rate was higher than 10%. Nippon Electric was not an exception. The semiconductor field is considered to be one of the areas where the pace of technological development is the fastest and market competition the severest. In such a field, it was considered almost a matter of impossibility to survive competition with U.S. makers which can fully translate into cost reduction the benefit of large-scale production resulting from the largeness of the U.S. market. When major U.S. semiconductor makers started establishing their plants in Japan about 10 years ago, it was even predicted that the Japanese semiconductor industry would not be able to survive.

Supporting such a pessimistic prediction was the fact that even some of the major U.S. makers retreated from the field, changing their position from that of manufacturer to that of buyer.

Nevertheless, the Japanese semiconductor industry continued their persistent efforts for improvement and new development under a severe financial strain which lasted for a considerable time. As a result, their patent portfolio became gradually reinforced, and they eventually came up to the position where they are now, with the renewed determination for further growth in the future. In the case of Nippon Electric, its level of technology and its volume of production are now comparable to those of major U.S. semiconductor makers, and the royalties it pays are on the level which can be considered reasonable.

Today, semiconductor products have reached the level of assemblies and equipment incorporating various sophisticated circuits. It would be no longer adequate to grasp semiconductor products at the level of mere components. Nippon Electric places as the basis of its business the manufacture of telecommunications equipment, computer systems, and other electronics products, and for assuring further growth in such areas it is becoming vitally important to have semiconductor technologies of our own, technologies which are original.

At present, five major Japanese semiconductor companies are undertaking the joint efforts for developing

very-large-scale integrated circuits. This joint program is one of the instances which reflect such recognition of the need of original technologies.

So far, I have considered the background of technological introduction by Japan from the historical point of view. But to explain the success of Japan in technological introduction, it is also necessary to discuss the cultural aspect.

For example, the Japanese way of thinking, is a striking contrast to that of Europeans in some respects and it also has a considerable bearing on the Japanese way of looking at licensing.

I mentioned that in the pre-Meiji Era-Japan, people were enjoying themselves with the nature symbolized by flowers, birds, wind, and the moon. If I put it in the simplest form, the Japanese attitude toward the nature was to pursue harmony with it or to accept the nature as it was presented to them. This way of thinking was also observed in people's attitude toward society and people. Prince Shotoku, who wrote the 17-Article Constitution of Japan in the Sixth Century, provided as the ruling principle of the Constitution that the keeping of order should be most respected. To put it extremely, the way of thinking there expressed was the way of thinking that if the peace of the community can be attained by one's perseverance, such perseverance may be encouraged. Actually, the attitude to place one's self-assertion junior to the respect for other's position was advocated as the virtue of modesty.

In contrast to this, it seems to me that the strong undercurrent of the European and American view of the nature was to view the nature as something which should be utilized and conquered by people. The findings and growth of natural science and the creation of industrial technology were materialized in the pursuit of nature from such an angle and viewpoint. In other words, the European and American attitude was the attitude which was active toward the nature, society, and people.

I consider that this difference between Europeans and the Japanese reflects respective wisdoms of life which were nurtured through the respective ways of their living in the long past history. The Japanese consisting of a homogeneous race lived mainly on paddy field agriculture which provides the maximum harvest of rice crop only when farmers worked in a collective group under the blessing of nature. On the other hand, the Europeans consisting of heterogeneous races lived on stock-farming and other versatile occupations which more demanded individual industry and skill.

Lingering Effect

Even at the present time when both have become industrialized nations and communications between the West and the East closer, I think this basic difference still has a lingering effect on various aspects of life.

The Japanese view of education is an example. In the traditional Japanese education system, the principle of order or harmony has been given such a weight that the passive aspect of education seems to have been over-emphasized at the expense of the active aspect of education, which encourages one's creative industry and efforts.

This passive view of education also may have contributed to establish a special master-students relationships wherein students and society held high respect to

masters and looked to them with a complete reliance and expectation. Students followed masters with the high sense of respect and gratitude. I consider this attitude was applied to licensing relationship.

It is my belief that the Japanese inclination toward "harmony and order" and the sense of gratitude towards masters has been a key factor in maintaining usually long-extended license contracts in a sincere and friendly manner, and has brought about mutually beneficial relationships and, above all, "mutual trust" between licensor and licensee.

