Licensing in the Far East

David W. Hill

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DAVID W. HILL

David Hill is a partner in the Washington, D.C. office of the Intellectual Property law firm of Finnegan, Henderson, Farabow, Garrett & Dunner, LLP. He has been an attorney with that firm since 1977. He received his undergraduate education at the U.S. Military Academy (1969), an M.S. degree in Business Administration from Boston University (1974), and both a J.D. degree and an LL.M. degree with Highest Honors in Patent & Trade Regulation Law from George Washington University (1977, 1981). He was a Technical Advisor at the U.S. Court of Customs and Patent Appeals (C.C.P.A.) from 1976-77.

Mr. Hill is the author and co-author of numerous publications in the intellectual property field, including the chapter on Licensing Activities in " A Practical Guide to Foreign Investment in the United States," BNA International Inc., 1979, 1982, 1988, and "Chinese patent law: recent changes align China more closely with modern international practice," Geo. Wash. J. Int'l L. & Econ. 359, 1993/1994.

From 1986 to 1989, Mr. Hill was resident in Tokyo, Japan, where he managed his firm's Tokyo Office, and was licensed as a Gaikoku-ho Jimu Bengoshi (Foreign Lawyer). He is a member of the District of Columbia Bar in which he has formerly served as a member and as Co-Chairman of the Steering Committee of the Intellectual Property Law Section. He is a past Chairman of the U.S. Bar/Japanese Patent Office Liaison Council. He is also a member and past Chairman of several Committees of the American Intellectual Property Law Association (AIPLA), and presently serves on the ADR and International & Foreign Law Committees and the China Study Group. He is a member and past Co-Chairman of the AIPLA Japan Practice Committee. Mr. Hill is a member of INTA, and has been a Committee Chairman in the Federal Bar Association, and the American Chamber of Commerce in Japan. He has been a frequent speaker in the U.S. and other countries on various aspects of Intellectual Property practice, has been a lecturer for the Patent Resources Group, and has served as a Mediator and as an Arbitrator for the American Arbitration Association.

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LICENSING IN THE FAR EAST

By

David W. Hill
Partner
Finnegan, Henderson, Farabow, Garrett & Dunner, LLP

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Licensing in the Far East: Tips for the Uninitiated[1]

Learning from the Successes (And Mistakes) of Others

I. Introduction

There is no formula for conducting successful contract and licensing negotiations in the Far East. Success depends on many factors that vary from case to case. But those entering this arena for the first time can learn from the experience (and mistakes) of others.

My experience has been in technology licensing negotiations, specifically patent, trademark, trade secret, and know-how licensing. If this experience has taught me anything about effective negotiations in the Far East, it is the importance of understanding the party with whom you are negotiating. The more you can learn about that party, the more likely you will be to achieve your goals and bring the negotiations to a successful conclusion.

II. Communicate Your Concerns

Many of the Far Eastern legal systems are based upon civil law. For example, Japan's legal system is modeled after Germany's and is based on a written code of laws. This system is fundamentally different from the common law system of the United States, which was inherited from Great Britain. In such countries, codified laws are the only real laws. More nebulous legal principles such as "equity" and "fairness," which are commonly applied in American courts, are virtually unknown in the civil law legal systems.

A manager from the patent department of a large Japanese company once visited my office in Tokyo to ask for advice about American concepts of equity and fairness. He was to deliver a lecture on the subject to his colleagues and was having difficulty understanding how American courts could apply such undefined principles to actual cases. We had several meetings in which we discussed the basic ideas of common law, and how a court can use precedent and its own judgment to determine what is fair and equitable in a given circumstance.

Because of this fundamental difference in legal systems, Americans conducting negotiations in the Far East bear the burden of ensuring that their concerns are thoroughly understood by the opposing party. For example, in dealing with the Japanese, matters that are not spelled out in the final agreement and were never discussed, generally are not considered part the arrangement. If the parties consider an issue, however, and discuss how the agreement would apply to the situation in question, then a Japanese party is

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[1] / By David W. Hill, Partner, Finnegan, Henderson, Farabow, Garrett & Dunner, LLP; Washington, D.C.; Atlanta, Georgia; Palo Alto, California; Tokyo, Japan; Brussels, Belgium.

