ing. What this means is that 15% (being the standard rate of tax) is payable on 10% of the gross income earned in Hong Kong from the licencing. This is a very simple rule of thumb which avoids any necessity to incur the expense of trying to prove what is the profit element in a licensing arrangement.

(iii) *Hong Kong is a Tax Haven*

Hong Kong performs a dual role as a tax haven. Firstly, as tax is territorial, Hong Kong can conveniently be used as a tax haven for overseas income in the same way as any other tax free jurisdiction. As I have mentioned foreign income is totally exempt from Hong Kong tax. Hong Kong does not have any tax treaties with any other countries.

It may be possible so to structure the affairs of a company that Hong Kong tax can become payable. Though at first sight this suggestion may sound strange, it is found in practice that many companies gain a benefit by paying a flat rate of 15% on net profits rather than pay a higher tax in another jurisdiction. This is the dual role which Hong Kong can offer. The dual capacity is also helped by the fact that Hong Kong is not just a tax haven, but in addition, is a very genuine manufacturing and commercial jurisdiction having a large domestic industry and business with a very genuine but fortunately low rate of tax of 15%. Taxation and tax havens are a subject on their own and it is not possible in the short time available to me to do more than tell you what Hong Kong has to offer. It is not possible for me to elaborate on particular types of tax scheme and how it could affect other jurisdictions. I will, however, be pleased to try and answer questions. I believe that the importance of Hong Kong as a tax haven in the world, is only just beginning to be felt. There are a significantly greater number of companies operating through Hong Kong because (inter alia) of tax benefits.

Service company operations are deemed to operate at a profit which usually is deemed to be 10% of gross revenue on which 15% tax is payable.

It also should be borne in mind that Hong Kong is not part of the sterling area and does not have any form of Exchange Control of any description. Money in any denominations or currencies is freely remittable into or out of the Colony.

4. *SOME PRINCIPAL ADVANTAGES AND DISADVANTAGES OF FOREIGN CORPORATIONS LICENSING INDUSTRIAL PROPERTY RIGHTS IN HONG KONG*

(i) *Problems of infringement and enforcement of agreements.*

The theme of this Meeting is "How to make money from licencing" and not "How to give away technical information and know-how." If I were a corporate executive like many of yourselves, I would approach a foreign jurisdiction first from the aspect of whether or not my property would be safe and my bargains respected before embarking on the actual financial feasibility or the negotiations themselves.

As I have mentioned, we have a very fine system of law enforcement in Hong Kong, but like all systems throughout America and Europe, it can be time consuming and expensive. What I think is most important is to pick a reputable local partner who has expertise in Hong Kong and perhaps the Far East generally. A marriage to be happy must have the right partners and a mixed marriage between a Western Corporation and an Oriental Corporation needs perhaps greater care and foresight if the relationship is to be lasting. The name of the game is making money, and a joint venture can only work if both sides have adequate financial inducement. This applies to Hong Kong the same as it does to any other jurisdiction, but it should be borne in mind that Hong Kong lives off free enterprise. Accordingly, if your local partner is obliged to pay a royalty whereas his competitors can make the same or a similar article without paying a royalty, then he cannot remain in business. There is no reason in Hong Kong other than exclusive industrial property rights why one person should not approach the customers of another offering to make similar items at a lower price. Accordingly, only premium products and those having full legal protection can be licensed in the Colony. Furthermore, you must be prepared either to take legal proceedings or authorise your local licencees to take legal proceedings in the event of infringement. A licence arrangement cannot exist if the licencee is slowly strangled to death by his competitors who do not pay royalties with the foreign corporation having a grand stand seat but not intervening in the unequal fight.

(ii) *General*

I feel that the best summary that I can give of Hong Kong as a centre for making money from licensing is to remind you of the desire of the Hong Kong population to exist in the world without receiving any form of charity. Can a company afford not to participate in the Laissez-faire atmosphere of Hong Kong which has few, if any, restrictions on import/export or trade? We have the desire and ability to buy foreign expertise by licensing or joint venture and the facilities in the Colony to make it a successful and profitable enterprise. I hope that as a result of this Meeting some of you will join forces with us in Hong Kong.