TECHNOLOGICAL INTRODUCTION STATUS OF JAPAN

All license agreements introducing technologies into Japan must be approved by the Japanese Government. The remittance of license fees to abroad is centrally administered and statistics are taken by the Bank of Japan.

This system of government approval started with the aim of allocating the limited foreign currency reserves in the postwar period only to the introduction of those technologies which would contribute to the recovery and development of Japanese economy. As long as remittance and other procedural requirements are satisfied, approval today is granted automatically one month after application irrespective of the industrial fields involved.

As an aid in your understanding of the technological introduction status of Japan, I shall pick up some statistics on licensing:

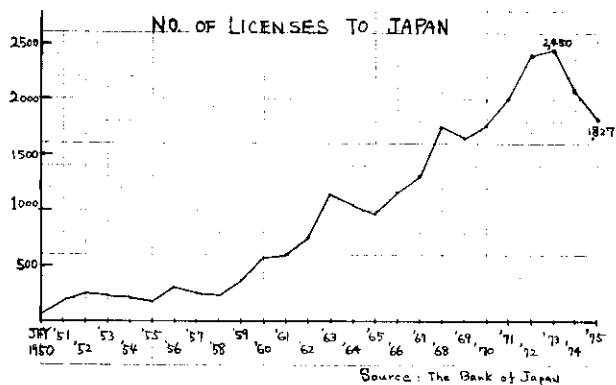


Fig. 1

1. First, I look at the trend in the number of technological introduction instances. Fig. 1 clearly shows the magnitude licenses were taken by Japanese industry after World War II. This number includes both pure patent licenses and know-how licenses. If these licenses can be divided from licensor's point of view in the following manner, I think very interesting results may be derived.

a. Agreements whose principal aim is the securing of licensee fee income

I believe a majority of pure patent licenses fall within this category.

On the other hand, in such area as national defense where the Japanese Government desires domestic procurements rather than imports from abroad, the only possible way for foreign licensors to get into the Japanese

market would be through Japanese licensees. In such an instance, license agreements are often concluded, under which licensors provide know-how to Japanese licensees in return for license fees.

Of course, apart from the above instances, where licensors do not have enough resources to expand into the Japanese market or where licensors prefer license fee income even if they have such resources, know-how agreements falling within this category might be entered into.

b. *Agreements to help licensor in marketing*

Agreements belonging to this category may be concluded, for example, where licensors place their principal priority not on license fee income but on the removal of the third party's patent obstacles in marketing their own products. To big business with products commanding a large share in the world market, the existence of others' relevant patents would be a matter of great concern, as the large volume of sales means a large amount of royalties possibly payable. If, unfortunately, such patent holders refuse to give a license, the impact would be much more serious involving design changes in mass production lines. Furthermore, such big businesses do not usually find need to rely on their own patents as an aid in penetrating competitive markets, and the exercise of such patent rights is subject to antitrust limitations. These considerations seem to lead big business to take an initiative in establishing, by way of insurance for the future, a cross-license relationship with possible holders of relevant patents. As oligopolistic tendency grows in every business sector, I consider this type of license association would increase.

Another type of license agreement falling under this heading could be seen when licensor aims at making his original product an industry standard where there are several competing products in the market. A higher degree of uniformity and synchronization of the world market brought about by the improved means of communications and transportation tends towards compatibility of products on a worldwide basis. Especially, in the area of hardware products, such as video recorders and stereophonographs whose operation requires software, the key factor in successful international marketing would be to make one's product an industry standard. I believe that licensing of basic technology will serve as an effective tool for attaining such a goal.

I consider there will possibly be other forms of licensing belonging to this category. Characteristic of this type of licensing is that the license fee tends to settle on a reasonable, often nominal, level, as licensor's first priority is on market penetration of his product.

Licenses in this category represent a new trend of recent years, and I expect them to grow in the future.

c. *Agreements aiming at both securing of license fee income and marketing help*

I think a number of licenses belong to this category. I would not need to elaborate on this category.

