

Software Licensing: Japan

Computer software legal protection and complicated licensing requirements are discussed in detail

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Before discussing questions involved in the licensing of computer software in Japan, it is necessary to review the legal protection that is available.

In the last few years, there have been rendered three lower court decisions in Japan wherein the courts have held that source programs for video games are works eligible for copyright protection under the Copyright Law in Japan, and the conversion of the source program into an object program and the embodiment of the object program in a Read Only Memory (ROM) is a simple copy of a work that can be protected under the Copyright Law. The decisions are:

- a. Tokyo District Court, December 6, 1982. (Case Showa 54-WA-10867) *Taito v. I.N.G.*
- b. Yokohama District Court, March 30, 1983, (Case Showa 54-WA-1489) *Taito v. Makoto.*
- c. Osaka District Court, January 26, 1984, (Case Showa 57-WA-4419) *Konami v. Daiwa.*

It is believed that, although the decisions are of the first-instance courts, the holding of these decisions has been accepted by most scholars and practitioners, and it is considered that the Japanese courts will almost certainly follow the holding of these decisions.

It, however, has to be remembered that these three cases all relate to video games and that the defendants in these cases made exact or substantially exact copies of the video games of the plaintiffs. The doctrine adopted in these decisions appears to be applicable to software in general. However, there has been no decision on a case involving software not for video games. It is still uncertain exactly as to what extent copyright protection for software will be found to extend.

Revision of Law

Another aspect to be considered is the possible revision of our Copyright Law. Discussions have long been under way between MITI (Ministry of International Trade & Industry) and the Agency for Cultural Affairs as to how computer software is to be protected. With a view to coping with the particular nature of computer programs, MITI wanted to have a new law enacted and drafted, a Program Right bill, while the Agency of Cultural Affairs

wanted to revise the current Copyright Law.

In March of this year, however, MITI decided to withdraw its plan, and as a result the Japanese Government has decided to submit to the Diet a bill for the revision of the Copyright Law. The bill was prepared by the Agency of Cultural Affairs, and it takes the view of MITI into account to some extent. The bill is certain to be approved by the Diet and the revision will come into effect fairly soon.

To my understanding, the major revisions pursuant to the bill are as follows:

1. Definition of "Program": The revised law will define a "Program" as "A work expressed as a set of instructions capable of causing a machine having information-processing capabilities to perform a particular function."

It is noteworthy that, although this definition of "program" is in line with the definition of the term in WIPO's Model Provisions of 1978, it says that a "program" in the sense of the Copyright Law is "an expression."

The revised law will also provide that the protection does not extend to the program language, protocol or algorithm. The "protocol" is defined as special rules concerning the manner of use of program language in a specific program, and the "algorithm" is defined as method of combining instructions for a computer in a program.

2. Authorship of corporation: Under the current law, it is provided in Article 15 as follows: "The authorship of a work, which, on the initiative of a legal person or other employer (hereinafter in this Article referred to as "legal person, etc.") is made by his employee in the course of his duties and is made public under the name of such legal person, etc. as the author, shall be attributed to that legal person, etc. unless otherwise stipulated in a contract, work regulation or the like in force at the time of making of the work."

The revision will be made to add a provision for authorship of a computer program wherein the words "and is made public under the name of such legal person, etc. as the author" are eliminated from the current above-mentioned text.

This revision is intended to cope with the fact that, differently from works that have heretofore been protected under the Copyright Law, many of the programs made by employees for their employers upon initiative of the employer are not made public under the name of the employer.

3. Modification of program: Under our Copyright Law, the author of a work has not only a copyright but also moral rights or author's personal rights. These are a) the right to make the work public (Article 18); b) the right to determine the indication of the author's name (Article 19), and c) the right to preserve integrity (Article 20).

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It is well known that programs are frequently modified in the course of use by the customers for debugging, improvement, etc. In this connection, the revisions will make it clear that the author's right to preserve the integrity of his work does not extend to modifications necessary for enabling a program to be used with a specific computer with which the program cannot otherwise be used or for enhancing the function of the program.

4. Reproduction of programs by the lawful owner: The revised law will have a new provision to the effect that a person who lawfully owns a program has the right to reproduce or adapt it to such extent as considered necessary for utilization of the same with a computer.

The copies made under this provision shall not be used for other purposes and shall be destroyed when the person no longer lawfully owns the original copy. If the copy so reproduced is distributed or presented to the public, or if the copy is not destroyed after the owner has lost ownership, such act is deemed to be infringement of the copyright for the program.

This new provision is designed to meet the unique requirement for copying by the lawful owner of the program.

5. Infringement by use of a program knowing that said program was made by infringement of copyright for the program: Another new provision of the revised law will be that, when a person uses a program knowing, when he acquired the right to use the same, that it was made by infringement of copyright for the program, such use is deemed to be infringement of the copyright for the program.

Although the basic purpose of a copyright is to protect a work against unauthorized copying, not against unauthorized use, as far as programs are concerned, unless it is made possible to protect the program against unauthorized use, the protection will be insufficient.

In that connection, the Agency of Cultural Affairs has taken the position of not establishing an exclusive right of use of computer programs like that MITI had planned to establish under the Program Right bill, but to give the owner of a program only a limited degree of protection against unauthorized use. Under the revised law, the burden of proving that the user was aware, when he acquired the right to use, that the program was unlawfully copied is on the owner. Accordingly, it is doubtful to what extent the copyright for the program can be enforced against unauthorized use.

6. Term of Protection: A new provision will be introduced into the Copyright Law to the effect that the term of copyright protection of a program that was made on the initiative of a legal person by its employee in the course of his duties and accordingly as explained in (2) above is attributed to the legal person is 50 years after publication, and not the lifetime plus 50 years after death of the author, which is the copyright term for works in general.

Technical Know-How

Attention has also to be drawn to the protection of software as technical know-how or a trade secret. There has been no dispute that technical know-how or a trade secret is considered a proprietary right as defined in Article 709 of our civil code, pursuant to which a person who infringed the right intentionally or by negligence is liable for damages that the owner of the right suffered due to the infringement.

Accordingly, software will enjoy protection under our

civil code. However, the fact that software is considered as a proprietary right in the sense of Article 709 of our civil code does not mean that the owner of software is entitled to injunctive relief against an infringer, but means only that the owner can recover the damages he suffered due to the infringement. Therefore, supposing a program is disclosed to a third party by an employee of the owner and the third party uses the same, the employee, if he was under a confidentiality obligation, is liable for the damage of the owner.

If the disclosure was made in conspiracy with the third party, the third party is also, jointly with the employee, liable for damages. In such a case, the employee, and if there was conspiracy, the third party as well, will be penalized according to the criminal law. But, so far as the claim is based on the infringement of technical know-how, the owner cannot seek injunction in a civil action against the third party to stop the use of the program.

In that connection, it has to be recalled that as explained above, if the third party acquired and used a program knowing that he was using a reproduction of a program made as a result of infringement, his use is considered an infringement of the copyright for the program, and the owner can seek injunction against the user to stop the use.

On the contrary, if the acquisition was made in good faith, no injunction is available. In this sense, it is considered that the degree of protection that a program can enjoy as technical know-how or a trade secret may be insufficient for protecting the owner of the program against unauthorized use.

LICENSE OF SOFTWARE

The questions involved in software licensing are extremely complicated and have so far not been deeply discussed in Japan. This is partly because the legal protection of software is still uncertain in many respects, but mostly because software is not so simple to categorize as patented inventions or copyrighted works and moreover because there are different types of both licensors and licensees.

Obviously, software for the operating systems of general purpose computers cannot be licensed in the same manner as application programs. Likewise, some programs will be developed at the request of specific customers for specific purposes, while others, such as package software for inventory management, production control, etc., are intended to be used for specific general purposes.

