

# Japanese Experience with Technology Transfer & Brand Licensing in the PRC

Kozo Yabe

YUASA and HARA

TerraLex/Taipei Mtg.

March 30, 2007

# Basic situation of licensing from Japan to the PRC (1)

- Large rise in technical skill in production & consumption of industrialized products in the PRC.
- But, a scarcity of local PRC original inventions, designs, copyright content and other intellectual assets at PRC companies
  - Motivation for counterfeiting activity

# Basic situation of licensing from Japan to the PRC (2)

- Establishment of IP rights owned by Japanese companies in other Asian and African countries as the destinations of PRC exports in addition to the PRC
- Licenses from Japanese companies are a key issue in PRC companies' efforts to develop local and international trade
  - Limitations on territory, use and patenting of improvements; quality control, trade secrets, etc.

# Before and after the PRC introduced IP laws (1)

- Before: For many years after the PRC was established, no official IP rights protection exists under PRC law due to the total prohibition of private property rights
- After: During and after the 1990s, the PRC recognizes IP rights as private property rights and protects them under IP laws on inventions, designs, trademarks, etc.

# Before and after the PRC introduced IP laws (2)

- However, the ordinary person does not yet fully understand the the idea of respecting IP rights,
  - Especially as regards the negative impact of counterfeiting acts & the infringements on inventions and designs of popular products
- Difficult for Japanese and foreign companies to understand how they can effectively enforce their IP rights and ask their Chinese licensees to comply with license contracts in China
  - Reliance on administrative agencies rather than judicial courts? More respect for regional and local special practices?

# Compliance with license agreements (1)

- Hypo I
  - X: British licensor of TM having the TM registered in China and Japan
  - Y: Local Chinese exclusive licensee to produce and sell clothing
  - Z: Local Japanese exclusive licensee to produce and sell clothing
- Y sold its clothing on the Japanese market, thereby violating a territorial limitation under the license contract
  - Z suffered economic damage in the Japanese market from Y's sales to other Japanese importers

## Compliance with license agreements (2)

- Legal actions in PRC courts by X were not effective in stopping the export of counterfeit goods from China to Japan
- Violations of territorial limitation can allow the prohibition of the import of even genuine goods made by other countries' authorized licensees
  - Judgment of February 27, 2003, Sup. Ct. [Fred Perry case]
- New perspective on the gray market goods issue in Japan

# Compliance with license agreements (3)

- Hypo II
  - X: Japanese licensor of automotive product TM and PAT in PRC
  - Y: Local PRC exclusive licensee to produce and sell the licensed automotive product in the PRC
  - Z: Local Japanese company that imports Y's product into the Japanese market without X's permission
  - Y periodically sold and exported its products to Z
  - Z's import caused X economic loss in the Japanese market

# Compliance with license agreements (4)

- If business negotiation or court action in the PRC by X against Y is effective, X may enforce in the PRC compliance with the license agreement. However, what if X cannot do so?
- Violation of territorial limitation can allow under the Patent Law prohibition of import of even genuine goods made by other countries' authorized licensees, if the product indicates clearly "No sales of the product are effective in Japan"
  - Judgment of July 1, 1997, Sup. Ct. [BBS Automobile Wheel case]

# Compliance with license agreements (5)

- The Customs' injunction practice follows the standard established by the court as set forth above for both TM and PAT to stop the imports of “counterfeits” even under an international license
- How about other courts in Asian countries?
  - The Japanese judgments can be effective only in the Japanese territory
  - How can the Japanese companies expect similar protection? S. Korea?, Malaysia?, Thailand?...as the destinations of export from PRC

# Compliance with license agreements (6)

- Trade secrets should be considered as more than simply patenting efforts to be disclosed to the public
  - Deficient nature of the automatic disclosure mechanism of the Japanese patent filing system
- Technical know-how protection should be more in focus under the license agreement
  - Strict control under license agreements of the provision of technical know-how for patents and of quality control know-how for brands

# Enforcement of IP Rights (1)

- Hypo III

- X: Japanese company as the licensor of a design of a house-hold electric appliances
- Y: PRC company as the exclusive licensee of X to produce and sell the licensed product in the PRC market
- Z: PRC company as an affiliate of Y producing and selling a product similar to the licensed product's design in the PRC market without permission of X

## Enforcement of IP Rights (2)

- When X tried to stop the sales of Z in the courts and administrative agencies, Z filed an invalidity action to revoke X's design right in China. Z was successful in having X's design right revoked based on nominal, but unconvincing reasons of Chinese prior design
  - X doubted the fairness of the revocation procedure regarding the judgment on the ability to protect X's design right in the PRC

# Enforcement of IP Rights (3)

- Japanese companies' concerns I:
  - How trustworthy is the Chinese judiciary? How do the judges understand the system of IP rights? How helpful with such concerns is the PRC Patent Office?
- Japanese companies' concerns II:
  - How does the PRC system of law enforcement work to protect Japanese companies from obvious infringement of IP rights? Should personal connections with higher officers and judges be pursued?

# Enforcement of IP Rights (4)

- IIPPF established in Japan
  - International Intellectual Property Protection Forum since 2002
  - BSA Japan and Union des Fabricants Tokyo as associations of foreign (non-Japanese) companies are IIPPF members
  - IIPPF Mission Delegates for the PRC
- The Commissioners' Meeting between JPO, PRCPO and KIPO
- Case study publication & seminar by JETRO of IP rights infringement in PRC and other Asian countries