I have briefly observed that licensing may be classified into the three categories. Each of these categories will represent a case of developing international market through licensing.

My impression is that the noticeable trend in recent years is for licensors not to license their technologies solely for obtaining license fees, but to make use of licensing as a part of a larger project like plant export and market expansion. In other words, licensing agreements of

category 2 and 3 may be said to be increasing.

For your information, I would like to supplement this a little.

1. By industry, in 1975 about 30% of this number was accounted for by machinery, about 17% by electrical, and 12% by chemical industry.

2. By country, in 1975 the United States occupied about a half, followed by West Germany, France, and England.

3. In 1973, pure patent licenses accounted for about 15% of the total number of licenses acquired by the Japanese industry as a whole. However, this percentage was as high as 60% so far as the electrical industry was concerned.

4. The 1973 industry-wide average of the number of licensees per technology introduced was about 4. However, taken singly, the electrical industry showed the highest average number of about 6 per technology introduced. This phenomenon would probably be explained by the fact that pure patent licenses are relatively large in number in the electrical industry.

Now, for the trend of license fees paid by Japanese licensees.

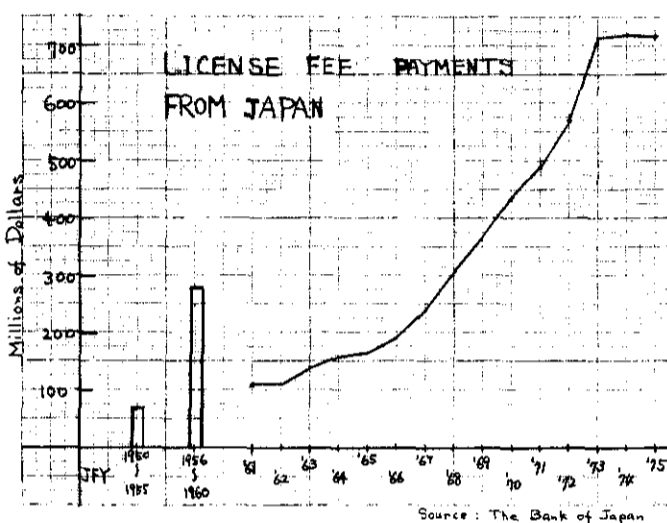


Fig. 2

I am sure you would appreciate from this chart how much Japan has been and is paying to foreign licensors. This largeness of the amount also shows the extent to which licenses are woven into the Japanese industry.

I don't believe there are any other countries in the world, which are paying as much as this for licenses.

At the beginning, I explained that the Japanese attach an extremely high value to learning. I believe that the Japanese attitude, the attitude to pay proper consideration for the technologies introduced with the sense of gratitude, has been one of the key factors which led post-war license programs of Japan to success and to the development of the Japanese economy.

OUTLOOK FOR THE FUTURE

Reflecting upon the past 100 years of licensing in Japan since the Meiji Era, I might say that in a sense it has been a history of the positive efforts on the part of the Japanese to introduce Western technologies as an immediate and effective means of filling the gap and catching up with the

(Please turn to Page 247)

3. "Barriers to Innovation in Industry: Opportunities for Public Policy Change," Executive Summary, National Science Foundation, Contracts C-748 and 725, September, 1973.

"Technology transfer and Utilization, Recommendations for Redirecting the Emphasis and Correcting the Imbalance," National Academy of Engineering, National Technical Information Service, U.S. Department of Commerce, February, 1974.

4. D. A. Schon, "Champions for Radical New Inventions," *Harvard Business Review*, March-April, 1963.

M. Anbar, "The Bridge Scientist and His Role," *Research/Development*, July, 1973.

5. T. J. Allen, *Institutional Roles in Technology Transfer*, Liaison Program, MIT, March, 1973.

Meeting Importing Countries' Needs

(Continued from Page 205)

I must note that INFOTEC's services have been very useful for the National Registry of Technology and for the Registry of Foreign Investment, both of which are part of the Ministry of Trade and Industry. The Director of the Registry of Technology is the Ministry's representative in INFOTEC's Board of Directors.