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likely to honor the business arrangement as if it were an obligation, even though the final agreement does not expressly mention it.

III. Understand the Other Viewpoint

A Japanese intellectual property manager stopped by my office in Tokyo one day on his was to what he described as a "very important meeting" with a competitor of his company. The competitor had sent my friend's company a "warning letter," accusing it of infringing several patents owned by the competitor. My friend said that he was going to meet with the general manager of the competitor's patent department to thank him for calling the company's attention to the possible infringement.

This story illustrates the importance the Japanese place on understanding the other person's point of view. It is difficult to imagine two American companies in a similar situation having that kind of reaction.

The story also reflects the well-known Japanese aversion to confrontation and litigation. While foreign companies may find this characteristic helpful on occasion, those that resort to litigation in order to obtain a more favorable license agreement run the risk of being forever viewed with distrust by the Japanese party, which can hinder future dealings between the parties and often leads to unpleasant business relationships.

For negotiations to be successful, both parties need to gain something. Negotiations are likely to be more productive and resolved more quickly if the foreign firm approaches the Far Eastern company with a view to becoming a partner, or at least tries to understand the Far Eastern company's goal.

IV. Be Aware of Cultural Differences

An awareness of cultural differences can help facilitate business dealings. For example, several years ago my firm represented a Japanese inventor in a litigation with his exclusive licensee in the United States. The licensee charged the patent owner with breach of the license agreement and brought suit in the U.S.

As the suit proceeded and the legal bills mounted, it became clear that the inventor was not as concerned about the outcome of the litigation as he was about what some might regard as a minor matter. He was willing to concede on most of the major issues involved in the case, but he would not agree to settle unless he received an apology from the licensee for bringing the suit in the first place. He did not require a written apology, but the patent owner wanted the licensee to admit that he, the licensee, had been wrong to sue, or at least say that he was sorry he had felt litigation was necessary.

This cultural stumbling block considerably delayed a settlement. Had the licensee been more familiar with the licensor and Japanese culture, he may have averted litigation altogether, or at least shortened it.

V. Be Patient

Much has been written about the patience of the oriental people, who thoroughly study a problem before making a decision. The Far Eastern corporate decision-making process often is lengthy, with each issue studied in detail and then reviewed through the bureaucratic chain of command. The resulting delays in negotiations can be frustrating to Americans, who are used to more direct decision-making and much faster corporate action. Once a Far Eastern company makes a decision, however, they tend to move quite rapidly toward resolution or final position. For foreign negotiators who can be patient, the slow pace of typical negotiations in the Far East does not pose a serious problem.

When a faster decision is required, many Asian companies will move more quickly. In such a situation, face-to-face negotiations may be helpful. The American party should not simply ask for prompt action, but should explain why time is of the essence. If the result will not be contrary to the Asian company's business objectives, such a request will normally be accommodated. Asian companies recognize that they may have to ask for similar accommodations in the future, and that a favorable response can establish a precedent.

VI. Arrange for an Appropriate Introduction

Unlike Americans and most Europeans, Asian people usually find it strange to deal with people they do not know and to whom they have not been formally introduced. Westerners who are used to a more direct approach may not recognize the importance of an appropriate introduction.

Anyone approaching an Asian party for the first time should give careful consideration to the' mechanics of the approach and to how an appropriate introduction can be arranged. The choice of the person who will make the introduction can be important to negotiations.

In general, if the "introducer" or go-between is someone the Asian party considers to be of good character, the "introduced" party may be more favorably received, at least initially. A party who makes a direct approach with no introduction, or whose introducer is not well respected by the Asian party, may find that negotiations do not seem to move forward, or even that the Asian party shows no interest in discussing the matter.

