

Decision on Licensing Law

Patent Act Secs. 17bis, 33, 70, 78 – “Silicon Gum Compound”

1. Where a patent application subject to a licensing agreement has been reduced in scope in the course of examination proceedings, this has no influence on the scope of the licensing agreement or the obligations of the licensee, be it for payment, be it in respect of the manufacture of goods that now fall outside of the scope of the licensed patent.
2. There is no duty of the licensor to inform the licensee where the patent application that is subject to the licensing agreement has been limited in scope.

Osaka District Court, decision of 7 April 2009 (first instance)

IP High Court, decision of 31 March 2010 (appeal (final))

Panasonic Denko K.K. v. Fuji Kobunshi K.K.

Facts

The plaintiff is the owner of a patent application (“Heat conducting silicon gum compound”) that was exclusively licensed to the defendant for the latter to produce, use and sell the licensed goods. The licensing agreement defined the licensed right as the patent application, or the patent right ensuing therefrom, and the licensed goods as those falling under the scope of the patent right. Under the agreement, the licensee was not entitled to claim back any money even in case the patent should not be granted or be invalidated. The contract envisaged an initial period of three years, and subsequently an extension of one year unless cancelled three months prior to the expiration date.

As the patent application was initially refused, the plaintiff amended the patent, and the latter was granted in a reduced scope when compared to the application. The defendant initially was unaware of these developments, but once it received knowledge thereof, noticed that the manufactured products no longer fell within the patented scope. The defendant refused further payments and challenged the contract due to a substantial error.

The plaintiff now demands licensing fees for those licensed products produced prior to the termination of the agreement, damages in regard of those products manufactured thereafter, and injunctive relief to enjoin further production. According to the defendant, (1) the contract was void to a substantial error, which should lead to a restitution of all moneys paid due to unjust enrichment, in the auxiliary, (2) the reduction in the scope of the right should also lead to the conclusion that the licensing fees were paid without any legal basis (as the licensed goods were not covered by the amended right), further in the auxiliary, (3) a reduction in the scope of the right should generally lead to a cause of unjust enrichment, and, finally, (4) the licensor had a good faith obligation to inform the licensee of the reduction in scope. Failure to inform should lead to a claim for damages.

All four of the above issues were addressed in the decision.

Decision

....

- (1) At the time the contract was concluded, in other words the time the defendant agreed, that is, on 1 October 2000, the application had not been reduced in scope. Such limitation only took place on 4 November 2002. There is no evidence that the plaintiff was had any previous knowledge of this fact. Rather, the initial refusal of the application that was the cause of such limitation became public on 4 December 2001. Thus, even if the defendant entered the agreement with a certain intention in mind, there could not have been any substantive error on the side of the defendant at the time the agreement was concluded. There is not even evidence that at the time the agreement was entered into, it would have been a cause for terminating the agreement if the published application over the invention was subsequently refused. In other words, a provision in case of a refusal of the application, or its amendment or limitation with the consequence that the scope of the patent application would change, was not contained in the agreement. Consequently, the first issue raised by the defendant, namely that the contract should be void according to sec. 95 Civil Code, is not well-founded, and no claim for unjust enrichment can be based thereupon.
- (2) According to the defendant, it should be a principle of equity that in cases where the patent application is reduced in scope, also the scope of the agreement should be reduced accordingly retroactively from the day the agreement was made. Yet, at the time the agreement was entered into, the patent application was still in a phase of examination, and it was only natural that the scope of the patent application could still be reduced. On the other hand, the possibility that the patent application could be reduced in scope finds no mention whatsoever in the wording of the agreement. Further, because the patent was still in the application phase and could therefore be rejected or reduced in scope, the licensing fee after patent grant was

calculated at a comparatively low rate (1%). Even if this would be considered a balanced rate, the risk that a patent application should subsequently be reduced or limited in scope should fall on the licensee. Accordingly, where a patent application due to a limiting amendment has been reduced in scope, this does not retroactively limit the scope of the corresponding licensing agreement.

- (3) According to the defendant, the scope of the patent application was limited due to an amendment that could thus be likened to a partial refusal of the application. At least from the day following the publication date of such amendment, that is, 5 February 2002, the scope of the licensing agreement and the corresponding obligation to pay licensing fees should be limited in accordance with the limiting amendment. However, an amendment of the application does not result in a final limitation, as subsequent amendments may still occur and therefore cannot be equalled to a partial refusal of the application that would have retroactive effect as of the day of publication. According to the defendant, the wording of sec. 29(1) and (2) Patent Act (“prior to the patent application”) indicated that also a limiting amendment would have retroactive effect. This would mean that also the licensing agreement should have been retroactively limited by such amendment. However, the question whether the licensing agreement has been retroactively limited is an issue of interpretation of contracts for which it would be mistaken to use an interpretation of patent law. Also in practical terms, sec. 29(1) and (2) Patent Act deals with issues of novelty and inventive step, “prior to the patent application” has to be interpreted in this respect. It is an entirely different matter whether a contract should be retroactively limited, and the above analogy cannot be used in this respect. The defendant also makes reference to the Supreme Court decision of 19 October 1993 [reprinted in German in GRUR Int. 1995, 341 w. comment by *Heath*]. Yet, this decision is not concerned with the retroactive effect of a limitation and can therefore be of no use in this context. According to the above, after the patent grant, the “licensed patent” under the contract must be understood in its scope as the one of the patent application. As a result of the corresponding limitation of the patented scope due to the amendment, the feature „b” now falls outside the technical scope of the “licensed patent” and no longer pertains to the “licensed goods”. Accordingly, after patent grant, that is, after the day the patent has been registered, there is no longer a corresponding obligation to pay a licensing fee in this respect. Yet, the licensing agreement in this case envisages that the licensing fee to be paid to the plaintiff cannot be claimed back in case the patent subject to the agreement has become void, or for some other reason (non-restitution clause). According to the text, this clause applies to events after the conclusion of the contract and the wording “for other reasons” would imply that also the case of a limitation of the patent application would be covered thereby...According to the above, between the conclusion of the contract and the day the patent was granted, the feature “b” must be considered to belong to the licensed patent and the licensed goods. There is thus

no reason for the assumption that payment was made without cause. Thus, the second and third point raised by the defendant on the issue of unjust enrichment must fail.

- (4) The defendant has argued that the plaintiff had a good faith obligation to inform about the limitation of the patent application. But as has been pointed out above, this was not yet a registered patent, and the amendment was made in the course of examination. The mere information of such amendment would not have had an influence on the obligations under the licensing agreement and would not have been of practical benefit, and it was therefore not an obligation to inform about such amendment. On the other hand, once a limiting amendment in the examination stage becomes final and the patent is registered, it cannot be denied that such a legal obligation would have an influence on the licensing agreement and knowledge of such limitation would be of practical benefit to the licensee. According to the defendant, it needs to be able to determine whether the goods it produces and sells are “licensed goods”, and a limitation of the scope of the patent application should be considered an important information. Accordingly, informing the defendant about the progress of the application should be regarded as a good faith obligation for the plaintiff once the application has succeeded. But, regardless of the fact of whether a limitation in scope of the patent application is convenient for the defendant or not, to determine whether the plaintiff has a positive obligation to inform the defendant or not is not so easy to establish. For one, there is absolutely nothing in the agreement about a duty of information. Also apart from the written agreement, there are no circumstances that would point to such a duty of information. To stipulate such a general obligation in the case at issue regardless of whether there is any explicit or implied consent, would require a good faith obligation of information which cannot be assumed to exist in this case. Naturally, if someone who wants to obtain a license for a patent application, and would be interested in the circumstances whereby in order to obtain a patent an amendment has been made that limits the scope of the patent application, and be informed by the licensor accordingly, should in the course of contract negotiations reach an agreement thereupon and have this clearly written in the contract... Further, in the case the licensor limits the scope of the patent application, this becomes publicly available information, and it is possible for the licensee to check the scope of the patent application...Accordingly, there is no general good faith obligation for the patentee to inform where the scope of the patent application has been limited. As the plaintiff has not been in breach of any duty to inform, a damage claim in this respect cannot be established, either...The defendant’s arguments against the plaintiff’s claims are thus not well founded...The defendant is thus ordered to pay licensing fees in the amount of 987.345 Yen and damages including the fees for attorneys and patent attorneys in the amount of 5.260.124 Yen...

Note: The Supreme Court decision of 19 October 1993 (GRUR Int. 1995, 341 –“*Bohr-aushubmaschine*”) allowed a contractual clause of refraining from using the technology as described in the patent application to be overridden by a subsequent limitation of the application. A licensing agreement over a patent application cannot include the applicant’s promise not to sue the licensee, as there is no corresponding claim of injunctive relief prior to patent grant in the first place. The current dispute therefore does not relate to the question of injunctive relief in respect of products no longer covered by the patent, but only to the payment of licensing fees for such products. The court takes the view that a license for a patent application is a risky business for both sides, and that the licensee in his own best interests has to monitor the state of the application. In this respect, the decision is in line with the decision of the Tokyo High Court, 29 January 2009 (40 IIC 977 (2010) – “*Stone Bath*”) that sent the same message to licensees: *Caveat emptor*, buyer beware.

Translated from 2065 Hanrei Jihô 116 – 144 by Christopher Heath