INFOTEC has supplied information on request to the Ministry of Trade and Industry, about technological alternatives, alternative processes, machinery and equipment manufacturers, utilities, and technology trends. This information has been used to renegotiate license contracts and foreign investments. In these cases information has been used as a tool to increase bargaining capacity.

4. Consulting

The fourth and final service offered to industry is consulting in setting up internal technical information departments or divisions. The idea is to establish a system which has an information department as its core, and which employs participative process, with professionals and technicians capable of understanding technical information, to select, analyze, and apply knowledge in manufacturing operations, in research and development, and in long-range planning. This program has been highly successful.

How ITT Helped the Pulp Industry

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ing with the licensee. While most of the sublicenses were to be one-shot arrangements in which most of the money and most of the technology were to be exchanged very quickly and no long-term relationship would be required, the arrangement with our licensee was to be by its nature a long-term relationship which required fairly high business standards of performance and complete disclosure of problems, gripes, and complaints. This meant that the agreement between our two companies, while scrupulously drafted, had to provide for protections to both sides which would not appear in a standard license agreement, as well as leave open some matters for day-to-day agreement.

A very brief word as to some of the sublicensing that occurred after the execution of the basic ITT-license agreement:

All the licenses so far negotiated have wound up being lump sums, either one large lump sum or a lump sum spread out over a short period of time. I think our projections as to why the paper and pulp companies involved would not opt for a running royalty appear to be coming

true in practice. As an aside, large lump sums of money received all at one time have always given me greater satisfaction than much smaller quarterly reports spread over a period of years.

The licensee has been using the basic format of the ITT-license arrangement in negotiating contracts with the sublicensees, but with important personalized additive paragraphs picking up the individualized problems of each sublicensee. In the ITT-license agreement, we did not specify a form contract required to be executed by each sublicensee as part of our flexibility scheme. This seems to be happening naturally.

ITT is fairly proud of the program and it has been mentioned in our Annual Report. Our contribution has been publicly recognized. More importantly, in view of our success in the paper and pulp industry, we are giving very serious consideration to expanding it to other industries. To me, that is the best indication the program is right.

The atmosphere is cleaner around some plants in this country and in Canada because we pushed a licensing program. We have achieved good income from an unexpected quarter.

Japanese Experience in Licensing

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West in terms of industrial and military strength in the first 70 years and in terms of industrial strength in the following 30 years.

Today, Japan has grown economically and is on the technological level comparable to that of Europe and the United States.

However, it is at the same time true that this growth of Japan has been attained at the cost of various side effects, such as pollution.

The reconsideration of the past orientation which placed too much emphasis on economic growth and the groping for a direction in which we should proceed from now on have become a central theme of Japan in the 1970's.

The future direction of Japan would have to be formulated on the basis of a thorough review in the 70's of the political, economic, social, national defense, and other aspects of Japan. I believe that in such formulation efforts, serious attention should be directed to:

1. The role of Japan in Asia on the basis of the U.S.-Japan cooperation.
2. Due regard to the special conditions of Japan and to people's welfare in economic growth and technological development.
3. Economic and technical assistance and cooperation to developing countries.
4. The balancing of still immature individualism based on democracy introduced in the postwar period and collective orientation based on Japan's historical and geographical backgrounds.

What is imperative in such efforts would be that evaluation and decisions need be made not from the viewpoint of Japan alone but from the international viewpoint in terms of cooperation and free competition.

Naturally, this would be reflected in licensing in various manners. I now shall try a brief overview of the major trends and characteristics of licensing in the coming

years, in the light of such consideration.

Trend Toward Cross-License Relationships

As the overall technological level of Japan rises, in some areas having risen to a level comparable to that of the West, a trend toward cross-license relationships would be observed, even among the relationships with present licensors.