While a proper introduction does not ensure success, it can ensure that the foreign party will have an opportunity to present his best case. In the final analysis, he will be judged on his own character, and any business arrangement will be considered on its own merits. However, a good start can help.

VII. Understand How Asian People Communicate

Much has been written about the difficulties Westerners have experienced in communicating with Asian people, particularly the Japanese. In Japan, personal

communication is often indirect or unspoken. For Americans who are used to saying exactly what they think, this style of communication can be frustrating. The kind of direct approach Americans use, however, is considered impolite by many Japanese because it does not always allow the other party to avoid a confrontation.

Generally, the Japanese speak around an issue, leaving the listener to deduce the central point of the communication. A Japanese teacher told me a story that illustrates this characteristic. According to the story, a Japanese worker who wanted to take a day off from work for personal reasons did not simply ask his supervisor for the day off. Instead, he mentioned that his son was not feeling well, and that he might have to take the child to the doctor. He then went on to discuss why it was urgent for his son to be treated. It was left for the supervisor to figure out that the point of the conversation was that the worker needed to take a day off.

To many Americans and other foreigners who do not understand Asian culture, this may seem like a strange way to ask for a day off. The story does, however, dearly illustrate why some Westerners experience communications difficulties in dealing with the Asian people. In negotiations, a Japanese party often will not say precisely what its position is. Like the supervisor in the story, the negotiator on the other side of the table has to deduce what that position is, based on the communications received.

Compared with typical negotiations between Americans, negotiations with Asians may take longer and require more letters and conversations because of this indirect manner of communicating. But for those who can adjust to this style of communications, the reward may be a more solid, longer-lasting partnership or business arrangement. The Asian party may have more respect for those who make such an effort and may consider them better partners in the long term.

Negotiators who do not recognize that the real essence of an Asian party's communication is unspoken, and who do not try to understand that party's real position and motivation, may later feel that they were misled or that matters were not properly represented in the negotiations.

VIII. Be Well Organized and Prepared

In an area of the world where so many people live, sometimes in a small land area such as Japan, it is important to be well organized. Good organization is a hallmark of Asian culture, reflected in thorough planning and preparation for each negotiating session. Formal meetings always have a written agenda, and it is typically followed precisely.

For example, a meeting I once had at a Japanese company was scheduled to last three hours, but we finished the discussion one hour early. Since I had a lot of work to do at my office, the extra hour was welcome. However, the manager in charge began to raise additional questions, and eventually we used up the entire three hours. After the meeting, as we walked to the elevator together, the manager apologized to me for his

subordinate, who had not accurately estimated how long the meeting would take. The manager had intentionally stretched out the meeting to three hours to avoid embarrassing his subordinate.

If an American party is going to hold a negotiating session in his own office, he can help put the Asian party more at ease by preparing an agenda well ahead of time and sending it to the other party for consideration. In most Asian countries, meetings are not usually held until after the matter at issue has been thoroughly researched and discussed, and a tentative decision reached. Particularly in Japan, the purpose of the meeting is largely ceremonial: to endorse the decision made earlier in the normal bureaucratic way.

Asian negotiators, particularly those from smaller companies, may not be comfortable in an American-style working meeting where decisions cannot be made in the traditional way. American negotiators would do better to wait to schedule a formal meeting of high-level officials until all the essential terms have been resolved either through correspondence or by lower-level managers on both sides. A high-level meeting at which no progress is made, or that has a negative result, could adversely affect the entire deal.

IX. Build Relationships for Future Dealings

Because of my experiences in the Far East, I have learned to approach negotiations with Asian companies in a less confrontational way in most cases. Litigation may be necessary or desirable in some situations, but where the parties to a negotiation expect to be future partners, or may have to work together again to resolve other matters, litigation is often counterproductive.

A better approach, in my opinion, is to:

- establish clear goals to be achieved in the negotiation,
- prepare thoroughly, and
- establish good lines of communication with the other party.

When the parties understand and trust each other, they generally can reach an agreement that is mutually beneficial.