**About the Speaker: William Turnbull, Jr. was born 13th November, 1933 at Plymouth, Nottingham, England. Degree - LL.B. (Honours). His qualifications are as follows: admitted solicitor of the Supreme Court of Judicature, United Kingdom, 1957; admitted solicitor of the Supreme Court of Hong Kong, 1958; admitted Notary Public 1969. He is currently Senior Partner of a firm of solicitors in Hong Kong in charge inter alia of matters relating to Industrial Property including Patents and Trade Marks.*

LICENSING IN THE REPUBLIC OF CHINA

by
*Paul S. P. Hsu**

1. *The Current State of Taiwan's Economic and Industrial Development*

During the past two decades, the gross national product of Taiwan has risen from US $1.29 billion to US $7 billion. The total value of the two way trade of the Republic of China has risen from US$326 million in 1952 to US$5,957 million in 1972. Comparing the total value of two way trade in the amount of US $4,125 million for the year of 1971 to the 1972 figure, shows a rate of increase at 44.4%. This rate is expected to grow even faster for the year of 1973 and for some years to come. The annual per capita income increase from US $128 in 1952 to more than US $400 in 1973. The average annual increase in gross national product was 10.4% from 1969 to 1972. Real per capita income increased at a rate of 10.2% per annum during the same period.

The government sponsored investment incentive program provides foreign investors benefits such as tax holiday and privileges for repatriating earnings and capital. This in-

centive program attracted a significant amount of foreign investment to Taiwan. From 1952 through 1972, a total of 1,584 investment cases from abroad were approved for the total amount of US $848,842,000. Among all the foreign investors, US companies have made 191 separate investments from 1952 through 1972 with a total amount of US $323,242,000. The rest of the foreign investors came from Japan, Europe and overseas Chinese communities from around the world. During the same period there were also 534 individual cases of technical cooperation between Japanese and Chinese companies, 109 individual cases of technical cooperation between American and Chinese companies, and 42 individual cases between European and Chinese companies. Technical cooperation between local and foreign companies, like foreign investment, is also concentrated in the fields of electronics, electric appliances, and chemicals.

In the beginning, foreign investments were made mostly in the labor intensive industries. In recent years foreign investors' interest has been shifting to the capital intensive and technology oriented industries. A break-down of private foreign investment among the various major industries shows electronics leading, with 43% of the total. The chemical industry is next, with 14%, followed by metal products, 13%, machinery, 8.4%, and textiles and garments, 3.5%.

Paul Hsu

There has been a significant change in Taiwan's export-import pattern in the last couple of years. Manufactured products now make up 82% of Taiwan's total exports. Raw materials and capital equipment combined constitute an overwhelming 95.4% of Taiwan's total imports. The growth of total foreign trade during recent years has been most impressive. The rates of annual increase for 1970, 1971 and 1972 were 33.4%, 33.5% and 44.4% respectively.

Among all export products, textiles has been the leader since 1965. Even though the rate of increase in textile exports has slackened in recent years due to quota limitations imposed by the major importing countries, the total value of textile exports in 1972 was more than US $1,000 million, representing almost 1/3 of our total exports. Electrical equipment and electronic products came next with a value of US $500 million, an impressive increase of 85% over the previous year. Plywood and wood products followed, at US $247 million, then metal products at US $230 million. Other important manufactured and processed products for export were machinery, chemicals, fishery products, sugar, mushrooms, pineapple and asparagus.

The import structure of recent years has also undergone significant changes. Agricultural commodities and industrial raw materials now stand at the top of the list, followed by capital equipment. In 1972, imports of agricultural and industrial commodities accounted for US $1,700 million or 60.5% of total imports. The share of capital equipment was more than US $955 million or 33.6% of the total. Added together, these two categories accounted for more than 94% of all imports in 1972. The structure of our exports and imports, as well as their recent growth trends, is an indication of the healthy economic condition of Taiwan. The rapid increase of capital equipment imports reflects the nation's efforts toward the development of heavy industries.