Need for Developing Creative Technology Original to Japan

So far, the growth of the Japanese economy has been attained through introducing European and American technologies indiscriminately and without due regard to special needs and conditions of Japan. Now the economic growth having reached a certain level, it appears to me that special needs and conditions of Japan so far neglected close up and that in some area we cannot properly cope with such needs and conditions with the technologies imported. Therefore the need has come to be recognized for developing original technologies of our own rather than resorting to licensed technology. To put it another way, we have come to think that wisdom requisite for the further development of Japan as an industrial state may be different from that of the West. Future orientation of technology development in Japan, which is a country having the population exceeding 100 million in a small land with scarce natural resources, may not necessarily be in phase with that of the United States having the vast land blessed with abundant natural resources and a big market. For example, the meaning of a public pollution to Japan may show much more serious aspect than that to the United States. For solving such a problem, an original way of approach would be necessary. Today, Japan has become one of the countries which has the most strict laws and regulations against public pollution in the world. You may have heard of the Minamata disease in Japan. It was caused by heavy metal substances contained in industrial waste water. In the face of such a tragedy, Nippon Electric developed a unique system based on the technology for creating magnetic ferrite, which is an electronic material. This magnetic ferrite system is capable of removing heavy metals from industrial waste water and processing such heavy metals into a product suitable for various applications — for example, as a material for preventing radio wave reflection at a radar site, and has been put into practical use in many places in Japan. This would be a good example where the adverse side effect of technology has been resolved by technology itself.

Other areas where the different orientation of technology development might be needed for Japan will include energy development, foods development, transportation development, and communication media development field.

Licensing of Technologies and Plant Export by Japan

As the theme of my paper is from a licensee's point of view, I have so far not dealt with the export of technology from Japan. But, as an outlook for the future, I think it appropriate to briefly touch upon the subject.

Geographically, technological export from Japan has been mainly to developing countries. The characteristics of such export of technology is that it is directed toward a large-scale project involving plant export. Last year, plant export from Japan amounted to \$5 billion. The

Ministry of International Trade and Industry expects that the figure would rise to \$12 billion this year and to \$20 billion next year.

Government Involvement in Licensing

What often happens when launching a large-scale licensing venture is participation by the interested governments. I think that such government participation reflects the magnitude of impact such license has on national interest and in some cases of nationalism of both governments of licensor and licensee and sometimes governments of third countries. For example:

Nippon Electric is doing a lot of work in the area of both technology and plant export to various countries of the world. Recently in connection with the program of certain European Government to introduce electronic telephone exchanges, we offered to the host country the licensing of technologies on our electronic exchange systems called the D10 and came quite close to the point of obtaining the contract award. However, by the decision of the president of the host country at the last minute, our proposal lost to the policy of its nationalism. This was an instance where even licensing could not overcome a barrier of nationalism.

Grant of Licenses to Developing Countries

When viewed in the light of various conditions each country is in, such as the stage of development, the way of life, social value, and historical background, the most advanced technologies may not necessarily prove the most suitable technology for a specific nation. The choice of technology would have to be decided with reference to all factors concerned. I think such a recognition is also spreading gradually among developing nations.

To take telephone exchanges as an example, it is often the case that unless the need and frequency of use of telephone is high, conventional cross-bar exchanges, rather than the most advanced electronic telephone exchanges, prove justifiable in terms of both cost and efficiency.

From a licensee's point of view and also from the standpoint of licensor, I have considered several aspects of licensing which I think are to be noted.

Summing up, it is my opinion that Japanese industry will have to change the mode of acquisition of new technology from the traditional heavy dependence of licensing. From now on the source of each new technology will have to be sought in various alternatives including independent development, joint development, and licensing. This new technology will have to be grown and matured to best meet the diversified needs of the market. Further, I believe that it has become an important key for successful international marketing to incorporate licensing with various variations in the marketing strategy in the light of the present status and future prospect of national interest and nationalism of each host country.

With the diversification and complication of international marketing, license knowledge is becoming an indispensable factor for international marketing managers. The exercise of leaderships in international marketing by licensing men with their integrity and power of judgment might be an important hint for successful international marketing. In this sense I believe that the role of LES which provides the opportunity for our mutual enlighten-

ment is vitally important.

In closing, I would like to express our deepest appreciation to the United States for valuable technical assistance which has greatly contributed to today's economic development of Japan. I sincerely hope that our success has also been a success of United States licensors in international marketing and that licensing association between the United States and Japan would be maintained and would further develop in the future.

EEC Trademark — An Industry View

(Continued from Page 216)

mark takes away this exclusivity and consequently erodes the trademark right as such.