Programs for inventory management, production control etc. are quite different in nature from those for video games. Depending upon such type or nature of software, the license agreement will have to provide for different arrangements between the licensor and the licensee.

The differences in the type or nature of software here mentioned also relate to the questions who the author of the software is, who has the right to grant licenses on the software, and who is required to obtain a license.

For the sake of simplicity of explanation, software licensors can be roughly divided into three types of entities: a) manufacturers or suppliers of computers, who would supply their customers not only with hardware but also with software for operation of their hardware, b) software houses that supply their customers with programs that they have developed for applications, for administration

video games, etc., and c) suppliers of data processing services who supply their customers with the application programs for use in combination with the suppliers' computers. Likewise, software licensees can be roughly divided into three types of entities who want to acquire the software supplied by others and to use them in connection with their computers: a) end-users, b) data processing service suppliers, and c) computer manufacturers.

Accordingly, there are many forms of software license agreements that require provisions to accommodate the different requirements of the parties under different circumstances. It, therefore, seems impossible to find a single or uniform principle governing software licenses or to discuss all the problems involved in software licenses. We therefore have to limit ourselves to the most basic problems that are considered to be common to most software licenses and that are considered unique due to the particular nature of software.

Subject Matter of License

In a software license, the licensor will be either the author of the software or a person who was granted by or acquired from the author a right to grant a license to others. The subject matter of the license is of course software, but a question will arise as to what acts the licensee is granted the right to perform in relation to the software. In most cases, the license will grant either one or a combination of the following: a) the right to use; b) the right to copy; c) the right to distribute.

"To copy" here means to reproduce the ROM or other medium in which the program is embodied and includes, as the case may be, to convert the source program into the object program and embody it into an appropriate medium. "To distribute" here means to sell, distribute, lease or otherwise dispose of the products embodying the software so copied.

1. Right to use: In case of software for operation of a computer, the licensee will normally be granted simply the right to use the software developed by the licensor. This is the typical license granted by a computer manufacturer to its hardware customers.

When a license grants simply the right to use, it is quite common for the licensee to be obligated to use the software with respect to specific hardware or at a specific location. The same obligation will be imposed on a licensee of certain application programs which are applicable solely to particular hardware. This obligation will arise out of two motives of the licensor: to ensure proper performance of the software and to ensure a return on the software which is licensed.

In this connection, it is to be recalled that copyright protection generally does not extend to the use of a copyrighted work, although the Copyright Law in Japan will give, when the revision comes into effect, some protection against unauthorized use to the author or his assignee, as explained above. Therefore, this type of license of software may be considered essentially the same as the license of technical know-how. For this reason, it is quite common for this type of license to obligate the licensee to use the software through personnel who have undertaken a confidentiality obligation. Thus, the licensee's obligation to maintain the confidentiality is the essence of the agreement.

Additionally, even if a licensee is granted simply the right to use a program, it appears not uncommon for the

licensee to be allowed to make copies for his own use or to carry out debugging, improvement and the like. As explained above, the revised Copyright Law in Japan will allow the lawful owner of a copy of a copyrighted program to reproduce or adapt it to such extent as considered necessary for utilization of the same with a computer.

Copying Permitted

2. Right to copy: The protection of software under the Copyright Law is aimed essentially at protecting the copyright owner against unauthorized copying of the software. Therefore, the license to copy the software is the core of a software license. But, it appears that there are very few, if any, cases in which the licensor grants the licensee only the right to copy. The licensee will be normally granted the right to copy and use, the right to copy and distribute, or the right to use, copy and distribute.

3. Right to distribute: In the case of software for video games, or personal computers, it is common for the licensee to be granted the right to copy the software, embody it into tapes, discs, ROM, etc. and distribute the same to customers. It is also common that these tapes, discs, ROM, etc. for video games or personal computers are sold just like books, magazines or other printed matters, and the copyright owners have no control over the use of the software by the customers.

For that type of software product, copyright in the software will be considered to have been fully exploited when the tapes, discs, etc. were sold. On the other hand, in the case of certain application programs, for example, ROM, tapes, discs, etc. into which the software is embodied, are not sold but leased to the customers. This is because the owner wants to maintain control over the use of the software by the customer and the customer also wants the cooperation of the owner in connection with servicing, maintenance, upgrading, etc. In such a case, the supplier-customer relationship is not a seller-purchaser relationship. A licensing arrangement will be required.

What Are Delivered by Licensor to Licensee?

The question of what are delivered by a licensor to a licensee is that of whether the licensor will be obligated to supply the licensee with: a) object code only; b) source code only, or c) object code and source code.

It appears that when the source code is delivered, there would be no reason for the licensor to refrain from delivering the object code, and thus when the source code is delivered the object code will also be delivered. However, sometimes only the source code may be delivered, particularly when a source code for a particular type of hardware is to be modified by the licensee for use with a different type of hardware.

Whether only the object code or only the source code is delivered, or both the source code and the object code are delivered, will depend upon the type or nature of the licensor's and licensee's businesses and, depending on the type or nature of their businesses, whether the licensee is allowed access to the program, and whether the licensee is allowed to debug or improve the program. This also relates to the question of the licensor's warranty of the program's performance and also the licensor's obligation to service and maintain the program. If the licensor wants to protect the confidentiality of the program so as to continue to protect it as technical know-how or a trade secret, the licensor will

generally supply the licensee with the object code only.

Needless to say, supporting materials such as user instructions, problem descriptions, will in most cases be delivered by the licensor to the licensee. These supporting materials are of course works eligible for copyright protection. Accordingly, it is important from both the practical and legal viewpoints to control the supporting materials so delivered so as to prevent them against unauthorized copying and distribution.

Acceptance

Software license agreements do not relate to the sale and purchasing of software, but are nevertheless similar in nature to agreements on the sale and purchasing of merchandise in view of the importance of the acceptance test by the licensee or buyer. In the case of know-how and copyright licenses, it is usually not important for the licensee to make a test prior to the acceptance of the licensed know-how or licensed copyrighted works. However, in the case of software, the existence of errors in the program to be licensed is usually conceivable. Moreover, differently from ordinary copyrighted works or the subject matter of know-how licenses, it is generally unknown to the licensee whether the program does in fact have the desired function. Accordingly, it is indispensable to provide the software license that an acceptance test is to be made prior to the acceptance, and if any error is found within a certain period, e.g. within 60 days, acceptance of the program is to be refused and the licensor is to make correction within a certain period following the refusal, e.g. within 60 days.

64 The type of arrangement made between the licensor and the licensee as to the acceptance test, rejection, correction, etc. will depend on the nature of the software to be licensed and other factors involved.

Warranty and Servicing

Like the question of acceptance, the provisions for licensor's warranty and servicing after acceptance are more similar to those in merchandise sale and purchasing agreements than those of a simple patent or know-how license.

Almost always the licensor will have to warrant the licensee that he has the power to license the licensed software and that the licensed software does not infringe any copyright or patent of a third party, and further that the licensed software conforms to the specifications as previously agreed upon between the parties.

There, however, will still remain the question of program error. Despite the acceptance procedure, it appears unavoidable that some errors will be discovered in the program even after acceptance. Accordingly, the licensor's warranties should cover the questions of correction of program error and the licensor's indemnification against the damages that the licensee or his customer may suffer due to the program errors.

Duty to Correct

It is in the interest of the licensee and the duty of the licensor to correct such errors. In this connection, the licensor in a software license will normally warrant that the software to be licensed can perform specific functions as agreed upon between the parties, and thus if some errors that could not be found in the acceptance test are

found later, the licensor will take, free of charge, proper corrective measures.

It is considered also quite common for such a warranty to be given for a specific period—for example one year after acceptance, and thereafter the licensor assumes the obligation to service and maintain the software on a reasonable cost or fee basis.

Next, we have to consider the question of indemnification of damages that a licensee or his customers may suffer due to program errors. Generally, elimination of all errors from a program will be virtually impossible. It is conceivable that the damages that the licensee or licensee's customers may suffer due to program errors may become extremely large. Under the civil code in Japan, unless otherwise agreed upon between parties, it will be possible for the licensee to recover the damages he suffered due to a fault of licensor to the extent they have reasonable causality with the licensor's fault.

Yet, it will be extremely difficult to determine how much damages would have reasonable causality with the licensor's fault. To what extent the licensor should indemnify the damages arising from program errors is a matter to be agreed on between the licensor and licensee, but in any event there should be a clear limit on the licensor's obligation to indemnify such damages.

Modification

Another aspect to be taken into account is the possible modification of the program. Contrary to the case of merchandise sale and purchasing agreements, it is a feature of software licenses that in most cases the licensor will furnish the licensee with the improvements of the program made by the licensor, and the license initially granted generally includes a license for such improved programs.

At the same time, in many cases it is also true that the licensee who has been supplied the source code is granted the right to make upgraded versions or otherwise improve the licensed program and the licensee is expected to do so in cooperation with the licensor. In such a case, it is necessary to stipulate how the improvements of the licensee are transferred back to the licensor. In this respect, it has to be remembered that under our Copyright Law, authors have the right to preserve the integrity of their works and their works cannot be modified or altered against their will.

So long as the program is a work eligible for copyright protection under the Japanese Copyright Law, the author of the program has this right to refuse any modification of the program. Accordingly, it is necessary to obtain in advance from the author a consent to make modifications.

Confidentiality

It appears common in software licenses for the licensee to be obligated to maintain confidentiality of the program. This is because a software license is not a simple copyright license but a mixture of a copyright license and a technical know-how license.

Indication of Author's Name

The last point considered peculiar to the Japanese law is the question of the author's name. This is not the question of copyright notice under the Universal Convention. Under the Japanese Copyright Law, works eligible for copyright protection are protected without any formali-

ty requirement such as deposit, registration or copyright notice.

The question here arises from the provision of Article 19 of our Copyright Law, which reads as follows:

“(1) The author shall have the right to determine whether his true name or pseudonym should be indicated or not as the name of the author, on the original of his work or when his work is offered to or made available to the public. The author shall have the same right with respect to the indication of his name when works derived from his work are offered to or made available to the public.

“(2) In the absence of any declaration of the intention of the author to the contrary, a person using his work may indicate the name of the author in the same manner as that already adopted by the author.

“(3) It shall be permissible to omit the name of the author where it is found that there is no risk of damage to the interests of the author in his claim to authorship in the light of the purpose and the manner of exploiting his work and insofar as such omission is compatible with fair practice.”

In view of this provision, the author of a program has the right to determine whether his name should be indicated, and only if there is no risk of damage to the in-

terests of the author in view of the purpose and the manner of exploiting his work and if the omission is compatible with fair practice, the indication of the author's name can be omitted. This right of the author to indicate his name is a moral right that is considered nonassignable. In the case of software, the author's name is sometimes indicated.

Accordingly, it is doubtful whether the omission causes damage to the interests of the author and whether the omission is compatible with fair practice. Under the circumstances, it appears advisable, when a software license is discussed, to consider whether the author's name is to be indicated on the products in which the program is embodied and, if it is to be omitted, to obtain from the author his clear understanding that his name will not be indicated. When considering this question, it is necessary to distinguish the case where the licensor himself is the author from the case where the licensor is an assignee from the author. It should be remembered that despite the assignment of copyright the author's moral rights cannot be assigned and remain with the author. Therefore, in case the licensor is not the author, it is necessary for the licensee to make sure that a definite arrangement with respect to the indication of author's name has been made.