The achievement in the economic and industrial development of Taiwan was made through the following stages:

(1) *The First Stage (from 1945 to 1952)*

Emphasis was placed on the development of power plants, fertilizer and textile industries. The main source of capital was the government. Production equipment was mainly old equipment left over from the Japanese and shipped over to Taiwan from the mainland. The products were exclusively for the supply of the domestic market.

(2) *The Second Stage (from 1953 to 1960)*

Emphasis was still placed on the continuing development of more power plants. In addition the strengthening of fertilizer, textile, food industries, as well as other light industries was emphasized. However, effort was also made to commence the development of basic industries. Industries of different types were established rapidly during this period. The sources of capital were mainly American Economic Aid and the Chinese government. The next important source was from the private sector in Taiwan. Overseas capital also began to flow into Taiwan but at a very modest volume. Capital equipment were mostly imported. At this stage the majority of the products were for the supply of the domestic market.

(3) *The Third Stage (from 1961 to 1970)*

Emphasis was placed on the continuing development of power supply and on the expansion of existing industries. Emphasis was also placed on the development of new industries, the promotion of basic industries, as well as the development and promotion of technologically oriented industries and export oriented industries. The source of capital was mainly the private sector in Taiwan. Since American Economic Aid was terminated in 1965, a tremendous increase of international loan and foreign capital inflow has been witnessed. The government also provided some capital but the amount was less than the above mentioned two sources. At this stage of development, capital equipment was mostly imported. However, Taiwan began to develop its own capability of manufacturing production equipment. At this stage, products were mostly for export.

(4) *The Fourth Stage (from 1971 on)*

Emphasis is placed on the promition of basic metal industries such as steel, aluminum, and copper as well as the promotion of petrochemical industries such as basic petrochemical materials. Emphasis is also placed on the promotion of industries with highly sophisticated technology such as machinery, ship building, and electronics. The source of capital is mainly from the private sector in Taiwan. Equally important sources are the government, international financial institutions and foreign companies. Capital equipment is still mainly imported. However, the capability of Taiwan industries to manufacture capital equipment has been and will be substantially increased. The products are still mainly for export. However, the capability of manufacturing parts, components, chemical raw materials, etc. will be substantially increased and the import of the same will be reduced.

At the Third Stage and the beginning of the Fourth Stage, we witnessed the formation of local capital, the continuous inflow of foreign capital and loans and the continuous growth

of industries of all types. On the other hand, we also experienced the inflationery pressures which was brought about by the worldwide shortage of raw materials and commodities and the rapid economic and industrial growth of Taiwan.

In the second and third stages, any foreign investment with capital investment and the capability of creating new job opportunities was welcomed by the government. At the beginning of the fourth stage the government began to place an emphasis on the introduction of advanced technology into Taiwan. The government first encouraged local industries to purchase patent and know-how from abroad. One of the measures is to exempt royalty income received by foreign companies from income tax. The government also encourages foreign investment which will bring advanced technology into Taiwan. In other words, the encouragement of assembling industries which do not involve new and sophisticated technology but require large amounts of labor has been substantially reduced.

In view of the fact that heavy emphasis has been placed by the Government of the Republic of China to encourage the purchase by local industries of advanced technology from abroad and to encourage foreign companies to license their technology to Taiwan industries, there is no better occasion than this one for us to discuss the legal and commercial aspects of licensing in the Republic of China.

2. *The Concept of Utilization of Industrial Properties*

Industrial properties as referred to under the Chinese law usually include patent, trademark and know-how. Patent and know-how, but not trademark, may be utilized by an investor from overseas to invest in a government approved enterprise as equity investment. However, in the event patent is to be capitalized as equity investment, the law requires that such capitalization of patent may not exceed 20% of the total capital and will have to be accompanied by the same proportion of cash investment. In the case of the capitalization of know-how, the limit is 15% provided that the same proportion of cash investment will be accompanied. In practice; many foreign investors would prefer to make cash investment into the Taiwan subsidiary first and then remit the fund under the name of the subsidiary to purchase the needed patent and/or know-how from the parent company. Although government approval for foreign exchange settlement is still required for such a purchase, the investor may avoid the troublesome procedure for getting government approval on the appraised value of the patent and know-how for the direct capitalization of the same.

The fact that the Republic of China is neither a member of the International Convention for the protection of industrial property (also known as Paris Convention) nor a member of the Universal of Copyright Convention and Protocols, Geneva, 1972; and the fact that pirated books appear in every known book store in Taipei tends to lead visitors to believe (after their initial wonder at the inexpensiveness of the books) that no adequate protection is provided under the Chinese law to safeguard the rights of foreign proprietors over industrial or intellectual properties. Such an impression is only partially correct. Although in Taiwan a foreign proprietor, whose country is a member nation of those International Conventions, may not enjoy such benefits as the right of priority for registering his trademark or patent, this does not mean that he may not have his trademark, patent, copyright, and, to a limited extent, tradename protected under the Chinese law. The Trademark Law was first promulgated in 1930; the Patent Law, in 1928. These laws provide adequate protection to the proprietors of industrial and intellectual properties.

Following the rapid industrialization of Taiwan, the government, as well as private enterpreneur, are becoming more and more aware of the relevance of patent, trademark, technical know-how and other industrial properties as to the profitability of a going concern. Industrial spys begin to come into the scene. Infringement proceedings begin to flow into the courtroom. The desire to introduce sophisticated technology and know-how into Taiwan and the trend of transfering technology and know-how that Taiwan industries have access to from Taiwan to less developed countries in Southeast Asia, Africa, and Latin American accelerated the public awareness of the importance of industrial properties to the continuing economic and industrial development in Taiwan. For instance, the benefits of purchasing a patent from its proprietor is now commonly recognized by businessmen as having the following implication:

(1) To shorten the time required to reach a certain technological level;

(2) To avoid local industries being controlled by foreign companies from developed nations which have access to the advanced technology;

(3) To reduce the amount of investment required for research and development of a certain technology;

(4) To accelerate the time required for realization of profit for a certain industry;

(5) To stimulate the local capability for research and development.

Many industries begin to realize that purchasing technology and know-how from sources in a technologically advanced nation by means of a licensing arrangement really provides a short cut to success.

In order to encourage industries in Taiwan to fully utilize the existing patents of technologically advanced nations and to enter into technical cooperation with foreign concerns which possess the needed technical know-how, the Industrial Development Bureau of the Ministry of Economic Affairs, the government agency in charge of the planning for industrial development of the Republic of China, made a public announcement last November that the policy guideline applied by the government for approving applications for purchasing patents from abroad and for entering into technical cooperation with foreign concerns is substantially liberalized. It was further emphasized by the government last May that the capability of introducing and transfering advanced technology into Taiwan has become one of the major considerations for the government to approve a proposed foreign investment.

3. *The Licensing of Patent, Know-How, Trademark and the Statute of Technical Cooperation*

Licensing of Patent, trademark and know-how is one of the most important aspects of technical cooperation arrangement between a manufacturer in Taiwan and a business concern which has access to more advanced technology from a foreign country. The licensing referred to here does not include the direct capitalization of patent and know-how as referred to above. The foreign licensor may or may not have share participation in the local manufacturing company which is the licensee. In practice, the licensing of patent, trademark and know-how may be incorporated into a technical cooperation agreement. On the other hand, some companies prefer to arrange to have the license agreements of patent, trademark or know-how existing independently from each other or from the technical cooperation agreement. Although the selection of these different alternatives is mainly a business decision, legal consideration is often given to whether it will be easier for the government to grant approval when the licensing of patent, trademark and/or know-how are incorporated into the technical cooperation agreement and be identified as a package deal for transfering the needed technology to Taiwan or vice versa.

There are circumstances under which a 100% local-owned enterprise desires to enter into a licensing agreement with a foreign company in order to obtain more advanced technology and know-how or to promote its products under a world-known trademark; there are also circumstances under which a foreign investor desires to obtain royalty payments

from its wholly or partially owned subsidiary in Taiwan through a licensing arrangement for the purpose of getting more and prompt repatriation of income from its investment. The differences in the nature of the set up of the corporate relationship usually have some bearing on the government's consideration to approve or disapprove a proposed technical cooperation or licensing arrangement.

In the area of licensing, it is necessary to take the Statute for Technical Cooperation into consideration if the licensor desires to repatriate the royalty in foreign currency. This Statute was promulgated pursuant to the Statute for Investment by Foreign Nationals. Both Statutes are a part of the incentive program provided by the Republic of China to encourage the inflow of foreign investment. All technical cooperation agreements or licensing agreements will have to be approved by the Ministry of Economic Affairs in advance according to the conditions and requirements set forth by the Statute for Technical Cooperation and the prevailing government policy in order for the licensor to get the repatriation right of his royalty earnings. If no repatriation of royalty earnings is involved, the Statute for Technical Cooperation may not come into play at all.

Technical cooperation as defined by the Statute for Technical Cooperation refers to patent and know-how furnished by foreign concerns to a party in the Republic of China not as capital stock but for fixed royalty. One of the most important pre-requisits for the Ministry of Economic Affairs to approve an application for technical cooperation is that the know-how and patent involved may achieve one of the following purposed:

(1) To facilitate the production of new products;

(2) To increase the volume of production, to improve the quality or to reduce the cost of the products;

(3) To improve the skill of administration, management, design or operation.

Although trademark is not mentioned in the Statute, if the licensing of a trademark is incorporated into a technical cooperation agreement, it will be treated as a part of the technical cooperation arrangement and thus the same standard for consideration as mentioned above will be applied.

When the licensing of a patent is involved, it is required by the Statute for Technical Cooperation to apply for patent rights on the invention first so that adequate protection may be obtained in the Republic of China for the invention involved. Another important aspect for caution is that if the royalty is deemed excessive, not only the license agreement (or the relevant provision in the technical cooperation agreement) will be disapproved, the agreement itself may also be deemed invalid when the licensee cannot perform the respective business operation at a reasonable profit. Royalties are usually computed on the basis of net sales, and range from one per cent to ten per cent, but sometimes are related to the quantity of output.

Commonly a royalty rate acceptable to the government is in the neighborhood of five per cent or below.

Since the transfer of technology into Taiwan has been greatly emphasized by the government, the approval for licensing of patent and know-how from the Ministry of Economic Affairs may easily be obtained. This trend is expected to continue for many years to come.

The independent licensing of trademark presents a somewhat different picture. The percentage of cases of trademark licensing approved falls far behind that of patent and know-how licensing. The guideline of government policy in trademark licensing is that licensing will be discouraged in the absence of a technical cooperation or a subsidiary relationship between the proposed licensee and licensor. In other words, the granting of trademark license by a foreign investor to its wholly-owned subsidiary in Taiwan may easily be approved. If the foreign investor only owns the subsidiary partially, his trademark license may still be approved provided that there is a technical cooperation agreement between the investor and his partially-owned Taiwan subsidiary. If there is nothing but a technical cooperation agreement between a foreign concern and a local manufacturer, trademark licensing may be approved only when the products to be manufactured are deemed to be "products needed in domestic market" as defined by the Statute for Technical Cooperation or if the products are 100% for export. Sometimes favorable consideration will also be given if more than 50% of the products are for export or if there is no royalty charged under a trademark licensing arrangement or the licensed trademark will result in the transfer of needed technology into Taiwan. In short, the trademark license will be disapproved when the licensor is an independent foreign concern and licensee an independent local concern where none of the above mentioned criteria exist. There are no restrictions whatsoever when the licensor is a Chinese concern while the licensee is either a Chinese or a foreign concern. Although it is gradually recognized that trademark licensing is also highly relevant to the introduction of technology into Taiwan, many are still under the impression of technology into Taiwan, many are still under the impression that trademark licensing only represents a commercial arrangement and will not bring economic benefits to Taiwan.

4. *Status of Technical Cooperation between Taiwan Industries and Foreign Concerns.*

Based on the statistics of the past two decades, licensing between foreign companies and Taiwan industries was not as active as it could have been. From 1952 through 1972, a total of 696 cases of technical cooperation were approved by the Chinese government. Among them 534 cases were between Chinese companies and Japanese companies. Only 109 cases were between Chinese companies and American companies. The following is a chart indicating the origins of the licensors and the types of industries involved:

SUMMARY OF APPROVED TECHNICAL COOPERATION PROJECTS BY AREA AND BY INDUSTRY (1952-1972)

UNIT: CASE

Industries	Japan	USA	Europe	Others	Total
Food and Beverage Processing	19	4	1		24
Textile	16	10	1		27
Garment and Footwear	5	3		1	9
Lumber and Bamboo Products	2				2
Pulp Paper and Products	5	3			8
Leather and Fur Products	1				1
Plastic and Rubber Products	35	1	1		37
Chemicals	86	24	13	3	126
Non-Metallic Minerals	22	5	1		28
Basic Metals and Metal Products	77	8	2	1	88
Machinery Equipment and Instrument	79	12	13	2	106
Electronic and Electric Appliances	144	36	7	3	190
Constructions	8		1		9
Services	9	2		1	12
Others	26	1	2		29
Total	534	109	42	11	696

From 1949 through 1969 Japan approved 6,594 cases of

technical cooperation, almost ten times the number of cases of technical cooperation approved by the government of the Republic of China in that same twenty years. On a worldwide basis American companies in 1971 alone have received royalty income in the total amount of US$2,465,000,000. During the same year German companies received royalty income in the total amount of DM518,000,000. In this regard, I am certain you gentlemen are much more familiar with the volume of technical cooperation between US companies and companies in other countries. On the other hand, the Taiwan companies only paid a total amount of US$9,864,274 royalty to foreign companies during the year, 1971. Although the total amount of royalty paid by Chinese companies to foreign companies in the year, 1972, has increased to US$11,200,000, the figure is still insignificant when compared with the royalties received for technology and know-how exported by countries like the United States and West Germany. This indicates that the volume of technology and know-how transferred to Taiwan from technologically advanced nations is far from satisfactory. This situation is particularly ironic from the view point that the government of the Republic of China has placed great emphasis in recent years on encouraging the transfer of technology into Taiwan. This gap is mainly created, in my opinion, by two main causes. One is the unawareness of many foreign companies, especially US companies, which are active in the area of licensing, of the present level of industrial development in Taiwan and of the present need of advanced technology of the Taiwan industries in general. The other is the fact that most Taiwan industries do not have access to the type of information which could lead them to identify the sources of the needed technology and therefore enter into negotiation with the right party which is capable of providing such technology. Of course, the fact that the concept of buying technology and know-how from a well established foreign concern has not been completely accepted by many Taiwan industries should be taken into account too. However, the situation is changing rapidly and the public awareness of the advantages of buying foreign technology and know-how is overwhelming. Therefore, a closer and stronger tie between the potential licensors in the United States and potential licensees in Taiwan seems to be most desirable.

5. *Some Remarks on Procedural Matters in Connection with Licensing*

If a foreign licensor of patent, know-how or trademark desires to enjoy benefits such as the repatriation right of royalty payment as provided by the Statute for Technical Cooperation, the licensing arrangement with local industries will have to be approved by the government of the Republic of China pursuant to the Statute for Technical Cooperation. In order to get the application for technical cooperation approved, the patent and technical know-how in question will have to be qualified as having the following effects on products or services for domestic needs or on export sales:

(1) May assist in the production or manufacturing of new products;

(2) may increase the volume of the production, improve quality of the product or reduce the production cost;

(3) may improve the skill of the administration, management, design or operation.

According to the Statute for Technical Cooperation, the parties to a technical cooperation agreement (licensor and Licensee) are required to file an application jointly with the Ministry of Economic Affairs. The application should be submitted together with the technical cooperation (or license agreement), a statement of the business condition of the parties concerned and the description of the project involved. The content of the technical cooperation agreement may be freely determined by the parties concerned, except that it must include the following:

(1) Names, specification and quantities of products to be manufactured, or the types and kinds of services to be furnished through the technical cooperation;

(2) types and fields of services to be furnished through the technical cooperation;

(3) a description of the technical skill or patent right, and the licensee's plan of utilization and the expected benefits;

(4) amount of royalty and the method of payment;

(5) the valid term of the technical cooperation;

(6) copy of the technical cooperation agreement between licensor and a licensee with the same technical skill or patent in another country, if any.

The statement of business condition of the licensee and the project involved should include:

(1) Business condition of the licensee;

(2) technical problems of the licensee;

(3) solution to be offered by the licensor;

(4) machinery and equipment currently in use and to be purchased by the licensee;

(5) the plant construction plan should also be included if the licensee is applying for government permit to construct a plant before or after the approval of the technical cooperation project.

Of course, the Ministry of Economic Affairs still has the discretion of approving or disapproving any individual application based on policy consideration. When the application for technical cooperation is approved by the government, the project involved is required to be implemented within six months from the date of approval. However, extension may be requested if necessary. The terms and conditions agreed upon by the parties concerned are not always acceptable to the government. For instance, in many cases, the government would consider a ten year term for the licensing of a certain patent, know-how or trademark as too long. Therefore, the government would demand it to be changed to five years.

The term of the technical cooperation begins to run when the application for technical cooperation is approved. However, the computation of royalties can not be commenced until the day of the implementation of the licensing project. Therefore, for all practical considerations, it is advisable to arrange to have the implementation date stay as closely as possible to the approval date. The way to do this is to file the application for technical cooperation approximately no more than two months before the designated implementation date.

6. *The Future Trend*

Acquiring advanced technology through licensing arrangements with established foreign companies is relatively new to Taiwan manufacturers. However, rapid economic growth has forced Taiwan to reach the stage that the transfer of technology from more advanced nations into Taiwan becomes one of the most important vehicles to assure the continuous growth of the Taiwan economy. It was indicated earlier that many of Taiwan's industries could not identify the channels through which they may find the sources for supplying the needed patent and technical know-how. Therefore, it seems extremely desirable to establish an information center of some kind to serve as a communication center or clearing house. In the absence of such a type of communication channel, I am sure many promising business opportunities have been missed at both ends. For instance, most medium and small size industries are desperately in need of low cost semiautomation processes as well as low cost equipment to keep their operation competitive. The question is where to find them.

The chart mentioned earlier indicates the fields of concentration for technical cooperation in the past. The future direction of industrial development in Taiwan seems to aim at the following directions:

(1) The development of industries which would accelerate the increase of energy supply;

(2) the establishment of heavy industries;

(3) the development of petrochemical industries to support the needed supply of raw material and semi-finished products;

(4) the promotion and development of machinery industries and the industries for manufacturing electronics parts and components;

(5) the further development and improvement of textile industries;

(6) the promotion of chemical industries of all kinds;

(7) the promotion of an organized effort to continuously explore new investment opportunities;

(8) the introduction of the concept of modern management to medium and small size industries;

(9) the promotion of an anti-pollution program among the industries;

(10) the industrialization of the agricultural sector.

If any of you is planning to visit Taiwan either for pleasure or business please let me know and I will be most happy to provide you with all the assistance needed. I will be happy to introduce you to the gentlemen heading the Industrial Development Bureau, any other government organizations and business communities with whom you would like to have contact. I would like to conclude my talk by saying "there are plenty of opportunities waiting for you in Taiwan".

**About the Speaker: Paul S. P. Hsu was born in Hong Kong, British Crown Colony, March 25, 1939. Legal education, National Taiwan University School of Law (LL.B., 1962), Fletcher School of Law and Diplomacy, Tufts University (M.A., 1965) and New York University Law School (LL.M., 1969). Author: "The Enforcement of American Arbitral Award in the Republic of China," 1969; "Some Observations on the Legal Aspects of the Specific Risk Investment Guaranty Program Sponsored by AID", 1970. Co-author: "Joint Ventures in the Republic of China", 1971. Formerly associated with Burlingham, Underwood, and Lord, Attorneys-at-law, New York, 1968-1969. Lecturer in law, Soochow University Law School, Taipei, China, 1969-1971. Lecturer in law, National Taiwan University Law School, Taipei, China, 1969-present. Associate, Lee & Li, Attorneys-at-law, Taipei, 1969-present.*

TRADEMARK LICENSING IN JAPAN

by
*Keinosuke Ozawa**

I am afraid I cannot tell you how to make money in licensing since my experience in making money has been on the poor side. Instead, I would like to speak about fundamental aspects of trademark licensing from the angle of the trademark law. I believe knowledge about fundamental matters in our trademark law is essential in order to successfully handle trademark licensing in Japan.

In 1970, there was a very important court decision concerning an exclusive trademark license which I am going to take up later. This decision has caused many of us to feel that our trademark system has to be revamped.

According to statistics published by the Science and Technology Agency of the Japanese Government, a total of 2,007 patent and know-how license agreements concluded between foreign licensors and Japanese licensees were approved by the Japanese government during the year ending March, 1972 and of the total, only 84 accounted for agreements involving trademarks. However, the significance of the role trademarks will play in licensing is expected to increase in the future. It must be pointed out that unlike patents and technical know-how, a trademark is long lasting and the value of a well managed trademark will be enhanced as time goes on. Therefore, there will be many cases where you will find it advisable to include trademark licensing clause in a patent or technical know-how agreement or conclude a separate trademark licensing agreement in order to cover the relatively short life of a patent and technical know-how. If the good quality of the trademarked products has become associated with a certain source in the mind of the purchasing public, the trademark has its own value as a powerful tool to maintain and increase sales of the products. Japan's postwar industrial and commercial developments have reached a point where the need for a new pattern of cooperation with foreign partners is essential. In the trademark field also, there have been some noticeable developments in recent years both within and without our country. The Trademark Registration Treaty was signed by eight countries in Vienna last June and although Japan did not sign the treaty, it is generally considered to be only a question of time before Japan will join it, but before doing so, we will have to revise our law.

At the time when the influx of foreign technical assistance began around 1950, trademark licensing was not allowable under the Trademark Law of 1921. It has only been possible since the trademark law was revised in 1960 that a trademark owner could grant a license under his tradmark rights. Under the 1921 law, a trademark registration could be assigned only when it was assigned together with the goodwill of the business. Assignment, however, could be effected by merely including the wording "together with the goodwill of the business" in the deed of assignment of by recording the assignment with the Japanese Patent Office, while there was no actual transfer of the goodwill. Then, the view was gaining strength that the value of a trademark per se should be recognized separately from the goodwill of the business and should be made transferrable and licenceable separately from the goodwill of the business. In the light of the value of a trademark which functions to attract customers there was a demand for such trademark licensing among companies having subsidiaries or affiliate companies desiring to sell products with the same brand, licensees under patent or know-how license agreements desiring to put the licensed products on the market with the licensor's trademark, distributors of imported products bearing foreign manufacturers' trademarks, and so forth.

From the viewpoint of the licensor, the advantage in granting a trademark license resides in the facts that first, the licensor can rely on efforts made by the licensee to increase the value of the trademark and protect the rights in the trademark in the country where the license is granted if a correct choice of licensee is made, and secondly, the licensor could avoid the danger of his trademark registration being cancelled because of non-use as long as proper use of the trademark is ensured by the licensee.

Our Trademark Law provides for two types of license, one under Article 30 and the other under Article 31.

Let me explain in detail the legal nature of the license under Article 30. This article states that the licensee shall have the exclusive right to use the registered trademark on the goods specified by the license agreement within the scope covered by the license. Article 25 of the Trademark Law states that the trademark registrant shall have the exclusive right to use the registered trademark on specified goods, but that this does not apply when the license under Article 30 is granted, as far as the scope covered by that license is concerned. These provisions are interpreted to mean that the licensor cannot use his trademark within the scope covered by the license after the license under Article 30 has been granted. Therefore, if the license is granted without any restrictions, the licensee actually takes over the position of the licensor and in a sense, the right held by the licensor is often referred to as an "empty right".

There is no doubt that the licensee can seek an injunction