2) If two trademarks are considered as confusingly similar, this will be so for all times and not just for a 10-15-year period. Applying a different criterion after a certain period means corruption of trademark law and is bound to lead to confusion of the public.

If voluntary solutions cannot be found, it must be accepted that the prior rights must continue to be respected and that therefore certain EEC trademarks cannot be registered. This may be unpleasant for the applicant, but I firmly believe that there is no legal justification for undermining an established prior right just to please one of its owner's competitors, who is interested in the same mark for a larger territory.

Is this a disaster from the free-movement-of-goods point of view? I venture to say no for the following reasons:

a) Many national trademarks are not renewed after their original or second term, so the number of obstacles will to a large extent automatically disappear.

b) The EEC formally and legally constitutes one entity, but in quite some cases one considers the whole of Western Europe or even the whole Western world as one market. If one finds an unsurmountable anticipation in one or more commercially important countries, in practice one mostly decides to choose a different and less objectionable trademark anyway. The free movement of goods not being affected by a "free" trademark, I fail to see why it should be enforced in the event of a mark meeting with prior rights.

If I said so decidedly no to this particular proposal, this certainly does not mean that I am negative on the European Trademark per se. Even more than in the past I am now convinced that a Common Market Trademark is a necessity and I gladly say in public that the Memorandum contains many constructive and positive elements, no doubt thanks to the valuable contributions and the hard work by Bryan Harris and the other three wise men.* On the other hand I see it as our common duty to fight for full protection of our existing national rights in the future, and if I say "our" I certainly do not mean big or multinational companies only, but the medium-sized and small ones as

*Bryan Harris is Head of the Industrial Property Division of the Commission of the Common Market in Brussels who has presided the group which has drafted the Memorandum. The so-called "three wise men" are the three independent European Trademark experts who were called upon by the Commission so as to help them draft the Memorandum.

well, and "our" includes definitely also trademark agents and barristers who act for their clients' trademark rights.

My closing is an appeal to you to jointly work on a good EEC trademark convention which necessarily must be based on the principle that used prior trademarks may never be taken away from their owners, be it formally or virtually without their consent.

Technology Exchange in Brazil

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least equally great as patents. It is particularly important, therefore, to consider the intent and impact of Act 15 upon the exchange of unpatented secret information with Brazil.

The adoption, in Act 15, of the "sell, don't rent" philosophy as applied to unpatented information understandably is upsetting to prospective licensors. A licensor naturally becomes wary when faced with a requirement by INPI to delete, from his carefully constructed "know-how license," all references to "license," "proprietary rights," "licensed subject matter," "confidential information" etc. However, experienced licensors will readily recognize and admit that know-how, once transferred and adopted by a licensee, is, for practical purposes, irretrievable and thus, effectively, "sold." More important by far than the label applied to the transfer documentation are the legal and practical means available to the transferor to protect his present and future interests in the technology transferred to a particular recipient. Such protection normally is achieved in two basic ways, i.e., prohibition of disclosure by the recipient to others and by restriction to certain specified "licensed" use by the recipient himself. Limitations on both such protective devices are generally recognized and practiced. Thus, usually a "reasonable" non-disclosure period is applied. This period may be based upon the expected normal "lifetime" of the secret information, recognizing that it likely will become either technically obsolete or will fall into the public domain without fault of the recipient. In either event, protection is based upon a theory of the possessor's property right in information not generally available to the public or upon a contract theory of enforceability of the licensee's promise to refrain from certain acts. The laws of many countries have evolved many well-known limitations on the right of the owner of proprietary information, patented or unpatented, to impose use restrictions upon a transferee. Generally, though, such limitations do not conflict with the relevant basic premise of protectability of such information or rights, so long as those rights and the licensee's undertakings are valid in the context of applicable local law, and are not unfairly used or imposed, in derogation of an overriding public interest.

A great part of the expressed concern over the impact of Act 15 on agreements for the transfer of unpatented technology lies in the provision, in Article 5.4, that the term of any such agreement is:

"... the term considered to be necessary to enable the recipient to master the technology by means of its actual absorption, its adequate use, and the attainment of concrete results derived from its incorporation ..."

and, in further limitation, for: