PACIFIC

INDUSTRIAL PROPERTY ASSOCIATION

太平洋工業所有権協会

PRESENTATIONS

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PACIFIC INDUSTRIAL PROPERTY ASSOCIATION

THE FOLLOWING POEM WAS WRITTEN TO EXPRESS THE FEELINGS OF THE AMERICAN GROUP MEMBERS TOWARD THE JAPANESE PEOPLE AND NATION AND WAS PRESENTED AT THE CLOSING OF THE ELEVENTH INTERNATIONAL CONGRESS AS A GIFT TO THE JAPANESE GROUP MEMBERS.

JAPANESE SUN

The Japanese Sun has risen,

Risen proudly to its sacred
place between heaven and earth.

Its strong golden rays
extending deep friendship and love
across the seas to every land, to every people.

Shine on brave sun,
for your glowing freedom
brings men together in brotherhood
to strive for the common good of all mankind.

Shine on venerable sun,
for your energy and wisdom
shall touch the heart and light the way
for those who know your warmth.

EDWARD DREYFUS
24 October 1980

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1980 PIPA Tokyo Congress

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OPENING ADDRESS

Koichi Ono, President
Japanese Group

Good morning.

Distinguished guests and all association members:

I am Koichi Ono, the president of the Japanese group this year.

It is a great pleasure for me to attend this 11th PIPA International Congress to see all of you and to extend a hearty welcome to you.

As many of you may remember, the 3rd International Congress was held in 1972 at this same place. In reviewing the past 8 years since then, the political situation in the world has changed a great deal, and the innovation of technologies has more and more rapidly and efficiently been made. Such changes have made great influences on the system of industrial property right in many aspects in many countries.

Under the circumstances, it is quite meaningful that the people in the field of the industrial property right in the U.S. and Japanese companies get together every year and exchange information and opinions. Further, a meeting of the people having different backgrounds is meaningful also for the mutual understanding.

I sincerely hope that this Congress will be pleasant and will attain its objectives. Thank you.

REVIEW OF 1979 ACTIVITIES - PAULINE NEWMAN

OCTOBER 22, 1980

Good morning, honored guests and members of the Pacific Industrial Property Association.

This eleventh year of activity and growth of PIPA is a continuing tribute to the worth of this organization to our members.

These Annual Congresses, and the variety of reports which are presented, reflect the scope of scholarship and experience which resides in our members. The information exchanged is invaluable.

These annual meetings, and our annual published proceedings, are an essential function of PIPA.

The 1979 Congress met in Philadelphia a year ago, and was well attended by delegates from Japan and the United States. The program reflected current interests and activities in industrial property - as does the program of this Congress. There were reports on the latest changes in patent and trademark practices in several countries, discussion of joint research and its problems, and of international trade questions. And there was a lot of attention, at last year's meeting, to the specific changes proposed in the Paris Treaty - the International Convention for the protection of Industrial Property.

One of the important purposes for which PIPA was formed related to our wish to be involved in international negotiations and treaties in the industrial property field. This became a dominant activity for PIPA last year, in view of the Diplomatic Conference held in Geneva in February of 1980.

At the Philadelphia Congress we reached a strong, mutual PIPA position on all of the major issues involved in this renegotiation of the Paris Treaty. PIPA has the status of "official observer", as a non-governmental organization, and as such our formal position paper was distributed at Geneva. We were represented throughout the Conference by both Japanese and American delegates of PIPA. You may well imagine our chagrin when almost the entire month was spent discussing the rules of procedure. This debate took place in a highly political atmosphere reflecting the split of influence blocs within the United Nations - and then splits within blocs.

It is now planned that this Diplomatic Conference will continue in Nairobi in the fall of 1981. PIPA continues to be a spokesman for the views of the industrial users of patent and trademark systems. We hope to continue forcefully to express these views.

The role of non-governmental organizations such as PIPA continues to be limited to that of observer - and occasionally adviser - in treaty negotiations such as this one. Next month in Geneva WIPO (the World Intellectual Property Organization) has called a meeting solely of non-governmental organizations. PIPA will be represented, by Mr. Ozu of the Japanese Group and Mr. Jorda of the American Group. We hope that the outcome may be a strengthened voice for the private sector in patent and trademark matters.

This past year the Japanese Group President was Mr. Shusaku Toki, who at the time was General Manager of the Patent Department at Hitachi. Mr. Toki has since been promoted to the Research Department, and on behalf of the American Group, and for myself, I should like to express to Mr. Toki our appreciation for his leadership and his friendship. On behalf of PIPA, may I present this certificate and this token of our regard. We are delighted that you will continue to serve PIPA on the Board of Governors, as past-president.

This year's Congress continues the tradition of excellence of our program. To our hosts, may I express our delight at being here, and our anticipation for the Congress now beginning.

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KEYNOTE ADDRESS

Koichi Ono, President
Japanese Group

Ladies and gentlemen:

The industrial property right system is faced with many complicated and serious problems awaiting solution. The solution, if any, may influence to a great extent, the activity of companies.

One of such problems is a kind of crisis of the protection of inventions. As you know, the principle of the patent system is the protection of inventions to encourage inventive activities and to contribute to the development of industry. It is believed that this principle is commonly applicable to all countries having a patent system.

This principle is confronted with problems. In this connection, as the greatest international problem, there is the controversy between developed and developing countries on the transfer of technology between them.

This subject has been discussed for many years in all directions and from every point of view. However, both developed and developing countries have not yet reached a final satisfactory conclusion, and the goal seems to be far ahead.

It is well understood that there is a great economic gap between developed and developing countries and many attempts and efforts to reduce such a gap have been

made.

It is essential to facilitate the transfer of technology from developed countries to developing countries in order to promote and encourage the industrialization of the latter.

It is no need to say that the industrial property right system can act as an element in the process of such transfer of technology. Thus, the revision of the Paris Convention has been proposed and discussed. The declaration on the objectives of the revision states:

> The revision of the Paris Convention should aim to contribute to the establishment of a new economic order in the world in which social justice prevails and economic inequalities between nations are reduced. Industrial property, in particular as it relates to inventions, should constitute an element in the process of the transfer of technology and should contribute to the achievement of new technological advances. It should serve the goals of a new economic order, in particular through the industrialization of developing countries.

The ideal is lofty. However, the question is how to realize the ideal. In order to realize the ideal, can the principle of the industrial property right system, particularly, the patent system be jeopardized? Can the jeopardization of the patent system realize such a lofty

ideal? The answer is obviously negative.

The "Paris Convention" is a treaty relating to the protection of inventions, and it has basic principles of national treatment, independence of patents and priority. These principles represent the fundamental agreements of member states in the protection of inventions. Thus, the Paris Convention should be equally applicable to all member states.

Under the principles, the Convention has contributed to the international transfer of technology, since it has provided appropriate protection of inventions in member states. In other words, without appropriate protection of inventions, the transfer of technology will become obstructed rather than facilitated.

Any revision of the Paris Convention, apart from the basic principles, may cause a lack of trust in the patent system, and people of developed countries could even hesitate to file patent applications in developing countries. This is obviously quite against the objectives of the revision of the Convention.

It is unfortunately a fact that, heretofore, in the transfer of technology, there have been attempts in the side of a transferer to impose unreasonable conditions on a transferee. Such attempts have been made in both international and domestic transfers of technology. Such attempts have been treated as a question of misuse or abuse of right,

and should be treated in the same way in the future.

In any event, even though the aim may be to avoid such misuse or abuse, any revision of the Paris Convention affecting essential quality of patent rights should not be made.

It is a matter of course that the transfer of technology from developed countries to developing countries is to be made under fair and reasonable conditions. Such conditions are variable and flexible depending upon the kind of technology, social and economic situation of transferee, and so on. However, any condition which deteriorates the protection of inventions would never be reasonable. If the protection of inventions is deteriorated, the research and development would be discouraged and then, the patent system would contribute less to the establishment of a new economic order.

Now, turning to the domestic problems, it is well understood that Americans have interests in the problems of Japan and vice versa. Many domestic problems are peculiar to one country but many of them are of a nature common to both the U.S. and Japan.

One of such common problems is the protection of inventions in certain fields. Rapid technical innovation is resulting in new types of inventions. The question is whether the present patent system provides sufficient, fair and reasonable protection for such inventions. I have not

yet heard that the problem of the protection of computer software has reached a satisfactory solution. The decision by the U.S. Supreme Court on the Chakrabarty case rules that a microorganism can not be excluded from the patentable subject matter. The Japanese Patent Office has revised its old and long practice regarding microorganisms per se as unpatentable subject matter because of the lack of reproducibility. The situation has been welcome by most of the relevant companies. However, this is not the end of the issues on the protection of inventions relating to the so-called genetic engineering but is just the beginning. It is necessary for us to be prepared to cope with the protection of new types of inventions.

On the other hand, it is also necessary for us to reconsider whether the present practices and legislations still provide fair and appropriate protection of certain inventions. For example, research and development of pharmaceuticals takes a long period of time. It is not seldom that a pharmaceutical obtains an approval for industrialization by the governmental authority more than ten years after the relevant patent application. Therefore, the effective excluding period under the present patent system may not provide a reasonable and sufficient protection to the patent owner. In this connection, the patent term restoration bill in the U.S. is very significant.

It is our responsibility to seek fair and reasonable protection of inventions to encourage inventions and develop industries thereby in both international and domestic cases.

October 22, 1980

Text of Speech
by I. Sakamoto,
Honorary Chairman,
for Tokyo Congress of PIPA

Mr. Chairman, distinguished guests, fellow members, ladies and gentlemen.

As chairman of the Japan Patent Association, I would like to welcome you to this Congress. To begin with, I would like to say that I deem it a great honor to be nominated as Honorary Chairman of the 11th International Congress of the Pacific Industrial Property Association.

Attending the Congress in this hall, we have many experts on industrial property from both the United States and Japan. The presence of Mr. Sidney A. Diamond, Commissioner of the United States Patent and Trademark Office, of Mr. Justin L. Bloom, Counselor for Scientific and Technological Affairs, American Embassy, and of Mr. Haruki Shimada, Director-General of the Japan Patent Office, gives an added grace and significance to the Congress. I thank the gentlemen for their attention and attendance to this meeting.

I note, and I am sure all of you do too, that there is a world-wide recognition for the need for establishing a new international order regarding the transfer of technology.

It was pointed out in the previous Congress of PIPA that, in order to facilitate the transfer of technology from developed countries to developing countries, it is essential for the latter, in the first place, to be ready for such a transfer, for instance, to legislate for the protection of inventions and, at the same time, to prepare the ground to receive the particular technology.

On the other hand, we as transferrer of technology, should deal with such transfer in earnest and in fairness to meet the expectations of the transferee.

In this connection, there have been movements of reviewing the existing treaty covering patents and trademarks. Foremost among them, is the revision of the Paris Convention.

I understand there will be another Diplomatic Conference in September next year to deliberate on the revision of the Paris Convention. It is my sincere wish that the United States and Japan join efforts for such revision of the Convention that is beneficial to both developed and developing countries.

There are also important subjects other than the technology transfer, including new legislation, interpretation of laws, practices, etc., and I understand that these subjects will also be discussed in this Congress, and I sincerely hope that the Congress will attain fruiful results through these descussions.

Before concluding my welcoming address, I wish you will enjoy your stay in Japan as it is the best season now.

JUSTIN L. BLOOM
COUNSELOR FOR SCIENTIFIC AND TECHNOLOGICAL AFFAIRS,
AMERICAN EMBASSY

DR. NEWMAN, MR. ONO, LADIES AND GENTLEMEN:

AMBASSADOR MIKE MANSFIELD IS ON LEAVE IN THE UNITED STATES AND I HAVE BEEN ASKED TO REPRESENT HIM AND THE EMBASSY AT THIS GATHERING. IT IS A MOST PLEASANT TASK FOR ME TO DO SO. AS AN ENGINEER WITH SEVERAL PATENTS OF MY OWN, I HAVE A DEEP RESPECT FOR THE NEED TO PROTECT INTELLECTUAL PROPERTY. IN ADDITION, MY OFFICIAL RESPONSIBILITIES OFTEN TAKE ME INTO THE REALM OF PATENTS AND PROPRIETARY INFORMATION. ONE WAY THAT I KEEP ABREAST OF THESE MATTERS IS THROUGH MEMBERSHIP IN THE PATENTS, LICENSES, AND TRADEMARKS COMMITTEE OF THE AMERICAN CHAMBER OF COMMERCE IN JAPAN. THROUGH THIS VENUE I HAVE MET A NUMBER OF THE JAPANESE PARTICIPATNS IN THE PROGRAM TODAY AND TOMORROW.

ONE MIGHT WELL ASK WHY A GOVERNMENT SCIENTIFIC OFFICIAL IS ENGAGED IN MATTERS CONCERNING INDUSTRIAL PROPERTY. IN MY CASE, AT LEAST, IT HAS NOT BEEN BECAUSE OF INFRINGEMENT CASES OR OTHER LEGAL ACTIONS, BUT BECAUSE OF THE ENORMOUS FLOW OF SCIENTIFIC AND TECHNICAL INFORMATION THAT OCCURS BETWEEN THE UNITED STATES AND JAPAN.

WE ADMINISTER A DOZEN MAJOR GOVERNMENT-TO-GOVERNMENT AGREEMENTS IN THE SCIENCE AND TECHNOLOGY FIELD, AND MOST OF THESE HAVE PATENT CLAUSES IN THEM. DUE TO THE SUBSTANTIAL DEFFERENCES IN PATENT PRACTICE BETWEEN THE TWO COUNTRIES--PARTICULARLY IN THE WAY GOVERNMENT-OWNED PATENTS ARE HANDLED--WE HAVE FOUND THAT NEGOTIATION OF A PATENT CLAUSE IS OFTEN THE MOST DIFFICULT AND TIME-CONSUMING OF ALL. I IMAGINE THAT THE SAME CONDITION MAY OBTAIN IN PRIVATE CONTRACTS AND AGREEMENTS.

AS WE ALL KNOW, THERE IS GREAT CONCERN TODAY IN THE UNITED STATES THAT THE HISTORICAL AMERICAN LEADERSHIP IN THE GENERAL FIELD OF SCIENCE AND TECHNOLOGY IS BEING DIMINISHED, AND IN PARTICULAR THAT WE ARE LOSING OUR INNOVATIVE CAPACITY. FINGERS ARE POINTED TO THE RAPIDLY INCREASING NUMBERS OF FOREIGN PATENTS THAT ARE BEING FILED IN THE UNITED STATES AS ONE EXAMPLE OF THIS LOSS OF INNOVATIVE LEADERSHIP, AND JAPAN OFTEN IS SINGLED OUT AS BEING THE COUNTRY TO WATCH MOST CLOSELY. IN MY OWN PERSONAL VIEW, WHAT WE ARE OBSERVING IS NOT SO MUCH A DECLINE IN AMERICAN CREATIVENESS AS AN

INCREASE IN THE CREATIVITY OF JAPAN AND A FEW COUNTRIES OF WESTERN EUROPE. CONTRARY TO OPINIONS SOMETIMES EXPRESSED BOTH HERE IN JAPAN AND ABROAD, I DO NOT BELIEVE THAT THERE IS SOME INHERENT DEFECT OR ABERRATION IN THE JAPANESE PSYCHE THAT MAKES THE JAPANESE BORROWERS OR ADAPTERS OF FOREIGN TECHNOLOGY. RATHER, I THINK THAT JAPAN DURING THE POST-WAR YEARS TOOK A HIGHLY PRAGMATIC ATTITUDE TOWARD SUPPORT OF APPLIED VS. BASIC RESEARCH, AND NOW--WITH ITS INCREASED AFFLUENCE AND ECONOMIC STRENGTH--IS TURNING MORE OF ITS INTELLECTUAL AND ECONOMIC RESOURCES TOWARD INNOVATION IN ITS OWN RIGHT. AS AN INTERNATIONALIST, I LOOK UPON THIS PHENOMENON, IF IT IS TRUE, AS AN OPPORTUNITY FOR INCREASING THE EXCHANGE OF TECHNICAL INFORMATION RATHER THAN AS A THREAT. AFTER ALL, WE ARE THE CLOSEST OF POLITICAL ALLIES, AND OUR TRADE RELATIONSHIPS ARE VITAL TO BOTH COUNTRIES. IT WILL BE INCUMBENT ON BOTH THE GOVERNMENTAL AND PRIVATE SECTORS TO DEVISE MEANS FOR EXCHANGING THE BENEFITS OF INNOVATION WHILE INSURING THAT THE RIGHTS OF INVENTORS ARE PROTECTED. THE LAST THING THAT WE NEED IS WHAT I MIGHT CALL AN "INTELLECTUAL PROPERTY SHOCK", IN WHICH ONE COUNTRY OR THE OTHER TRIES TO IMPOSE ARBITRARY CONSTRAINTS ON THE FLOW OF INFORMATION. RESPECT FOR THE WORLD PATENT SYSTEM AND THE DEVELOPMENT OF MORE SOPHISTICATED AND MUTUALLY ACCEPTABLE PROCEDURES FOR HANDLING PROPRIETARY INFORMATION OR KNOW-HOW NOT COVERED BY PATENTS SHOULD BE THE OBJECTIVE.

I HAVE BEEN FORTUNATE IN HAVING HAD THE OPPORTUNITY OVER THE PAST SEVERAL YEARS TO TALK TO MANY INDUSTRIALISTS IN BOTH COUNTRIES ABOUT THIS ISSUE. IN MOST INSTANCES, I HAVE HEARD THEM SAY THAT THE ADVANTAGES OF TECHNOLOGY TRANSFER BETWEEN OUR TWO COUNTRIES HAVE FAR OUTWEIGHED THE COMPETITIVE DISADVANTAGES. I REGRET TO SAY THAT THIS VIEW IS NOT COMMONLY HELD AT THE POLITICAL LEVEL AND SOME EDUCATIONAL EFFORTS ARE THEREFORE NECESSARY.

IT IS THEREFORE ENCOURAGING TO OBSERVE THE FUNCTIONING OF THE PACIFIC INDUSTRIAL PROPERTY ASSOCIATION, SINCE IT IS OBVIOUSLY DEVOTED TO REACHING A CLEARER UNDERSTANDING OF THE COMPLEXITIES --AND IF YOU WILL PERMIT ME--THE VAGARIES OF THE PATENT PROCESS AND ITS EFFECTS IN OUR RESPECTIVE COUNTRIES, AND ON THE BROADER PROCESS OF TECHNOLOGY TRANSFER.

I FIND IT A GREAT PRIVILEGE TO BE ABLE TO JOIN YOU THIS MORNING AND TO WELCOME MY FELLOW AMERICANS TO JAPAN. I KNOW THAT YOU

WILL BE GIVEN THE EXTRAORDINARY HOSPITALITY FOR WHICH THE JAPANESE ARE JUSTLY FAMOUS, AND I TRUST THAT THE SUBSTANTIVE ACCOMPLISHMENTS OF THE MEETING WILL MATCH THE LEVEL OF HOSPITALITY AND FRIENDSHIP. TO OUR JAPANESE COLLEAGUES, I WISH TO EXPRESS THE DEEP APPRECIATION OF AMBASSADOR MANSFIELD AND THE EMBASSY STAFF FOR YOUR HARD WORK AND CAREFUL, COMPLETE ARRANGEMENTS WHICH ARE DESIGNED TO INSURE THE SUCCESS OF THE ELEVENTH PIPA CONGRESS.

ADDRESS TO THE 11TH INTERNATIONAL CONGRESS OF THE PACIFIC INDUSTRIAL PROPERTY ASSOCIATION

Haruki Shimada
Director-General of the
Japan Patent Office

I am very pleased to have been given this opportunity to address you at the Opening Ceremony of the 11th International Congress of the Pacific Industrial Property Association.

Ten years have already passed since the founding of your association in 1970. During this period it has made a tremendous and constructive contribution to the evolution of industrial property rights systems, not only in Japan and the United States, but in the world as a whole.

As you know, the 1980's promise to be an age of deepening international interdependence in politics, economics, culture, and all other fields. The advancement of mutual understanding between the countries throughout the world, as well as the maintenance and strengthening of the cooperative relationships on which understanding is based, have taken on a greater importance than ever before. This is especially true of a field as intrinsically international as industrial property rights systems.

In the past decade we have witnessed a steady progress toward the internationalization of industrial property rights: the coming into effect of the Patent Cooperation Treaty, said to be the most epoch-making event in this field since the Paris Convention, and the adoption of the Budapest Convention

on the international recognition of depositions concerning microorganisms as a part of patent application procedures typify this progress.

To assure stable growth of the world economy in the 1980's, for which a more restrictive situation with regard to resources, energy, and the environment is predicted, the promotion of further technological development is essential. This calls for even greater progress, building on the achievements of 1970's, in the internationalization of the industrial property rights systems upon which technological development is based.

Thus, it is of great significance that Japanese and American officials and experts in the industrial property rights, who exert enormous influence on the smooth operation and development of the world's industrial property rights systems, should gather to exchange opinions on the problems confronting the field, and strive for closer mutual understanding. This Congress also takes on a special significance through the presence of the Honorable Sidney A. Diamond, Commissioner of the United States Patent and Trademark Office.

I am certain that positive and constructive suggestions will be made at this Congress, and I look forward to hearing them.

I should now like to take this opportunity to discuss some of the recent developments in the industrial property rights field in Japan, in the hope that this information will prove of some use to you all.

First of all, I should like to mention Japan's response to various international trends in the industrial property rights systems.

In recent years, Japan has actively responded to the increasing impetus toward international conventions and agreements.

In the two years that have passed since its signing by Japan, the Patent Cooperation Treaty (PCT) has increasingly made its effects felt. However, the number of PCT-based applications received by the Japan Patent Office in 1979 was 300, which compared to the number of applications made in other countries, shows us that we Japanese are not yet making full use of it. This would seem to be due, in large measure, to the time it takes for those concerned to become accustomed to a completely new system.

In the future, Japan intends, in cooperation with other signatory nations, to redouble its efforts to make the Patent Cooperation Treaty a more effective system. We hope that you, also, in full cognizance of the purpose of this treaty, will strive to make effective use of this new system.

After signing the PCT, Japan signed, in May of this year, the Budapest Convention for the international recognition of deposition of micro-organisms as part of patent application procedures. The aim of this Convention is to eliminate the need for the deposition of micro-organism samples at more than one patent office when making application to more than one country for the patenting of the discovery. It is my firm conviction that Japan's participation in this Convention is in the best interests of both the Japanese and American applicants at the highest levels of the micro-organics industry.

The terms of the Budapest Convention stipulated that it would take effect only after its ratification by five nations,

and it is greatly to Japan's credit that she was fifth nation to do so, thus enabling the Convention to come into effect last August. This act is consonant with Japan's ideals of contributing to international cooperation.

In addition to supporting such treaties and agreements, Japan, as a country with an advanced patent system, has actively promoted international cooperation with the developing countries in the field of industrial property protection. We are now receiving trainees from, and sending experts to, China and the member countries of the Association of Southeast Asian Nations (ASEAN). Japan intends to further promote international cooperation in this field, realizing that the improvement of the industrial property rights systems both in Asia and the rest of the world is indispensable to sound growth of the world economy.

I would now like to say a few words about Japan's response to the problems of patent information.

It is obvious that patent information is extremely useful as up-to-date and accurate technological data. To give patent information more value in a wider range of uses and at the same time to make it quickly available to the user, Japan has maintained close contact with the United States and other advanced nations and with various international organizations, while striving to improve the organization of its domestic information systems.

We plan to take further measures in the future with regard to this issue of patent information, based on the constructive suggestions we receive from you and other users.

As I have outlined briefly above, Japan is dealing, step by step, with the internationalization of its industrial property rights systems and also with the issue of patent information.

In conclusion, I would like to touch on the revision of the Paris Convention as an example of the problems faced by America and Japan today, and at the same time give a new perspective to the significance of the Pacific Industrial Property Association.

As you are very well aware, the opinion has been developing for some time in forums such as the United Nations and UNCTAD that the present international patent system, based on the Paris Convention, should be reexamined in connection with the problem of transfer of technology to the developing countries. In response, diplomatic consultations concerning the revision of the Convention were opened in February of this year. Since the interests of the countries involved in this issue are at variance in many respects, an attempt to reconcile them, based on ample debate, will be necessary. In dealing with this problem, I believe that it is vital for Japan to cooperate with the United States and the other Group B countries.

The revision of the Paris Convention is but an example of our growing need to solve problems through international cooperation to meet the changes that have taken place in the environment surrounding systems of industrial property rights.

In such an environment the Pacific Industrial Property Association has inestimable significance as a forum for the deepening of mutual understanding between Japanese and

American officials and experts in the industrial property field.

Allow me to conclude by wishing you all success at this Congress and in the future activities of your Association.

Thank you very much.

Opening Remarks by
the Honorable Sidney A. Diamond
Commissioner of Patents and Trademarks
United States of America
before the
11th Annual Congress
of the
Pacific Industrial Property Association
Tokyo, Japan
October 22, 1980

It is an honor and a pleasure for me to be here in Tokyo and to participate in this 11th Annual Congress of the Pacific Industrial Property Association. I am delighted to have the opportunity of visiting the beautiful city of Tokyo once again and being the recipient of the warm and friendly Japanese hospitality. For me, the PIPA meeting is an opportunity to renew old friendships and begin some new ones. And it is friendships, or more accurately alliances, that I want to discuss with you today. I will discuss alliances in the context of the recent Diplomatic Conference for the revision of the Paris Convention.

Most of you have been hearing about efforts to revise the Stockholm text of the Paris Convention since 1975. In 1978, former Commissioner Banner addressed this group in Nagoya and spoke in great detail of the issues expected to arise at the Diplomatic Conference. Lutrelle Parker, my Deputy Commissioner, addressed PIPA in 1979, in Philadelphia. He also spoke of the Paris Convention revision. In

his talk, Commissioner Parker addressed the substantive issues of the revision conference -- issues such as inventor's certificates, geographic indications of source, and exclusive non-voluntary licensing.

The Diplomatic Conference was held in February and March of 1980 in Geneva, Switzerland. I would have liked to have had the honor of talking to you today about the results of the Conference; about the prospects for a stronger international industrial property system; and about renewed commitments and greater cooperation among the members of the Paris Convention. Unfortunately, that must wait for another day. The delegates came away from Geneva having only had the briefest of discussions on the substantive issues of the revision Conference. The only "results", if you can call them that, were an alleged adoption of Rules of Procedure without consensus -- Rules which my government, due to the lack of consensus, regard as not having been adopted.

This first session of the Conference is an object lesson in the new international politics of intellectual property law. Although the first session may appear to be a kind of humorous "non-event", it has very serious implications for the field of intellectual property law, and particularly with regard to the future of the Paris Convention.

Since the World Intellectual Property Organization (WIPO) joined the United Nations in December 1974, the U.N. group system has been in

use in WIPO. Thus, the members of WIPO are now placed in either Group B, Group D, or the so-called Group of 77. I say so-called Group of 77 because that Group now numbers in excess of 120 countries and is so large that it has three subgroups, the Asian subgroup, the African subgroup, and the Latin-American subgroup.

One of the characteristics of the group system is that each group designates a spokesman. The groups caucus separately and then send their spokesmen to meet in a so-called contact group, or spokesmen's meeting. That is where the real business of the meeting frequently takes place.

Thus, the U.N. system creates alliances on what it perceives to be logical associations to further the common interests of its members. In a sense these groups are artificial. There are no firm criteria which assign a country to one or another Group. The interests of all the WIPO member countries are similar; peace, prosperity, and economic and social progress. At the Paris Revision Conference, however, there was considerable disagreement between Groups and also within Groups.

The first business of the Conference was for the spokesmen to try to agree who was going to be the President and who was going to be the chairman of each of the Committees. The presidency was conceded to the Group of 77, largely because it was they who in 1974 initiated the revision of the Paris Convention. However, the three subgroups were unable to agree among themselves which of them was going to

have the honor of the Presidency of the Conference. That is why it took nearly four days for the Group of 77 candidate to emerge. He turned out to be Ambassador Sene of Senegal.

This was a very inauspicious beginning.

Most of the time of the conference was taken up with wrangling over the Rules of Procedure, specifically the vote needed for the adoption of the revised text. The reason this became a problem is that historically the Paris Convention always has been amended by unanimity, or consensus as some prefer to call it; in other words, without objection. This principle is not written down in the Convention, it comes from history. Unanimity always has been accepted by all member countries. In fact, the principle has been accepted so completely that some texts on international law state the requirement of unanimity for amending the Paris Convention has become a rule of customary international law.

The Group of 77 arrived in Geneva prepared to fight for what they regard as the appropriate new standard for adopting international treaties which is a two-thirds majority. Group D, as it frequently does, agreed with the Group of 77. Group B started from the historical position that unanimity was required.

There are very significant reasons for the Group B position, including the fact that all six previous revisions of the Paris

Convention have been on the basis of unanimity. But more importantly, the Paris Union is not a group that meets and adopts by some majority or other a resolution complaining about or praising some act which it is powerless to control. The Paris Union deals with important substantive rights that are of great commercial value. Unless the countries involved are going to agree on how they are going to handle these rights, rather than just be outvoted, there will not be a viable Convention. The smaller the fraction that can effect a change, the larger the minority gets, and the greater the number of outvoted and disappointed countries there are. And, of course, the problem with outvoted countries is that they simply will not participate in the Convention.

The only substantial argument that has ever been made against the unanimity rule, at least in my opinion, is that one country, whether out of ignorance or vindictiveness or some other nonsubstantive reason, could block the progress of this whole large organization.

Group B started with unanimity as its position, but many members indicated they were ready to make concessions to placate the developing countries. The United States announced in Group B that we would never move past unanimity minus two.

As a result of procedural maneuverings far more detailed than I have time to discuss this morning, the Conference adopted a rule which provides that a first attempt should be made to reach consensus. If consensus is not reached, a two-thirds majority would control unless

more than twelve states voted against. A procedure called a "cascade vote" was also adopted. This provides that, if the required majority is not reached on the first ballot, there is a forty-eight hour cooling-off period and then a second ballot is taken; if the required majority is not reached on the second ballot, there is another forty-eight hour cooling-off period, and a third vote then is taken by secret ballot.

The United States did not support this voting rule. Indeed, we opposed it. We also insisted, to no avail, that if the conference wished to abandon unanimity as a requirement for amending the Convention, it needed unanimity to abandon that rule.

Conclusion

I started out this presentation by saying I was going to talk about alliances. Now, I have just told you that the United States was a voice crying in the wilderness on the unanimity question which incapacitated the Paris Convention revision conference. While it is true that this is not the stuff of which an alliance is made, it underscores the need for an alliance.

There will be discussions on the substantive issues at the Second Session of the Diplomatic Conference scheduled for Nairobi next fall. Unfortunately, there will be a lingering question regarding the legality of any provision adopted by the majority of the "new" voting rule. However, if the Group B countries can reach a consensus and stand together on the difficult issues the new text

may ultimately be adopted by consensus. And my friends, I can think of no better partners to begin to build a consensus than Japan and the United States.

The members of Group B, and especially Japan and the United States, share a common heritage, and responsibility, in promoting the protection of intellectual property and thereby promoting the development and transfer of technology throughout the world. Indeed, the delegations of Japan and the United States are anchoring a stand by four Group B countries against a proposal to extend to geographical indications a system of protection which would be at odds with our common heritage.

In 1979, Japanese and U.S. residents filed almost 100,000 patent applications outside of their own countries. Residents from Canada, France, the Federal Republic of Germany and the United Kingdom filed almost 80,000 applications around the world. It is in our joint interests and the interests of all Group B countries to ensure that the Paris Convention continue to provide a strong foundation for the industrial property laws around the world. If the Convention is amended to permit countries to adopt compulsory nonvoluntary licenses and to require protection for appellations of origin, the continued development of our technological base as well as our international trading patterns will be affected adversely. And that is one thing we must not let happen. Thus, Japan, the U.S., and all countries interested in technological progress and free trade must join together - must form an alliance - to preserve the essential

characteristics of our industrial property system. Of course, we must do this without overlooking the needs of developing countries.

The next session of the Diplomatic Conference to revise the Paris Convention should be an interesting one. I hope that at the meeting of PIPA next year it will be possible to report that the countries of the world are united in their support of a strong industrial property system and have reaffirmed the fundamental principles of the Paris Convention.

It is particularly fitting that I address alliances and cooperation before this group. The Pacific Industrial Property Association represents a model of the hands-across-the-sea relationship which we in our respective governments would do well to emulate. Difficult issues arise between you which do not admit of easy answers. However, you continue to show great wisdom and patience as you chart successful solutions to these issues. Perhaps the best demonstration of your foresight has been the alliance you formed with the creation of the Pacific Industrial Property Association. It is with your example in mind that I pledge myself and my government to achieving the same close and mutually respectful relationship with Mr. Shimada and his government that the Japanese and American contingents of PIPA have achieved with each other.

ADDRESS TO THE 11TH INTERNATIONAL CONGRESS OF THE
PACIFIC INDUSTRIAL PROPERTY ASSOCIATION

Kenichi Matsuie
Engineer-General of the
Japan Patent Office

It is an extremely great pleasure for me to have been given this opportunity to address the participants during this three day 11th International Congress of the Pacific Industrial Property Association.

The exchange of opinions that has taken place and the positive and constructive suggestions that have been made during this congress have left a deep impression on me. I am firmly convinced that these proposals will lead to deeper mutual understanding between Japanese and United States officials, experts, and businessmen involved in industrial property rights affairs, and furthermore that they will strengthen the cooperative relationship that exists between our two countries. It is my hope that your association will continue to make a great contribution to the smooth operation and the future development of the world's industrial property rights systems.

At this point I would like to say a few words, for the benefit of the American delegates in particular, concerning some of the tasks faced by examiners of patent or utility models applications filed with the Japan Patent Office.

As you no doubt know, there are as many as 360,000 Japanese patent or utility model applications every year. Moreover, as we enter the 1980's, the necessity for creative

and independent technological development is being loudly proclaimed, both in private industry and government circles in Japan. In response to this, the Examination Departments of the Japan Patent Office are expanding and reorganizing their examination system to handle the growing number and increasing technological sophistication and complexity of the applications. In this manner the Patent Office is working to fulfill its three major tasks: 1) the coordination of its activities with the patent systems of other nations, 2) the expediting and improvement of the examination process, and 3) the perfection of its management of patent information.

I would like now to outline some of the concrete measures being taken in this direction.

The introduction of International Patent Classification (IPC) was the first of these. In October 1978, the materials used in the Examination Departments were reorganized along IPC lines. Then, in January of this year, the classification system used in the Official Gazette was switched from the former Japan Patent Classification to IPC, thus completing the changeover to a uniform use of the IPC system.

Since the volume of patent applications in this country is enormous in comparison to that of other countries, the task of processing these is of correspondingly great importance.

Of course the storage and retrieval system for patent information, relating to the hundreds of thousands of applications made yearly, directly affects the efficiency with which these applications can be examined and in turn the speed and accuracy with which the patent rights can be granted.

With this in mind, the Japan Patent Office is striving to establish more efficient storage and retrieval systems by making full use of computers. The microfilming of patent information by our office is an example of such a processing system: at present, official reports from major countries are microfilmed and made instantly available to examiners via print-outs. Also abstracts, in Japanese, of the more important United States Patent Specifications are drawn up and distributed to the relevant departments for the reference of our examiners.

Steady progress is also being made in computerized data processing. It is now possible to link terminals on-line to the central computers to obtain information on the processing status of patent applications, to research patent families, and to key IPC. In addition to this, other forms of data retrieval are being developed.

There was a time when the examination period exceeded five years but the deferred examination system, in effect since 1971, combined with the administrative measures mentioned above has meant that this period has been shortened recently to about two and a half years. We intend to take steps to improve both the quantitative and qualitative processing of applications so as to further perfect our examining procedures.

On the other hand, it has been a matter of regret that in the two years that have elapsed since the Patent Cooperation Treaty (PCT) went into effect, we have not had the volume of international patent applications that we had hoped for. However, it is anticipated that the number of applications for this year will exceed last year's figures.

As Director-General Shimada mentioned, it is evident from comparison to the total number of applications made in other countries, that we are not yet taking full advantage of this treaty. However, it is our hope that each one of you will strive to make effective use of the PCT system, based on a thorough understanding of its objectives. As the PCT system lays down a strict time schedule for international search and preliminary examinations, the Japan Patent Office has adopted a computerized time management system, and has also drawn up a handbook to the PCT, to assist their employees in applying the PCT procedures correctly. In addition the various guidelines issued by the international office have been translated into Japanese and have been distributed to those employees needing them. In this way, we are doing what we can to assure the smooth execution of PCT related duties.

As discussed previously at this conference, last year's figures for the number of patent applications made in connection with the invention of man-made micro-organisms show us that, of a total of 140 applications, about 12% were filed by non-Japanese, but with the coming into effect of the Budapest Convention, we can well expect this number to grow. Other measures that we are taking to spread information about, and to promote the utilization of Japanese Patents at the international level, include the publishing in English of abstracts of the Japanese Published Unexamined Patent Applications, which are then sent, free of charge, not only to PCT bodies responsible for international search, but also to the developing nations.

If, however, the patent system is to develop and to be of use to coming generations, it is absolutely vital that the countries of the world, despite their different economic and

social backgrounds, reach a consciousness of what they have in common, and that they cooperate with each other on the basis of mutual trust and understanding. The importance of so doing is brought out with special clarity by Commissioner Diamond's summary of the course of debate on the Paris Convention, presented at the opening of this Congress.

Given this background, it is extremely significant that the United States and Japan, both of whom have particularly weighty responsibilities vis-à-vis the world patent system, are discussing and investigating patent problems together in an effort to arrive at common understanding. This has significance not just for our two countries, but also for the world as a whole, and the truly immense role that your association plays in this process cannot be underestimated. It is my firm belief that the presence of Commissioner Diamond at this Congress, despite his heavy schedule and the enormous distances involved, has contributed greatly to mutual understanding between Japan and the United States, and I would like to express my deeply felt gratitude to him.

I would also like to thank all of those, both Japanese and American, whose extraordinary efforts in the planning and organization of this Congress have brought it to a successful conclusion. Finally, allow me to end my remarks by wishing your association continued growth and success.

Cherishing the memory of the late Mr. John Shipman

Shozo Saotome

When I received a telephone call from Mr. Ono of IBM Japan in last June to the effect that Mr. & Mrs. John Shipman had passed away on their way back to New York from their villa a week ago, I couldn't believe it at all.

I used to see him nearly every year in addition to at PIPA Conference. Moreover, it was not relationship on a mere business. It was always an exchange of completely private and heartwarming friendship. For me, the United States is a country where I have the most numerous close friends among foreign countries. I think this fact is owing to him, because I have been attracted by his personality, and subsequently talked about the United States and knew the United States.

Mr. Shipman whom I loved so much does not exist any more. He suddenly vanished from our sight with his beloved wife on one day. What happened on earth? What can I believe? It is said that a fact is always cold. Why did God add the adjective 'shocking' to this cold fact?

The first time I met with Mr. Shipman was in the spring of 1969. I remember that Mr. Ono with IBM Japan, Mr. Kalikow with GE, and Mr. Enlow with Xerox at that time were with us. These men in the United States proposed us to establish an international organization consisting of members of industrial world in the United States and Japan in order to make an opportunity for the industrial world of both countries to speak about international problems which recently occur often, especially about PCT which is expected to be enforced in the near future. I immediately understood its necessity and remember I said that, "If we establish such kind of organization, why don't we make it a place where wide range of bilateral problems can be discussed and understood deeply, not restricted only to

discussion regarding PCT? From my experience, I learned that when Americans and Japanese talk each other, misunderstanding often occurs even if both sides talked as honestly as possible, because of the ignorance of situations, backgrounds, and the way of thinking of the other's part. I would like to make this organization a bridge between two countries in order to minimize such kind of misunderstanding, and deepen the understanding furthermore through patent problems." Mr. Shipman answered that, "This is what we wish, too. We agree with you perfectly with pleasure." In this way, this association was established under the completely coincident effect from the very beginning.

His subsequent activities are known well. He took an active part as the 1st representative of American group in the first year, and as President of American group in the second year. After that, he participated in all the annual meetings and contributed to the maintenance and development of the association both directly and indirectly.

I have endless reminiscence about him. His tender, warm and unconstrained face had large-heartedness which embraces and harmonizes everything. Moreover, his speech and conducts always conveyed existence of philosophy based on truth.

The perfect command and arrangements which he showed at the 2nd general conference held in Washington D.C. gave me a strong impression. I think that start of steady progress of PIPA owed to the success of this conference.

It seems that he loved Japanese nature and customs very much. In particular, he was strongly attracted by good and old things which remain even at present through waves of long history. After the conference in Williamsberg, I visited several 'Plantations', invited by the late Mr. & Mrs. Shipman. I feel as if it happened just recently that we talked about beauty

left in the history of ancestors.

When he visited Japan in September of the last year, we talked about the history of 10 years of PIPA. Coincidentally, completion of ten-year story which he wrote became a kind of conclusion of his life. For me too, these 10 years were the most meaningful and important. But, time is always going on, and never stops. For the improvement and progress of the worldwide patent system and the system of technology transfer, PIPA will continuously develop as a powerful matrix, succeeded by a new generation.

Mr. Shipman, I would like rather call you "John" here. Many achievements made by you in the PIPA not only work as a bridge between the United States and Japan, but also will continuously live in the progress of the industrial property system as a whole. Your warm face has left pleasant impression to many people, and for those people it is unforgettable memory.

Men cannot live forever. We will also pass away sooner or later. I hope you sleep peacefully in Heaven, and watch our development of the next ten years in a corner of Heaven.

John, good-bye.

CLOSING REMARKS BY PAULINE NEWMAN

October 24, 1980

Thank you Mr. Matsuie for your very interesting remarks. We from the United States Group, and all of us, have benefited from your thoughts. We share your hopes and expectations for a wiser world, and I hope that we and our government may be able to contribute to achieving it. The world's problems won't be solved without technology, the spread and transfer of useful technology. We know of no better - we know of no other - way of achieving this as efficiently as through the patent system.

We have reached the end of another Congress.

May I express on behalf of the American Group our appreciation to our hosts, to President Ono and the officers of the Japanese Group, to those who planned and presented these excellent reports, and to all who handled the superb arrangements.

Our mutual interests in technological development and in the patent system have led us to ever stronger bonds of friendship and cooperation. We look forward to continuing and extending these ties, and to meeting all of you again at the 1981 Congress.

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REVISED

SIGNIFICANT RECENT DEVELOPMENTS IN U.S. INTERFERENCE LAW AND PRACTICE

PIPA ELEVENTH INTERNATIONAL CONGRESS

OCTOBER 22-24, 1980

TOKYO, JAPAN

COMMITTEE 1 U.S. GROUP

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I. Introduction

Many fairly signficant developments in U.S. interference law and practice in both substantive and procedural areas have indeed taken place recently. Only a few of the most significant ones can be treated here. In fact, only three areas have been singled out as most noteworthy. They pertain to

1) corroboration requirements regarding reduction to practice,

2) suppression or concealment based on mere filing delays and,

3) the issue of what other agreements in addition to interference settlements need be filed with the Patent and Trademark Office (PTO).

Three cases in particular represent significant departures or turning points in these areas. They are Berges v. Gottstein, Shindelar v. Holdeman and U.S. v. FMC.

Where my discussion appears applicable only or mostly to U.S. inventors and attorneys, I believe it may be of interest to our Japanese friends nonetheless because in interferences they can judge better whether their U.S. opponents have a better or poorer case than expected in light of past interference law and practice and, conversely, whether Japanese parties have a poorer or better case than they thought they had.

In this connection let me point out that Japanese inventors were in 1979 again in first place among foreigners in obtaining U.S. patents. Residents of Japan obtained more than 10%.[1]

II. Reduction to Practice and Corroboration

In interference practice proving prior reduction to practice of the invention is everything.[2] A party first to reduce to practice wins unless:

a) his opponent first conceived the invention and was diligent in the critical period;

b) he abandoned, suppressed or concealed his invention;

c) he derived the invention from his opponent;

d) he committed fraud on the PTO.

A few years ago Mr. W. Modance, then Chairman of the Board of Interferences told me - probably only half seriously - that the Board invariably grants a conception date on the flimsiest of evidence but never grants a reduction-to-practice date on the best of evidence. And in fact, decisions coming down from the Board of Interferences over many years have generally and consistently born this out. The latest examples of the Board's overly stringent standards appear to be Coffman et al. v. Ellis, 205 USPQ 773, and Bindra v. Kelly, 206 USPQ 570, where the Board found inadequacies in the proof of corroboration and utility and hence no reduction to practice.

It is therefore not too surprising that the Court of Customs and Patent Appeals (CCPA) has often reversed the Board in the past decade applying a "rule of reason" more and more liberally.

In developing and refining this "rule of reason" approach, the CCPA started out slowly with Anderson et al. v. Pieper et al, 169 USPQ 788 (1971), gained momentum with several decisions in the middle of the decade [e.g., Blicharz v. Hayes, 181 USPQ 712 (1974); Grasselli v. Dewing, 189 USPQ 637 (1976); Mikus v. Wachtel, 191 USPQ 571 (1976)], and reached a crescendo this year with Berges v. Gottstein et al., 205 USPQ 691 and Nelson v. Bowler et al., 206 USPQ 881.

According to Berges v. Gottstein, supra, the corroboration rule does not require witnessing the reduction to practice. In this case the CCPA held that "viewed as a whole, the evidence unquestionably corroborates Berges' assertion of an actual reduction to practice." The Board had found the inventor's own testimony of his laboratory preparation of a cephalosporin compound to be insufficiently corroborated, considering the evidence presented as corroboration as "bottomed on heresay." Even though an unwitnessed notebook was involved the Court concluded that

> "Together, the facts set forth . . . trace a highly organized procedure routinely practiced within SK&F for identifying, preserving and testing newly synthesized compounds developed by the cephalosporin research team." (Id. at 694)

The court also commented on the

> "the absence of contradiction and internal conflict in the present assemblage of evidence (which) inexorably strengthens the case made by appellant for independent corroboration of the inventor's testimony." (Id. at 694)

Finally, the Court stated that

> "Corroborative testimony does not necessarily have to be an actual witnessing of the reduction to practice by one who understands what is going on in order to be adequate. Sufficient circumstantial evidence of an independent nature can satisfy the corroboration rule." (Id. at 695)

It looks like the CCPA is now coming around to accepting the shop book rule of evidence which they previously steadfastly rejected. In spite of this kind of liberal application of the "rule of reason" and apparent acceptance of the shop-book rule, record keeping should be reviewed and tightened.

In Nelson v. Bowler, supra, a Board decision was reversed because the Board "erred in not recognizing that tests evidencing pharmacological activity may manifest a practical utility even though they may not establish a specific therapeutic use."

Another very noteworthy recent decision in the interference field is of course Standard Oil Co., v. Montedison, 206 USPQ 767 (DCD Del., 1980). This decision grew out of the interference on solid crystalline polypropylene which started in 1958 and which involves four companies, i.e., Du Pont, Phillips Petroleum, Standard Oil and Montedison. The Board of Patent Interferences' award of priority to Montedison was reversed and priority went to Phillips primarily because of fraud on the PTO committed by Montedison. But the Court noted that Phillips would have prevailed anyway because it proved convincingly an earlier reduction to practice. This case has been appealed. The decision does not break new ground or make new law but it is truly monumental nonetheless and a veritable primer on interference law.

III. Abandonment, Suppression or Concealment

Notwithstanding proof that the junior party had actually reduced the invention to practice prior to the senior party's earliest date, the CCPA last month affirmed the PTO Interference Board's holding that the junior party had suppressed or concealed the invention within the meaning of 35 USC 102(g)[3] and thus lost the right to a patent against the senior party. Shindelar v. Holdeman, 207 USPQ 112.

The suppression or concealment involved a two and one-half year delay between the junior party's reduction to practice and the junior party's filing date. The facts surrounding the two and one-half year delay which were held to constitute suppression or concealment include:

(a) At about the time of the actual reduction to practice, the inventor forwarded a patent disclosure to the patent attorney in the assignee's patent department responsible for preparing the junior party's application.

(b) On receipt of the patent disclosure that patent attorney docketed the patent disclosure.

(c) Generally the patent attorney took cases up for preparation in the order of receipt except where potential statutory bars required early filing.

(d) On one occasion after receipt of the invention disclosure, the patent attorney discussed the case with the inventor.

(e) One year after the patent attorney's receipt of the subject invention disclosure, a prior art patent search was conducted in the assignee's patent library and reported to the patent attorney within the month.

(f) About one and one-half years after the prior art search (two and one-half years after the invention disclosure), the junior party's application was filed.

(g) During the two and one-half years' interim, the patent attorney was involved in his prosecution docket and in several litigation matters which required a considerable amount of time away from his prosecution docket.

(h) During the two and one-half year delay, there were no patent or commercial activites known to the junior party or his patent attorney to spur them to proceed to prepare and to file the application.

(i) While there was intent to file the application, the application filing was delayed by the patent attorney's workload

The Court held that the two and one-half year delay was unreasonable and while the Court reiterated that each case stands on its own particular set of facts, it "ruled" that

> "...one month would be ample to draft the application. Another month could be ample for a draftsman to prepare the drawings. To be generous, perhaps another month could be allowed to have the application placed in final form, executed... and filed with the PTO. Thus a period of three months could possibly be excused... However, more than two years of the delay period remains unaccounted for." (Id. at 113)

The delay was unreasonable because the Court could find no excuses for the delay, stating:

> "The patent attorney's workload will not preclude a holding of an unreasonable delay. Nor will the showing of intent to file - someday - negative a holding of suppression." ...
>
> "Additionally, the showing of absence of spurring ... does not negative a holding of suppression nor excuse the delay." (Id. at 113)

This decision is most disquieting, to say the least. Who can fathom the implications of this case? There is first of all the unrealistic view that more than a three-month period (perhaps only two months in chemical cases!?!) between receipt of an invention disclosure and filing of an application constitutes unreasonable delay. Then there is the distortion of the first sentence of Section 102(g) from a requirement for positive action by an applicant to an "interference" resulting from an absence of action. But the greatest potential harm may result from this consideration: In an interference situation where the Senior Party has a conception date prior to that of the Junior Party and no actual reduction to practice date prior to that of the latter, the Senior Party can avoid the obligation of proving diligence, as explicitly required by the second sentence of 35 U.S.C. 102(g),[4] by choosing to rely on his prior filing date as the date of invention. Although, the Senior Party may prevail in the interference, the validity of the resulting patent would seem to be subject to attack for lack of diligence or other Section 102 grounds. Thus the patent system will have failed as an incentive to the "first-in-time" inventor as well as the "first-to-file" inventor.

IV. Interference Settlement Agreements

It is well established and clear from the literal reading of the relevant statutory provision, Section 135(c),[5] that interference settlement agreements per se have to be filed with the PTO. But what other kinds of agreements, what "collateral" agreements, have to be filed likewise is the "sixty-thousand-dollar" question.

Even though a license agreement does not contain any specific provision for the termination of an interference, it may nevertheless constitute an "agreement" within the purview of Section 135(c) as was held in Old Dominion Box Co. v. Continental Can Co., 155 USPQ 70 (SDNY 1967), affirmed on other grounds 157 USPQ 353 (2nd Cir. 1968). Supplemental agreements that alter the terms of the original agreement must be filed, particularly where the oral understanding to enter into a supplemental agreement was reached as a condition precedent to termination of the interference as per Moog Inc. v. Pegasus Laboratories Inc., 183 USPQ 225 (ED MI, 1974), affirmed 187 USPQ 279 (6th Cir. 1975). In these two cases, the patents were held unenforceable because of non-compliance with Section 135(c).

An agreement, such as a cross-license agreement, is within the ambit of Section 135(c) if it has the effect of removing the adversary character of an interference proceeding and it is immaterial whether the interference is terminated by a concession of priority or by a decision of the PTO Board of Patent Interferences. This is clear from Forbro Design Corp. v. Raytheon Co., 190 USPQ 70 (D MA 1975), affirmed on other grounds

190 USPQ 49 (1st Cir. 1976). Here the court indicated that only the claims involved in the interference are rendered unenforceable by reason of a failure to comply with Section 135(c), even though this Section speaks in terms of a "patent" being unenforceable.

In Omark Industries Inc. v. Carlton Co., 201 USPQ 825 (D Ore 1978) an interference was settled by the purchase of the interfering patent and the agreement to assign the patent was not filed with the PTO. However, what was filed was the assignment of the patent as such. The court held that

> "... plaintiff complied with the statute by filing a copy of the assignment with the Patent Office. In this case, the assignment disclosed everything that was relevant."
>
> "There is no merit to defendants' contention that plaintiff, in addition to the assignment, was required to file the agreement to make the assignment." (Id. at 828)

A claim that a license agreement between PPG, Research Corporation and Corning should have been filed with the PTO was rejected in PPG Industries Inc. v. Bausch and Lomb Inc. Section 135(c) was held not applicable because only agreements between parties to an interference must be filed and PPG which was a party to the agreement was not a party to the interference. The court stated:

> "The statute requires only the filing of agreements made in settlement of interferences or those which totally destroy the incentives of the parties to the interference to litigate in an adverse manner. The license agreement in question here did not terminate or otherwise decide the interference, and Research Corporation, the only party to the license agreement who was also a party to the interference retained the same strong incentives to litigate after the license agreement that it had before that agreement. Research Corporation's financial incentives to win the interference were greater after the license agreement than they had before it." (Id. at 919)

The most significant - and disturbing - recent development by far in this area is the civil suit brought by the Justice Department against FMC in the U.S. District Court in Philadelphia this past April, the court being asked to hold that Section 135(c) was violated and that the patent at bar is unenforceable. (U.S. v. FMC Corp., No. 80-1570, April 23, 1980). This case could be a real object lesson.

In this case an interference settlement agreement, concluded with Bayer A.G. relative to the pesticide carbofuran, was filed with the PTO. However, other agreements and understandings were reached between FMC and Bayer or Chemagro which were not filed, such as a trademark licensing agreement, a production and pricing agreement, a Canadian conflict settlement agreement and a cross-licensing agreement regarding patent rights in Mexico and Central and South America.

The existence of several concurrent agreements and understandings along with an amicable interference termination is not an unusual situation and the filing of only the U.S. interference settlement agreement with the PTO may also be rather normal procedure. Indeed, Sec. 135(c) in terms covers only such collateral agreements as are "referred to" in any agreement or understanding between interference parties.

In this context let it be mentioned that the PTO furnishes to various government agencies including the Department of Justice and the Federal Trade Commission lists of interferences in which settlement agreements have been filed and kept separate from the interference files. Section 135(c) does provide that if "any party filing the same so requests the (agreement) shall be kept separate from the file of the interference and made available only to Government agencies on written request, or to any person on a showing of good cause." The Board of Patent Interferences serves as the depository for agreements kept separate from the interference files. These agreements are not examined by the PTO and no general public notice of the filings is given by the PTO. It is understood that representatives from the above listed government agencies are periodically reviewing such agreements but that no such agreements have ever been shown to any person other than an agency representative.

V. Conclusion

Speaking of significant recent developments, it should also be mentioned that the nonprofit Committee for Economic Development has recently concluded that one of the changes that is necessary in patent practice to enhance the innovation climate is to eliminate patent interference proceedings and adopt a first-to-file system coupled with a provision to grant a prior inventor an *in personam* right to use the invention.[6] Harry Manbeck of General Electric testified to that effect in Congress in May on behalf of the CED.

In my view our first-to-invent principle has degenerated into a monstrous atavistic interference practice. As one who is handling or supervising almost 50 interferences (a three-fold increase from 3 years ago) I am painfully aware that something has gone awry in interference practice. If a switch to a first-to-file system was not possible on constitutional grounds, I submit the situation could be improved or righted by this approach: no interference between pending applications; the PTO invariably issues the senior party's patent even if the filing date difference is but a day; the junior party then has to provoke the interference, it he can, either in the PTO as now or, perhaps, only in courts resulting in a proceeding akin to that described in 35 USC 291 (civil action between two interfering patentees).

In this regard it may be of interest that the American Patent Law Association (APLA) has just formed a new Special Interference Committee to fundamentally study our interference system in general and to try to remedy some specific problem areas. The need for this is manifest. As Joe De Grandi from Washington, echoing many others, stated it so well in a recent letter to me:

> "The need for such a committee is even more evident today. Based on recent experiences in our office, the Board of Patent Interferences is apparently not following the rules or the MPEP in certain matters before them, thus making it difficult to advise clients regarding procedures to be followed in interferences." ...
>
> "I believe it imperative to ... create (such a committee) so that we have a forum through which we can communicate with the PTO and the Board."

Hopefully, positive results will be forthcoming from this APLA effort.

FOOTNOTES

1) In 1979, the Japanese led with 5,289, followed by West Germany with 4,473,
United Kingdom with 1,904
France with 1,537 and
Canada with 987.

Total number of U.S. Patents issued; 52,102 (18,978 - 36.4% - to foreigners).

In the ten preceding years, in which the Japanese moved from third place to second to first, the breakdown was as follows:

1978

Total number of U.S. patents issued:	70,150	
To foreigners:	26,000	(37%)
To Japanese:	7,170	(10.2%)
To West Germans:	6,005	
To British:	2,876	
To French:	2,171	
To Swiss:	1,363	

1977

Total number:	69,371	
To foreigners:	24,785	(35.7%)
To Japanese:	6,448	(9.3%)
To West Germans:	5,654	
To British:	2,749	
To French:	2,179	
To Swiss:	1,397	

1976

Total number:	74,976	
To foreigners:	27,024	(36%)
To Japanese:	6,780	(9%)
To West Germans:	6,320	
To British:	3,098	
To French:	2,519	
To Swiss:	1,500	

1975

Total number:	76,426	
To foreigners:	26,271	(34.4%)
To Japanese:	6,574	(8.6%)
To West Germans:	6,171	
To British:	3,158	
To French:	2,436	
To Swiss:	1,473	

1974

Total number:	80,839	
To foreigner:	26,514	(32.7%)
To West Germans:	6,243	
To Japanese:	6,116	(7.6%)
To British:	3,273	
To French	2,626	
To Swiss:	1,484	

1973

Total number:	78,304	
To foreigners:	23,344	(29.8%)
To West Germans:	5,661	
To Japanese:	5,157	(6.6%)
To British:	2,931	
To French:	2,189	
To Canadians	1,447	

1972

Total number:	77,908	
To foreingers:	23,815	(30.6%)
To West Germans	5,797	
To Japanese:	5,301	(6.8%)
To British:	3,229	
To French:	2,269	
To Swiss:	1,326	

1971

Total number:	81,543	
To foreigners:	22,850	(28%)
To West Germans:	5,586	
To Japanese:	4,154	(5.1%)
To British	3,533	
To French:	2,251	
To Canadians:	1,413	

1970

Total number:	67,693	
To foreigners:	17,872	(26.4%)
To West Germans:	4,496	
To British:	3,063	
To Japanese:	2,720	(4%)
To French:	1,771	
To Canadians:	1,151	

2) 35 USC 102(g) provides the statutory underpinning for interference practice. Section 102(g) reads:

> "A person shall be entitled to a patent unless - .....
>
> (g) before the applicant's invention thereof the invention was made in this country by another who had not abandonded, suppressed, or concealed it. In determining priority of invention there shall be considered not only the respective dates of conception and reduction to practice of the invention, but also the reasonable diligence of one who was first to conceive and last to reduce to practice, from a time prior to conception by the other.

3) See footnote 2.

4) See footnote 2.

5) 35 USC 135(c) provides in pertinent part:

> Any agreement or understanding between parties to an interference, including any collateral agreements referred to therein, made in connection with or in contemplation of the termination of the interference, shall be in writing and a true copy thereof filed in the Patent and Trademark Office before the termination of the interference as between the said parties to the agreement or understanding.
>
> . . . . .
>
> Failure to file the copy of such agreement or understanding shall render permanently unenforceable such agreement or understanding and any patent of such parties involved in the interference or any patent subsequently issued on any application of such parties so involved.
>
> . . . . .

Section 135(c) was passed in 1962 in order to reduce or eliminate incorporation of restrictive provisions in interference settlement agreements and help prevent the use of such agreements as a means of violating the antitrust laws. "Interference proceedings may be terminated in a manner hostile to the public interest by using patent interference settlement agreements as a means of restricting competition." Senate Report No. 2169, U.S. Code Cong. and Admin. News, 87th Cong., 2nd Sess., p. 3286 (1962).

6) In greater detail, the CED report states:

"When two or more applicants seek a patent for substantially the same invention, the U.S. patent system provides for interference, a procedure to determine who first made the invention. That party will be entitled to the patent to the exclusion of those who invented later. The interference starts out as a quasi-judicial proceeding in the Patent and Trademark Office (PTO) and occasionally reaches the federal courts as full-scale litigation.

Patent interferences are highly technical proceedings and are of questionable efficacy in determining the first inventor. Much time is spent providing what happened before the filing dates, trying to prove that the inventor was incorrectly named, did not really have the invention in hand, failed to discharge various obligations, and so on. In a significant majority of interferences, the patent is eventually awarded to the first to file. (According to a survey by a major corporation, although approximately 110,000 U.S. patent applications are filed each year, only 75 to 80 interference procedures produce a result different from the first-to-file system.)

The United States and Canada are unique among all the industrial countries of the world in utilizing the interference approach. European countries have always considered that a patent should go to the first party to file an application. The new European patent system, which all European Economic Community countries have now adopted, provides a personal defense to the individual who can show he was actually the first to invent and took steps toward use. (Participants in this system include the United Kingdom, France, West Germany, and Holland.)

Because the purpose of the patent system is to encourage disclosure to the public, the party who is first to file should be rewarded. Adoption of a first-to-file system would eliminate patent interference proceedings, simplify patent litigation, make patent validity more certain, and serve the interests of the inventor and the public in a more efficient manner. Most objections to the system could be answered by provision to grant a prior inventor a personal right to use the invention. Such a right would be contingent on not having abandoned the invention and should require proof of steps taken toward commercialization."

"Stimulating Technological Progress" - A Statement by the Research and Policy Committee of the Committee of Economic Development January 1980, p. 53.

Protection of configuration of goods in Japan

-- from the viewpoint of unfair competition --

Committee No. 1

Japanese Group

Goji Tasaki

Abstracts

The configuration itself has not originally the function to identify the sources of goods. However, when the configuration has the singurarity, or is advertized in the whole country, it sometimes comes to have that function. In such a case, can the configuration be protected by Unfair Competition Prevention Law?
In other words, does the configuration of goods falls upon "the indication to identify the goods of others" of that Law Art 1 (1) No. 1. Judicial precedents and theories affirm, but concretely, there are few successful cases. Concerning 16 judicial precedents, we would like to study requirements to be protected and some problems about them.

1. Introduction

In recent years, in Japan, a dispute on the unfair competition has been increasing more and more. As one of the disputes, there is a issue concerning the configuration of goods. The configuration itself is usually protected by the industrial property. However, in case of lack of the protection by industrial property, there happens a typical problem whether the exact imitation of the configuration can be excluded under Unfair Competition Prevention Law. As apparent from the fact that a trademark is called "the face of goods" or "salesman saying no words", the basic function of a trademark is to guarantee to consumers that the product has the same origin. On the contrary, the function of the configuration of goods is not to identify source originally, but to enhance the function and beauties of goods. However, when goods have the characteristic form or are advertized in a whole country, they come to have the power of distinguishing one's goods from those of others, when the configuration of goods itself has the function as "the face of goods".

In this case, how is the configuration protected? There are only a few judicial precedents about the configuration of goods which admitted injunction under Unfair Competition Prevention Law. What is the reason of this? What is the point of a suit? What requisites are needed and what points should we attend to? We would like to study these points from the viewpoint of an unfair competition.

2. The protection by law except Unfair Competition Prevention Law

The protection by laws except Unfair Competition Prevention Law is as follows.

Since the purposes of the laws undermentioned are different from those of Unfair Competition Prevention Law, goods are protected by both these laws and Unfair Competition Prevention Law.

i) Trademark Law

Since the subject of Trademark Law in Japan is only two-dimentional mark, the configuration including a container and a package etc. cannot be registered as three-dimensional mark. It is possible to register as a development. However, such registration will have very definite effect to protect the configuration of goods.

As mentioned above, seeing from the viewpoint of the protection of configuration of goods, Trademark Law in Japan is nearly powerless comparing laws of U.S.A. and West Germany. Of course, it would be surely rejected even if someone would try to file an application of the well-known configuration as two-dimensional mark.

ii) Patent Law, Utility Model Law and Design Law

When configuration of goods satisfies the requirements for registration in each law, there is no possibility that it would not be registered. For example, if a design is created, it

would be better for it to be registered under Design Law. As a case which was requested for injunction under Utility Model Law at the same time, "Balance for Cast Fishing" case is undermentioned. "Block Toy" case (Osaka District Court, May 13, 1968), which was granted injunction under Utility Model Right because of an "uncomplete use", would be also granted, if an action were asked by the owner of the right whose products was well-known, under Unfair Competition Prevention Law.

> "..... the product of the defendant was substantially the same as the product manufactured as an embodiment of the utility model in its size, color etc., except the center partition walls. Thus, the defendant's product should be regarded easily as imitation of said product."

iii) Copyright Law

The problem here is whether applied arts, for example, industrial design, are contained in works. By Copyright Law in Japan, it is established not to contain industrial design in works. Industrial design is protected by Design Law, but the border becomes problem. Furthermore, how about the character products? For example, when someone makes a character of Comic (e.x. Popeye) three-dimensional products such as a doll, is Copyright law applied? In this case, so long as comics are considered to be one kind of works of arts, they are copies of comic, and

therefore, it is proper to think that the character product are protected by Copyright Law.

iv) Civil Code

Some cases are admitted remedies for the infringement by the illegal act (Art.709). In the undermentioned "Wireless Microphone" case, as the secondary request, a claim for damages under illegal act was made. The fact of this case is that the plaintiff insisted that business activities were infringed by the act beyond the fair range of free competition. However, this insistence was rejected because there was no reasons for insisting this point.

v) Other Laws

a) There are some laws about import and export, for example, Customs Tariff Law, Export and Import Trade Law, but they are effective only when goods acquire the Industrial Property.

b) Furthermore, in some cases, under Criminal Code injury of one's credit or interference of one's business are applied to the imitation of configuration of goods.

3. The protection by Unfair Competition Prevention Law

1) We would like to study the protection by Unfair Competition Prevention Law here.

Unfair Competition Prevention Law, Article 1 (1) No. 1 provides that the acts which happen confusion between one's goods and the other's by using the same or similar kinds of indications as the well-known indications such as the name, trademark, container, or package of goods or others which characterize someone's goods, are subject to injunction.

Article 1 (1) No. 1
"An act of using an indication identical with or similar to the name, trademark, container or package of goods or other indication to indentify the goods of other person, well known in the territory where this Law is in force or of selling distributing or exporting goods bearing such indication and thereby causing confusion with the goods of that person."

Is the configuration of goods contained in "indication to identify the goods of other person"? Theory and leading cases say "yes" because of the following reasons; it is properly free to manufacture the products which are not protected by Industrial Property, however, when the configuration comes to have the function to distinct it from others (that is, it comes to have "the secondary meaning"), to obtain a "free-ride" of business reputation on the configuration must not be admitted.

2) As indicated in the attached paper, there are 16 judgements given after 1955 about the configurations of goods including those about color, package and container of goods. Though judicial precedents recognize as general remarks that the configuration or color of goods comes under the indication, most of cases were rejected because of the following two reasons; one is that the configuration of goods is derived from a technical function, and the other is that it is not well-known.

For example, "Fablicated Closet" case and "Accounting Slip" case were rejected for the former reason, and "Wireless microphone" case and "Handback" case for the latter reason.

"When the configuration of goods is necessarily derived from the technical function, it cannot be protected by Unfair Competition Prevention Law exceptionally. The reason is as follows. If the configuration is protected by that Law in such a case, it becomes to be obliged to admit that the technique itself, which has given goods the configuration, is possessed exclusively as a sort of eternal right. This is unreasonable, because the purpose to limit the duration of patent or utility model right becomes ineffective." ("Accounting Slip" case)

"To prove that the configuration of goods has come to be well-known as indications of sources of goods, ... in addition to the fact that the configuration is used for a certain time, ... it must be used exclusively, and it must be well-known among dealers and users ....." ("Wireless microphone" case)

"Considering mode or amounts of sales of plaintiff's product, etc., it is doubtful whether the configuration has been well-known to customers ..... further, as the similar kinds of plaintiff's products come into the market, the singurality of the product of plaintiff has been extinguished."

("Handbag" case)

On the other hand, there are three admitted cases. One case is about a packing receptacle with color, and the others are about the configuration itself. The facts of these cases and the reasons of these judgements are described in the following,

i) "Spectacle Frame" case

The plaintiff was a firm in France producing spectacle frames which was well known all over the world. Plaintiff exported frames called "NYLOR" to Japan and sold them in Japan. "NYLOR" had come to be famous in Japan.

The defendant was a dealer in spectacle frames, who produced and sold almost the same frames as "NYLOR". The plaintiff requested an injunction under Unfair Competition Prevention Law Article 1 (1) and a claim for damage under Article 1 bis insisting that the business interests of plaintiff was impaired by the defendant because defendant's manufacturing and selling acts caused confusion to dealers and customers.

The judge admitted the request from the plaintiff for the reason that the configuration of goods came under "the indication", and that the configuration of "NYLOR" itself was well-known.

This was the first successful case about the configuration of goods under this Law. The reasons for the Judgement are as follows.

a) Whether the configuration is fallen under "the indication" or not.

"Since the configuration of goods was originally formed in order to demonstrate the function which the goods aim, the selection of the configuration was naturally restricted by the aim. However, ... some goods got the singularity of the configuration even in said restricted range. In addition, advertisement contributed for the configuration itself to have the function of identifying source. In such a case, it is obvious that the configuration itself is to be considered to fall under 'the indication to identify the goods of other person'."

b) Whether plaintiff's products are fallen under or not.

"The spectacle frame made from nylon yarn has been manufactured before the plaintiff produced it, but the number was very few and the whole configuration, the weight and the touch of that frame were different from those of "NYLOR". So, the singularity of "NYLOR" was not injured. By means of the advertisement and the selling quantities of the export

in addition to the singularity, including "with nylon cushion", of the configuration, the configuration of "NYLOR" has come to be well-known ..... all over Japan in 1971 at latest ..... The configuration of "NYLOR" itself should be regarded to fall under "the indication to identify the goods of other person" which is provided in Unfair Competition Prevention Law Article 1 (1) No. 1."

ii) "Balance for Cast Fishing" case

This is a case which an action based on utility model right is combined with another action based on utility model right and Unfair Competition Prevention Law. The decision permitted plaintiff's claim under Unfair Competition Prevention Law concerning configuration of goods -- the second successful case.

The decision permits injunction, claim for damages and printed apology on newspapers;

"....., there are cases that configuration of goods itself comes to have the secondary function of indication through business, and in such cases, so far as said configuration is not a necessary and inevitable result of technical functions of goods in the light of purpose of the Law, it should be understood that configuration of goods comes under "other indication to identify the goods of other person" provided in Unfair Competition Prevention Law, Art. 1 (1) No. 1"

Moreover, concerning "well-known", the judge affirmed that the same or similar kinds of balance for fishing as the plaintiff's in configuration had never sold, and that the configuration was not considered to be an unavoidable result of technical function of balance for fishing, and it was formed originally for this balance for fishing.

Furthermore, it was recognized that, through not only the uniqueness of shape but also sales mode, sales amounts and advertisements, etc., the configuration in question has come to be well-known to fishing-tackle wholesaler and retailer in a whole country as an indication to identify plaintiff's products from others in 1970 at latest.

iii) "Round Can for Packing Spice" Case

In this case, for the reason that the color combinations and the design of the can for packing spice was well-known as an indication to identify plaintiff's products, plaintiff's action was successful.

The character of the design of can was the color combination. The underlying tone of the upper part was white silver and the lower half was royal purple. Defendant's products, on the other hand, are almost the same as plaintiff's products, except expression of letters.

3) As mentioned above, with respect to protection of the configuration of goods under Unfair Competition Prevention Law, judicial precedents require that the configuration has the power of discernment, and that it is well-known and is not the result of technical functions.

Here, a few points should be mentioned as to the term "well-known".

First, it is not necessary that the configuration is well-known in a whole country. If it is famous in a certain district, the configuration can be said "well-known".

Secondly, whether the configuration is well-known or not depends on whether it gets credit on goods or not. A standard of judgement is different according to the character of goods, etc.

4) Then, we would like to study the sort of remedies for unfair competition acts.

a) First, civil remedies are as follows:

i) Injunction [Art. 1 (1)]

Persons whose business interests are likely to be impaired can request the remedy of injunction without proving the intent or negligence of the defendant.

ii) Claim for damages [Art. 1 bis (1)&(2)]

Persons whose business interests have been impaired can claim for damages provided that intent or negligence of the defendant

is proved.
The amount of damages is presumed to be equivalent to the amount gained by an infringer through infringement.
(Trademark Law, Art. 38 is analogically applied.
cf: "Spectacle Frame" Case and "Balance for Cast Fishing" Case)

iii) Claim for restortion of impaired business reputation [Art. 1 bis (3)]

A good example is a public apology carried in the newspaper.

iv) Claim for additional marking to prevent confusion falling under [Art. 2 (2)]

b) As criminal penalty, imprisonment at forced labor for the term less than three years or fines up to 200,000 yen is stipulated (Art. 5). But this article can be applied only when the defendant has the intention of the unfair competition.
Moreover, when a representative or employee of a person or corporation is punished under this provision, the person or corporation is also to be fined under Art. 5 bis.

4. A Few Problems About Protection Under Unfair Competition Prevention Law

1) "Well-known"

As mentioned above, "To be well-known" is one of the requirements for the configuration to be protected under this Law.
Therefore, even if slavish imitation is made, protection under this Law cannot be given, so long as this requirement is not satisfied.
However, considering that every act contray commercial good faith should be excluded as unfair competition, whether the configuration is well-known or not will not be the question.
However, present Unfair Competition Prevention Law does not participate in the cases that do not fulfill this requisite. There is a possibility for these cases to be protected by Civil Code based on illegal acts or Copyright Law only when each case meets the requirements to apply these laws.

2) "Technical Function"

As already mentioned, judicial precedents say that, when configuration of goods is considered to be a result of technical function, it is not regarded as "Indication".
However, in my opinion, the configuration of goods should be protected when it comes to have distinguishing function and also meets other requirements, even if said configuration is

considered to be a result of technical function. The balance between the protection of the Patent Law or the Utility Model Law and that of this Law is taken into account in the judicial precedents. The purpose of this Law is to maintain the fair order of transactions and protect the consumers, which is different from the purpose of the Industrial Property Law. Accordingly, I believe that judgements about protection under Unfair Competition Law should not be affected by existence of the indurial property.

Namely, the scope of the protection must be independently determined in the light of the purpose of protection for unfair competition. Whether the duration of patent right is expired or not, is not the question.

The above-mentioned would not be against the purpose of Industrial Property Law.

5. Conclusion

In what cases can the imitation of configuration of goods be extruded under Unfair Competition Prevention Law?

We have mainly studied the judicial precedents about that problem.

To move against the unfair competitions, it is necessary for us to grasp satisfactorily the requirements for the protection and some problems.

Further, if one leaves imitation by third parties alone for a long time, the distinction between the original and the imitation becomes obscure, and consequently, there happens a doubt that the configuration could not be protected under Unfair Competition Prevention Law. To such a point also, attention should be paid.

The present Law does not always exclude unfair competition satisfactorily, including cases of the imitation of configuration, and moreover, there are many ambiguous points in the practical affairs.

So, we would like to expect further progress of these problems in theory, judicial precedents and legislation.

Judicial Precedents

No.	Name of Case	Date of Decision, Judgement
1	"Toilet cleanser"	Tokyo District Court, Sep. 19, 1958 Tokyo High Court, May 23, 1963 Secondary issue of similarity of container for packing -- denied (Whether "Toilet Cleanser" was a trademark or not, was the main issue -- common name.)
2	"Fastprinter"	Osaka District Court, May 30, 1960 -- denied (not well-known)
3	"Jounalizing board for book-keeping"	Kobe District Court, Feb. 29, 1960 Osaka High Court, March 29, 1963 -- denied (not well-known) (not works in Copyright Law)
4	"Wireless microphone"	Tokyo District Court, Aug. 31, 1965 -- denied (not well-known)
5	"Orange roller"	Osaka District Court, June 29, 1966 Does Color (mono-color) itself fall under "Indication"? As general remarks affirmed. -- denied (not discriminative)
6	"Fablicated closet"	Tokyo District Court, Nov. 22, 1966 -- denied (a result of technical function)
7	"Spectacle frame (Nylor)"	Tokyo District Court, March 9, 1973 -- successful (the first case)
8	"Dolls"	Tokyo District Court, June 28, 1974 -- denied (not well-known as claimant's Indication)
9	"Chow mein"	Maebashi District Court, Nov. 13, 1975 -- denied (container: not well-known)

No.	Name of Case	Date of Decision, Judgement
10	"Kamen Rider"	Tokyo District Court, April 28, 1976 -- denied (not well-known as plaintiff's indication)
11	"Batten manufacturing machine"	Kanazawa District Court, July 15, 1977 -- denied (not well-known as claimant's indication)
12	"Accounting slip"	Tokyo District Court, Dec. 23, 1977 -- denied (a result of technical function)
13	"Handbag (Chanel)"	Tokyo District Court, May 31, 1978 -- denied (not well-known)
14	"Balance for cast fishing"	Tokyo District Court, Oct. 30, 1978 -- successful
15	"Round can for packing spice"	Osaka District Court, April 18, 1980 -- successful (color combination and designs of container)
16	"Mosquito stick fumigator"	Osaka District Court, May 20, 1980 -- denied (a result of technical function)

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SCIENCE FICTION COMES TO THE U.S. SUPREME COURT: MAN MADE LIVING MICROORGANISMS ARE PATENTABLE SUBJECT MATTER

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SCIENCE FICTION COMES TO THE U.S. SUPREME COURT: MAN-MADE LIVING MICROORGANISMS ARE PATENTABLE SUBJECT MATTER

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ABSTRACT

Live, human-made microorganisms are patentable subject matter under 35 U.S.C. 101 of the United States patent law. The U.S. Supreme Court is not persuaded by the arguments that the enactment of the Plant Patent Acts precluded patenting living things and microorganisms cannot qualify as patentable subject matter until the U.S. Congress expressly authorizes such protection. The Court stated that the relevant distinction was not between living and inanimate things, but between products of nature, whether living or not, and human made inventions. A requirement of forseeability of inventions conflicts with the core concept of the patent law that anticipation undermines patentability. The U.S. Patent and Trademark Office has announced it will resume examination of applications claiming a microorganism. The permissible patenting of microorganisms is expected to provide further incentive to genetic engineering and research despite the caution expressed by some organizations.

SCIENCE FICTION COMES TO THE U.S. SUPREME COURT: MAN-MADE LIVING MICROORGANISMS ARE PATENTABLE SUBJECT MATTER

The creation of new life forms has long fascinated philosophers and religious leaders. However, in the twentieth century and particularly in the last decade, the creation of life forms has also become the subject of science fiction and research through the technical discipline known as genetic engineering. In the United States a third factor, patents, has now been added to the convergence of science fiction and genetic engineering. This is the result of a patent application filed on the invention made by Ananda Chakrabarty, a micro-biologist working at the Corporate Research & Development Center of the General Electric Company. In 1970 and 1971 Chakrabarty was investigating the possibility of improving the known crude oil degrading characteristics of certain bacteria. As a result of Dr. Chakrabarty's research efforts a new strain of bacteria was created which was able to degrade most of the various hydrocarbons that constitute crude oil. That same bacterium moreover, was able to pass the ability to degrade crude oil onto its descendants.

In contemplating the preparation and filing of the patent application, the General Electric patent

attorney recognized that the claims to the micororganism itself would probably be rejected because under the prevailing view,[1] such microorganisms were a product of nature or alive and therefore did not fall within any of the four permissible statutory classes of process, machine, manufacture or composition of matter. In addition, it was believed that the method of preparing the microorganism was going to be challenged by the Patent Office for the same reasons as the product.[2] Claims directed to the method of using the microorganism were also contemplated but no objection was anticipated for this type of claim. Two patent applications were filed in the United States on June 7, 1972. The first application contains claims to the method of preparing the bacterium, the bacterium per se alone or as an inoculum and the combination of the bacterium with a carrier. The second application is directed to a method claim for using a microbial degradation of a complex hydrocarbon source wherein a defined microorganism is brought into contact with the hydrocarbon source. Both applications

1. Dicta by Mr. Justice W.O. Douglas in Funk Brothers Seed Co. v. Kalo Inoculant Co., 333 U.S. 127, 130, 76 U.S.P.Q. 280, 281 (Sup. Ct. 1948); see also In re Mancy, 499 F.2d 1289, 1294, 182 U.S.P.Q. 303, 306 (C.C.P.A. 1974).

2. See Ex parte Arzberger, 155 U.S.P.Q. 286 (P.O. Bd. App. 1966). This case should not be confused with the much earlier case of the same name, In re Arzberger, 122 F.2d 834, 46 U.S.P.Q. 32 (C.C.P.A. 1940) which held claims to a microorganism unpatentable under the plant patent act.

recite that the microorganisms are unique; that they have been developed by the application of genetic engineering techniques; that official culture deposits of the bacteria have been made and that the bacteria is a living culture. Both applications recite that the invention concerns plasmids or extra-chromosomal elements which are believed to consist of double-stranded DNA molecules. The plasmids are hereditary units which generally are not essential for cell viability. The applications emphasize that if microorganisms containing multiple compatible plasmids could be made possible, the economic and environmental impact of such a development would be vast. For example, there would be immediate application for such versatile microbes in the production of proteins from hydrocarbons; in cleaning up oil spills; and in the disposal of used automotive lubricating oils.

The important phrase to be remebered is "a single microorganism containing multiple compatible plasmids." In the prior art microbial strains were known that could decompose individual components of crude oil, however, any given microorganism could unfortunately degrade only a particular component. For this reason biological control of oil spills previously had involved the use of a mixture of bacterial strains, each capable of degrading a single component of the oil complex on the theory that the cumulative degradative actions would consume the oil and

convert it to cell mass which could then serve as the food for fish and plankton. However, since bacterial strains differ from one another (1) in their rates of growth on the various hydrocarbon components or (2) their nutritional requirements or (3) in their resistance to toxic material or to the effects of the environment, the use of a mixed culture leads to the ultimate survival of only a portion of the initial collection of bacterial strains. As a result, when a mixed culture of hydrocarbon degrading bacteria are deposited on an oil spill, the bulk of the oil often remains unattacked for a long period of time, for example, weeks, and is free to spread or sink.

Earlier attempts by Dr. Chakrabarty to locate more than one plasmid in the same cell were successful, but the cell was unstable because of plasmid incompatability. The problem of plasmid instability was solved by bringing about fusion of the plasmids in their recipient cell and this is what the two applications disclosed and claimed. It was therefore now possible to genetically create a biological strain having the single cell capability for multiple degradation of complex hydrocarbons. Such a microorganism capable of simultaneously degrading the several components of crude oil degrades an oil spill much more quickly, for example, days, instead of weeks, than a mixed culture and also brings about the coalescence of the remaining oil portions in large drops. This rapid

biological action minimizes spreading of the oil, thereby enhancing recovery of the coalesced residue.

As noted earlier two patent applications were filed. The second application directed to the use of the bacterium for degrading a complex hydrocarbon source met with little prosecution difficulty and matured into U.S. Patent No. 3,813,316 on May 28, 1974. The first application, claiming the bacterium itself and its method of preparation encountered numerous prosecution problems. The patent examiner rejected all of the microorganism claims as not being within one of the classes of invention enumerated by the statute because the claims are directed to a product of nature. The patent examiner also rejected some of the method of preparation and the combination claims reciting the bacteria and a carrier but also indicated that some of these claims recited allowable subject matter. After amending the claims the applicant argued that the organisms disclosed are different in kind and not in degree because of a fundamental alteration of the parental cell as compared to the naturally occurring article. Therefore, the claims recite a manufacture or a composition of matter both of which are statutory classes. The patent examiner allowed the claims to the bacteria and carrier combination and the method of preparation but continued the rejection of the microorganism claims adding that if the the patent statute were to include living microorganisms there would

have been no need for a separate statute, the Plant Acts,[3] which permitted patent protection for certain kind of plants.

On appeal to the Patent Office Board of Appeals the applicant pointed out that according to judicial decision[4] the definition of plants in the Plant Acts specifically excluded bacteria and that the product of nature rejection is overcome by the examiner's own admission that the organisms are artificially created. The Board of Appeals decision indicated that there was no precedent on whether living organisms are patentable subject matter; nevertheless, the Board adopted the patent examiner's view of the need for the Plant Acts and generally his interpretation of the permissible statutory classes of invention. The Board of Appeals did not, however, rely on the product of nature argument, but instead held that if a living microorganism was within the statute, it would be possible to obtain a patent on higher order biological species including mammals, such as human beings. The Board of Appeals did not believe that the United States Congress when enacting the patent statutes could have intended that result.

3. Plant Act, Pub. L. No. 245, 46 Stat. 376 (1930). The Plant Patent Act, in 1952, was incorporated into Title 35, Patents, of the U.S.C. as Sections 161-164. Also the Plant Variety Protection Act of 1970, 7 U.S.C. 2321 et seq

4. In re Arzberger, 112 F.2d 834, 46 U.S.P.Q. 32 (C.C.P.A. 1940).

The basic question presented during the further appellate review to the United States Court of Customs and Patent Appeals and finally the United States Supreme Court is the determination whether a live, human made microorganism is patentable subject matter under the patent law of the United States. In support of the government's negative view two arguments were presented. First the enactment of the Plant Acts indicated that the terms "manufacture" or "composition of matter" do not include living things; for if they did, the Plant Acts would have been unnecessary. Second, that microorganisms cannot qualify as patentable subject matter until the United States Congress expressly authorizes such protection. The basis for this arguemnt is that genetic technology was unforeseen when the patent statute was enacted and that the judiciary should not extend patent rights into such unforeseen areas.

Both arguments were not considered persuasive by the Court of Customs and Patent Appeals who twice considered the case and by the United States Supreme Court. In its first decision[5] the Court of Customs and Patent Appeals, by the barest majority of three to two, reversed the Patent Office Board of Appeals. In its second consideration[6]

5. In re Chakrabarty, 571 F.2d 40, 197 U.S.P.Q. 72 (C.C.P.A. 1978).

6. In re Chakrabarty, 596 F.2d 952, 201 U.S.P.Q. 352 (C.C.P.A. 1979).

the Court of Customs and Patent Appeals, by a majority of four to one, adhered to the first decision and concluded that the Supreme Court's interpretation of the statutory permissible classes of invention in a patent application directed to computer technology was not helpful in deciding the Chakrabarty case on the patentability of microorganisms. In the most easily understood language possible the second decision of the Court of Customs and Patent Appeals rejected the two government arguments. As to the first argument concerning the Plant Acts, the Patent Appeals Court indicated that the government had improperly construed the purpose and intent of these statutes. As to the second argument concerning the extension of the patent statute to unforseen areas the Patent Appeals Court stated that whether the microorganism is alive is a distinction without legal significance. Although the decision was by a majority of four to one, all of the judges of the Patent Appeals Court were unanimous in holding that it is not necessary that Congress shall have foreseen a new field of technology to bring it within the statutory classes of invention.[7]

This second decision by the Patent Appeals Court (including the majority, concurring and dissenting opinions)

7. Id. at 973 and 371.

is about 136 printed pages and about 40 pages in the United States Patent Quarterly and is thus the longest opinion ever rendered to date by the Patent Appeals Court. A lengthy part of the opinion is directed to the purpose of patents, the basis of the patent system in the United States Constitution and a carefully worded analysis of the United States Patent Law. It was clear that the Patent Appeals Court expected the United States Supreme Court to review the decision, otherwise there would have been no need for this part of the opinion.[8]

As expected the government asked the United States Supreme Court for a review. The principal reason urged by the government for requesting the review is the statement of the Supreme Court in the computer technology case that the Court must proceed cautiously when asked to extend rights into areas wholly unforeseen by Congress.[9] In a June, 1980 decision by the barest majority of five to four, the United States Supreme Court rejected both of the government's arguments.[10] Regarding the government's first argument of the enactment of the Plant Acts the Court stated that the relevant distinction was not between living

8. Patents on Microorganisms, Gershman and Scofetta, 21 IDEA: The Journal of Law and Technology, No. 1 (1980), pp. 21-22.

9. Parker v. Flook, 437 U.S. 584, 596, 198 U.S.P.Q. 193, 200 (Sup. Ct. 1978).

10. 206 U.S.P.Q. 193 (U.S. Sup. Ct. 1980)

and inanimate things, but between products of nature, whether living or not, and human made inventions. In the Chakrabarty application the microorganism is the result of human ingenuity and research. Hence, the Plant Acts do not support the government's position. Regarding the government's second argument of the unforeseeability of genetic technology, the Court observed that a rule that unanticipated inventions are without protection would conflict with the core concept of the patent law that anticipation undermines patentability.

This decision by the United States Supreme Court is believed to be the first time the Court has affirmed a judgment of the Court of Customs and Patent Appeals on a question of statutory construction and agreed with its determination that the Patent Office was wrong in refusing to grant a patent. It is also believed that this decision by the United States Supreme Court is the first time since 1966 that the Court has favored the patentee.[11]

The decision by the United States Supreme Court has been criticized as forshadowing the doom of human beings.[12] In this connection it should be emphasized that the subject matter of the Chakrabarty invention is not recombinant DNA,

11. European Intellectual Property Review , page D-202, July, 1980

12. Brief Amicus curiae by the Peoples Business Commission, Washington, D.C., before the U.S. Supreme Court.

the microbiology of mankind.[13] There is, of course, a belief that the Chakrabarty decision would be the necessary legal precedent to a judicial finding that recombinant DNA technology is permissible subject matter for patents. This, however, is a decision for the not too distant future. Applications are already pending and already in the course of examination which are specifically directed to recombinant DNA technology.[14] The Patent Office announced in August, 1980[15] that it will now resume the examination of patent applications claiming a micro-organism. The announcement indicated that assuming the product involved was the result of human intervention and not a product of nature a claim to the microorganism will not be rejected as unpatentable subject matter simply because the claim is not within the permissible classes of invention. However, unlike Japan, the U.S. Patent Office has no restriction on the type of microorganism which may be claimed in a patent application.[16] The Patent Office can be expected to deny patentability of such applications on other grounds for example, novelty, utility,

13. Brief for Respondent Chakrabarty before the U.S. Supreme Court, p. 25.

14. A patent application filed by Dr. Stanley Cohen, Stanford University, and Dr. Herbert Boyer, University of California, San Francisco, is awaiting action by the Patent and Trademark Office. The patent application is directed to the most basic techniques of recombinant DNA or gene-splicing. The New York Times, June 17, 1980.

15. 997.O.G. 24 (August 26, 1980).

16. Japan Patents & Trademarks, No. 25, pp. 1-2, The Suzuye Institute of the I.I.P.R. (1980).

or non-obviousness, in order to have the scope of the Chakrabarty decision narrowed.

The progress of the Chakrabarty case through the courts did not go unnoticed by the public or the patent profession. When the decision by the Patent Appeals Court was announced several years ago, the New York Times reported the significance of the decision in great detail. Several patent law associations, universities and companies conducting genetic research and engineering, public interest groups, industrial and scientific associations and societies each filed briefs as friends of the court while the case was pending before the Patents Appeals Court and later the U.S. Supreme Court.[17] In general, all except the public interest groups urged that patents be permitted for genetic engineered products. The controversial nature of genetic engineering and legitimate concerns over safety have probably complicated the rational resolution of this issue. When the Supreme Court decided the Chakrabarty case, the decision was reported on the front page of the major newspapers throughout the United States.[18]

17. Before the C.C.P.A. the amici were University of California, A.P.L.A., and Genentech, Inc., South San Francisco, Calif. Before the U.S. Supreme Court, the amici were The Peoples Business Commission, Washington, D.C., N.Y.P.L.A., Pharmaceutical Manufacturers Association, American Society of Biological Chemists, The Association of American Medical Colleges, American Council on Education, American Society for Microbiology and the amici who appeared in the C.C.P

18. See, for example, The New York Times, June 18, 1980.

If one were to look carefully, it is somewhat surprising to find the Patent Office wishing to reject the patent applications which claim microorganisms, alive or dead, as being nonstatutory. After all the Patent Office has granted patents in the past on such microorganisms and even maintains specific patent sub-classes for searching, examination and classification of prior art patents.[19] One rationale for seeking the apparent reversal of a long-standing practice of granting patents on living things can be suggested by the Patent Office consideration of patent applications claiming computer program technology. In the past decade the Patent Office has been totally successful at the Supreme Court and often successful at the Court of Custom and Patent Appeals in preventing the patenting of computer programs. This success has been based on the same argument used in the genetic engineering case, that is, the subject matter is not within the permissible classes of invention.[20] It should be noted, however, that in the Chakrabarty case the Patent Office allowed the combination claim of the bacteria and a carrier while rejecting the bacteria per se. In the computer technology cases the Supreme Court has held that the combination claim of the

19. Class 424, "compositions containing microorganisms, either alive, dead or attenuated", subclass 91, class 424, "whole live microorganisms or virus containing".

20. See. for example, Gottschalk v. Benson, 409 U.S. 63, 175 U.S.P.Q. 673 (Sup. Ct. 1972) and case thereafter citing Benson.

computer program and an obvious mechanical feature did not transform the claim from being non-statutory into a claim which is permissible subject matter.[21] If this same reasoning were applied in the Chakrabarty case the Patent Office should not have allowed the combination claim to the bacteria and a carrier forming an inoculum.

Despite the Patent Office's apparent successes in computer technology, applicants have not been discouraged and hundreds of applications have been filed and applicants continue to seek a review of Patent Office decisions rejecting many of these applications.[22]

If one were to ask what is the future implication of the Chakrabarty decision and the impact of genetic engineering, the answer now can only be that we are on the threshold of many discoveries and many questions. It is reasonable to expect that a vast number of plasmid hydrocarbon degradative enzymatic reaction sequences remain undiscovered. Therefore, still more new and useful single cell organisms can be prepared which are able to degrade even more of the large number of hydrocarbons in crude oil and provide a considerable improvement in the synthesis of

21. Parker v. Flook, supra, note 9.

22. See, for example, among others, Diamond v. Bradley, 600 F.2d 807, 202 U.S.P.Q. 480 (C.C.P.A. 1979) and Diamond v. Diehr, 602 F.2d 982, 203 U.S.P.Q. 44 (C.C.P.A. 1979) to be considered by the U.S. Supreme Court in the October 1980 term.

proteins from carbon containing substrates. There is, of course, no reason to expect that the only plasmids are those that specify degradative reactions for hydrocarbons. Conceivably plasmids may be discovered that will provide requisite enzyme series for the degradation of environmental pollutants such as insecticides, pestcides, plastics and other inert compounds.[23] The General Electric patent applications are indeed quite modest in assessing the impact of genetic engineering. The General Electric patent applications do not involve the use of recombinant DNA techniques. Nevertheless, genetic engineering has profound implications in many fields of technology, particularly in the biological, chemical, pharmaceutical, medical and agricultural areas.[24]

Now that the Supreme Court has approved patenting of some kinds of altered microorganisms, should the law be modified to preclude exclusivity or monopoly over a microorganism? How will the patent law affect public research and knowledge and should the law be modified to address the concepts of trade secret information concerning microorganisms? To what extent does patenting actually

23. Battelle Laboratory, Columbus, Ohio, using genetic engineering techniques, have developed bacteria that ingest the compound 2,4-D, a defoliant, and then becomes an innocuous product that may be converted into salable items, such as fertilizers. The New York Times, July 22,1980 p. C2

24. Gershman, supra, note 8 at 27-28.

foster genetic research and should genetic engineering research be fostered by the patent law? Is there any area of genetic research which should have secrecy provisions comparable to those in nuclear research which block the publication of certain patents? These are difficult questions we shall all be trying to answer in the coming years.[25]

At General Electric, we believe that patents are important and that a strong patent system is essential to maintaining technological strength and leadership and to help meet economic competition throughout the world. Regardless of whether patents are permitted for micro-organisms, international research will continue in the fast moving field of molecular biology. If patent coverage were unavailable to this technology, inventors will maintain their innovations as trade secrets rather than disclose them, a development we view as undesirable. Being able to patent the results of this type of work will lead to greater exchange of ideas, fewer trade secrets and more rapid application for the good of people. General Electric believes that the opportunity to obtain patents will provide an incentive and encouragement for an extremely important world-wide research effort to provide better understanding of fundamental biological processes that promise significant improvement to the human condition.

25. See Patent, Trademark and Copyright Journal (BNA), No. 486, July 3, 1980, p. A-19 and No. 490, August 8, 1980, pp. A-8 to A-10.

Full Text of Opinion

No. 79–136

Sidney A. Diamond, Commissioner of Patents and Trademarks, Petitioner, v. Ananda M. Chakrabarty et al. | On Writ of Certiorari to the United States Court of Customs and Patent Appeals.

[June 16, 1980]

MR. CHIEF JUSTICE BURGER delivered the opinion of the Court.

We granted certiorari to determine whether a live, human-made micro-organism is patentable subject matter under 35 U. S. C. § 101.

I

In 1972, respondent Chakrabarty, a microbiologist, filed a patent application, assigned to the General Electric Company. The application asserted 36 claims related to Chakrabarty's invention of "a bacterium from the genus *Pseudomonas* containing therein at least two stable energy-generating plasmids, each of said plasmids providing a separate hydrocarbon degradative pathway." [1] This human-made, genetically engineered bacterium is capable of breaking down multiple components of crude oil. Because of this property, which is possessed by no naturally occurring bacteria, Chakrabarty's invention is believed to have significant value for the treatment of oil spills.[2]

Chakrabarty's patent claims were of three types: first, process claims for the method of producing the bacteria; second, claims for an inoculum comprised of a carrier material floating on water, such as straw, and the new bacteria; and third, claims to the bacteria themselves. The patent examiner allowed the claims falling into the first two categories, but rejected claims for the bacteria. His decision rested on two grounds: (1) that micro-organisms are "products of nature," and (2) that as living things they are not patentable subject matter under 35 U. S. C. § 101.

Chakrabarty appealed the rejection of these claims to the Patent Office Board of Appeals, and the Board affirmed the Examiner on the second ground.[3] Relying on the legislative history of the 1930 Plant Patent Act, in which Congress extended patent protection to certain asexually reproduced plants, the Board concluded that § 101 was not intended to cover living things such as these laboratory created micro-organisms.

The Court of Customs and Patent Appeals, by a divided vote, reversed on the authority of its prior decision in *In re Bergy*, 563 F. 2d 1031 (1978), which held that "the fact that micro-organisms . . . are alive . . . [is] without legal significance" for purposes of the patent law.[4] Subsequently, we granted the Government's petition for certiorari in *Bergy*, vacated the judgment, and remanded the case "for further consideration in light of *Parker* v. *Flook*, 437 U. S. 584." 438 U. S. 902 (1978). The Court of Customs and Patent Appeals then vacated its judgment in *Chakrabarty* and consolidated the case with *Bergy* for reconsideration. After re-examining both cases in the light of our holding in *Flook*, that court, with one dissent, reaffirmed its earlier judgments. — F. 2d — (1979).

The Government again sought certiorari, and we granted the writ as to both *Bergy* and *Chakrabarty*. — U. S. — (1979). Since then, *Bergy* has been dismissed as moot, — U. S. — (1980), leaving only *Chakrabarty* for decision.

II

The Constitution grants Congress broad power to legislate to "promote the Progress of Science and the useful Arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries." Art. I, § 8. The patent laws promote this progress by offering inventors exclusive rights for a limited period as an incentive for their inventiveness and research efforts. *Kewanee Oil Co.* v. *Bicron Corp.*, 416 U. S. 470, 480–481 (1974); *Universal Oil Co.* v. *Globe Co.*, 322 U. S. 471, 484 (1944). The authority of Congress is exercised in the hope that "[t]he productive effort thereby fostered will have a positive effect on society through the introduction of new products and processes of manufacture into the economy, and the emanations by way of increased employment and better lives for our citizens." *Kewanee*, *supra*, at 480.

The question before us in this case is a narrow one of statutory interpretation requiring us to construe 35 U. S. C. § 101, which provides:

> "Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title."

Specifically, we must determine whether respondent's micro-organism constitutes a "manufacture" or "composition of matter" within the meaning of the statute.[5]

III

In cases of statutory construction we begin, of course, with the language of the statute. *Southeastern Community College* v. *Davis*, 442 U. S. 397, 405 (1979). And "unless otherwise defined, words will be interpreted as taking their ordinary, contemporary, common meaning." *Perrin* v. *United States*, — U. S. —, — (1979). We have also cautioned that courts "should not read into the patent laws limitations and conditions which the legislature has not expressed." *United States* v. *Dubilier Condenser Corp.*, 289 U. S. 178, 199 (1933).

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[1] Plasmids are hereditary units physically separate from the chromosomes of the cell. In prior research, Chakrabarty and an associate discovered that plasmids control the oil degradation abilities of certain bacteria. In particular, the two researchers discovered plasmids capable of degrading camphor and octane, two components of crude oil. In the work represented by the patent application at issue here, Chakrabarty discovered a process by which four different plasmids, capable of degrading four different oil components, could be transferred to and maintained stably in a single *Pseudomonas* bacteria, which itself has no capacity for degrading oil.

[2] At present, biological control of oil spills requires the use of a mixture of naturally occurring bacteria, each capable of degrading one component of the oil complex. In this way, oil is decomposed into simpler substances which can serve as food for aquatic life. However, for various reasons, only a portion of any such mixed culture survives to attack the oil spill. By breaking down multiple components of oil, Chakrabarty's micro-organism promises more efficient and rapid oil-spill control.

[3] The Board concluded that the new bacteria were not "products of nature," because *Pseudomonas* bacteria containing two or more different energy-generating plasmids are not naturally occurring.

[4] *Bergy* involved a patent application for a pure culture of the micro-organism *Streptomyces vellosus* found to be useful in the production of lincomycin, an antibiotic.

[5] This case does not involve the other "conditions and requirements" of the patent laws, such as novelty and nonobviousness. 35 U. S. C. §§ 102, 103.

Guided by these canons of construction, this Court has read the term "manufacture" in § 101 in accordance with its dictionary definition to mean "the production of articles for use from raw materials prepared by giving to these materials new forms, qualities, properties, or combinations whether by hand labor or by machinery." *American Fruit Growers, Inc.* v. *Brogdex Co.*, 283 U. S. 1, 11 (1931). Similarly, "composition of matter" has been construed consistent with its common usage to include "all compositions of two or more substances and . . . all composite articles, whether they be the results of chemical union, or of mechanical mixture, or whether they be gases, fluids, powders, or solids." *Shell Dev. Co.* v. *Watson*, 149 F. Supp. 279, 280 (DC 1957) (citing 1 A. Deller, Walker on Patents § 14, p. 55 (1st ed. 1937)). In choosing such expansive terms as "manufacture" and "composition of matter," modified by the comprehensive "any," Congress plainly contemplated that the patent laws would be given wide scope.

The relevant legislative history also supports a broad construction. The Patent Act of 1793, authored by Thomas Jefferson, defined statutory subject matter as "any new and useful art, machine, manufacture, or composition of matter, or any new or useful improvement [thereof]." Act of Feb. 21, 1793, ch. 11, § 1, 1 Stat. 318. The Act embodied Jefferson's philosophy that "ingenuity should receive a liberal encouragement." V Writings of Thomas Jefferson, at 75–76. See *Graham* v. *John Deere Co.*, 383 U. S. 1, 7–10 (1966). Subsequent patent statutes in 1836, 1870, and 1874 employed this same broad language. In 1952, when the patent laws were recodified, Congress replaced the word "art" with "process," but otherwise left Jefferson's language intact. The Committee Reports accompanying the 1952 act inform us that Congress intended statutory subject matter to "include anything under the sun that is made by man." S. Rep. No. 1979, 82d Cong., 2d Sess., 5 (1952); H. R. Rep. No. 1923, 82d Cong., 2d Sess., 6 (1952).[6]

This is not to suggest that § 101 has no limits or that it embraces every discovery. The laws of nature, physical phenomena, and abstract ideas have been held not patentable. See *Parker* v. *Flook*, 437 U. S. 584 (1978); *Gottschalk* v. *Benson*, 409 U. S. 63, 67 (1973); *Funk Seed Co.* v. *Kalo Co.*, 333 U. S. 127, 130 (1948); *O'Reilly* v. *Morse*, 15 How. 61, 112–121 (1853); *Le Roy* v. *Tatham*, 14 How. 155, 175 (1852). Thus, a new mineral discovered in the earth or a new plant found in the wild is not patentable subject matter. Likewise, Einstein could not patent his celebrated law that $E=mc^2$; nor could Newton have patented the law of gravity. Such discoveries are "manifestations of . . . nature, free to all men and reserved exclusively to none." *Funk*, *supra*, at 130.

Judged in this light, respondent's micro-organism plainly qualifies as patentable subject matter. His claim is not to a hitherto unknown natural phenomenon, but to a nonnaturally occurring manufacture or composition of matter—a product of human ingenuity "having a distinctive name, character [and] use." *Hartranft* v. *Wiegmann*, 121 U. S. 609, 615 (1887). The point is underscored dramatically by comparison of the invention here with that in *Funk*. There, the patentee had discovered that there existed in nature certain species of root-nodule bacteria which did not exert a mutually inhibitive effect on each other. He used that discovery to produce a mixed culture capable of inoculating the seeds of leguminous plants. Concluding that the patentee had discovered "only some of the handiwork of nature," the Court ruled the product nonpatentable:

> "Each of the species of root-nodule bacteria contained in the package infects the same group of leguminous plants which it always infected. No species acquires a different use. The combination of the six species produces no new bacteria, no change in the six bacteria, and no enlargement of the range of their utility. Each species has the same effect it always had. The bacteria perform in their natural way. Their use in combination does not improve in any way their natural functioning. They serve the same ends nature originally provided and act quite independently of any effort by the patentee." 333 U. S., at 127.

Here, by contrast, the patentee has produced a new bacterium with markedly different characteristics from any found in nature and one having the potential for significant utility. His discovery is not nature's handiwork, but his own; accordingly it is patentable subject matter under § 101.

IV

Two contrary arguments are advanced, neither of which we find persuasive.

(A)

The Government's first argument rests on the enactment of the 1930 Plant Patent Act, which afforded patent protection to certain asexually reproduced plants, and the 1970 Plant Variety Protection Act, which authorized patents for certain sexually reproduced plants but excluded bacteria from its protection.[7] In the Government's view, the passage of these Acts evidences congressional understanding that the terms "manufacture" or "composition of matter" do not include living things; if they did, the Government argues, neither Act would have been necessary.

We reject this argument. Prior to 1930, two factors were thought to remove plants from patent protection. The first was the belief that plants, even those artificially bred, were products of nature for purposes of the patent law. This position appears to have derived from the decision of the Patent Office in *Ex parte Latimer*, 1889 C. D. 123, in which a patent claim for fiber found in the needle of the *Pinus australis* was rejected. The Commissioner reasoned that a contrary result would permit "patents [to] be obtained upon the trees of the forests and the plants of the earth, which of course would be unreasonable and impossible." *Id.*, at 126. The *Latimer* case, it seems, came to "set[] forth the general stand taken in these matters" that plants were natural products not subject to patent protection. H. Thorne, Relation of Patent Law to Natural Products, 6 J. Pat. Off. Soc. 23, 24 (1923).[8] The second obstacle to patent protection for plants was the fact that plants were thought not amenable to the "written description" requirement of the patent law. See 35 U. S. C.

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[6] This same language was employed by P. J. Federico, a principal draftsman of the 1952 recodification, in his testimony regarding that legislation: "[U]nder section 101 a person may have invented a machine or manufacture, which may include anything under the sun that is made by man. . . ." Hearings on H. R. 3760 before Subcommittee No. 3 of the House Committee on the Judiciary, 82d Cong., 1st Sess., 37 (1951).

[7] The Plant Patent Act of 1930, 35 U. S. C. § 161, provides in relevant part:

"Whoever invents or discovers and asexually reproduces any distinct and new variety of plant, including cultivated sports, mutants, hybrids, and newly found seedlings, other than a tuber propogated plant or a plant found in an uncultivated state, may obtain a patent therefor. . . ."

The Plant Variety Protection Act of 1970, provides in relevant part:

"The breeder of any novel variety of sexually reproduced plant (other than fungi, bacteria, or first generation hybrids) who has so reproduced the variety, or his successor in interest, shall be entitled to plant variety protection therefor. . . ." 7 U. S. C. § 2402 (a).

See generally, 3 A. Deller, Walker on Patents, Chapter IX (2d ed. 1964); R. Allyn The First Plant Patents (1934).

[8] Writing three years after the passage of the 1930 Act, R. Cook, Editor of the Journal of Heredity, commented: "It is a little hard for plant men

§ 112. Because new plants may differ from old only in color or perfume, differentiation by written description was often impossible. See Hearings on H. R. 11372 before the House Committee on Patents, 71 Cong., 2d Sess., 4 (1930), p. 7 (memorandum of Patent Commissioner Robertson).

In enacting the Plant Patent Act, Congress addressed both of these concerns. It explained at length its belief that the work of the plant breeder "in aid of nature" was patentable invention. S. Rep. No. 315, 71st Cong., 2d Sess., 6–8 (1930); H. R. Rep. No. 1129, 71st Cong., 2d Sess., 7–9 (1930). And it relaxed the written description requirement in favor of "a description . . . as complete as is reasonably possible." 35 U. S. C. § 162. No Committee or Member of Congress, however, expressed the broader view, now urged by the Government, that the terms "manufacture" or "composition of matter" exclude living things. The sole support for that position in the legislative history of the 1930 Act is found in the conclusory statement of Secretary of Agriculture Hyde, in a letter to the Chairmen of the House and Senate committees considering the 1930 Act, that "the patent laws . . . at the present time are understood to cover only inventions or discoveries in the field of inanimate nature." See S. Rep. No. 315, *supra*, at Appendix A; H. R. Rep. No. 1129, *supra*, at Appendix A. Secretary Hyde's opinion, however, is not entitled to controlling weight. His views were solicited on the administration of the new law and not on the scope of patentable subject matter—an area beyond his competence. Moreover, there is language in the House and Senate Committee reports suggesting that to the extent Congress considered the matter it found the Secretary's dichotomy unpersuasive. The reports observe:

> "There is a clear and logical distinction *between the discovery of a new variety of plant and of certain inanimate things*, such, for example, as a new and useful natural mineral. The mineral is created wholly by nature unassisted by man. . . . On the other hand, a plant discovery resulting from cultivation is unique, isolated, and is not repeated by nature, nor can it be reproduced by nature unaided by man. . . ." S. Rep. No. 315, *supra*, at 6; H. R. Rep. No. 1129, *supra*, at 7 (emphasis added).

Congress thus recognized that the relevant distinction was not between living and inanimate things, but between products of nature, whether living or not, and human-made inventions. Here, respondent's micro-organism is the result of human ingenuity and research. Hence, the passage of the Plant Patent Act affords the Government no support.

Nor does the passage of the 1970 Plant Variety Protection Act support the Government's position. As the Government acknowledges, sexually reproduced plants were not included under the 1930 Act because new varieties could not be reproduced true-to-type through seedlings. Brief for United States 27, n. 31. By 1970, however, it was generally recognized that true-to-type reproduction was possible and that plant patent protection was therefore appropriate. The 1970 Act extended that protection. There is nothing in its language or history to suggest that it was enacted because § 101 did not include living things.

In particular, we find nothing in the exclusion of bacteria from plant variety protection to support the Government's position. See *supra*, at n. 7. The legislative history gives no reason for this exclusion. As the Court of Customs and Patent Appeals suggested, it may simply reflect congressional agreement with the result reached by that court in deciding *In re Arzberger*, 112 F. 2d 834 (1940), which held that bacteria were not plants for the purposes of the 1930 Act. Or it may reflect the fact that prior to 1970 the Patent Office had issued patents for bacteria under § 101.[8] In any event, absent some clear indication that Congress "focused on [the] issues . . . directly related to the one presently before the Court," *SEC* v. *Sloan*, 436 U. S. 103, 120–121 (1978), there is no basis for reading into its actions an intent to modify the plain meaning of the words found in § 101. See *TVA* v. *Hill*, 437 U. S. 153, 189–193 (1978); *United States* v. *Price*, 361 U. S. 304, 313 (1960).

(B)

The Government's second argument is that micro-organisms cannot qualify as patentable subject matter until Congress expressly authorizes such protection. Its position rests on the fact that genetic technology was unforeseen when Congress enacted § 101. From this it is argued that resolution of the patentability of inventions such as respondent's should be left to Congress. The legislative process, the Government argues, is best equipped to weigh the competing economic, social, and scientific considerations involved, and to determine whether living organisms produced by genetic engineering should receive patent protection. In support of this position, the Government relies on our recent holding in *Parker* v. *Flook*, 437 U. S. 584 (1978), and the statement that the judiciary "must proceed cautiously when . . . asked to extend patent rights into areas wholly unforeseen by Congress." *Id.*, at 596.

It is, of course, correct that Congress, not the courts, must define the limits of patentability; but it is equally true that once Congress has spoken it is "the province and duty of the judicial department to say what the law is." *Marbury* v. *Madison*, 1 Cranch 137, 177 (1803). Congress has performed its constitutional role in defining patentable subject matter in § 101; we perform ours in construing the language Congress has employed. In so doing, our obligation is to take statutes as we find them, guided, if ambiguity appears, by the legislative history and statutory purpose. Here, we perceive no ambiguity. The subject matter provisions of the patent law have been cast in broad terms to fulfill the constitutional and statutory goal of promoting "the Progress of Science and the useful Arts" with all that means for the social and economic benefits envisioned by Jefferson. Broad general language is not necessarily ambiguous when congressional objectives require broad terms.

Nothing in *Flook* is to the contrary. That case applied our prior precedents to determine that a "claim for an improved method of calculation, even when tied to a specific end use, is unpatentable subject matter under § 101." 437 U. S., at 595, n. 18. The Court carefully scrutinized the claim at issue to determine whether it was precluded from patent protection under "the principles underlying the prohibition against patents for 'ideas' or phenomena of nature." *Id.*, at 593. We have done that here. *Flook* did not announce a new principle that inventions in areas not contemplated by Congress when the patent laws were enacted are unpatentable *per se*.

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to understand why [Article I § 8] of the Constitution should not have been earlier construed to include the promotion of the art of plant breeding. The reason for this is probably to be found in the principle that natural products are not patentable." Florists Exchange and Horticultural Trade World, July 15, 1933, at 9.

[8] In 1873, the Patent Office granted Louis Pasteur a patent on "yeast, free from organic germs of disease, as an article of manufacture." And in 1967 and 1968, immediately prior to the passage of the Plant Variety Protection Act, that office granted two patents which, as the Government concedes, state claims for living micro-organisms. See Reply Brief of United States, at 3, and n. 2.

To read that concept into *Flook* would frustrate the purposes of the patent law. This Court frequently has observed that a statute is not to be confined to the "particular application[s] . . . contemplated by the legislators." *Barr* v. *United States*, 324 U. S. 83, 90 (1945). Accord, *Browder* v. *United States*, 312 U. S. 335, 339 (1941); *Puerto Rico* v. *Shell Co.*, 302 U. S. 253, 257 (1937). This is especially true in the field of patent law. A rule that unanticipated inventions are without protection would conflict with the core concept of the patent law that anticipation undermines patentability. See *Graham* v. *John Deere Co.*, 383 U. S., at 12–17. Mr. Justice Douglas reminded that the inventions most benefiting mankind are those that "push back the frontiers of chemistry, physics, and the like." *A. & P. Tea Co.* v. *Supermarket Corp.*, 340 U. S. 147, 154 (1950) (concurring opinion). Congress employed broad general language in drafting § 101 precisely because such inventions are often unforeseeable.[10]

To buttress its argument, the Government, with the support of *amicus*, points to grave risks that may be generated by research endeavors such as respondent's. The briefs present a gruesome parade of horribles. Scientists, among them Nobel laureates, are quoted suggesting that genetic research may pose a serious threat to the human race, or, at the very least, that the dangers are far too substantial to permit such research to proceed apace at this time. We are told that genetic research and related technological developments may spread pollution and disease, that it may result in a loss of genetic diversity, and that its practice may tend to depreciate the value of human life. These arguments are forcefully, even passionately presented; they remind us that, at times, human ingenuity seems unable to control fully the forces it creates—that, with Hamlet, it is sometimes better "to bear those ills we have than fly to others that we know not of."

It is argued that this Court should weigh these potential hazards in considering whether respondent's invention is patentable subject matter under § 101. We disagree. The grant or denial of patents on micro-organisms is not likely to put an end to genetic research or to its attendant risks. The large amount of research that has already occurred when no researcher had sure knowledge that patent protection would be available suggests that legislative or judicial fiat as to patentability will not deter the scientific mind from probing into the unknown any more than Canute could command the tides. Whether respondent's claims are patentable may determine whether research efforts are accelerated by the hope of reward or slowed by want of incentives, but that is all.

What is more important is that we are without competence to entertain these arguments—either to brush them aside as fantasies generated by fear of the unknown, or to act on them. The choice we are urged to make is a matter of high policy for resolution within the legislative process after the kind of investigation, examination, and study that legislative bodies can provide and courts cannot. That process involves the balancing of competing values and interests, which in our democratic system is the business of elected representatives. Whatever their validity, the contentions now pressed on us should be addressed to the political branches of the government, the Congress and the Executive, and not to the courts.[11]

We have emphasized in the recent past that "[o]ur individual appraisal of the wisdom or unwisdom of a particular [legislative] course . . . is to be put aside in the process of interpreting a statute." *TVA* v. *Hill*, 437 U. S. 153, 194 (1978). Our task, rather, is the narrow one of determining what Congress meant by the words it used in the statute; once that is done our powers are exhausted. Congress is free to amend § 101 so as to exclude from patent protection organisms produced by genetic engineering. Compare 42 U. S. C. § 2181, exempting from patent protection inventions "useful solely in the utilization of special nuclear material or atomic energy in an atomic weapon." Or it may choose to craft a statute specifically designed for such living things. But, until Congress takes such action, this Court must construe the language of § 101 as it is. The language of that section fairly embraces respondent's invention.

Accordingly, the judgment of the Court of Customs and Patent Appeals is affirmed.

Affirmed.

MR. JUSTICE BRENNAN, with whom MR. JUSTICE WHITE, MR. JUSTICE MARSHALL, and MR. JUSTICE POWELL join, dissenting.

I agree with the Court that the question before us is a narrow one. Neither the future of scientific research, nor even the ability of respondent Chakrabarty to reap some monopoly profits from his pioneering work, is at stake. Patents on the processes by which he has produced and employed the new living organism are not contested. The only question we need decide is whether Congress, exercising its authority under Art. I, § 8, of the Constitution, intended that he be able to secure a monopoly on the living organism itself, no matter how produced or how used. Because I believe the Court has misread the applicable legislation, I dissent.

The patent laws attempt to reconcile this Nation's deep-seated antipathy to monopolies with the need to encourage progress. *Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U. S. 518, 530–531 (1972); *Graham* v. *John Deere Co.*, 383 U. S. 1, 7–10 (1966). Given the complexity and legislative nature of this delicate task, we must be careful to extend patent protection no further than Congress has provided. In particular, were there an absence of legislative direction, the courts should leave to Congress the decisions whether and how far to extend the patent privilege into areas where the common understanding has been that patents are not available.[1] Cf. *Deepsouth Packing Co.* v. *Laitram Corp.*, *supra*.

In this case, however, we do not confront a complete legislative vacuum. The sweeping language of the Patent Act of 1793, as re-enacted in 1952, is not the last pronouncement Congress has made in this area. In 1930 Congress enacted the Plant Patent Act affording patent protection to developers of

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[10] Even an abbreviated list of patented inventions underscores the point: telegraph (Morse, No. 1647); telephone (Bell, No. 174,465); electric lamp (Edison, No. 223,898); airplane (the Wrights; No. 821,393); transistor (Bardeen & Brattain, No. 2,524,035); neutronic reactor (Fermi & Szilard, No. 2,708,656); laser (Schawlow & Townes, No. 2,929,922). See generally Revolutionary Ideas, Patents & Progress in America, Office of Patents (1976).

[11] We are not to be understood as suggesting that the political branches have been laggard in the consideration of the problems related to genetic research and technology. They have already taken action. In 1976, for example, the National Institutes of Health released guidelines for NIH-sponsored genetic research which established conditions under which such research could be performed. 41 Fed. Reg. 27902. In 1978 those guidelines were revised and relaxed. 43 Fed. Reg. 60080, 60108, 60134. And committees of the Congress have held extensive hearings on these matters. See, *e. g.*, Hearings on genetic engineering before the Subcommittee on Health of the Senate Committee on Labor and Public Welfare, 94th Cong., 1st Sess. (1975); Hearings before the Subcommittee on Science, Technology, and Space of the Senate Committee on Commerce, Science, and Transportation, 95th Cong., 1st Sess. (1978); Hearings before the Subcommittee on Health and the Environment of the House Committee on Interstate and Foreign Commerce, 95th Cong., 1st Sess. (1977).

[1] I read the Court to admit that the popular conception, even among advocates of agricultural patents, was that living organisms were unpatentable. See *ante*, at 7–8, and n. 8.

certain asexually reproduced plants. In 1970 Congress enacted the Plant Variety Protection Act to extend protection to certain new plant varieties capable of sexual reproduction. Thus, we are not dealing—as the Court would have it—with the routine problem of "unanticipated inventions." *Ante*, at 12. In these two Acts Congress has addressed the general problem of patenting animate inventions and has chosen carefully limited language granting protection to some kinds of discoveries, but specifically excluding others. These Acts strongly evidence a congressional limitation that excludes bacteria from patentability.[2]

First, the Acts evidence Congress' understanding, at least since 1930, that § 101 does not include living organisms. If newly developed living organisms not naturally occurring had been patentable under § 101, the plants included in the scope of the 1930 and 1970 Acts could have been patented without new legislation. Those plants, like the bacteria involved in this case, were new varieties not naturally occurring.[3] Although the Court, *ante*, at 7, rejects this line of argument, it does not explain why the Acts were necessary unless to correct a pre-existing situation.[4] I cannot share the Court's implicit assumption that Congress was engaged in either idle exercises or mere correction of the public record when it enacted the 1930 and 1970 Acts. And Congress certainly thought it was doing something significant. The committee reports contain expansive prose about the previously unavailable benefits to be derived from extending patent protection to plants.[5] H. R. Rep. No. 91-1605, 91st Cong., 2d Sess., 1-3 (1970); S. Rep. No. 315, 71st Cong., 2d Sess., 1-3 (1930). Because Congress thought it had to legislate in order to make agricultural "human-made inventions" patentable and because the legislation Congress enacted is limited, it follows that Congress never meant to make patentable items outside the scope of the legislation.

Second, the 1970 Act clearly indicates that Congress has included bacteria within the focus of its legislative concern, but not within the scope of patent protection. Congress specifically excluded bacteria from the coverage of the 1970 Act. 7 U. S. C. § 2402 (a). The Court's attempts to supply explanations for this explicit exclusion ring hollow. It is true that there is no mention in the legislative history of the exclusion, but that does not give us license to invent reasons. The fact is that Congress, assuming that animate objects as to which it had not specifically legislated could not be patented, excluded bacteria from the set of patentable organisms.

The Court protests that its holding today is dictated by the broad language of § 101, which "cannot be confined to the 'particular application[s] . . . contemplated by the legislators.'" *Ante*, at 12, quoting *Barr* v. *United States*, 324 U. S. 83, 90 (1945). But as I have shown, the Court's decision does not follow the unavoidable implications of the statute. Rather, it extends the patent system to cover living material even though Congress plainly has legislated in the belief that § 101 does not encompass living organisms. It is the role of Congress, not this Court, to broaden or narrow the reach of the patent laws. This is especially true where, as here, the composition sought to be patented uniquely implicates matters of public concern.

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[2] But even if I agreed with the Court that the 1930 and 1970 Acts were not dispositive, I would dissent. This case presents even more cogent reasons than *Deepsouth Packing Co.* not to extend the patent monopoly in the face of uncertainty. At the very least, these Acts are signs of legislative attention to the problems of patenting living organisms, but they give no affirmative indication of congressional intent that bacteria be patentable. The caveat of *Parker* v. *Flook*, 437 U. S. 584, 596 (1978), an admonition to "proceed cautiously when we are asked to extend patent rights into areas wholly unforeseen by Congress," therefore becomes pertinent. I should think the necessity for caution is that much greater when we are asked to extend patent rights into areas Congress has foreseen and considered but has not resolved.

[3] The Court refers to the logic employed by Congress in choosing not to perpetuate the "dichotomy" suggested by Secretary Hyde. *Ante*, at 9. But by this logic the bacteria at issue here are distinguishable from a "mineral . . . created wholly by nature" in exactly the same way as were the new varieties of plants. If a new act was needed to provide patent protection for the plants, it was equally necessary for bacteria. Yet Congress provided for patents on plants but not on these bacteria. In short, Congress decided to make only a subset of animate "human-made inventions," *ibid.*, patentable.

[4] If the 1930 Act's only purpose were to solve the technical problem of description referred to by the Court, *ante*, at 8, most of the Act, and in particular its limitation to asexually reproduced plants, would have been totally unnecessary.

[5] Secretary Hyde's letter was not the only explicit indication in the legislative history of these Acts that Congress was acting on the assumption that legislation was necessary to make living organisms patentable. The Senate Judiciary Committee Report on the 1970 Act states the Committee's understanding that patent protection extended no further than the explicit provisions of these Acts.

"Under the patent law, patent protection is limited to those varieties of plants which reproduce asexually, that is, by such methods as grafting or budding. No protection is available to those varieties of plants which reproduce sexually, that is, by seeds." S. Rep. No. 91-1246, 91st Cong., 2d Sess., 3 (1970).

Similarly, Representative Poage, speaking for the 1970 Act, after noting the protection accorded asexually developed plants, stated that "for plants produced from seed, there has been no such protection." 122 Cong. Rec. 40295 (1970).

PIPA Japanese Group

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ARTICLE 29-2 OF THE JAPANESE PATENT LAW and IMPORTANT POINTS INVOLVED

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SUMMARY

The existing Japanese Patent Law is the so-called 1959 Law, and this has been partially amended several times since its enactment.

The Amendment effected in 1970 involves important changes which have drastically changed some principles of the patent system. For example, this Amendment instituted the laying-open system and the request for examination system, expansion of the standing of a prior application and the system of re-examination by the examiner of a demand for trial. Accordingly, this Amendment is one of the most important amendment to the 1959 Law.

Article 29-2 of the Japanese Patent Law enacted to expand the standing of a prior application in the above-mentioned Amendment effected in 1970 is described in connection with (a) the purport of its legislation and (b) its three application requirement. Explanation is also made of some important points surrounding that Article, i.e., (c) relations of Article 29-2 to related Articles, inter alia, Article 39 and 29 of the Patent Law and (d) points involved in Article 29-2. Finally, (e) comparison is made between similar provisions in foreign patent law and patent conventions.

Article 29-2 of the Japanese Patent Law and Important Points Involved

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Appendix:

Article 29-2, Article 39 Paragraphs 1 and 2 and Article 29 of Patent Law

1. Introduction

The existing Japanese Patent Law is the so-called 1959 Law, and this has been partially amended several times since its enactment. The Amendment effected in 1970 involves important changes which have drastically changed some principles of the patent system. For example, this Amendment instituted the laying-open system and request for examination system, expansion of the standing of a prior application and the system of the re-examination by the examiner of a demand for trial. Accordingly, this Amendment is one of the most important amendments made to the 1959 Law.

Article 29-2 of the Patent Law, which was enacted in connection with the expansion of the standing of a prior application in the above-mentioned Amendment effected in 1970, will now be described, and some important points involved in this Article will now be discussed.

An amendment similar to the above Amendment to the Patent Law was made to the Utility Model Law. However, this amendment of the Utility Model Law can be interpreted as in the case of the Amendment to the Patent Law. Accordingly, it is only pointed out that such

amendment was made also to the Utility Model Law (see Article 3-2 of the Utility Model Law).

2. Purport of Legislation

Article 29-2 inserted by the Amendment effected in 1970 stipulates that a later application claiming the same invention as an invention disclosed in the original specification or drawings attached to a prior application (hereinafter referred to as "as-filed specification") published or laid open after the filing of the later application should be refused in principle, irrespectively of whether or not the invention of the later application is claimed in the prior application. In short, adoption of the so-called whole content approach is stipulated.

Adoption of this system is to ensure impartial granting of rights and expedite the examination under the request for examination system adopted simultaneously, as described below;

According to the existing patent system in our country, the so-called first-to file principle is adopted. More specifically, in case where there are two or more patent applications claiming the same

invention, a patent is granted to a person who filed the patent application earliest (see Article 39 Paragraph 1 of the Patent Law). In this case, from the viewpoint of avoidance of double patenting, the identity of the invention of the later application with that of the prior application is judged on the descriptions of the claims of both the applications.

In general, however, related explanatory matters are described in the specification, even through these matters are not included in the claim. If another person has filed a patent application claiming such explanatory matters before they become publicly known, there will be a possibility of granting a patent to such application. However, when a prior application is published or laid open, related explanatory matters described in the as-filed specification of the prior application become publicly known, and therefore, it is unreasonable to grant a patent to a later application claiming such explanatory matters only on the ground that the matters are not included in the claim of the prior application. In other words, in view of the spirit of the patent system that an exclusive right is granted in return for disclosure of an invention, it is unreasonable to grant another exclusive right to

the later application which does not disclose an invention other than the matter described in the specification of the prior application.

Furthermore, since an invention disclosed in the specification of the prior application but not included in the claim by the applicant of the prior application should be regarded as a public property offered for the public by the applicant of the prior application, the granting of a patent on the later application results in conversion of the public property to a private right contrary to the intention of the applicant of the prior application and is therefore detrimental to the public interest.

Moreover, if a patent is granted on such later application, the applicant of the prior application should naturally file defending applications (divisional or new applications), resulting in increase of the number of filed applications.

The purport of Article 29-2 of the Patent Law is to refuse such later application, and is called "expansion of the standing of the prior application".

This expansion of the standing of the prior application is also related to the introduction of the request for examination system. Under the request for

examination system, patent applications are examined in an order of the filing dates of requests for examination. Accordingly, if a request for examination is not filed for the prior application at the time when the later application is examined, the range of the prior application is not yet established and hence, a long time will be necessary for completion of the examination of the later application. Accordingly, if the entire range covered by the as-filed specification, which is the broadest range that can be protected by amendments, is retained for the prior application, the examination of the later application can be proceeded with even before initiation or settlement of the examination of the prior application.

Article 29-2 adopted to the above-mentioned effect and related provisions, that is, Article 39 Paragraphs 1 and 2 and Article 29 are attached hereto as appendix.

3. Detailed Explanation of Provisions of Article 29-2 of Patent Law

(1) Three Application Requirements of Article 29-2 Paragraph 1:

If a patent application comes under the following three stipulations, the patent application (hereinafter

referred to as "later application") is refused as being unpatentable under Article 29-2 Paragraph 1 which was enacted to the above-mentioned effect under 2 above.

(a) There is present a prior application.

By the term "a prior application" used herein is meant a patent application or utility model application filed before the filing date of the later application. When the filing date of the later application is the same as the filing date of the prior application, Article 29-2 Paragraph 1 is not applicable (in this case, application of Article 39 Paragraph 2 of the Patent Law becomes a subject of discussion).

In case where the prior application is a divisional application or a new application made as the result of conversion of a parent patent or utility model application or a decision of dismissal of amendment, the effective filing date of the prior application as reference under Article 29-2 Paragraph 1 is not retroactive to the filing date of the parent application but the actual date of filing of such divisional or new application (see the proviso to Paragraph 2 of Article 44, Paragraph 6 of Article 45, Paragraph 5 of Article 46 and the proviso to Paragraph 4 of Article 53 of the Patent Law and Paragraph 3 of Article 8 of the

Utility Model Law).

(b) The prior application is published or laid open after the filing of the later application.

If only the prior application is published or laid open, Article 29-2 Paragraph 1 is applicable. In other words, even if the prior application is withdrawn, abandoned or invalidated after publication or laying-open, Article 29-2 Paragraph 1 is validly applied.

(c) The invention of the later application is the same as the invention or device disclosed in the as-filed specification of the prior application.

The invention of the later application is one set forth in the claim thereof. Since the invention or device with which the identity of the invention of the later application is discussed is an invention or device disclosed in the as-filed specification of the prior application, even if some matter disclosed in the as-filed specification of the prior application has been deleted by an amendment made after the filing of the prior application, the deleted matter is taken into account when Article 29-2 Paragraph 1 is applied. Furthermore, an invention or device added by an amendment made after the filing of the application is not included in the range of the invention or device with

which the identity of the invention of the later application is discussed.

By the invention disclosed in the as-filed specification of the prior application is meant an invention which can be grasped as an objectively complete invention from the specification. Of course, such invention need not be related to the invention set forth in the claim of the prior application (see "Manual of Examination of Patent and Utility Model Applications", 43.02A).

(2) Exception to Refusal:

Even when the three requirements set forth in (1) above are satisfied, if the later application comes under any of the following conditions, Article 29-2 Paragraph 1 is not applicable.

(a) The inventor of the later application is the same as the inventor of the invention (or the deviser of the device) of the prior application.

In case where a plurality of persons are inventors of the later application, only when all the inventors of the later application are completely in agreement with the inventors of the prior application, it is judged that both the applications are identical with

respect to the inventorship.

(b) At the time when the later application is filed, the applicant of the later application is the same as the applicant of the prior application.

The identity of the applicant is judged based on the name of the applicant indicated in the prior application at the time when the later application is filed and the name of the applicant indicated in the later application. In case where a plurality of persons are applicants of the later application, only when the applicants of the later application are completely in agreement with the applicants of the prior application, it is judged that both the applications are identical with respect to the applicantship. In this case, even if there is a disagreement between the applicant of the prior application and the applicant of the later application because of change of the name of the applicant, succession or affiliation, both the applications are judged as being identical with respect to the applicantship.

(3) Case Where Prior Application Claims Convention Priority:

According to the interpretation of the stipulation

of Article 4 Paragraph B of the Paris Convention, two different opinions have been raised in connection with the effective filing date of the prior application as reference under Article 29-2 Paragraph 1 when the prior application is an application claiming a Convention priority. More specifically, according to one opinion, on application of Article 29-2 Paragraph 1, the Convention priority date of the prior application should be regarded as the effective filing date of the prior application, and according to the other opinion, the date on which the prior application was actually filed in our country should be regarded as the effective filing date of the prior application. According to the practice of the Japanese Patent Office, in connection with an invention which is commonly disclosed in the specification filed in the first country and the as-filed specification filed in our country, the filing date of the first country application should be regarded as the effective filing date of the prior application (see Manual of Examination of Patent and Utility Model Applications, 43.07A). In the light of the spirit of Article 4 Paragraph B of the Paris Convention, it is deemed that this practice is reasonable.

In case where the filing date of the later application is later than the date on which the prior application claiming the Convention priority was actually filed in our country and the invention of the later application is disclosed in the as-filed specification of the prior application, the specification filed in the first country, of course, need not be examined.

(4) Case where Prior Application Is PCT Patent Application (Inclusive of PCT Utility Model Application):

(i) This case is stipulated by Paragraph 2 of Article 29-2 of the Patent Law. In the case of an international application according to PCT, if the international filing date is admitted, the application is regarded as being effective as an application filed in each designated country on the admitted international filing date, i.e., the admitted international filing date is regarded as the actual filing date in each designated country (see Article 11(3) of PCT). Since the international application is laid open promptly after passage of 1 year and 6 months from the priority date (see Article 21 of PCT), international laying-open is

treated as laying-open in our country, i.e., such application is not laid open again in our country (see Article 184-9 Paragraph 3 of the Patent Law). Therefore, Article 29-2 Paragraph 1 should naturally be applied while relying on an international application designating our country and internationally laid open.

Paragraph 2 of Article 29-2 was inserted by the Amendment to the Patent Law made in 1978 when our country ratified PTC, to stipulate the manner of application of Paragraph 1 of Article 29-2 in case where the prior application is such an international application.

(ii) In case where the prior application is an international patent application (a patent application according to PCT route stipulated in Article 184-3 Paragraph 2 of the Patent Law), it is indispensable for application of Article 29-2 Paragraph 1 that the international application has already been internationally laid open. Incidentally, the reason why "laying-open" in our country is mentioned in connection with an international application is that a so-called recognized international application (see Article 184-16 Paragraph 4 of the Patent Law and Article 25 (2)(a) of PCT) is not internationally laid open but is laid

open in our country (see Article 184-16 Paragraph 6 of the Patent Law).

(iii) By the "invention disclosed in the as-filed specification" referred to in Article 29-2 Paragraph 1, the following two kinds of inventions are meant:

(a) An invention disclosed in the specification, claim or drawings of an international application on the international filing date in case where the international application is a Japanese language patent application (i.e., an international patent application written in Japanese; see Article 184-5 Paragraph 1 of the Patent Law).

(b) An invention disclosed in the specification, claim or drawings written in the original foreign language on the international filing date and also disclosed in the translation of the international application (see Article 184-4 Paragraph 4 of the Patent Law) in case where the international application is ~~one written in the~~ a foreign language patent application (i.e., an international patent application written in the foreign language; see Article 184-4 Paragraph 1 of the Patent Law.

In the case of a foreign language patent application, the matter not contained in the translation is

regarded as being not described in the original foreign language text (see Article 184-4 Paragraph 4 of the Patent Law).

It is required that a specification and other document written in the original foreign language of a foreign language patent application should be internationally laid open, but it is not required that the translation should be laid open in our country (see Article 184-9 Paragraph 1 of the Patent Law).

In case where a recognized international application is a foreign language patent application, the invention on which Article 29-2 Paragraph 1 of the Patent Law is applied should be an invention disclosed in both the original text of the international application and the translation thereof (see Article 184-16 Paragraph 2 of the Patent Law).

(iv) In case where the prior application is an international utility model application, this prior application is treated in the same manner as described above with respect to an international patent application.

4. Relations of Article 29-2 of Patent Law to Articles 39 and 29 of Patent Law

(1) Differences between Article 29-2 and Article 39:

(i) Difference in Purport of Stipulation:

Article 29-2 was stipulated to exclude unreasonability of granting a patent on a later application for an invention already published in the prior application, and because of the necessity produced by adoption of the request for examination system etc. as explained under 2 above.

In contrast, Article 39 was stipulated to exclude double patenting according to the one patent-for-one invention principle while making great account of the fact that an invention disclosed in a prior application has been kept secret at the time when a later application is filed.

(ii) Difference in Region of Bar Against Later Application:

(a) Applications of Different Filing Dates and Applications of Same Filing Date:

The term "before the filing date" is explicitly used in Article 29-2 Paragraph 1, so this Article is not applicable to applications of the same filing date.

In contrast, Article 39 Paragraph 2 is just applicable ~~even~~ to applications of the same filing date.

(b) Description of Claim:

Article 29-2 is applicable on the basis of an invention disclosed in the as-filed specification, including the claim, of the prior application.

In contrast, Article 39 is applicable only on the basis of an invention claimed in the claim of the prior application.

(c) Laying-Open or Publication of Prior Application:

In the case where the prior application is neither published nor laid open, Article 29-2 is not applicable.

The later application is abated according to Article 39 even if the prior application is not published or laid open.

(d) Withdrawal and Invalidation:

According to Article 29-2, if only the prior application is published or laid open, the later application may be abated even when the prior application is afterward withdrawn or invalidated.

When the prior application is withdrawn or invalidated, Article 39 cannot be applied to the later application.

(e) Identity of, or Difference in Applicants:

When the applicant of the later application is the same as the applicant of the prior application at the

time when the later application is filed, Article 29-2 is not applicable to the later application.

In contrast, Article 39 is applicable to the later application even when the applicant of the later application is the same as the applicant of the prior application.

(f) Identity of, or Difference in Inventors:

When the inventor of the later application is the same as the inventor of the prior application, Article 29-2 is not applicable to the later application.

On the other hand, the later application can be barred according to Article 39, irrespectively of whether the inventor of the later application is the same as or different from the inventor of the prior application.

(g) Priority of Fraud Application:

In case where the inventor of the later application is the same as the inventor of the prior application and the prior application is a so-called fraud application, the applicability of both Articles are not different (see the parenthesized sentence of Article 29-2, Paragraph 1 and Article 39 Paragraph 6).

However, in the case of a later application of a different inventor filed by a third person, the

applicability of both Articles are different. Namely, according to Article 29-2, even a fraud application can be a prior application, but according to Article 39, a fraud application cannot be a prior application.

In connection with the effect of barring a later application, it sometimes happens that both Article 29-2 and Article 39 can simultaneously be applied to one and the same later application on the basis of a prior application. In this case, the Examiner may select any of the two Articles at his option. According to the practice of the Japanese Patent Office, in such case, Article 29-2 is applied more frequently than Article 39.

(2) Application Relation of Article 29-2 to Article 29 or 39:

"Manual of Examination of Patent and Utility Model Applications" clarifies under 43.08A the Patent Office practice as follows:

(i) In case where the filing date of the later application is the same as the publication date or laid-open date of the prior application, only when it is apparent that the time of the filing of the later application is later than the time of publication or

laying-open of the prior application, Article 29 is applied, and in other cases, Article 29-2 is applied for the sake of expedition of the examination as one purport of enactment of Article 29-2.

(ii) When the inventions set forth in the claim are identical with each other, Article 39 is applied in any of the following cases;

(a) The filing dates of two or more applications are identical.

(b) The inventor or applicant of the later application is the same as the inventor or applicant of the prior application.

5. Points Involved in Article 29-2 of Patent Law

(1) Points on Same Inventorship:

When the inventor of the later application is the same as the inventor of the prior application, the later application is exempted from application of Article 29-2. The identity of inventorship is, in principle, decided based on whether the inventive entity indicated in the later application is completely in agreement of that indicated in the prior application. However, even if the indication of the

inventive entity is not completely in agreement in the applications, when it is evidenced that the inventive entity is the same in the two inventions, Article 29-2 is not applicable.

In case of inventions based on joint reasearches, since it is difficult to specify inventors, judgement of identity of the inventorship will be difficult and issues will arise in this connection.

(2) Points on Same Applicantship:

It has to be noted that when the later application is a divisional application or a new application made as the result of conversion of a parent patent or utility model application or a decision of dismissal of amendment, the filing date of the later application is retroacted and the applicant of the original application on this retroacted filing date is regarded as the applicant of the later application (see "Manual of Examination of Patent and Utility Model Application", 43.04A).

There is an opinion to the effect that, in the case of a later application of which the applicant is the same as the applicant of the prior application, the exception stipulated in Article 29-2 should not be

admitted. The reason is that, when the applicants are the same, filing of a divisional application will satisfy the wish of the applicant in many cases and an abuse of a substantial prolongation of duration of the patent by filing of such later application can be avoided.

(3) Points on Prior Application:

(i) Effective Filing Date of Prior Application as Reference Against Later Application:

The effective filing date of the prior application claiming the Convention priority is as described under 3(3) above.

In case where the prior application is an application of which the filing date is retroactive, such as a divisional application (see Article 44 of the Patent Law), a converted application (see Articles 45 and 46 of the Patent Law) or a new application filed after dismissal of amendment (Article 53, Paragraph 4 of the Patent Law), the actual filing date of such application is regarded as the effective filing date of the prior application in so far as application of Article 29-2 is concerned. Accordingly, in the case of a new application filed after dismissal of amendment, a problem

arises on the fact that a patent application filed by other person during a period of from the filing date of amendment to the actual filing date of the new application cannot be barred.

(ii) Invention Disclosed in Prior Application:

The invention disclosed in the prior application is limited to an invention which can be grasped as a complete invention based on the disclosure of the as-filed specification of the prior application. It is considered that the technical content of the said invention should be described in the as-filed specification sufficiently to such an extent that if a divisional application covering the said invention is filed, the benefit of retroaction of the filing date will be enjoyed. Of course, the said invention need not be identical with the invention set forth in the claim of the prior application.

A so-called incomplete invention is not regarded as the invention of the prior application referred to herein.

(iii) Identity of Invention:

According to "Examination Standard on Identity of Invention" published by the Japanese Patent Office, when two inventions are compared for judging the

identity of the invention through any of Article 29 Paragraph 1, Article 29-2 and Article 39 of the Patent Law, if there is only found a difference corresponding to a mere change of the structure, a mere difference in use, a mere difference between the absence and the presence of a use limitation etc., both the inventions are regarded as being identical with each other.

According to the same Examination Standard, grasping of the invention is made on the basis of the technical matter disclosed in the specification or drawings and, on interpretation of the technical matter, what is not expressly disclosed in the specification or drawings but very obvious from the disclosure is additionally taken into account.

Incidentally, when an Office Action or Patent Opposition relying on Article 29-2 is issued or lodged, the applicant has to be careful not to add an unnecessary limitation to the claim for arguing unobviousness while confusing Article 29-2 with Article 29 Paragraph 2 (inventive step), because it is sufficient only to clarify a distinction of the claimed invention over the invention of the prior application.

6. Similar Provisions in Foreign Patent Laws and Conventions

There are present several Patent Laws and Patent Conventions including provisions of the same purport as that of Article 29-2 of the Japanese Patent Law, though these provisions are not completely identical in minor points with Article 29-2. Differences are found in (a) whether the whole content approach or the claim approach is adopted, (b) whether the prior application is cited only for denying the novelty of the invention of the later application or also for denying the inventive step (unobviousness) of the invention of the later application, (c) the effective filing date of the prior application cited as reference against the later application and (d) whether or not an exception is admitted based on the inventorship or applicantship.

(1) Japan:

As described hereinbefore, the whole content approach is adopted in Japan, and the prior application is cited only for denying the novelty of the invention of the later application. In case where the prior

application is an application claiming the Convention priority, in so far as an invention commonly disclosed in the as-filed specification of the prior application filed in Japan and the as-filed specification filed in the first country is concerned, the Convention priority date is regarded as the effective filing date of the prior application, and in case where the prior application is an application filed in Japan through PCT, in so far as an invention commonly disclosed in the Japanese translation and the as-filed specification of the international application is concerned, the filing date of the international application is regarded as the effective filing date of the prior application.

In respect of an application claiming the priority based on the Paris Convention, the specification of a second country application is often prepared by adding new matter to the specification filed in the first country. Accordingly, if an Office Action relying on Article 29-2 is issued while citing a prior application claiming the Convention priority, it is recommendable to check the priority document (the as-filed specification filed in the first country).

Incidentally, when the inventorship or applicant-

ship is the same between prior and later applications, the prior application is not cited against the later application, and therefore, the problem of the self-collision does not arise.

(2) USA:

In USA, the whole content approach is adopted, and a prior application is cited for denying not only the novelty but also the unobviousness of the invention of a later application (see 35 USC 102(e) and 103). However, since the laying-open system is not adopted in USA, only when the prior application is patented, the disclosure of the patented specification is cited. Furthermore, the actual filing date in USA is regarded as the effective filing date of the prior application (In re Hilmer). Even when the assignees (applicants) are the same between prior and later applications, if the inventor of the prior application is different from the inventor of the later application, the prior application is cited.

As is well known, the US Patent Law adopts the prior invention principle. Accordingly, the rejection relying on the prior application can be overcome if it is proved that the inventor of the later application

completed the invention earlier than the inventor of the prior application (see 37 CFR 1.131).

(3) EPC:

The whole content approach is adopted in EPC (see Article 54 (3) of EPC). As in the Japanese Patent Law, the prior application is cited only for denying the novelty of the invention of the later application (see Article 56 Second Sentence of EPC). In case where the prior application is an application claiming the Convention priority, the Convention priority date is regarded as the effective filing date of the prior application (see Article 89 of EPC).

In contrast to the Japanese Patent Law, the self-collision is admitted according to EPC. In other words, exceptions are not admitted on the basis of the same inventorship or applicantship according to EPC.

In connection with the criteria for judging the identity between inventions, the Japanese Patent Office has published the about 90 page-voluminous "Examination Standard on Identity of Invention" and EPO has published "Guidelines for Examination in the European Patent Office" and, inter alia, Part C Chapter IV 7.2 thereof. The real differences in judging the identity of

invention between the Japanese Patent Office and EPO is, however, not clear from these publications. In other words, it is not clear whether or not there are differences between both the Offices in extent where the novelty of the claimed invention of a later application is barred by the description of a prior application. Exact comparison may not be carried out until the case law has been established by EPO through examination of many patent application.

(4) PCT:

In the international preliminary examination, the invention of a prior application is not regarded as a prior art because of the character of this examination. However, the presence of such prior application is noted in an international preliminary examination report based on the idea that indication of the presence of the prior application will be helpful in judging the patentability in examination in a selected country (see Regulation 64.3 of PCT).

Acknowledgement

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APPENDIX

(From Tanabe/Wegner: "JAPANESE PATENT LAW" (1978))

29[bis]. -(1) Where an invention claimed in a patent application is identical with an invention or device (not being an invention or device made by the inventor of the invention claimed in the patent application) that has been described in the specification or drawings originally attached to the request of another application for a patent or for a utility model registration and where such other application was filed ~~earlier than~~ before the filing date of the patent application concerned and underwent publication *(Kôkoku)* or laying-open for public inspection *(Kôkai)* after the filing of the patent application concerned, a patent shall not be granted for the first-mentioned invention notwithstanding Section 29(1). However, this provision shall not apply where, at the time of filing of the patent application concerned, the applicant in the case of such application and the applicant in the case of the other application for a patent or utility model registration are the same person.

(2) For the purposes of applying the preceding subsection to the case where another application for a patent or a utility model registration which was filed earlier than the filing date of the patent application concerned is an international patent application referred to in Section 184[ter] (2) of this Law or an international utility model application referred to in Section 48[ter] (2) of the Utility Model Law (Law No. 123 of 1959) (including such an international application as having been recognized as a patent application or a utility model application under Section 184[sedecies] (4) of this Law or Section 48[quater decies] (4) of the Utility Model Law), the passage reading "..... described in the specification or drawings originally attached to the request" in the preceding subsection shall be considered to have been replaced by "..... described, as of the international filing date referred to in Section 184[quater] (1) of this Law or Section 48[quater] (1) of the Utility Model Law [or –in the case of an international application which is recognized as an application for a patent or a utility model registration under Section 184[sedecies] (4) of this Law or Section 48[quater decies] (4) of the Utility Model Law (hereinafter in this subsection referred to as "recognized international application")– as of the date which would be accorded as the international filing date under Section 184[sedecies] (4) of this Law or Section 48[quater decies] (4) of the Utility Model Law. Hereinafter in this subsection referred to as "international filing date"] in the description, the claims or the drawings of the international application [or –in respect of a foreign language application for a patent or a utility model registration referred to in Section 184[quater] (1) of this Law or Section 48[quater] (1) of the Utility Model Law– both in the said documents as of the international filing date and in the translated version of the said documents referred to in Section 184[quater] (4) of this Law or Section 48[quater] (4) of the Utility Model Law, and –in respect of a recognized international application in a foreign language– both in the said documents as of the international filing date and in the translation of the said documents furnished under Section 184[sedecies] (2) of this Law or Section 48[quater decies] (2) of the Utility Model Law]" and the passage reading "publication (Kokoku) or laying-open for public inspection (Kokai)" in the preceding subsection shall be considered to have been replaced by "publication (Kokoku), laying-open for public inspection (Kokai) or international publication referred to in Article 21 of the Patent Cooperation Treaty done at Washington, June 19, 1970"

(Patentability of inventions)

29. – (1) Any person who has made an invention which is industrially applicable may obtain a patent therefor, except in the case of the following inventions:

(i) inventions which were publicly known in Japan prior to the filing of the patent application;

(ii) inventions which were publicly worked in Japan prior to the filing of the patent application;

(iii) inventions which were described in a publication distributed in Japan or elsewhere prior to the filing of the patent application.

(2) Where an invention could easily have been made, prior to the filing of the patent application, by a person with ordinary skill in the art to which the invention pertains, on the basis of an invention or inventions referred to in any of the paragraphs of subsection (1), a patent shall not be granted for such an invention notwithstanding subsection (1).

(First-to-file rule)

39. – (1) Where two or more patent applications relating to the same invention are filed on different dates, only the first applicant may obtain a patent for the invention.

(2) Where two or more patent applications relating to the same invention are filed on the same date, only one such applicant, agreed upon after mutual consultation among all the applicants, may obtain a patent for the invention. If no agreement is reached or no consultation is possible, none of the applicants shall obtain a patent for the invention.

PATENT TERM RESTORATION

by Rudolph J. Anderson, Jr.

I. INTRODUCTION

In the United States and Japan, two major interrelated developments over the last twenty years have had a substantial impact on the time it now takes for an inventor of a new drug, pesticide, other chemical product or a medical device to develop and bring a new product to market. First, there have been important strides in the development of sophisticated and time-consuming techniques to test the safety, efficacy and environmental effects of such products. Having developed such techniques, manufacturers have accepted as their obligation the adequate testing of their new products before marketing them commercially. Second, the U.S. Congress and the Japanese Diet have formalized the obligations by enacting laws imposing increasingly rigorous regulatory agency review of premanufacture and premarketing testing of such products.

These developments have had an inadvertent, but not surprising, adverse effect on the period of commercial exclusivity of the patented product in both countries. As the premarket testing and regulatory review have become enormously more complex and lengthy, the effective patent life has radically decreased. For example, in 1962, it took about 2

years to bring a new pharmaceutical product from discovery to marketing in the United States; it now takes an average of 8 years, decreasing the patent life remaining to protect commercialization of the product to about a decade of sales. By the time a U.S. pesticide manufacturer establishes that a chemical is safe and effective enough to be registered for commercial marketing, there may be only 12 or so years of patent protection remaining.

Because the patent has traditionally served as the primary incentive for investment in research and innovation in these fields, the diminishing patent life has serious implications for such investment. I would like to discuss possible remedies to correct the adverse effects testing and premanufacture regulatory requirements have had on the commercial life of the patent.

Clearly, we cannot roll back the clock on the regulatory statutes, nor is it desirable to stop the growth of improved analytical testing methods, regardless of how time consuming and costly they may be. Both the regulatory statutes and the improved testing capabilities have provided significant benefits to society. The consumer has a right to expect that the drug taken is safe and effective and the pesticide sprayed on the garden will not cause adverse health or environmental problems.

What then are the alternatives for the concerned policymaker looking for ways to counteract the negative effects these developments may have had on research and innovation?

First, industry and the government can work to improve the pace of the regulatory approval when it is required prior to marketing. Unnecessary delays harm not only the manufacturer, but also the public which may be denied access to important new drugs, pesticides, or products.

As a second alternative, the government itself could undertake and bear the expense of health and environmental effects testing. While such an alternative would eliminate the costs to the inventor andd thereby free funds for research on new innovations, the disadvantages to such an approach would seem to far outweigh the advantages. Such an undertaking would create an administrative nightmare to establish criteria and procedures to determine when a private research project warranted the investment of government funds for health and environmental testing. Moreover, it would be extremely costly, and it seems unlikely that Congress or the Diet would be willing to impose such a burden on the taxpayer.

Another major approach to increase incentives for research and development is for the effective patent term to be restored to its full 17 years or 20 years in our respective countries. The patent has traditionally served as a significant incentive for new inventions. The patent's full term exclusive marketing

right has promised sufficient long-term reward for inventions to make it worthwhile for individuals and companies to undertake the risks involved in research. Unfortunately, the gradual erosion of the patent period because of increased premanufacture testing and regulatory review requirements has diminished the incentive.

There is substantial equity to permitting adjustments in the patent term to compensate for testing and regulatory review requirements. Adequate safety, efficacy, and environmental effects testing are in the public interest and should be strongly encouraged. The inventor who undertakes such testing should not be punished by seeing the period of commercial exclusivity for the invention decrease because of the time it takes to do the testing. The same is true of the regulatory review requirements. The requirements were imposed to accomplish laudable public goals of protecting health and environment. They were never intended to have a negative effect on the regulated product's patent term. This has been an unfortunate, if inadvertent, result of their enactment. Some action should be taken to see that this inadvertent impact is eliminated.

There are a variety of approaches to patent restoration. Let's discuss those approaches.

One possibility in the United States is for the Commissioner of Patents to simply withhold issuance of a patent until regulatory review has been completed. The patent applicant would include in the application a notice that the invention is subject to premarket testing and regulatory review requirements. Once the testing and review processes were successfully completed, the applicant would notify the Commissioner, who would then issue the patent. In this way the inventor would be assured of a full seventeen years of commercial exclusivity for the product. The system would also be simple for the Commissioner to administer.

Such a solution is not, however, without its disadvantages, nor is it suitable to Japan where patent term is measured from filing rather than grant.

The major disadvantage is that a product might never receive regulatory approval and a patent application would remain pending for years. This would delay the expiration of the patent without any concommitant public benefits.

A problem specific to chemical patents is that of the generic claim covering a group of related compounds. The product within the scope of the patent which undergoes the premanufacture testing and regulatory review will be based upon a specific compound within that generic group. It would be unfair for the entire generic class to enjoy a lengthened patent term because a single compound within the class was subjected to premanufacture testing and regulatory review requirements.

An alternative applicable to both our countries is to provide a "predefined extension" period for any product subject to premarket testing and regulatory review. For example, the U.S. patent term for drugs could be lengthened by eight years because that is the average time it takes to conduct the tests necessary to establish safety and efficacy of a new drug and to obtain U.S. FDA approval. Our EPA estimates that it takes approximately five years for a new pesticide to be adequately tested and approved so the patent period for pesticides could be extended for a comparable period of time. Similar calculations can be developed in Japan. Such an extension method provides the advantage of certainty for the patentee. The patentee would notify the Commissioner when a patented product fell into the premarket testing and regulatory review category, and the Commissioner would issue a patent for a term of greater than the normal 17-year period.

The deficiencies in this method are obvious. Products covered by the same regulatory requirements would receive the same extension period, regardless of how long it actually took to test and shepherd the product through the regulatory review. A product which deviated very little in its chemical composition or application from a previously approved product may require less testing and be approved for marketing more quickly than a significant break-through product, completely new in structure and application. Yet, the two would enjoy the same patent extension benefits.

Moreover, the extension period would have to be continually readjusted to reflect changes in testing methodologies which lengthen or shorten testing time. Adjustments would also be necessary to reflect changes in regulatory procedures which may reduce or increase the regulatory review period. Without such readjustments, the extension period would soon cease to reflect real world experience. If the period became too short, research and development would not receive the incentives intended by providing the extension. If the period were longer than necessary, it would be unfair to the public to unnecessarily continue the patent on a product. Yet it would be extremely impractical to continually revise the extension period. Inventors would be denied the certainty needed to encourage innovation. Moreover, there would be administrative problems in determining which revised period applied to products at different stages in the testing and review process.

The patent law of the United Kingdom until recently provided for the extension of a patent term on the ground of inadequate remuneration. A few other countries, among them South Africa, whose patent laws were originally modeled on that of the United Kingdon, still do provide for patent term

extensions on that ground. These provisions permit a patentee, near the expiraton of the patent's term, to apply to a court for an extension of up to five years or, in exceptional cases, up to ten years should he or she believe he or she has not been adequately remunerated by the patent. In ruling on such application, the court must consider the nature and merits of the invention in relation to the public, the profits made by the patentee, and all the circumstances of the case.

One of the circumstances under which an extension on the ground of inadequate remuneration may be granted is where part of the life of the patent is lost from premarketing testing and regulatory review requirements.

A right to an extension under such circumstances has, in fact, been recognized in the South African case of In re Hoechst Aktiengesellshaft[1]. There, a pharmaceutical company applied for an extension of the term of its patent on a chemical compound, generically known as furosemide and marketed under the trade name of Lasix, on the ground that it had received inadequate remuneration from the patent. The court granted the applicant a three and one-half year extension to compensate for an equivalent amount of time lost while pharmacological and clinical tests were conducted to prove the safety and efficacy of the drug.

1 In re Hoechst Aktiengesellshaft, South African Patent Journal 1962 (July 1978), aff'd sum nom. Adcock-Ingram, Ltd. v. Hoechst Aktiengesellschaft S.A.L.R. 1980 (2) 853.

Perhaps the most significant advantage of extensions based on the ground of inadequate remuneration is its conclusiveness -- a finding of the court that a patent extension is appropriate, is res judicata and cannot be challenged in a subsequent patent infringement action during the extended term.

However, such a system presents major disadvantages. First, because an application for extension is made near the end of a patent's life, the late notice to the public of potential extension seriously disrupts product development plans to compete with the patentee at the normal expiration date. Second, and relatedly, since neither the patentee nor the public has any assurance of the dispositon by the court of an application for extension, planning is made even more difficult. "Inadequate remuneration" has proven to be a particularly elusive standard to apply.

The foregoing discussion has highlighted some of the advantages and disadvantages of various methods for compensating for diminished patent life. From these, it is possible to distill certain criteria to apply in evaluating any patent extension proposal.

First, the patent should be granted after the normal application and examination procedure. Otherwise, the U.S. public may lose the benefit of early publication of the new technology.

Second, the benefits of extension should apply only to the particular claims which encompass within their scope the product actually subject to the testing and regulatory review process. A patent which covers numerous discreet products should not be extended in full simply because one of the discreet products is subject to marketing delays.

Third, the patent compensation proposal should be neutral in its effect on the 17-year patent term; that is, it should assure that the patentee enjoys a full seventeen years of commercial exclusivity for his commercialized product but it must not overcompensate the patentholder. The only manner to accomplish this is to tie the extension mechanism to the actual time spent on premanufacture testing and regulatory review. Moreover, it must be designed in a way to assure that dilatory action on the part of the patentee during the testing and regulatory review period is discouraged.

Fourth, the procedure should be as simple to administer as possible, creating no additional burdens or obligations on the Patent and Trademark Office or the regulatory agencies.

Patent restoration legislation which satisfies the criteria outlined above has been introduced in the U.S. Senate as S. 2892 by Senators Bayh, Thurmond, Mathias, Morgan, and Percy. The text of the bill has been made available here.

The proposal is designed to compensate a patentee for the patent life lost because of Federal premanufacture testing and regulatory review requirements. The bill identifies the types of patents which may be extended. Such patents are those covering products which by specific statutes in the United States are subject to premanufacture testing and regulatory review requirement.

The bill specifies that the rights derived from any claim of an extended patent are limited in scope to the product for which premanufacture testing and review has been required. As a further limitation, the extension benefits apply only to the statutory use for which regulatory review is required. For example, a chemical may be used as the active ingredient of a drug and it may also be used in a cosmetic for non-medicinal purposes. Because the product does not have to undergo premarket testing or review for the cosmetic use, the rights from the extended patent would be infringed when the chemical is marketed in a drug but no infringement would occur if marketed in a cosmetic.

A patent is eligible for an extension only if the statutory bars to marketing the product are removed at the end of the regulatory review period. The length of the extension is measured by determining the "regulatory review period" for each product. The "regulatory review period" is defined in terms of the specific statutory requirements which are applicable to

each of the products. For example, with respect to drugs, the period begins on the date the manufacturer submits an Investigational New Drug application and it ends on the date the drug is approved. The regulatory review period for the other products is defined in a similar manner with an objective starting and ending date. As a general rule, the period begins on the date the patentee initiates the major required premanufacture testing. By keying the date to initiation of major testing, the bill recognizes that the patentee will not be compensated in time for his early product development work of preliminary screening of the product and its potential uses, nor does it compensate the patentee for substantial short-term testing.

The regulatory period ends on the date the prohibitions on commercial marketing are removed. This will always be a formal and objective date, marked either by affirmative action by an agency approving a product or by the expiration of a statutorily defined period for agency action to review and, if necessary, halt the commercial manufacture of the product.

A maximum cap of seven years on the extension period is included to protect the public against dilatory action by the patent holder. Seven years was selected because statistical evidence shows that this is the average time it takes to complete the drug approval process from the time an IND is filed. By using this figure, the bill provides an adequate

period for the patentee to complete testing while at the same time not providing such a lengthy period that the patentee could delay action without any risk.

The mechanics of obtaining the extension are simple and impose no heavy administrative burdens on the Office of Patent and Trademarks. A patent holder obtains the extension by notifying the Commissioner of Patents that his or her patented product has just completed the regulatory review period. This notice must be given within 90 days of completion of the review. Notice must include the date on which the regulatory review period started and ended; identify the specific product and statutory use for which the regulatory review was required, and it must identify the claim of the patent to which the extension is applicable. In addition, the patentee must include a statement indicating that the regulatory review period ended in removal of restrictions on marketing of the product. Upon receipt of the notice, the Commissioner publishes a notice of this information in the Official Gazette of the Patent and Trademark Office. The Commissioner issues a certificate extending the patent by a period equal to the regulatory review period. The certificate spells out the details of the extension and is recorded in the official file of the patent.

Because the regulatory review period is defined in objective terms, no burden to make a judgment or finding regarding the proper length of the extension is imposed on either the Patent Office or the regulatory reviewing agency. Moreover, the timing of the notice to the Patent Office protects the Office from having to maintain records on patents which may never be extended because the product does not successfully complete the regulatory review process. The Patent Office will receive notice of an extension after the product has been approved for marketing, so Patent Office resources will be expended on actual extension rather than potential ones.

Finally, the public is protected from unfair or overreaching extensions. The only benefit from an extension is the right of the patentee to bring an infringement action against an unlicensed copying of the product.

Thus, if a patentee seeks to enforce an invalid or improper extension, the facts with respect to behavior of the product's sponsor before the regulatory agency will become known upon discovery. If it finds inequitable behavior on the sponsor's part, the court is in the position to protect the public interest by refusing to enforce the patent.

CONCLUSION

Our governments have recently demonstrated an increased awareness of the importance of research and innovation. The Domestic Policy Review of Industrial Innovation, initiated by our President in 1978, provided the highest level of policy attention by the U.S. executive branch to innovation issues. The final report of the Advisory Committee on Industrial Innovation, which I discussed with you in Philadelphia, reaffirmed the importance of increasing the incentives for research and innovation.

Patent restoration was a step recommended by the Advisory Committee to provide increased research toward innovation for products subject to regulatory review. A full patent term assures adequate rewards to justify the commitment of resources to research in such fields by innovators in both our countries. The inadvertent erosion of this term because of premarket testing and regulatory requirements has diminished the economic attractiveness of their investment in the development of new products. Passage of patent restoration legislation by our respective governments similar to that introduced by our Senator Bayh would rectify the situation.

96TH CONGRESS
2D SESSION

S. 2892

To amend the patent law to restore the term of the patent grant for the period of time that non-patent regulatory requirements prevent the marketing of a patented product.

IN THE SENATE OF THE UNITED STATES

JUNE 27 (legislative day, JUNE 12), 1980

Mr. BAYH (for himself, Mr. THURMOND, Mr. MATHIAS, Mr. MORGAN, and Mr. PERCY) introduced the following bill; which was read twice and referred to the Committee on the Judiciary

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A BILL

To amend the patent law to restore the term of the patent grant for the period of time that non-patent regulatory requirements prevent the marketing of a patented product.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

That this Act may be cited as the "Patent Term Restoration Act of 1980."

SEC. 2. (a) The Congress finds that—

(1) the United States patent system has provided a major incentive for the investment necessary for innovation and new product development;

(2) protection of health and the environment is a necessary concern of the Federal Government and many patented products may not be marketed commercially until the product has been approved in accordance with various Federal health and environmental laws;

(3) the time necessary for the testing of such products and the regulatory review or notification period substantially reduce the period of commercial exclusivity which the Congress intended a patented product to enjoy;

(4) such a reduction in the commercial exclusivity period discourages research and innovation and prevents important new products from being made available to the public;

(5) restoration of the rights afforded by the grant of patents to their full period of exclusivity is a necessary prerequisite to restoring the United States to an innovative leadership position.

(b) It is the policy of the United States that the term of patents for products subject to premarketing regulatory review or notification should be extended to compensate for

delays in commercialization of such products resulting from government regulation.

SEC. 3. Title 35 of the United States Code, entitled "Patents" is amended by adding the following new section immediately after section 154:

"§ 155. Restoration of patent term

"(a)(1) Except as provided in paragraph (2), the term of a patent which encompasses within its scope a chemical product, a process for use of a chemical product, or a device subject to a regulatory review period shall be extended by the amount of time equal to the regulatory review period for such chemical product or device if—

"(A) the owner of record of the patent gives notice to the Commissioner in compliance with the provisions of subsection (b)(1);

"(B) the regulatory review period resulted in the removal of restrictions on the commercial marketing of such product or device; and

"(C) the patent has not expired prior to notice to the Commissioner under subsection (b)(1).

The rights derived from any claim of any patent so extended shall be limited in scope during the period of any extension to the chemical product or device subject to the regulatory review period and to the statutory use for which regulatory review was required.

"(2) In no event shall the term of any patent be extended for more than seven years.

"(h)(1) Within ninety days after termination of a regulatory review period, the owner of record of the patent shall notify the Commissioner that the regulatory review period has ended. Such notification shall be in writing and shall:

"(A) state the date on which the regulatory review period commenced and ended;

"(B) identify the device or specify the chemical identity of the chemical product and the statutory use for which regulatory review was required;

"(C) state that the requirement of subsection (a)(1)(B) has been satisfied; and

"(D) identify the claim of the patent to which the extension is applicable and the length of time of the regulatory review period for which the term of such patent is to be extended.

"(2) Upon receipt of the notice required by paragraph (1), the Commissioner shall promptly publish the information noticed in the Official Gazette of the Patent and Trademark Office.

"(3) The Commissioner shall issue a certificate of extension, under seal, stating the fact and length of the extension and identifying the product or device and the use and the claim to which such extension is applicable. Such certificate

shall be recorded in the official file of each patent extended, and such certificate shall be considered as part of the original patent.

"(4) Any patent extension granted under this section shall be revoked by the Commissioner if the person subject to the regulatory review period is convicted by a court of a criminal violation for submitting false, fictitious, fraudulent, or misleading data in support of the application, petition, request, or notification described in subsection (c)(4) on which such patent extension is based.

"(e) As used in this section:

"(1) The term 'chemical product' means—

"(A) any new drug, new animal drug, food additive, or color additive as defined in section 201 of the Federal Food, Drug, and Cosmetic Act;

"(B) any human or veterinary biological product as defined in section 351(a) of the Public Health Service Act or in regulations issued under the virus, serum, toxin and analogous products provisions of the Act of Congress of March 4, 1913;

"(C) any pesticide as defined in section 2 of the Federal Insecticide, Fungicide, and Rodenticide Act; and

"(D) any chemical substance or mixture as defined in section 3 of the Toxic Substances Control Act.

"(2) The term 'device' means any device as defined in section 201(h) of the Federal Food, Drug, and Cosmetic Act and described in section 513(a)(1)(C) of such Act.

"(3) The term 'major health or environmental effects test' means an experiment to determine or evaluate health or environmental effects which requires at least six months to conduct, not including any period for analysis or conclusions.

"(4) The term 'regulatory review period' means—

"(A) with respect to a new drug or a human biological product, a period commencing on the date the patentee, his assignee, or his licensee has requested an exemption for investigation with respect to such drug or biological product under section 505(i) or section 507(d) of the Federal Food, Drug, and Cosmetic Act and ending on the date an application with respect to such drug submitted under section 505(b) or section 507(f) of such Act is approved or such biological product is licensed under section 351(d) of the Public Health Service Act;

"(B) with respect to a new animal drug, a period commencing on the date the patentee, his assignee, or his licensee has requested an exemption for investigation with respect to such animal drug under section 512(j) of the Federal Food, Drug, and Cosmetic Act and ending on the date an application with respect to such animal drug submitted under section 512(b) of such Act is approved;

"(C) with respect to a veterinary biological product, a period commencing on the date the patentee, his assignee, or his licensee has requested authority to prepare an experimental product under the virus, serum, toxin, and analogous products provisions of the Act of Congress of March 4, 1913, and ending on the date such biological product is licensed under such Act;

"(D) with respect to a food additive, a period commencing on the date the patentee, his assignee, or his licensee initiates a major health or environmental effects test relied upon to establish the safety of such food additive in a petition submitted under section 409 of the Federal Food, Drug, and Cosmetic Act requesting issuance of a regulation prescribing the conditions under which

such additive may be safely used and ending on the date such regulation becomes effective;

"(E) with respect to a color additive, a period commencing on the date the patentee, his assignee, or his licensee initiates a major health or environmental effects test relied upon to show that such color additive will be safe for its intended uses in a petition requesting the issuance of a regulation listing such use and ending on the date such a regulation becomes effective;

"(F) with respect to a pesticide, a period commencing on the earlier of the date the patentee, his assigneee, or his licensee (i) initiates a major health or environmental effects test on such pesticide, the data from which is submitted in a request for registration of such pesticide under Section 3 of the Federal Insecticide, Fungicide, and Rodenticide Act, (ii) requests the grant of an experimental use permit under section 5 of such Act, or (iii) submits an application for registration of such pesticide pursuant to section 3 of such Act, and ending on the date such pesticide is first registered, either conditionally or fully;

"(G) with respect to a chemical substance or mixture for which notification is required under

section 5(a) and which is subject to a rule requiring testing under section 4(a) of the Toxic Substances Control Act, a period commencing on the date the patentee, his assignee, or his licensee has initiated the testing required in such rule and ending on the expiration of the premanufacture notification period for such chemical substance or mixture, or if an order or injunction is issued under section 5(e) or 5(f) of such Act, the date on which such order or injunction is dissolved or set aside;

"(H) with respect to a chemical substance or mixture for which notification is required under Section 5(a) but which is not subject to a testing rule under Section 4 of the Toxic Substances Control Act, a period commencing on the earlier of the date the patentee, his assignee, or his licensee—

(i) submits a premanufacture notice, or

(ii) initiates a major health or environmental effects test on such substance, the data from which is included in the premanufacture notice for such substance,

and ending on the expiration of the premanufacture notification period for such substance or if an

order or injunction is issued under section 5(e) or 5(f) of such Act, the date on which such order or such injunction is dissolved or set aside; and

"(I) with respect to a device, a period commencing on the date the patentee, his assignee or his licensee has requested an exemption for investigation with respect to such device under section 520(g) of the Federal Food, Drug, and Cosmetic Act and ending on the date an application with respect to such device submitted under section 515(c) of such Act is approved,

except that the regulatory review period shall not be deemed to have commenced until a patent has been granted for the chemical product or device or the use of such product or device subject to the regulatory review period. In the event the regulatory review period has commenced prior to the effective date of this section, then the commencement of the regulatory review period shall be considered to be such effective date.".

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INTERPRETATION OF A MEANS COMBINATION CLAIM REFLECTED IN COURT DECISION

PIPA ELEVENTH INTERNATIONAL CONGRESS
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Abstract

The Japanese Patent Law includes no probisions defining a so-called means combination claim. In both the patent examining procedure and patent infringement litigation the functional and abstract language of a means combination claim are issue of argument.

The Tokyo High Court Decision on "Apparatus for Manufacturing Ball Bearings", December 20, 1978 is believed a leading decision concerning the scope of protection of a means combination claim.

The decision is very unique in Japan because it concerns the scope of a means combination claim in connection with a patent infringement litigation. It can be said to be very unfavorable to the patentee that the Court interpreted the scope of the invention as being narrower than as understood from the language of the claim.

To avoid a narrow interpretation of a means combination claim it would be effective to describe and illustrate as many embodiments are possible in its "detailed explanation" of the specification and the drawings. There seems to be no other way than so doing to secure the broad scope of protection.

1. Introduction

This is to re-evaluate the Tokyo High Court decision of December 20, 1978 which interpreted the scope of invention described in a so-called "means combination claim"*, from a view point of those who may file patent applications. The decision is very unique in Japan because it concerns the scope of a means combination claim in connection with a

patent infringement litigation. It can be said to be very unfavorable to the patentee that the Court interpreted the scope of the invention as being narrower than as understood from the language of the claim.

The patent in question relates to an appratus for manufacturing ball bearings. It was issued on a Japanese patent application filed, claiming priority based on a U.S. patent application. The U.S. application was filed on December 14, 1956 and assigned to The Sheffield Corporation. On the U.S. application a patent was issued under Patent No. 3,079,678.

The Japanese patent application was filed on December 11, 1957 and published for opposition on June 2, 1960 under Publication No. 35-6252. Eventually Patent No. 267420 was issued on this application. The claim of the Japanese patent is substantially identical with none of the claims of the U.S. patent. Refer to U.S. claims 1 and 2, a copy of which is attached hereto. Obviously, the Japanese claim, which reads as will be copied in paragraph 2-2) of the present theses, is broader than the U.S. claims; it is more abstract and uses functional language.

Note:*A "means plus function claim" which reads: "means for ———ing."

It cannot be said for sure that the Japanese Courts may always consider the scope of a means combination claim so narrow as did the Tokyo High Court. But the above-noted decision no doubt is

worth studying in an attempt to determine the broadest possible scope that a means combination claims may have and to solve problems that a means combination claim does have.

2. The Tokyo High Court Decision

(Decision No. Showa 51(ne) 783, Dec. 20, 1978, made to an appeal againt patent infringement)

1) The appellant (or plaintiff), Kabushiki Kaisha Tokyo Seimitsu had an exclusive license to the subject patent (i.e. the apparatus for manufacturing ball bearings) from 1967 to 1973. In these years the appellee (or defendant), NTN Toyo Bearing Kabushiki Kaisha manufactured ball bearings, using the apparatus they owned.

The appellant believe that the defendant's manufacturing ball bearings would infringe the subject patent. Subsequently they filed an appeal against the alleged patent infringement with the Tokyo District Court. The Tokyo District Court decided that the defendant had not infringe the subject patent (see Decision No. Showa 44(wa) 6127, March 17, 1976). The appellant considered the decision unfair and filed an appeal against the District Court decision with the Tokyo High Court.

2) The claim of the subject patent reads as follows:

"An apparatus for automatically selecting and assembling inner and outer parts such as inner and outer bearing rings and intermediate parts such as bearing balls which is characterized in that it is provided with a gaging means which

serves to automatically compare the crtirical size of the outer surface of inner parts with a corresponding inner surface of outer parts and also to control a metering means for taking out, by size comparison, a predetermined number of intermediate parts contained in a supply means selected from among supply means containing intermediate parts of different sizes, and in that the intermediate parts so taken out and inner and outer parts so metered are assembled by an assembly means which cooperates with the metering means."

3) The appellant pointed out:

(1) The subject invention is a pioneer invention.

(2) It would be rather usual that a claim is abstract to some extent.

(3) Although the claim is abstract, it would be unreasonable to determine the scope of invention according to the structure and function of an embodiment described in the specification.

4) The appellee argued:

(1) The invention is not a pioneer invention.

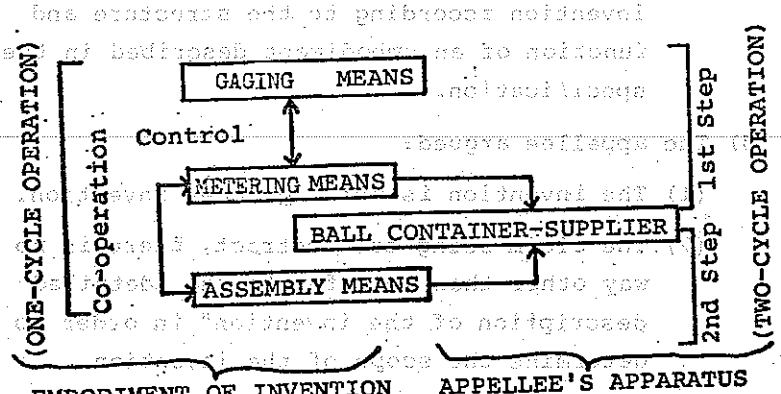
(2) The claim being too abstract, there is no way other than to refer to the "detailed description of the invention" in order to determine the scope of the invention.

(3) The subject apparatus operates in one step, whereas the appellee's apparatus works in two steps, i.e. the first step of metering-gaging and the second step of

assembling a bearing, and has an improved productivity.

(4) Regarding the subject apparatus, it is necessary for the gaging means to control the metering means and also for the metering means to cooperate with the assembly means. These requirements need not be achieved in the appellee's apparatus. The appellee's apparatus is therefore considered different from the claim of the subject patent in basic structure and has a high operation efficiency.

The appellee's argument about the difference between his apparatus and the subject apparatus may be well illustrated as follows:



5) The Tokyo High Court accepted the appellee's opinion and thus rejected the appeal filed by the appellant. The reasons for rejection are:

(1) The wording "assembly means co-operating with the metering means" is very functional and very abstract. It is impossible to understand from the claimed scope of the invention how the metering means and the assembly means should co-operate in the meaning of the term "co-operating" used in the claim.

(2) The intended meaning of the term "co-operating" does not seem to be directly stated in the specification of the patented invention. Nor is provided an evidence which proves that the term "co-operating" is understood to mean a specific technical matter in the field of art to which the patented invention belongs and also such term is so used.

(3) It is necessary to interpret rationally the required component: "the metering means and the assembly means co-operate" by reviewing the drawing and reading the whole specificatiion, in an attempt to grasp the technical significance or idea of the component. The significance of the component should be ascertained by learning the technical idea disclosed in the embodiment which is described in the specification because the component is stated in very functional and abstract

language as pointed out above and also because its technical significance cannot be said to be clearly understood from the specification by any person having ordinary skill in the art.

(4) Indeed it may be unreasonable to limit the component to the concrete structure and function achieved in the embodiment. (This Court's opinion stated here is not based only on the structure and function of an embodiment described in the specification.)

(5) It is not permissive to widely claim under the mask of functional and abstract language such technical idea that is not described in the specification to such an extent that people having ordinary skill in the art to which the invention belongs cannot easily effect the working of the invention.

(6) In the apparatus described as the only one embodiment of the subject invention, either the metering means or the assembly means cannot keep of working independently of the operation of the other. The relationship that "the metering means and the assembly means co-operate" should therefore be considered to mean: "The metering means and the assembly means control each other's operation". That is, these means are put in a so-called "one-to-one relationship" or an inseparable relationship.

(7) In the appellee's apparatus a ball container-supplier device is provided between the metering means and the assembly means. The first step of metering-gaging and the second step of assembling parts can be carried out independently. Obviously, the metering means and the assembly means do not control each other's operation and do not have an inseparable relationship. Further, if the cycle of the first step is made shorter than that of the second step, the first and second steps can be continuously carried out independently of each other. As a result, the appellee's apparatus works without a time loss, and this apparatus needs less types of balls to assemble bearings of the same size than the conventional apparatus.

(8) Hence, the appellee's aparatus does not have a relationship that "the metering means and the assembly means co-operate" and should therefore be held to be outside the technical scope of the patented invention.

3. A Study on the Tokyo High Court Decision

1) The decision reflects that the Judges considered the means combination claim to have a narrower scope than the language of the claim was intended to mean. The Judges thought the claim described each element of the invention in a very functional and abstract language and thus, the claim was unclear. Relying on this opinion,

they limited the scope of the invention to the embodiment described in the specification, i.e., concrete technical disclosure, and rejected the appeal against the alleged infringement on the appellee's patent. The Judges' approach to interpretation of the scope of invention as described in means combination claim agrees exactly to the approach taken by the Tokyo District Court. In the light of the decisions made by the higher and lower courts in many similar cases in the past, the judges' approach seems orthodox in that when the claim was not clear, the scope of claim was determined by reference to the description in the specification.

2) The decision does not directly refer to the point of issue: whether or not the subject patent is a pioneer invention. This may suggest that the Judges, appellant and appellee agreed, though not explicitly, that the patent could be called "pioneer invention". The appellee does not apear to have argued against the validity of the patent.

A pioneer invention, if any, which is objectively believed, in some cases, very inventive unlike the subject invention cannot be claimed fully and/or described fully in the specification, showing its embodiments. In other words, in such cases, it is difficult to demand that the pioneer invention should be claimed and/or described fully. Thus a pioneer

invention is usually claimed in a generic language, thereby covering the broadest possible scope. This is an existing tendency in claim drafting. In this case, even if such invention was a pioneer invention, the wording "the assembly means cooperating with the metering means," which was an element of this claim, might have been considered excessively functional and abstract in contrast with the specific disclosure in the specification, so that such wording was understood to go byond an allowable range.

3) The decision made on this case relates to the interpretation of the scope of protection of a patent right expressed in the form of a means combination claim. But, the point actually at issue was not the elements such as the metering means or the assembly means, but the relationship that such metering means and assembly means cooperate with each other. In orther words, what caused the meaning of the claim to be so functional and abstruct as to make such meaning unclear was an expression "co-operation" which meant the connection of the metering means and the assembly means.

To put it more precisely, the decision does not concern the questions of which Japanese word, "shudan" (usually regarded as equivalent to "step" or "means") or "sohchi" (usually regarded as equivalent to "device" and "apparatus") was used for the word "means" employed in the

original U.S. claim. Rather, the question was: whether acceptable or not was the functional and abstract term "co-operative relationship". The Tokyo High Court Judges ruled, having studied the description of the embodiment, that the "co-operative relationship" meant: "The metering means and the assembly means control each other's operation. That is, these means are put in a so-called "one-to-one relationship" or an inseparable relationship."

4) Our analysis stated in the preceding paragraphs 1) - 3) convinces us that the Judges understood the "co-operative relationship" was equivalent to a "one-to-one co-operative relationship". Obviously, they interpreted the claimed scope of the invention narrower, assuming that a new component "one-to-one co-operative relationship" was claimed.

In Japan the claimed scope of a patented invention can be narrowed only if a request for trial for amendment is filed and the amendment is allowed by the Trial Examiners. If the claim of a patent is considered too broad, it may violate the provisions of Article 36, Paragraphs 4 and 5 of the Patent Law and the patent shall be invalidated under Article 123, Paragraph 1, Item 3 of the Patent Law. The claimed scope of the subject invention was narrowed without the Trial Examiners' permission and seems controversial in view of the Japanese Patent Law.

4. Menas Combination Claim -- How is It Interpreted?

1) In the United Staes:

(1) The U.S. Supreme Court made a decision on Paper Bag case in 1902, which allowed a functional claim written in the form of a means combination claim. In 1946, however, the Halliburton decision rejected a means combination claim as being too functional and thus invalidated the claim. The Halliburton decision raises various opinions as to how a functional language used in a claim for a combination should be interpreted. These opinions urged the U.S. Congress to add Article 112, third paragraph to 35 USC in 1952.

(2) Existing Article 112, third paragraph explicitly allows using a means combination claim, which reads as follows:
"An element in a claim for a combination may be expressed as a means or step for performing a specified function without the recital of structure, material, or acts in support thereof, and such claim shall be construed to cover the corresponding structure, material, or acts described in the specification and equivalents thereof."
That is, the first half of the third paragraph, Article 112 clearly allows us to use a means plus function language in a claim of an invention whose novelty is admitted in a combination of known elements.

The latter half of the third paragraph explicitly teaches that every element expressed as a "means" should be construed to cover the corresponding structure, material, or acts described in the specification and equivalent thereof.

(3) "Manual of Patent Examining Procedure" published by the U.S. Patent and Trademark Office shows that means combination claims may e allowed (see rule 706.03(C)). But, "single means" claims are not allowed. A "single means" claim is a claim which contains only one clause reading: "means for ———ing". This type of claim is unpatentable because the word "means" covers very element or device that can perform the desired function.

A "means comblination" claim contains two or more means clauses. This type of claim is understood to call for a novel combination of elements and each means clause is expressed as "means for ———ing, "and a means combination claim cannot be rejected merely because an embodiment or embodiments disclosed in the specification are not described in detail in the claim.

(4) As mentioned above, in the United States a means combination claim is a typical functional claim. Therefore since many court decisions on the scope of means combination claims have been studied, the

means combination claims are legally defined to some extent, and the exmining procedures of means combination claims have been established at the Patent and Trademark Office. Now in the United Staes interpretations of a means combination claim are relatively similar.

2) In Japan

(1) In Japan a means combination claim has yet to be regarded as a particular form of claim. It is considered one of the types of claims which use a functional and abstract language and which are thus uncelar.

(2) As a rule the Japanese patent examiners reject a functional and abstract language used in a claim and therefore reject the whole claim. Unlike the case in the U.S., a so-called means combination claim, which is considered a functional claim is rejected in Japan. Usually it is rejected by many Japanese examiners as being vague and indefinite.

"Examiners' Manual" in examining pottery and refractries inventions of the Japanese Patent Office teaches that a functional language may be allowed "if various means for performing the same function, which are described in detail in the specification, cannot be generically claimed otherwise." As this guideline implies, in the actual examining procedure the examiners construe a

claim, if functional a little, to express a concrete technical idea, and subsequently the claim is patented. In such a case a claim similar to a U.S. means combination claim is allowed these days.

(3) Now we would like to discuss the legal basis on which we may rely in determining the scope covered by a means combination claim allowed in Japan. Article 70 of the Japanese Patent Law directly relates to the claimed scope of an invention and teaches us what is the basis for deciding the scope. Article 70 reads:

> (Technical scope of patented inventions)
> 70 - The technical scope of a patent invention shall be decided on the basis of the statement of the claim in the specification attached to the request."

"The technical scope of the patented invention" is generally interpreted to be the technical features of a patented invention which would determine the scope of the invention to be protected. Strictly speaking, "the technical scope of a patented invention" is not construed identical with "the scope of protection of a patented invention." In present review the term "scope of protection" will be used to mean both.

According to Article 70 the scope of protection of an invention "shall be

decided on the basis of the statement of the claim." This may be paraphrased: "the scope of protection must be interpreted from the statement of the claim only." Generally, however, it is understood that "materials other than the statement of the claim may be taken into consideration" in order to determine the scope of protection.

This general understanding agrees with the provisions of Article 36, Paragraph 5, which reads as follows:

"(5) In the claim or claims under subsection (2) (iv) there shall be stated only the indispensable constituent features of the invention or inventions described in the detailed explanation of the invention. However, in addition, stating specific forms of the invention or inventions is not precluded."

Relying on thse provisions of Article 36, Paragraph 5, some people are of the opinion that the "detailed explanation" and the drawings should be carefully read and reviewed <u>whenever</u> the scope of protection of a patented invention is to be determined. This opinion, which is dominant among those interested in, or studying, the Patent Law and patent practice, is based on the idea that a claim describe concisely only the

elements indispensable to the invention.

It is generally said that materials other than the claim might be used to interpret the scope of protection, in the following cases:

(a) The statement of the claim is uncelar.

(b) The statement of the claim is inconsistent with the description in the specification.

A "detailed explanation of an invention", drawings attached to the specification, the priority documents, and official actions and the applicant's responses thereto are named as "materials" which may be used.

(4) The Tokyo High Court decision does not clearly show how the scope of protection should be determined. But the decision reads: "The significance of the component should be ascertained by learning the technical idea disclosed in the embodiment which is described in the specification because the component is stated in very functional and abstract language as pointed above and also because its technical significance cannot be said to be clearly understood from the specification by any person having ordinary skill in the art." Ovbiously, the decision suggests that the scope of protection should be determined, referring to the "detailed explanation" and

the drawings in case, as stated in sub-paragraph (a), the statement of the claim is unclear. This observation will be agreed by any person interested.

(5) The Japanese Courts, lower courts or higher courts, have not power to determine the validity or invalidity of patent. The courts must therefore regard a patent as valid even if there is good reason to believe that the patent is invalid, unless and until the Patent Office decides that the patent is invalid.

Some appeals filed with the Court against alleged patent infringement are concerned with patented claims which cover also prior art and which should thus be invalidated. In such cases the Court sometimes interprets the claim to be narrow enough to exclude prior art, whereby both parties are satisfied. This judgement of the Court is strongly opposed because it may deny the significance of the trial for amendment of patent and the trial for invalidation of patent.

As to the subject patent it is not observed at all that the Judges construed the claim to be narrow in order to evade reasons for invalidation.

(6) A means combination claim describes the constituent elements of the invention in functional and abstract language. Thus a

means combination claim appears favourable to the applicant. But it must not contain technical matters which are described in the "detailed explanation" but which are not so described in such way that they can be understood by anyone having ordinary skill in the art to which the invention belongs. If such technical matters are written in the claim, the claim, which looks broad at a glance, should be carefully read and be compared with the description of the specification, thereby correctly determine the scope of protection.

Due to the reasons we have referred to, there is and will be a strong tendency that the scope of protection of means combination claim is narrowly interpreted on the basis of the embodiment disclosed in the specification because the wording of claim is functional, abstract and unclear.

5. Thought Keys

Having studied the Tokyo High Court Decision, we learned a lot of things about particular matters that we should consider when we draft patent specifications. Some of these things are:

1) Wording of a Means Combination Claim

In principle, it would not be advisable for an applicant to write a means combination claim. There are two reasons. First, the claim has little chance of allowance during the examination procedure. Secondly, if patented, it

has the risk of being considered to have a narrow scope in patent infringement litigation. A means combination claim may be filed if the invention is a pioneer invention or has novelty in combination of elements and cannot be properly claimed in other styles of claim. If this is the case, it is essential to describe the embodiments of the invention fully and clearly as will be hereinlater discussed in detail. We should keep it in mind that the scope of a means combination claim is interpreted not according to the functional and abstract language used in the claim but according to the description of the embodiments give in the specification.

2) Description of the Specification

(1) To avoid a narrow interpretation of a means combination claim it would be effective to describe and illustrate as many embodiments as possible in its "detailed explanation" and the drawings. There seems to be no other way than so doing to secure a broad scope of protection.

(2) The above-mentioned appellee filed a patent application for its own apparatus for manufacturing ball bearings. In his specification the appellee referred to the subject patented invention as prior art, pointed out the drawbacks of the subject invention and stated that his apparatus eliminated said drawbacks. In the Tokyo

District Court, the appellee submitted his specification to the Judges as evidence for proving the patentability of his apparatus over that of the appellant's. He pointed out to the Judges the difference between his invention and the subject patented invention with respect to functional effect and then asserted that his apparatus was outside the scope of protection of the subject patent. The appellee's specification drafting technique and his argument presented in the Tokyo District Court turned out to effectively convince the Judges that the technical subject of his apparatus (i.e. two-cycle operation) was advantageous over the technical subject of the subject invention (i.e. one-cycle operation) which had some drawbacks.

3) Embodiment-describing Claims

When the subject patent was issued, a multiple claiming system was not been adopted in Japan. Thus, if an application was filed, claiming priority based on a U.S. application, the dependent claims in the U.S. application were usually added to the specification as "additional technical aspects" which were described in the form of dependent claims, but they were not real claim. The specification of the subject patent contained "additional technical aspects", which the Tokyo District Court took into consideration in making the

decision. In the decision the Judges pointed out there has been a tendency that "additional technical aspects" is used as a basis for determining the scope of the claim.

In 1976 the multiple claiming system came into being also in Japan. Now dependent claims which call for the embodiments described in the "detailed explanation of the invention" may be allowed. But no court decision which suggests how to interpret the scope of a dependent claim has been made yet. Some patent specialists say that an embodiment-describing claim (i.e. dependent claim) helps to clarify the scope of the specified invention-describing claim (i.e. main claim). This opinion implies that a dependent claim may function to narrow the scope of protection of the main claim. Some other patent specialists therefore warn us that a dependent claim may be used by the court judges as "additional technical aspects" to interpret the scope of the main claim, in other words, to narrow the scope of the claim.

Generally it is recommendable to use a means combination claim as a main claim and to file dependent claims(i.e. embodiment-describing claims) which define concretely the structure and material of each means described in the means combination claim. Unlike to cases in the United States, the interpretation of the multiple claiming system has not yet rooted in Japan. We therefore must make all-out efforts

to draft the best possible means combination claim and the best possible dependent claims.

4) Embodiments

The last paragraph of many patent specifications reads: "The above-described embodiments are no more than examples of the invention, and the invention is not limited to these embodiments." A similar paragraph is written also in the subject patent specification. This paragraph is, as it were, a replica of the following description used in the corresponding U.S. patent specification;

"It will be understood that while the present invention is particularly illustrated and described as applied to such an operation, it can be embodied in materially different structural arrangements and applied to other parts." It remains questionable how much such paragraph helps determine the scope of the invention in a manner favorable to the patentee in a patent infringement litigation. The decision of the Tokyo District Court reads: "An invention not concretely described should not be protected." And the Tokyo District Court did not take into consideration said last paragraph of the subject patent specification.

In practice, some patent specialists recommend adding similar paragraph to the specification.

6. Summary

1) the Japanese Patent Law includes no provisions defining a so-called means combination claim.

In both the patent examining procedure and patent infringement litigation a means combination claim has not yet been regarded as a established category and, in general, it is regarded as a problem to a claim using a functional and abstract language.

2) If the elements of a claim are expressed in a functional and abstract language, the claim would be usually rejected because of the violation of Article 36, Paragraph 5 of the Patent Law as not describing the structure of invention clearly or under the body of Article 29 as describing an incompleted invention.

3) If a claim written in functinal language is patented, its scope of protection may be construed to be narrower based on the description in the specification provided the language used is held to be unclear. (See Article 70 of the Patent Law.)

The Tokyo High Court Decision on "Apparatus for Manufacturing Ball Bearings", December 20, 1978 is believed a leading decision concerning the scope of protection of a means combination claim.

4) It is advisable that the applicants should use as less functional language as possible in claims and that they should describe as many embodiments as possible in the specification if they are to file a means combination claim.

7. References

1) Shoji Matsui "Patent Management", 1980, Vol. 30, No. 5, p. 478; the reference shows a court

decision which determines the scope of a claim written in functional and abstract language, according to the embodiments described in the specification.

2) Tohru Tanabe "Patent Management", 1978, Vol. 28, No. 2, p. 141; the reference teaches some interpretation of abstract language used in claims.

8. Documents Attached

1) USP 3,079,678, Claims 1 and 2

2) The English translation the Tokyo High Court Decision, Showa 51(ne) 782, "Reasons"

Claims 1 and 2 of USP 3,079,678

1. Apparatus for automatically gaging and assembling cooperating parts such as antifriction elements between inner and outer bearing rings comprising, gaging means for comparing the cooperating dimensions of a pair of inner and outer bearing raceways and providing a signal determined by the space therebetween, a plurality of supply means each containing a different size range of antifriction elements for assembly with said rings, a common receiver in operative association with all said supply means for receiving antifriction elements selectively meterd from any one of said suppy means, metering means for each of said supply means responsive to said gaging means for automatically loading a predetermined number of antifriction elements from a selected one of said supply means determined by said gaging signal into said common receiver in accordance with the relative dimensions of the gaged pair of raceways, said receiver receiving antifriction elements from a plurality of sources provided by said supply means and having a single outlet for said elements, and assembly means cooperating with the outlet of said common receiver for assembling the selected antifriction elements supplied therethrough with the gaged rings.

2. Apparatus for automatically gaging and assembling cooperating parts such as antifriction elements between inner and outer bearing rings comprising, gaging means for comparing the cooperating dimensions of a pair of inner and outer bearing raceways and providing a signal determined by the space therebetween a plurality of supply means, each for containing a different size range of antifriction elements for assembly with said rings, a substantially dish shaped receiver cooperating with all said supply means for receiving antifriction elements selectively metered from any one of said supply means thereinto, means supporting said supply means in relatively spaced relationship about the periphery of said receiver for selective automatic loading of antifriction elements from the supply means into the receiver, metering means for each of said supply means responsive to the signal provided by said gaging means for automatically feeding a predetermined number of antifriction elements from a selected supply means and into said receiver in accordance with the relative dimensions of the gaged raceways said receiver having a single outlet, and assembly means cooperating with the outlet of said receiver for assembling the selected antifriction elements supplied therethrough with the gaged raceways.

(Partial Translation)

DECISION NO. SHOWA 51(ne) 783

Decision made on: December 20, 1978

Appellant: Kabushiki Kaisha Tokyo Seimitsu

Appellee: N.T.N. Toyo Bearing Kabushiki Kaisha

Original Decision: No. Showa 44(wa) 6127 made by the Tokyo District Court

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(Page 326, right column, line 42 to page 329, right column, line 20)

REASONS

1. Both parties concerned have no dispute about the point that the appellant owned an exclusive license of the present patent right from October 18, 1967 to August 29, 1973, the point that the scope of the patented invention as claimed is just as discussed in reason 2 for which the appellant file the case and the point that the appellee manufactured ball bearings during the above-noted period, using the apparatus owned by the appellee.

2. According to the claimed scope of the patented invention, over which there is no dispute between both parties, the patented invention relates to an apparatus for automatically selecting and assembling a pair of parts such as inner and outer bearing rings or the corresponding inner and outer parts of a bearing and

intermediate parts to be arranged between the pair of parts. The apparatus comprises:

(1) a plurality of supply means each containing a different size range of intermediate parts,

(2) metering means for comparing the size and loading a predetermined number of intermediate parts from a selected one of the supply means,

(3) gaging means for automatically comparing the sizes of the cooperating faces of the inner and outer parts and controlling the metering means, and

(4) assembly means cooperating with the metering means for assembling the selected intermediate parts and the inner and outer parts examined.

Apparently it is a component of the invention that "the metering means and the assembly means cooperate". However, the language "assembly means cooperating with the metering means" is very functional and very abstract. It is impossible to understand from the claimed scope of the invention how the metering means and the assembly means should cooperate so that they may be considered to be "cooperating" in the sense of the word used. Further, in view of Exhibit A-2, the validity of which was not questioned, the intended meaning of the word "cooperating" does not seem to be directly stated in the specification of the patented invention. Nor is provided an evidence which proves

that the word "cooperating" is used and understood to mean a specific technical matter in the field of art to which the patented invention belongs. Such component described in a functional and abstract language should be disclosed in the specification and drawing as to its structure and function, even if its technical significance is not clearly understood from the specification or the ordinary technical knowledge. (If not disclosed, such required component will be considered to represent no more than a problem to be solved by the invention.) A required component should be clearly understood based on a concrete technical idea which is defined by the structure and function of the component. This will be justified since the object, construction and effect of an invention shall be described in the "detailed explanation of the invention" and only the matter indispensable to the construction of the invention described in the "detailed explanation" shall be described in the "scope of demand for patent" and since the "scope of demand for patent" shall not disagree with the "detailed explanation" and the latter must fully support the former. It is therefore necessary to interpret rationally the required component "the metering means and the assembly means cooperate" from the drawing and whole specification, in an attempt to grasp the technical significance or idea of the component.

The appellant pointed out that the present patented invention was a pioneer invention and argued that the component "the metering means and the assembly means cooperate" should not be interpreted with reference only to the structure and function achieved in an embodiment which is described in the specification. However, the significance of the component should be ascertained by learning the technical idea disclosed in the embodiment which is described in the specification since the component is stated in a very functional and abstract language as pointed out above and its technical significance cannot be said to be clearly understood from the specification and the ordinary technical knowledge. Indeed it may not be unreasonable to limit the component to the concrete structure and function achieved in the embodiment. (This court's opinion stated in the following paragraph 4 is not concerned only with the structure and function of an embodiment described in the specification.) Obviously it is wrong to claim a technical idea which is not described in the specification to such extent that any person having common knowledge in the technical field to which the invention belongs can easily effect the working of the invention, while using a functional and abstract language to define the technical idea.

4. Now the component "the metering means and the assembly means cooperate" will now be studied. In view

of the above-mentioned Exhibit A-2, the apparatus, i.e. only one embodiment described in the specification of the present patented invention is considered to have the following construction and the following function. That is, the difference in size between inner and outer parts (i.e. inner and outer rings) is detected at a gaging station 11. These parts are put together, and the resultant assembly is transferred to a position set below the dish-shaped receiver 17 of a ball assembly station 20. In the meantime one of a number of supply units 21 for supplying intermediate parts (i.e. balls) of different sizes is selected according to the result of gaging of the inner and outer rings. A metering unit 131 is actuated to release a predetermined number of balls into the receiver 17. These balls are fed through a single outlet port of the receiver 17 and loaded between the inner and outer rings which are positioned below the receiver 17, whereby a bearing is assembled. The metering unit 131 which is a metering means for selecting balls (and which comprises a solenoid 132, a central block 134, a slidable block 135, metering passages 145 to 148, etc.) is operatively coupled to an assembly 160 which is an assembly means (and which comprises a plug 155 for moving the inner ring off center, a cylinder 156, a half-moon shaped projection 161, an arm 164, an air cylinder 170, an abutment 167, a force applying arm 180 for deforming a ring 171 and the

outer ring, an abutment 186, a spring 189, an actuating stop 185, a cylinder 195, a toggle assembly 192, a rod 196, etc.) by means of the receiver 17 and a ball-loading mechanism (which comprises a loading carrier 205, a loading plunger 206, an air cylinder 208, etc.). The metering unit 131 supplies to the receiver 17 a predetermined number of balls of a specific size which has been selected according to the detected difference in size between the inner and outer rings. The balls roll fixed within the loading carrier 205 down into a vertical groove 202 provided by a sleeve 204 and remain between the groove 202 and the loading plunger 206. When the assembly 160 is actuated, a gap is provided between the inner and outer rings for receiving the balls. Thereafter the loading plunger 206 is retracted (or moved up), whereby the balls roll through a passage 210 at the lower end of the sleeve 204 and are loaded between the inner and outer rings. This done, the loading plunger 206 is pushed forward (or moved down) to a position lower than the initial position (i.e. the position shown in Fig. 14 of the present patent publication attached to the original decision). The tip of the loading plunger 206 protrudes into the gap between the inner and outer rings (at the position shown in Fig. 20 of the present patent publication) and then returns to the initial position. If the balls are not properly loaded due to, for example, jamming, the

loading plunger 206 cannot complete its full downward stroke. If this (i.e. incomplete loading of balls) happens, the machine is automatically stopped.

As evident from the above, in the apparatus described as an embodiment, the balls selected by the metering means are released into one receiver, roll through the receiver and the single outlet port of a loading mechanism associated with the receiver, and finally loaded in a gap between the inner and outer rings which are positioned below the loading mechanism. Balls of two or more sizes cannot exist at the same time in the receiver. Balls of a size suitable for the next pair of inner and outer rings are not selected by the metering means or released into the receiver until the assembly means completes the assembling process (i.e. ball-loading). That is, the metering means and the assembly means operate in such a way that when one of them finishes working, the other starts working and that when one of them stops working, the other stops working or starts going idle. One of them cannot keep on working independently of the operation of the other. The relationship that "the metering means and the assembly means cooperate", which is observed in the apparatus or embodiment, should therefore be considered to mean that the metering means and the assembly means control each other's operation. That is, these means are put in a so-called one-to-one relationship or an

inseparable relationship. The specification contains no description which would imply otherwise. (Indeed the published specification reads on page 1, right column, lines 15-17: "It will be understood that while the present invention is particularly illustrated and described as applied to such an operation, it can be embodied in materially different structural arrangements and applied to other parts." But the specification does not show a concrete construction or function which materially differs from the above-mentioned embodiment. Thus, the above-quoted description cannot be said to suggest that "the metering means and the assembly means cooperate" should be interpreted different.)

In view of the above it is reasonable to consider the component "the metering means and the assembly means cooperate" to mean not only, as the appellant asserted, that the assembly means receives the intermediate parts (i.e. balls) selected by the metering means, through another ball-holding mechanism, but also that the metering means and the assembly means control each other's operation and are thus put in a so-called one-to-one relationship or an inseparable relationship.

5. The construction and function of the appellee's apparatus are just as stated in the original decision, reason 5 (see front side of sheet 71, line 1 through reverse side of sheet 73, line 3; the term "conveyor device" on front side of sheet 71, line 10 and the last

line should be changed to "discharge device").

6. According to the statement as specified in the preceding paragraph 5, in the appellee's apparatus a device 302 which memorizes the number of balls, stores balls and feeds balls and which comprises a ball discharge port 312, a ball distributing plate 319, a disc 324, ball storing cylinders 326, etc. is provided between an assembly device 11 (i.e. assembly means) for assembling inner and outer rings and a ball counting device 301 (i.e. metering means). The ball counting device 301 counts balls and measures the sizes of balls. A predetermined number of balls of a specific size which have been counted and measured by the device 301 are supplied through the ball discharge port 312 and the ball distributing plate 319 to a number of ball storing cylinders 326 which are disposed on the circumference of the disc 324. And the balls are stored in the cylinders 326. The balls are discharged when the respective cylinders 326 reach a fixed discharge plate 410, whereby they are supplied to the assembly device 11 and loaded between the inner and outer rings. The time (or cycle) during which the balls are supplied from the ball counting device 301 to the cylinders 326 of the device 302 differs from the time (or cycle) during which the balls are supplied from the cylinders 326 to the assembly device 11. Thus, the ball counting device 301 (i.e. metering means) and the assembly device 11 (i.e.

assembly means) can operate independently of each other through the device 302. That is, one of them can keep on working even if the other is stopped. Obviously, the devices 301 and 11 do not control each other's operation and do not have an inseparable relationship, unlike the metering means and the assembly means of the patented invention which control and have an inseparable relationship in order to put together the inner part, the outer part and the intermediate parts. Further, according to the documents attached to the original decision over which both parties have no dispute and Exhibits B-26 and B-27 and the arguments which are considered valid, the appellee's apparatus operates in two steps -- the first step including examination and measuring, and the second step consisting of assembling. The cycle of the first step is made shorter than that of the second step, thus achieving the functional effect which the appellee claimed -- that is, the apparatus works with a time loss since the first and second steps can be continuously carried out independently of each other, it suffices to prepare less types of balls to assemble bearings of the same size than in the conventional apparatus. Hence, the appellee's apparatus does not have a component "the metering means and the assembly means cooperate" and should therefore be held to differ from the patented invention from a technical point of view.

7. The appellant argued that the appellee's apparatus had all the required components of the patented invention and differed only by the provision of the device 302 and that the appellee's apparatus fell within the scope of the patented invention. As mentioned above, however, the appellee's apparatus does not have the component of the patented invention, i.e. "the metering means and the assembly means cooperate". The metering and assembly means of the appellee's apparatus have a relationship different from that between the metering and assembly means of the patented invention and do bring forth particular function effects different from those achieved by the patented invention.

It is reasonable to say that the appellee's apparatus does not fall within the technical scope of the patented invention. Points other than the above-discussed ones need not be considered.

8. In view of the foregoing the original decision rejecting the appellant's claim in the main litigation is justifiable. The present appeal is groundless and is hereby rejected. The costs of the present appeal shall be borne (by the appellant) as stated in the text of the present decision, in compliance with the provisions of Articles 95 and 89 of the Code of Civil Procedure.

J. J. Hagan, Manager, Patent Law Dept., American Cyanamid Co.

CONTRIBUTORY INFRINGEMENT AFTER DAWSON

My assignment today is to review with you the doctrine of contributory infringement in the environment of recent U.S. court decisions, more particularly the U.S. Supreme Court decision in Dawson Chemical Co. et al v. Rohm & Haas Co.[1]

Before we focus on the specifics of Dawson, we will take a historical look at the doctrine of contributory infringement and trace its development over the last 100 odd years, from Wallace v. Holmes in 1871[2] to the most recent pronouncement of the U.S. Supreme Court on June 27, 1980.

Our historical perspective takes us through the steady growth of the idea of providing a patentee, recourse against one who, though not a direct infringer may, by "his contribution," make direct infringement a possibility.

Early in the history of the patent system when reward in the form of a limited exclusive right was given to an inventor, it was felt that the inventor (patentee) should not be so limited to the narrow confines of his specification and/or claims to permit another an unfair benefit. As noted in Dawson[3], "the idea that a patentee should be able to obtain relief against those whose acts facilitate infringement by others has been part of our law since Wallace v. Holmes."[4] The doctrine of contributory infringement is designed to protect a patentee from being denied his

[1] 206 USPQ 385
[2] 29F.Cas. 74 (No. 17,100)(CC Conn. 1871)
[3] 206 USPQ at 389
[4] Supra

exclusive right by one, who, without directly infringing the patent, engages in conduct which permits others to infringe to the detriment of the patentee.

The high point in the development of this doctrine, most writers agree, occurred in the 1912 A.B. Dick decision.[5] From this zenith, we trace a steady erosion in the findings of contributory infringement reaching a nadir in the oft quoted remarks of Mr. Justice Douglas in Mercoid I (1944), which we will comment on shortly.

Following the Mercoid cases, we see the reestablishment of contributory infringement with the statutory codification of the U.S. patent law in 1952 and the enactment of Section 271 (c), 35 United States Code.[6]

In focusing on the actions of one whose activities were quite separate and distinct from the patentee-inventor and whose activities but for the existence of a patent, would be entirely proper, we recognize the concern developed in recent years on the improper extension of the patent right which has resulted in yet another, frequently conflicting doctrine, that of "patent misuse."

But we are getting ahead of our historical analysis which sees, following Wallace v. Holmes, the Supreme Court's first consideration of contributory infringement in Morgan Envelope Co. v. Albany Paper Co.[7]

[5] 224 U.S. 1 (1912)
[6] 35 U.S.C. 1 (1952) See Appendix A(I)
[7] 152 U.S. 425 (1894)

This case involved the pursuit of one who supplied rolls of paper for a patented toilet paper dispensing device. The paper, a perishable commodity, was in no way involved in the claims of the patent which were directed to the paper dispensing device. The court while recognizing contributory infringement, concluded that the supplier of a perishable commodity, used in a patented invention, should not be held a contributory infringer. The court's view was buttressed by its observation that to do so, would provide the patentee with "the benefit of a patent" on an article of commerce not in any way related to the patent.

While this early decision would not seem to offer a fertile field for the development of contributory infringement concepts, actions involving the idea continued to occur with the doctrine gaining slow acceptance through the late 1890's, with its most rigorous, but successful test occurring in 1909 in the case of Leeds & Catlin Co. v. Victor Talking Machine Co. 213 U.S. 325.

The patented invention in Leeds involved the combination of a phonograph disc and stylus. The disc in itself was not patented and its only use was in the specific patented combination of disc and stylus. Since at that time there apparently were no other commercially available styluses with which the disc could operate, the patentee sought an injunction against the manufacturer of discs, on the ground that interaction between the disc and the stylus were the essence of the invention. In finding

the disc manufacturer guilty of contributory infringement, the court distinguished the result in Morgan Envelope on the basis of the "essential differences" existing between the two patented devices.

It was not too many years later that the contributory infringement doctrine reached its zenith in the case of Henry v. A. B. Dick Co.[8] The invention involved a printing machine which the manufacturer (patentee), under a license arrangement, required purchasers of the machine to obtain "staple" items, such as paper and ink used in the operation of the machine, exclusively from the patentee. The court's decision, in upholding the patentee's right to force such purchases, was based on the concept that the market for the supplies of paper and ink was created by the invention, and that the license to use the patented invention could be limited by such conditions as the owner thereof wished to impose.

This decision was actively followed by lower courts for several years, but soon developed a contrary judicial reaction which found its first expression in Motion Picture Patents Co. v Universal Film Co.[9] As is noted in Dawson,[10]

> "in addition to this judicial reaction, there was legislative reaction as well. In 1914 partly in response to the decision in Henry v. A. B. Dick Co. 224 U.S. 1 (1912), Congress enacted Sec. 3 of the Clayton Act,...."[11]

[8] Supra
[9] 243 U.S. 502 (1917)
[10] 206 USPQ at 394 (footnote 10)
[11] Act of Oct. 15, 1914, c.323, 38 Stat. 730, as amended - Appendix A(II)

In Motion Picture, the patent covered a picture projection apparatus. The owner (patentee), by attaching to the machine a notice, attempted to condition the use of the machine to the use of its (patentee's) film. We should note that the film had at one time been patented, but that the patent on the film had expired, a situation not unlike Dawson as we shall shortly see. Developing the rule and/or perhaps reinforcing the same, that the scope of the patent should be limited to the invention claimed, the court found that the restriction imposed on the use of the unpatented film was improper. At 511, the Court states:

> "Such a restriction is invalid because such a film is obviously not any part of the invention of the patent in suit; because it is an attempt, without statutory warrant, to continue the patent monopoly in this particular character of film after it has expired, and because to enforce it would be to create a monopoly in the manufacture and use of moving picture films, wholly outside of the patent in suit and of the patent law as we have interpreted it."

The Court concluded with the observation that its finding was in conflict with Henry v. A.B. Dick Co. and, that therefore, the latter case "must be regarded as overruled."[12]

During the following 20 years, patentees probed the periphery of Motion Picture with the first real test coming in 1931 in Carbice Corp. v. American Patents Co. 283 U.S. 27 (1931).

The invention involved was a refrigeration package utilizing "dry ice" (solid carbon dioxide) as the refrigerant. Dry ice was a

[12] 243 U.S. at 518

then well-known and widely used, staple item of commerce. The patentee, through its sole licensee authorized use of the patented refrigeration package only to those who purchased "dry ice" from its licensee. The Supreme Court, following the reasoning of Motion Picture, denied the patentee relief on the grounds that the patent holder and its licensee were attempting to exclude others from the refrigerant business and that such activities constituted patent misuse. The court stated:

> "Control over the supply of such unpatented material is beyond the scope of the patentee's monopoly; and this limitation, inherent in the patent grant, is not dependent upon the peculiar function or character of the unpatented material or on the way in which it is used. Relief is denied because the (licensee) is attempting, without sanction of law, to employ the patent to secure a limited monopoly of unpatented material used in applying the invention." Id., at 33-34.

The last case of controlling interest is that of Leitch Mfg. Co. v. Barber Co. 302 U.S. 458 (1938), wherein patent misuse was found in the attempt to limit the use of a process patent, covering the curing of cement, to those purchasing an unpatented bituminous emulsion, the latter being a staple article of commerce, used in the process.

Two related cases followed shortly thereafter; Morton Salt Co. v. G.S. Suppinger Co., 314 U.S. 488 (1942) which involved a patented salt tablet dispenser and an attempt on the part of the patentee to control the market of the salt tablets used in the dispenser. Herein the court for the first time likened the patent misuse concept to the "unclean hands" doctrine of the equity courts. The companion case was B. B. Chemical Co. v. Ellis, 314 U.S. 495 (1942). In the latter, the existence of patent misuse, prevented a finding of infringement even though infringement had been actively induced.

The B. B. Chemical case is of interest in that for the first time in the development of the doctrine of contributory infringement, a nonstaple item of commerce was involved, namely, an adhesive coated fabric particularly designed for use in the patented process for reinforcing the inner soles of shoes. In B. B. Chemical, the patentee argued, unsuccessfully, that the Carbice and Leitch decisions did not apply because the adhesive fabric used in the patented method was not a staple article of commerce and thereby not subject to the holding of Carbice and Leitch. The court did not accept this argument and held against the patentee.

While the pattern of cases we have reviewed seemingly limited the doctrine of contributory infringement, this was not quite the situation. It appears that doctrine of contributory infringement was being overshadowed by the concept of patent "misuse." The latter doctrice was being applied to various kinds of patentee conduct and grew out of the strong ascendency of anti-monopoly attitude which developed a rapid rate in other features of commercial conduct during the 1930's and 40's.

The growing dichotomy between effective contributory infringement actions and patent misuse prompted the court in Dawson to observe:[13]

[13] 206 USPQ at 396

> "although none of these decisions purported to cut back on the doctrine of contributory infringement itself, they were generally perceived as having that effect, and how far the developing doctrine of patent misuse might extend was a topic of some speculation among members of the patent bar. The Court's decisions had not yet addressed the status of contributory infringement or patent misuse with respect to nonstaple goods, and some courts and commentators apparently took the view that control of nonstaple items capable only of infringing use might not bar patent protection against contributory infringement. This view soon received a serious, if not fatal, blow from the Court's controversial decisions in Mercoid Corp. v. Mid-Continent Investment Co. 320 U.S. 661, 60 USPQ 21 (1944) (Mercoid I), and Mercoid Corp. v. Minneapolis Honeywell Regulator Co. 320 U.S. 680, 60 USPQ 30 (1944) (Mercoid II).

The Mercoid cases involved a patent that claimed a furnace stoker system, a combination of unpatented elements which had no use outside the patented combination. Mid-Continent, the patentee, granted an exclusive license to Honeywell to make, use or sell the patented system. Neither Mid-Continent nor Honeywell installed or produced the entire patented system. Honeywell sold the stoker switch, which when installed with a thermometer and motor driven stoker, formed the patented combination. The right to install this combination was granted only to those purchasing the switch from Honeywell, with the latter paying royalties to Mid-Continent on the sales of the unpatented switch. Reducing several years of intense legal arguments to a minimum, Mr. Justice Douglas, speaking for the majority, noted as follows:

"The protection which the Court in that case (Leeds & Catlin) extended to the phonograph record, which was an unpatented part of the patented phonograph, is in substance inconsistent with the view which we have expressed in this case. The rule of the Leeds & Catlin case (No. 2) accordingly must no longer prevail against the defense that a combination patent is being used to protect an unpatented part from competition...."

The result of this decision, together with those which have preceded it, is to limit substantially the doctrine of contributory infringement. What residuum may be left we need not stop to consider...." 60 USPQ at 25-26.

Justice Douglas' concluding remark was felt by many legal writers, (and jurists) to be the final nail in the coffin of contributory infringement.

It was at this period of time, prior to the rewriting and codification of the patent law as it existed in the early 1950's, that the patent bar, concerned with what appeared to be the demise of contributory infringement, structured what came to be, Section 271 of 35 U.S.C.[14] Paragraph (c) thereof is the first statutory definition of "contributory infringement."

While 271(c) provides a clear definition, it is interestingly enough, subparagraph (d) of Sec. 271 that the Supreme Court had to carefully consider in deciding Dawson. Sec. (d) defined for the first time, certain acts of the patentee which were excused from the application of the patent misuse doctrine.

Now some 28 years after the enactment of 271 (c) and (d), the U. S. Supreme Court in 1980 faced the appeal of Dawson Chemical Co. from the Fifth Circuit Court of Appeal decision in Rohm & Haas Co. v. Dawson Chemical Co., No. 76-4511 decided July 30, 1979. The latter decision was an appeal from the District Court, S.D. Texas, Houston Division, decided August 10, 1976, which found that

[14] Supra

> "the result in the Mercoid decisions dictates a finding of patent misuse in this action as a matter of law, based upon stipulated facts. Additionally, the Court has concluded that plaintiff's attempt to monopolize the sale of propanil in this case by refusing to license under any circumstances constitutes an extension and exploitation of its patent exceeding the patent exploitation condemned by the Supreme Court in the Mercoid decisions. Neither the legislative history, nor the subsequent judicial construction of Sec. 271 supports the plaintiff's contention that the test for patent misuse is in any manner dependent upon the staple or nonstaple nature of the infringing article. Patent misuse is an equitable defense which, if established, bars a patent owner seeking equitable relief for direct infringement under Sect. 271(a), active inducement of infringement under Sec. 271(b), or contributory infringement under Sec. 271(c). Section 271(d) patent misuse is expressly ancillary to these three codified torts of patent infringement.[15]

Before analyzing the Supreme Court's conclusion in Dawson, we should look at the facts briefly. The patent claimed the use of a specific chemical compound, 3,4-dichloropropionanilide, known in commerce as "propanil." The compound per se was first patented to Monsanto, U.S. 3,382,280 issued in 1968. Monsanto sought to prevent Rohm & Haas Co. from manufacturing and selling propanil in an action for infringement which was decided adversely to Monsanto by the Eastern District Court of PA in 1970, a decision which was affirmed on appeal in 1972 at 456 F.2D 592.

The patent involved in Dawson was U.S. 3,816,092 (Wilson), obtained by Rohm & Haas June 11, 1974, covering the use of propanil as a herbicide.[16]

[15] 191 USPQ at 707-708

[16] Claim 1 is exemplary of the claims in the "092 patent; Appendix A(III)

While the patent claim does not specifically so state, propanil is particularly effective as a postemergence herbicide, selectively killing weeds normally associated with rice crops. We should note here in passing, for purposes of later comment, that propanil is one of several herbicides commercially available for this purpose.

Rohm & Haas manufactures and sells propanil to distributors who in turn supply farmers who apply propanil to their crops. The latter, in the absence of obtaining propanil from a licensed source (R&H), would be direct infringers of the claims of the patent in suit. The Dawson defendants conceded this point.

The defendants in the initial infringement action sold propanil in containers with labels describing the method of use. We are told in the District Court decision that "the defendants knew when they sold the propanil formulations that such formulations would be used by purchasers in carrying-out the methods described on the labels."[17]

The Supreme Court in reviewing the District Court's summary judgment in favor of Dawson and its reversal by the U.S Court of Appeals (5 CA),[18] noted that propanil is a "nonstaple article" for which there is no other commercial use except within the framework of the Rohm & Haas patented invention. The Supreme Court observed that "The District Court concluded that Rohm & Haas' conduct would be deemed patent misuse under the judicial decisions that preceded section 271(d)." The court noted that the Fifth Circuit of Appeals conducted a "thorough review of the judicial developments preceding enactment of Sec. 271 and that a detailed

[17] 191 U.S.P.Q. at 695
[18] 599 F.2D. 685 (1979), 203 USPQ 1

examination of legislative history

> "thorough review of the judicial developments preceding enactment of Sec. 271, and a detailed examination of the legislative history of that provision, the court concluded that the legislation restored to the patentee protection against contributory infringement that decisions of this Court theretofore had undermined. To secure that result, Congress found it necessary to cut back on the doctrine of patent misuse. The Court of Appeals determined that, by specifying in Sec. 271(d) conduct that is not to be deemed misuse. "Congress did clearly provide for a patentee's right to exclude others and reserve to itself, if it chooses, the right to sell nonstaples used substantially only in its invention."[18(a)]

Within the foregoing parameters and noting certain concessions the parties made with respect to defendants sale of propanil and its use in an infringing manner, the Supreme Court observed that its focus of inquiry must be the scope of the doctrine of patent misuse in light of the restrictions placed on that doctrine by 271(d).

It had been the argument of Dawson that misuse existed because Rohm & Haas had tied the sale of patent rights to the unpatented propanil, and because Rohm & Haas had refused to grant licenses to those making the chemical compound. Dawson further argued that 271(d) was not intended to permit any tying arrangement, and that Rohm & Haas' conduct barred it from relief within the meaning of 271(d).

Rohm & Haas took the position that 271(d) expressly excepted its conduct from a patent misuse connotation, and, further, that the result of its (R&H) activity, namely, an extension of the patent right to control an unpatented commodity,

[18(a)] 206 USPQ at 391.

had by reason of 271(d) "express statutory sanction!"

The Supreme Court in its 5 to 4 decision reviewed the cases we have discussed, placing heavy focus on the enactment of Sec. 271 and how the latter affected the doctrines of contributory infringement and patent misuse.

While one might observe that the Court's analysis of the legislative history was less enlightening than the Court might liked to have had, the Court found sufficient support in its review of the legislative hearings to observe that:

> "we regard each set of hearings as relevant to a full understanding of the final legislative product....Together, they strongly reinforce the conclusion that Sec. 271(d) was designed to immunize from the charge of patent misuse behavior similar to that in which the respondent has engaged."[19]

Following its analysis of the legislative history and noting that nothing in the legislative history supported the Dawson argument that Rohm & Haas' behavior carried it outside the scope of 271(d), the Court touched on several, more recent cases, which involved 271(d), namely, U.S. v. Loew's Inc. 371 U.S. 38 (1962), Deepsouth Packing Co. v. Laitram Corp. 406 U.S. 518 (1972) and the Aro Mfg. Co. cases. The Court's analysis of these oft cited cases provided little support for the Dawson position.

Perhaps the best expression of the majority can be found at 206 USPQ 407 wherein the Court states:

[19] 206 USPQ at 400

> "Since our present task is one of statutory construction, questions of public policy cannot be determinative of the outcome unless specific policy choices fairly can attributed to Congress itself. In this instance, as we have already stated, Congress chose a compromise between competing policy interests. The policy of free competition runs deep in our law. It underlies both the doctrine of patent misuse and the general principle that the boundary of a patent monopoly is to be limited by the literal scope of the patent claims. But the policy of stimulating invention that underlies the entire patent system runs no less deep. And the doctrine of contributory infringement, which has been called "an expression both of law and morals,.... can be of crucial importance in ensuring that the endeavors and investments of the inventor do not go unrewarded."

The Court concluded with the finding that "Rohm & Haas' has not engaged in patent misuse, either by its making or selling propanil, or by its refusal to license others to sell that commodity."[20]

This conclusion, a 5-4 decision, may have come as a surprise to many, and for those students so inclined, it is perhaps fair to speculate on what will be the future of contributory infringement under 271(d).

If you are of the school that believes that today's dissent is tomorrow's law, we should briefly look at the dissenting opinion of Justice White whose analysis tracked the historical pattern of patent misuse and would have taken the Court to an opposite conclusion. Mr. White strongly states:

> "The plain language of Sec. 271(d) indicates that respondent's conduct is not immunized from application of the patent misuse doctrine. The statute merely states that respondent may (1) derive revenue from sales of unpatented propanil, (2) license others to sell propanil, and (3) sue unauthorized sellers

[20] 206 USPQ at 407

> of propanil. While none of these acts can be deemed patent misuse if respondent is "otherwise entitled to relief," the statute does not state that respondent may exclude all competitors from the propanil market by refusing to license all those who do not purchase propanil from it. This is the very conduct that constitutes patent misuse under the traditional doctrine: thus the fact that respondent may have engaged in one or more of the acts enumerated in Sect. 271(d) does not preclude its conduct from being deemed patent misuse."[21]

But perhaps Justice Stevens dissening views presents the issue more succinctly:

> "This patentee has offered no licenses, either to competing sellers of propanil or to consumers, except the implied license that is granted with every purchase of propanil from it. Thus, every license granted under this patent has been conditioned on the purchase of an unpatented product from the patentee. This is a classic case of patent misuse...."[22]

If you and time will permit, a few observations by your commentator:

One approaches Dawson in the light of precedent, but under the influence of current economic thinking, political environment and historical perspective. We in the United States are concerned with the momentum of our inventive progress, the lack of our technical development and our competitive posture vis-a-vis the developed world and its enhanced technological capability.

[21] 206 USPQ at 412
[22] 206 USPQ at 415

Is the Supreme Court in its recent decisions, such as Chakarabaty and Dawson, lending a helping hand to the innovative process?

Do we see a retreat from the strident enforcement of purist antitrust concepts so as to perhaps allow certain activities which may enhance the ability of the U.S. to recoup its eminence in technology development by joint research ventures, pooling of research efforts, etc.?

Is Dawson the result of expressed Congressional interest in legislation directed to improving the patent system?

Does Dawson turn a page of history and signal a resurgence of the recognition of the importance of patent rights as an integral part of technological progress, notwithstanding the dangling sword of antitrust no no's? or does one view Dawson in the light of historical precedent and conclude that today's dissent is tomorrow's law?

I - 35 United States Code:

Sec. 271 - Infringement of Patent

(a) Except as otherwise provided in this title, whoever without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefor, infringes the patent.

(b) Whoever actively induces infringement of a patent shall be liable as an infringer.

(c) Whoever sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringment of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

(d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement.

II - Clayton Act, 38 Stat. 731, 15 U.S.C. Sec. 14

Sec. 3 "That it shall be unlawful for any person engaged in commerce...to....make a sale or contract for sale of goods,.... whether patented or unpatented, for use,.....within the United States....on the condition,....that the....purchaser thereof shall not use or deal in the goods,....of a competitor...of the seller, where the effect of such.....sale,.....may be to substantial lessen competition or tend to create a monopoly....."

III - U. S. Patent 3,816,092 issued June 11, 1974 - Wilson et al

Claim 1. A method for selectively inhibiting growth of undesirable plants in an area containing growing undesirable plants in an established crop, which comprises applying to said area, 3,4-dichloropropionanilide at a rate of application which inhibits growth of said undesirable plants and which does not adversely affect the growth of said established crop.

Dawson" and Contributory Infringement in:

I. Japan:-

1. The concept of contributory infringement is clearly stipulated in Article 101 of the Japanese Patent Law. This Article was enacted in 1960, 8 years after the codification of the concept in U.S.A. as Sec. 271(c) in 1952. It reads:

(Acts deemed to be infringement)

101. - The following acts shall be deemed to be an infringement of a patent right or exclusive license:

(i) in the case of a patent for an invention of a product, acts of manufacturing, assigning, leasing, displaying for the purpose of assignment or lease, or importing, in the course of trade, the articles to be used exclusively for the manufacture of the product;

(ii) in the case of a patent for an invention of a process, acts of manufacturing, assigning, leasing, displaying for the purpose of assignment or lease, or importing, in the course of trade, the articles to be used exclusively for the working of such invention.

This Article is said to have been patterned after US 35 USC 271 except that there are no parallels to the active inducement provision and the misuse of patent provision of 35 USC 271 (b) and (d).

2. It is available as a remedy under the following conditions:

The articles should be articles useful only in connection with the patent.

Accordingly, if said article has alternative commercial uses different than in the patent, there is no

2. It is available as a remedy under the following conditions:

The articles should be articles useful only in connection with the patent.

Accordingly, if said article has alternative commercial uses different than in the patent, there is no contributory infringement. The most critical point of interpretation of this article is "to be used exclusively for the manufacture of the product under the patent or for the working of the process under the patent.

There are several judicial cases and the general consensus is that:

A) Other commercial uses than those in the scope of the patent claims should not be theoretical but specific (practice).

B) The onus probandi that there are no other commercial uses rests with the patentee.

C) 1. Exxon (patentee) v. Toho Chitanium K. K. (tokyl District Court, 1975).

2. Ohtsuki K. K. (patentee) v. Osaka Royal and Kokusai Byora K. K. (Osaka District Court, 1979).

3. A decision like Dawson will be likely in Japan.[1]

II. Germany (West)

1. The concept of contributory infringement does exist in Germany on the basis of case law, but not as a statutory provision.

2. The doctrine of contributory infringement is available as a remedy under the following conditions:

a) There must be a direct infringement in Germany, or in view of the circumstances such direct infringement must be feared (German Supreme Court Decision "Formsand II", 1964).

b) The product being manufactured and sold must be functionally adapted for use in an infringement. Neutral parts (stable commercial products) do not meet this condition.

3. A decision like Dawson should be likely in Germany. Since propanil is only useful as a herbicide, it is, of course, "functionally adapted" to this use and, therefore, it may not be sold in Germany. If propanil could also be used in a patent-free manner besides in a protected method of use, it may be sold, but the supplier must take action to prevent an infringing use. In some cases a simple warning may be sufficient. In other cases, it may even be vnecessary to exclude an infringing use by a special clause in the contract with the purchaser.

III. Great Britain (U.K.):-

1. Prior to the 1977 Patents Act, the law relating to contributory infringement was very confused and there were conflicting lines of authorities. Matters were clarified by the 1977 Act (which came into force on 1st June 1978), and the concept of contributory infringement is now given clearly statutory recognition in sub-sections (2) and (3) of Section 60:

Section 60, Sub-Sections 2 and 3

(2) Subject to the following provisions of this section, a person (other than the proprietor of the patent) also infringes a patent for an invention if, while the patent is in force and without the consent of the proprietor, he supplies or offers to supply in the United Kingdom a person other than a licensee or other person entitled to work the invention with any means, relating to an essential element of the invention, for putting the invention into effect when he knows, or it is obvious to a reasonable person in the circumstances, that those means are suitable for putting, and are intended to put, the invention into effect in the United Kingdom.

(3) Subsection (2) above shall not apply or offer of a staple commercial product unless the supply or the offer is made for the purpose of inducing the person supplied or, as the case may be, the person to whom the offer is made to do an act which constitutes an infringement of the patent by virtue of sub-section (1).

No cases under these sub-sections have yet been heard, and until there is a body of case law there is obviously scope for argument about the precise meaning of such terms as "essential element of the invention" and "staple commercial product".

2. The concept of contributory infringement as defined in Section 60 applies to all acts which commenced after 1st June 1978, irrespective of whether the patent concerned was obtained under the 1977 Act or under the previous law, the 1949 Patents Act. However, in respect of acts which commenced prior to 1st June 1978, Schedule 4 paragraph 3(2) of the 1977 Act provides that such acts can continue, regardless of Section 60, if they would not have amounted to infringement under the law existing before June 1978.

3. One can be very confident that a case such as Dawson v Rohm & Haas would be decided in favour of the patentees; indeed even if propanil was a staple commercial product, Dawson would even then not escape infringement if they sold it to farmers with instructions to use as a rice herbicide, because they would still be caught by the prohibition against inducing buyers to infringe which is imposed by sub-section (3) of Section 60.

1. Letter: Odajima Patent Office, Tokyo, Japan - Sept. 24, 1980
2. Letter: Dr. GÜnther Wächtershäuser, Munchen, Germany, Sept. 4, 1980
3. Letter: Lloyd Wise, Tregear & Co., London, England August 5, 1980

Amendment of Specification before Publication of Patent Application

- Particularly in the Field of Chemistry -

Japanese Group
Committee #1
Group 3
Chairman: Shin Ando
Speaker: Shin Ando
(Kyowa Hakko Kogyo Co. Ltd.)

Summary

After filing a patent application, an amendment of the specification and drawing of the application may be made within limitations specified by the Japanese Patent Law. However, if the amendment changes the gist of the original specification and drawing, the amendment will be declined. In such a case, applicants can order a trial against the ruling to decline the amendment.

This presentation is to report on the standards of examination of the change of gist and the decisions of the trial against ruling to decline amendments.

Re: Amendment of Specification before Publication of Patent Application

- Particularly in the Field of Chemistry -

1. Introduction

In Japan, if after a patent application has been filed, it becomes necessary to amend the specification or drawing (hereinafter simply referred to as "specification") attached thereto, the applicant may make such an amendment only within certain periods of time specified by the Patent Law. The amendment must, however, be subject to the restriction that its contents shall not change the gist of the specification. If the examiner finds that the amendment changes the gist of the specification, such an amendment will be declined. If an amendment made before the publication of a patent application is declined, the applicant may file a new patent application on the invention so amended, with a new filing date deemed as the date of the amendment concerned (Patent Law, Article 53 paragraph 4). Apart from the cases where the period of time between the date of the patent application and the date of the amendment is short, a new patent application is rarely filed. Generally such time spans are so long that a postdate of the date of application could give rise to the danger of new grounds for rejection, due to the expanding range of reference to prior arts and

applications. Moreover, if the amendment occurs after the date of making public the patent application in question, the filing of a new patent application on such an amendment would be meaningless, because the patent gazette making such an application open to the public would become perfect prior literature.

Except where the amendment obviously changes the gist, the applicant is compelled to contest the ruling to decline the amendment, if necessary, by ordering a trial against ruling to decline amendment (hereinafter simply referred to as "amendment trial").

In the U.S.A, however, if it becomes necessary to make an amendment to a patent application, such an amendment, even though it may be found to contain new matter, can still be effected by filing a CIP application, without encountering such problems as are experienced in Japan. Accordingly, it is not too much to say that in the case of an amendment to a United States patent application, no special consideration is required as in the case of an amendment to a Japanese patent application.

With regard to a change of the gist of patent specification in Japan, there is a report titled "Change of Gist of Invention in Amendment of Specification" which was submitted to PIPA's 8th International Congress at Williamsburg. This report deals specifically with trial decisions concerning amendments after the publication of patent

applications.

An amendment after the publication of a patent application is subject to strict restrictions, but an amendment before publication is relatively easy.

We have studied recent trial decisions and have determined the degree to which an amendment can be made before publication.

II. Patent Law, Article 53 paragraph 1 ...

Re: Change of the gist.

Under the provisions of Article 17 paragraph 1 of the Patent Law, an applicant's can amend the specification , if and only if such an application is pending a Patent Office examination or trial. However, if an amendment made before the publication of a patent application is found to change the gist of the specification , such an amendment is declined in accordance with the provisions of Article 53 paragraph 1 of the Patent Law.

When such an amendment is declined the applicant may take one of the following steps:

(1) To order an amendment trial.

(Patent Law, Article 122 paragraph 1).

(2) To accept the ruling to decline the amendment and file a new patent application on the invention so amended, with the filing date deemed as the date of the amendment concerned (Patent Law, Article 53 paragraph 4).

(3) To accept the ruling to decline the amendment and leave the application unchanged.

If it is obvious that the amendment changes the gist, there is no sense in taking step (1) and the applicant has to take either step (2) or step (3).

In the case when an amendment is made before the application is made public, the amendment can not be rejected by reference to the gazette of the applicant's own application. For this reason the above step (2) may be taken depending on whether or not prior publications or prior applications existed between the filing date of the application and the date of the amendment. However, if the amendment is of great significance and is made after the application is made public, the applicant has to take step (1), that is, to order an amendment trial.

The issue in such a trial would be whether or not the amendment changes the gist of the specification as it existed at the time of the filing of the application (hereinafter referred to as "as-filed-specification"). Now, I would like to explain the change of gist as below.

III. Basis for making judgment on the change of the gist of the specification

In Japan, as a basis for making judgment on the change of the gist of specification an examination standard

entitled "Changes of Gist of Specifications" has been published.

According to this standard, an amendment is deemed as a change of the gist of specification if, as a result of such an amendment, the technical matters set forth in the scope of the claims for a patent (hereinafter simply referred to as "claim") have become those which were not included in the as-filed-specification.

The term "gist of specification" means the technical matters set forth in the claim. Any change in such technical matters is, therefore, a change of the gist. Hence any amendment enlarging, restricting or changing the claim constitutes a change of the gist. However if such an amendment is within the scope of the matters set forth in the as-filed-specification, it is deemed as an exception and does not constitute a change of the gist (Patent Law, Article 41).

Even though the claim itself may not be directly changed, if by the amendment of the detailed explanation of the invention in the specification, any technical matters contained in a claim, substantially changes that claim, then such an amendment would result in a change of the gist of the specification.

Now I would like to show you a rough classification of relation between amendment of the claim and the change of gist.

1. Cases where a claim is amended:

(i) Cases where a change of the gist is found to exist:

The case is that where, as a result of the enlargement, change or restriction of the claim brought about by the amendment, the technical matters set forth in the claim have come to exceed the scope of the matters set forth in the as-filed-specification or in other words, where the as-filed-specification contains no support for the amendment.

The term "scope of the matters set forth" means not only the matters set forth in concrete terms in the as-filed-specification, but also those matters which to a person skilled in the art, could be regarded as obvious from the detailed descriptions included in the as-filed-specification.

There are no established standards to determine whether a particular amendment is a matter which is obvious from the descriptions included in the as-filed-specification, and there is nothing to assure that the parties concerned agree.

What should be specially borne in mind, however, is that even an amendment which, for example, represents certain accepted technology constitutes a change of the gist, if it changes or enlarges the invention or completes an incomplete invention.

(ii) Cases where a change of the gist is found not to exist:

The case is that where the amendment is within the scope of the matters set forth in the as-filed-specification or within the scope of those obvious therefrom. If the as-filed-specification contains a concrete support for the amendment, there is no question at all, even if the claim is amended.

Even if the as-filed-specification does not contain a concrete support for the amendment, the amendment does not constitute a change of the gist, if it is obvious from the descriptions in the as-filed-specification.

2. Cases where the claim is not amended:

(i) Cases where a change of the gist is found to exist:

The case is that where, by amending the detailed explanation of the invention in respect of any matter which is not obvious from the descriptions in the as-filed-specification, the technical matters contained in the claim are substantially changed.

(ii) Cases where a change of the gist is found not to exist:

If an amendment made to the matters set forth in the detailed explanation of the invention does not change the technical matters contained in the claim, the amendment makes no change of the gist. Furthermore, an amendment

which makes an addition to, or a change in, the purposes, effects or uses of an invention, makes no change to the gist, even though it is not obvious from the description in the as-filed-specification, unless the constituent features of the invention are changed by the amendment. That is, unless the technical matters contained in the claim are substantially changed.

To sum up the above four cases, an amendment is allowed if the contents of such an amendment having to do with or affecting the constitution of the invention are contained in the as-filed-specification or are matters obvious from the descriptions included in the as-filed-specification .

Furthermore, even an amendment which is not obvious from the descriptions in the as-filed-specification and which relates to the purposes, effects and uses of the invention, is allowed, unless the technical matters contained in the claim are changed by the amendment.

It should be noted, however, that even if an amendment is made, the claim is amended only to the degree supported by the amendment, and not supported by the descriptions included in the as-filed-specification. Examples such as (A) the case that a claim directed to the group of compounds contained in the as-filed-specification is changed to be directed to a newly added compound and (B) the case that a claim directed to a compound is changed

to be directed to a newly added ~~the~~ use of the compound, give rise to whether new questions of change of the gist will occur.

When an amendment is declined, there is a room for contending the ruling to decline the amendment except when the amendment obviously changes the gist.

In the following, I would like to present to you some cases brought up in amendment trials.

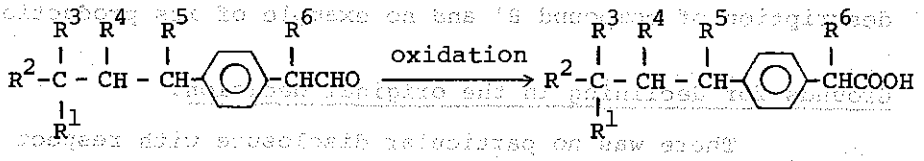
(Case 1)

Case: Amendment Trial No.81/1978 [Kokai (Published Unexamined Patent Application) No.127041/1976]

This case is an example of a trial decision, where the amendment was found to change the gist, even though the claim itself was not amended.

Gist of the invention:

A process for producing a new compound B by the oxidation of the compound A.

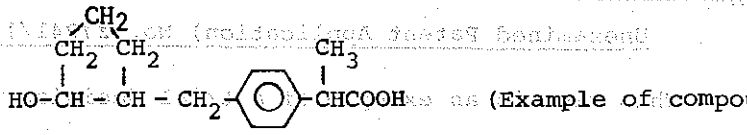


(Compound A) (Compound B)

where R^1 represents H, R^2 represents OH, or R^1 and R^2 together may form an oxo group. R^3, R^4 and R^5 represent either H or a lower alkyl group, or R^3 and R^4 together may form an alkylene group and R^6 represents a lower alkyl group.

Amendment:

An example of production of the compound B wherein R^3 and R^4 together may form an alkylene group (hereinafter referred to as the "compound B' ") was added to the specifications.



(Example of compound B')

Support in the as-filed-specification:

Though there is the description "when R^3 and R^4 together represent an alkylene group, the C_{3-5} alkylene group is preferable as an alkylene group," there is no description of compound B' and no example of its production.

Grounds for declining in the original decision:

There was no particular disclosure with respect to the compound B' in the as-filed-specification and no evidence sufficient to find that the invention lead to a process for producing compound B' had been completed at the

time of filing the present application. Such an amendment adds a new invention and therefore substantially changes the gist of the as-filed-specification.

Trial decision and the grounds why:

The original decision was sustained and the amendment was declined. The grounds were almost the same as the grounds for declining the amendment in the original decision. Particularly, when the desired compound of the invention is a new compound, it is necessary that it must be concretely described and accompanied by identification data.
The amendment in question adds a new matter which is not disclosed in the as-filed-specification and therefore the amendment changes the gist of the as-filed-specification .

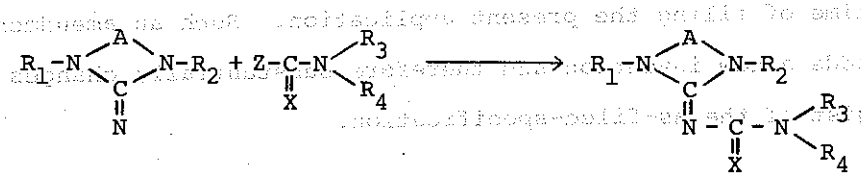
(Case 2)

Case: Amendment Trial No.2/1965 (Patent Publication No.4589/1966)

This case is an example of a trial decision where the amendment was found to be of no change of the gist, although the claim was amended.

Gist of the invention:

A process for producing the new compound (III) by reacting the compound (I) with the compound (II):



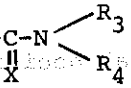
Compound (I) Compound (II) Compound (III)

where Z represents a halogen atom or RO- (R is hydrocarbon group).

Amendment:

The amendment was the addition of the working example using the compound (II) where Z is RO [Hence compound (II) becomes urethane] and the addition of this compound (II), to the claim.

Support in the as-filed-specification :

It was disclosed in the as-filed-specification that the compound (II) is just an agent to introduce the group  (hereinafter referred to as "group α"), to compound (I). Z is described as a halogen and urethane is exemplified as a reactant which is capable of introducing group α to compound (I). However there was no working example where Z is RO- stated clearly in the as-filed-specification.

Grounds for declining in the original decision:

The amendment where urethane is newly added as compound (II) substantially changes the gist of the as-filed-specification.

Trial decision and the grounds why:

The original decision was reversed and the amendment was allowed. The grounds for the trial decision were that the reactant in the as-filed-specification comprised not only the compound (II) where Z is a halogen atom, but also included in the definition of a reactant, the compound (II) where Z is RO. Hence it was recognized that in the case where Z is RO, the purpose of the invention can be accomplished by applying the well known reaction mechanism as in the case where Z is a halogen. Therefore the amendment does not change the gist of the as-filed-specification.

(Case 3)

Case: Amendment Trial No.113/1977 (Kokai (Published Unexamined Patent Application) No.69279/1975)

According to the examination standards, the addition of the deposit number of microorganisms to the specification makes a change of the gist. In this case, the description of the number of the applicant's own prior application in which the deposit number of the strain was disclosed gave a favorable result to the applicants.

Gist of the invention:

A method of removing poisonous gas contained in the combustion gas by bubbling such gas through the culture liquor of a microorganism.

Amendment:

The deposit number (FERM-P No.1410) and morphological and physiological properties of the Pseudomonas spheroides S strain used in the present invention were added to the specification.

Support in the as-filed-specification:

There was a disclosure in the as-filed-specification that the morphological and physiological properties of the strain in question were described in the specification of the patent application No.79464/1972 (hereinafter referred to as "Reference 1"). But no explicit disclosure of the deposit number and the morphological and physiological properties of the strain were disclosed in the as-filed-specification.

Grounds for declining in the original decision:

In the present invention, the use of the strain in question is essential. However, the as-filed-specification discloses only the name of the microorganism and does not disclose the existence and availability thereof.
The present invention was found to have been incomplete at

the time of filing the application and completed by the amendment. The amendment therefore changes the gist.

Trial decision and the grounds why:

The original decision was reversed. The grounds therefor are given below: The file history of Reference 1 showed that there is submitted the notice of deposit number of microorganism bearing the date of May 20, 1972 [issued by Fermentation Research Institute, Agency of Industrial Science and Technology (FERM)]. This is about one year and 5 months before the date of filing of the present application. Since such a notice is the written notice of the deposit number of the strain, FERM-P No.1410, it is understood that the strain was known before the filing of the present application.

It is reasonable to understand that in place of making a direct disclosure of the deposit number and the morphological and physiological properties in the as-filed-specification, the application number of Reference 1 is disclosed. Thus the amendment does not change the gist.

We would like to discuss the above trial decisions.

Both Case 1 and Case 2 relate to the invention of a process for producing a novel compound. In Case 1, the claim was amended and in Case 2, was not amended. The distinctive difference between them lies in that in Case

1, the amendment to the specification except the claim substantially enlarges the scope of the desired compound, while in Case 2, even by the amendment of the claim, the scope of the compound is not changed.

First, in Case 1, it was found that the invention described in the claim included an incomplete invention and that the amendment completed the invention and therefore changed the gist.

In the case of the invention of a process for producing a novel compound, the inventors, recognize that an invention of a compound is represented by a general formula which covers a wider scope than is supported by the working examples. Hence the inventors give the name of a group of compounds which are not supported by a working example. This case is an example where, the applicant$ after filing the application, tried to secure the right over a wider scope, by adding a working example of a compound where only the name of a group is described. With respect to the example of producing compound B', the as-filed-specification was silent regardless of the number of carbons. For this reason, it was found that the amendment adding such an example was not supported in the as-filed-specification.

Particularly, the trial decision, in stating that when the desired compound is a new compound, it is necessary that such a compound is described in concrete terms, accompanied by identification data, teaches that the addition of

an example, where there is no identification data in the as-filed-specification, changes the gist.

If the as-filed-specification discloses an example of compound B' which has one alkylene group such as, ethylene group as R_3 and R_4, and if there is no application filed by others in respect of the compound B' prior to the amendment, the addition of the example in respect of the other number of carbons would have been allowed, because the as-filed-specification contains support for alkylene and because the invention relating to alkylene in the as-filed-specification had been completed at the time of filing the application. Therefore the amendment would not change the gist.

If there was a subsequent application with respect to the same invention and if such an application was filed prior to the date of the amendment, the extent to which the amendment would be allowed would naturally be limited, and depend on the description in the specification of the subsequent application.

Then does the addition of examples change the gist, if the name of the desired compound is solely described in the specification without any identification data? From the underlying principle of the trail decision, it would seem to follow that such an addition should be held as a change of the gist because the desired compound has to be described, accompanied by identification data. However, depending on

the existence of examples of structurally analogous compounds in the as-filed-specification and the extent to which the reaction mechanism is known, it seems that the amendment is not necessarily declined.

On the other hand, in Case 2, it is disclosed in the as-filed-specification that the compound (II) is a reactant capable of introducing group α into the compound (I) and that urethane can also be used as the reactant. Further the desired compound when urethane is used is the same as that obtained when in compound (II) Z is a halogen. Also the desired compound is disclosed with identification data. All this means that there is no enlargement of the desired compound by the amendment.

In the trial decision, it was emphasized that the reaction mechanism of introducing group α to the compound (I) is well known in either case of Z being a halogen or an RO- in the compound (II).

In the case of an invention to produce a new compound by introducing a certain group into a reactant compound, for example, the process to produce the compound B by reacting the compound A with an acylating agent by a well known reaction mechanism, the clause "a process for producing compound B by reacting the compound A with acylating agent" would be allowed as the claim, even if only one form of an acylating agent is given. Furthermore, if there is a disclosure in the as-filed-specification that acid

halide is used as an acylating agent, the addition of examples of using acid anhydrides as the acylating agent would be allowed, because where the reaction mechanism is well known and the utilization of acid halide as the acylating agent is well known, it is obvious that acid anhydride can also be used.

However, if the utilization of acid anhydride caused some special effect which is not caused by the utilization of acid halide, and if the claim is restricted to the use of acid anhydride as the acylating agent, the amendment would be declined as changing the gist.

In the original decision of Case 3 the examination standard "Applied Microorganism Industry" relating to inventions using microorganisms was applied. According to the standard, an amendment which makes addition of the morphological and physiological properties and the deposit number of a microorganism, when they are not disclosed in the specification, causes a change of the gist and when the deposit number is not disclosed in the as-filed-specification, the invention shall be deemed to be an incomplete invention.

The trial decision allowed the amendment on the grounds that the strain used in the invention was publicly known prior to the filing of the application in question, because the notice of the deposit number issued by FERM is contained in the file of Reference 1 as described in the as-filed-specification, and the deposit number was substituted

for by Reference 1.

This trial decision teaches two things. One is that the existence of a notice of the deposit number from the depository can be proof of public knowledge of a micro-organism, and the other is that the description of the other patent application number in the specification is interpreted as having the effect equivalent to a description of the contents thereof.

In this case, if the amendment had not been allowed, the application would have been rejected as an incomplete invention.

In the present case, Reference 1 had not been open to the public on the date of the application, but it had already been laid open to public inspection on the date of the amendment. If the application of Reference 1 had been withdrawn without being laid open to the public and if third parties including the examiner did not know for sure whether the strain used in this invention was the same as the strain covered by the notice of the deposit number mentioned above, the above trial decision could not have been expected. In this sense, any matter of great significance and particularly any matter which might lead to the finding of an incomplete invention should be stated in the as-filed-specifications.

From the Cases 1 and 2 above, it can be understood that in determining whether an amendment before the

publication of an application changes the gist or not, it does not matter whether the claim is amended or not, but it is important whether or not the as-filed-specification contains support for such an amendment. Particularly as to whether the matter is obvious or not from the descriptions in the as-filed-specification, it all depends, as in Case 2, on the well known art related to the invention and the description of prior literature or prior application (Case 3) contained in the as-filed-specification may lead the amendment to favorable result. In filing an amendment trial, it should be argued that the amendment is not a change of the gist based on the grounds disclosed in the as-filed-specification, no matter how weak such grounds may be.

In the field of electrical and mechanical engineering, the judgements are similar to those in the field of chemistry. Such trial decisions Case 4 and Case 5 are attached to this presentation.

An amendment should not be allowed, of course, if it changes the gist. A judgement on such a matter, however, is affected by so many factors that the extent to which an amendment is allowed can not be determined definitely. If an amendment is allowed, the specification so amended is deemed as filed at the time of the filing of the application. This, therefore, means that a misjudgment as to whether or not the amendment changes the gist could injure the interests of the applicants or those of third parties. Such judgment

should be decided on the basis of the equilibrium between the interests of the two.

Amendments should be avoided as far as possible. However, in past cases where amendments have been made and declined and where an amendment trial has been filed, to what extent were such trials successful? We give below the statistical chances of success in ordering a trial.

Table 1 shows the statistics of trial decisions, for the past several years.

As may be seen from Table 1, the proportion of the number of the cases "upheld" to the total number of cases (hereinafter referred to as the "success rate") is in the range of 50% to 75%, giving an average of 64%.

Needless to say, this success rate was not calculated on the basis of the total number of all applications in which the amendment was declined. Such a success rate would not be attained if trials were ordered against all of the rulings to decline amendments.

It is, however, true that there is a fairly strong probability that the filing of an amendment trial will turn out to be successful. It seems to us that not only in the case of such voluntary amendments, made at any time, such as at the time of demanding an examination, or within one year and three months after the filing of the application, but even in the case of amendments upon receipt of notice of official action, the applicants directly receive the declining

their amendments without being given the opportunity for submitting, a contention that their amendments do not make a change of gist.

Therefore we consider that it is the matter of course that the high rate success results from first alleging that support of the amendment is contained in the as-filed-specifications, or can obviously be deducted from the descriptions in the as-filed-specification, or from the relation to a well known art, etc.

As the conclusion of this presentation, we recommend that you do not give up amending a specification at the receipt of the ruling to decline an amendment and to try to file an amendment trial according the context of this presentation.

On such occasions there is a considerably high success rate of having your specifications amended.

(Case 4)

Case: Amendment Trial No.39/76 Kokai (Published Unexamined Patent Application) No.51698/73)

Gist of the invention

The features of the invention reside in that in a money dispenser capable of dispensing money of a plurality of denominations, the dispenser has a means for discriminating the denominations of money to be dispensed according to a memory of each figure contained in the memory section.

Amendment and support in the as-filed-specification

An embodiment of the circuit of the as-filed application, to be used in the present invention is shown in Fig. 1. This figure shows the discrimination circuit, which is one of the most important features of this invention, in block diagram only and detailed structure was not shown in the as-filed-specification.

In the amendment, Fig. 2, which showed an embodiment of the discrimination circuit was added, and the description of the specification was amended to contain a full explanation of the discrimination circuit and timing pulse input circuit which comprised of logical circuits using logical elements.

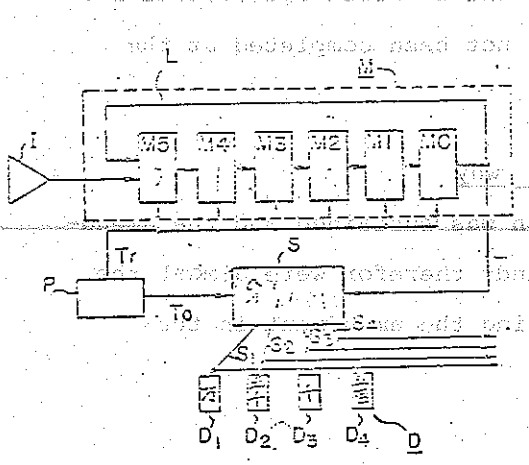


Fig. 1 of the as-filed-drawing

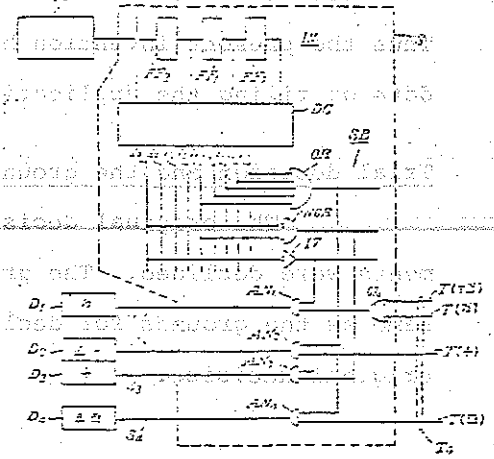


Fig. 2 added by the amendment

M; memory section:
S; denomination discriminating means:
P; clock pulse generator: T; timing signal:
D; money display

Grounds for declining in the original decision

The detailed explanation of the invention and the drawing incorporated in the amendments were specific technical measures supplementary to the claimed features. These specific technical measures were neither matters well known nor obvious to one skilled in the art.

The original claims were considered to recite merely the objectives of the invention as the technical

measures were not disclosed in the as-filed-specification . Thus the present invention had not been completed at the date of filing the application.

Trial decision and the grounds why

The original decision was sustained and the amendments were declined. The grounds therefor were almost the same as the grounds for declining the amendment in the original decision.

(Case 5)

Case: Amendment Trial No.14/79 (Published Unexamined Patent Application No.18697/76)

Gist of the invention

An anchor for raising cages is characterized by a shank having two flukes mounted on one end thereof, each fluke being at an angle relative to the shank. A connecting ring is attached to the other end of the shank; and a stock is mounted adjacent to the connecting ring.

Amendments

The term "each fluke being at an angle ....." in the claim and the detailed explanation of the invention was changed to -- each fluke being formed inclined relative to the shank at an angle of about 50° --

Support in the as-filed-specification

Fig.1 shows one embodiment of the anchor illustrates flukes inclined at an angle of about 50° with respect to the shank. However there is no disclosure that the flukes are inclined at an angle of about 50° in the detailed explanation of the invention.

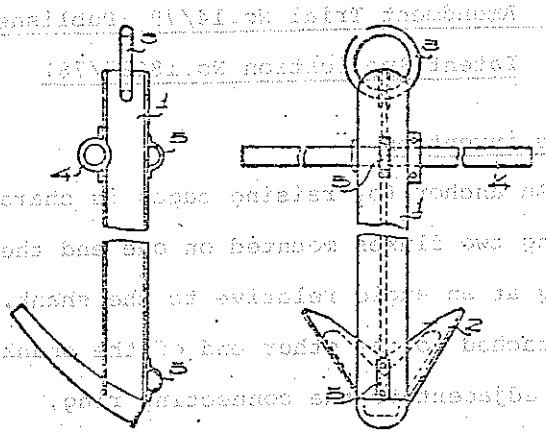


Fig. 1

Fig. 2

1; shank: 2; fluke: 3; connecting ring:
4; stock

Grounds for declining in the original decision

The invention in the as-filed-specification was amended to include as one of its indispensable matters that the open angle of the two flukes should be at an angle of about 50° relative to the shank. However, the as-filed-specification contains only the disclosure that the open angle of the flukes should not be limited to 45°, but can be suitably selected, and they fail to disclose that the open angle should be held at about 50°. Accordingly, the amendments make a change of gist.

Trial decision and the grounds therefor

The original decision is reversed.

The trial examiners are of the opinion that with respect to the connection between the shank and the two flukes, the as-filed-specification does not contain any specific supporting description, but the drawing, particularly Fig. 1, clearly shows the flukes are mounted at an angle of approximately 50° relative to the shank.

The amendment is obvious from the disclosure of the as-filed-specification.

Table 1

(Patent Office)

Year	Treated Number	Success (A)	Unsuccess (B)	Declining	Withdrawn	A/A + B (%)
54 P	56	29	21	1	5	58.0
U	25	14	11	-	-	56.0
53 P	95	54	28	4	9	65.9
U	49	30	14	4	1	68.2
52 P	54	29	16	4	5	64.4
U	18	11	6	1	-	64.7
51 P	39	20	12	2	5	62.5
U	23	13	7	1	2	65.0
50 P	35	18	9	2	6	66.7
U	23	13	7	3	-	65.0
49 P	31	14	9	3	5	60.9
U	14	9	3	-	2	75.0
48 P	31	14	9	1	7	60.9
U	14	5	5	3	1	50.0
47 P	27	19	6	1	1	76.0
U	5	3	2	-	-	60.0

P : Patent

U : Utility model

Average success rate: $\frac{A}{A+B} \times 100$ (%)

P : 64.2 %

U : 64.1 %

Title: PATENTABILITY OF INVENTIONS DIRECTED TO COMPUTER-RELATED PROCESSES

By: HAROLD D. MESSNER AND WILLIAM H. HOOPER
CHEVRON RESEARCH COMPANY

Standard Oil Company of California (Socal) has two research subsidiaries, Chevron Oil Field Research Company, which conducts exploration and production research, and Chevron Research Company, which is responsible for all other research as well as all Socal patent responsibility. Inventors in both companies have developed a number of processes and techniques which use computers in one or more of their implemented steps. We believe that our experience in prosecuting one such invention in the United States Patent and Trademark Office (PTO) will allow us to briefly describe here the evolution of the law relating to the patentability of such inventions as pronounced by the PTO, the Court of Customs and Patent Appeals (CCPA) and the United States Supreme Court.

To be specific, the particular patent application is directed to a seismic enhancement exploratory technique invented by Dr. J. W. C. Sherwood. It's been with us at Chevron in prosecution in the PTO for over 12 years without change in the specification; it is still being used by Chevron explorationists, particularly in the southwestern portions of the United States; and it underlies many of our recent exploration successes.

The case basically covers a revolutionary (in 1968) way of migrating (converting) a typical time-amplitude seismic section that is gathered in the field, into an amplitude versus depth record. The latter improved record in effect places the reflectors associated with strata deep within the earth in their correct depth locations on the record.

The problem doesn't sound simple to me, and it isn't. When the energy waves travel through the earth, they sometimes bend, deflect and otherwise change from straight lines of travel (from source-to-reflector-to-receiver) due to many factors. The subject method allowed events in the time record of a typical seismic record to be simply placed in a depth section as a function of the velocity of propagation of the wave within the earth.

We believe we were the first to automatically migrate the time section into a depth section using a computer-related process. Looking from the perspective of 12 years, it appears to us that it is the way we did the process is perhaps not as important as the fact that we did in fact perform it. As it turned out, news of our success leaked from our corporation and spread to others in the oil industry. As a consequence, others developed new alternate techniques that have been published in a number of scientific journals. For example, see the article by R. H. Stolt, "Migration by Fourier Transform", Geophysics, Vol. 43, No. 1, February 1978, Page 23 et al.

We think in this matter that we were like Roger Bannister, the man who first broke the four-minute barrier in the mile run. Once it was done, others quickly followed. The actual prosecution of our Sherwood

application has been lengthy and checkered. Briefly, it was first rejected by the PTO as claiming nonstatutory subject matter under Title 35 U.S.C. 101, which provides:

> "Whoever invents or discovers any new and useful process, machine, manufacture or composition of matter, or any new and useful improvement thereof, may obtain a patent therefore, subject to the conditions and requirements of this title."

The PTO said our invention just did not fit into any listed category; it then changed its mind and allowed all of the claims. We then refiled the application, only adding more comprehensive claims. During this period the Supreme Court announced its decision in Gottschalk v. Benson, 409 U.S. 63 (1972). In this case the Court held that a method of programming a general-purpose digital computer to convert signals from binary-coded decimal form into pure binary form, without anything else, was unpatentable. However, Justice Douglas' opinion did lend encouragement. First, although he found the Benson invention was nonstatutory, he also implied in so many words, software-firmware inventions could be patentable if certain conditions were satisfied. We thought our case met those conditions and hence were encouraged to continue prosecution in the PTO. Such encouragement was augmented by subsequent lower court decisions interpreting the Benson decisions in line with our position.

While we were still in the PTO, the Supreme Court decided Parker v. Flook, 437 U.S. 584 (1978). In that decision, Justice Stevens lent support to both sides of the controversy. Although the Court found that the invention was nonstatutory subject matter under Section 101, it pointed out the "faults" of the claim of the application as follows:

> "The patent application does not purport to explain how to select the appropriate margin of safety, the weighting factor, or any of the other variables. Nor does it purport to contain any disclosure relating to the chemical processes at work, the monitoring of process variables, or the means of setting off an alarm or adjusting an alarm system. All that it provides is a formula for computing an updated alarm unit. Although the computations can be made by pencil and paper calculations, the abstract of disclosure makes it clear that the formula is primarily useful for computerized calculations producing automatic adjutments in alarm settings."

After studying that decision in detail, we believed our claims in the Sherwood application did not have these types of shortcomings mentioned by Justice Stevens. We continued our prosecution in the PTO and when the Court of Customs and Patent Appeals this year agreed with our contention, we thought our prosecution had ended in victory

(In Re Sherwood, 613 Fed. 2nd 809). This was not so. The Commissioner filed for a Writ of Certiorari from the Supreme Court to review our CCPA decision in view of their forthcoming decisions in Diamond v. Diehr et al and Diamond v. Bradley et al, both cases presently before the Court, which again raises the question of nonstatutory subject matter and which will be argued in the Court just about now. After the Commissioner filed his petition, there was a flurry of activity in Chevron. On very short notice, about two days, we made a motion in the Supreme Court to consolidate our case with the above two mentioned cases already on their docket. That motion however, was turned down without comment. So Chevron now awaits the decisions in the Diehr and Bradley cases. We did set about to vigorously uphold our position by filing an Amicus Brief in support of patentability of the Diehr et al and Bradley et al inventions. We were not alone, as a number of organizations and trade associations did likewise.

In any event, we await the decisions and at the very least hope that the outcome will bring about a clearer understanding of just what is patentable in this very active area of technology.

In closing, we might offer some general comments, observations and conclusions resulting from our experiences in this matter.

(1) It is most difficult to maintain a patent effort of this nature over an extended period of time. The circumstances have to be just right. The invention itself must continue to be worthy of protection from the company's point of view. If it falls into

disuse, there is no justification to continue the patent effort that is required under these circumstances. Also, the company itself must be comfortable with the type of claims that are set forth in the application; they will obviously have to undergo a great deal of critical scrutiny.

(2) Not all applications related to computer-related processes require the efforts we have described. You probably share with us, cases in which U.S. applications involving computer-related inventions breezed through the PTO. Why has this occurred? Probably because of the presence of one or more of the following factors:

(i) The inventions underlying the applications were in a traditional art class of technology with a stable group of examiners who understood the technology well, and could relate well to the equivalency of analog and digital implementation of steps. For example, slide rules have never posed a patentability problem to the PTO.

(ii) The inventions were placed in an art group familiar with the technology and the inventions used a digital computer in only one of a group of steps that were involved in the inventions to be examined. In such cases, the fear that the computer was involving scientific truths, mental processes or intellectual concepts were overcome by the reality of the external steps surrounding the step(s) involving the computer.

(3) The Courts and the PTO are (were?) making a fundamental error in equating algorithms with "mathematical expressions of scientific truths". The two aren't the same. We are encouraged by the opinion of the Chief Justice of the Supreme Court in Diamond v. Chakrabarty, 206 USPQ 193, (1980), that the Court has recognized the difference. The Court has recognized that the force of gravity, the energy of atoms or solar heat are all naturally occuring phenomena and they are not subject to patent monopoly. But where a man utilizes the phenomena, the results of his efforts should be protectable by patent grant.

(4) The need for stability in the examining corps within the PTO is vital. For example, in the 1960's and 1970's, the seismic processing art group had a large number of new examiners who were unfamiliar with analog methods that overlayed our invention as well as digital methods. So when digital implemented processes came into being, they were even more unfamiliar with them than examiners in other examining groups.

And as the complexity of the disclosures grew, so did their apprehension. Result: uneven examination within that examining group of even the best prepared patent applications.

(5) While at one time the PTO was urging the Supreme Court to declare computer-related inventions unpatentable because of the PTO's inability to examine such inventions, they don't do so today.

Instead they merely tell the Supreme Court that they have x numbers of cases awaiting examination and x in this case is a relatively small number. There are good reasons for the change in PTO position. It has developed and implemented a rather sophisticated system of classification of computer-related processes that is perhaps unique in this world. It also provides for orderly searching of such applications. For example, in the Manual of Classification, classification definitions associated with Art Group 364 for "Electrical Computers and Data Processing Systems" establishes the methodology for examination of computer-related inventions. As a result, any type of programming method can be logically examined. While the classification within Class 364 is restricted to systems that have "structural details" associated with computers, and indicates that programing methods will be farmed out to other patent art groups, searching for appropriate prior art by functional equivalency is set forth in detail. So any examiner within the PTO can quickly check novelty of the equivalent mathematical algorithm of any claimed process by using the Class 364 guidelines.

(6) As we see it, the search facilities and guidelines are available within the PTO for examination of computer-related inventions. All that's required has been developed and is in place. The examiners are just awaiting the decision of the Supreme Court in the Diehr and Bradley cases to start working on such cases.

Whether the PTO will begin such work, of course depends on the extent that the Supreme Court requires it to do so.

(7) We expect the Supreme Court decision in the Diehr and Bradley cases to be extremely close. Since the present cases are scheduled for oral argument in October-November of 1980, we should have a decision soon. Hopefully it will clarify the issues so that meaningful business arrangements can be made based on well understood principles of technological rights.

(8) We have placed marked-up copies of the Diehr and Bradley claims in the Appendix for your study if you care to do so.

APPENDIX

Bradley et al Application

Claim 1 of the Bradley and Franklin application reads as follows:

1. In a multiprogramming computer system having a main memory, a central processing unit (CPU) coupled to said main memory, said CPU controlling the state of a plurality of groups of processes being in a running, ready, wait or suspended state, said computer system also having scratchpad registers being accessible to an operating system for controlling said multiprogramming computer system, a data structure for storing coded signals for communicating between said processes and said operating system, and said scratchpad registers, said data structure comprising:

	COMMENTS
(a) first means in said data structure and communicating with said operating system for storing coded signal indicative of an address for a selected one of said processes;	[the "RPW" word location in the system base]

	COMMENTS
(b) second means in said first means for storing coded signals indicating priority of said selected one of said processes in relation to others of said processes for obtaining control of said CPU when ready;	[The "PRI" field of the RPW word location of the system base]
(c) third means in said data structure and communicating with said operating system, for storing coded signals indicative of an address for a selected one of said plurality of groups of processes, and,	[the "J and G" table words of the system base]
(d) fourth means coupled to said data structure and said scratchpad registers, for generating signals causing the changing of information in said data structure and said scratchpad registers.	[the microcode for implementing the function of the switch system base instruction, stored as firmware in the control store of the CPU]

The combination claimed by Bradley comprises a first means (the RPW word) for providing the address of a selected process within a group of processes; a second means with the first means for specifying the priority of that selected process; a third means for providing the address of a selected group of processes that contains as one of its processes the selected process of the first means; and a fourth means--the firmware--for changing the data in the data structure (including the first, second and third means) and the scratchpad registers. The third means provides an address for the selected group of processes that contains the selected process that will be in the running state. The first means provides an address which will be used with the address of the third means to locate the starting address within the selected group of processes of the instructions that will be fed to the CPU execution circuits. The function performed by the fourth means is shown in the functional flow diagrams of Figures 15b and 15c of the application.

Experts have stated that in order to consider the subject matter patentability of this claim, the operations contained in the firmware of the fourth means must be considered as though they were positively recited in the fourth means of the claims. This does not constitute "reading in" a limitation to the claim that otherwise was not already contained therein.

Diehr et al Application

Claim 1 of the Diehr and Lutton application is representative of the Diehr process:

1. A method of operating a rubber-molding press for precision molded compounds with the aid of a digital computer, comprising:

providing said computer with a data base for said press including at least,

natural logarithm conversion data (ln),

the activation energy constant (C) unique to each batch of said compound being molded, and

COMMENTS

a constant (x) dependent upon the geometry of the particular mold of the press,

initiating an interval timer in said [elapsed time] computer upon the closure of the press for monitoring the elapsed time of said closure,

constantly determining the temperature (Z) of the mold at a location closely adjacent to the mold cavity in the press during molding, [measuring the temperature]

constantly providing the computer with the temperature (Z), [calculating the ideal cure time using the Arrhenius equation]

repetitively calculating in the computer, at frequent intervals during each cure, the Arrhenius equation for reaction time during the cure, which is

$$\ln v = CZ + x$$

where v is the total required cure time,

repetitively comparing in the computer at said frequent intervals during the cure each said calculation of the total required cure time calculated with the Arrhenius equation and said elapsed time, and [comparing for equivalence between elapsed time and ideal time]

opening the press automatically when a said comparison indicates equivalence. [opening mold when equivalence found]

The function performed in each step of the claimed method is clearly presented.

The Arrhenius equation is admittedly old and well known in the rubber molding art, and has long been used for calculating the ideal cure time for rubber compounds. It is presented, solved and the solution used in claim 1 however, to achieve the intended result of the claimed process--opening the mold at the proper time to avoid under-curing or over-curing the rubber. Although each time the computer solves the Arrhenius equation a number is obtained, unlike Flook, that number is not the end product of the claim. Rather, this number is then compared to a time factor--the amount of elapsed time since the mold was closed--to determine if they are the same. If not, the process continues to monitor the temperature and to calculate the solution to the Arrhenius equation at each temperature reading. It appears that the mathematical algorithm embodied in the Arrhenius equation is used within a claim such that the claim, in its entirety, is drawn to a specific, limited and practical application of the principle to achieve a beneficial result in one of the technological arts, and is not drawn to the mathematical algorithm itself.

PIPA Japanese Group
Committee No. 1
Group No. 4
Leaders: Toshiharu KAWASE
Hiroshi OHKAWA
Speaker: Michiyasu AIKAWA

EFFECTIVE UTILIZATION OF OUTSIDE AGENTS [1]

S U M M A R Y

Last year, a survey through questionnaire was conducted of the current situation of the patent departments of the member enterprises of PIPA Japanese Group to obtain information on how effectively their outside agents were utilized, and the result was reported verbally and in prints. This year, a survey in the form of questionnaire was made directly of the outside agents to gather information as viewed from the outside agents' side who are entrusted with patent businesses by the member enterprises. The result of this survey serves to elucidate the rôle, problems and demands on the part of the outside agents, i.e. patent attorneys and their office personnel, with respect to such items as: current state of these offices, matters concerning cases where Japanese and U.S. enterprises ask them to file domestic patent and other applications, and cases where Japanese enterprises ask them to file applications in U.S.A.

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Annexes:

I. Questionnaire for outside agents

II. Tabulated result of questionnaire

EFFECTIVE UTILIZATION OF OUTSIDE AGENTS

-- On Result of Survey by Questionnaire to Outside Agents --

PIPA Japanese Group
Committee No. 1

Working Group No. 4

1. Introduction

Last year, PIPA Japanese Group, Committee No. 1 conducted a survey through questionnaire for member enterprises of PIPA Japanese Group on the subject of effective utilization of outside agents. The result of this survey was reported on the occasion of the PIPA 10th International Congress. The report said that as many as 98% of member enterprises who answered the questionnaire used outside agents, and it was then confirmed to be a very important problem for the patent departments of these enterprises to effectively utilize outside agents from the viewpoint of making efficient performance of businesses concerning patent administration. Therefore, as a second step following

the preceding survey of last year, PIPA Japanese Group, Committee No. 1 conducted another survey, by means of questionnaire, on outside agents who are the party to be utilized by the member enterprises, with the hope for clarifying the current state of business of these outside agents to thereby contribute to the member enterprises in their achieving effective utilization of outside agents.

It is added here that, in order to secure business secrecy of individual outside agents at the time of carrying out the questionnaire, and also to obtain as accurate answers as possible from them, the questionnaire was sent out to outside agents from the chiefs of those patent departments of respective member enterprises of PIPA Japanese Group which were assigned with business related to the shipment of questionnaire documents, and unsigned answers were sent back directly from outside agents to the business office of PIPA Japanese Group. The total number of questionnaire sent out was 140, the number of answers collected was 83, and the recovery rate amounted to 60%.

The items of questionnaire comprised mainly of: (1) information on the current state of outside agents now being utilized by member enterprises of PIPA Japanese Group, (2) attitude of outside agents for orders placed by Japanese enterprises to file domestic applications, (3) attitude of outside agents for orders placed by Japanese enterprises to file applications in U.S.A., and (4) attitude of outside agents for orders placed by U.S. enterprises to file applications in Japan. In each of these items, the intent was placed on grasping the current state as well as problems involved. Item (4) mentioned above represents information which is considered useful for U.S. members of PIPA. It is my pleasure if the above-stated information will serve as a reference for the future growth of better business relationship between U.S. enterprises and outside agents.

2. Current state of patent attorneys' offices used by member enterprises of PIPA Japanese Group

(1) Date of establishment

Many patent attorneys' offices were established

during the 10 years' period roughly from 1960 to 1969. About one half of the existing attorneys' offices were established during this period. The number of those offices established prior to this period is quite small. It will be interesting to note that this trend coincides with the trend and the period of a marked development of economy of Japan.

(2) Scale of organization (personnel), length of experience of experts

Patent attorneys' offices with a staff of 1-5 persons are noted to mark 40% which is nearly one half of the total number of attorneys' offices. Large offices having a staff of 20 persons or more are noted to be only 13% of the total. Similarly, offices having just one patent attorney occupies one half, namely 48%, of the total number of offices. Offices with 4 or more patent attorneys stand at 14%. Also, in regard to the number of persons who prepare specifications, 1 to 3 specification writers are found in offices covering as many as 46% of all the offices under survey. Large offices with 11 or more specification writers are found to stand only at 16%.

On the other hand, with respect to the average length of experience of the specification writers, those offices with persons having 6 or more years of experience occupy 80% of the total number of offices. Even when limited to those offices having skilled old timers of 10 or more years' experience, their number was found to be at a high percentage of 50.

The result of questionnaire shows a large variance in the organization scale of attorneys' offices. Though some difficulty is felt to take an average value in terms of office scale, an attempt was made to show this value as in the following Table 1.

Table 1

Average scale of patent attorneys' offices in term of personnel

Established in	Total No. of persons	No. of patent attorneys	No. of specification writers
1965	15	3	6

Last year's report shows the result of survey that the patent department in a Japanese enterprise is not an organization consisting of patent attorneys, but an organization comprised of many experienced specification writers. In contrast thereto, a conclusion may be made that a Japanese patent attorneys' office is an organization having many experienced specification writers centering around a few patent attorneys.

(3) Business at patent attorneys' office

Patent attorneys' offices having supplied their answers to the questionnaire stating that the number of patent applications which they handled during the past one year was 200-500 were found to constitute the majority, being 36% of the total number of agents' offices, followed by 16% of offices handling 500-1000 cases. These two being combined together, the number covers 52% of the total number of agents' offices. These numbers of applications handled by the agents' offices naturally are proportional to the largeness of organization (personnel) of the agents' offices. Thus,

the offices having a greater working force are noted to have the capacity of handling a greater number of cases.

With respect to the type of work handled by the attorneys' offices other than the business related to the filing of applications, the result of survey shows 2 cases of licensing, 30 cases of investigation, 15 cases of making professional opinion, and 2 cases of litigation, per year. On the other hand, businesses entrusted by U.S. enterprises are noted to be 9.3 cases concerning investigation which is the only noteworthy number among all other miscellaneous types of businesses.

From the foregoing result, patent attorneys' offices may be concluded to rely principally on businesses relating to filing of applications.

The operation of filing application will hereunder be viewed in terms of load per individual specification writer, as shown in Table 2.

Table 2

Number of applications (patent & utility model)

	Per agent' office	Per specification writer
No. of patent applications handled	782	127

By simple calculation, this table shows that one person handles 10 cases per month, i.e. one case is completed every 2 to 3 days. The evaluation of the above-mentioned data may vary depending on the readers. However, quality of work, cost and timing should certainly have a close connection with the load of work performed. As such, the above data are considered to provide a noteworthy information for the enterprise side.

(4) Type of clients of attorneys' office

From the result of survey, the number of clients having placed orders with attorneys' offices during one year is as shown in Table 3.

Table 3

Average number of clients

Large enterprises of Japan	9
Middle class & minor enterprises of Japan	10
Individual persons	42
U.S. enterprises	4

Though a matter of course, the level of power to create inventions is outstandingly higher on the part of enterprises rather than individual persons. Thus, business at Japanese patent agents' offices is inferred to depend largely on orders supplied from the enterprises.

3. Attitude of patent agents for orders placed by member Japanese enterprises of PIPA Japanese Group to file domestic applications

(1) Current state of utilization of outside agents

Last year's survey shows that the enterprises which ask for the services of outside agents for filing applications are mainly those enterprises in

the fields of electronics and machinery. These enterprises are reported to do so because of the following situations, i.e. (1) the necessity for encouraging the patent department personnel to concentrate their energy on the patent administration operation of a higher level prompts the enterprise to send out orders to outside agents to undertake that kind of work which may not be handled necessarily within the enterprise, and (2) the need to go through with those items of work which cannot be completed within the enterprise by a limited work force thereof, i.e. overflowing work. In each of these two phases, the type of business whose handling is placed on the hands of outside agents is, invariably, patent application.

This chapter is intended to elucidate the attitude of patent agents under the above-mentioned situation of the enterprise side about business concerning filing of applications, with the hope for more efficient use of outside agents in a more desirable way.

(2) Attitude of outside agents for orders received

Survey was made firstly of what the outside agents themselves think desirable in carrying out their rôle as patent agents. The result was that the answers received from attorneys' offices stating the intent to undertake, as specialists, the entire operation of filing applications on an equal footing with the patent department of client enterprise amounted to 53%, and those stating the intent to undertake, on an equal footing with the patent department of the enterprise, the operation of filing applications in such fields of technique as are outside the handling capacity of the application section of the client enterprise as well as to undertake overflowing applications were noted to be 32%. From these reactions was sensed the trend of the patent agents to appreciate the intent of the enterprise side. However, it has been made clear from this survey that the outside agents do not desire to undertake the work not as subcontractors of the enterprises, but that they want to do the work on an equal footing with the enterprises.

(3) Problems on the part of enterprises (re: transmittal of details of invention)

What has now become the biggest matter of concern for the respective enterprises, in connection with the demand within the enterprises for rationalization of their intra-office operations is how to effectively transmit the details of an invention from the inventor to the outside agent. For example, outside agents point out, as a matter for which the patent department of an enterprise (applicant side) is responsible, the fact that the applicant side provides the outside agent with only necessary minimum materials such as brief report of research prepared by the inventor including data and sketches of drawings. Certainly, a trend is noted of the enterprise side to try to save labor and time of the patent department personnel on the occasion the contents of an invention are conveyed to an outside agent, as a means to contribute to the materialization of said rationalization. Unless, however, sufficient information on the invention is provided to the outside agent who is asked to undertake application business, no good job (preparation of

specification) would be expected as a matter of course. Thus, this may be safely labeled as the problem of topmost importance and concern at the present stage. As a solution to this problem, outside agents desire tête-à-tête discussion with the inventor, and also periodical technical orientation be provided by the enterprise side. Patent departments of enterprises consider it noteworthy that orientation of specification writers is desired by many outside agents. Thus, such orientation would have to be given positively, also from the viewpoint of making efficient use of limited office working hours.

(4) Problems on the part of outside agents

To the question as to the causes for dissatisfaction of applicants about the result of job if such causes are considered to reside with the outside agent side, the answers mentioned the following major points: (1) no sufficient time can be afforded for the preparation of application documents, (2) smallness of office scale hampers the undertaking of sufficient amount of work, and (3) too much time is consumed before an

application is filed. These dissatisfactions perhaps may come from, for one thing, shortage of man power on the part of patent agents since many of them are relatively small in scale as has been revealed in the preceding chapter, and for another thing the severe time limitation till an application is filed, in view of the earlier application principle of the Japanese patent practice.

(5) Other matters

Regarding agent fees, answers stating "billing on fixed rate basis" or like basis showed a high rate of 96%, and billing on time basis was found to be as low as 2%. The fixed rate basis which gives clear idea of cost estimation would certainly be attractive to the enterprise side which sends out a large number of applications to outside agents.

4. Attitude of patent agents for orders placed by member Japanese enterprises of PIPA Japanese Group to file applications in U.S.A.

(1) Selection of patent agent

Last year's survey shows that most of the

member enterprises of PIPA contact U.S. agents through Japanese patent agents for applications filed in U.S.A. The survey also shows that the number of U.S. agents with whom one Japanese patent agent is in constant business relation is relatively small, being 1 to 3 offices. In view of the largest number of answers stating that the criterion for the selection of U.S. agents is the past results of work of the U.S. agents, it is conjectured that their business relations have lasted for a considerable length of time.

On the other hand, the cases that a U.S. attorneys' office is designated by the applicant side are unexpectedly few, being about 16%. This may lead to the conclusion that, so far as U.S. applications are concerned, the Japanese enterprises entirely entrust Japanese patent agents with selection of U.S. agents.

(2) Operations at patent agents

Transmittal of contents of an invention from a client to a patent agent for a U.S. application is done in about a little over 70% of patent agents not only through documents provided to the patent agent but also

through interview with a person or persons of the enterprise in charge of patent business. The fact that, in many cases, the information of an invention is replenished through interview in spite of the copy of the already filed Japanese specification provided to the patent agent is considered to signify that the importance of such invention is high. This is a phase which is substantially different from the pattern noted when a patent agent is asked to file a domestic application.

Next, the subject will be switched to the extent of changes made in the contents between the Japanese application and its corresponding U.S. application. Firstly, the ratio of combined applications wherein the contents of specifications of two or more Japanese applications are combined together into one U.S. application relative to the total number of U.S. applications is as large as 45%. This abundance of combined U.S. applications may be due, for one thing, to the difference in the practice between the United States and Japan concerning the scope of invention which can be incorporated into one application. A more important

cause for the combined application, however, is considered to lie in the earlier application principle in Japan, which prompts the inventor to file an application immediately upon completion of an invention at a certain level, however low the level of this invention may be, without waiting till this invention matures into a much higher degree in level. Thus, a combined application is considered to cover that weakness of each of the series of individual applications which would be exposed if they were filed separately in the United States.

It should be noted here that said change of contents of a specification is done not only at the time a combined specification is prepared. Indeed, as many as 51% of the answers state that even in case a U.S. application is filed from a single Japanese application, the contents of the U.S. specification are changed materially. The above figure is by far the greater than the 37% for the changes made in just the formality items and the 12% for no change. This may be considered to represent the fact that the U.S. specification has been substantiated in contents by the addition of those

examples conducted and the findings obtained after the first-filed Japanese application.

Then, which of the Japanese patent agent and the U.S. counterpart prepares the complete specification of the U.S. application which has been thus changed substantially? The answers tell that as high as 80% of the Japanese patent agents prepare final English specification for filing, which indeed is a remarkable high rate. This, in fact, is a great difference as compared with the cases received from U.S.A. for filing in Japan, in which instance hardly any substantial change in contents of specification is carried out, and the U.S. specifications are translated directly into the Japanese language and they are filed, as will be stated later. Anyway, before an application is filed in the United States, the contents of the specification in the English language is reviewed and substantiated to enhance the quality thereof. And, it is perceived from the survey that the substantiating operation is performed by the hands of Japanese patent agents.

(4) Problems and other matters

To the question as to whether applicants are satisfied with the results of work done by the Japanese patent agents, the majority of the answers include "sufficiently satisfied" and "almost satisfied". The reasons for the satisfaction include "adequate and quick communication", "well versed in U.S. patent practice", "allowance has been obtained with the claims in the form as desired by clients", "adequate measures taken" and "low charge, high quality".

Among the causes for dissatisfaction, those for which the applicant side is responsible consist mainly of: "no sufficient time is given by applicant" and "incompletely prepared first-filed specification". Other remarks include "insufficient disclosure of prior art" and "lack of perfect appreciation of the invention by the person in charge of patent at client's patent department".

As for the causes of dissatisfaction for which patent agents are responsible, there are, for example, "lack of sufficient knowledge of practice", "inproficiency

of translating ability", "incapability of making adequate advice" and "smallness of office scale". These deficits may be justified in view of the abundance of small-scale patent agents' offices.

5. Attitude of patent agents for orders placed by U.S. enterprises to file applications in Japan

(1) Means of communication and interchange of personnel

In case U.S. enterprises are applicants, it is asurmized that considerable care is paid by both the applicants and Japanese patent agents as compared with the instance where Japanese enterprises are applicants, owing to the difference in language, legal aspect, manners and customs, geographical conditions and what not.

Survey was made firstly of the manner of communications between Japanese patent agents and U.S. enterprises which are located away from Japan. The result shows that communications are usually performed through letters, and that as other means of communication, about one half, namely 47%, of the patent agents answered that they use telex, followed by less many agents using cable.

On the other hand, as to the frequency of visits between outside agents and U.S. enterprises, about 20% of outside agents visited U.S. enterprises either periodically or while they were in U.S.A. Also, about 40% of outside agents were visited by U.S. enterprises which were their clients. This shows the zeal of U.S. enterprises to visit outside agents.

(2) Considerations given till applications are filed

As the matters requiring cares, about one half of patent agents point out translation and preparation of specification so as to meet the requirements of the Japanese Patent Law. From this result can be perceived their endeavors to express the contents of the U.S. applications in Japanese language specifications satisfying the Japanese practice. The answers included the remarks that U.S. specifications were faithfully translated for filing, and in the later stage of submission of Remarks, agents' comments were stated and amendment was made of the expression of claims so as to meet the Japanese patent practice. This pattern of handling appears to be employed frequently as an

expedient for mitigating the entire amount of labor till the grant of patent. Another feature is noted in that about 90% of the corresponding Japanese applications of U.S. applications have substantially the same contents as those of the original U.S. specifications, neither as a combined application of plural U.S. applications nor as a divisional application of a U.S. application. This would be explained as being due to the difference in practice between Japan and U.S.A. such that in the States, the requirement for completeness of specification is much severer than in Japan so that U.S. enterprises make it a rule to conduct a thorough review of the contents of specification before filing, to make the specification complete.

(3) Considerations given for official actions

Among those procedures which are taken after the filing of an application, what becomes a problem in operation at agents' offices is the action to be taken by the patent agents for the "Notice of Reasons for Rejection" received from the Patent Office.

Official actions issued by the Japanese Patent

Office often carry a statement made in a very brief expression, though gradually improving, so that applicants quite often find them hard to comprehend.

Under such circumstances in Japan, as many as 80% of patent agents report official actions to their clients, together with an explanation of the office action and an advice about the countermeasures to be taken against the office action. Only a few patent agents provide an English translation of the office action to the U.S. clients. However, the fact that nearly 40% of the patent agents have been informed by their client U.S. enterprises about the difficulty to grasp the point of the official actions would be a matter calling for the attention of not only the Japanese Patent Office authorities alone but also of all those Japanese people who are in the patent business circles.

(4) Demands and other matters

From various remarks given in the answers to the questionnaire, there is noted a trend of self-examination on the part of patent agents themselves about matters having created clients' dissatisfaction, as well as not

a few things which are desired of U.S. enterprises. Among all these demands, the majority consisted of the occurrence of troubles due to lack of knowledge of the Japanese Patent Law and patent practice on the part of U.S. enterprises. Thus, the applicant side also is expected of their efforts to be paid to get accustomed to the Japanese Patent Law and practice.

Other demands included the desire that application orders be placed with reasonable time limits till filing, and the desire for a quick and adequate reply to be provided to questions sent by the patent agents. These are considered to be justifiable demands.

Some patent agents are trying to have the Japanese Patent Law understood by U.S. enterprises through such means as making explanation of the Law in the light of the U.S. Patent Law or German Patent Law which are more or less familiar to their U.S. clients.

6. Conclusion

From the result of the answers to the questionnaire, an attempt was made as above to get hold

of the general trend on how effectively the enterprises are utilizing their outside agents, in the aspect as viewed from the outside agents' side. Some major findings of the survey will be pointed out hereunder, and along therewith consideration will be made as to the means of achieving effective use of outside agents, as follows.

(1) Patent agents which are utilized by the members of PIPA Japanese Group desire to work on an equal footing with the patent departments of the enterprises, and they consider as their raison d'être to do business by undertaking overflowing work which exceeds the handling capacity of the patent departments of clients. More particularly, in the aspect of quality, the outside agents deal with problems as specialists in fields in which the patent department personnel is more or less incompetent. Also, in the aspect of quantity, the outside agents undertake especially those operations relating to filing applications which come out in a large number even where these applications belong to the professional technical fields of the patent department side. Thus, outside agents are contributing

to the patent tactics of the enterprises by perfectly accomplishing a part of the business belonging to the enterprises' patent departments on their behalf, allowing the patent department personnel to engage in patent administration business of a higher level.

2) Many enterprises tend to stick to the operation style to avoid the consumption of time and energy of the patent department personnel as much as possible with the aim of materializing energy-saving within the enterprises for those patent applications placed on the hands of outisde agents, at least till the stage of filing them. Thus, there is noticed the presence of some discontent on the part of the outside agents with respect to matters such as the aforesaid transmittal of the contents of inventions. Also, not a few outside agents complain the shortage of length of working hours from the time of receipt of application order till the time of filing the application. It would thus be necessary for the enterprise side to give sufficient consideration to the working-out of some means or other to alleviate these complaints.

3) The average picture of patent agents in Japan is such that many of them are of a relatively small scale, consisting of a few patent attorneys with a small staff of experienced specification writers. So far as the patent agents used by the members of PIPA Japanese Group are concerned, many of them have such a strong and old business connection with their clients that the agents are supplied with constant large batch of orders to file applications. This, in turn, leads to an overflowing amount of work for the agents' offices relative to the relatively small scale of the working force at these offices. This plus the timing limitation obviously result in a failure to provide a sufficiently high quality job to the clients. These things appear to constitute the causes for complaints of both the enterprise side and the agent side. In case an enterprise asks a patent agent to work on filing of application, it would be necessary for the enterprise to have a good understanding of such situation of the outside agents.

4) In case where outside agents are requested by Japanese enterprises to file U.S. applications, the agents make a thoroughgoing review of the contents of the invention, and conduct material changes of the contents of the specification either by combining together a plurality of related Japanese applications already on file or by adding more examples,to prepare a specification in a complete style.

On the other hand, in case Japanese outside agents are requested by U.S. enterprises to file applications in Japan, the Japanese agents hardly make any substantial change in the contents of the original U.S. specification.

These differences in the style of operations at Japanese agents for these two kinds of applications are due mainly to the difference in patent practice between the United States and Japan. That is, in the United States, a complete specification is required at the stage of filing domestically, whereas in Japan, addition of contents can be done with a relative easiness after an application has been filed. As such, if

circumstances allow, it is desirable for Japanese enterprises also to give outside agents sufficient data and time so as to be able to prepare the specification of a Japanese application in a complete style for such invention as is expected to be applied later for a patent in U.S.A.

5) The majority of matters to be desired of client U.S. enterprises by outside agents is represented by the latter's knowledge of the Japanese Patent Law and patent practice at the Japanese Patent Office. Therefore, efforts to assist the understanding of the Japanese Patent Law and practice by the U.S. enterprises by making use of various occasions will hereinafter be necessary.

The above-stated result of survey does not go any further than the average picture of Japanese patent agents. It is expected of the respective enterprises to grasp the actual state of things from the foregoing report plus the result of last year's survey, to seek a policy most suited for the individual enterprises.

It is added here that, in the report of the

result of this year's survey, no detailed analysis has been available owing to the limited time, but a just general comparison is made based on the general average values of items of survey. If further analysis is made with respect to such classifications as by largeness of patent agent office and specialized technical fields, more interesting data may be obtained. If time allows, we will certainly undertake such analysis, and will report to you the results.

Thank you very much for your kind attention.

"CURRENT STATUS OF THE NEW REISSUE (REEXAMINATION) PRACTICE"

By William T. McClain
Standard Oil Company

Introduction

On March 1, 1977, the United States Patent and Trademark Office (PTO) amended a number of sections of Title 37 of the Code of Federal Regulations relating to patent examining and appeal procedures (copy attached). The stated purpose of these amendments was to improve the quality and reliability of issued patents. The desire is that patents be as dependable as possible, so as to enhance the incentives provided by the patent system to make inventions, to invest in research and development, to put new and improved products on the market, and to disclose inventions that would otherwise be kept as trade secrets. Many of these rule changes stemmed from the 1966 report of the President's commission on the patent system, and impetus was provided by the failure to promptly enact legislation recommended to strengthen the U.S. patent system.

In 1979, legislation was introduced in both houses of Congress to permit reexamination of issued patents in light of newly-cited prior art. The Senate Bill, S.2446, entitled "Patent Law Amendments Act of 1979" would permit any person to request reexamination of a patent in light of prior patents or publications not previously considered by the PTO, and the courts would have the option of sending pending patent litigation back to the PTO for reexamination.

The House bill (H.R. 6933) is an omnibus bill which includes reexamination among a number of features. However, the House bill does not provide for the stay of litigation during reexamination by the PTO.

There have been published many fine articles on practice under the new rules, and I will not attempt to cover all of the considerations of whether to apply for reexamination, whether to file a protest under a reissue application, or other such matters related to reexamination. However, I would like to cover with you the following matters. One, how have the courts treated a request for a stay of litigation in order to apply for a reissue patent? Two, how do the courts view their power to compel a patentee to seek reissue involuntarily? Three, what is the effect of reexamination on subsequent litigation involving the patent?

Reexamination Under Rule 175

Among the rule changes by the PTO, Section 1.175(a)(4), was amended to permit a patent owner to have new prior art or other information relevant to patentability considered by the PTO by way of a reissue application without making any changes in the claims or the specification, in effect a reexamination procedure. This new procedure was stated to be authorized by 35 U.S.C. 251 providing for reissue of defective patents. In order to help bring the most pertinent prior art to the attention of the PTO, Section 1.291(a) now provides

for public protests against pending reissue applications and requires the furnishing of prior art documents relied upon. The procedure may be used at any time during the life of the patent. During litigation, a federal court may, if it chooses, stay proceedings to permit new prior art to be considered by the office, so as to reduce the burden on the court and reduce the cost of litigation.

The new rules provide a departure from prior PTO practice in that reexamination of claims pursuant to the oath filed under Rule 175(a)(4) is permitted without requiring the applicant to admit that there is, in fact, any defect in the patent or that the claims are inoperative or invalid. A finding by the PTO that the original claims are patentable over the art or other information submitted by the patentee results in the rejection of the reissue application on the grounds that there is no error or defect providing statutory basis for reissuing the patent. If during reexamination, however, the original claims are rejected over the cited art and the patentee desires to amend the original claims to overcome the objection, then a supplemental oath acknowledging the defects in the patent and identifying the actual errors which render the patent invalid must be filed satisfying the other subsections of Rule 175. When the claims are amended and the supplemental oath is filed, prosecution is conducted substantially as in conventional reissue prosecution, except that limited participation is afforded to a protestor. If claims are found

patentable over the art, a reissue patent would be granted, and the patentee would surrender his original patent. If none of the claims are found patentable over the art, a reissue patent would not be granted; however, the patentee would retain his original patent. The PTO determination of patentability in reissue applications does not have res judicata effect; however, the record of prosecution indicating that the Examiner has rejected the original claims over the cited art is available to the public for use in any subsequent litigation.

Announcements of all reissue applications are published in the Official Gazette, and all reissue applications are open to inspection by the general public. Any party who wishes to protest in a reissue application may submit written comments to the PTO. Participation by a protestor is normally limited to the filing of rebuttal papers responsive to papers filed by the patentee. The PTO may require that both the patentee and the protestor serve copies of all papers filed on their opponent. As a general matter, the protestor has no right to attend interviews or otherwise participate in the proceedings in the office. Under special circumstances, the PTO has indicated that attendance at interviews in oral arguments before the Board of Appeals may be permitted. The degree of participation permitted a protestor is discretionary with the PTO, and it has been indicated that the PTO is tending toward greater participation by protestors. Unlike truely interparties proceedings, the protestor is provided with no discovery by the patent office.

Reexamination Sought by the Patentee

A number of cases have been reported in which a patentee has sought a stay of litigation in order to apply for a reissue patent. The courts have drawn no distinction as to whether the patentee is the plaintiff in an infringement suit or the defendant in a suit for declaratory judgment. Table I summarizes some of the cases: These cases are compiled in the attached Index.

Table I

Patentee Seeks Stay to Get a Reissue

Case	Date	Court	Result
General Tire	March, 1977	D. Del.	Stay denied.
PIC I	May, 1977	D. Del.	Stay granted.
Fisher Controls	Nov., 1977	S.D. Iowa	Stay granted.
Sauder	Sept., 1978	N.D. Ohio	Stay granted.
Starlight	Sept., 1978	S.D. N.Y.	Stay denied.
Rohm & Haas	Dec., 1978	D. Del.	Stay granted.
Fas-Line	Aug., 1979	W.D. Okla.	Stay granted.

The power of a court to stay litigation is both inherent and discretionary. In deciding whether to order a stay, the general approach is to balance the competing interests. See CMAX, Inc. v. Hall, 300 F.2d 265, 268 (9th Cir. 1962). The balancing test has been used in every case where the patentee has sought a stay to apply for a reissue patent.

On one side of the balance is the burden of delay which results if the stay is granted. The court itself is burdened since it has an interest in clearing its docket, and the party opposing the stay is burdened because normally his interest will be to conclude the litigation as quickly as possible. The delay burden is a function of two factors: (1) when, during the litigation, the delay will occur and (2) the length of the delay.

If the stay is sought early in the litigation when trial is years away, the delay for reexamination is inconsequential. At the other extreme, a delay on the eve of trial could be very disruptive. An example of an eve-of-trial motion for a stay is found in General Tire & Rubber Co. v. Watson-Bowman Associates, Inc., 193 USPQ 479 (D. Del. 1977). The litigation had begun in 1972, extensive discovery had been completed, and trial had been set for April, 1977. On February 22, 1977, General Tire, the plaintiff-patentee, sought the stay. The court refused, noting that "[i]f the new reissue procedure had been available at an earlier stage of this case, the Court would be far more inclined to stay the proceedings to realize the benefits of the PTO's input." Id. at 483.

The probable length of the delay is the second variable in assessing the burden. When the amended Rule 175 was first adopted, there was a two-month waiting period. In 1979 this period was eliminated. Several courts have stressed the importance of this expediting procedure in reducing the burden.

See, e.g., Fas-Line Sales & Rentals, Inc. v. E-Z Lay Pipe Corp., 203 USPQ 497 (W.D. Okla. 1979).

On the other side of the balance are the potential benefits which might result from reexamination by the PTO. The courts have discussed numerous benefits and the weight to be given each. Fisher Controls Co., Inc. v. Control Components, Inc., 196 USPQ 817 (S.D. Iowa 1977), is often cited for its list of benefits.

One cited benefit is that the court will receive the PTO's expert opinion on patentability. This benefit is most significant when the art is complicated and there are many newly discovered prior art sources.

A second important benefit is that the PTO reexamination may end the litigation. In two cases, the patentee stipulated that he would dedicate the patent if the PTO concluded that the claims were not patentable. PIC Inc. v. Prescon Corp., 195 USPQ 525 (D. Del. 1977), and Fas-Line Sales & Rentals, Inc. v. E-Z Lay Pipe Corp., 203 USPQ 497 (W.D. Okla. 1979). Even without such a stipulation, both litigants know that the PTO's decision will be given great weight by the court. So, depending upon the PTO's decision, the suit may be dropped or settled.

Other benefits that have been named are: (1) a reduction in discovery problems, (2) the reexamination record can be used at the trial, (3) issues can be more easily limited for trial, and (4) a reduction of cost.

Reexamination Sought by the Nonpatentee

From the face of Rule 175 it appears that the reexamination procedure can be invoked only at the wish of the patentee. But it was less than one year after the amended Rule was adopted before the courts began to order patentees to go through the reexamination procedure. This indicates, perhaps more than anything, just how much the courts are in favor of reexamination. Table II summarizes some of the cases. These cases are compiled in the Index.

Table II

Nonpatentee Asks Court to Order Patentee to Seek a Reissue

Case	Date	Court	Result
Alpine Eng'ing	Feb., 1978	S.D. Fla.	Order.
K-Jack	June, 1978	C.D. Calif.	Order.
Lee-Boy	Sept., 1978	N.D. Ga.	Order.
Will	Oct., 1978	S.D. N.Y.	No order.
Choat I	Dec., 1978	N.D. Ga.	No order.
RCA	March, 1979	D. Del.	No order.
Bielomatik	Aug., 1979	N.D. Texas	No order.
Choat II	Aug., 1979	N.D. Ga.	Order.

Case	Date	Court	Result
Antonious	Oct., 1979	D. Md.	No order.
Slimfold I	Dec., 1979	N.D. Ga.	No order.
Sheller Globe	Jan., 1980	E.D. Mich.	Order.
Coe Labs	March, 1980	N.D. Ill.	Order.
Slimfold II	June, 1980	N.D. Ga.	Order.
Milliken Research	July, 1980	D.W. Va.	No order.
Johnson & Johnson	Aug., 1980	7CCA	No order.

The courts in the early cases apparently assumed that they possessed the power to compel patentees to seek reexamination. However, none of them addressed the question of where this power came from. Finally, in Sheller Globe Corp. v. Mobay Chemical Corp., 204 USPQ 1052 (E.D. Mich. 1980), a court faced up to the question and decided that the power was inherent.

Until then, only one court had expressly held that a court is without power to compel a patentee to seek reexamination. Bielomatik Leuze & Co. v. Southwest Tablet Mfg. Co., 204 USPQ 226 (N.D. Texas 1979). More recently, on August 1, 1980, the Seventh Circuit Court of Appeals, in Johnson & Johnson, Inc. v. Wallace A. Erikson & Co., held that a district court has no authority to compel a patentee to seek reissue as a condition to pursuing his remedies against an alleged infringer. The Court stated that neither Congress nor the Commissioner of Patents and Trademarks

has authorized reissue proceedings to be initiated by anyone other than the inventor or his assignee.

Thus, at the present time, there is a conflict on the question of whether a court has the power to compel a patentee to seek reissue during litigation.

Effect of Reexamination on the Subsequent Litigation

Under 35 U.S.C. Subsection 282 every patent is presumed to be valid. However, the courts have differed widely as to just what this presumption means and to what it applies. It has been stated that the lower courts have taken two distinct positions regarding the presumptions: (1) the presumption is evidence supporting patentability which can be weighed against contrary evidence and which can be strengthened or weakened by various factors and (2) the presumption merely shifts the burden of proof. D. Chisum, Patents Subsection 5.06 [2] (1980).

When a patent has been reexamined in light of newly discovered prior art and the PTO has concluded that the claims are still patentable, the presumption of validity applies in the subsequent litigation. The cases which have been decided take very different approaches toward the post-reexamination presumption.

In National Tractor Pullers Ass'n., Inc. v. Watkins, 205 USPQ 892 (N.D. Ill. 1980), the PTO had decided that the claims were patentable over the new art. The court was willing to give this considerable weight:

> This court, therefore, finds that where the validity of a patent has been tested in a protested reissue proceeding in the United States Patent and Trademark Office, and where that Office has determined that the original patent was properly granted, this court will not find contrary to the findings of the Patent Office absent a thorough conviction supported by clear and convincing evidence that the Patent Office's decision was erroneous.

Id. at 911.

A similar approach to the presumption was taken in Komline-Sanderson Engineering Corp. v. Ingersoll-Rand Co., 205 USPQ 314 (D. Del. 1980). The court noted that the reexamination decision meant that the "patent-in-suit is entitled to a presumption of validity and must stand unless its invalidity is demonstrated by clear and convincing proof." Id. at 318,319. The court went on, however, to disagree with the PTO by holding that the patent was invalid because of obviousness.

A far different approach was taken in Mooney v. Brunswick Corp., 206 USPQ 121 (E.D. Wisc. 1980). The plaintiff had sued the defendant for patent infringement. The defendant turned up 56 items of allegedly relevant prior art which had not originally been considered. The litigation was stayed while the patent was reexamined. The PTO found the claims to still be patentable. In its explanation, the PTO mentioned only the most relevant of the 56 items.

The court seized on two items of prior art which had not been specifically mentioned by the PTO. The court declared that the presumption of validity did not apply to the two items since they were not mentioned. The court then held the patent invalid as being obvious in view of the two items.

The facts in the fourth case, PIC Inc. v. Prescon Corp., 205 USPQ 228 (D. Del. 1980), were similar. A patent infringement suit was filed, the litigation was stayed, the PTO reexamined in light of newly discovered art, and the PTO concluded that the claims were still patentable. Unlike the previous three cases, the patentee then moved for summary judgment on the issue of patent invalidity by reason of prior art. The argument was that the PTO's decision should be given "preclusive effect" by the court.

The court concluded that collateral estoppel did not apply because the reexamination procedure did not give the defendant an adequate

opportunity to litigate his claims. The court went on to note that the PTO's decision would, however, strengthen the presumption of validity.

The effect of the reverse situation, where the PTO reexamines and concludes that the claims are unpatentable, is an open question. Although the patentee will retain his original patent, it seems clear that his position will be very weak. One court has addressed this question in dictum:

> If upon examination of the provisions of the prior art, the claims of the patent are determined to lack the requisite degree of novelty or invention, the court may determine that there would be no question appropriate for jury resolution.

Lee-Boy Manufacturing Co., Inc. v. Puckett, 202 USPQ 573, 574 (N.D. Ga. 1978). This dictum suggests that summary judgment could be granted to the alleged infringer on the issue of patent validity. Chisum also suggests that summary judgment would be appropriate if the PTO concludes that the claims are unpatentable:

> [I]t can be argued that the reissue applicant should appeal the rejection to the Board of Appeals and, if necessary, to the courts. An adverse decision by the reviewing courts would be entitled to res judicata effect under the principles of the Blonder-Tongue decision.

D. Chisum, Patents Subsection 15.03[1][e] (1980).

There has been one case decided in which the PTO found the claims to be unpatentable upon reexamination and yet the patentee prevailed in the subsequent litigation. The case, Control Components, Inc. v. Valtek, Inc., 204 USPQ 785 (5th Cir. 1980), is probably best viewed as an aberration. The district court decision is not reported; so much of the information comes from Mr. Tom Arnold's address at the 1980 Conference on the Patent and Trademark Office.

The plaintiffs had sued the defendants for infringing Claim 17 of a patent. The plaintiffs moved for a stay to seek reissue. The court refused to stay the litigation. Nevertheless, the plaintiffs applied for a reissue patent.

Before the trial began, the PTO completed its reexamination and concluded that Claim 17 was unpatentable because it was obvious in light of the new art. The trial was before a jury, and the court refused to admit the PTO's decision into evidence. The trial court apparently ruled that the decision would be unfairly prejudicial under Rule 403 of the Federal Rules of Evidence.

At the conclusion of the trial, Claim 17 was found to be valid, and the defendants were found guilty of infringement. The Fifth Circuit affirmed and held that the trial court had not abused its discretion in excluding the PTO's decision.

Pending Reexamination Legislation

In August, 1979, Senator Birch Bayh (D-Ind.) and Representative M. Caldwell Butler (R-Va.) each introduced legislation that would provide a slightly different reexamination procedure. The bill is named the Patent Law Amendments Act, S. 2446 (copy attached), and was passed by the Senate in March, 1980. On August 20, 1980, the House Judiciary Committee approved H.R. 6933. It is expected that the House will pass the bill, and it would then go to a conference with the Senate. There is a question as to whether the Senate will accept the patent policy and independent PTO provision of H.R. 6933. There is also a question as to whether the President will sign the bill if the independent PTO provision is accepted.

Some of the differences between the present procedures and S. 2446 are as follows:

1. Under Rule 175, the reexamination procedure can be invoked only by the patentee. Under the Act, any party could invoke the reexamination. Subsections 302, 303.

2. Under the Act, third-party involvement would be greatly curtailed.

3. Under the Act, litigation would be stayed as of right if the stay is sought before any responsive pleading. If a stay is

sought afterwards, the decision would still be discretionary with the court. Subsection 310(a)(1).

4. Under the Act, the general rule would be that a litigant cannot cite prior art as evidence of patent invalidity unless he has first sought reexamination. Subsection 309(a)(1).

5. Under Rule 175, the patentee retains his original patent even if the PTO finds that the claims are unpatentable over the new art. Under the Act, the PTO could cancel the claims. Subsection 308.

Objections to Reexamination

It should be noted that the present reissue practice and the proposed reexamination legislation are not universally welcomed by lawyers. For example, in his talk at the 1980 Conference on the Patent and Trademark Office, Tom Arnold pointed out that, among other objections (1) additional delays of up to 2-1/2 years have been experienced in protested reissue proceedings, to the prejudice of the patentee, and (2) "real world evidence" which is generally before the court often does not get before the Examiner, e.g., on sale evidence, public use evidence, live cross-examination of the adversary's themes rather than affidavits which are often suspect.

Conclusion

The reexamination procedure under Rule 175 has become very popular with courts involved in patent litigation. As soon as the patentee requests a stay, the court will undertake a balancing of the benefits versus the burdens. With the PTO's expediting procedure, the balance will nearly always tip in favor of the benefits. If the nonpatentee asks for reexamination, a court may or may not compel a reissue application and stay the litigation. If the court stays the proceedings, it will probably instruct both parties to participate in the reexamination; the patentee as reissue applicant and the nonpatentee as protestor.

If the PTO finds the claims to be patentable over the newly discovered art, the presumption of validity will be applicable. If the PTO finds the claims not to be patentable, the patent will, at the very least, be seriously weakened.

The Bayh-Butler Patent Law Amendment Act is likely to become law during the next session of Congress and will alter the procedure and effect of patent reexamination.

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Reexamination under Rule 175	
1. Selected Provisions	35 U.S.C. (1976)
2. Selected Provisions	37 C.F.R. (1979)
3. Proposal of Rules	41 FR 43729 (Oct. 4, 1976)
4. Adoption of Rules	42 FR 5588 (Jan. 28, 1977)
5. Guidelines	957 OG 11 (April 12, 1977)
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Reexamination Sought by the Patentee	
1. General Tire	193 USPQ 479 (D. Del. 1977)
2. PIC I	195 USPQ 525 (D. Del. 1977)
3. Fisher Controls	196 USPQ 817 (S.D. Iowa 1977)
4. Sauder	201 USPQ 240 (N.D. Ohio 1978)
5. Starlight	201 USPQ 307 (S.D. N.Y. 1978)
6. Rohm & Haas	201 USPQ 80 (D. Del. 1978)
7. Fas-Line	203 USPQ 497 (W.D. Okla. 1979)

Reexamination Sought by the Non-Patentee	
1. Alpine Eng'ing	367 PTCJ A-12 (S.D. Fla. 1978)
2. K-Jack	205 USPQ 696 (C.D. Calif. 1978)
3. Lee-Boy	202 USPQ 573 (N.D. Ga. 1978)
4. Will	201 USPQ 476 (S.D. N.Y. 1978)
5. Choat I	203 USPQ 355 (N.D. Ga. 1978)
6. RCA	201 USPQ 451 (D. Del. 1979)
7. Bielomatik	204 USPQ 226 (N.D. Texas 1979)
8. Choat II	203 USPQ 549 (N.D. Ga. 1979)
9. Antonious	204 USPQ 294 (D. Md. 1979)
10. Slimfold I	488 PTCJ A-5 (N.D. Ga. 1979)
11. Sheller Globe	204 USPQ 1052 (E.D. Mich. 1980)
12. Coe Labs	479 PTCJ A-14 (N.D. Ill. 1980)
13. Slimfold II	488 PTCJ A-5 (N.D. Ga. 1980)
14. Milliken Research	488 PTCJ A-6 (W. D. Va. 1980)
15. Johnson & Johnson	206 USPQ 873 (7th Cir. 1980)

Effect of Reexamination on the Subsequent Litigation	
1. Nat'l Tractors	205 USPQ 892 (N.D. Ill. 1980)
2. Komline-Sanderson	205 USPQ 314 (D. Del. 1980)
3. Mooney	206 USPQ 121 (E.D. Wis. 1980)
4. PIC II	205 USPQ 228 (D. Del. 1980)
5. Control Components	204 USPQ 785 (5th Cir. 1980)

be used when the record does not otherwise reveal the reasons for allowance.

A majority of the comments received favored the rule as proposed because it would tend to provide courts and others who were reviewing the patent with a clearer record. Those who opposed the rule most often gave the reason that the examiner might fail to state all the reasons or the strongest reasons why a claim was allowed, which could place unnecessary limitations on the claims or create an estoppel in subsequent litigation or licensing.

To help insure that the examiner's statement of his reasoning in allowing a claim will not unnecessarily limit the claims or create an estoppel, a final sentence is added to the proposal which states that failure of the applicant to comment upon or rebut the examiner's reasoning "shall not give rise to any implication that the applicant agrees with or acquiesces in the reasoning of the examiner."

Several commenters suggested that stricter enforcement of §§ 1.111 and 1.133 would eliminate the need for a new rule concerning reasons for allowance. Situations exist, however, where a statement of reasons for allowance could be helpful, for example when an examiner withdraws a rejection for reasons not suggested by the applicant; when an applicant submits several arguments for allowing a claim and the examiner finds not all of them persuasive; when an examiner allows a claim on the first office action after citing very close prior art; and when the examiner allows a claim after remand from the Board of Appeals (see new § 1.196(d)).

The first sentence of the proposed rule is changed to define more precisely the circumstances in which an examiner's statement is appropriate, as well as to define more precisely the content of the statement. The statement will include the examiner's "reasoning." The examiner may state his reasoning whenever he "believes that the record of the prosecution as a whole does not make clear his reasons for allowing a claim or claims."

Several persons commented that the rule should provide a procedure for appeal from the examiner's statement of his reasoning. The rule does permit applicants to comment upon the examiner's reasoning. If the applicant does not wish to comment, he may reserve for a later proceeding, without prejudice, any rebuttal.

TEXT OF RULES ADOPTED

After consideration of the comments received and pursuant to the authority contained in § 6 of Title 35 of the United States Code, Part 1 of Title 37 of the Code of Federal Regulations is amended as set forth below.

1. Section 1.11 is revised to read as follows:

.11 Files open to the public.

(a) After a patent has been issued, the specification, drawings, and all papers relating to the case in the file of the patent are open to inspection by the general public, and copies may be obtained upon paying the fee therefor. After an award of priority by the Board of Patent Interferences as to all parties, the file of any interference which involved a patent, or an application on which a patent has issued, is similarly open to public inspection and procurement of copies. See § 2.27 for trademark files.

(b) All reissue applications and all applications in which the Office has accepted a request filed under § 1.139, and related papers in the application file, are open to inspection by the general public, and copies may be obtained upon paying the fee therefor. The filing of reissue applications will be announced in the *Official Gazette*. The announcement shall include at least the filing date, reissue application and original patent numbers, title, class and subclass, name of the inventor, name of the owner of record, name of the attorney or agent of record, and examining group to which the reissue application is assigned.

2. In § 1.14 paragraphs (b) and (d) are revised to read as follows:

§ 1.14 Patent applications preserved in secrecy.

* * * * *

(b) Except as provided in § 1.11(b) abandoned applications are likewise not open to public inspection, except that if an application referred to in a U.S. patent, or in an application which is open to inspection pursuant to § 1.139, is abandoned and is available, it may be inspected or copies obtained by any person on written request, without notice to the applicant. Abandoned applications may be destroyed after 20 years from their filing date, except those to which particular attention has been called and which have been marked for preservation. Abandoned applications will not be returned.

* * * * *

(d) Any decision of the Board of Appeals or the Board of Patent Interferences, or any decision of the Commissioner on petition, not otherwise open to public inspection shall be published or made available for public inspection if: (1) The Commissioner believes the decision involves an interpretation of patent laws or regulations that would be of important precedent value; and (2) the applicant, or any party involved in the interference, does not, within two months after being notified of the intention to make the decision public, object in writing on the ground that the decision discloses a trade secret or other confidential information. If a decision discloses such information, the applicant or party shall identify the deletions in the text of the decision considered necessary to protect the information. If it is considered the entire decision must be withheld from the public to protect such information, the applicant or party must explain why. Applicants or parties will be given time, not less than twenty days, to request reconsideration and seek court review before any portions of decisions are made public over their objection. See § 2.27 for trademark applications.

3. Section 1.51 is revised to read as follows:

§ 1.51 General requisites of an application.

(a) Applications for patents must be made to the Commissioner of Patents and Trademarks. A complete application comprises:

(1) A specification, including a claim or claims, see §§ 1.71 to 1.77.

(2) An oath or declaration, see §§ 1.65 and 1.68.

(3) Drawings, when necessary, see §§ 1.81 to 1.88.

(4) The prescribed filing fee. (See 35 USC section 41 for filing fees.)

(b) Applicants are encouraged to file a prior art statement at the time of filing the application or within three months thereafter. See §§ 1.97 through 1.99.

4. In § 1.52 paragraph (a) is revised to read as follows:

§ 1.52 Language, paper, writing, margins.

(a) The specification and oath or declaration must be in the English language except as provided in § 1.69. All papers which are to become a part of the permanent records of the Patent and Trademark Office must be legibly written or printed in permanent ink or its equivalent in quality. All of the application papers must be presented in a form having sufficient clarity and contrast between the paper and the writing or printing thereon to permit the production of readily legible copies in any number by use of photographic, electrostatic, photooffset, and microfilming processes. If the papers are not of the required quality, substitute typewritten or printed papers of suitable quality may be required.

* * * * *

5. Section 1.56 is revised to read as follows:

§ 1.56 Duty of disclosure; striking of applications.

(a) A duty of candor and good faith toward the Patent and Trademark Office rests on the inventor, on each attorney or agent who prepares or prosecutes the application and on every other individual who is substantively involved in the preparation or prosecution of the application and who is associated with the inventor, with the assignee or with anyone to whom there is an obligation to assign the application. All such individuals have a duty to disclose to the Office information they are aware of which is material to the examination of the application. Such information is material where there is a substantial likelihood that a reasonable examiner would consider it important in deciding whether to allow the application to issue as a patent. The duty is commensurate with the degree of involvement in the preparation or prosecution of the application.

(b) Disclosures pursuant to this section may be made to the Office through an attorney or agent having responsibility for the preparation or prosecution of the application or through an inventor who is acting in his own behalf. Disclosure to such an attorney, agent or

inventor shall satisfy the duty, with respect to the information disclosed, of any other individual. Such an attorney, agent or inventor has no duty to transmit information which is not material to the examination of the application.

(c) Any application may be stricken from the files if: (1) Signed or sworn to in blank, or without actual inspection by the applicant; or

(2) Altered or partly filled in after being signed or sworn to.

(d) An application shall be stricken from the files if it is established by clear and convincing evidence that any fraud was practiced or attempted on the Office in connection with it or that there was any violation of the duty of disclosure through bad faith or gross negligence.

6. In the heading preceding § 1.65 "STATEMENT;" is deleted.

7. In § 1.65 the heading and paragraph (a) are revised to read as follows:

§ 1.65 Oath or declaration.

(a) (1) The applicant, if the inventor, must state that he verily believes himself to be the original and first inventor or discoverer of the process, machine, manufacture, composition of matter, or improvement thereof, for which he solicits a patent; that he does not know and does not believe that the same was ever known or used in the United States before his invention or discovery thereof, and shall state of what country he is a citizen and where he resides and whether he is a sole or joint inventor of the invention claimed in his application. In every original application the applicant must distinctly state that to the best of his knowledge and belief the invention has not been in public use or on sale in the United States more than one year prior to his application or patented or described in any printed publication in any country before his invention or more than one year prior to his application, or patented or made the subject of an inventor's certificate in any foreign country prior to the date of his application on an application filed by himself or his legal representatives or assigns more than twelve months prior to his application in this country. He must acknowledge a duty to disclose information he is aware of which is material to the examination of the application. He shall state whether or not any application for patent or inventor's certificate on the same invention has been filed in any foreign country, either by himself, or his legal representatives or assigns. If any such application has been filed, the applicant shall name the country in which the earliest such application was filed, and shall give the day, month, and year of its filing; he shall also identify by country and by day, month, and year of filing, every such foreign application filed more than twelve months before the filing of the application in this country.

(2) This statement (i) must be subscribed to by the applicant, and (ii) must either (a) be sworn to (or affirmed) as provided in § 1.66, or (b) include the personal declaration of the applicant as prescribed in § 1.68. See § 1.153 for design cases and § 1.162 for plant cases.

* * * * *

8. Section 1.69 is added to read as follows:

§ 1.69 Foreign language oaths and declarations.

(a) Whenever an individual making an oath or declaration cannot understand English, the oath or declaration must be in a language that such individual can understand and shall state that such individual understands the content of any documents to which the oath or declaration relates.

(b) Unless the text of any oath or declaration in a language other than English is a form provided or approved by the Patent and Trademark Office, it must be accompanied by a verified English translation, except that in the case of an oath or declaration filed under § 1.65, the translation may be filed in the Office no later than two months after the filing date.

9. The heading "PRIOR ART STATEMENT" is added following § 1.95 and preceding § 1.97.

10. Section 1.97 is added to read as follows:

§ 1.97 Filing of prior art statement.

(a) As a means of complying with the duty of disclosure set forth in § 1.56, applicants are encouraged to file a prior art statement at the time of filing the application or within three months thereafter. The statement may either be separate from the specification or may be incorporated therein.

(b) The statement shall serve as a representation that the prior art listed therein includes, in the opinion of the person filing it, the closest prior art of which that person is aware; the statement shall not be construed as a representation that a search has been made or that no better art exists.

11. Section 1.98 is added to read as follows:

§ 1.98 Content of prior art statement.

(a) Any statement filed under § 1.97 or § 1.99 shall include: (1) A listing of patents, publications or other information and (2) a concise explanation of the relevance of each listed item. The statement shall be accompanied by a copy of each listed patent or publication or other item of information in written form or of at least the portions thereof considered by the person filing the statement to be pertinent.

(b) When two or more patents or publications considered material are substantially identical, a copy of a representative one may be included in the statement and others merely listed. A translation of the pertinent portions of foreign language patents or publications considered material should be transmitted if an existing translation is readily available to the applicant.

12. Section 1.99 is added to read as follows:

§ 1.99 Updating of prior art statement.

If prior to issuance of a patent an applicant, pursuant to his duty of disclosure under § 1.56, wishes to bring to the attention of the Office additional patents, publications or other information not previously submitted, the additional information should be submitted to the Office with reasonable promptness. It may be included in a supplemental prior art statement or may be incorporated into other communications to be considered by the examiner. Any transmittal of additional information shall be accompanied by explanations of relevance and by copies in accordance with the requirements of § 1.98.

13. Section 1.109 is added to read as follows:

§ 1.109 Reasons for allowance.

If the examiner believes that the record of the prosecution as a whole does not make clear his reasons for allowing a claim or claims, the examiner may set forth such reasoning. This shall be incorporated into an Office action rejecting other claims of the application or be the subject of a separate communication to the applicant. The applicant may file a statement commenting on the reasons for allowance within such time as may be specified by the examiner. Failure to file such a statement shall not give rise to any implication that the applicant agrees with or acquiesces in the reasoning of the examiner.

14. In § 1.175 paragraph (a) is revised to read as follows:

§ 1.175 Reissue oath or declaration.

(a) Applicants for reissue, in addition to complying with the requirements of the first sentence of § 1.65, must also file with their applications a statement under oath or declaration as follows:

(1) When the applicant verily believes the original patent to be wholly or partly inoperative or invalid, stating such belief and the reasons why.

(2) When it is claimed that such patent is so inoperative or invalid "by reason of a defective specification or drawing," particularly specifying such defects.

(3) When it is claimed that such patent is inoperative or invalid "by reason of the patentee claiming more or less than he had a right to claim in the patent," distinctly specifying the excess or insufficiency in the claims.

(4) When the applicant is aware of prior art or other information relevant to patentability, not previously considered by the Office, which might cause the examiner to deem the original patent wholly or partly inoperative or invalid, particularly specifying such prior art or other information and requesting that if the examiner so deems, the applicant be permitted to amend the patent and be granted a reissue patent.

(5) Particularly specifying the errors or what might be deemed to be errors relied upon, and how they arose or occurred.

(6) Stating that said errors, if any, arose "without any deceptive intention" on the part of the applicant.

* * * * *

15. Section 1.176 is revised to read as follows:

§ 1.176 Examination of reissue.

An original claim, if re-presented in the reissue application, is subject to re-examination, and the entire application will be examined in the same manner as original applications, subject to the rules relating thereto, excepting that division will not be required. Applications for reissue will be acted on by the examiner in advance of other applications, but not sooner than two months after announcement of the filing of the reissue application has appeared in the Official Gazette.

16. Section 1.194 is revised to read as follows:

§ 1.194 Oral hearing.

(a) An oral hearing should be requested only in those circumstances in which the appellant considers such a hearing necessary or desirable for a proper presentation of his appeal. An appeal decided without an oral hearing will receive the same consideration by the Board of Appeals as appeals decided after oral hearing.

(b) If appellant requests an oral hearing, an oral argument may be presented by, or on behalf of, the primary examiner if considered desirable by either the primary examiner or the Board.

(c) If no request for oral hearing has been made by the appellant, the appeal will be assigned for consideration and decision. If the appellant has requested an oral hearing, a day of hearing will be set, and due notice thereof given to the appellant and to the primary examiner. Hearing will be held as stated in the notice, and oral argument will be limited to twenty minutes for the appellant and fifteen minutes for the primary examiner unless otherwise ordered before the hearing begins.

17. Section 1.196 is amended by adding new paragraph (d) to read as follows:

§ 1.196 Decision by the Board of Appeals.

* * * * *

(d) Although the Board of Appeals normally will confine its decision to a review of rejections made by the primary examiner, should it have knowledge of any grounds for rejecting any allowed claim that it believes should be considered, it may include in its decision a statement to that effect and remand the case to the primary examiner for consideration thereof. In such event, the Board shall set a period, not less than one month, within which the applicant may submit to the primary examiner an appropriate amendment, or a showing of facts or reasons, or both, in order to avoid the grounds set forth in the statement of the Board of Appeals. If the primary examiner rejects the previously allowed claim or claims on the basis of such statement, the applicant may appeal to the Board of Appeals from the rejection. Whenever a decision of the Board of Appeals includes a remand, that decision shall not be considered as a final decision in the case, but the Board of Appeals shall, upon conclusion of the proceedings before the primary examiner on remand, either adopt its decision as final or render a new decision on all of the claims on appeal, as it may deem appropriate.

18. Section 1.291 is revised to read as follows:

§ 1.291 Protests and prior art citations by public.

(a) Protests against pending applications will be acknowledged and referred to the examiner having charge of the subject matter involved. A protest specifically identifying the application to which the protest is directed will be entered in the application file and, if timely submitted and accompanied by a copy of each prior art document relied upon, will be considered by the examiner.

(b) Citations of prior art and any papers related thereto may be entered in the patent file after a patent has been granted, at the request of a member of the public or the patentee. Such citations and papers will be entered without comment by the Patent and Trademark Office.

(c) Protests and prior art citations by the public and any accompanying papers should either (1) reflect that a copy of the same has been served upon the applicant or patentee or upon his attorney or agent of record; or (2) be filed with the Office in duplicate in the event service is not possible.

19. In § 1.292 paragraph (b) is revised to read as follows:

§ 1.292 Public use proceedings.

* * * * *

(b) The petition and accompanying papers should either (1) reflect that a copy of the same has been served upon the applicant or upon his attorney or agent of record; or (2) be filed with the Office in duplicate in the event service is not possible. The petition and accompanying papers, or a notice that such a petition has been filed, shall be entered in the application file.

20. Section 1.346 is revised to read as follows:

§ 1.346 Signature and certificate of attorney.

Every paper filed by an attorney or agent representing an applicant or party to a proceeding in the Patent and Trademark Office must bear the signature of such attorney or agent, except papers which are required to be signed by the applicant or party in person (such as the application itself and affidavits or declarations required of applicants). The signature of an attorney or agent to a paper filed by him, or the filing or presentation of any paper by him, constitutes a certificate that the paper has been read; that its filing is authorized; that to the best of his knowledge, information, and belief, there is good ground to support it, including any allegations of improper conduct contained therein; and that it is not interposed for delay.

Effective date: These amendments become effective on March 1, 1977, except for §§ 1.51, 1.97, 1.98, and 1.99 which become effective on July 1, 1977, and §§ 1.65 and 1.69 which become effective on January 1, 1978.

Dated: January 18, 1977.

C. MARSHALL DANN,
Commissioner of Patents and Trademarks.

Approved: January 19, 1977.

BETSY ANCKER-JOHNSON,
Assistant Secretary for Science and Technology.

[FR Doc.77-2528 Filed 1-27-77;8:45 am]

FLOOR REMARKS AND TEXT OF S. 2446

PATENT LAW AMENDMENTS ACT OF 1980

The Senate proceeded to consider the bill (S. 2446) to amend the patent laws, title XXXV of the United States Code.

Mr. BAYH. Mr. President, the Judiciary Committee unanimously reported out the Patent Law Amendments Act on March 18, 1980. This legislation is identical to S. 1679 which the Committee also unanimously reported out on February 19, 1980, with report No. 96-617.

The present bill is different only in that it contains an effective date of October 1, 1980. S. 1679 did not contain any effective date which raised a concern in the Senate Budget Committee that it could possibly impact on the fiscal year 1980 budget. The present bill meets that objection by becoming effective in fiscal year 1981.

The committee decided in order to save printing costs not to file an identical report to that already filed on S. 1679. This report is still pertinent to the present legislation with the addition of the effective date.

Mr. THURMOND. Mr. President, some time ago, I was pleased to cosponsor S. 1679, a bill to amend the patent laws of the United States. This bill, S. 2446, is identical to S. 1679.

This legislation would establish procedures that would permit the Patent and Trademark Office (PTO) examiner to find all the pertinent patents and publications having a bearing on the question of patentability, thus providing a less expensive alternative to litigation.

The reexamination procedure of S. 2446 will permit placing before the PTO a prior patent or a prior publication which the examiner did not record or notice as having been before him or was known to him when he was examining the application on which the principal patent to be reexamined was issued. This will upgrade the system while saving much time, expense, and, also, relieving our courts of the burden of extensive patent litigation.

The explosive rate of increase in patents and publications to be handled by the PTO makes it difficult, if not impossible, to search in a reasonable amount of time the almost 100,000 applications per year it examines. Although the PTO is doing a good job and is able to eliminate up to about 30 percent of the applications which are filed and to restrict claims in many of the applications which are issued as patents, there are, however, an important number of commercially attractive inventions which have been found by the courts to be covered by patents. They have then been held invalid simply because a patent or publication has become available which was not available to the PTO examiner when he considered the application prior to issuing the principal patent.

At this time in our country's history, it is being recognized more readily that invention and innovation are important to our economic, as well as military posture. Thus, the patent system upon which the incentive to invent and to innovate is based, should be upgraded as soon as possible.

Yet, it appears that such improvements in the patent system will be years and many millions of dollars away. Increased resources are not now available to the PTO to reestablish the integrity of its search files and to enable it to examine them more quickly. It has been reported to the Congress that some of the PTO search files are about 28 percent incomplete due to missing copies of patents. When one considers that the PTO maintains files of patents from virtually all countries in the world, as well as a huge library of technical literature and information, it is easy to see why the job of searching and updating these patents is an insurmountable one.

Mr. President, we need a reexamination operation which will upgrade the operation of the PTO examining function. Under the bill, any person may ask for reexamination based upon a prior art patent or a prior art publication which that person can cite to the PTO explaining its pertinency. Then, the Commissioner of the PTO will be able to determine quickly whether a substantial new issue is raised concerning the patentability of the invention covered in the issued or principal patent. The reexamination of the claims of the patent for their patentability by the Patent Office will result in an outcome virtually the same as that outcome would have been had the examiner had before him earlier the cited prior art patent or publication. This is all the reexamination is intended to do.

It is helpful to illustrate some of the situations in which reexamination would expedite matters, saving many man-hours of time and effort, as well as expense, and in many cases remove an ex post facto determination of patentability from the burdened courts.

Whenever a person or organization is to enter, or to continue to proceed in, during the effective life of a patent, a field in which the exclusive right has been secured by one or more patents issued to others, that person or organization may find it necessary for success that an examination also be made in an area where the exclusivity of the patent has been secured. If the party finds that the patent stands in his way, he may secure a license, redesign to avoid the patent if possible or, as is the usual case, have searched and studied the validity of his claim as a first step.

One can also ignore the patent, proceed to infringe the patent claims, wait until he is sued for infringement and then defend with the patent or publication of which he knows, but the examiner did not have when he examined the application resulting in the principal patent. Or, he can enter into negotiations for a license under the principal patent. A small business may wish to take a license because it does not have the personnel and funds to wage a costly legal battle.

The holder of the principal patent, however, may not wish to license. He may desire to use his exclusive right, which the patent secures to him to manufacture or operate the patented invention, thus to build his own business or to expand or to protect an existing one. Thus, the would be licensee faces a dilemma. He cannot innovate, and if he wishes to proceed, he must run the risk of an expensive, time-consuming lawsuit on a claim or claims of the principal patent.

Mr. President, it appears, in my view of the matter, that S. 2446 would, inexpensively, permit the would-be licensee or manufacturer to ask the PTO to reexamine patented claims in light of the earlier patent or publication. By so doing, he would request the PTO Commissioner to order a reexamination, if he sees a substantial new question of patentability affecting any claim of the principal patent concerned.

Under current statutory authority, the Commissioner of the Patent and Trademark Office may establish rules under any law resulting from enactment of S. 2446 needed to insure an equitable proceeding in the PTO, while keeping in mind the purpose of the underlying purpose of the legislation.

Thus, the relatively simple procedure of reexamination in the PTO as provided for in S. 2446 will insure a quick, inexpensive determination of patentability. The principal problems which we now face—inflation, energy shortages, job creation through capital investment, improved processes and products with which to meet the challenge of worldwide competition in which we must participate, improving our military preparedness, as well as developing new or improved means to protect our national interests, and other points too numerous to mention here—cannot be solved without invention and innovation. There must be a continually improved climate for invention and innovation, and S. 2446 can make a difference in achieving that goal.

The bill was ordered to be engrossed for a third reading, read the third time, and passed, as follows:

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Patent Law Amendments of 1979".

SEC. 2. (a) Title 35 of the United States Code, entitled "Patents", is amended by inserting immediately after chapter 29 the following:

"Chapter 30—PRIOR ART CITATIONS TO PATENT OFFICE AND REEXAMINATION OF PATENTS

"Sec.
"301. Regulations established by Commissioner of Patents.
"302. Citation of art.
"303. Request for examination.
"304. Determination of issue by Commissioner of Patents.
"305. Reexamination ordered by Commissioner of Patents.
"306. Response or amendment by patent owner.
"307. Appeals.
"308. Certificate of patentability; unpatentability and claim cancellation.
"309. Reliance on art in court.
"310. Stay of court proceedings to permit Office review.

"§ 301. Regulations established by Commissioner of Patents

"The Commissioner shall establish regulations for—

"(1) the citation to the Office of prior art patents or publications pertinent to the va-

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idity of patents; and

"(2) the reexamination of patents in the light of such prior art patents or publications.

"§ 302. Citation of art

"Any person may at any time cite to the Office prior art patents or publications which may have a bearing on the patentability of any claim of a patent. If the person citing such prior art patents or publications identifies in writing any part of the prior art patents or publications considered pertinent and the manner of applying the prior art patents or publications to at least one claim of the patent, such prior art patents or publications shall become a part of the official file of the patent.

"§ 303. Request for examination

"Any person may, at any time within the period of enforceability of a patent, request reexamination of the patent as to the patentability of any claim thereof in the light of any prior art patents or publications cited under the provisions of section 302 of this chapter, by filing in the Office a written request for such reexamination accompanied by a reexamination fee prescribed according to this title, a statement of the relation of such prior art to the patentability of the claim or claims involved, and a statement which identifies a material reason for the request for reexamination. Unless the requesting person is the patent owner, the Commissioner shall promptly send a copy of such request and statement to the patent owner appearing from the records of the Office at the time of the filing of the request.

"§ 304. Determination of issue by Commissioner of Patents

"(a) Within 90 days following the filing of a request for reexamination under section 303 of this chapter, the Commissioner shall make a determination as to whether a substantial new question of patentability affecting any claim of the patent concerned, not previously considered in examination or reexamination of such claim, is raised by the consideration, with or without any other prior art patents or publications, of the prior art patents or publications which have been cited in relation to the patent according to section 302 of this chapter. The Commissioner on his own initiative may make such a determination at any time.

"(b) A record of the Commissioner's determination under subsection (a) of this section and the reason for the determination shall be made in the file of the patent, and a copy of the record and reasons for the determination shall be sent promptly to the patent owner and each person requesting reexamination, and a notice of that determination shall be promptly published.

"(c) A determination by the Commissioner pursuant to subsection (a) of this section that such a new question of patentability is not so raised shall be final and nonappealable.

"§ 305. Reexamination ordered by Commissioner of Patents

"If, in a determination made pursuant to subsection (a) of section 304, the Commissioner finds that a substantial new question of patentability affecting a claim or claims of the patent is raised by consideration of the prior art patents or publications that have been cited in relation to the patent according to section 302 of this chapter, he shall order a reexamination of the patent for the resolution of the question, and shall proceed to resolve it as though the claim or claims involved were present in a pending application. The patent owner shall be given a reasonable period after the filing of the reexamination order within which he may file a statement on such question for consideration in the reexamination. The patent owner shall serve a copy of such statement on any person who has requested examination according to section 303 of this chapter and such person shall have the right, within a period of two months from such service, to submit a reply to the patent owners statement. Any reexamination proceeding, including appeals to the Board of Appeals, shall be conducted with special dispatch and shall be completed within one year within the Office, unless the Commissioner determines on a case-by-case basis that the one-year period is not sufficient.

"§ 306. Response or amendment by patent owner

"The patent owner shall be provided an opportunity in any reexamination proceeding under this chapter to amend any claim of his patent in order to distinguish the claim from the prior art patents or publications cited according to section 302 of this chapter, or in response to a decision adverse to the patentability of the claim, but no amendment enlarging the scope of a claim shall be permitted in a reexamination proceeding under this chapter.

"§ 307. Appeals

"The owner of a patent involved in a reexamination proceeding under this chapter may seek court review of a final decision in such proceeding adverse to the patentability of any claim, or amended claim, of the patent in accordance with chapter 13 of this title.

"§ 308. Certificate of patentability; unpatentability and claim cancellation

"When in a reexamination proceeding under this chapter the time for appeal has expired or any appeal proceeding has terminated, the Commissioner shall issue and publish a certificate canceling any claim of the patent finally determined in such proceeding or on appeal therein to be unpatentable, confirming any claim of the patent so determined to be patentable, and incorporating in the patent any amended claim thereof so determined to be patentable. Any such amended claim is subject to the provisions of section 252 of this title.

"§ 309. Reliance on art in court

"(a) No prior art patents or publications may be relied upon as evidence of nonpatentability in a civil action involving the validity or infringement of a patent unless—

"(1) such prior art patents or publications were cited by or to the Office during prosecution of the application for the patent or submitted for consideration by the Office in accordance with sections 302 and 303 of this chapter, and actually considered in accordance with section 304, or

"(2) the court, upon motion, concludes that the interests of justice would be furthered by adjudication of the issue of validity or infringement without such submission and reconsideration.

"(b) The limitation provided by this section shall not apply to any prior art patents or publications in the official file of the patent as it existed on the date of commencement of such action. However, a party may rely upon prior art patents or publications cited after the commencement of such action if—

"(1) such prior art patents or publications were included in a request for reexamination under the provisions of section 303 of this title which was filed in the Office during a stay ordered by the court under the provisions of section 310 of this title, or

"(2) the court, in a case in which a stay requested under the provisions of section 310 of this title is denied, finds that such prior art patents and publications continue newly discovered evidence which by due diligence could not have been discovered in time to be cited to and considered by the Office within the period of a stay that was or could have been secured under the provisions of section 310(a) of this title.

"§ 310. Stay of court proceedings to permit Office review

"(a)(1) Except as provided in paragraph (2), any party to a civil action against whom a pleading presents a claim for infringement or for adjudication of the validity of a patent shall have the right, by motion brought before any responsive pleading, to secure a stay of all proceedings in the action by order of the court for a period, not more than four months, sufficient to enable such party to search for and cite patents or publications considered pertinent to the patent and to request reexamination of the patent in view of such prior art according to sections 302 and 303 of this chapter. If such party files a request for such reexamination in the Office and serves on the other party and files a copy of it in the action within the period of the stay provided by such order, the stay may be extended by further order of the court. Injunctive relief shall not be denied solely on the basis of such request for reexamination.

"(2) The court shall not grant a stay of the proceedings on the basis of a motion brought under paragraph (1) if the proceeding or motion relates to a temporary restraining order or preliminary injunctive relief, or any other protective order necessary to protect the rights of the parties.

"(b) The court, on motion and upon such terms as are just, may at any time stay the proceedings in a civil action in which the validity of a patent is in issue for a period sufficient to enable the moving party to cite to the Office newly discovered additional prior art in the nature of patents or publications and to secure final determination of a request for reexamination of the patent in the light of such additional prior art, provided the court finds that such additional prior art, in fact, constitutes newly discovered evidence which by due diligence could not have been discovered in time to be cited to and considered by the Office within the period of a stay of such proceedings that was or could have been secured according to subsection (a) of this section.".

(b) The table of chapters for title 35, and for part III of title 35, of the United States Code, are amended by inserting immediately after the item relating to chapter 29, the following:

"30. Prior Art Citations to Patent Office and Reexamination of Patents." . . .

Sec. 3. This Act, and the amendments made by this Act, shall become effective on October 1, 1980.

Mr. ROBERT C. BYRD. Mr. President, I move to reconsider the vote by which the bill was passed.

Mr. STEVENS. I move to lay that motion on the table.

The motion to lay on the table was agreed to.

S. 1679 AND SENATE JOINT RESOLUTION 128 INDEFINITELY POSTPONED

Mr. ROBERT C. BYRD. Mr. President, I ask unanimous consent that Calendar No. 658, S. 1679, be indefinitely postponed.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. ROBERT C. BYRD. I ask unanimous consent that Calendar No. 68, Senate Joint Resolution 128, be indefinitely postponed.

The PRESIDING OFFICER. Without objection, it is so ordered.

-- End of Section F --

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PACIFIC INDUSTRIAL PROPERTY ASSOCIATION

ELEVENTH INTERNATIONAL CONGRESS

OCTOBER 22-24, 1980

TOKYO

COMMITTEE 2 U.S. GROUP

PATENT LITIGATION AND LICENSING BEFORE THE U.S. INTERNATIONAL TRADE COMMISSION

BY

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ATTORNEY

ASSOCIATE GENERAL COUNSEL ORGANIZATION

WESTERN ELECTRIC COMPANY

NEW YORK, NEW YORK

INTRODUCTION

ASSUME FOR THE MOMENT THAT YOU ARE THE PATENT MANAGER OF A JAPANESE COMPANY. TWO YEARS AGO YOUR COMPANY DEVELOPED A PRODUCT AND BEGAN SELLING IT WORLD-WIDE. ORDERS FROM THE EUROPEAN COMMUNITY HAVE BEEN GOOD, BUT THE ORDERS FROM THE UNITED STATES HAVE BEEN VERY GREAT AND CONTINUE TO RISE AT A VERY FAST RATE. THE U.S. ORDERS HAVE COME FROM A GROWING NUMBER OF IMPORTING-DISTRIBUTORS WHO SELL TO LARGE AND SMALL RETAIL OUTLETS SUCH AS DEPARTMENT STORES AND THE LIKE. AT PRESENT, THERE ARE 15 SUCH IMPORTING-DISTRIBUTORS LOCATED THROUGHOUT THE U.S.

THE GROWTH OF U.S. SALES LOOKED SO GOOD THAT YOUR COMPANY HAS RECENTLY HIRED MORE PRODUCTION PERSONNEL AND BOUGHT MORE CAPITAL EQUIPMENT TO EXPAND ITS PRODUCTION FACILITIES TO MEET THE MOUNTING BACKLOG OF U.S. ORDERS.

WITH THIS STATE OF AFFAIRS, YOUR DIRECTOR ASKS YOU TO PLEASE STEP INTO HIS OFFICE. HE SHOWS YOU A TELEX FROM ONE OF THE U.S. IMPORTERS STATING THAT IT AND TEN OF THE OTHER U.S. IMPORTERS AND YOUR COMPANY HAVE BEEN NAMED BY THE PATENTEE CORPORATION OF NEW YORK IN A COMPLAINT FILED WITH THE INTERNATIONAL TRADE COMMISSION IN WASHINGTON, D. C. FOR UNFAIR METHODS OF COMPETITION AND UNFAIR ACTS IN THE IMPORTATION OF THE PRODUCT UNDER 19 U.S.C. §1337. THE COMPLAINT SEEKS TO BLOCK ALL FURTHER U.S. IMPORTATION OF THE PRODUCT BY ITC ORDER EXCLUDING THE PRODUCT FROM THE U.S. AS A BASIS OF UNFAIR ACTS,

THE COMPLAINT ALLEGES INFRINGEMENT OF A U.S. PATENT.

THE COMPLAINT ALSO REQUESTS A PRELIMINARY ITC HEARING SO THAT IN 3 OR 4 MONTHS, THE COMMISSION, CAN ISSUE A REMEDY AND THEREBY PREVENT PATENTEE CORPORATION FROM FIRING 100 WORKERS.

THE IMPORTER'S TELEX CONCLUDES THAT HE TRUSTS YOU WILL RETAIN LEGAL COUNSEL TO DEFEND THIS ACTION BECAUSE HE (THE IMPORTER) WILL NOT DO SO.

YOUR DIRECTOR LOOKS TO YOU FOR AN EXPLANATION OF WHAT THIS ALL MEANS AND WHAT COURSE OF ACTION THE COMPANY SHOULD TAKE.

BEFORE YOU CAN RECOMMEND A COURSE OF ACTION YOU SHOULD UNDERSTAND THE PROVISIONS OF 19 U.S.C. 1337, THE NATURE OF AN ITC §337 INVESTIGATION, THE REMEDIES AVAILABLE TO THE ITC FOR A §337 VIOLATION AND THE SETTLEMENT OR LICENSING POSSIBILITIES THAT MAY TERMINATE THE ACTION.

THE PURPOSE OF THIS TALK IS TO ADDRESS THESE MATTERS.

PROVISIONS OF §337*

THE VIOLATION PARAGRAPH OF §337 READS AS FOLLOWS:

> "(a) UNFAIR METHODS OF COMPETITION DECLARED UNLAWFUL -- Unfair methods of competition and unfair acts in the importation of articles into the United States, or in their sale by the owner, importer, consignee, or agent of either, the effect or tendency of which is to destroy

*THE FULL SECTION TEXT IS SET FORTH IN APPENDIX I TO THIS TALK.

or substantially injure an industry, efficiently and economically operated, in the United States, or to prevent the establishment of such an industry, or to restrain or monopolize trade and commerce in the United States, are declared unlawful, and when found by the Commission to exist shall be dealt with, in addition to any other provisions of law, as provided in this section."

THIS PROVISION SEPARATES INTO THE FOLLOWING FOUR STATUTORY ELEMENTS. IF THE ITC FINDS ALL ELEMENTS TO EXIST, THEN §337 HAS BEEN VIOLATED AND THE ITC WILL ISSUE A REMEDY.

ELEMENTS OF VIOLATION

1. UNFAIR METHODS OF COMPETITION OR UNFAIR ACTS.
2. IMPORTATION OF ARTICLES OR THE SALE OF SUCH ARTICLES BY OWNER, IMPORTER, CONSIGNEE OR AGENT OF EITHER.
3. EFFECT OR TENDENCY TO DESTROY OR SUBSTANTIALLY INJURE A U.S. INDUSTRY.
4. THE U.S. INDUSTRY IS EFFICIENTLY AND ECONOMICALLY OPERATED.

THE FIRST STATUTORY ELEMENT OF A §337 VIOLATION IS AN UNFAIR METHOD OF COMPETITION OR UNFAIR ACT AND THIS IS A MOST IMPORTANT ELEMENT. WITH RESPECT TO §337, ANYONE IS FREE TO IMPORT PRODUCTS EVEN IF SUCH IMPORTATION ADVERSELY AFFECTS A U.S. INDUSTRY PROVIDED NO UNFAIR METHOD OR ACT IS INVOLVED.

THE U.S. MARKET REMAINS OPEN TO FREE AND FAIR COMPETITION FROM ABROAD UNDER THE MOST LIBERAL TRADE POLICY IN THE WORLD -- BUT UNFAIR TRADE ACTS INVOLVING IMPORTATION REPRESENT THE HEART OF §337 AND, IF FOUND TO EXIST, CALL UPON THE COMMISSION TO PROTECT U.S. INDUSTRY FROM THE ADVERSE EFFECTS.

MOREOVER, §337 IS CAREFULLY WRITTEN TO PROTECT THE RIGHTS OF ALL PARTIES INCLUDING THE FOREIGN MANUFACTURER. NOT ONLY IS A FULL DUE PROCESS HEARING REQUIRED IN WHICH ALL PARTIES HAVE AN A FULL OPPORTUNITY TO PARTICIPATE, BUT BEGINNING WITH THE 1974 AMENDMENT TO THE TRADE ACT ALL "LEGAL AND EQUITABLE" DEFENSES MAY BE PRESENTED IN ALL CASES. SEE §337(c). IN ACTIONS BASED ON PATENT INFRINGEMENT, THIS OF COURSE MEANS THE CLASSIC DEFENSES OF NONINFRINGEMENT, INVALIDITY, UNENFORCEABILITY, AND IMPLIED AND EXPRESS LICENSE.

A VARIETY OF ACTS[1] HAVE BEEN ASSERTED AS "UNFAIR" UNDER §337 SUCH AS FALSE LABELING, TRADEMARK INFRINGEMENT, FALSE REPRESENTATION ON IMPORT DOCUMENTS, PALMING OFF, ETC. BUT, I WOULD LIKE TO DRAW SPECIAL ATTENTION TO TWO TYPES OF UNFAIR ACTS. THE FIRST IS MISAPPROPRIATION OF PROPRIETARY INFORMATION OR TRADE SECRETS WHICH IS A GROWING AREA OF CONCERN IN THE U.S.. U.S. COMPANIES HAVE ASSERTED THAT THEIR DRAWINGS AND TECHNOLOGY HAVE BEEN WRONGFULLY OBTAINED OR USED BY FOREIGN COMPANIES FOR MAKING COMPETING PRODUCTS WHICH ARE THEN IMPORTED INTO THE U.S. TO THE DETRIMENT OF THE ORIGINATING U.S. COMPANY[2].

THE OTHER TYPE OF ASSERTED UNFAIR METHOD OR ACT IS, OF COURSE, PATENT INFRINGEMENT WHICH, BY FAR, REPRESENTS THE GREATEST NUMBER OF CASES EVER FILED OR DETERMINED UNDER §337.

THERE ARE SEVERAL LANDMARK ITC PATENT CASES LISTED IN APPENDIX II WHICH ARE RECOMMENDED READING. FOR EXAMPLE, THE FRISCHER v. BAKELITE[3], 1930, CCPA DECISION HELD FOR THE FIRST TIME THAT PATENT INFRINGEMENT IS AN UNFAIR METHOD OR ACT UNDER §316 TARIFF ACT OF 1922, THE PREDECESSOR OF §337. THE CCPA, AFTER REVIEWING THE FACTS, ADOPTED THE TARIFF COMMISSION'S RATIONALE THAT THE PATENT INFRINGEMENT RESULTING FROM THE IMPORTATION WAS UNFAIR TO THE PATENTEE:

> "The Tariff Commission has very ably and succinctly described the conditions confronting the complainants in this proceeding in the following language: 'The situation presented by the manufacture in the United States of articles infringing patents is quite different from that presented by the importation of such articles made abroad. In the case of the sale of articles manufactured in the United States the infringing manufacturer can be proceeded against and thus the unfair practice be reached at its source. Domestic patentees have no effective means through the courts of preventing the sale of imported merchandise in violation of their patent rights. Customs officers are forbidden to disclose information concerning importations. ....When such merchandise is delivered from customs custody it may be and frequently is distributed throughout the United States. The difficulties which confront a patentee seeking to enforce his rights through the courts are practically insurmountable. He is required to proceed against each individual dealer selling the infringing articles, which of course would lead to a multiplicity of suits with little likelihood that all infringing dealers could be reached. The cost of the numerous suits with the small amount of damages which may be

> recovered in any one suit discourages resort to the courts. Moreover, a decree obtained against one dealer would have no binding effect upon others, and by the simple expedient of changing the consignees the effect of a decree when secured would be nullified. Unless, therefore, section 316 may be invoked to reach the foreign articles at the time and place of importation by forbidding entry into the United States of those articles which upon the facts in a particular case are found to violate rights of domestic manufacturers, such domestic manufacturers have no adequate remedy.' [Emphasis added]

IN THE 1935 CASE OF IN RE AMTORG TRADING CORP.[4], THE CCPA REVERSED PORTIONS OF ITS EARLIER DECISIONS AND FOUND IMPORTATION OF A PRODUCT MADE ABROAD BY A PROCESS PATENT IN THE U.S. IS NOT AN UNFAIR METHOD OR ACT UNDER §337. THIS DECISION LED DIRECTLY TO AN AMENDMENT OF THE TARIFF ACT TO INCLUDE §337a WHICH, TOGETHER WITH §337, MAKES UNFAIR THE ACT OF IMPORTING PRODUCTS PRODUCED ABROAD BY A PROCESS COVERED BY CLAIMS OF AN UNEXPIRED U.S. PROCESS PATENT. THIS SECTION PROVIDES THAT, FOR PURPOSES OF §337, SUCH IMPORTATION SHALL HAVE THE SAME STATUS "AS THE IMPORTATION OF ANY PRODUCT OR ARTICLE COVERED BY THE CLAIMS OF ANY UNEXPIRED VALID U.S. LETTERS PATENT."[5]

IN DETERMINING WHETHER OR NOT INFRINGEMENT HAS OCCURRED, THE ITC EXERCISES THE SAME ANALYSIS AS DOES ANY COURT IN DETERMINING THE QUESTION, THAT IS (1) DETERMINE THE SCOPE OF PATENT CLAIM COVERAGE AS LIMITED BY THE CLAIM LANGUAGE,

SPECIFICATION, PRIOR ART AND STATEMENTS MADE BY THE PATENTEE AND (2) APPLY THE CLAIM COVERAGE TO THE IMPORTED PRODUCT. THE ITC OFTEN DEALS WITH THE DOCTRINE OF EQUIVALENCE WHICH MAY OR MAY NOT BROADEN THE LITERAL SCOPE OF THE PATENT CLAIMS. SEE COLECO INDUSTRIES v. U.S. INTL. TR. COMM.[6]

THE SECOND ELEMENT OF THE VIOLATION IS THE IMPORTATION OR SALE BY THE OWNER, IMPORTER, CONSIGNEE OR AGENT OF EITHER.

I CALL THIS THE JURISDICTIONAL ELEMENT. IN THE U.S., LAWS EXIST[7] GRANTING THE FEDERAL DISTRICT COURTS EXCLUSIVE JURISDICTION FOR PATENT INFRINGEMENT ACTIONS[8]. HOWEVER, BECAUSE OF THE INTENDED BREADTH OF §337(a) TO INCLUDE ALL UNFAIR METHODS OF COMPETITION AND ACTS, THE SECTION AFFORDS THE ITC SUBJECT MATTER JURISDICTION TO DETERMINE ALLEGED PATENT INFRINGEMENT BUT ONLY WHEN IMPORTATION OF ARTICLES IS INVOLVED.

IT SHOULD BE UNDERSTOOD THAT THE ITC BELIEVES IT CAN EXERCISE THE EXCLUSION POWER WITHOUT PERSONAL JURISDICTION OVER THE FOREIGN MANUFACTURER AND NOT VIOLATE THE DUE PROCESS RIGHTS OF THE U.S. CONSTITUTION SO LONG AS THE ITC CONDUCTS A DUE PROCESS HEARING AS PROVIDED BY §337(c). THEREFORE, IF THE FOREIGN MANUFACTURER DECIDES NOT TO DEFEND OR PARTICIPATE IN THE ITC IN REM PROCEEDING AGAINST THE IMPORTED GOODS, THE ITC NEVERTHELESS HAS THE POWER TO EXCLUDE THE GOODS FROM THE U.S. IF IT FINDS AN UNFAIR ACT.

NOW, WHAT ABOUT PERSONAL JURISDICTION OVER A NON-U.S. COMPANY? THE ITC OVER THE LAST 10 YEARS HAS BEEN BROADENING ITS

JURSIDICTION AND MAY CONTINUE TO DO SO UNTIL THE CCPA OR THE SUPREME COURT DEFINES THE LIMITS OR BOUNDS OF ITS JURISDICTION ON A CASE-BY-CASE BASIS.[9] IN WELDED STAINLESS STEEL PIPE AND TUBE[10], THE ITC HELD THAT IT HAD JURISDICTION OVER A FOREIGN MANUFACTURER EVEN THOUGH IT SELLS FOB ITS HOME COUNTRY. THE ITC, STATING THAT THE FOREIGN MANUFACTURER WAS OPERATING IN THE STREAM OF INTERNATIONAL COMMERCE FOR WHICH THE ITC HAS JURISDICTION, ADOPTED AN "EFFECTS" TEST TO REACH THOSE SELLING ABROAD. THE TEST IS WHETHER OR NOT THE FOREIGN MANUFACTURER KNOWS ITS PRODUCT WILL BE OR IS BEING IMPORTED INTO THE U.S. AS PART OF AN UNFAIR ACT, WHICH ACT HAS AN ADVERSE EFFECT ON U.S. INDUSTRY. IF SO, THIS JURISDICTIONAL FEATURE IS MET AT THE ITC ALTHOUGH AN UNFAIR ACT MUST STILL BE PROVED. THE ITC RATIONALE INCLUDES THE FOLLOWING AT PAGE 10:

> "It is clear that the alleged acts committed abroad by the foreign respondents in this case had an effect in the United States, in that the articles connected with the unfair acts were injected into United States commerce by importation. The only remaining question for the purpose of determining personal jurisdiction is whether the effect of the alleged wrongdoing was foreseeable as a consequence of their conduct. If there is a basis in the record for concluding that respondents had reason to know of such potential results, there are sufficient contacts with this forum to meet any due process objections.
> In finding of fact #9, the presiding officer [acting judge] concluded that the foreign manufacturers who sold to foreign trading companies did so with the knowledge of subsequent export to the United States. On the basis of testimony presented and exhibits submitted to him, he concluded

there were grounds for imputing knowledge of importation to the manufacturers even though they never dealt directly with [U.S.] importers. The record supports such a conclusion, particularly since no contrary evidence was submitted. [Footnote: As shown ... we adopt recommended finding 9. Testimony before the Presiding Officer by complainant's expert witnesses indicated that manufacturers sold directly to exporting companies. This certainly gives us the basis for imputing knowledge of Japanese production that is exported, and about the high percentage which the United States imports. See Report to the President on Prices and Costs in the United States Steel Industry, by the Council on Wage and Price Stability, October, 1977.]

Thus it is fair and reasonable for the United States to exercise jurisdiction over those respondents who committed acts abroad with the reasonable expectation such acts would affect U.S. commerce. Accordingly, all motions to dismiss for lack of personal jurisdiction were properly denied." (Emphasis added)

AND AT PAGE 11:

"The use of the word "or" in section 337(a) indicates that we are not limited to proscribing only those acts which occur during the actual physical process of importation. We may also consider acts occurring in the sale by an owner, importer, consignee, or agent of either. This second part of section 337(a) would seem to broaden our jurisdiction considerably, unless limited in some way by the concept of importation.

It is obvious from our traditional role, not to mention our remedial provisions, that Congress intended section 337 to attack only unfair trade practices which relate to imported products. It then becomes crucial to discern some nexus between unfair methods or acts and importation before this Commission has power to act. In the present case, it is not difficult to see such a relationship. Unjustified sales by foreign manufacturers below average variable costs become unfair methods or

> acts in the importation of these articles because the respondents intended the products to become articles of commerce in the United States. Three separate observations can be made to support this position.
>
> First, our statute has a protective function, in that it protects the domestic market from those products sold in the United States, which are the fruits of unfair competition.
>
> Second, it is clear that any Commission action will have as great an impact on the manufacturer as it does on the exporter. Hence, to say we are not regulating sales by regulating import practices is to take a position which simply does not conform to reality.
>
> Third, and most importantly, the meaning of the term "owner" must include foreign owners. [Footnote omitted] What possible basis would there be for invoking exclusion powers to remedy unfair acts in the subsequent sale by domestic owners? Our whole remedial scheme is designed to attack unfair acts before the goods reach our shores, and in that sense respondents' arguments are questionable at best." (Emphasis added)

ONCE THE COMMISSION TAKES JURISDICTION OVER AN IMPORTER OR OWNER-IMPORTER, THE INVESTIGATION WILL NOT BE TERMINATED MERELY BY HIS CEASING TO IMPORT. THE ITC RECOGNIZES THAT §337 WOULD BE TOO EASILY CIRCUMVENTED BY ON-AGAIN, OFF- AGAIN IMPORTING. CONSEQUENTLY, THE STATUTE (§337 (c)) REQUIRES THE ITC, UPON COMMENCING AN INVESTIGATION, TO PROCEED TO CONCLUSION OF SUCH INVESTIGATION WITH ONE EXCEPTION, WHICH IS SETTLEMENT BASED ON LICENSING THE PRODUCT UNDER THE SUBJECT PATENT WHICH WE WILL DISCUSS LATER IN THIS TALK.

THE THIRD ELEMENT OF A VIOLATION IS THAT THE IMPORTATION MUST HAVE AN EFFECT OR TENDENCY TO DESTROY OR SUBSTANTIALLY INJURE A U.S. INDUSTRY. THE U.S. INDUSTRY IS DEFINED AS THAT PORTION OF INDUSTRY DIRECTLY PERTAINING TO THE PATENT. THIS "INJURY" ELEMENT IS USUALLY EASILY ESTABLISHED FOR THE ITC FINAL DETERMINATION. THE ITC SIMPLY LOOKS FOR PROOF OF AN ADVERSE IMPACT ON U.S. INDUSTRY AND A NEXUS OR CAUSATION BETWEEN THE UNFAIR ACT IN IMPORTATION AND THE ADVERSE IMPACT ON U.S. INDUSTRY.

HOWEVER, COMPLAINANT'S PROOF OF THE "INJURY" ELEMENT APPEARS TO REQUIRE A HIGHER BURDEN IN A PRELIMINARY DETERMINATION FOR A §337(e) PRELIMINARY REMEDY. IN ADDITION TO A VIOLATION IN A PRELIMINARY HEARING, THE U.S. COMPLAINANT MUST SHOW AN IMMEDIATE AND SUBSTANTIAL INJURY TO THE U.S. INDUSTRY IF THE TEMPORARY EXCLUSION WERE NOT GRANTED. RECENTLY, IN CERTAIN APPARATUS FOR THE CONTINUOUS PRODUCTION OF COPPER ROD, 337 TA 89, THE ALJ RECOMMENDED DENIAL OF A TEMPORARY EXCLUSION ORDER BECAUSE THE U.S. MANUFACTURER COULD NOT POSSIBLY BUILD AND SUPPLY THE MACHINES WITHIN THE TIME FRAME NEEDED BY THE U.S. CUSTOMER WHEREAS THE GERMAN MANUFACTURER COULD. IN EFFECT, THE ALJ REASONED THE U.S. MANUFACTURER WAS NOT IMMEDIATELY INJURED BECAUSE HE WAS NOT IN A POSITION TO FILL THE ORDER ANYWAY. THIS ISSUE IS PRESENTLY BEFORE THE COMMISSION FOR ITS DETERMINATION.

VARIOUS FACTORS[11] CAN BE USED TO ESTABLISH THE INJURY ELEMENT SUCH AS:

1. DECLINE IN SALES OF U.S. MANUFACTURED GOODS WHILE INCREASE IN SALES OF IMPORTED GOODS

   LOSS OF MARKET SHARE - BUT SEE PLASTIC BAGS*

2. LOSS OF PATENTEE'S CUSTOMERS TO IMPORTERS
3. COMPLAINANT FORCED TO REDUCE U.S. SALES PRICE
4. DECREASE IN EMPLOYEES
5. DECLINE IN PROFITS
6. IDLING OF U.S. PRODUCTION FACILITIES (e.g., TWO PRODUCTION LINES REDUCED TO ONE LINE)
7. LOST ROYALTIES (FROM U.S. LICENSEES)

THE FOURTH ELEMENT OF A VIOLATION IS THAT THE U.S. INDUSTRY ADVERSELY AFFECTED MUST BE EFFICIENTLY AND ECONOMICALLY OPERATED. THIS IS THE EASIEST ELEMENT FOR A U.S. COMPANY TO ESTABLISH AND I DON'T RECALL THE ITC EVER FINDING A U.S. COMPANY TO BE INEFFICIENTLY RUN.

HOWEVER, THE FACTORS TO BE CONSIDERED ARE WHETHER THE U.S. INDUSTRY USES:

1. OLD AND OBSOLETE PRODUCTION EQUIPMENT
2. POOR MANAGEMENT DECISIONS CONTRIBUTING TO LOSSES.

*COMMISSION MEMORANDUM OPINION, JANUARY 1977, 337 TA 22.

3. THE ABSENCE OF AN ADVERTISING EFFORT OR SALES FORCE.

4. INEFFICIENT PRODUCTION TECHNIQUES SUCH AS MANUAL LABOR IN COMPETITION WITH A MODERN CAPITAL INTENSIVE FOREIGN PRODUCTION.

5. OUTDATED TECHNOLOGY THAT PRODUCES AN INFERIOR PRODUCT.

A STRONG SHOWING OF ONE OR MORE OF THESE FACTORS MAY LEAD TO AN ITC FINDING OF NO VIOLATION OF THE SECTION, BUT DO NOT RELY ON IT AS A STRONG POSSIBILITY.

NATURE OF §337 ITC PATENT ACTION

NOW THAT YOU KNOW SOMETHING ABOUT THE VIOLATIONS OF §337, LET'S DISCUSS THE NATURE OF A §337 PATENT INVESTIGATION AND WHAT YOU CAN EXPECT FROM ITC PROCEDURAL ACTIVITIES. AS YOU MAY KNOW, THE ITC, UNLIKE A COURT, HAS INVESTIGATIVE POWERS AND JUDICIAL POWERS. DURING AN ITC §337 ACTION, BOTH POWERS COME INTO PLAY. UNTIL THE 1974 AMENDMENT TO THE TARIFF ACT OF 1930, THE ITC WAS A FACT FINDING AND REPORTING GOVERNMENT AGENCY THAT MADE RECOMMENDATIONS TO THE PRESIDENT WHO DECIDED WHETHER OR NOT TO EXCLUDE PRODUCTS INVOLVED IN VIOLATIONS OF §337. THE 1974 AMENDMENT GREATLY ENLARGED THE POWER OF THE ITC AND EXPANDED ITS ROLE. THE ITC WAS GIVEN POWERS TO CONDUCT DUE PROCESS HEARINGS (TRIALS) UNDER THE ADMINISTRATIVE PROCEDURE ACT*, RENDER ITS OWN FINAL DETERMINATIONS AND ISSUE ITS OWN PRODUCT EXCLUSION ORDERS OR CEASE AND DESIST ORDERS, SUBJECT ONLY TO JUDICIAL APPEAL TO THE CCPA OR A

*SUBCHAPTER II, CHAPTER 5 OF TITLE 5.

PRESIDENTIAL VETO OF THE REMEDY FOR NATIONAL POLICY REASONS.

SO, THE ITC HAS BECOME A POWERFUL QUASI-JUDICIAL BODY WITH A HISTORICAL MISSION AND PURPOSE (AS RELATED TO §337) TO PROTECT U.S. INDUSTRY FROM UNFAIR TRADE METHODS AND ACTS IN THE IMPORTATION OF GOODS FROM ABROAD, WHICH METHODS AND ACTS, WE KNOW, INCLUDE PATENT INFRINGEMENT.

PROCEEDINGS COMMENCE WITH THE FILING OF A PROPER COMPLAINT, A COPY OF WHICH WILL BE SERVED ON EACH NAMED RESPONDENT INCLUDING THE FOREIGN MANUFACTURER (IF NAMED). AT THAT POINT, ALTHOUGH THE PROCEEDING IS CALLED AN INVESTIGATION, IT WOULD BE WISE TO CONSIDER YOUR COMPANY AS BEING INVOLVED IN PATENT LITIGATION WHICH IN MANY RESPECTS RESEMBLES PATENT LITIGATION IN THE U.S. FEDERAL DISTRICT COURTS. AS MENTIONED ABOVE THE §337 ACTION IS NOT SIMPLY A FACT-FINDING ONE, BUT IS QUASI-JUDICIAL IN NATURE AND CAN LEAD TO AN ITC ORDER WHICH WOULD BLOCK IMPORTATION OF A FOREIGN COMPANY'S COMMERCIAL PRODUCT.

THE INVESTIGATION IS FORMALLY UNDERWAY WHEN THE COMMISSION ISSUES A "NOTICE OF INVESTIGATION" AND PUBLISHES THE SAME IN THE FEDERAL REGISTER. THIS WILL OCCUR WITHIN 30 DAYS OF FILING THE COMPLAINT.[12] THE ITC WILL ALSO IMMEDIATELY ASSIGN AN ADMINISTRATIVE LAW JUDGE (ALJ) TO HEAR THE CASE AND A COMMISSION ATTORNEY AS A "NEUTRAL" PARTY.

THE ALJ, IN TURN, WILL ALSO IMMEDIATELY ISSUE A STANDARD ITC "PROTECTIVE ORDER" THAT PROTECTS THE CONFIDENTIALITY OF PRIVATE BUSINESS INFORMATION AND TRADE SECRETS AND RESTRICTS

USE IN THE ITC ACTION OF SUCH INFORMATION EXCHANGED BY THE PARTIES AS A RESULT OF DISCOVERY UNDER THE ITC RULES.

ONCE THE NOTICE OF INVESTIGATION IS PUBLISHED, A STATUTORY CLOCK BEGINS TO RUN AND THE FINAL ITC DETERMINATION MUST BE HANDED DOWN WITHIN 12 MONTHS (18 MONTHS IN MORE COMPLICATED CASES) OF THAT DATE.*

IF THE COMPLAINANT SO REQUESTS, THE ITC OR THE DESIGNATED ALJ WILL CONDUCT A PRELIMINARY HEARING** WITHIN THREE MONTHS*** OF THE NOTICE OF INVESTIGATION AND THE ITC WILL MAKE A PRELIMINARY DETERMINATION WHICH, IF ADVERSE TO THE IMPORTED GOODS, WILL INCLUDE AN EXCLUSION ORDER AND A BOND**** EFFECTIVE UNTIL A FINAL DETERMINATION IS MADE. THIS MEANS THAT A PRELIMINARY HEARING, IF CONDUCTED, IS FOLLOWED BY FURTHER DISCOVERY AND A FINAL HEARING BEFORE THE ALJ THREE OR FOUR MONTHS LATER.

BECAUSE THE TIME PERIOD IS STATUTORY AND NOT EXTENDABLE, THE COMMISSION IS VERY SENSITIVE ABOUT TIME. COMMISSIONER CALHOUN'S

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*SEE §337(b)(1)

**THE ITC DOES NOT FAVOR PRELIMINARY HEARINGS BECAUSE THE EXTREMELY SHORT TRIAL PREPARATION PERIOD REDUCES THE PARTY'S ABILITY TO PUT ON A WELL PREPARED CASE. ACCORDINGLY, PRELIMINARY HEARINGS RARELY OCCUR. BUT SEE RECOMMENDED DETERMINATION ON TEO HEARING, ISSUED SEPTEMBER 26, 1980, 337 TA 89.

***19 CFR §(e)(2). 19 CFR §210 ARE THE PROCEDURAL RULES GOVERNING ITC 337 ADJUDICATIVE INVESTIGATIONS AND HEREAFTER WILL BE REFERRED TO AS "ITC RULE NO."

****§337(e).

TESTIMONY AT HIS NOMINATION HEARING, JANUARY 24, 1980, CAPTURES THE SPIRIT WITH WHICH THE ITC TRIES TO COMPLY WITH THE TIME REQUIREMENTS. HE STATED:

> "I think timeliness in determinations is another essential factor. It has been a matter that was of great concern to the Ways and Means Committee when we were drafting the Trade Act of 1979. The sense that justice delayed is justice denied applies here, so I would be very concerned and interested in seeing speedy determinations, particularly when we are talking about economic impact. If industries are in trouble and they need relief, they need it right away and in most cases, by the time they bring the case to the International Trade Commission, the harm has been done, and for there to be unnecessary delay worsens their circumstance.
>
> * * *
>
> In addition, I think access to the Commission is something that is important as well. The price to society of a liberal trade policy is to assure that those elements of society that are unfairly burdened by that policy have an opportunity to be heard and have an opportunity to seek redress and I think, to the extent that the law provides, every person that can make a reasonable claim for injury should have an opportunity to be heard before the Commission."

UNLIKE AN ACTION IN COURT WHERE THERE ARE ONLY TWO PARTIES, A PLAINTIFF AND A DEFENDANT, THE ITC §337 ACTION ALSO INCLUDES A COMMISSION STAFF ATTORNEY APPOINTED BY THE COMMISSION'S OFFICE OF LEGAL SERVICES WHO PARTICIPATES FULLY AS A PARTY ALONG WITH THE COMPLAINANT AND THE RESPONDENT PARTIES. THE STAFF ATTORNEY HAS A DUTY TO REPRESENT THE

PUBLIC INTEREST, MAKE INDEPENDENT DISCOVERY ON THE PARTIES AND SUBMIT INDEPENDENT PROPOSED FINDINGS OF FACT AND CONCLUSIONS OF LAW ON ALL THE ISSUES BEING TRIED. HE ALSO ADVOCATES FOR AN APPROPRIATE REMEDY AND, ON OCCASION, ATTEMPTS TO FOSTER A SETTLEMENT AMONG THE PARTIES. FOR THOSE EXPERIENCED IN TRADITIONAL PATENT LITIGATION IN THE COURTS, THE PRESENCE AND PARTICIPATION OF THE COMMISSION ATTORNEY IS A STRANGE AND SOMETIMES UNWELCOME CIRCUMSTANCE. AS THE PARTIES ARE PREPARING FOR TRIAL, SO IS THE COMMISSION ATTORNEY, AND, FOR MOST PARTIES, THERE IS A WILLINGNESS OR A TENDENCY TO COOPERATE FULLY WITH THIS GOVERNMENT ATTORNEY. HOWEVER, IT IS KNOWN THAT THIS ATTORNEY MAY TAKE POSITIONS ON VALIDITY, INFRINGEMENT AND OTHER ISSUES ADVERSE TO THE PARTY THAT YOU REPRESENT. CONSEQUENTLY, A RESPONDENT OR HIS COUNSEL MUST CONTINUOUSLY DECIDE THE DEGREE AND LEVEL OF COOPERATION WITH THE COMMISSION ATTORNEY - HOW MUCH INFORMATION AND TRIAL STRATEGY SHOULD A PARTY'S COUNSEL BE WILLING TO SHARE AND DISCLOSE TO THE COMMISSION ATTORNEY? A PRUDENT LITIGATION COUNSEL SHOULD APPROACH THIS QUESTION WITH A GOOD DEGREE OF CAUTION AS HE PREPARES FOR TRIAL.

ONCE THE INVESTIGATION IS UNDERWAY, YOU CAN EXPECT TO RECEIVE THE USUAL DISCOVERY DEMANDS SUCH AS SETS OF LENGTHY INTERROGATORIES, REQUESTS FOR PRODUCTION OF DOCUMENTS, AND/OR REQUESTS FOR ADMISSIONS.* IN ADDITION, THE PARTIES

*ITC RULES 210.32, .33, and .34, RESPECTIVELY.

AND THEIR EMPLOYEES ALONG WITH OTHER PERSONS SUCH AS CUSTOMERS, IMPORTERS, ETC.* CAN BE SUBPOENAED FOR DEPOSITION. ALTHOUGH THE ITC SUBPOENA POWER IS COMPULSORY IN THE U.S., A FOREIGN MANUFACTURER WHO DOES NOT WISH TO PARTICIPATE IN THE PROCEEDINGS MIGHT TECHNICALLY IGNORE THE ALJ'S SUBPOENA BUT DOES SO AT THE RISK OF BEING SUBJECTED TO SUBSTANTIVE SANCTIONS.** THIS PLACES THE FOREIGN MANUFACTURERS IN A DIFFICULT DECISION-MAKING POSITION. HE MUST BALANCE OPENING HIMSELF UP TO DISCOVERY OR LOSING ON THE MERITS OF AN ISSUE AND BEING FOUND IN VIOLATION DUE TO SUBSTANTIVE SANCTIONS.

NOW, THE DIFFERENCES BETWEEN THE OPEN TYPE OF DISCOVERY IN U.S. LITIGATION FOSTERED BY THE LIBERAL U.S. DISCOVERY RULES[13] (WHERE A PARTY'S COUNSEL MAY OBTAIN ACCESS TO AND SCAN INTERNAL DOCUMENTS IN THE OPPOSING PARTY'S FILES) IS IN MARKED CONTRAST TO THE NATURE OF LITIGATION IN MOST OF EUROPE AND THIS PART OF THE WORLD WHERE THE ABILITY TO DISCOVER INTERNAL DOCUMENTS IS LIMITED OR NONEXISTENT. HOWEVER, I CAN TELL YOU THAT IF THE U.S. MARKET IS IMPORTANT ENOUGH FOR YOUR COMPANY, AND THE ALJ ORDERS YOUR COMPANY TO OPEN UP ITS DOCUMENTS TO INSPECTION, IT WOULD BE DIFFICULT TO REFUSE AND ACCEPT SUBSTANTIVE SANCTIONS AND RISK LOSING THE U.S. MARKET. SUCH WAS THE CASE IN COPPER ROD, 337 TA 52

*ITC RULE 210.35

**ITC RULE 210.36

IN WHICH A LARGE EUROPEAN COMPANY OPENED ITS INTERNAL RECORDS FOR INSPECTION AND COPYING BY COUNSEL FOR THE U.S. COMPLAINANT AND THE COMMISSION ATTORNEY AS ORDERED BY THE ALJ.

BECAUSE OF THE TIME LIMITS INVOLVED IN THE NORMAL §337 ACTION, THERE ARE ONLY FOUR AND ONE-HALF MONTHS AVAILABLE FOR DISCOVERY, WHICH IS VERY SHORT COMPARED TO THE NORMAL DISCOVERY IN PATENT LITIGATION. ACCORDINGLY, THE ACTIVITY IN DISCOVERY IS INTENSE, USUALLY UNDERTAKEN BY A TEAM OF TWO OR MORE ATTORNEYS WITH TECHNICAL ASSISTANTS. IF ONE PARTY IMPEDES DISCOVERY, THE IMPEDIMENT IS QUICKLY RESOLVED BY THE OTHER PARTY FILING A MOTION TO COMPEL DISCOVERY. THE MATTER IS QUICKLY BRIEFED BY THE PARTIES AND DECIDED BY THE ALJ TO KEEP DISCOVERY ACTIVITY MOVING FORWARD AND YET PROTECT THE RIGHTS OF THE PARTY OR PERSONS INVOLVED. IN ONE COMPLEX CASE, APPROXIMATELY 250 MOTIONS WERE FILED IN A 10-MONTH PERIOD, MOST OF WHICH DEALT WITH DISCOVERY MATTERS*. NOT ALL CASES ARE THAT COMPREHENSIVE AND IT LARGELY DEPENDS ON THE PRODUCT, SYSTEM OR TECHNOLOGY WHICH IS SUBJECT OF THE INVESTIGATION AND THE DEGREE TO WHICH OPPOSING COUNSEL ARE WILLING TO COOPERATE WITH EACH OTHER.

AS PART OF THE DISCOVERY PROCESS, THE COMMISSION ATTORNEY WILL TYPICALLY SEEK TO DISCOVER THE FOREIGN

*TO SAVE TIME AND TRAVEL EXPENSE, SEVERAL MOTIONS WERE ARGUED THROUGH TELEPHONE CONFERENCE CALLS AMONG ALL PARTIES' COUNSEL AND THE ALJ WITH VERY SATISFACTORY RESULTS.

MANUFACTURER'S SALES DATA, MANUFACTURING DATA, COST DATA AND OTHER ECONOMIC, PRODUCTION AND SALES INFORMATION. HE WILL ALSO DEVELOP INFORMATION AND EVIDENCE ON THE ISSUES OF INJURY TO THE U.S. INDUSTRY AS WELL AS THE PUBLIC INTEREST AND PUBLIC WELFARE ISSUES. THE COMPLAINANT WILL SEEK TO DISCOVER WHEN AND HOW THE FOREIGN MANUFACTURER FIRST LEARNED OF THE COMPLAINANT'S COMMERCIAL PRODUCTS AND WHEN AND HOW THE FOREIGN MANUFACTURER FIRST DEVELOPED OR ADOPTED THE DESIGN FOR THE ALLEGED INFRINGING PRODUCT. IF HE CAN ESTABLISH THAT THE U.S. PARTY'S PRODUCT WAS FIRST COPIED BY THE FOREIGN MANUFACTURER TO EMPLOY THE PATENTED INVENTION, THIS WILL HELP STRENGTHEN HIS CASE OF PATENT INFRINGEMENT AND PERHAPS VALIDITY IN THE §337 ACTION.

ADJUDICATIVE HEARINGS* BEFORE THE ALJ ARE SIMILAR IN MANY RESPECTS TO PATENT TRIALS BEFORE A FEDERAL DISTRICT COURT JUDGE. THE PURPOSE OF A HEARING IS TO TAKE EVIDENCE AND HEAR ARGUMENT FOR THE PURPOSE OF DETERMINING WHETHER THERE IS A VIOLATION OF §337 OR, IN A PRELIMINARY PROCEEDING, THERE IS A "REASON TO BELIEVE" SUCH VIOLATION EXISTS. EACH PARTY INCLUDING THE COMMISSION ATTORNEY HAS A RIGHT TO PRESENT WITNESSES AND EVIDENCE AND TO CROSS-EXAMINE, OBJECT, AND DO ALL OF THE THINGS ESSENTIAL TO A FAIR DUE PROCESS HEARING. THE ALJ IS BOUND BY ITC RULE 210.42 ON EVIDENCE AND OFTEN USES THE

*ITC RULE 210.41

FEDERAL RULES OF EVIDENCE AS A GUIDE TO DECIDING VARIOUS OBJECTIONS RELATED TO INTRODUCTION OF EVIDENCE. NOTWITHSTANDING THESE RULES, THE ALJ IS LIBERAL IN ALLOWING EVIDENCE INTO THE RECORD.

AS THE TIME FOR HEARING APPROACHES, THE ALJ WILL NORMALLY ORDER THE PARTIES TO PREPARE PREHEARING STATEMENTS WHICH SET FORTH THE PROPOSED ISSUES TO BE TRIED AND THE RESPECTIVE POSITIONS OF THE PARTIES. THIS IS THE PARTIES' FIRST OPPORTUNITY TO OBSERVE THE FORMAL POSITION OF THE COMMISSION ATTORNEY ON THE KEY ISSUES IN THE CASE, SUCH AS VALIDITY AND INFRINGEMENT. SO FROM THIS POINT FORWARD THE COMMISSION ATTORNEY SHEDS THE FICTICIOUS VEIL OF A NEUTRAL PARTY AND BECOMES AN ADVERSE PARTY TO ONE SIDE OR THE OTHER OR BOTH. THE JUDGE WILL ALSO CALL A PREHEARING CONFERENCE* AT WHICH THE SCOPE OF THE HEARING AND OTHER MATTERS AS MAY AID IN THE ORDERLY DISPOSITION OF THE HEARING WILL BE DISCUSSED.

REMEMBER THE TIME LIMITS AS PROVIDED IN RULE 210.41. A PRELIMINARY HEARING (IF ONE IS REQUESTED) MUST BE COMPLETED BY THE ALJ WITHIN THREE MONTHS AFTER PUBLICATION OF THE NOTICE OF INVESTIGATION AND THE FINAL HEARING MUST BE COMPLETED BY THE ALJ WITHIN SEVEN MONTHS OF THE NOTICE OF INVESTIGATION. FORTUNATELY, BECAUSE OF THE WILLINGNESS AND DEDICATION OF THE PRESENT ALJS, AT THE ITC, HEARINGS SOMETIMES ARE CONDUCTED BETWEEN EIGHT AND TEN HOURS A DAY FOR FIVE AND SOMETIMES SIX DAYS A WEEK IF THE

*ITC RULE 210.40

CIRCUMSTANCES REQUIRE. IMMEDIATELY FOLLOWING THE HEARING, POST-HEARING BRIEFS WILL BECOME DUE AS WELL AS REPLY BRIEFS SETTING FORTH THE LAW AND ARGUING THE RECORD IN AN ATTEMPT TO CONVINCE THE JUDGE OF THE FACTUAL FINDINGS AND MERITS OF THE RESPECTIVE POSITIONS. AFTER CONSIDERING ALL BRIEFS, AND WITHIN 60 DAYS AFTER COMPLETION OF THE HEARING, THE ALJ ISSUES A WRITTEN RECOMMENDED DETERMINATION AND OPINION* "AS TO WHETHER THERE IS, OR WHETHER THERE IS REASON TO BELIEVE THERE IS A VIOLATION OF §337" AND CERTIFIES THIS RECOMMENDATION TO THE FULL COMMISSION.

THE COMMISSION THEN ISSUES A TIME SCHEDULE WITHIN WHICH THE PARTIES CAN FILE WITH THE COMMISSION BRIEFS SUPPORTING OR OPPOSING THE RECOMMENDED DETERMINATION AND CAN SUBMIT ALTERNATIVE PROPOSED FINDINGS OF FACT AND CONCLUSIONS OF LAW.** REPLY BRIEFS TO THE COMMISSION ARE ALSO SCHEDULED. BECAUSE THE COMMISSION ACTS PRIMARILY AS A REVIEWING BODY FOR THE ALJ'S FINDINGS OF FACT AND CONCLUSIONS OF LAW,*** IT IS IMPORTANT TO SUBMIT THOROUGH BRIEFS TO THE COMMISSION BECAUSE THE COMMISSIONERS AND THEIR LEGAL SUPPORT GROUP, THE OFFICE OF GENERAL COUNSEL, ARE SEEING THE CASE FOR THE FIRST TIME.

IN ADDITION TO THAT SET OF BRIEFS, EACH PARTY FILES AN ORIGINAL SET OF BRIEFS ON THE RELIEF, BONDING AND PUBLIC INTEREST

*ITC RULE 210.53
**ITC RULE 210.54
***ITC RULE 210.54

ISSUES OF THE CASE. ALSO, ANY INTERESTED MEMBER OF THE U.S. PUBLIC CAN FILE BRIEFS TO SUPPORT ONE SIDE OR THE OTHER ON THE RELIEF, BONDING, AND PUBLIC INTEREST ISSUES.

ALL THIS BRIEFING IS FOLLOWED BY AN ORAL ARGUMENT BEFORE THE ENTIRE COMMISSION ON ALL ISSUES. ALL PARTIES PARTICIPATE AT ORAL ARGUMENT ON THE VIOLATION ISSUES AND ANY OTHER INTERESTED MEMBER OF THE PUBLIC OR THE U.S. AND STATE GOVERNMENTS CAN ALSO PARTICIPATE ON THE PUBLIC INTEREST ISSUES.[14]

SHORTLY THEREAFTER, THE COMMISSION WILL REVIEW THE ENTIRE MATTER AND, USUALLY TOWARD THE END OF OR ON THE FINAL DAY OF THE 12-MONTH STATUTORY PERIOD, ISSUE A FINAL DETERMINATION* AND OPINION AS TO WHETHER OR NOT A §337 VIOLATION HAS OCCURRED AND ORDER THE APPROPRIATE REMEDY, IF ANY. THE ORDERS ALSO SET THE BOND AMOUNT, IF ANY, UNDER WHICH PRODUCT CAN ENTER THE U.S. UNTIL SUCH TIME AS THE PRESIDENT ACTS ON ANY IMPOSED REMEDY. THESE BONDS HAVE RANGED FROM 25% TO 400% OF VALUE IN RECENTLY DECIDED CASES.

THIS THEN WOULD CONCLUDE THE COMMISSION'S INVESTIGATION OF THE MATTER WITH THE EXCEPTION THAT THE COMMISSION RETAINS JURISDICTION FOR PURPOSES OF RECONSIDERATION OR REOPENING THE MATTER AND ANY REMEDIES IMPOSED.

REMEDIES UNDER §337

NOW, WHAT ABOUT REMEDIES? UNLIKE A FEDERAL COURT THAT CAN AND OFTEN DOES AWARD MONEY DAMAGES FOR PATENT

*TWO OR THREE WEEKS BEFORE THIS DATE THE COMMISSION MEETS AND VOTES PUBLICLY ON WHETHER OR NOT A VIOLATION HAS OCCURRED, THE REMEDY (IF ANY) AND THE BOND (IF ANY). THIS IS CALLED A "SUNSHINE MEETING".

INFRINGEMENT EQUAL TO OR GREATER THAN A REASONABLE ROYALTY (35 USC §284) WHICH DAMAGES MAY NOT BE PAID UNTIL THE APPEALS ARE COMPLETED, CONGRESS HAS GRANTED THE ITC TWO AND ONLY TWO FORMS OF REMEDY -- BOTH OF WHICH ARE EQUITABLE OR INJUNCTIVE IN NATURE AND BECOME EFFECTIVE NOTWITHSTANDING AN APPEAL.

THE REMEDY SECTIONS OF §337, (d), (e) and (f), GRANT TO THE ITC POWER TO ISSUE TEMPORARY AND PERMANENT ORDERS, EITHER AGAINST THE ARTICLES, EXCLUDING THE ARTICLES FROM IMPORTATION OR*, AGAINST A PERSON, DIRECTING SUCH PERSON TO CEASE AND DESIST FROM ENGAGING IN THE UNFAIR METHODS OR ACTS OF IMPORTATION THAT SUPPORTED THE ITC'S VIOLATION DETERMINATION.

THESE ARE POWERFUL REMEDIES. AN EXCLUSION ORDER, IDENTIFYING THE EXCLUDED PRODUCT, IS SUBMITTED TO ALL U.S. CUSTOMS SERVICE OFFICERS. THEREAFTER, WHENEVER THOSE GOODS ARRIVE FOR IMPORTATION, THE CUSTOMS OFFICER WILL DENY ENTRY AND THE GOODS MUST BE REMOVED FROM THE U.S. PROMPTLY OR BE SUBJECT TO CONFISCATION AND DESTRUCTION. IN EFFECT, THE EXCLUSION ORDER CLOSES THE U.S. MARKET FOR THAT PRODUCT UNTIL THE ORDER IS MODIFIED OR WITHDRAWN BY THE ITC.

THE EXCLUSION ORDER IS "IN REM" AND DIRECTED AGAINST THE PRODUCT WHEREAS THE CEASE AND DESIST ORDER IS "IN PERSONAM" AND DIRECTED AGAINST A PERSON. CONGRESS RECOGNIZED THAT A SOLE ITC REMEDY OF EXCLUSION MAY BE TOO HARSH UNDER CERTAIN CIRCUMSTANCES. SO THE CEASE AND DESIST ORDER SECTION (f)(1) WAS ADDED ~~BY THE~~ BY THE 1974 AMENDMENT[15].

*SEE COMMISSION DETERMINATION, ORDER AND OPINION, DOXYCYCLINE, 337 TA 2 (APRIL 1979).

UNLIKE AN EXCLUSION ORDER WHICH IS ADMINISTERED BY THE CUSTOMS SERVICE, A CEASE AND DESIST ORDER IS ADMINISTERED BY THE ITC ITSELF[16]. THE POWER OF THIS ORDER HAS BEEN MARKEDLY ENHANCED BY THE 1979 AMENDMENT TO THE TRADE ACT WHICH ADDED PARAGRAPH (f)(2) MAKING A VIOLATION OF THE ITC'S CEASE AND DESIST ORDER PUNISHABLE BY A $10,000 FINE OR THE DOMESTIC VALUE OF THE IMPORTED GOODS, WHICHEVER IS LARGER, FOR "EACH DAY" ON WHICH IMPORTATION OF ARTICLES OR THEIR SALE OCCURS. ENFORCEMENT OF THIS PROVISION IS THROUGH AN ACTION BROUGHT BY THE ITC IN A FEDERAL DISTRICT COURT AGAINST THOSE NAMED AND VIOLATING THE ORDER.

BECAUSE OF THE EXCLUSIVE NATURE OF THESE REMEDIES, THE ITC SOMETIMES FACES A SERIOUS DILEMMA. WHAT CAN AND SHOULD THE ITC DO WHEN THE EVIDENCE IN THE ITC RECORD DEMONSTRATES WITHOUT SERIOUS CHALLENGE THAT THE FOREIGN SUPPLIED SYSTEM, MACHINES, OR ARTICLES ARE FAR SUPERIOR TO THOSE MADE IN THE U.S.. WILL THE ITC RISK THE SERIOUS CONSEQUENCES OF KEEPING THE BEST TECHNOLOGY FROM THE HANDS OF U.S. INDUSTRY? NO LONGER ARE §337 ACTIONS BEING USED SOLELY AGAINST THE IMPORTED FLOW OF CONSUMER PRODUCTS SUCH AS CHAIN DOOR LOCKS (19 USPQ 272), GOLF GLOVES (ITC PUB. 720), PANTY HOSE (TARIFF COMM PUB. 471) AND PLASTIC SANDWICH BAGS (337 TA 22). INSTEAD, ACTIONS HAVE BEEN AND ARE BEING FILED AGAINST THE IMPORTATION OF BIG MULTIMILLION DOLLAR COMPONENTS OF HIGH TECHNOLOGY CAPITAL EQUIPMENT (337 TA 52). ALTHOUGH ONLY ONE SUCH SYSTEM MAY BE SOLD OR DELIVERED TO U.S. INDUSTRY EVERY

YEAR OR 18 MONTHS, THE VALUE TO U.S. INDUSTRY IS BETTER REFLECTED IN THE SYSTEM'S PRODUCTION CAPABILITY THAT MAY RUN AS MUCH AS $100 MILLION PER YEAR.

FORTUNATELY, CONGRESS FORESAW SITUATIONS SUCH AS THIS AND REQUIRED THE ITC TO CONSIDER "THE EFFECT [OF THE REMEDY] UPON THE PUBLIC HEALTH AND WELFARE, COMPETITIVE CONDITIONS IN THE U.S. ECONOMY, THE PRODUCTION OF LIKE OR DIRECTLY COMPETITIVE ARTICLES IN THE U.S., AND U.S. COMMERCE" (§337d, e, and f) AND TO WITHHOLD THE REMEDY IF SUCH CONSIDERATION WARRANTS.

THEREFORE, CONGRESS HAS CHARGED THE ITC WITH THE DUTY TO STUDY, ANALYZE AND COMPARE THE IMPACT ON U.S. INDUSTRY RESULTING FROM KEEPING ADVANCED TECHNOLOGY FROM OUR SHORES. INDUSTRIAL SYSTEMS EMBODYING HIGH TECHNOLOGY SHOULD NOT BE TREATED THE SAME AS CONSUMER ITEMS IN THIS ANALYSIS AND THE ISSUE SHOULD NOT BE TREATED LIGHTLY OR GLOSSED OVER BY THE ITC. AMERICAN INDUSTRY AND THE FOREIGN MANUFACTURER ARE ENTITLED TO HAVE THE ITC'S IN-DEPTH ANALYSIS OF THE EVIDENCE ON THIS ISSUE BEFORE IT ISSUES ANY REMEDY WHATSOEVER.

IF THE ITC ISSUES A REMEDY, THE MATTER IS REFERRED TO THE PRESIDENT (§337 (g)). THE PRESIDENT HAS 60 DAYS WITHIN WHICH TO STUDY THE MATTER, MAKE A NATIONAL POLICY DETERMINATION AND VETO THE REMEDY IF IT IS IN THE NATIONAL INTEREST TO DO SO. THE MATTER IS INITIALLY HANDLED BY THE PRESIDENT'S SPECIAL TRADE REPRESENTATIVE IN CONSULTATION WITH ~~THE VARIOUS INTERESTED~~

THE VARIOUS INTERESTED GOVERNMENT DEPARTMENTS (JUSTICE, COMMERCE, STATE, FTC, ETC.) AND THE PARTIES' REPRESENTATIVES. THE REMEDY BECOMES FINAL ON THE 61st DAY UNLESS THE PRESIDENT'S VETO PREVIOUSLY ISSUED.

ANY PERSON ADVERSELY AFFECTED BY AN ITC FINAL DETERMINATION MAY APPEAL SUCH DETERMINATION TO THE U.S. COURT OF CUSTOMS AND PATENT APPEALS (CCPA). SEE §337(c). THIS COURT WILL TAKE JURISDICTION IN THE SAME SENSE AS APPEALS FROM U.S. CUSTOMS COURT AND, IF THE CCPA REVERSES THE ITC'S FINDING OF NON-INFRINGEMENT OR INVALIDITY, IT MAY TURN THE ITC'S FINDING OF NO VIOLATION INTO A FINDING OF VIOLATION OF §337. SEE STEVENSON v. U.S.I.T.C. ET AL, 612 F.2d 546, (CCPA 1979); AND COMMISSION DETERMINATION AND ORDER, 9 OCTOBER 1980, SKATEBOARDS 337 TA 37.

PATENT LICENSING AND A §337 INVESTIGATION

NORMALLY, ONE WOULD THINK SETTLEMENT OF A §337 INVESTIGATION BY WAY OF PATENT LICENSE WOULD BE THE SAME AS SUCH SETTLEMENT OF A PATENT ACTION IN FEDERAL DISTRICT COURT. BUT THIS IS NOT SO - §337 ITSELF AND 19 USC §210 MAKE IT DISTINCTIVE IN SEVERAL WAYS.

ITC RULE 210.51 PROVIDES:

> "(a) Motions for termination. Any party may move at any time for an order to [terminate] an investigation before the Commission, to terminate the investigation as to all issues in an investigation in regard to one or more, but not all of the respondents, or to terminate the

> investigation as to any part of the issues in regard to any or all of the respondents. When a motion for termination is based upon licensing or other written agreements entered into between the parties, a copy of such licensing or other agreements shall be included with the motion."

SETTLEMENT IN THE COURTS IS PRIMARILY A MATTER BETWEEN TWO PARTIES. HOWEVER, TERMINATION OF A §337 ACTION ALWAYS INVOLVES A THIRD INDEPENDENT PARTY, NAMELY, THE COMMISSION ATTORNEY REPRESENTING GOVERNMENTAL AND PUBLIC INTERESTS. HE, TOO, MUST REVIEW THE PROPOSED SETTLEMENT AND UNDERLYING LICENSE AGREEMENT FROM THE PUBLIC INTEREST STANDPOINT. IF HE FINDS THE SETTLEMENT TO BE AGAINST THE PUBLIC INTEREST OR ANTI-COMPETITIVE, HE WILL OPPOSE THE MOTION FOR TERMINATION. FOR EXAMPLE, IF THE LICENSE SETTLEMENT AGREEMENT PROVIDES PAYMENT OF A 1% ROYALTY ON GROSS U.S. SALES FOR THE SAME PATENT LICENSE WHICH U.S. LICENSEE MANUFACTURERS ARE PAYING A 10% ROYALTY, THIS AGREEMENT WOULD TEND TO LIMIT THE U.S. MANUFACTURER'S ABILITY TO COMPETE WITH THE IMPORTED PRODUCT. IN THIS EVENT, EVEN IF THE U.S. COMPLAINANT WANTS TO STOP ITS EFFORTS, THE COMMISSION ATTORNEY MAY PURSUE THE §337 INVESTIGATION ALONE.

BUT COMMISSION OPPOSITION TO A PATENT LICENSE SETTLEMENT AGREEMENT RARELY, IF EVER, OCCURS AND USUALLY THE COMMISSION ATTORNEY SUPPORTS AND URGES TERMINATION BECAUSE THE SALE OR USE OF THE PRODUCT WILL BECOME LICENSED UNDER THE U.S. PATENT

AND FUTURE IMPORTATION WILL INVOLVE NO UNFAIR ACT OR VIOLATION OF §337.

BUT SURPRISINGLY, THE MATTER DOES NOT END THERE. AFTER THE JOINT MOTION TO TERMINATE IS MADE TO THE ALJ BY ALL THREE PARTIES, THE ALJ MUST RECOMMEND TERMINATION AND CERTIFY IT TO THE FULL COMMISSION. THE COMMISSION IN EXERCISING ITS RESPONSIBILITY TO CONSIDER THE PUBLIC INTEREST, PUBLISHES NOTICE OF THE PROPOSED SETTLEMENT IN THE FEDERAL REGISTER AND USUALLY IN THE TRADE PRESS AND INVITES INTERESTED MEMBERS OF THE PUBLIC AND TRADE OR INDUSTRIAL GROUPS TO REVIEW THE PROPOSED SETTLEMENT LICENSE AGREEMENT AND SUBMIT PERTINENT COMMENTS FOR ITC CONSIDERATION.

PUBLIC INTEREST AND OPPOSITION TO A LICENSING SETTLEMENT OF A §337 PATENT ACTION RARELY OCCURS BECAUSE IT IS WELL RECOGNIZED THAT THE LICENSE ITSELF GRANTED BY A PATENTEE CONVERTS THE UNFAIR TRADE ACTS INTO FAIR ONES AND THEREBY FOSTERS MORE FAIR COMPETITON FOR THE PUBLIC GOOD. NEVERTHELESS, IF THERE ARE OTHER U.S. LICENSEE MANUFACTURERS, THEY WILL NO DOUBT EXAMINE THE PROPOSED SETTLEMENT AGREEMENT AND COMPARE THE VARIOUS CONTRACT PROVISIONS WITH THEIR OWN.

FORTUNATELY FOR THOSE PARTIES WANTING TO SETTLE WITHOUT AN ITC FINDING OF WHETHER OR NOT A VIOLATION (PATENT INFRINGEMENT) OCCURRED, THE ITC, BEGINNING WITH TWO 1979 CASES[17], NOW RECOGNIZES THAT PATENT SETTLEMENT AGREEMENTS REMOVE THE NEED FOR THE ITC TO DECIDE THE VIOLATION ISSUE. THIS RECENT DEVELOPMENT SHOULD FOSTER MORE SETTLEMENTS OF §337 PATENT ACTIONS.

WE HAVE LOOKED AT THE §337 SETTLEMENT PROCESS FROM THE STANDPOINT OF A PATENTEE WILLING TO LICENSE AND TERMINATE THE ACTION. THIS IS NOT ALWAYS THE CASE. SOMETIMES THE PATENTEE BELIEVES IT IS NECESARY OR DESIRABLE TO ITS BUSINESS TO AVOID LICENSING OR LICENSE ONLY A LIMITED NUMBER OF COMPANIES IN THE U.S. WHAT POWER THEN DOES THE ITC HAVE TO FORCE THE PATENTEE TO LICENSE A WILLING FOREIGN MANUFACTURER? WHAT IF THE ITC BELIEVES IT IS IN THE PUBLIC GOOD AND MORE COMPETITIVE FOR THAT FOREIGN MANUFACTURER TO HAVE THE LICENSE? CAN THE ITC IN SOME WAY COMPEL A LICENSE?

ALTHOUGH THESE ISSUES HAVE NOT BEEN SERIOUSLY RAISED NOR FORMALLY AND DIRECTLY CONSIDERED BY THE ITC, IT IS CLEAR TO ME CONGRESS DID NOT GRANT THE ITC COMPULSORY LICENSING POWERS BY WAY OF §337. THE ONLY RECOURSE AVAILABLE TO THE ITC IS TO WITHHOLD ISSUANCE OF A REMEDY FOR PUBLIC INTEREST REASONS.* IF THESE CIRCUMSTANCES DO NOT EXIST, THE ITC HAS NO RECOURSE BUT TO ISSUE THE REMEDY IF IT FINDS A VIOLATION.

WHERE THE ITC ISSUES THE REMEDY AND, THEREAFTER, THE PARTIES ENGAGE IN LICENSING, THE ITC, UPON RECEIPT OF PROOF OF THE LICENSING AGREEMENT, WILL INVITE PUBLIC COMMENT ON THE WITHDRAWAL OF THE REMEDY. IF THE LICENSE IS NOT AGAINST

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*THE ONLY OTHER REASON TO WITHHOLD A REMEDY ARISES WHEN THE U.S. PATENTEE PRACTICES "PRICE GOUGING". SEE LEGISLATIVE HISTORY, TRADE ACT 1974, PUBLIC LAW 93-618, PAGES 7328 AND 7329.

PUBLIC INTEREST AND IS NOT ANTICOMPETITIVE, THE REMEDY WILL BE WITHDRAWN.[18]

CONCLUSION

LET'S RECALL OUR HYPOTHETICAL CASE. YOUR DIRECTOR ASKED YOU TWO QUESTIONS. FIRST, WHAT DOES THE PATENTEE CORPORATION'S COMPLAINT TO THE ITC MEAN? SECOND, WHAT ACTION DO YOU RECOMMEND FOR YOUR COMPANY?

YOU MIGHT ANSWER THE FIRST QUESTION AS FOLLOWS:

PATENTEE CORPORATION HAS SUED US AND OUR U.S. CUSTOMERS BEFORE THE U.S. ITC. THE ITC IS LIKE A COURT AND WILL CONDUCT A TRIAL. BECAUSE CONGRESS WANTS IT TO PROTECT U.S. INDUSTRY FROM IMPORTED ARTICLES THAT INFRINGE U.S. PATENTS, CONGRESS HAS GIVEN THE ITC AUTHORITY TO ISSUE POWERFUL ORDERS THAT CAN BLOCK OUR PRODUCT FROM REACHING THE U.S. MARKET. THE ITC WILL IMMEDIATELY ASSIGN A JUDGE TO TRY THE CASE AND A U.S. GOVERNMENT ATTORNEY TO PARTICIPATE ON BEHALF OF THE GOVERNMENT AND THE U.S. PUBLIC.

THE PATENTEE CORPORATION WILL BEGIN TO TAKE DISCOVERY STEPS AGAINST US AND OUR CUSTOMERS AND WILL SEEK TO DISCOVER OUR TECHNICAL DOCUMENTS AND BUSINESS INFORMATION SO THAT IT CAN PREPARE FOR TRIAL. THE GOVERNMENT ATTORNEY WILL ALSO SEEK INFORMATION FROM US. WE CAN DEFEND THE ACTION AND DO THE SAME TO THE U.S. CORPORATION AND PREPARE OUR CASE FOR TRIAL WHICH CAN INCLUDE ALL LEGAL AND EQUITABLE DEFENSES. IF

WE DO NOT COOPERATE, WE WILL PROBABLY LOSE AND FACE AN EXCLUSION ORDER.

ALL THIS MUST HAPPEN VERY FAST BECAUSE THE ITC PRELIMINARY TRIAL MAY TAKE PLACE IN 3 MONTHS AND FINAL TRIAL WILL TAKE PLACE IN 6 OR 7 MONTHS. THE PATENTEE CORPORATION MAY WAIVE THE FIRST TRIAL IF HE SO DESIRES.

MANY ITC PATENT ACTIONS ARE SETTLED BY LICENSING UNDER THE PATENT. THIS CAN BE EXPLORED AS WE PREPARE FOR TRIAL. THE ITC WILL STOP THE ACTION WITHOUT DECIDING INFRINGEMENT ONLY IF WE AND THE PATENTEE CORPORATION AGREE TO LICENSE. THE GOVERNMENT ATTORNEY WILL PARTICIPATE IN THE LICENSE NEGOTIATIONS AND USUALLY AGREES TO AND SIGNS THE LICENSE AGREEMENT BEFORE THE ITC STOPS THE CASE. HE WILL AGREE UNLESS THE LICENSE IS INHERENTLY DETRIMENTAL TO OTHER U.S. LICENSEES OR THE U.S. PUBLIC.

NOW, THE SECOND QUESTION - WHAT COURSE OF ACTION DO YOU RECOMMEND FOR YOUR COMPANY? I LEAVE THAT FOR YOU TO DECIDE. THANK YOU.

FOOTNOTES

1. COPY APPEARANCE (TRADE DRESS) (STEEL TOY VEHICLES, 337 TA 31; INSULATED CONTAINERS 337 TA 59)

FALSE LABELING (SOLDER REMOVAL WICKS, 337 TA 26)

REFUSAL TO DEAL (AUDIO EQUIPMENT, 337 TA 7)

UNFAIR PRICING PRACTICES (GAME TABLES, 337 TA 34; COFFEE 337 TA 16)

TRADEMARK INFRINGEMENT (RECLOSABLE PLASTIC BAGS, 337 TA 22)

POLICY OF PREDITORY PRICING (WELDED...TUBES, 337 TA 29; SWIMMING POOLS, 337 TA 25)

RESTRAIN TRADE AND ATTEMPT TO MONOPOLIZE (COLOR TV SETS, 337 TA 23)

PALMING OFF (STEEL TOY VEHICLES, 337 TA 31)

TERRITORIAL RESTRICTIONS (AUDIO EQUIPMENT, 337 TA 7)

DECEPTIVE ADVERTISING (SOLDER REMOVAL WICKS, 337 TA 26)

FALSE MARKING COUNTRY OF ORIGIN (CERTAIN CERAMIC WALL TILES, COMP. FILED 3/29/66)

PATENT INFRINGEMENT - GREATEST NUMBER (IN RE VON CLEMM, 229 F.2d 441)

CONSPIRACY AND ATTEMPT TO BOYCOTT (TRACTOR PARTS, TAR COMM. PUB., DEC. 1971)

MISAPPROPRIATION OF TRADE SECRETS (COPPER ROD, 337 TA 52)

2. SEE COMPLAINT FOR IN RE CERTAIN APPARATUS FOR THE CONTINUOUS PRODUCTION OF COPPER ROD, 337 TA 52, FILED APRIL, 1978.

3. 39 F.2d 247, CCPA 1930.

4. 75 F.2d 826, CCPA 1935.

5. SEE REPORT OF THE COMMITTEE ON IMPORTATION OF UNPATENTED PRODUCT OF PATENTED PROCESS, JOURNAL OF PATENT OFFICE SOCIETY, OCTOBER, 1937, VOL. XIX, NO. 10, AND PROTECTION FOR PROCESS PATENTS AGAINST IMPORTED GOODS, LEON T. STARK, NEW YORK UNIVERISTY LAW REVIEW, NOV. 1959, P. 1254 - 1270.

6. 197 USPQ 472.

7. 28 USC §1400(b) and §1391

8. 35 USC 281.

9. HOWEVER, SEE MONOLYTHIC CATALYTIC CONVERTERS, 337 TA 18, ITC ORDER ISSUED, DECEMBER 3, 1975, WHEREIN THE ITC HELD A MERE DOMESTIC SALE BY A U.S. COMPANY WHO IS NOT AN IMPORTER IS NOT ENOUGH FOR ITC JURISDICTION OVER THE SELLER AS A PARTY RESPONDENT.

10. 337 TA 29, ITC 1978.

11. IN RE CERTAIN THERMOMETER SHEATH PACKAGES, 205 USPQ AT 945, CCPA, 1979; IN RE CERTAIN COMBINATION LOCKS, 205 USPQ 1124 at 1127, CCPA, 1979; REUSABLE PLASTIC BAGS, 337 TA 22, USITC, JANUARY, 1977.

12. 19 CFR 210.12.

13. SEE THE FEDERAL RULES OF CIVIL PROCEDURE, RULES 26-37 WHICH GOVERN DISCOVERY IN THE U.S. FEDERAL COURTS. THE ITC ALJ'S USE THESE RULES TO GUIDE THEIR OWN DISCOVERY DECISIONS.

14. IT IS AT THIS COMMISSION SESSION WHEN STATEMENTS FROM INTERESTED ELECTED OR APPOINTED OFFICIALS ARE RECEIVED. FOR EXAMPLE, IN COPPER ROD, 337 TA 52, APPEARANCES AND STATEMENTS WERE RECEIVED ON BEHALF OF (1) U.S. SENATOR S. NUNN, GEORGIA; (2) U.S. SENATOR H. E. TALMADGE, GEORGIA; (3) HON. GEORGE D. BUSBEE, GOVERNOR, GEORGIA.; (4) U.S. REPRESENTATIVE NEWT GINGRICH, GEORGIA; AND (5) MR. JACK WELCH (GEORGIA DEPT. OF IND. AND TRADE).

15. SENATE REPORT (FINANCE COMMITTEE) NO. 93-1298, CHAPTER 4, P. 7331, NOVEMBER 26, 1974.

16. APPROXIMATELY ONE YEAR AGO THE ITC ORGANIZED A COMPLIANCE OFFICE TO ADMINISTER ISSUED CEASE AND DESIST ORDERS.

17. SEE CERTAIN SYNTHETIC GEMSTONES, 337 TA 50, COMMISSION ORDER AND OPINION, MARCH 20, 1979; AND ALTERNATING PRESSURE PADS, 337 TA 48, NOTICE OF TERMINATION, FEBRUARY 3, 1979.

18. NOTE CERTAIN SURVEYING DEVICES, 337 TA 68, JULY, 1980, WHERE THE EXCLUSION ORDER FOR DEVICES INFRINGING A U.S. PATENT INCLUDES "EXCEPT WHERE SUCH IMPORTATION IS LICENSED BY THE OWNER OF SUCH PATENT".

19 USC 1337 UNFAIR PRACTICES IN IMPORT TRADE

(a) UNFAIR METHODS OF COMPETITION DECLARED UNLAWFUL. Unfair methods of competition and unfair acts in the importation of articles into the United States, or in their sale by the owner, importer, consignee, or agent of either, the effect or tendency of which is to destroy or substantially injure an industry, efficiently and economically operated, in the United States, or to prevent the establishment of such an industry, or to restrain or monopolize trade and commerce in the United States, are declared unlawful, and when found by the Commission to exist shall be dealt with, in addition to any other provisions of law, as provided in this section.

(b)(1) INVESTIGATION OF VIOLATIONS BY COMMISSION; TIME LIMITS. The Commission shall investigate any alleged violation of this section on complaint under oath or upon its initiative. Upon commencing any such investigation, the Commission shall publish notice thereof in the Federal Register. The Commission shall conclude any such investigation, and make its determination under this section, at the earliest practicable time, but not later than one year (18 months in more complicated cases) after the date of publication of notice of such investigation. The Commission shall publish in the Federal Register its reasons for designating any investigation as a more complicated investigation. For purposes of the one-year and 18-month periods prescribed by this subsection, there shall be excluded any period of time during which such investigation is suspended because of proceedings in a court or agency of the United States involving similar questions concerning the subject matter of such investigations.

(2) During the course of each investigation under this section, the Commission shall consult with, and seek advice and information from, the Department of Health, Education, and Welfare, the Department of Justice, the Federal Trade Commission, and such other departments and agencies as it considers appropriate.

(3) Whenever, in the course of an investigation under this section, the Commission has reason to believe, based on information before it, that a matter, in whole or in part, may come within the purview of section 1303 of this title or of part II of subtitle IV of this chapter, it shall promptly notify the Secretary of the Treasury so that such action may be taken as is otherwise authorized by such section and such Act. If the Commission has reason to believe the matter before it is based solely on alleged acts and effects which are within the purview of section 1303, 1671, or 1673 of this title, it shall terminate, or not institute, any investigation into the matter. If the Commission has reason to believe the matter before it is based in part on alleged acts and effects which are within the purview of section 1303, 1671, or 1673 of this title, and in part on alleged acts and effects which may, independently from or in conjunction with those within the purview of such section, establish a basis for relief under this section, then it may institute or continue an investigation into the matter. If the Commission notifies the Secretary or the administering authority (as defined in section 1677(1) of this title) with respect to a matter under this paragraph, the Commission may suspend its investigation during the time the matter is before the Secretary or administering authority for final decision. For purposes of computing the 1-year or 18-month periods prescribed by this subsection, there shall be excluded such period of suspension. Any final decision of the Secretary under section 1303 of this title or by the administering authority under section 1671 or 1673 of this title with respect to the matter within such section 1303, 1671, or 1673 of this title of which the Commission has notified the Secretary or administering authority shall be conclusive upon the Commission with respect to the issue of less-than-fair-value sales or subsidization and the matters necessary for such decision.

(c) DETERMINATIONS; REVIEW. The Commission shall determine, with respect to each investigation conducted by it under this section, whether or not there is a violation of this section. Each determination under subsection (d) or (e) of this section shall be made on the record after notice and opportunity for a hearing

in conformity with the provisions of subchapter II of Chapter 5 of Title 5. All legal and equitable defenses may be presented in all cases. Any person adversely affected by a final determination of the Commission under subsection (d), (e), or (f) of this section may appeal such determination to the United States Court of Customs and Patent Appeals. Such court shall have jurisdiction to review such determination in the same manner and subject to the same limitations and conditions as in the case of appeals from decisions of the United States Customs Court.

(d) EXCLUSION OF ARTICLES FROM ENTRY. If the Commission determines, as a result of an investigation under this section, that there is violation of this section, it shall direct that the articles concerned, imported by any person violating the provision of this section, be excluded from entry into the United States, unless, after considering the effect of such exclusion upon the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers, it finds that such articles should not be excluded from entry. The Commission shall notify the Secretary of the Treasury of its action under this subsection directing such exclusion from entry, and upon receipt of such notice, the Secretary shall, through the proper officers, refuse such entry.

(e) EXCLUSION OF ARTICLES FROM ENTRY DURING INVESTIGATION EXCEPT UNDER BOND. If, during the course of an investigation under this section, the Commission determines that there is reason to believe that there is a violation of this section, it may direct that the articles concerned, imported by any person with respect to whom there is reason to believe that such person is violating this section, be excluded from entry into the United States, unless, after considering the effect of such exclusion upon the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers, it finds that such articles should not be excluded from

entry. The Commission shall notify the Secretary of the Treasury of its action under this subsection directing such exclusion from entry, and upon receipt of such notice, the Secretary shall, through the proper officers, refuse such entry, except that such articles shall be entitled to entry under bond determined by the Commission and prescribed by the Secretary.

(f)(1) CEASE AND DESIST ORDERS; CIVIL PENALTY FOR VIOLATION OF ORDERS. In lieu of taking action under subsection (d) or (e) of this section, the Commission may issue and cause to be served on any person violating this section, or believed to be violating this section, as the case may be, an order directing such person to cease and desist from engaging in the unfair methods or acts involved, unless after considering the effect of such order upon the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers, it finds that such order should not be issued. The Commission may at any time, upon such notice and in such manner as it deems proper, modify or revoke any such order, and, in the case of a revocation, may take action under subsection (d) or (e) of this section, as the case may be.

(2) Any person who violates an order issued by the Commission under paragraph (1) after it has become final shall forfeit and pay to the United States a civil penalty for each day on which an importation of articles, or their sale, occurs in violation of the order of not more than the greater of $10,000 or the domestic value of the articles entered or sold on such day in violation of the order. Such penalty shall accrue to the United States and may be recovered for the United States in a civil action brought by the Commission in the Federal District Court for the District of Columbia or for the district in which the violation occurs. In such actions, the United States district courts may issue mandatory injunctions incorporating the relief sought by the Commission as they deem appropriate in the enforcement of such final orders of the Commission.

(g)(1) REFERRAL TO PRESIDENT. If the Commission determines that there is a violation of this section, or that, for purposes of subsection (e) of this section, there is reason to believe that there is such a violation, it shall--

(A) publish such determination in the Federal Register, and

(B) transmit to the President a copy of such determination and the action taken under subsection (d), (e), or (f) of this section, with respect thereto, together with the record upon which such determination is based.

(2) If, before the close of the 60-day period beginning on the day after the day on which he receives a copy of such determination, the President, for policy reasons, disapproves such determination and notifies the Commission of his disapproval, then, effective on the date of such notice, such determination and the action taken under subsection (d), (e), or (f) of this section with respect thereto shall have no force or effect.

(3) Subject to the provisions of paragraph (2), such determination shall, except for purposes of subsection (c) of this section, be effective upon publication thereof in the Federal Register, and the action taken under subsection (d), (e), or (f) of this section with respect thereto shall be effective as provided in such subsections, except that articles directed to be excluded from entry under subsection (d) of this section or subject to a cease and desist order under subsection (f) of this section shall be entitled to entry under bond determined by the Commission and prescribed by the Secretary until such determination becomes final.

(4) If the President does not disapprove such determination within such 60-day period, or if he notifies the Commission before the close of such period that he approves such determination, then, for purposes of paragraph (3) and subsection (c) of this section such determination shall become final on the day after the close of such period or the day on which the President notifies the Commission of his approval, as the case may be.

(h) PERIOD OF EFFECTIVENESS. Except as provided in subsections (f) and (g) of this section, any exclusion from entry or order under this section shall continue in effect until the Commission finds, and in the case of exclusion from entry notifies the Secretary of the Treasury, that the conditions which led to such exclusion from entry or order no longer exist.

(i) IMPORTATION BY OR FOR UNITED STATES. Any exclusion from entry or order under subsection (d), (e), or (f) of this section, in cases based on claims of United States letters patent, shall not apply to any articles imported by and for the use of the United States, or imported for, and to be used for, the United States with the authorization or consent of the Government. Whenever any article would have been excluded from entry or would not have been entered pursuant to the provisions of such subsections but for the operation of this subsection, a patent owner adversely affected shall be entitled to reasonable and entire compensation in an action before the Court of Claims pursuant to the procedures of section 1498 of Title 28.

(j) DEFINITION OF UNITED STATES. For purposes of this section and sections 1338 and 1340 of this title, the term "United States" means the customs territory of the United States as defined in general headnote 2 of the Tariff Schedules of the United States.

June 17, 1930, c. 497, Title III, §337, 46 Stat. 703; Proc. No. 2695, July 4, 1946, 11 F.R. 7517, 60 Stat. 1352; Aug. 20, 1958, Pub.L. 85-686, §9(c)(1), 72 Stat. 679; Jan. 3, 1975, Pub.L. 93-618, Title III, §341(a), 88 Stat. 2053; July 26, 1979, Pub.L. 96-39, Title I, §106(b)(1), Title XI, §1105, 93 Stat. 193, 310.

§1337a. IMPORTATION OF PRODUCTS PRODUCED UNDER PROCESS COVERED BY CLAIMS OF UNEXPIRED PATENT. The importation for use, sale, or exchange of a product made, produced, processed, or mined under or by means of a process covered by the claims of any unexpired valid United States letters patent, shall have the same status for the purposes of section 1337 of this title as the importation of any product or article covered by the claims of any unexpired valid United States letters patent.

July 2, 1940, c. 515, 54 Stat. 724.

CASES

FRISCHER v. BAKELITE, 39 F.2d 247, CCPA (1930)

IN RE ORION CO., 71 F.2d 458, CCPA (1934)

IN RE NORTHERN PIGMENT CO., 71 F.2d 477, CCPA (1934)

IN RE AMTORG TRADING CORP., 75 F.2d 826 (1935)

IN RE VON CLEMM, 229 F.2d 441 (1935)

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REVITALIZATION OF UNFAIR TRADE CAUSES IN THE IMPORTATION OF GOODS, ETC, KAYE AND PLAIA, 57 JOURNAL OF THE PATENT OFFICE SOCIETY, 659 (1975)

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PIPA Committee #2,
Japanese Group
Chairman: Kou Kunieda

Characteristics of Japanese Contract and Background

by

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Presented
at
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CONTENTS

1. Introduction
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OUTLINE

There are striking differences between a Japanese and a purely American-British contract in respect to the way each is drafted and to legal meanings the contract bears.

On account of these and other factors which I will elaborate later in my speech, people of this and other countries very often put on a show of emotion, sometime comical and sometime tragic, when negotiating for an agreement.

It seems that our attitude towards a contract is now and then misconstrued as something puzzling in the eyes of foreigners.

Now, by drawing your attention to the characteristic features of a Japanese contract and the attitude of the people towards it with the underlying cultural and custom background, it is my aim to show you that the Japanese is not a people who are blunt in their understanding of a contract and also the fact that the idea of a contract entertained by people of this country and America and Britain having different cul-

tural and social backgrounds differs in nature in a varying degree.

In observing the characteristics of a Japanese contract from the legal aspect based on "Fair-and-Equiptable Principles", I would like to bring out the point in the second chapter of my talks why a Japanese contract goes further than to end only in words. Relations of trust built or implanted among the people concerned through renewal or the continuation of contracts play a role more significant than what are written in a contract.

Now, taking up the idea of a Japanese contract and regarding it as a reflection or result of a distinctive culture fostered in a long period of time or history, I will explain to you in the 3rd chapter that a Japanese contract is the product of the pattern of behavior of the emotional people.

As you are aware, American and British people behave in an intellectual or cool manner and they have high regard for principle and theory or rules and law; while the Japanese mode of behavior is emotional and family-like with strong emphasis laid not only on personal relationship but also on relations of trust.

Finally, to answer why, in their mode of behavior, the Americans and British are intellectual, that is, why they react coolly and the Japanese are emotional or why they react emotionally; let me point to the historical and climatic traits of each race.

In short, I believe that the difference in their attitude towards a contract lies nowhere but in the very culture of each country.

1. Introduction

A brisk exchange program between Japan and the United States is being promoted not only in the political and economic field but also in the sphere of culture including art and science.

As an indispensable partner, it is necessary that both countries foster a better understanding of each other although frictions may at times arise, such as, for example, the issue on restraint on exports of Japanese cars to the United States.

We, in the Japanese Group of the Second Committe of this Convention, selected for our presentation this year a theme which may be of help to the people of the United States to better understand Japan and its people.

So, beginning with my talks on distinctive features of a Japanese contract which, incidentally, differs strikingly from that of the United States in many respects, let me shed light on some of the unique features of Japanese thoughts towards a contract, that is, how they think of it and of Japanese culture.

It is extremely difficult, however, to speak on such a subject in a comparatively short space of time and the thought of whether I can make myself understood intelligently troubles me.

It would, therefore, be a great pleasure if the presentation of my speech today leads you to the better understanding of my country.

2. Characteristics of Japanese Contract

Let me next point out the characteristics of a Japanese contract.

A Japanese contract comes into effect when two parties concerned reach a mutual consent, that is, for instance, when the first party offers a grant of a license and the second party accepts this without even agreeing upon particular conditions of the license or when a mutual consent is made only verbally by the parties concerned.

And if details of a consent are ambiguous, it is obligatory that the substance of the contract be interpreted in conformity with "the fair-and-equitable principles" (1). To be effective, it is indispensable

that a contract is based on the principle of mutual confidence and trust between the first and the second party. Consequently, it is a prerequisite that the 2 parties concerned have mutual confidence and act in response to each other's trust.

And that which is legally duty-bound and regarded as a moral norm is the so-called fair-and-equitable principles.

That is how the parties concerned build a mutually reliable and closely-knitted cooperative personal and business relationships which are one of the objective of a contract. These relations are regulated by the fair-and-equitable principles.

In consequence, indemnification of damages or rescission of a contract resulting from a breach of an agreement, however minor it may be, is not allowed.

A breach of a contract will depend on whether relations of confidence between the parties concerned have been destroyed or not.

A force majeure clause or an arbitration clause is usually not stipulated in a contract which is

sustained by such thoughts as entertained by the people here. Instead, "a consultation-in-good-faith clause" such as the undermentioned provisions is laid down without fail in a contract, namely:

"The first and the second party will consult with each other in good faith on matters not set forth in the contract whenever occasion calls for or when doubts arise as to the interpretation of itemized facts in the contract and reach a settlement."

The foregoing clause, indeed, symbolically represents what a Japanese contract really is, that is, its distinctive features.

In other words, only articles concerning a minimum of requirement in dealings between the parties concerned are laid down in a written contract. Articles regarding rights and duties and a dispute which could develop in future between the parties concerned and its settlements are not stipulated in a contract.

All these articles are always dealt with the so-called "consultation-in-good-faith clause" following the conclusion of a written contract.

On top of that, as a rule, provisions of the Civil Code are adopted in a consultation. As a result, details of these items are treated in the light of the Civil Code and settlement of a dispute is reached with hardly any trouble at all.

Our Civil Code is a very thick and handsome volume consisting of approximately one thousand articles, a truly gigantic body of law which stipulates in detail and in concrete terms provisions concerning dealings, rights and duties of the people in general.

Now, U.S. Lawyer Vincent A. Narcici wrote of Japanese thoughts or attitude towards a contract (2):

And I quote: "To a Japanese, a business relationship is defined by much more than the contents of any written contract which he may have signed. He would expect the words of the contract to constitute only a part of the relationship, and that social, personal and perhaps even emotional factors will also play a major role. He further expects that the relationship will be adjusted and accommodated in a spirit of mutual reasonableness and compromise as it continues over time."

Furthermore, I would like to show you Dr. Henry Kissinger's view of Japanese (3):

Here are some of the essential points of his argument.

Americans, according to the former U.S. Secretary of State, are practical, make much account of actuality, respect law and are fond of documents.

The Japanese, on the other hand, are complicated and delicate. They cope with matter cleverly with indistinct suggestion. The Japanese communicate their intention more by indirect or aesthetic sensibility than by language.

Americans are always arguing to redefine what they commonly own because they have been having heterogeneity since the origin of their nation. To Americans, contract and law are very important to maintain peace of a society.

On the contrary, Japan is a country of an extraordinary unifying force and homogeneity. The Japanese do not resort overly to law, formula or rule to maintain harmony of their community. They rely upon good

human relations and full consent among fellow members.

In Japan, as I already mentioned, that which compels the parties to reach a consent by law is a contract.

In American and British law, it is said that a contract is what legally binds the parties to a mutual consent or agreement, thus placing the party concerned under a legal obligation, literally bound by a chain of law.

Now, it seems to me that in so far as fulfilment of an agreement is concerned, Japanese, British and American contracts are basically the same.

However, in Britian and the United States, contracts are guaranteed or endorsed by legal sanction and people are conscious of them as a chain of law. In Japan, on the other hand, it can be said that the people are conscious of a contract as a sanction of social needs, of relations of mutual confidence or of emotional factors other than law.

Consequently, in Britain and the United States, rights of one and duties of the other incorporated

in detail in a contract as what are written in the contract is all there is to it. On the contrary, even though a written contract here contains basic conditions of deals; rights, duties and other matters such as dispute are not written in a contract.

A few years ago Japan and Australia concluded a long-term agreement on import of Australian iron ore.

Among other matters, it was agreed at the time that when there were fluctuations of world iron ore prices, either party can revise the agreed prices upon consultation. However, these provisions were not specifically stated in the written agreement.

Subsequently, world iron ore prices skyrocketed. And in consequence, Australia demanded that the import prices be revised upward on grounds of their verbal promises and because the Australian mining industries were facing difficulties. (This is, indeed, an appropriate example of a Japanese contract).

Dealing with the affair on the fair and equitable principles , the Japanese accepted the Australian demand for a hike of iron ore prices.

Now, suppose the circumstances were the other way round. How would Australia have reacted to Japan's demand if this country had asked for a cut in iron ore prices on the same ground-a sharp drop of international iron ore prices?

And immediately afterward, Japan and Australia concluded another long-term agreement this time on import of Australian sugar. Unlike the situation which I just spoke about when world steel prices skyrocketed, the international sugar prices plummeted. And sugar mills throughout the country, suffered a damaging blow on account of this drop and, as a result, were in jeopardy of being ruined.

There, when this country appealed to Australia for a cut in sugar prices on grounds of their verbal promises, Australia did not reply. In so far as the wording of the text of the agreement was concerned, it was not obligatory for her to comply with the Japanese request. And Australia, therefore, declined even to hold discussion on the matter with its Japanese counterpart.

These 2 developments, iron ore and sugar, demonstrate

how well views of the people of the 2 countries can vary.

3. The Japanese view of contract and its background.

It was not because I wanted to find faults with the British or American view of contract or to depreciate the Japanese view on agreement that I introduced to you instances of agreements between Japan and Australia.

It's just that I wanted to show you that each country's view is the cultural product of its people with a long history of its own. The differences of views are, therefore, the results of a unique culture of each country. And in culture, therefore, there is no superiority or inferiority. One is just as good as the other.

It is often been criticized that the Japanese lack the view or thought of a contract. As I have earlier pointed out, it is not that the Japanese do not have the faculty of view or thought of a contract. Certainly, they do possess that faculty. But it only differs in nature from what the British and Americans

possess. I'm sure you will understand this point, I hope you will.

There are great differences in thought, in social behavior or conduct or in the technique of law between the Japanese and British-Americans beginning with the question-what is a contract down to the drafting of a written contract and on to the legal meaning of a contract.

There is no denying that these differences often cause frictions in international contracts.

The British and Americans are intellectually sensitive to life attaching great importance to principle and rules; while the Japanese are family-like and their mode of behavior is emotional, laying strong emphasis on personal relations.

I personally think that this difference of mentality between the Japanese and British-American people is reflected in their views of contract.

Intellectualism and emotionalism.

In the mode of human behavior, these 2 elements are nature which mankind commonly possesses whether

he be Japanese or American.

I think the Japanese and Americans are no different in respect to emotional behavior when they are in a small group like a family or relative.

On a corporate or national dimension, the mode of behavior of the Americans or West Europeans is intellectual. In contrast, emotional feelings always accompany the Japanese on a corporate or national level.

Why is the pattern of behavior of the Japanese more emotional than the Westerners?

Japan is a society more homogeneous than many other countries in the world, racially, linguistically and culturally. And the Japanese have been traditionally a paddy growing race or people. To concentrate their labour between a rice planting and harvesting season, it was necessary that a community had to be maintained by a family cooperative relations.

For this and other reason, it is generally said that the Japanese can manage themselves well with emotionalism in any circumstances because they have the confidence in the ordinary culture, in the every-

day mode of behavior or in the coexistance of a family.

Dr. Narcici also holds the same view.

However, according to observation, there are some shortcomings in this view. The Japanese are not necessarily a homogeneous people, racially or linguistically. Ethnically, the Japanese are of a mixed race of Ainu, a native Japanese, Mongoloids, natives of Korea and Mongolia, and Polynesians. Linguistically, it is said that the dialects spoken in wide areas of Northeastern Japan and Kyushu to the south even today differ more than they do between the English and German languages.

And, as a rice growing race, both the Chinese and Koreans are not people of a family-cooperative body like the Japanese. They are, nevertheless, more intellectual than the Westerners.

Well, what, then, are the sources of these emotional characteristics of the Japanese and their culture?

I recently had an opportunity to come across a theme on Japanese written by Professor Gregory Clark of Sophia University (4). As you are aware, he is an

English Professor of Economics.

Professor Clark wrote a theme on unique Japanese after fixing his attention to the way Japanese observe value and to the characteristics of Japanese culture while pursuing research study of the Japanese economy which saw a remarkable growth following World War II.

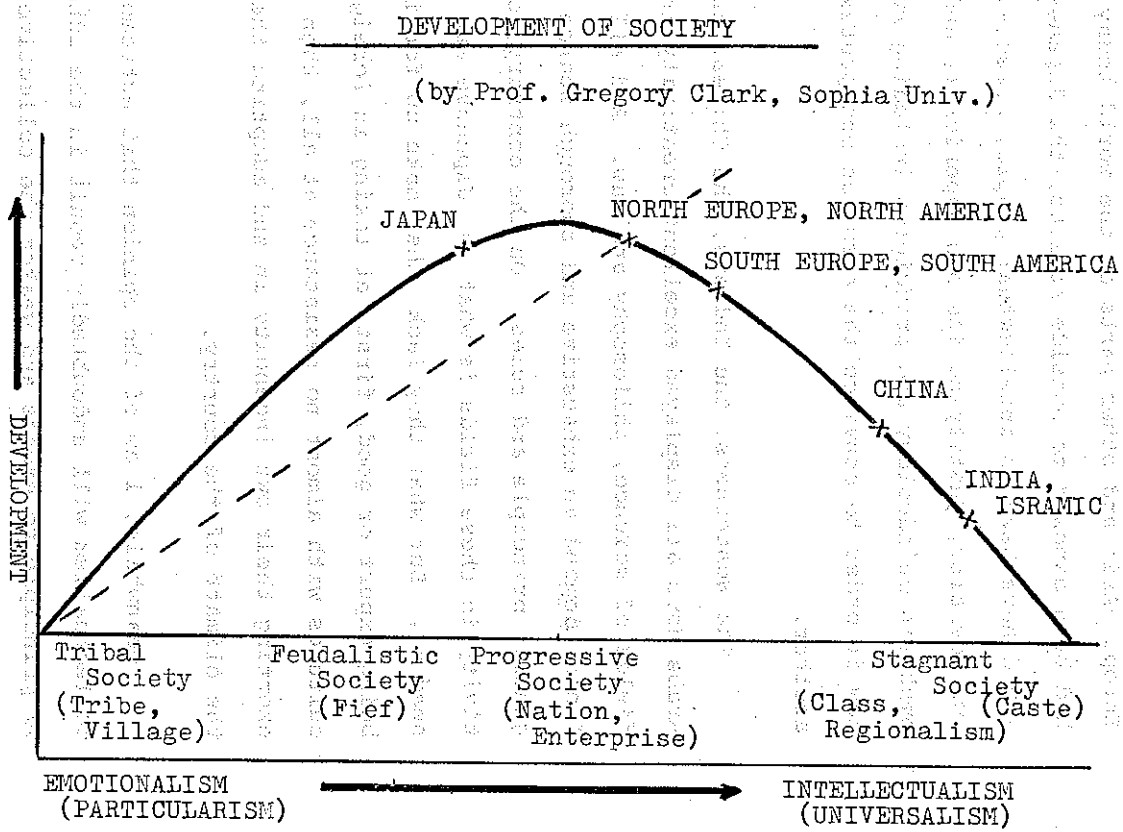
According to Professor Clark, the West Europeans, the Chinese and the Arabs other than the Japanese have preserved their national identity and racial traits while resisting attacks from the outside by an unknown number of enemy since thousands of years. They had come to realize that a family-relations posture of attitude was inadequate to cope with the situation. As a result, society began to function according to ideology and principles of rules and law. Against this, emotional factors which lay stress on family and personal relations held sway over behavior in a large circle such as on a corporate or even on national level because the people of this country had never been exposed to outside attacks until World War II.

Now, if this country had had borders with other countries such as one finds in the continents of

Europe, Asia and other parts of the world today and had been exposed to outside attacks, the Japanese would have been an intellectual people, preserving its own identity, justifying its own superiority and laying emphasis on ideology and principles including rules and law in order to convince the enemy on one pretext or another.

The Westerners, the Indians, the Chinese and the Arabs have all displayed excellent creativity in the fields of science, philosophy and law. And all these fields demand an exhaustive and thorough search of general principle and rules. On the contrary, creativity in these fields is what the Japanese are in need of. But what they lack, they make up for it by being expert or good, first, at taking in foreign cultures with almost no resistance at all, then exerting their own ingenuity in and adapting them to the climate of the country.

Meanwhile, I am of the opinion that extreme intellectualism will undoubtedly result in the adherence to principle to excess and weaken the collective strength of a society, thus, causing it to lose some of its flexibility as a nation.


DEVELOPMENT OF SOCIETY
(by Prof. Gregory Clark, Sophia Univ.)
DEVELOPMENT
JAPAN
NORTH EUROPE, NORTH AMERICA
SOUTH EUROPE, SOUTH AMERICA
CHINA
INDIA, ISRAMIC
Tribal Society (Tribe, Village)
Feudalistic Society (Fief)
Progressive Society (Nation, Enterprise)
Stagnant Society (Class, (Caste) Regionalism)
EMOTIONALISM (PARTICULARISM)
INTELLECTUALISM (UNIVERSALISM)

The graph shown here is one which Professor Clark, whom I earlier introduced you, presented and to which I added some figures.

According to the Social Science of today, the more intellectual the universe is, the faster, the growth of the economy of a nation becomes or the greater the development of a society is.

Professor Clark changed the dotted lines to solid lines in the graph. According to him, economic and social developments of such countries as those in Europe and America, China, India and Islamic nations have reached the peak and are now on the decline.

A primitive tribal society is a totally emotional community of family.

Once science or principle enters into such a society, the society develops rapidly until it reaches a peak at a point of time and then slows down as it becomes universally more intellectual.

I believe that science and contract are essential to social and economic development. Consultations on a person-to-person basis alone are not adequate. But

if one tries to deal with affairs of a society only with the instrument of science or theory or principle or a contract, he will surely run against a snag. Consequently, it is absolutely necessary, up to a point, I think, to appeal to personal relations, especially so in a giant enterprise.

The graph here points to the necessity of we Japanese to follow the mode of behavior in a more intellectual manner.

Now, I think that if the Americans behave emotionally at least to some degree, their economy will no doubt see fresh and increased vitality and the collective strength of the American community intensified.

4. Conclusion

I may have drifted away from the main course of my talks.

Now, what I wanted to show you was the background to the better understanding of how the Japanese would view a contract based on "fair-and-equitable principles", namely, how people here appreciate value and also their historical inevitability.

Both Japan and the United States bear a heavy responsibility to the world at large in the political, economic and cultural sphere. And the importance of cooperation between the 2 economic giants is growing even more. Both are countries, each having a cultural heritage of its own entirely different in nature.

Upon recognizing the differences of culture of the 2 nations and in the way their people appreciate value as they are, I would like to work harder than ever towards furthering mutual understanding between Japan and the United States.

In conclusion, I would like to wind up my talks by saying "do mo arigato go zai mashita" for lending me your ears. Thank you, again.

(Note)

(1) "The pursuit of rights and the performance of duties must be done truly with faithfulness". (Art.1, Sec.2, The Civil Code)

(2) "Advising Japanese Corporation doing business with Americans" (The Business Lawyer, Vol.29, No.3)

(3) "The White House Years" by Dr. Henry Kissinger, published by Little Brown & Co.,.

(4) "Unique Japanese" by Gregory Clark, published by Kodansha.

PIPA Committee #2
American Group
Chairman: W. R. Norris

THE ROLE OF CONTRACTS UNDER AMERICAN LAW AND CULTURE

BY

W. R. Norris
The Dow Chemical Company

Presented
at
The Pacific Industrial Property Association
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AT THE OUTSET I WANT TO THANK AND COMPLIMENT THE JAPANESE GROUP OF PIPA FOR THE SELECTION OF A MOST INTERESTING AND PROFOUND TOPIC. I AM CONFIDENT THAT AS JAPANESE AND AMERICANS COME TO A BETTER UNDERSTANDING OF THE MEANING AND FUNCTION OF CONTRACTS FOR THEIR COUNTERPARTS, COMMERCIAL RELATIONS WILL OPERATE MORE SMOOTHLY AND THE GOOD WILL THAT ALREADY EXISTS BETWEEN AMERICANS AND JAPANESE WILL BE MAINTAINED AND IMPROVED. TO STATE THE THESIS OF MY CONCLUDING REMARKS, THE BETTER AMERICANS ACCOMMODATE JAPANESE ATTITUDES TOWARDS CONTRACTS, AND VICE VERSA, THE BETTER JAPANESE ACCOMMODATE AMERICAN ATTITUDES TOWARD CONTRACTS, THE STRONGER WILL BE THE INTERNATIONAL BRIDGES BETWEEN OUR TWO COUNTRIES.

FOR MY PART, I'M DELIGHTED TO PERSONALLY HAVE THE OPPORTUNITY TO PRESENT THE COMPARATIVE VIEW FROM THE AMERICAN SIDE AND I AM ESPECIALLY INDEBTED TO ICHIMURA SAN AND SHIROTA SAN FOR THE EXCELLENT FOUNDATION THEIR PAPER PROVIDES FOR MY DEPARTURE INTO THIS SUBJECT.

I WILL OPEN MY REMARKS WITH SOME OBSERVATIONS OF LEGAL PHILOSOPHERS AND JURISTS ON THE DEVELOPMENT OF AMERICAN CONTRACT LAW. INTERTWINED WILL BE A LIGHT OVERVIEW OF SOME

OF THE KEY PRINCIPLES OF AMERICAN CONTRACT LAW, WHICH ICHIMURA SAN AND SHIROTA SAN HAVE CORRECTLY IDENTIFIED AS EVOLVING FROM ENGLISH COMMON LAW ORIGINS. MY REMARKS WILL ALSO FOCUS ON THE DIFFERENCES FROM JAPANESE LAW AND CONCLUDE WITH SOME THOUGHTS ON HOW THESE DIFFERENCES MAY BE BRIDGED.

INCIDENTALLY, I LIKE THE ANALOGY OF A CONTRACT TO A BRIDGE. BRIDGES FACILITATE PHYSICAL MOVEMENT FROM ONE SIDE TO THE OTHER OVER SOME KIND OF A DIVIDING NATURAL BARRIER. OBVIOUSLY, IF TWO PERSONS ARE TO BUILD A SINGLE BRIDGE, EACH STARTING FROM OPPOSITE SIDES OF THE DIVIDE, THEY MUST KNOW SOMETHING ABOUT THE PLANS OF THE OTHER PARTY. WHERE HE IS STARTING FROM AND WHERE HE IS GOING IF THE TWO PLANS ARE TO MESH TO PROVIDE A NEW PATHWAY FOR COMMERCE.

IN CONTRACTING EXPERIENCE, IT SOMETIMES OCCURS THAT THE WORD PLANS (CONTRACTS) DO NOT FULLY OR ACCURATELY REFLECT THE INTENTIONS AND EXPECTATIONS OF THE PARTIES. THOUGH THE PARTIES MAY SUBSCRIBE TO WORDS ON PAPER AS THEIR MUTUAL UNDERSTANDING, (MUTUAL ASSENT, MEETING OF THE MINDS, OR MUTUAL CONSENT) SUBJECTIVELY THEY MAY BE CONTEMPLATING ENTIRELY DIFFERENT BRIDGES. WHEN TRAFFIC OF COMMERCE STARTS ACROSS SUCH A BRIDGE, REALITY CONFRONTS THE SUBJECTIVE WITH

INEVITABLE SURPRISE AND DISAPPOINTMENT. THERE ARE A NUMBER OF POTENTIAL CAUSES FOR SUCH A RESULT. THE JAPANESE ARE USUALLY IN A SECOND LANGUAGE AND UNDERSTANDABLY NUANCES MAY BE MISSED. THE AMERICANS, BECAUSE THEY ARE USUALLY IN THEIR FIRST LANGUAGE, MAY BE LULLED INTO ASSUMING MORE HAS BEEN COMMUNICATED THAN IS THE FACT. PERHAPS MOST IMPORTANTLY THERE ARE THE EASILY OVERLOOKED DIFFERING CULTURAL AND LEGAL VIEWS AS TO THE PURPOSE AND EFFECT OF A CONTRACT IN JAPANESE AND AMERICAN CULTURES.

IN PRACTICE, THE PLANNING EFFORT MAY NOT BE TOTALLY WASTED, FOR IT SHOULD BE EASIER FOR AN AMERICAN AND JAPANESE, EACH STANDING ON ITS OWN PARTIAL BRIDGES, TO DEFINE AND COMMUNICATE WITH EACH OTHER ABOUT REMAINING DIFFERENCES THAT SEPARATE THEM. BUT THIS IS A DIFFICULT AND PAINFUL PROCESS AND UNDOUBTEDLY WE ALL ARE AWARE OF CONTRACTS THAT HAVE NOT SURVIVED THIS STAGE.

CONSIDERING ICHIMURA'S REMARKS, I HAVE THE IMPRESSION THAT IF A JAPANESE COURT WERE ASKED TO CONSTRUE A MISALIGNED CONTRACTUAL BRIDGE, IT MIGHT FINISH THE BRIDGE BY APPLYING "FAIR AND EQUITABLE PRINCIPLES"; BENDING THE TWO PARTS OF

THE BRIDGE TOGETHER TO PROVIDE A FUNCTIONAL COMMERCIAL PATHWAY. BY WAY OF CONTRAST, AN AMERICAN COURT WOULD LIKELY TELL THE PARTIES TO "TRY AGAIN" OR AT MOST RESTORE THEM TO THEIR ORIGINAL POSITIONS ON OPPOSITE SIDES OF THE DIVIDE ACCORDING TO AMERICAN/ENGLISH "FAIR AND EQUITABLE PRINCIPLES" OF RECISION AND RESTITUTION. WITHOUT SUFFICIENT GUIDING LANGUAGE PROVIDED BY THE PARTIES, IT WOULD NOT ATTEMPT TO DEFINE THEIR RELATIONSHIP; TO IMPOSE ITS WILL WHERE BY THEORY THE PARTIES' COLLECTIVE WILL SHOULD CONTROL.

WHY IS THIS THE AMERICAN VIEW? WHAT ARE THE EXPECTATIONS OR ROLE OF A CONTRACT IN THE AMERICAN VIEW? WHY ARE "FAIR AND EQUITABLE PRINCIPLES" APPLIED SO DIFFERENTLY UNDER AMERICAN CONTRACT LAW? I DON'T KNOW THAT YOU WILL FIND THESE QUESTIONS ADEQUATELY ANSWERED IN THE FOLLOWING BUT HOPEFULLY A QUICK REVIEW OF SOME OF THE KEY PRINCIPLES AND THEIR PHILOSOPHICAL CONTEXT WILL HELP TO AMPLIFY THE AMERICAN COMPARISON.

PROCEEDING DIRECTLY TO THE QUESTION OF WHAT IS A CONTRACT UNDER THE AMERICAN LEGAL SYSTEM, THE AMERICAN LAW INSTITUTE'S RESTATEMENT OF CONTRACTS(1) DEFINES A CONTRACT AS:

"A PROMISE OR SET OF PROMISES FOR THE BREACH OF WHICH THE LAW GIVES A REMEDY, OR THE PERFORMANCE OF WHICH THE LAW IN SOME WAY RECOGNIZES AS A DUTY".

COMMENTING ON THE SIGNIFICANCE OF A LEGALLY BINDING PROMISE, JUSTICE HOLMES(2) OBSERVED:

"IN THE MORAL WORLD IT MAY BE THAT THE OBLIGATION OF A PROMISE IS CONFINED TO WHAT LIES WITHIN THE REACH OF THE WILL OF PROMISOR . . . THE CONSEQUENCES OF A BINDING PROMISE AT COMMON LAW ARE NOT AFFECTED BY THE DEGREE OF POWER WHICH THE PROMISOR POSSESSES OVER THE PROMISED EVENT . . . THE ONLY UNIVERSAL CONSEQUENCE OF A LEGALLY BINDING PROMISE IS THAT THE LAW MAKES THE PROMISOR PAY DAMAGES IF THE PROMISED EVENT DOES NOT COME TO PASS. IN EVERY CASE IT LEAVES HIM FREE FROM INTERFERENCE UNTIL THE TIME FOR FULFILLMENT HAS GONE BY, AND THEREFORE FREE TO BREAK HIS CONTRACT IF HE CHOOSES".

FOR THE LAW TO REQUIRE OTHERWISE WOULD BE TO MANDATE INVOLUNTARY SERVITUDE WHICH AMERICAN LAW CAREFULLY

AVOIDS IN THE ULTIMATE INTEREST OF PROTECTING INDIVIDUAL RIGHTS. THIS DOES NOT MEAN THAT EQUITY MAY NOT REQUIRE SPECIFIC PERFORMANCE OR THAT SOME RECOGNITION BE GIVEN TO PARTIAL PERFORMANCE BUT THE COURT'S REMEDY DOES NOT COME AT THE TIME, NOR USUALLY IN THE FORM, PROMISED.

LIKE JAPANESE LAW, AMERICAN LAW REQUIRES MUTUAL ASSENT OF THE PARTIES TO THE FORMATION OF ENFORCEABLE CONTRACTS, BUT UNDER AMERICAN LAW GREATER EMPHASIS IS PLACED ON REQUIRING THE MUTUAL ASSENT TO BE MANIFESTED OVERTLY BY ONE PARTY TO THE OTHER. WILLISTON(3) OBSERVED:

> "THAT THE FUNDAMENTAL BASIS OF CONTRACT IN COMMON LAW IS RELIANCE ON AN OUTWARD ACT (THAT IS, A PROMISE) IS SHOWN BY THE EARLY DEVELOPMENT OF THE LAW OF CONSIDERATION AS COMPARED WITH THAT OF MUTUAL ASSENT".

IN OTHER WORDS, THE MEETING OF THE MINDS OF THE PARTIES IS PRESUMED FROM OBJECTIVE MANIFESTATIONS OF AGREEMENT. THIS MAY PARTIALLY EXPLAIN WHY AMERICANS TEND TO PUT MORE WORDS IN THEIR CONTRACTS. IF IT IS NOT WRITTEN, OR OTHERWISE OVERTLY MANIFESTED, THE COURTS WILL NOT LOOK INTO THE MINDS

OF THE PARTIES. THUS AMERICANS TRY TO ANTICIPATE ALL SITUATIONS THAT MAY ARISE DURING THE LIFE OF A CONTRACT. IF THEY ARE EVER TO SEEK THE AID OF A COURT IN PROTECTING THEIR BARGAIN, THE COURT MUST SEE SOME WORDS DEALING WITH THE SUBJECT. THIS IS NOT TO SAY MANY TERMS MAY BE IMPLIED OR IMPOSED AS WE SAY AT "LAW OR IN FACT" BUT CLEARLY AMERICAN COURTS ARE RELUCTANT TO ENTER THE RELATIONSHIP IN AREAS WHERE THE PARTIES THEMSELVES HAVE NOT PROVIDED GUIDANCE.

KESSLER(4) SUMMARIZES THIS POINT AS FOLLOWS:

> "EXCEPT FOR ACCORDING PROTECTION AGAINST FORCE AND FRAUD, IT IS NOT THE FUNCTION OF COURTS TO MAKE CONTRACTS FOR THE PARTIES OR TO STRIKE DOWN OR TAMPER WITH IMPROVIDENT BARGAINS. COURTS HAVE ONLY TO INTERPRET CONTRACTS MADE BY THE PARTIES; THEY DO NOT MAKE THEM. THIS ATTITUDE IS IN KEEPING WITH LIBERAL SOCIAL AND MORAL PHILOSOPHY ACCORDING TO WHICH IT PERTAINS TO THE DIGNITY OF MAN TO LEAD HIS OWN LIFE AS A REASONABLE PERSON AND TO ACCEPT RESPONSIBILITY FOR HIS OWN MISTAKES".

THE PROVISION MENTIONED BY ICHIMURA SAN AND SHIROTA SAN AS BEING COMMON TO JAPANESE CONTRACTS TO THE EFFECT THAT "THE FIRST AND THE SECOND PARTY WILL CONSULT WITH EACH OTHER IN GOOD FAITH ON MATTERS NOT SET FORTH IN THE CONTRACT WHENEVER THE OCCASION CALLS FOR OR WHEN DOUBTS ARISE AS TO THE INTERPRETATION OF ITEMIZED FACTS IN THE CONTRACT AND REACH A SETTLEMENT" WOULD LIKELY BE CONSIDERED ILLUSORY AND UNENFORCEABLE UNDER AMERICAN LAW. AS I'VE ALREADY MENTIONED, THE EMPHASIS IN AMERICAN LAW IS UPON THE "BARGAIN" AS MEASURED BY OBJECTIVE WRITTEN PROMISES. THIS CONTRASTS WITH THE APPARENTLY SUBJECTIVE ATTITUDE OF JAPANESE COURTS WHICH FOCUS ON THE TOTAL RELATIONSHIP OF THE PARTIES SUBJECTIVE AS WELL AS OBJECTIVE. I DO NOT WISH TO INTIMATE WHICH APPROACH IS BEST. I THINK WE SHOULD ACCEPT THE PRACTICAL PREMISE THAT WHAT WORKS FOR JAPANESE IS GOOD FOR THEM AND WHAT WORKS FOR AMERICANS IS GOOD FOR THEM. THE AMERICAN VIEW ON THE ROLE OF CONTRACTS IS WELL SUMMARIZED BY KESSLER:

> "CONTRACTUAL LIABILITY IS PROMISSORY LIABILITY. IN AN INDUSTRIAL AND COMMERCIAL SOCIETY, WHERE WEALTH IS LARGELY MADE BY PROMISES, THE INTEREST OF SOCIETY AS A WHOLE DEMANDS PROTECTION OF THE INTEREST OF THE INDIVIDUAL PROMISEE".

THUS, TO SUMMARIZE TO THIS POINT, IT IS CLEAR THAT PERSONS HAVING THE REQUISITE CAPACITY MAY ENTER INTO BINDING CONTRACTS. IT IS NECESSARY, HOWEVER, THAT THE WILLS OF THE PARTIES TO THESE CONTRACTS BE OVERTLY AND OBJECTIVELY MANIFESTED. COURTS WILL ENFORCE SUCH PROMISES, USUALLY BY GIVING A REMEDY IN DAMAGES, BUT THEY WILL NOT HELP THE PARTIES TO DEFINE THE RELATIONSHIP WITHOUT SOME GUIDANCE.

WHILE ORAL CONTRACTS MAY BE ENFORCEABLE UNDER AMERICAN LAW, THE STATUTE OF FRAUDS BORROWED FROM ENGLISH LAW AND INCORPORATED INTO THE LAWS OF MOST STATES REQUIRES MANY CONTRACTS BE IN WRITING AND SIGNED BY THE OBLIGATED PARTY. THIS STATUTE WHICH WAS ORIGINALLY ENACTED BY THE ENGLISH PARLIAMENT IN THE YEAR 1677, TO CURTAIL THE FRAUDULENT ASSERTION OF CONTRACTS REQUIRES IN PERTINENT PART THAT:

> "NO ACTION SHALL BE BROUGHT . . . UPON ANY CONTRACT THAT IS NOT TO BE PERFORMED WITHIN THE SPACE OF ONE YEAR FROM THE MAKING THEREOF, UNLESS THE AGREEMENT UPON WHICH SUCH ACTION SHALL BE BROUGHT, OR SOME MEMORANDUM OR NOTE THEREOF SHALL BE IN

WRITING AND SIGNED BY THE PARTY TO BE CHARGED THEREWITH, OR SOME OTHER PERSON THERE UNTO BY HIM LAWFULLY AUTHORIZED".

FOLLOWING FROM THE REQUIREMENT THAT MANY CONTRACTS BE IN WRITING, AMERICAN LAW HAS EVOLVED AN EVIDENTIARY PRINCIPLE CALLED THE "PAROL EVIDENCE RULE". THIS RULE IS A PRODUCT OF COURT DECISIONS, WHICH YOU MUST BE WARNED ARE NOT ALWAYS CONSISTENT IN THEIR APPLICATION OF THE PRINCIPLE. THE PAROL EVIDENCE PRINCIPLE MAY BE GENERALLY STATED AS FOLLOWS:

"WHEN THE TERMS OF A CONTRACT HAVING BEEN EMBODIED IN A WRITING TO WHICH BOTH PARTIES HAVE ASSENTED AS A DEFINITE AND COMPLETE STATEMENT THEREOF, PAROL EVIDENCE OF ANTECEDENT AGREEMENTS, NEGOTIATIONS, AND UNDERSTANDINGS IS NOT ADMISSABLE FOR THE PURPOSE OF VARYING OR CONTRADICTING THE CONTRACTS SO EMBODIED".(5)

THE RULE FOLLOWS FROM THE IDEA OF "INTEGRATION" OF THE FULL AGREEMENT BETWEEN THE PARTIES INTO THE WRITTEN

DOCUMENT. IN AMERICAN CONTRACTS YOU WILL OFTEN FIND AN "INTEGRATION" CLAUSE, SOMETIMES ENTITLED "ENTIRE AGREEMENT" BY WHICH THE PARTIES TRY TO ASSURE APPLICATION OF THE PAROL EVIDENCE RULE. THESE CLAUSES READ SOMETHING LIKE:

> "THIS AGREEMENT CONSTITUTES THE ENTIRE UNDERSTANDING BETWEEN THE PARTIES AND SHALL NOT BE MODIFIED IN ANY RESPECT EXCEPT BY FURTHER AGREEMENT IN WRITING AND SIGNED BY THE PARTIES HEREUNTO".

IT WOULD BE AN INTERESTING QUESTION IF A CONTRACT TURNED UP WITH BOTH THE JAPANESE "GOOD FAITH" CLAUSE AND THE AMERICAN "INTEGRATION" CLAUSE. AN AMERICAN COURT WOULD PROBABLY CONCLUDE THAT THE PARTIES HAD NEVER HAD A "MEETING OF THEIR MINDS", BUT IF I HEARD ICHIMURA SAN CORRECTLY, A JAPANESE COURT WOULD LOOK ALSO INTO THE SUBJECTIVE RELATIONSHIP OF THE PARTIES AND PERHAPS FIND A BASIS FOR A CONTINUING RELATIONSHIP.

ONE FACET OF AMERICAN CONTRACT LAW WE SHOULD TAKE NOTE OF IS THE REQUIREMENT OF CONSIDERATION. THIS IS AN INTERESTING SOMETIMES THORNY LEGAL PREREQUISITE FOR A LEGALLY ENFORCEABLE CONTRACT. EVOLVING FROM A MERE HISTORICAL

FORMALITY, THE DOCTRINE HAS COME TO HAVE SUBSTANCE AS AN INSTRUMENT OF COURT CONTROL OVER WHAT CONTRACTS ARE TO BE ENFORCED. FOR SIMILAR CONTROL PURPOSES, AMERICAN COURTS HAVE EVOLVED DOCTRINES TO GUIDE THEMSELVES IN INTERPRETING CONTRACTS. THESE COURT DEVELOPED DOCTRINES, ALONG WITH THE RECENT EXPLOSION IN SOCIAL LEGISLATION DIRECTLY IMPACTING FREEDOM TO CONTRACT, ARE PRODUCING WHAT KESSLER CALLS A "COUNTERCURRENT" TO THE FREEDOM OF INDIVIDUAL WILL IN CONTRACTS. IN EFFECT, AMERICAN CONTRACT LAW, ONCE ALMOST THE SOLE PREROGATIVE OF INDIVIDUALS HAS INCREASINGLY BECOME A SOCIAL INSTITUTION.

COHEN AND COHEN(6) OBSERVED THAT:

> "A CONTRACT IS INDEED AN ACCORDIAN WORD. ITS SHAPE WILL DEPEND, AT ANY MOMENT, UPON THE TUNE THAT SOCIETY IS PLAYING. THIS MEANS, TO THE PRACTICING LAWYER OR JUDGE, THAT SURROUNDING CURRENTS OF THOUGHT MAY ILLUMINE THE DAILY PROBLEMS OF CONTRACT LAW. IT ALSO MEANS, TO THOSE WHO WONDER ABOUT THE PATHS OF HISTORIC DESTINY, THAT WHAT HAPPENS IN LAW COURTS AND LEGISLATURES WITH

RELATION TO CONTRACTS MAY THROW IN BOLD RELIEF THE PROFILES OF OUR SOCIETY AND OUR GENERATIONS".

THESE OBSERVATIONS COME MOST FORCIBLY INTO PLAY IN AREAS OF PUBLIC LAW, SUCH AS THE UNITED STATES ENVIRONMENTAL, PUBLIC SAFETY, LABOR, ANTITRUST, TAX, TRADE AND UNFAIR COMPETITION LAWS. MR. DREYFUS DISCUSSED ONE SUCH AREA EARLIER. AS THESE LAWS AND DOCTRINES HAVE EVOLVED IN OUR LEGISLATURES, ADMINISTRATIVE AGENCIES AND COURTS, THE SPHERE IN WHICH THE WILL OF THE PARTIES IS TOTALLY FREE TO DETERMINE THE CONTRACTUAL RELATIONSHIP HAS GROWN SMALLER. IN NEARLY EVERY ASPECT OF TECHNOLOGY TRANSFER TODAY, THE PARTIES FACE LIMITING REGULATION BY LAW, ADMINISTRATIVE FIAT, AND CUSTOM.

I SHOULD HASTEN TO ADD THERE IS A POLITICAL VIEW GAINING SUPPORT IN THE UNITED STATES THAT GOVERNMENT INTERFERENCE IN THE PRIVATE SECTOR HAS GONE TOO FAR. SUCH AN ATTITUDE IS REFLECTED FOR EXAMPLE, IN THE SO CALLED "SUNSET PROVISIONS" BY WHICH ADMINISTRATIVE OR REGULATORY AGENCIES MUST JUSTIFY THEIR EXISTENCE BEFORE CONGRESS IN ORDER TO GAIN NEW APPROPRIATIONS FOR THEIR FUNCTIONS. NEVERTHELESS, AMERICANS, AND I'M SURE THOSE WHO ARE OUTSIDE LOOKING IN MUST EVEN MORE SO, FIND THE EXTENT AND RATE OF THE DEVELOPMENT OF THESE IMPINGING LAWS COMPLEX AND PERPLEXING.

In concluding, I don't think the natural barrier to contractual bridges between Americans and Japanese is really as wide as the Pacific Ocean. As a practical matter, American businessmen and their legal advisors understand that agreements must have something in them for both parties; if the relationship is to be really productive. To be sure, questions will arise about what ought to be adequate incentive for the other party but there are few international businesses today that operate for the short term alone. Above all, Americans, like Japanese, place great importance upon honor and integrity.

While individual variations in approach are infinite, there are some general principles which underlie the successful building of Japanese-American contractual bridges. In terms of ultimate objectives, I think the parties should seek mutually practical economic solutions to be tempered in implementation with concepts of equity and fairness. Some false starts and disagreements may be encountered but patience and care in communications will help to minimize these. As we say, where there is a will, there ought to be a way.

WE ARE ALL AWARE THAT GAMESMANSHIP IS OFTEN INVOLVED IN CONTRACT NEGOTIATIONS. WHILE IT IS UNREALISTIC TO EXPECT TO ELIMINATE THIS ASPECT OF THE BARGAINING PROCESS, WE AS ADVISORS CAN HELP TO GUIDE THE NEGOTIATING PROCESS TO A FRUITFUL CONCLUSION BY THE DEVELOPMENT AND APPLICATION OF PROFESSIONALISM. AS PROFESSIONALS WE ACCEPT THE POSITION AND STARTING PREMISES OF OUR COUNTERPARTS TO CONTRACT NEGOTIATIONS. WE RECOGNIZE THAT WE ARE, AS ARE OUR COUNTERPARTS, PRODUCTS OF DISTINCT CULTURES, EACH TO ITS OWN JUST AND RIGHT. WE KNOW THE OTHER TO BE TECHNOLOGICALLY AND LEGALLY SOPHISTICATED. WHILE EACH OF US PRESENTS AN OBJECTIVE FRONT, WE RECOGNIZE TOO THERE IS A SUBJECTIVE (EMOTIONAL) SIDE TO THE NEGOTIATING PROCESS. WHILE KEEPING THESE CHARACTERISTICS IN MIND WE CAN MAINTAIN THE DESIRE AND ABILITY TO WORK TOGETHER TO EFFECT OUR COMMON INTERESTS. AS WE APPROACH CONTRACTUAL RELATIONSHIPS FROM THESE PERSPECTIVES AND WITH OPEN, HONEST AND CONTINUING DIALOGUE, WAYS WILL BE FOUND TO PLAN AND BUILD STRONG BRIDGES FOR PATHWAYS OF COMMERCE BETWEEN OUR TWO COUNTRIES.

MY COMPLIMENTS AGAIN TO OUR GRACIOUS HOSTS AND THE OPPORTUNITY TO PRESENT THESE THOUGHTS.

THANK YOU.

W. R. NORRIS

(1) American Law Institute, Restatement of Contracts Section One.

(2) Holmes, "The Common Law", 1881, pp. 298-303.

(3) Williston, "The Law of Contracts" vol. 1, chap. 3, Baker, Voorhis and Cole, 1936, p. 40.

(4) Kessler, "Contract As a Principle of Order", extracted from Kessler and Sharp, "Cases on Contracts" University of Chicago 1950, pp. III-XVI.

(5) Corbin, "Corbin on Contracts", West Publishing Co., 1951.

(6) Cohen and Cohen, "Readings in Jurisprudence and Legal Philosophy", Prentice-Hall, 1959.

PIPA Committee No. 2
Japanese Group

Employee's Invention and its License in Japan

by

Hiroshi Koseki
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SUMMARY

In Japan the Patent Law determines the basic concept of employee's invention and such invention is the prerequisite for licensing.

This report discusses the concept of employee's invention as accepted in Japan and the remunerations paid for the invention, as well as the relation between employee's invention and license.

According to the work regulations or the rules for handling the employee's invention, the employer is entitled to have the right to obtain patent on the employee's invention assigned to them from the employee, or to have an exclusive license granted. On the other hand, the employee has a right to receive from the employer a reasonable sum as remuneration. Generally, remunerations are paid upon filing of applications, their registrations and for actual profits arising therefrom. Actual manner of payment or amounts paid are determined by the management policy of individual companies.

I shall discuss the above points giving actual illustrations.

Employee's Invention and its License in Japan, Mainly on Compensation

1: Introduction

Licensing is a link in the strategy of an enterprise while the employee's invention which is a prerequisite for such licensing forms the foundation for the license.

The employee's invention in Japan is interpreted according to the Japanese Patent Law, and it functions as a link of the business activities of companies. Companies usually pay compensations to the employees for the inventions they make, but there are influential opinions prevailing in some quarters that payment of such a compensation is not necessary.

I understand that in the United States there is an inclination toward enforcing the compensation for the employee's invention by the law. I consider it most timely, therefore, to be given an opportunity to introduce to you and discuss this subject of the employee's invention.

2: Historical Development Concerning Employee's Invention in Japan

In 1871 the Japanese government enacted rules concerning patents for the first time. This marked the first step in the history of Japanese Patent Law. It was at this time that the whole country was striving hard to become a modern state as its door was opened to the rest of the world in 1853 by U.S. Commondore Perry (the era of Meiji Restoration). Since the industries at that time were naturally not sufficiently developed, only very few number of patent applications were made under the regulations which I mentioned just now.

In 1909, the Patent Law was amended to include for the first time a provision concerning the employee's invention. The outline of the provision read as follows:

(1) The inventions made in the course of the inventor's duties or under contract belong to the employer.

Another revision was made in 1921 to the Patent Law which radically changed the handling of the employee's invention. In sum, the revised provision read;

(1) the invention made by an officer of a company or its employee during the course of his business belongs to the inventor as a rule. In this case, the company (the employer) shall have a license under the invention;

(2) concerning the invention mentioned in the preceding section, the company (employer) may have a right to obtain the patent passed to them under the work regulations or a contract. In this case, the company (employer) must pay compensation to the said inventor.

Further amendment to the provision concerning the employee's invention was made in 1959. It was identical in its principle to the law of 1921.

The law concerning the employee's invention which is effective today has carried over the spirit of the law of 1959.

3: Fundamental Concept of Employee's Invention in the Prevailing Japanese Patent Law

(1) Re Japanese Patent Law, Article 35, "Employee's Invention"

Article 35 of the Patent Law stipulates rules about the employee's invention. They make adjustments of the interests of the employer and the employee concerning the employee's invention.

The employee's invention is defined so as to satisfy following conditions.

(a) The nature of the invention is such that it belongs to the scope of the business of the employer involved.

(b) The activities which lead to making of the invention belongs to the present or the past scope of duties of the employee, etc.

as employed by the employer.

The above conditions are rather widely interpreted in Japan.

Generally in the Japanese companies, not only the researchers who are given a specific research theme but also the employees of all the sections are expected to make improvements in their duties. Accordingly, we might say that quite a number of cases are recognized as being the inventions made in the course of their duties. Japanese court holds the same view. (Please see Attachment 1.)

The term "past" as used in "the present or the past scope of duties" means the time before the employee transferred to a different section within the same company. The time before an employee relocates himself to another company is not applicable. Since most of the Japanese companies follow the employment-for-life system, there are hardly any cases where the matter has been formally contested at the court. This is quite different from the United States where you have many decisions on the trailing clause.

I would now like to discuss the concepts of the inventions other than the employee's invention.

(1) (a) Invention in Service: The invention falling within the scope of the business of the employer other than the employee's invention. In practice it would be difficult to determine whether an invention is an employee's invention or an invention in service, so that the employer is usually informed and the approval obtained as in the case of the employee's invention.

(b) Free Invention: Those inventions not falling within the scope of the business of the employer.

(2) Rights and License of Employer and Employee: I shall now discuss the rights and license of the employer and the employee concerning the employee's invention.

Employer: By the contract with the employee or by the work regulations, the employer may have

the right to obtain patent passed to them from the employee or have the exclusive license granted to them. However, if such a contract or work regulation does not exist, the said invention belongs to the inventor. When the inventor obtains a patent, the employee shall have a non-exclusive license under the said patent. This is called Shop Right in U.S.A.

Employee: The employee shall have the inherent right to obtain patent in respect of the employee's invention as a rule. However, when the employee passes the said right to obtain patent to the employer or he must grant an exclusive license thereunder because of the contract or the work regulations, he must do so. The employee, however, has a right to receive a reasonable consideration.

I shall now discuss reasons for the provisions I just mentioned.

(a) The employer offers facilities, materials, etc. required for the pursuance of the employee's duties, pays the employee his salary and contributes to the completion of the invention. In the course of performing his duties for the industry, the employee absorbs knowledge and obtains information for completing the invention.

(b) While the employer contributes in the way I just noted, the employee is the person who actually completes the invention, and the invention is substantially the result of the employee's intellectual creative activities.

The court shows its views on this point as shown in Attachment 2.

4: Actual Situation Prevailing in the Japanese Industry Concerning Employee's Invention

(1) Work Regulations
There are two general rules which provide for passing in advance the employee's invention from the employee to the employer.

(1) Work Regulations
(2) Rules for Handling of Employee's Invention

I shall first take up (1) Work Regulations.

Work regulations are quite basic rules which stipulate the general conditions of work to be conducted by employees, and they may be called a kind of labor contract. Accordingly, these rules often become the subject of negotiations between the employer and the labor union. The court's view on the work rules is given in Attachment 3.

So long as these work regulations contain a provision about the employee's invention which stipulates that an employee must assign in advance to the employer the right to obtain patent, the employee can not refuse the assignment of such a right.

United States differs from Japan in the point that the disposal of the employee's invention is determined in the individual employment contract entered by the employer and the employee.

(2) Rules for Handling of Employee's Invention
The rules concerning handling of employee's invention determine the concrete procedures for the assignment of the right involving the employee's invention from the employer to the employee. In the usual case, these rules comprise the following.

(a) Definition of employee's invention
(b) Definition of employee (including officer)
(c) Report and recognition of the employee's invention and other inventions
(d) Obligation to assign the right to obtain patent for the employee's invention to the employer
(e) Procedures for the report and the assignment
(f) Remuneration to the employee
(g) Others

According to the survey conducted in 1979 by Japan Institute of Invention & Innovation, 418

companies (or 73%) out of the 571 manufacturing companies in Japan have said rules, while 153 (or 23%) do not have such rules.

Of the companies which said that they have such rules, listed the following as being subject to the regulations concerning the employee's invention.

1.	Officer	331 companies	(79%)
2.	Supervisory position	406 "	(97%)
3.	Researcher	407 "	(97%)
4.	General clerical staff	350 "	(73%)
5.	Factory worker	377 "	(90%)
6.	Council	236 "	(56%)
7.	Non-regular staff	269 "	(64%)
8.	Part-timer	66 "	(16%)
9.	Others	37 "	(9%)

5: Remuneration

Article 35 of the Japanese Patent Law stipulates that an employee who has assigned his invention to the employer is entitled to a remuneration paid by the employer.

In the actual practice, the management policies of the company involved would decide the manner and the amount of remuneration. But the usual practice is to pay a certain amount of remunerations when the application is filed, is registered, and/or accrues some actual profits. (Please refer to Attachment 4.)

Following are the results of the survey conducted by Japan Patent Association in 1977.

(a) Remuneration paid at the time the application is filed or laid open:

Type of Industry	Average Amount
Metals & machineries	¥3,500
Electricity & machineries	¥2,400
Chemicals	¥4,300
	(288 respondents)

(b) Remuneration paid at the time the application is published or registered

Type of Industry	Average Amount
Metals & machineries	¥10,300
Electricity & machineries	¥6,500
Chemicals	¥10,000

It is also usual for the employer to pay the remuneration for the actual achievement when the employer practices the invention involved, and/or receives the fee for a license to a third party. The amount and the manner determining the amount to be paid vary radically depending on the individual company. Generally speaking, some companies set the upper limit on the amount to be paid, while the others do not set any limit. Personally, I think that setting the upper limit to the remuneration might be construed as violating Article 35 of the Patent Law. The recent trend in the licensing practice is cross-licensing a plurality of rights inclusively. In this case, it would be extremely difficult to evaluate the actual achievement made by any one right. This poses a future problem in paying the remuneration based on the actual profits.

On the other hand, there is a leading opinion prevailing in Japan that there is no need for paying remuneration. The rationale given for this opinion is this.

"For an employee whose duty at work is to conduct research, making an invention is quite natural. Since he is paid wages for such a work, there is no need to pay remuneration separately."

In such a company, no remuneration is paid. Instead, they seem to pay considerations in such a way that his business achievements are sufficiently reflected on the speed of his promotion and on the bonus he recieves.

6: System of Remuneration within the Japanese Government

There are two kinds of remunerations for any employee inventions assigned to the state by the

government public officials.

(1) Remuneration upon registration: To be paid when the patent issues.

(2) Remuneration upon licensing: To be paid when the state makes any income by operation or disposal of such a right.

The amounts provided for the above remunerations are :

(1) Remuneration for registration: ¥6,000 per one right. Provided, however, if one right covers more than 2 inventions, additional ¥3,000 is paid in respect of one invention.

(2) Remuneration for practice:

Income of the state	Remuneration paid
Below ¥300,000	the income x 30/100
Amount exceeding ¥300,000	(income - ¥300,000) x 20/100 + ¥90,000
Amount exceeding ¥500,000	(actual income-¥500,000) x 10/100 + ¥130,000
Amount exceeding ¥1,000,000	(actual income-¥1,000,000) x 5/100 + ¥180,000

Income of the state is the sum accruing from the said invention for the period starting on January 1 and ending on December 31 every year.

Provided, however, there is an upper limit set on the total sum of the remuneration for registration and the remuneration for practice in the following way.

"The sum of remuneration for registration and that for license to be paid to one official should not exceed ¥2,000,000."

However, as I mentioned earlier, setting such an upper limit may be held as violating Article 35 of the Patent Law.

7: Relation between Employee's Invention and Licensing

Following two instances are conceivable as concerning the employee's invention and licensing:

1) When the inventor grants a license for his invention to an enterprise:
In the case where no work regulations or rules concerning handling of employee's invention exist, there is not necessarily a need for an inventor to assign his invention to the company. Accordingly, if the company absolutely requires the invention made on service (including employee's invention) or free invention, the company must satisfy itself by having a license from the inventor, while the inventor receives a reasonable remuneration. In most of the enterprises, the remuneration paid is a set amount with an upper limit and this is most certainly to be held as violating Article 35 of the Japanese Patent Law.

2) When the company grants a license to a third party:
When we examine the individual cases where the remuneration is paid to the inventor for a license granted by the company to a third party, there are; 1) this is included and treated equal as when the company practices the invention, 2) although limited to a few examples, the two cases are distinctively distinguished from each other, and 3) exceptional cases where no remuneration is paid to the inventor even when the license is granted to a third party.

The recent trend in the licensing practice is quite complex as where the cross licenses are involved. I would say that the inventor should be given a reasonable reason if he is to receive no remuneration for the license granted to a third party on his invention.

Attachment No. 1

Tokyo District Court, 1963:

"The case where the act which led to making an invention belongs to the duties of the inventor is not to be limited to the instance where he had been specifically ordered by the company to make an invention, or where he had been given a concrete project, but it should be interpreted as including the case where the contemplative activities which brought about the completion of the invention were expected of the employee judging from the result."

Tokyo High Court, 1967:

"An invention made by a person occupying a post of an officer in charge of technical matters of a company should be considered as an act falling within the scope of the official duties even without an order or instruction to make such an invention."

Attachment No. 2

Tokyo District Court, 1959:

"In the case where the study concerning the invention had been consigned, the wages therefor paid, the materials and the mechanical facilities required for the research offered, and the expenses for auxiliary costs paid, the employer may file a patent application for the invention jointly even if there is no explicit provision in the contract concerning the right to the invention made by the employee."

Attachment No. 3

Supreme Court, 1965:

"The work regulations which provide the definite form of the labor conditions have a character of being a kind of social norm. And so long as they provide the reasonable conditions for the labor, there accrues a legal binding force assuming that there exists a labor practice between the employee and the employer.

Accordingly, so long as the content of the work regulations remain reasonable, the employees can not reject the content of the regulations irrespective of the fact that whether individual employee is well aware of the content or not or whether the employees individually agreed to these regulations or not."

Attachment No. 4

Examples of Remunerations:

Company A

Remuneration paid upon filing;

Patent application	¥3,000
Utility model application	¥1,500
Design application	¥1,500

Remuneration paid upon registration;

Patent	¥4,000
Utility model	¥2,000
Design	¥2,000

Remuneration paid upon actual profits (for 5 years)

Maximum	No upper limit
Minimum	¥10,000

Remuneration is paid even for cross licenses.

Company B

Invention for which no application has been filed; ¥1,000

Remuneration paid upon filing;

Patent	¥3,000
Utility model	¥3,000

Remuneration paid upon registration;

Patent) Utility model)	¥5,000 or ¥3,000

Remuneration for company's own use (for 1 year);

Maximum	¥200,000
Minimum	¥6,000

Remuneration for license (for income from license for 1 year);

Maximum ¥300,000
Minimum ¥6,000

As a rule, 3% of the license fee is paid.
Remuneration is paid for cross licenses.

Company C

Remuneration paid upon filing;

Patent application
Utility model application ¥4,000 + α
Design application ¥3,000

Remuneration paid upon registration;

None

Remuneration paid upon actual profits;

Maximum ¥1,700,000
Minimum ¥20,000

Company D

Remuneration paid upon filing;

Patent application ¥6,000 or less
Utility model application ¥3,000 or less
Design application ¥2,000 or less

Remuneration paid upon registration;

Patent ¥9,000 or less
Utility model ¥4,500 or less
Design ¥2,500 or less

Remuneration paid upon actual profits;

Special class	No upper limit
1st class	¥300,000
2nd class	¥150,000
3rd class	¥50,000

To be paid upon 5th year from the publication date and 5th year from the registration date.

EMPLOYER-EMPLOYEE INDUSTRIAL PROPERTY RIGHTS IN THE UNITED STATES

by James R. Frederick, Attorney
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Eastman Kodak Company

Presented at The Pacific Industrial Property Association, Eleventh Congress, Tokyo, Japan
October 23, 1980

EMPLOYER-EMPLOYEE INDUSTRIAL PROPERTY RIGHTS IN THE UNITED STATES

The United States has no statutory counterpart to Article 35 of the Japanese Patent Law. The respective rights, with regard to industrial property, of the employer and the employee in the United States are determined by prior express agreement or contract, or in the absence of such, by court-made law.

Firstly, let us consider the situation where there is no employment contract. The rights of the respective parties vary with the facts. The most common factual situation is where the employee is a technical person who is employed to carry out research and development work in the employer's work place. Even in the absence of an employment contract providing for industrial property rights, where the employee is employed to invent, titles to inventions made by the employee belong to the employer. Where the express purpose of the employment is to use the inventive facilities of the employer to exercise the employee's inventive faculties for the employer's benefit, it is clear cut law in the United States that there is an implied agreement to assign any invention made by the employee to the employer--in the absence of an express contractual arrangement to the contrary.

With regard to an employee who is not specifically hired to invent, and there is no employment contract providing for industrial property rights, the employer may or may not obtain industrial property rights, depending upon the facts. Generally speaking, if the employee developed an invention during working hours, and utilized the employer's facilities and materials, certain patent rights flow to the employer

with regard to any invention made. In such a factual situation, the employer would obtain an irrevocable, non-exclusive, non-transferable, free license to use the subject matter of any patent that the employee may acquire. In the United States this is commonly referred to as a "shop right".

Shop right is an equitable right that the employer obtains. For a shop right to exist there must be an employer-employee relationship. The right that flows to the employer is non-exclusive. The title to the patent rests in the employee and he may license such right to third parties. Thus, shop rights are not always desirable to an employer as he does not have exclusivity. Under the shop right concept in the United States, the employer is not obliged to compensate or pay royalties to the employee inventor, there being no statutory or common law requiring such. A shop right is personal to the employer and it cannot be transferred or licensed to a third party by the employer. The courts, however, have held that shop rights pass to successor organizations of the employer.

Brief mention might be made of the history of shop right in the United States to illustrate that it is a long standing concept in U.S. jurisprudence. As early as 1825 (this being very early in U.S. judicial history), the concept of shop rights was acknowledged in Pennock v. Dialogue (19 F. Cas. 171, E.D. Pa. 1825). In this early U.S. case, an irrevocable, royalty free license flowed to the employer for an employee's invention made in the course of his employment. However, in the Pennock case, one of the criteria

for the shop right was that the invention be made public prior to the employer's use. This requirement for prior public disclosure to obtain a shop right was dropped in a later 1843 case, McClurg v. Kingsland (1 Howard 202).

In summary, "shop right" is an equitable right which compensates the employer for his contribution to the employee's invention, and is created by operation of law. An employer-employee relationship, and development of the invention during hours of employment at the employer's expense are conditions which are requisites for a shop right. Of course, even if an employer has a shop right to an invention, such would not preclude the employee-inventor from granting to the employer greater rights, including full title to the invention.

A relationship of employer-employee per se does not create a shop right for all inventions made by the employee. If the invention was made by the employee at his own expense and away from the work place, it is quite clear that the employee has all rights in any invention that he might make--in the absence of an express agreement to the contrary.

There, of course, are numerous hybrid factual situations which have been resolved by the courts as to whether or not a shop right is involved. For example, in one case the employee conceived an invention at home, showed it to his employer, and subsequently used the employer's facilities to make the device on the employer's time. In this instance it was held by the court that a shop right did exist. What about the non-existence of a direct employer-employee relationship as in the case of an employee of a foreign subsidiary

working temporarily in the U.S. and not included on the U.S. company's pay roll? While there are no cases directly in point, the courts could very well find that there can be no shop right flowing to the U.S. "employer" because of the lack of an employer-employee relationship. The courts have also held that if an employment contract provides for royalties to an employee for inventions, there can be no shop right, the employee having title to the invention.

Most U.S. companies utilize written employer-employee agreements to clarify the rights of the respective parties. U.S. courts are reluctant to imply an agreement on the part of an employee to assign patent rights to an employer, an express agreement of such usually being required. There is no statutory provision in the United States against employer-employee agreements dealing with ownership of present or future industrial property rights.

Generally, employer-employee contracts concerning industrial property matters provide for an agreement to assign future inventions made during the course of employment. Such contracts are strictly construed by the courts. The field or subject matter of such contracts must be restricted to what is reasonably necessary for the protection of the employer's business. Employer-employee contracts containing provisions extending beyond the termination of an employment ("hold-over" clauses) have been held to be enforceable and not an unreasonable restraint of trade for inventions conceived during the employment and based on the employer's confidential information. Hold-over clauses in employment contracts are enforceable only if they

constitute a reasonable and justifiable restriction on the rights of an employee to work in his profession for subsequent employers. The legitimate purpose of hold-over clauses is to prevent the employee from appropriating to his own use or to the use of subsequent employers inventions relating to, and stemming from, work done for his previous employer. Hold-over clauses must be limited to reasonable times and to subject matter which the employee worked on or had knowledge of during his employment. Such agreements to assign future inventions vest in the employer an equitable right in the employee's inventions. Assignment of such inventions to the employer can be enforced in court by an action for specific performance.

The U.S. statutes provide for recording assignments of title to patents in the U.S. Patent and Trademark Office. The assignment must be recorded within three months from its date or prior to a subsequent assignment to a third party for valuable consideration without notice of the prior assignment to be valid against such a third party.

My employer, Eastman Kodak Company, uses an employee agreement which includes provisions that the employee will assign to Kodak all his right, title and interest in all inventions, discoveries, improvements and copyrightable subject matter in his field of employment which he makes during, or within two years after termination of, his employment. Such an employee agreement is signed by all Kodak employees, whether they be hired for research and development, that is, hired to invent, or merely for general

employment. When an employee makes an invention, he executes an assignment for that particular invention at the time a patent application is prepared for filing. The inventor is not further compensated, although at one time Kodak tendered the token consideration of $1.00 to the inventor upon the execution of an assignment.

Eastman Kodak Company also has a suggestion system whereby employees are encouraged to submit suggestions for improving the company's operation. Generally, submitted suggestions are not of a patentable nature. Under the suggestion system, Kodak employees submit their suggestions on a prepared form which includes the conditions under which the suggestion is accepted by the company. The suggestion form is signed by the individual making the suggestion and it includes the following provision:

> "We invite any suggestions from Kodak employees which may benefit the Company and its people. We will investigate and report to the suggester any such suggestions and, according to our established policy and within our discretion, will make awards for adopted suggestions. The decision of the Company respecting awards shall be final. All suggestions become the property of Eastman Kodak Company when submitted".

The suggestion system is popular among employees as there is at least a nominal remuneration for most suggestions. Awards for suggestions range from a few dollars upward to several thousand dollars. A recent suggester was

awarded $50,000 for a suggestion relating to the packaging of new cameras. Kodak sells cameras in boxed kits which include, in addition to the camera, batteries, a roll of photographic film and a flash unit. As batteries and photographic film often deteriorate with time, and as there is often a substantial period of time between the production of the camera and the marketing of the camera kit, the suggester suggested that fresh film and batteries not be added to the packaged boxed kit until just prior to shipment to dealers. As noted, this was worth $50,000 to the suggester.

I might add as a postscript, that to my knowledge Eastman Kodak Company has not had major difficulties with either its employee's agreement or its suggestion system. We did have two incidents that I am familiar with that might be of interest where we did have minor difficulties in executing patent assignments and U.S. patent applications. In one instance, the inventor executed the assignment for the invention but refused to sign the U.S. patent application papers as he questioned the patentability of the claimed subject matter. The patent application was filed in the name of Eastman Kodak Company as assignee under the provisions of U.S. patent laws (35 U.S.C. 118) without the inventor's signature. After several claims were allowed by the U.S. Patent Office, the reluctant inventor agreed to be an inventor. In the second instance, the inventor died and the widow, acting on behalf of the estate of the inventor, refused to execute the necessary assignment and U.S. application papers. The widow of the inventor would give no

reason for her refusal. After a lengthy discussion with the widow, I ultimately ferreted out her reason for not signing. She was needlessly concerned over summer employment for her son, and she readily agreed to sign all the necessary papers when she was reassured that her son would have summer employment at Kodak.

In view of the shortness of time allowed for this presentation, I have generalized and over-simplified the present subject. A thorough treatment of this subject should also take into account specific relevant statutes in each state of the United States.

PIPA

No. 2 Committee

K. Kunieda

A NEW LICENSING PATTERN AND ITS PRACTICE

by

KOU KUNIEDA

MITSUI PETROCHEMICAL INDUSTRIES, LTD.

Presented at the Pacific Industrial Property Association

Eleventh International Congress

Tokyo, Japan

October 23, 1980

SUMMARY

As an effective means of utilizing patent rights, establishing Patent Management Association (Verein ohne Rechtsfähigkeit; Association having no capacity to enjoy rights in terms of the Civil Law) is the most convenient one and main issues are as follows :

the patent owner assigns his rights to the Association,

the Association opens its door to everybody who desires to obtain an license,

if anyone executes the license agreement for the patent right concerning relevant technology and becomes a licensee and obtains the approval of the officers' meeting in the Association, he automatically gets the membership of the Association,

the licensee of the member of the Association has to pay both entrance and annual membership fees,

some portion of the fee paid by its members would be applied to the consideration for assignment of patent rights,

the other of the said fee would be applied to working expenses of the Association,

technical improvements provided by its members are to be licensed equally to the members with payment of consideration for their assignment.

I had to give full consideration not to violate the Anti-trust Act, especially to two points ; first is establishment of the Association, second is fair treatment between licensor and licensee in the " grant-back " clause of license agreement.

Clearing all these critical points including the said two ones, this method is believed to be effectively useful particularly in the field of fierce struggle for existence such as the plastics processing industry in Japan.

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Good morning. I am Kou Kunieda, serving as Chairman of the No. 2 Committee with Bill Norris of Dow Chemical Co.

I consulted Bill and obtained his concurrence on the agenda for this annual meeting of the No. 2 Committee and my idea was for the Japanese side to take up issues peculiar to Japan and also of deep interest to my American friends.

The subject I am now going to report on is based on my own experience in actual business and represents an example under the legal system characteristic of Japan.

As you know, the exercise of patent rights and the regulations of the Anti-trust Act to secure free competition always adjoin each other so that we are careful not to be in conflict with the Anti-trust Act. My frame of mind is like that of a football player carrying a ball for touchdown, being careful of not having the referee blow the whistle of "offside" or "unsportsmanship conduct".

To make this project relating to a patent management association a successful one, I continuously paid close attention so as not to run counter to the Anti-trust Act during the period of several months from the planning stage to attainment of the final objective of the project. Even so, by no means did I engage in any evasion of the law. The fact is that I considered a plan to achieve the maximum and effective utilization of industrial property within lawful limits from the viewpoint of the Anti-trust Act.

1. Background

The Japanese plastics processing industry can be said to represent a melting pot of excessive competition. Consequently, disputes concerning industrial property are a daily occurrence in Japan. What prompted me to try and introduce this new licensing pattern was my thinking that resolution of these useless disputes and working hard together in the areas of technical development and sales promotion while aiming at existence and development of the relevant plastic processors represented real free competition.

The majority of the companies in the plastics processing industry comprise minor enterprises and because of complications in the past of the struggle for existence, even if industrial property owners make their appearance in this industry, the processors are unable to face up to the technical substance of industrial property frankly and determine their business actions. Hence, it is normal for the processors to make subjective judgments on matters inclusive of specific emotional issues.

2. A Proposal

Under the real state of affairs just mentioned, I was consulted on a method to effectively utilize patent rights held by their owners.

As a result of checking on the processors concerned, I found that some of them were major enterprises (our competitors) and which have their names listed in the plastics processing industry. Therefore, all the processors cannot be treated equally as minor enterprisers. To be more precise, it is not possible to handle them within a legal system that aims at fostering and developing minor enterprises.

Accordingly, in consequence of examining an effective means of

utilizing patent rights primarily, I ascertained whether the owners of rights had any intention of assigning their rights to any third party in order to isolate as much as possible personal connections, and hostile relations at that, among the processors in this industry. In my initial experience, I was turned down by the owners of the rights. I was compelled to proceed with my concept on the basis of the intentions of these owners of rights. Therefore, I unavoidably made it fundamental to have the owner of the rights grant a license. In my second and subsequent experiences, I succeeded in obtaining the owner's consent.

As for my own idea, I had wanted past complications to be cast aside in all cases and to have the owners assign their rights to third parties in order to seek effective utilization of them.

Although I tried to convince these owners that this method would also benefit them after all, I was unsuccessful in my first experience.

I recommended the establishment of a patent management association to the owners of the rights. And I also recommended that they assign their rights to this association (a body of persons) and entrust to it the subsequent maintenance and licensing of these rights. They immediately agreed to my recommendation.

3. Basic Concept of Patent Management Association

Definition of Patent Management Association

Patent Management Association means an association which has as its objectives, by having any owner of industrial property assign rights thereto or grant licenses to it, the grant of licenses or sublicenses to third parties for relevant technology covered by the scope of claims of the said rights and possession of authority to receive considerations therefor together with the maintenance of said rights and elimination

of any infringement of such rights. Although this association is granted the status of a corporation as an association having no capacity to enjoy rights, the lack of its incorporation does not hinder in any way its existence and activity as an association having bylaws to establish a representative body, the highest decision-making organ and organizational structure. Nothing is stipulated in the Japanese Civil Law concerning this kind of association.

Subject to the existence of a provision for a representative or administrator, Section 46 of the Civil Proceedings Act recognizes this type of association as having "the capacity to be a party to a suit (a plaintiff or a defendant)" (the capacity of being a party), while in terms of the tax laws, i.e., Section 3 of the National Tax Collection Act, Section 2, No. 8 of the Corporation Tax Law, Section 12 of the Local Taxes Act and Section 2, Paragraph 1, No. 8 of the Income Tax Law deem this association as a corporation and stipulate it as liable to taxation. Further, Section 10 of the Complaints against Administrative Acts Inquiries Act authorizes an association to appeal in its name while Section 6 of the Patent Law also authorizes an association to make a request for examination of an application, file an opposition to the grant of a patent, demand a trial and a retrial against a final and conclusive trial decision, all in its name.

There is no way but to make an interpretation with the provisions of the above-mentioned special laws as leads.

In this connection, either a nonprofit corporate juridical person or a juridical person established for profit is recognized by the Civil Law as an association, so that any organization which does not fall under either one and has an intermediate objective, may not be incorporated unless it goes by the special laws. This is simply proof that the Japanese laws lag behind those of other countries with respect to regulations covering organizations.

There is a line of thinking that if an association is not constituted as an association having no capacity to enjoy rights, then it is constituted as an association in terms of the Civil Law. In the latter case, however, the individuality of each constituent member is reflected strongly and the consent of each member is required for entry into or withdrawal from an association.

This was not adopted because it fails to conform to the present aim of unrestricted entry into or withdrawal from the organization and having it continue to exist even if the members change.

Specifically, the Patent Management Association would open doors to license grants of relevant technology to any one desiring same and by approving membership in this Association on condition of execution of a license agreement with it, the Patent Management Association has seen to it that "unfair restraint of trade" and "unfair method of trade" which are prohibited by the Anti-trust Act, are not coerced.

Fig. 1 illustrates the basic concept of the Patent Management Association and I will continue with my explanation according to this figure.

Relationship between the patent owner and Patent Management Association

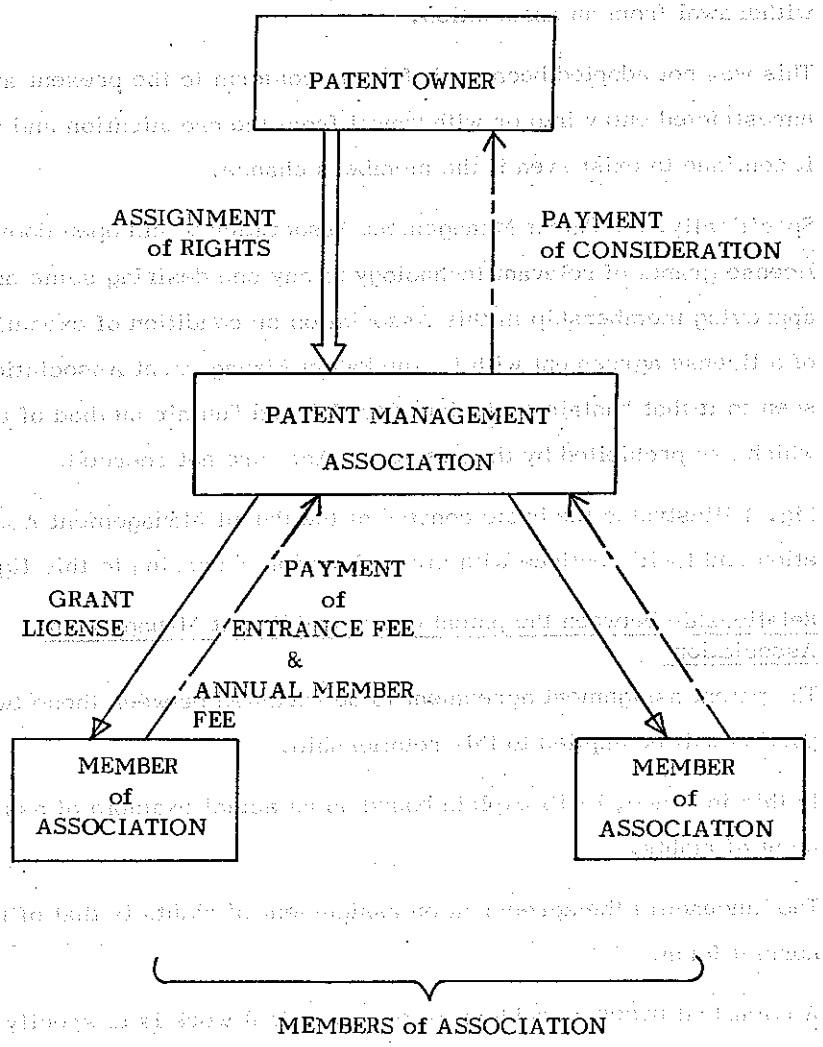
The patent assignment agreement to be executed between these two parties will be applied to this relationship.

In this instance, I will explain based on an actual example of assignment of rights.

The language of the agreement on assignment of rights is that of the normal form.

A point that poses a problem here in practical work is to specify the scope of industrial property that satisfies conditions required and sufficient for practising the relevant technology which is at issue at present. To this end, it was necessary for me to spend considerable

Fig. 1 The Basic Concept of The Patent Management Association



time in discussions with executives in the plastics processing industry having interests, not to mention industrial property owners. In such a case, it is required as the next step when the object of the assignment has been specified, to thoroughly examine whether or not there is any legal defect in the said object coming into existence and remaining as industrial property. This is because even if the Patent Management Association is inaugurated upon mutual agreement of the interested parties and it is made to possess rights, should the rights be subjected to subsequent attacks such as opposition by third parties, demand for a trial for invalidity, etc. and be nullified, the interests would get complicated instead.

In addition, what was most difficult in practical work was the determination of the consideration for assignment of rights. It is a matter of course that interests of the owner of rights run counter to those of the party desiring to be granted a license. There is also a close relationship to the substance and number of cases of the industrial property that is the object of the assignment as mentioned previously. It would be well to establish the amount of the consideration which will not be an unreasonable burden for the licensee, giving consideration to the size of the market covered by the relevant technology. Although this is an abstract expression, it is difficult to come up with anything better.

With respect to the consideration payable by the Patent Management Association to the owner of the rights, I adopted a method whereby a portion of the entrance fee to the Association and annual membership fee payable to the Patent Management Association by its members who are licensees would be applied to the consideration.

Any one intending to manufacture products using the relevant technology and sell them, may become an Association member by executing a license agreement with the Association and becoming a licensee. In this instance, he would be required to pay a prescribed entrance

fee. Part of this entrance fee would be applied to working expenses of the Patent Management Association with some other portion applied to the consideration for assignment of rights as stated earlier.

Also, the Association members are required to pay an annual membership fee to the Patent Management Association. Part of this membership fee is to be applied to the upkeep and working expenses of the Association while the remainder will be applied to running royalties that are a consideration for industrial property. I will touch upon the method of determining the annual membership fee later.

Relationship between the Patent Management Association and its members (licensees)

As already mentioned, the relations between these two parties are such that the Patent Management Association grants to any one who desires to obtain a license for the industrial property that has been assigned to the Association by the owner of the rights thereto, and the license agreement is applied to this relationship.

The expression of this license agreement provision is generally of a normal form.

I will give some explanation of certain special points.

One is the provision on the consideration. As mentioned previously, the consideration has been decided upon in the form of entrance and annual membership fees for the Patent Management Association.

The entrance fee for the Association is not made an equal amount, but a differential has been created according to the business magnitude of its members, for example, capitalization, number of employees and annual sales proceeds. Especially, it is requisite to treat small-scale enterprises by taking into account their solvency in order to seek the continued existence of the Association.

The method of payment of the annual membership fee is set up as follows :

Firstly, prior to the start of each financial year, each member company of the Patent Management Association reports to it the production volume for the financial year in question based on its business plan for any product for which the relevant technology is used and the inventory in the preceding year. The Association (actual work is handled by the secretariat) does not place any limitations on these reported figures. Each Association member pays to the Association his annual membership fee which corresponds to his reported figures. In exchange for payment of the annual membership fee, the Association member is given receipts which he pastes to each of his product. Also, by presenting any unused receipts to the Association at the end of the financial year in question, the Association member is able to get a refund of the amount corresponding to the paid portion of his annual membership fee.

Conversely, in case of a shortage of the upkeep and working expenses of the Patent Management Association, it has been arranged as a matter of course to collect an extraordinary membership fee from the members to be applied to the shortage since the Association, which has charge of the management of industrial property for the common benefit of its members, has no other means of deriving any income.

Further, making a thorough study of the distinctiveness of the relevant industry, if the types of products should be multifarious, for example, it would be necessary to establish the amount of the annual membership fee corresponding to such products in order to operate the Patent Management Association in a manner fitting in with the realities.

As regards consideration, an alteration of its amount following changes in circumstances was stipulated as a special point. The reason for this

is that since the effective term of the industrial property involved is 15 years from now, it could be anticipated that should there be any change in economic and other circumstances, the continuation of payment of the consideration with its amount and method unchanged would not fit in with the actual conditions.

What could be anticipated is that as a result of an unusual increase in the quantity of products manufactured and sold using the relevant technology, the Association members (licensees) would ask for a reduction of the annual membership fee corresponding to the running royalty portion when the amount of the running royalty paid by the members in the form of the annual membership fee through the Association has largely exceeded the forecast.

A provision which is a distinctive one next to that on consideration has to do with the handling of technical improvements.

As stated earlier, I succeeded in convincing the owners of rights and by obtaining the consent of those concerned in the plastics processing industry, I had these owners provide to the Patent Management Association all industrial property satisfying conditions requisite and sufficient to practice the relevant technology. At that time, I made arrangements so that in return for the owners of rights providing their industrial property, the Association members being licensees of these rights would, in case the introduction of any new product on the market competing with a conventional licensed product could be anticipated, assign for a consideration to the Patent Management Association upon the resolution of its officers' meeting, new technology developed by them going beyond the confines of improvements in terms of the Patent Law, not to mention technical improvements made relating to the relevant technology after inauguration of the Association, with these to be licensed equally to the Association members.

In this case, the Patent Management Association will make payments of consideration for assignments to those Association members who have provided technical improvements and on such occasion, attention will be paid to reimbursement of expenses incurred in the development of these improvements.

Consideration was given to ensure that both the licensor and licensee would not receive substantially unfair treatment to prevent the grant-back provision of the license agreement from violating the Anti-trust Act.

Also, to prevent any patent pool, particularly any package license based on a closed patent pool from being created, the industrial property to be assigned to the Patent Management Association has been limited to that which is requisite and sufficient to practice relevant technology and the Association will strictly avoid licensing unnecessary rights collectively with the industrial property.

As referred to at the beginning, first of all an end has been put to futile lawsuits in the plastics processing industry in which patent disputes had been repeated in the past and as long as the present situation continues where completely free competition exists in sales and technical development with unrestricted grants of licenses to anyone desiring same, I think there is nothing that runs counter to the Anti-trust Act.

Next is the provision concerning the no-dispute obligation.

Since it is lawful in Japan to impose a no-dispute obligation to the effect that the licensor will not engage directly or indirectly in any dispute with the licensee concerning industrial property for which a license has been granted, this has been specified in the license agreement.

This is a situation that differs from that in the United States.

Lastly, there is the provision on the effective period. First, this period has been established as one year with an automatic yearly extension thereafter as long as both the licensor and licensee have no objection to it. The maximum term fixed is until the expiration of the effective period of the rights involved.

Seeing that the plastics processing industry has been involved in affrays all the time, frankly speaking, I could not quite believe those concerned in the industry trusting one another to enter into an agreement to form a patent management association even with patent rights as its nucleus. If this were the case, I judged it proper to make the term of the license agreement one year to continually check on the fiducial relation of the parties involved.

4. Organization of the Patent Management Association

Earlier, I characterized this Patent Management Association as an association (a body of persons) without the status of a corporation, that is, an association without the capacity to enjoy any right.

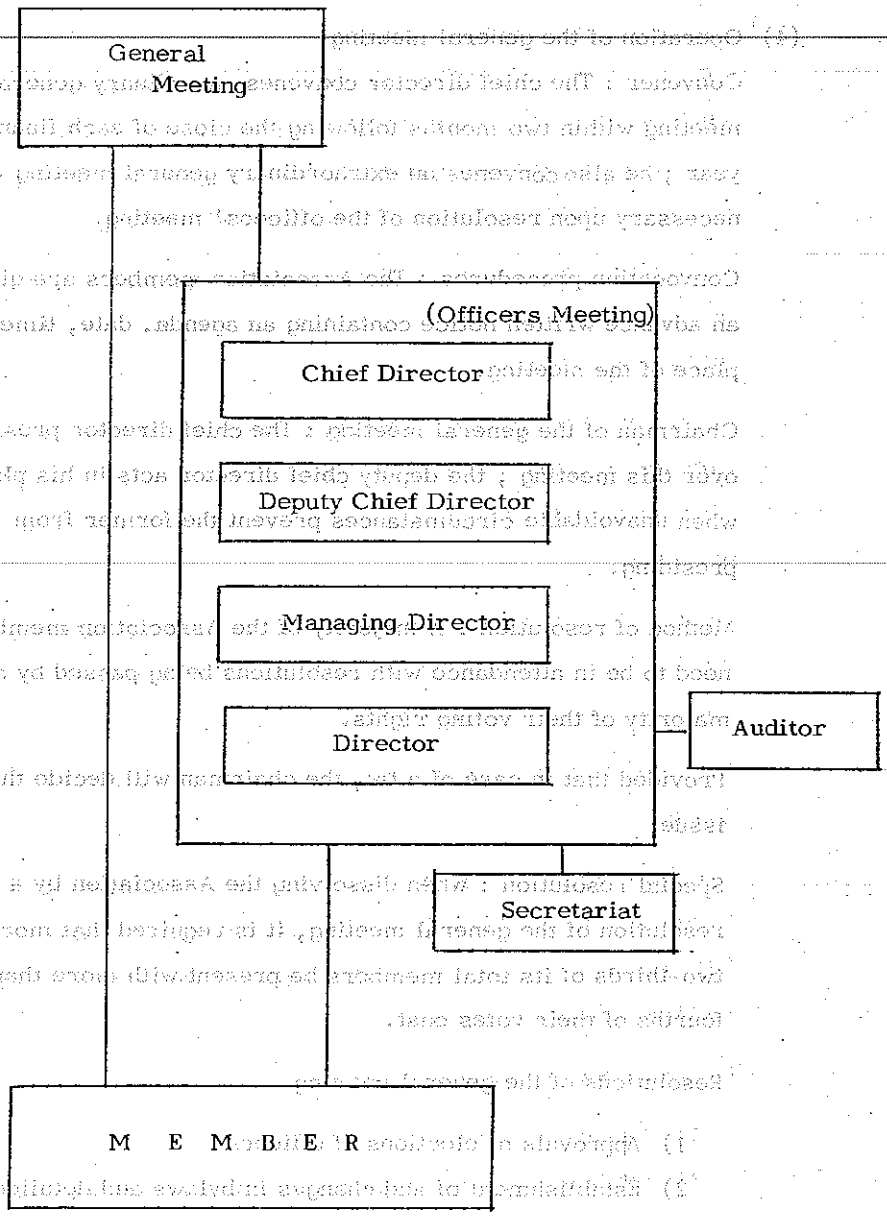
I will now discuss the characteristics of this Association as such based on its bylaws.

(Refer to Fig. 2)

(1) Regulations of the Association : The main conditions as an association are specified by a bylaw.

(2) Structure : As shown in Fig. 2, the Association is structured as an organization. Namely, it has a general meeting which is the highest decision-making organ ; officers comprising a chief director, deputy chief director, managing directors, financial director and directors as a representative organ and an officers' meeting which is a deliberative organ made up of officers, and a secretariat created in accordance with a resolution of the officers' meeting to handle clerical work.

Fig. 2 Organization of the Patent Management Association



(3) Method of representation : The chief director represents the Association and the deputy chief director acts in his place in case unavoidable circumstances prevent the former from doing so.

(4) Operation of the general meeting

Convener : The chief director convenes an ordinary general meeting within two months following the close of each financial year ; he also convenes an extraordinary general meeting when necessary upon resolution of the officers' meeting.

Convocation procedures : The Association members are given an advance written notice containing an agenda, date, time and place of the meeting.

Chairman of the general meeting : The chief director presides over this meeting ; the deputy chief director acts in his place when unavoidable circumstances prevent the former from presiding.

Method of resolution : A majority of the Association members need to be in attendance with resolutions being passed by a majority of their voting rights.

Provided that in case of a tie, the chairman will decide the issue.

Special resolution : When dissolving the Association by a resolution of the general meeting, it is required that more than two-thirds of its total members be present with more than three-fourths of their votes cast.

Resolutions of the general meeting.

1) Approvals of elections of officers
2) Establishment of and changes in bylaws and detailed regulations

3) Approvals of business programs and budgets

4) Approvals of business reports and settlements of accounts

5) Determination of and changes in the amount of the membership fee and its collection method and refundment of membership fees contributed

6) Determination of whether to take over improved inventions, new products and new designs made and developed by Association members

7) Approvals of forfeiture of a member's qualifications

(5) Administration of property

1) Membership fee : Payment of the prescribed entrance and annual membership fees

2) Working expenses : Application of a part of the membership fee to working expenses

3) Main working expense items

Expenses required to take over industrial property

Expenses required to maintain industrial property

Printing and delivery expenses for annual membership fee receipts

Expenses required for operation of secretariat

4) Refundment of surplus membership fees

5) Collection of extraordinary membership fee

(6) Other conditions required as an association

1) Objective : To own and protect industrial property for relevant technology and strive for popularization of this technology and contribute to the development of the plastics processing industry.

2) Name : Patent Management Association

3) Office : Tokyo

4) Property : As stated in (5) above

5) Method of appointing and removing directors

Directors will be elected through the recommendations of the Association members or by mutual vote with their election requiring the approval of the general meeting. A director's term of office will be one year and he may be reappointed.

6) Acquisition and loss of a member's qualifications

Acquisition of membership qualifications : membership can be acquired if the following two requirements are satisfied.

(1) Execute a license agreement for industrial property concerning relevant technology and become a licensee

(2) Obtain the approval of the officers' meeting

Forfeiture of membership qualifications : membership qualifications are forfeited if a member falls under any one of the following requirements.

(1) Has cancelled the license agreement

(2) Has discontinued producing any product utilizing relevant technology

(3) Has failed to pay the prescribed Association fee

(4) Has obstructed activities of the Association

(5) Has violated the bylaws and detailed regulations of the Association

(6) Has defaulted in his obligation under the license agreement

From the foregoing, it is considered that the Patent Management Association meets the actual conditions of an organization and that even if its constituent members should change, it will be acknowledged as a social unit continuing to exist as an organization.

6. Conclusion

I planned on and have proceeded with constituting this Patent Management Association as an association. The first reason for this I cited is, as mentioned previously, competition is intense in the plastics processing industry, and adoption of a form as represented by an "association" in which the persons concerned cooperate with one another and conduct joint business as a method of resolving problems among those involved who had been engaged in repeated patent suits until recently and whose interests were sharply divided is improper because of the strong influence of the constituent members' personal factors and the necessity of all the association members agreeing to acquisition and forfeiture of membership qualifications.

In addition, there was the following reason based on consideration of the Anti-trust Act. Namely, it is expedient to grant licenses to those desiring same and to have an unrestricted form of membership at the same time that allows entry into this Patent Management Association as a constituent member as no one will be "falsely suspected" from the standpoint of the Anti-trust Act. For this reason, it was necessary to eliminate the personal factors of the constituent members to the utmost and form the organization as an association.

Nevertheless, there are some inconveniences because the status of a corporation is not granted to this association under the current organization law of Japan.

One of them has to do with the matter of property announcement procedures.

Although actually having a structure as an organization and assets of its own, this association which does not have a status of a corporation is unable to go through due formalities in its very name in property (inclusive of real property and industrial property) registration and entry announcement procedures in the absence of any legal provisions therefor and is compelled to follow the procedures in an individual's name.

There is a theory that points out the inadequacy of and lag in administrative procedures and precedents. Considering that the Civil Proceedings Act recognizes in Section 46 that an unincorporated organization having a provision for a representative or an administrator has the capacity to be a party and that in deposition procedures among administrative procedures, formalities in the name of only the association are not recognized, but applications in the name of its representative with the title of his association indicated are authorized as the second best measure ; that in actual bank transactions involving deposits, accounts are opened in the individual name of the association's representative with his title shown as such, etc., a review on the part of the authorities is expected in order to realize a public announcement system that accurately reflects the realities.

When I was asked to work out a plan for this project relating to the Patent Management Association, it was said it would not necessarily be linked directly with the interests of Mitsui, however, I determined to exert my efforts because the project would be an entirely new experience for me and a national-economy-sort of thinking came into play that the Association would contribute to the prosperity of minor enterprises.

The point to which I gave most consideration was undoubtedly measures to cope with the Anti-trust Act.

Therefore, judging that the notification procedures stipulated in the Anti-trust Act should be followed for the Patent Management Association, I explained the situation to the people concerned and had them perform these formalities.

It is my sincere hope that those concerned in the plastics processing in industry will make effective use of limited supplies of resources without restraint of free competition in such areas as selling prices, sales volume and sales methods, eliminate excessive competition to which they have

been indifferent, that is, competition under an obsession of a desperate, deep-seated grudge, and be able to fully exercise the rights to industrial property within the framework of free competition.

In concluding my report, I sincerely thank my audience for the lengthy attention to my hard to hear English.

REFERENCES

Dr. R. HAYASHI Commentary on Civil Law Vol. 2 Yuhikaku

Dr. S. WAGATSUMA Civil Law Vol. 1 Iwanami

An American Comment

Arthur G. Gilkes

Thank you very much Bill. Perhaps, first I should explain that I am strictly ex-officio here. I am not the representative of Standard. Bill McClain is.

Now, let me congratulate you Kunieda-san on your very creative approach to this difficult marketing and licensing problem and, of course, on your very colorful presentation. You have asked the question "Are you able to bring my scheme into effect in the United States without violation of the U.S. anti-trust Acts?" I think the answer is - may be.

I think my colleagues from the United States here would agree that the anti-trust laws are applicable to this kind of an arrangement, particularly, the Sherman Act, Clayton Act and FTC Act.

However, the pooling aspects of this arrangement, since it is an open pool, by which I mean that it's open to any responsible applicant for membership or for a license, bring it under the approval really, of the Supreme Court decision in the Gasoline Cracking patent case which goes back to the 1920s and early 30s.[1)]

And as far as the packaging aspects are concerned, assuming that the matter of fees and allocation of fees and

1) Standard Oil Co. v. United States, 283 U.S. 163 (1931)

that sort of the thing, are clean, the ASCAP case,[2] a recent Supreme Court case, I think could bring it under the rule of reason, so that there's no per se violation. And, of course, the Zenith case[3] would have to be consulted in terms of, making sure that there was nothing discriminatory, of course, or coercive within the packaging provisions.

However, I think the Justice Department or the FTC might look at such an arrangement from the standpoint of is there any elimination of competition or potential competition and this would include competition in research and innovation. For that reason, I think one would have to look very carefully at the purpose of the arrangement. The scope of its application, period of time and any grantbacks would be very sensitive items and would have to be handled with care with probably appropriate escape provisions for members and licensees.

There have been some precedents in the United States at least in analogous situations. Some of you may remember the Rec. 41, Recommendation 41, arrangement that prevailed in the petroleum refining industry. I am sure Bill Hooper will, in any event. This arose out of the last War and, on the basis of national emergency, 4 large oil companies and two engineering contractors were permitted to pool their patents and know-how in the field of fluid catalytic cracking and thus were enabled to license the industry. There were

2) 441 U.S. 1 (1979)

3) Zenith Corp. v. Haseltine, 395 U.S. 100 (1968)

non-exclusive grantbacks among the usual licensing provisions including royalties at reasonable and non-discriminatory rates, and licenses were open to any responsible third party. This arrangement prevailed until 1948, I believe, when the Treaty of Peace was formally approved.

Also I believe that the automobile manufacturers and the aircraft manufacturers in the United States had somewhat similar arrangements. There came into being in an analogous situation where there was a great deal of litigation and there was a problem of determining freedom to operate because of conflicting patent claims. However, both those arrangements as far as I know have passed into limbo.

My own association with something like this relates to the polypropylene patent situation that Karl Jorda alluded to yesterday. When at one time, the chief patent holder, at the time, Montedison and the parties to the interference who were potential patent holders tried to work with Montedison's licensees and those in the polypropylene industry who resisted the Montedison position and tried to work out some kind of an arrangement that would pool the patents, make them available to all comers on fair, reasonable and non-discriminatory terms. This was checked out informally with the Justice Department and a green light was more or less given.

However, it broke down because of the problem of trying to determine a fair consideration that would satisfy

Montedison and the holders and also it broke down on the basis of the allocation of the consideration between the holders.

Again, let me congratulate Kunieda-san on a creative approach to the problem of reconciling the divergent interests of suppliers, users and holders of industrial property rights in the highly competitive plastics field. Whether the concept could work in the United States, it would in any event require case by case study of potential conflict with the anti-trust laws and parenthetically, I am sure that it would have to be notified to the EEC Commission if it were proposed for Europe.

Thank you very much.

PIPA
No.2 Committee
(Paper Presentation)
K. Kunieda

Review of the Products Liability Act in Japan

by
Kou Kunieda
Mitsui Petrochemical Industries, Ltd.

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1. Introduction

At the PIPA Ninth International Congress held in Nagoya in October, 1978, I made a presentation on the subject of Products Liability Act in Japan and discussed its basic line of thinking comparing it with changes in the U.S. law.

My American friends gave many useful comments and opinions on my presentation and further, reported on the U.S. situation. As you may remember, immediately following my presentation, Mr. Bill Norris gave an interesting report on the subject of "Technology Licensor Responsibility for Product Liability", while at the Tenth International Congress in Philadelphia last year Ed Valance, covering the subject of "Implied Warranties Attached to Intellectual Property Licensing Liability of Franchisors and Trademark Licensors", gave a timely report especially on the relationship between trademark licenses and product liability.

Last February, I was invited to attend the U.S./EC combined seminar on product liability held at the Franklin Pierce Law Center in New Hampshire as a lecturer. I was invited on Dr. Pauline Newman's recommendation. Regarding that I alone from Japan just attending this seminar with the experts in product liability gathering together would be an honor, I joyously made preparations to attend it. Unfortunately, however, I could not attend because of business reasons. I would like to offer my deepest apologies for being unable to respond to Dr. Newman's kindness and meet the expectations of Dr. Rines of the Franklin Pierce Law Center and the other persons concerned and for inconveniencing them.

In such circumstances, I considered that I had the responsibility of reporting on the situation of the Products Liability Act in Japan subsequent to my presentation at Nagoya so that I will make another report here on the same subject avoiding as best I can any duplication of my previous report.

2. Trends of the Japanese Products Liability Act (judicial precedents) during the last one or two years

In case a manufacturer has made a defective product and placed it on the market for sale himself or through a distributor, the trend has become increasingly distinct to strictly presume product liability to be assumed by the manufacturer and distributor and indemnify losses of the aggrieved party.

As a result of taking the drug quinoform, persons who contracted SMON (SMON standing for Subacute Myelo Optico Neuropathy), instituted a SMON lawsuit against the government which permitted the manufacture of quinoform and the pharmaceutical companies that made and sold it as the defendants. Ever since this case was first submitted in 1971 to the Tokyo District Court, suits have been lodged at various places with action pending at twenty six district courts as of October, 1979 and it has become an unprecedented gigantic lawsuit in Japanese court annals involving a total of 5,493 plaintiffs and claims aggregating ¥215,630,980,000 (Hanrei (Judicial Precedent) Times No.399).

Among these suits, with the decision in March, 1978 at the Kanazawa District Court as the start, decisions have been given successively at a total of nine district courts located in Tokyo, Fukuoka, Hiroshima, Sapporo, Kyoto, Shizuoka and Osaka. All of these decisions declared the defeat of the pharmaceutical manufacturers and distributors. Also, the government - one of the defendants - was charged with supervisory responsibility for failure to provide proper administrative guidance to prevent damage from quinoform.

2.1 Background of SMON disease

SMON disease is subacute myelo optico neuropathy caused by taking high dosages of quinoform, a medicine for intestinal disorders, and it is characteristic of damage from quinoform which occurred frequently mainly in Japan.

Quinoform was developed in 1899 as a disinfectant for external application. Starting in the early 1930s, it was used in the U.S.A. as a medicine for internal use in treating amebic dysentery. However, even when using it for amebic dysentery, the amount and period of dosage, among others, were greatly restricted by the FDA's recommendation. In Japan, however, quinoform was utilized to treat acute colitis, children's dysentery, etc. without going through any special experiments and indications for use of the medicine and the amount of dosage were gradually expanded. As mentioned in my Nagoya presentation, the difference in the attitudes of the competent authorities of japan and the U.S. represents a great contrast.

With respect to quinoform, the fact that it has been regarded as a safe medicine with little harmful side effects based on long years of experience in clinical usage and not a new medicine requires examination.

It was not that only reports were accumulated verifying the efficacy and safety of quinoform in its experience in clinical usage after it started to be used as an internal medicine, but there were reports from a relatively early stage of the side effects upon a human being of halogenated 8 hydroquinolines including quinoform, and from about 1965 information on serious side effects concerning neuropathic symptons came out in succession (observation presented by the 34th Civil Affairs Division, Tokyo District Court on March 22, 1977).

What caused the damage from quinoform to become more serious was that in consequence of improper communication and release of information on its side effects that had accumulated gradually, doctors gave dosages of quinoform for affections such as a slight case of diarrhea and further, gave dosages of quinoform for treatment of SMON symptons caused by dosages of quinoform (observation presented by Tokyo District Court).

2.2 Outline of decisions made by nine district courts

Since it is too extensive and complicated to cite the decisions of all the district courts involved, I have outlined here the major items. I, however, would like to mention beforehand there are some variations in the respective decisions.

2.2.1 Sequence of cause and effect (Cause of SMON disease)

The etiological cause of SMON disease is quinoform and other causes including virus have not been admitted through all the substantiations. The frequent occurrence of SMON in our country has been caused by lengthy and high dosages of quinoform.

Nearly all of the district courts have cited the results of the studies of etiological cause obtained by the SMON Research Study Council inaugurated in September, 1969 and the Specified Disease SMON Research Study Group established by the Ministry of Health and Welfare in April, 1972, and made a finding that a legal causal sequence exists between quinoform and SMON disease. However, in the case of the Kanazawa District Court alone, its decision was that quinoform could not be admitted as the only primary cause of SMON since 15% of the SMON patients did not take any quinoform, and although virus could be an etiological cause of SMON, the toxicity of quinoform accumulated together with other factors and caused the SMON symptons.

2.2.2 Liability of the pharmaceutical companies

1) Existence of no-fault liability

Section 709 of the Civil Law, which is the tort law of Japan, incorporates the principle of liability arising from negligence, so that even if no-fault liability is stipulated in a special law which regulates businesses other than the pharmaceutical business, it is unreasonable to apply no-fault liability to the case of pharmaceuticals and hence, it is difficult to accept no-fault liability as an interpretation of the law in force.

2) Obligation to exercise care

a. Ground for obligation to exercise care

Pharmaceuticals are very closely connected with a human being's life and health and while efficacious against diseases on the one hand, they in themselves involve the danger of producing harmful effects on the human body. Today, pharmaceuticals go through the distribution process in large quantities and are consumed extensively by the people at large, lacking any expert knowledge of medical science and pharmacy, these people are unable to verify the safety of pharmaceuticals with their ownhands and have no means of preventing any injury. Accordingly, in the pharmaceutical companies' manufacture, importation and sales of their products, a heavy obligation is placed on them to ensure the safety of pharmaceuticals that is based on the highest level of knowledge on each occasion.

b. Specific details of obligation to exercise care - obligations to foresee the consequence and to evade the consequence

° Obligation to foresee the consequence

In commencing the manufacture and sales of pharmaceuticals, their influence and kinds and extent of side effects on human life and body should be recognized and foreseen by exhaustive investigation of literature, animal experiments, research and study concerning clinical demonstrations, etc. that have attained the maximum levels of knowledge and technology pertaining to relevant science such as medicine, pharmacy, among others. Subsequent to starting sales, the pharmaceutical company should collect information on any existence of side effects and their details and when there are doubts about the existence of side effects, it must endeavor to more accurately recognize and foresee the kinds and extent of side effects of the pharmaceutical in question by further research, studies and exchange of information.

° Obligation to evade the consequence

In case the occurrence of injury due to the side effects of a medicine have been recognized and foreseen, the pharmaceutical company must take measures requisite and sufficient to prevent such injury from occurring, for example, it should warn doctors or general users of the side effects, regulate the indications for the use of the medicine and its quantity, examine the suspension of manufacture and sales of same or its recovery so as to avoid any injury from occurring.

3) Possibility of foreseeing

The respective reports of Grawitz and Barrows made in 1935 were case reports to the effect that quinoform had caused a neural impediment in human beings and contrained information that strongly suspected the manifestation at a certain frequency of a serious and irreversible neural impediment as a side effect of quinoform. Further, putting together and studying other information, it was possible to entertain a reasonable doubt that by early 1960 at the latest, manifestation of a serious and irreversible neural impediment was caused by quinoform.

4) Breach of the obligation to exercise care

In case the pharmaceutical company concerned had entertained a reasonable doubt about the manifestation of the aforesaid side effect, it should have compared diseases other than amebic dysentery for which quinoform is good with the side effect of the neural impediment and limited the disease immediately to amebic dysentery at least on the basis that quinoform is naturally lacking in usefulness and safety, issued a warning that neural impediment will be manifested as a side effect and taken action so that quinoform would not be used for treatment of diseases other than amebic dysentery. The pharmaceutical company, however, continued to make quinoform, and it is evident that it either failed to collect information on the side effects and properly evaluate same and neglected to fulfil its obligation to foresee the consequence or although foreseeing the manifestation of a neural impediment as a side effect, it failed to take action to restrict the use of quinoform to a useful limit and neglected to fulfil its obligation to evade the consequence.

In any event, the pharmaceutical company committed negligence in failing to fulfil its obligation to exercise care in ensuring the safety of the medicine in question and has the tort liability to indemnify the plaintiff for injury resulting from SMON.

2.2.3 Liability of defendant government

The Minister of Health and Welfare was able to foresee the neural impediment caused by quinoform and therefore committed negligence in failing to fulfil his obligation to foresee the consequence in approving the manufacture of quinoform. Injuries from SMON would not have occurred if the said Minister had foreseen the dangerous side effects of quinoform and approved its manufacture upon having the applicant limit its efficacy to amebic dysentery or had taken proper steps to ensure the nonuse of quinoform for treatment of diseases other than amebic dysentery at the time of his examination of approval for its manufacture or after his approval. The fact that the Minister of Health and Welfare failed to take action to ensure the safety of quinoform should be assessed as a violation of the State Tort Liability Act.

2.2.4 Liability relations between defendant government and pharmaceutical company

The defendant government is liable to the plaintiff for state tort and the defendant pharmaceutical company for indemnification of damages.

Although both cases are formed separately and independently, the scope of indemnification of damages is common to both so that in their relationship to the plaintiff, the government and pharmaceutical company are liable for joint and several liability under separate causes of action.

I have summarized above only the requisite parts. While I believe you now understand that product liability concerning pharmaceuticals is related to the government which grants approval for their manufacture, another important factor is the relation of pharmaceuticals to a doctor's medical act.

Any one can readily imagine that if only the liabilities of the government and pharmaceutical company are studied and the latter relations are disregarded, it will not be a complete clarification of the actual condition.

I would like to add that a "Relief Fund Act for Injuries from Side Effects of Pharmaceuticals" was promulgated in October, 1979 for the relief of injuries from side effects of pharmaceuticals as seen in the SMON and thalidomide cases. Further, a law was promulgated on the same date for partial amendment to the Drugs, Cosmetics and Medical Instruments Act to prevent injuries from side effects from occurring.

3. The tendency toward tightening of product liability will be promoted but not be relaxed hereafter

As mentioned in the previous section, some of the district courts have given their decisions on the SMON suit which is the leading case concerning product liability in Japan and hearings of immediate appeal are currently going on in the high courts. Some have been settled out of court.

As previously reported at Nagoya, there is the district court's decision on "Kanemi" edible oil as a case of product liability concerning food.

A high degree of obligations to foresee the consequence and to evade the consequence has been imposed on the manufacturer and distributor with respect to these products such as pharmaceuticals and foods which have a vital bearing on the life and health of a human being.

Although there are some differences between foods and pharmaceuticals as far as the character of these products is concerned, as regards any product that is made by a company under a mass production system and put out on the market, the fact that the manufacturer and distributor have placed a defective product on the market in itself is cause for strong presumption to be made of their negligence and imposition of product liability based on tort. Here is indicated a line of thinking to protect the consumers' reliance on safety of a product.

Now, shifting the ground and placing the legal interpretation of this product liability in tort, it is possible to forecast the future trend of such interpretation.

Product liability is construed as a tort and the law is applied from the standpoint of the Civil Law as I mentioned in my Nagoya report. And as I have stated previously, although the principle of liability arising from negligence has been made the rule by imposing an obligation on the manufacturer and distributor to exercise a high degree of care, it may be said that this has been amended to impose a strict obligation which is virtually close to no-fault liability to protect the customers.

Under the tort law system of Japan which makes the principle of liability arising from negligence a rule, the first case that aimed at approaching no-fault liability by amending this rule was the trial covering traffic accidents after the war. The Automobile Accident Compensation Security Act enacted in 1955 provides for a motor vehicle operator's liability to give aid to traffic accident victims and makes it obligatory for a person operating an automobile which becomes a "dangerous object" depending on how it is used, to be naturally liable for damages arising from his operation of same. This Act leaves little room for the operator to be exempted from liability and deals with it close to no-fault liability.

Trials on medical accidents also call the issue into question of tort law liability grounded on the principle of liability arising from negligence. The decision of the Supreme Court adopted the thinking that "so long as a doctor is engaged in giving treatment concerned with a human being's health and life, he is required to fulfil his obligation to exercise the utmost care for prevention of any danger and when he has acted contrary to his obligation to exercise a high degree of care, he has naturally

committed negligence". The Supreme Court accepted a "statistical sequence of cause and effect" concerning the causal sequence of a doctor's acts and his patient's impediments and adopted the thinking that a definite causal sequence exists when any cause other than the subject treatment is inconceivable and there is a "high degree of probability" concerning the relation of cause to effect. Also, in making a finding of negligence of the company concerned in an environmental pollution suit, the Supreme Court dealt with this by imposing an obligation on the company to exercise a high degree of care as a specialist in this field and indicating that it would make a finding of negligence in case the company acted contrary to the obligation. As a result, the company was called to account for strict liability substantially equal to no-fault liability. Further, with respect to causal sequence which is said to be difficult for a victim to demonstrate, a finding has been made easier by a method called "Epidemiological sequence of cause and effect" or "Presumption of fact".

Responding to such lines of thinking, Section 25 of the Air Pollution Control Act and Section 19 of the Water Pollution Control Act were revised and no-fault liability introduced. This is a manifestation of a thinking to strongly recognize corporate liability.

With respect to liability for structures and public establishments connected with the State Tort Liability Act, in decisions on a rockslide accident involving a motor vehicle travelling on a national highway, flood damage caused by a collapse of a river dike among others, findings were made that there were defects in the government's installation, maintenance and administration of national highways, rivers and waterways and no-fault liability was imposed on the government.

Putting together the aforesaid basic line of thinking in making a finding of tort liability concerning traffic and medical accidents, environmental pollution, accidents involving structures on land and public establishments:

A lenient interpretation has been made by recognizing a presumption of fact concerning the sequence of cause and effect between damage and a harmful act which shows that an obligation to exercise a high degree of care has been imposed on the company concerned as a specialist in its field.

Also, liability for a "dangerous object" in a traffic accident and liability for "dangerous structures on land or public establishments" as seen in defective highways or embarkments are conceivable. Here, too, is a line of thinking to tighten corporate liability.

Amid these changes in legal interpretations, product liability entered the picture and in the case of such liability, it may be considered that protection of consumers' reliance has been added to further tighten corporate liability.

This thinking represents a major trend of the tort law coping with a social phenomenon and it is natural to judge it as being an irreversible trend.

4. Severe demands to the manufacturer and distributor perceivable from the reasons for judgment

According to the reasons for judgment on product liability for SMON, Kanemi edible oil, etc., taking into account the fact that the manufacturer and distributor placed the product on the market to realize a profit on the one hand, and considering the circumstances that the consumers were unable to examine if the product was perfect or not and were obliged to rely on the manufacturer and distributor on the other, the fact that the manufacturer put the defective product on sale as such was presumed to represent his negligence, and he is unable to escape his responsibility for negligence unless he is able to prove the existence of special circumstances that are sufficient to negate this presumption or he produces counterevidence to show that he performed all his obligations to exercise care required of a manufacturer.

It is most difficult to fulfil all of the obligations to exercise care that are required of a manufacturer. Especially, in the case of products such as pharmaceuticals which have a direct bearing on man's life and health, even if it is said that quality control based on the quality standard of the product was effected completely in the production process, it does not mean the manufacturer will become immune from product liability.

Particularly, difficulty is felt in assigning the responsibility for a product when the outcome of work by a person besides the manufacturer is involved.

With respect to pharmaceuticals, when injury from them has occurred as a result of the medicine being used and prescribed to a patient in the course of a doctor's medical act. Is it really valid to inquire closely into the defect of the medicine alone? This could become a complicated issue entwined with an error in medical treatment.

In the case of pharmaceuticals, the court has adjudicated that prior to their manufacture, literature and reports of the highest level in terms of Knowledge inclusive of analogous compounds must be collected and studies, animal experiments and clinical demonstrations conducted as far as technically possible, and where pharmaceuticals of the same kind are already being produced, elsewhere, their follow-up survey made and all possible efforts should be made to foresee side effects. Further, even after commencement of manufacture, the pharmaceutical company must undertake the collection and study of information, conduct a follow-up survey of clinical usage and endeavor to foresee any dangerous side effects. In addition, the adjudication states that these efforts must be continued even after initiation of manufacture and sales, and in case any side effect is foreseen, the pharmaceutical company should take immediate action to halt the use or recover the medicine in question or if its use is to be continued, it must limit the indications and directions for the use of same and its dosage to a useful range and at the same time, warn the consumers of any dangerous side effects.

I wonder if any manufacturer who has been subjected to these controls will be anxious to develop new products or pharmaceuticals?

Development risk - it is considered difficult under the principle of liability arising from negligence to call the manufacturer to account in case a product regarded as safe as judged from the technical level at the time of its manufacture is deemed to be defective according to the technical level after occurrence of an incident. In the U.S.A., a report issued by a task force formed by the President's instructions has proposed that liability be

limited so as not to hinder the development of new products. This is worthy of reference. However, I wish to add that meanwhile, as is the case of the new Drugs, Cosmetics and Medical Instruments Law of West Germany as amended in 1978, strict product liability has been imposed also on development risk.

In effect, could this be expressive of strict corporate liability?

5. Method of relief to the injured and decisions on product liability

Although considerable improvements have been seen recently, it is said that relief to consumers involved in defective products is still inadequate. Strictly speaking, it is said that settlements most satisfactory to the injured party can be obtained promptly when negotiations are conducted with the manufacturer through a consumers' organization. On the other hand, when the reason for a decision which has recognized product liability is read, interpretation of the original principle of legal interpretation has been stretched to an extreme and it is open to the criticism of "going all lengths to attain the objective of seeking to provide relief to the injured party with the manufacturer bearing the expenses".

Although it can be said that it is unavoidable because what should be settled by administrative action cannot be done so because our country lags behind in such action, could it not be that everything is trying to be resolved in the area of judicial relief?

Referring to judicial relief, it is said that in many cases the injured give up going to court with respect to any damage of a small sum since a lawsuit entails much expense and time. In this aspect, I believe it requisite hereafter to study the introduction of a representative party lawsuit system to realize the rights of a great many people to a small sum of money.

Taking class action which developed in the U.S. as a model, a bill for a representative party lawsuit system with the principal elements of execution of a lawsuit by a representative plaintiff and distribution to everyone injured of money and other benefits obtained by winning the case is being investigated and studied in the form of a tentative draft by experts.

6. Relationship between product liability and licensing

In case a defective product has come out of technology transferred to a licensee by a licensor, the licensor must accept liability for indemnifying the licensee as an implied guarantee. This is a natural consequence of parties to a trade contract bound together by a fiduciary relation.

As pointed out in the comments of Mr. Bill Norris, there are some countries among the developing nations that require a licensor to provide a guarantee on product liability and take the attitude that no agreement can be executed which does not contain this guarantee clause as the country's economic policy.

As regards a distributor contract in the export of a product, a clause covering product liability becomes a point of contention between both parties to the contract. In the final analysis, I think it comes down to how rationally the parties each assume the liability.

7. Conclusion

I have discussed the strict control exercised by the Products Liability Act over the management activities of the manufacturer and distributor. We must accept this as an increased corporate liability.

On the one hand, we are required to make the maximum effort not to put any defective product on the market, while on the other, we must make creative efforts toward development of new technologies and products for the progress of mankind.

In the midst of an environment surrounding companies where remedies exist for unavoidable damage arising even though scrupulous care has been exercised, for example, establishment of a insurance relief fund, remedy based on positive approaches by companies to consumers, remedy based on close liaison with consumer counseling services of local public entities, etc., product liability is a vital problem that needs to be resolved positively as a part of the consumer problem before it actualizes as a social issue that may prove the ruin of the companies concerned.

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July, 1978

Essentials of Amendments to the Drugs, Cosmetics and Medical Instruments Act

1. Matters concerning pharmaceuticals

1) On approval of manufacture or importation of pharmaceuticals

a. To define the basis for approval

b. To define the data and information required at the time of approval

c. To provide for approval to be required, in principle, for Japanese Pharmacopoeia, also

2) To review new pharmaceuticals six years after they have been approved

3) To establish a provision for reassessment of pharmaceuticals

4) To establish provisions concerning standards for manufacture and quality control of pharmaceuticals

5) To establish provisions concerning collection, transmittal and reporting of information, etc. on side effects of pharmaceuticals to be carried out by the manufacturer, etc. of pharmaceuticals

6) To control the notification, etc. of test request plans concerning requests for clinical tests aimed at obtaining approval for manufacture or importation of pharmaceuticals

7) To provide for the final period of efficacy to be indicated on the containers and the like for pharmaceuticals (excluding those designated by the Minister of Health and Welfare) and contraindications and side effects to be set forth in attachments, etc. to pharmaceuticals

8) To strengthen the authority of managers of pharmacies and general distributing firms

2. Matters concerning items outside the scope of pharmaceuticals, cosmetics and medical instruments

1) On approval of manufacture or importation of items outside the scope of pharmaceuticals

a. To define the basis for approval

b. To define the data and information required at the time of approval

2) To establish provisions for collection and reporting of information on the safety of items outside the scope of pharmaceuticals to be carried out by the manufacturer, etc. of such items

3) To provide for precautions for the use or handling of items outside the scope of pharmaceuticals to be indicated on their containers, etc. and for the final period of efficacy (use) to be also shown with respect to items outside the scope of pharmaceuticals designated by the Minister of Health and Welfare

4) To provide for indications to be made of ingreedients with respect to certain cosmetics and items outside the scope of pharmaceuticals

5) To provide for the same control as that on pharmaceuticals to be exercised on requests for clinical tests with medical instruments

3. Other matters

1) To enable emergency measures such as temperory suspension of sales to be ordered in case any serious injury to health is suspected due to side effects and the like of pharmaceuticals, etc.

2) To establish a provision for retraction of approval for manufacture or importation of pharmaceuticals, etc.

3) To prohibit misleading or exaggerated advertisements on the safety of pharmaceuticals, etc.

4) To specify that recovery can be ordered of inferior pharmaceuticals, etc.

5) To impose an approval fee for pharmaceuticals, etc.

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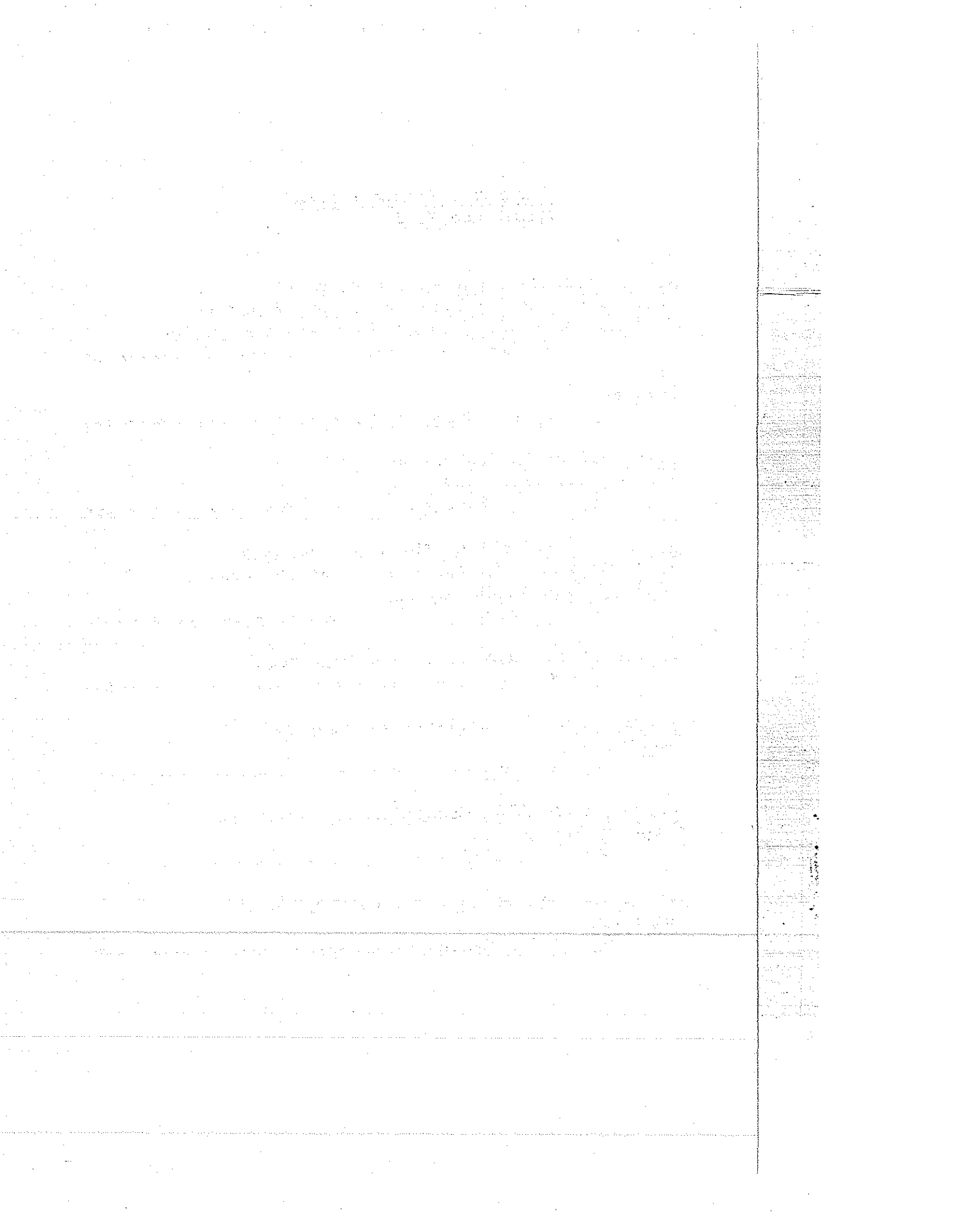
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PIPA 11th Annual Conference

Controversy relating to Inclusion of Inventors' Certificates in Article 1 and to Revision of Article 5A of the Paris Convention

Takashi Aoki
Committee No. 3

The Diplomatic Conference on the Revision of the Paris Convention for the Protection of Industrial Property met in Geneva from February 4 to March 4, 1980. The major efforts were directed in the Conference only to the adoption of the Rules of Procedure of the Conference. The Key issue was the unanimity or majority required for the final adoption by the Diplomatic Conference of the revised text of the Paris Convention. The corresponding Rule, as adopted but still reserved by one country -the United States, provides in essence that the final text shall be adopted by consensus, or, if no consensus is achieved, by a majority of two-thirds, provided that the number of States voting against does not exceed 12.

The main purpose of the Diplomatic Conference was to examine the following various proposals discussed in a Preparatory Intergovernmental Committee during five years of negotiations but very little time spent for the purpose in the Geneva Conference.

1. Inventors' Certificates
2. Article 5A (Compulsory Licenses)
3. Article 5 Quater (Scope of Protection of Process Patents)
4. Preferential Treatment without Reciprocity
   - fees (Article A)
   - extension of priority period (Article B)
5. Furnishing of Information
6. Development of Developing Countries
7. Appellation of Origin
8. Final Clauses
9. Protection of Olympic Symbol

Observations from PIPA on many of these points were submitted to the International Bureau according to the decision PIPA made at the Philadelphia Annual Meeting last year and published as PR/DC/7 Add. 6 on January 11, 1980 from the International Bureau.

The second session of the Geneva Diplomatic Conference will be held in 1981 and that must be the "continuation" of the Conference but not a new Conference so that the second session can proceed on the basis of what has already been adopted by the first session.

In this paper the writer wishes to select and concentrate only on the two subjects described at the title which he feels the most important and controversial in the forthcoming second session of the Conference.

Inventors' Certificates

The new text of Article 1 forwarded to the Diplomatic Conference includes the following points which were newly added as a result of the debate at the Preparatory Committee.

1. Definition of "patent"
2. Definition of "inventor's certificate"
   Whereas the notion of "patent" has only one definition, the notion of "inventor's certificate" has two, thus including both of the traditional Russian type "inventor's certificate" and recently created "certificate of invention" by Mexico.
3. Equal applicability of the provisions of Paris Convention to both patents and inventors' certificates.
4. In the countries of dual protection by patent and inventor's certificate, the followings should be applied in the same manner for both titles:
   - the substantive grounds for grant
   - the substantive grounds for any opposition to the grant
   - the substantive grounds for annulment
   - the time limits for presenting such opposition or requesting such annulment
   - the term of the protection*

*Though Group D had never agreed to inclusion of the last point, they made new proposal in the Geneva Diplomatic Conference in March, 1980 and suggested their acceptance if "the term of the protection" is replaced by "the term of the exclusive right to work the invention".

5. Inventions shall be protected by the grant of patents (single protection) or by the grant of patents and inventors' certificates (dual protection) in the same fields of technology.

The last point 5 is crucially important. This provides a principle of free choice. Though the adoption of this principle was agreed among all three Groups, the positions for providing exceptions to the principle were all different.

Group B wishes to take a firm position not to admit any exception, while both Group D and the Group of 77 feel it absolutely necessary to provide various exceptional cases to the principle of free choice though the ways of providing the exceptions are very different between these two Groups.

The followings are some brief observation to these possible exceptional provisions.

a) Is it acceptable to specifically exclude some fields of technology from the principle of free choice?

Group D proposes to exclude the following fields of technology from the free choice principle:

- public health
- manufacture of foodstuffs
- protection of environment
- those fields of technology where in accordance with the national legislation no protection was provided

It seems that there is no room to accept Group D's proposal which very much weakens the free choice principle. Inclusion of inventors' certificates into the Paris Convention for equal footing with patents should be based on the basic principle of free choice.

b) How should future reservation clause be considered?

For protecting future possibilities of developing countries who will provide in future inventors' certificates system in their legislation, the Group of 77 proposes reservations by which any developing country has the right to reserve certain limited fields of technology for exclusive protection by inventors' certificates as far as such fields were already excluded from the free choice principle by some other countries of the Paris Union.

This proposal is largely dependent on whether there are already permanently established exceptional fields by other Union country or not. Thus, the practical meaning of this proposal is changeable according to what happens in a) above or c) below.

c) To what extent should we respect "Status quo"?

Group D and the Group of 77 propose exceptional protection for inventions in certain fields of technology by granting only inventors' certificates if its national legislation provided for such protection before the entry into force of the new Act with respect to that country. It seems very clear that if this type of proposal is accepted, the principle of free choice cannot be fairly maintained, since any country could freely change its national ligislation before joining this Act as it likes.

Only possible practical concession that sounds rather reasonable will be to provide a transitional period of several (5 to 10) years to permit continuation of status quo with respect to a single protection of invention by inventors' certificates in certain fields of technology, counting from the date of the entry into force of the new Act (with respect to that particular country). If such transitional clause is adopted, then we shall be less nervous and more generous so that there might be no necessity to further discuss a possible establishment of sanction from the viewpoint of reciprocity, aiming at no patents being given to inventions belonging to the field or technology applied from other country where no free choice principle is adopted in that particular field of technology.

Article 5A

Almost towards the end of the Geneva Diplomatic Conference, a statement was made in Main Committee 1 by a spokesman of Group B raising various points of the modified text of Article 5A. The statement may not include all the points but certainly covers many important basic points on which we also share the same opinion. Here, the writer wishes to introduce these points briefly and make some general review for our further discussion.

1. Non-working or insufficient working as such, without additional circumstances, does not constitute an abuse.

There are three types of situations or cases to provide for taking certain measures in this Article, namely:

(i) where the patented invention is not worked or not sufficiently worked.

(ii) where the patent rights are abused

(iii) where public interest is involved

The new text of Article 5A should be modified to make definitely clear that abuse and non-working are different cases and that non-working or insufficient working as such, without additional circumstances, does not constitute an abuse.

2. The working requirement in case of deferred examination should not be made before the request for examination has filed.

The basic philosophy of deferred examination is that an applicant has freedom to make the application for examination at a later date getting clear assurance from the State that no disadvantages are given to his exclusive right even if he makes a request for examination at any later date within regulated period. According to the new text paragaphs (1)(a) and (8), however, non-voluntary license (even may be exclusive one according to paragraph (6)) is given before the applicant's decision to request an examination. This is totally against the basic philosophy of deferred examination.

3. Regional working should be permitted.

A country constituting with other countries a regional group of countries should be allowed to regard working in any of these other countries as fulfilling its working requirements.

4. The exploitation of a patent in the public interest should be restrictively applicable only in case the public interest really requires such exploitation.

Paragraph (5) stipulates so broadly and should be rephrased, accordingly.

5. Exclusive non-voluntary licenses provided for in paragraph (6) should be strongly objected.

Whether the patentee can surrender his patent to avoid the grant of an exclusive license is not clear according to the present text and even if this is possible, surrender of the patent is legally equivalet to forfeiture of the patent, much more severe compulsory measure than a license and therefore it should be provided for only after a longer time or under more severe conditions.

Practical impact of this paragraph to discourage enterprises on transfer of technology and especially on the investment in developing countries was underlined many times and no need is felt to repeat this point in detail again.

6. The time periods described in paragraph (8) for developing countries are much too short.

The commercial exploitation of the patent can be expected only after a long time, in particular not at home country but in other countries. So, even these periods as proposed by Group B are practically too short.

7. Special treatment of developing countries by paragraph (8) is undesirous.

The less industrialized countries of Group B and the most developed countries of the Group of 77 are not very much different in their industrial development and this raises the question, at what time a developing country ceases to be a developing country and comes under the normal regime.

8. The French proposal, "suspension" of patent should preferably be considered instead of forfeiture or revocation.

The French Delegation put forward in the Preparatory Committee a proposal that instead of forfeiture or revocation in subparagraph (8) (b) the measure should be suspension.

According to the French proposal, once suspension has been ordered, the patentee may no longer claim his rights in the infringement procedures and the patentee shall recover his rights, subject to the acquired rights of third parties deriving from working during the period of suspension, when he is able to produce evidence that he is working the invention in the country or is taking genuine and effective measures to that end.

Edgar W. Adams, Jr.

Thank you very much.

You can't keep me off the program by not printing my name. I do appreciate this opportunity to discuss with you for a very few minutes the challenges and perhaps the opportunities to be met by PIPA in preparation for the resumption of the Diplomatic Conference in Nairobi next year.

I regret that I have no prepared remarks for distribution. In fact, I regret that I have no prepared remarks. I did not know I would have this opportunity until this morning. However, I want to make reference to the address given by Commissioner Diamond yesterday, and that has been distributed in the materials you received this morning.

As you heard yesterday from Commissioner Diamond, there is great concern at least in the United States, with the procedure by which the rule which has been spelled out was "adopted". The problem, as it is seen by many, is that any effort to actually revise the substantive provisions of the Paris Convention, under rules which are not accepted by all sovereign states participating must be a failure.

I'd like to say a few words about the significance of this unresolved question. It poses two kinds of problems. One is a short term problem involving the resumption of the Diplomatic Conference and the consideration of substantive

issues. For example, two issues which have been referred to are those involving appellations of origin and Article 5A referring to compulsory exclusive licenses. Under the voting rule which we are discussing, whether or not the view of various countries will be the same or different will depend upon political issues rather than the merits of the provisions themselves.

One would expect that with respect to appellations of origin, if there is no further resolution, that perhaps the Common Market countries and the United States and Japan will have differing views. On the other hand, with respect to Article 5A, we would expect that all of those countries would share a common view.

There is a long term problem. The alleged adoption of the voting rule occurred in a way which did not give an opportunity to a minority of countries, in this case, one, to become satisfied with the rule. This means that in the future there could be changes in the voting rule for any amendment of the Paris Convention, specifically to fit the political goals of a majority of the nations participating, and as Commissioner Diamond pointed out in his paper, the larger the minority left out in this consideration, the less possibility is that the amended convention will be satisfactorily adopted by all countries.

This leads me to refer to a situation involving PIPA. When the Diplomatic Conference resumes, PIPA's position with

respect to the substantive issues, the two which I mentioned are appellations of origin and Article 5A, will be involved in determining perhaps the resolution of those issues. Both groups of PIPA are in accord on these matters. At the moment, it is not clear whether both of the governments of our countries are in accord. Commissioner Diamond called very persuasively for the formation of alliances. He called for an allicance between the United States and Japanese governments, and those governments of other countries in these words, "Thus, Japan, the United States and all countries interested in technological progress and free trade must join together to preserve the essential characteristics of our industrial property system.".

Very flatteringly, Mr. Diamond pointed to PIPA as an example, or a model of such an alliance. This leaves PIPA, as I see it, with both a challenge and an opportunity. What can PIPA do to strengthen the allicance between our industrial circles to which Commissioner Diamond referred? And what can PIPA do to foster or strengthen alliances between the governments of our countries?

It is my hope that all of you, friends and colleagues in PIPA, will join in responding to these challenges with prompt and effective action well before the resumption of the Diplomatic Conference in Nairobi next year.

Thank you very much.

RELEVANCE OF THE PATENT SYSTEM: THE AUSTRALIAN STUDY

By: Frank D. Shearin

In recent months the news media in Australia have been quite critical of the impact of multinational companies on the Australian economy and on indigenous research. TV specials, newspaper articles and magazine articles have alleged that 90% of the top companies in Australia are to some degree controlled by multinational companies. It is alleged that the multinational companies charge exhorbitant royalties for technology imported into Australia. They further point out that about 90% of the patents granted in Australia are assigned to multinational companies. It is further alleged that this domination of Australian industry and technology has led to the decline of indigenous research, and there has been a growing concern as to what may happen in the future in light of this situation.

Much of this concern in the public media may have been initiated by a report from the Australian Senate Standing Committee on Science and the Environment entitled "Industrial Research and Development in Australia". It was published in May, 1979 at the direction of Senator Jessop of South Australia, who is chairman of the Senate Standing Committee on Science and the Environment. The report is commonly known as the "Jessop Report". The report, among other things, alleges that there are serious shortcomings with the patent system in Australia,

and questions the assumption that present patent legislation operates in the national interest.

About two years ago, the former Minister of Productivity, the Honorable Ian Macphee, formed a group called the Industrial Property Advisory Committee (IPAC) to provide advice to the Minister and the Parliament on matters relating to patents, trademarks, copyrights, technology transfer and the like. In July, 1980 the IPAC announced in the press that they would examine the patent system to determine, among other things, whether or not it met the national interests of encouraging indigenous industrial research and development. The text of the announcement is attached.

In light of the Jessop Report and the announcement by the IPAC, I visited Australia last August to obtain additional information and to determine the strength of the anti-patent bias in that country. I interviewed a number of people involved with intellectual property law in Australia, including two members of the IPAC. Although an exhaustive treatment of the Australian study is beyond the scope of this paper, I hope that this summary of the situation will alert you to the potential danger that Australia may abandon the patent system, or alter it in such a way that multinational companies will be at a serious disadvantage. Clearly, if Australia, a developed country, abandons or seriously modifies its patent laws, it could adversely affect opportunities for investment in Australia, as well as set a pattern for developing countries.

The IPAC is composed of the following people, who were appointed for five-year terms:

Mr. John Stonier, Manager Patenting and Licensing, Broken Hill Proprietary Co. Ltd. (B.H.P.), Chairman of IPAC.

Professor D. McL. Lamberton, Professor of Economics at the University of Queensland, and a notable Australian economist.

Mr. D. Walsh, a member of the firm of Mallesons, a highly respected firm of Solicitors in Melbourne.

Mr. D. J. Ryan, a partner in the firm of Davies and Collison, Patent Attorneys, of Melbourne.

Mr. P. Grant, a Patent Attorney and an Assistant Secretary (Patents and Licensing), Commonwealth Scientific and Industrial Research Organization (C.S.I.R.O.), of Canberra, A.C.T.

Mr. F. J. Smith, the Commissioner of Patents and Registrar of Trade Marks and Designs, Canberra, A.C.T.

Mr. T.F.C. Lawrence, the Controller-General of the Department of Productivity, Canberra, A.C.T.

The initial objective of the IPAC will be an economic assessment of the Australian patent system. The economic study is being made by Professor Lamberton, a member of the IPAC, pursuant to a grant of A$70,000 from the Australian Patent Office. In particular, the study will attempt

to assess the patent system's economic impact on, or relevance to:

- Australia's particular circumstances - there is a growing awareness that the benefits of the international patent system may not be shared equally; that the net benefit to the individual country may be determined by its size, income level, and capacity to sell rather than buy technology.

- Indigenous invention and innovation - to what extent does the patent system influence industry expenditure of R & D?

- Flow of information and technology transfer - what is the impact of the patent system on the spread of technical knowledge? Who uses patent information and for what purposes?

- Competition and international trade - are there restrictive practices in the exercise of licensing of patents in Australia? What is the impact of the patent system on exports, imports, balance of payments, and foreign investment? What are the full costs of technology acquired under the international patent system? In particular, how important are export restrictions, tied-in purchases, and the need to

acquire supportive "know-how"? Do royalties, license fees, and rentals paid abroad amount to a significant repatriation of profits?

- Changing nature of production processes, economic organization, and economic structure
  How relevant is the patent system given the pace of change, the growing importance of the service sector, computers and telecommunications, and microprocessor applications?
- Differing industries and firm size - who are the patentees? How does the patent system affect different sectors, industries of high vs. low foreign investment, concentrated vs. competitive industries, industries of rapid vs. slow technological change, private sector vs. government, large firms vs. small firms and the individual inventor?

Where appropriate the study will include within its scope other elements of intellectual property such as copyright and industrial design specifications.

A second objective will be to discuss the policy implications arising out of the study. This will address the issue of whether it would be in Australia's interest to abandon or modify the existing system.

Assuming that the IPAC does not recommend that Australia abandon the patent system, the IPAC will examine other issues, such as:

- What type of patent system will stimulate most effectively indigenous invention and innovation and expansion of Australian exports?
- Can the system facilitate the export of Australian technology?
- Is there need for stronger provisions to ensure the utilization of patents?
- How should patent legislation be coordinated with other industrial and economic policy measures?
- Should the length of the patent term be modified or the ease or difficulty of obtaining patents be altered, either generally or on a selective basis?
- Does the nature of recent technological change with the combination of computers and communication as its leading edge call for new thinking about what is patentable?
- Should patents be eliminated in some fields because of their basic economic importance to a small country like Australia?

Clearly, this is the most comprehensive review of the patent system that has been undertaken by any country since the study in Canada in the mid-1970's.

John Stonier, Chairman of the IPAC, told me that the IPAC plans to hold a seminar in November at Warberton, located north of Melbourne. The purpose of the seminar is to organize the approach IPAC will use in answering these broad topics. The seminar will be in three separate sessions of about one-half day each, plus group discussions. Selected outsiders have been invited to the seminar but the IPAC wants to limit the size of the meeting to about 25 people. At this time, it is not clear whether or not the results of the seminar will be made available to the public.

Professor Lamberton told me that data in Australia to support any type of economic position will be difficult to obtain. Accordingly, to complete the economic study, the IPAC will have to rely on foreign sources such as Japan, the United States and Canada, to provide analogous data to the Australian situation. Lamberton did not believe that the Canadian study would be automatically applicable to Australia.

Mr. T. D. Mandeville of the Department of Economics at the University of Queensland is working under the direction of Professor Lamberton on the economic review of the Australian patent system. Mr. Mandeville has prepared a suggested questionnaire for the economic assessment which he intends to submit to the Institute of Patent Attorneys in

Australia for submission to their business clients. A copy of the suggested questionnaire is attached.

What are the pro-patent forces in Australia doing?

- The Institute of Patent Attorneys of Australia intends to submit appropriate submissions to the IPAC and has formed a subcommittee for this purpose. Information as to what their foreign clients would propose to submit would be very helpful to that subcommittee in finalizing its proposal.

- The Australian Manufacturers' Patents, Industrial Designs, Copyright and Trade Mark Association (AMPICTA) intends to compile submissions and send them to the IPAC. The operations of AMPICTA are largely conducted under the guidance of Mr. D. W. Berryman, Patent Attorney, Manager of Patents and Agreements, Dulux Australia Ltd., which is a subsidiary of ICI, and Mr. D. A. Freckleton, Corporate Patent Attorney, ICI Australia Ltd. If your company has a subsidiary in Australia, they may be a member of AMPICTA.

Independently, it was found from the yearly proceedings of the Patent Office that of the approximately 10,900 complete patent applications filed in Australia in 1978, the domicile of applicants can be divided into the following categories:

1. The United States accounts for approximately 4,300 applications;

2. Japan accounts for about 900 applications;

3. All other foreign applicants combined account for approximately 4,600 applications, and,

4. Australians account for approximately 1,100 applications.

These figures indicate that multinational companies not only provide most of the income for the Patent Office, Canberra, but also should have a strong interest in the IPAC study. Then, what can we do?

I strongly recommend that those companies and industry groups who have an interest in the outcome of the study in Australia take the following actions:

1. contact their associates in Australia to obtain assistance and advice concerning the matter;

2. submit their views to the IPAC, particularly if the company has a part interest in a subsidiary in Australia which performs research and development;

3. insist that their subsidiary in Australia make submissions to the IPAC;

4. encourage industry groups to which you belong to make appropriate submissions to the IPAC, so that the IPAC has the benefit of at least the collective views of such groups;

5. provide the Institute of Patent Attorneys of Australia with copies of arguments and position papers.

In conclusion, the IPAC study could significantly affect the nature and effectiveness of patent law in Australia for years, and may have a long term influence on research and development in Australia, on foreign investment in Australia and on the patent laws of the developing countries. I urge you to make your views known to the Australian government.

Thank you.

From THE AGE (Melbourne) 18 June 1980

INDUSTRIAL PROPERTY ADVISORY COMMITTEE
REVIEW OF AUSTRALIAN PATENT SYSTEM

"The Industrial Property Advisory Committee is undertaking a comprehensive review of the Australian patent system. The broad thrust of the inquiry is to study, from the viewpoint of the Australian national interest, whether the Australian patent system as presently operating, sufficiently advances Australia's technological development and whether there are ways in which it may be made to do so more effectively.

The terms of reference for the review, which was referred to the Committee by the Minister for Productivity in October 1979, are to examine:

- how the patent system can best contribute to the efficiency and progressiveness of the Australian economy and the adequacy of the system in meeting the needs of Australia with respect to the development and exploitation of new and exising technology.

- any changes required to legislation and administrative procedures to make the patent system less complex and more responsive to needs.

- how patent legislation can be coordinated with other industrial and economic policy measures.

- whether there are restrictive practices in the exercise and licensing of patents in Australia, whether it is desirable in the public interest to prohibit by law such practices, and whether the patent legislation is adequate for that purpose.

- the conditions necessary for Australia to maximize benefit from participation in the international development of patent systems, and

- the ways to maximize access to and utilization of patent information including an assessment of how information sources can be coordinated with other sources of technological and business information.

Interested persons, organizations and associations are invited to make written submissions on any matter within the above terms of reference before 31 December 1980. It is probable that the Committee will invite comments on particular topics, possibly from specific persons or bodies, at some later stage of its investigation.

Submissions should be forwarded to:

The Secretary
Industrial Property Advisory Committee
P.O. Box 2000
Woden, A.C.T. 2606
Telephone: Canberra (062) 83 2625
Telex: AAE1517"

Official Notices

Review of Official Journal

A committee was established to review the format and content of the Official Journal. Its objectives were:

(a) To increase the effectiveness of the publication by making it more relevant to the current needs of its users.

(b) To reduce the nett cost of the publication to the Patent Office, whilst preserving its effectiveness.

The Committee has now prepared a draft of its report which is available for inspection at any of the Patent, Trade Marks and Designs Sub-Offices, from 18 September 1980.

Interested parties wishing to comment should do so, in writing and addressed to the Secretary, Journal Review Committee, Patent, Trade Marks and Designs Office, Canberra, A.C.T., by 17 October 1980.

INDUSTRIAL PROPERTY ADVISORY COMMITTEE REVIEW OF THE AUSTRALIAN PATENT SYSTEM INFORMATION FOR SUBMISSION MAKERS

Preamble

The review of the Patent system in Australia was announced on 15 November 1979 by the then Minister for Productivity, Mr Ian Macphee, who said that he had asked the Industrial Property Advisory Committee to examine the effectiveness of the Patent system in encouraging the adoption of new technology by Australia and to look at how the system aids or inhibits Australian invention and the transfer of technology.

Submissions

It would be of considerable assistance to the Committee in assessing the wide range of views which it is likely to receive from all sectors of the community if persons wishing to make written submissions could adhere to the following guidelines:

For uniformity in handling and filing by the Secretariat it would be of assistance if submissions could be typed, single sided on A4 size paper with 1½ spacing.

For submissions over 10 pages in length, it would be valuable if a summary could be provided at the beginning of the submissions. Such a summary should draw out the main theme of the submission and should, as far as possible, be capable of standing alone.

The Committee realises the public interest in the issues involved and would prefer to make all submissions available for public scrutiny. The Committee recognises, however, that some material may be of a commercially sensitive or otherwise confidential nature, and will, on request, accept submissions or parts of submissions on a confidential basis.

For the use of Committee members and the Secretariat to the Committee, and to enable one copy of non-confidential submissions to be available for public scrutiny in the Patent Sub-Office in each capital city, 15 copies are necessary. (The Secretariat will arrange copying for those persons who do not have access to appropriate facilities.)

Hearings

The Committee does not intend to hold public hearings of submissions made in response to the general advertisement, but may invite persons or organisations who have made submissions to present oral or further written evidence in support, elaboration or clarification of their submissions. The hearing of persons or organisations who have been requested to make submissions on one or more specific topics may be handled differently.

Timing

The Committee is working to a tight schedule. ALL SUBMISSIONS IN RESPONSE TO THE GENERAL ADVERTISEMENT MUST BE LODGED WITH THE COMMITTEE SECRETARY No Later Than 31 December 1980.

General Inquiries

Submissions and all requests for additional information and general inquiries should be directed to:

Secretary,
Industrial Property Advisory Committee,
P.O. Box 200,
Woden, A.C.T. 2606.
Telephone (062) 83 2625.
Telex COMPAT AA61537.

BOARD OF EXAMINERS OF PATENT ATTORNEYS

Appointment of Members

Kevin Newman, the Minister for Productivity, has, as provided by sub-regulation (1) (c) of regulation 5 of the Patent Attorneys Regulations appointed the following persons as members of the Board of Examiners of Patent Attorneys to hold office until 31 December 1983:

CYRIL MONTAGUE BENTLEY
PETER NORMAN NICHOLLS

R. E. GRANT
Secretary.

PUBLIC HOLIDAYS

The Patent, Trade Marks and Designs Office, Australian Capital Territory, and Patent, Trade Marks and Designs Sub-Office, Sydney, will be closed on Monday, 6 October 1980 (Labour Day).

Patent, Trade Marks and Designs Sub-Office, Adelaide, will be closed on Monday, 13 October 1980 (Labour Day).

Patent, Trade Marks and Designs Sub-Office, Perth, will be closed on Monday, 13 October 1980 (Queen's Birthday).

ECONOMIC ASSESSMENT OF THE PATENT SYSTEM

1. Name of firm or company.....

1(a) Independent inventors. Please tick box and answer appropriate questions ☐

2. Nature of business/industry.....

3. Number of Employees at June 30, 1980 (or nearest convenient date)

Full time.....

Part time.....

4. Location of head office.....

5. Is your firm more than 75 percent Australian-owned? Yes ☐

No ☐

6. When was your first patent granted in Australia? Year.....

7. How many patents throughout the world do you currently:

(a) own? Number.....

(b) hold under licence? Number.....

8. How many Australian Patents do you currently:

(a) own? Number.....

(b) hold under licence? Number.....

9. Roughly what percentage of all the Australian Patents you own or hold under licence produce:

(a) a return from working the patents yourself? Percent.....

(b) a return from licensing them to or exchanging them with other firms? Percent.....

10. Roughly what percentage of your Australian patents (owned or held under licence) are worked in Australia?

Percent.....

11. Roughly what percentage of all the Australian patents which you own or hold under licence result from R&D performed in Australia?

Percent.....

12. If no patent protection were available to you or anyone else in Australia, roughly what effect would this have on your:

(a) capital investment in Australia? (please tick)

No change .....

Increase, indicate precent increase .....

Decline, indicate percent decline .....

Don't know .....

13. What are your firm's main sources of R and D information? Please rank 1, 2, 3, etc.

		Rank
(a)	technical and trade journals	.....
(b)	informal contact with people in other organisations	.....
(c)	published patent specifications held in patent offices or elsewhere	.....
(d)	technical interchange with other firms, e.g., joint ventures, licensing, etc.	.....
(e)	recruitment of people from other organisations	.....
(f)	government	.....
(g)	conferences and seminars	.....
(h)	universities	.....
(i)	overseas visits by executives, R and D personnel, technical personnel	.....
(j)	other - please describe	.....

14. How has your business in Australia over the last decade been affected by patents you own or hold under license?

(a) sales

no change ..... don't know .....

increase - substantial.... moderate.... minimal....

decrease - substantial.... moderate.... minimal....

(b) profitability.

no change ..... don't know .....

increase - substantial.... moderate.... minimal....

decrease - substantial.... moderate.... minimal....

(c) exports from Australia

no change ..... don't know .....

increase - substantial.... moderate.... minimal....

decrease - substantial.... moderate.... minimal....

15. How has your business in Australia over the last decade been affected by patents owned or held under licence by others?

(a) sales

No change ☐
Don't know ☐
Increase: substantial ☐ moderate ☐ minimal ☐
Decrease: substantial ☐ moderate ☐ minimal ☐

(b) profitability

No change ☐
Don't know ☐
Increase: substantial ☐ moderate ☐ minimal ☐
Decrease: substantial ☐ moderate ☐ minimal ☐

(c) exports from Australia

No change ☐
Don't know ☐
Increase: substantial ☐ moderate ☐ minimal ☐
Decrease: substantial ☐ moderate ☐ minimal ☐

16. Are there any further comments you would like to make about the patent system in Australia?

Use of EPC & PCT by the PIPA Japanese Group Members
---On the Results of an August, 1980 QUESTIONNAIRE Survey--

Japanese Group Committee No. 3
Ken-ichi Ooya
Yasuhiko Adachi
Nobuo Okabayashi
Hideo Ozawa
Tsugizo Kubo, Speaker

PIPA Tokyo Congress
October 1980

SUMMARY

The Japanese Group Committe No. 3 has conducted a second survey on the above subject to ascertain the members' experiences and opinions relating to filing patent applications under the Patent Cooperation Treaty (PCT) and the European Patent Convention (EPC), subsequent to the first survey conducted in 1978, which results were reported at Nagoya in 1978 by Mr. K. Imai.

Regarding EPC, the respondents in general are in favor of using EPC, especially the chemical companies. An increase in the number of EPC applications is reasonably expected in the future.

However, regarding PCT, many respondents have a negative attitude toward PCT. It seems to be necessary for the PCT system to be changed into an attractive and favorable one for applicants.

I. INTRODUCTION

About two years have passed since it became possible to effectively file patent applications under EPC & PCT. To asertain the latest attitudes, experiences, developments and opinions of the PIPA Japanese Group members regarding EPC and/or PCT applications, a questionnaire similar to the first survey in 1978 was mailed to all members (57 companies).

It is our hope that the present report on the basis of the results of this second survey, together with the first survey report in 1978 (hereinafter "1978 Report") and the corresponding survey report by the New York Patent Law Association in 1979, reported at Philadelphia last year by Mr. R. Spencer (hereinafter "1979 Report"), will be helpful and informative for you when using EPC and PCT in the future. A copy of the questionnaire and the results are attached herewith.

Of the 57 questionnaires mailed out, 52 (91%) were returned. The figures of the respondents classified by type of industry are as follows:

Mechanical	11	21%
Electrical	13	25%
Chemical	26	50%
Others	2	4%
Total	52	100%

The above data show that one half of the respondents are chemical companies, and the other half is almost evenly divided into electrical and mechanical companies.

The following is an analysis of the present survey with reference to the 1978 Report and the 1979 Report.

II. EPC APPLICATIONS

1-(1) Number of EPC Appications

45 (87%) of the 52 respondents have EPC filing experience. This percentage closely corresponds to 84% (46 of 55 respondents) in the 1978 Report which stated a positive attitude toward EPC, that is, they planned to use EPC, either positively or on a trial basis. It is interesting to note that 83% (43 of the 52 respondents) filed EPC applications in the first half of this year. It is supposed that a large number of Japanese companies will begin to positively or actively use EPC in practice and continue to maintain such an attitude toward EPC.

Regarding the total number of EPC applications filed until now per respondent, a majority of the respondents filed only 50 or less applications through the EPC route. However, of the 13 electrical companies, one (1) filed 101 or more EPC applications.

1-(2) Percentage of EPC applications to the total number of foreign applications

31% (16 of the 52 respondents) answered that the percentage of EPC applications to the total number of foreign applications in the first half of this year is less than 10%.

23% (12 of the 52 respondents) state that it ranges between 20% and 50%.

In this respect, some differences among the types of industries can be recognized. For example, the chemical and electrical companies tend to file significantly and actively more EPC applications than the mechanical companies.

Of 11 mechanical companies, 82% (9 companies) answered that the percentage of EPC applications to the

total number of foreign applications is less than 10%. In the electrical industry, only 46% (6 of the 13 respondents) answered with a percentage less than 10%. In the chemical industry, only 35% (9 of the 26 respondents) answered with a percentage less than 10%.

4 chemical companies and 1 electrical company answered that this percentage was 50% or more.

As can be seen from the foregoing, generally speaking, the chemical, electrical and mechanical companies, in that order, use EPC positively and actively at the present time. It may be a reflection of each industry's attitude toward EPC.

1-(3) Number of Designated countries per EPC Application

A majority of companies answered that the average number of designated countries per EPC application was 4 or 5. That is, 29 (64%) of the 45 respondents designated, on the average, 4 or 5 countries in one EPC application.

However, there is a significant difference between the mechanical and other industries. In the chemical and electrical industries, many companies designated 4 or more countries in one EPC application. That is, 21 (95%) of the 22 chemical companies and 11 (92%) of the 12 electrical companies designated 4 or more countries per EPC application. On the countrary, only 4 (44%) of the 9 mechanical companies designated 4 or more (4 or 5) countries in one EPC application.

2 chemical companies designated 8 or more countries. Those which designated 6 or more countries were 6 chemical companies and 1 electrical company.

According to the 1978 Report, 32 (62%) of the 52 respondents said that the number of designated countries is preferably 4 or more. This percentage is not drastically different from 84% (38 of the 45 respondents) of the present survey. It appears to be widely believed

that EPC applications should be filed in the case where there are at least 4 designated countries.

It should be noted that, of the chemical companies, almost all the pharmaceutical companies tend to designate 6 or more countries in one EPC application. In addition, 2 pharmaceutical companies designated 8 or more countries. It is apparent that the pharmaceutical companies use EPC much more than the other industries, from the standpoint of both the percentage of EPC applications to the total number of foreign applicaitons and the number of designated countries.

1-(4),(5) Reasons for Filing or Not Filing EPC Applications

The folloiwng are main reasons for filing EPC applicaitons, in the order of their importance which the 43 respondents answered (multiple choice):

84%(36 of 43) To simplify filing procedure and prosecution

81%(35 of 43) To save filing expenses.

70%(30 of 43) The use of English as the official language

The 1978 Report also illustrated that the main reasons for filing EPC applications were:

74%(32 of 43) To simplifiy filing procedures

74%(32 of 43) To save filing expenditures

58%(25 of 43) To choose English as an official language

The 1979 Report also stated the above three reasons were major among the American respondents.

Consequently, there is no significant difference of understanding and thought regarding the merits of the EPC route between the American and Japanese respondents. It is apparent that the main reason for using EPC common to the United States and Japan is "economic".

The 7 companies which have no EPC experience answered that the main reason for not using EPC is to avoid the result of so-called "all or nothing". The other main reasons for not using EPC are:

(a) higher costs when a small number of countries are designated;

(b) possible drawbacks relating to opposition; and

(c) criteria of examination are not clear.

The above reasons for not using EPC are also listed in the 1978 and 1979 Reports as the major reasons.

1-(6) Filing Route when the Invention is Important and has a High Patentability

In the case where the invention is important and its patentability is high, a majority of companies use EPC. 38 (73%) of the 52 respondents answered affirmatively. This attitude or tendency is remarkable, particularly in the electrical industry. 12 (92%) of the 13 electrical respondents indicate such a strategy.

Taking into consideration such data, it can be recognized to be necessary to periodically watch the first publications of EPC applications.

1-(7) Filing Route when the Invention is Important but does not have a High Patentability

In the case where the invention is important but its patentability seems to be not high, a majority of companies (87%; 45 of the 52 respondents) selected the national route. There is no significant difference among the types of industries.

1-(8),(9) Filing Route when a Patent Applicaiton is filed for the Defensive Purpose or when Practicing the Invention is not determined

In such a case, one half or more of the respondents answered that the EPC route was selected. About one third responded choosing the national route. Only 4 mechanical companies answered that they use PCT. It seems that the mechanical companies' attitudes are various.

1-(10) Merits and Drawbacks of EPC Applications through Actual EPC Filings

Many companies remarked on the merits of EPC applicaitons as follows:

8 companies	To simplify procedure and prosecution
7 companies	To decide at an earlier stage the patentability by using a search report

It is interesting to note that there is some significant difference in opinion regarding economic advantages among the respondents. 3 companies said that

EPC applications could save filing costs, but 3 other companies answered that EPC applications resulted in higher costs than their estimates.

The total costs until issuance of a patent can not be clarified at present, so that a survey on such a subject may be expected to be conducted in the future.

1-(11) Criteria of Exmaination

31 (69%) of the 45 respondents said that the criteria of examination for EPC applications is somewhere between West Germany and Britain. However, 8 (38%) of the 21 chemical respondents answered that the criteria of examination for EPC applications is similar to West German. This percentage is higher than the other industries.

1-(12) Training of Patent Staff for EPC Applciations

The patent staff of the respondents are trained or educated in various manners, although relatively many companies answered "self-teaching".

2 electrical companies answered that their patent staff now stay abroad mainly for the purpose of mastering EPC practices. It is supposed that a reasonable number of other companies also send trainees to Europe for the purpose of studying EPC practice and each European country's patent system.

2-(1) Future Percentage of EPC Applications

25 (50%) of the 50 respondents answered that they would not change the percentage of EPC applications to the total number of foreign applications. The same number (50%; 25 of the 50 respondents) indicated that they would increase it in the future.

More than half of the mechanical companies and chemical companies indicated that they would not change their present percentage. On the other hand, more than two thirds of the electrical companies indicated that they would increase such percentage.

According to the 1978 Report, many companies (62%; 34 of 55) answered that they tried to use EPC on a trial basis; at the present time, in general, many companies appear to positively use EPC. This analysis is also supported by the fact that there exists no company intending to decrase such percentage.

2-(2) Reasons for Increasing the Percentage of EPC Applications

These reasons are almost the same as those for filing EPC applications as mentioned-above. (see I.1.(4))

The number of companies (56%; 14 of 25) expecting to decide at an earlier stage the patentability on the basis of a search report is increasing. That is, high quality search reports by EPO are largely expected.

Regarding simple procedure/prosecution and low costs, those merits will be recognized and utilized by the respondents.

III. PCT APPLICATIONS

1-(1) Number of PCT Applications

During the last two years, 19 (37%) of the 52 respondents did not file any PCT applications. This percentage can be recognized to be reasonably high as compared with the corresponding percentage of EPC (13%: 7 of the 52 respondents).

Just half of the 26 chemical companies have not yet filed a PCT application. On the contrary, 3 of 13 electrical companies filed more than 11 PCT applications. During the last 12 months, 23(44%) of the 52 respondents did not file any PCT applications, an increase over the last one year period, indicating an increasing negative attitude toward using PCT.

1-(2) Percentage of PCT Applications to the Total Number of Foreign Applicaitons

Regarding most of the respondents, this percentage is less than 5%. Only 2 electrical, 1 chemical and 1 other type companies are exceptional.

1-(3) Number of Designated Countries per PCT Application

26 (74%) of the 35 respondents designated on the average, 4 or 5 countries per PCT application. There is no significant difference between each type of industry.

1-(4),(5) Reasons for Filing or Not Filing PCT Applications

The main reasons for filing PCT applications are as follows:

70% (23 of 33)	An application can be urgently filed
58% (19 of 33)	Japanese language can be used
52% (17 of 33)	To learn what to do

The major reasons for not filing PCT applications are as follows:

74% (14 of 19)	Complicated procedurs
42% (8 of 19)	High costs
42% (8 of 19)	What to do is not clear

It seems not to be expected to effectively utilize an international search report in the case of PCT applications.

2-(1) Future Percentage of PCT applications to the total number of Foreign Applications

Only 4 (8%) of the 49 respondents intend to increase such percentage in the future. Also, 2 (4%) of the 49 intend to decrease it. 31 (63%) of the 49 have a "wait and see" attitude.

IV. CONCLUSION

Regarding EPC, the number of designated countries appears to be an important factor in choosing the EPC route. For such a reason, the chemical companies which designate usually many countries are the most active for EPC filings. In particular, the pharmaceutical companies are actively using EPC.

What the respondents expect from EPC applications are mainly economic advantages such as simple procedure/prosecution, low costs and the like. Also, many respondents are appreciating the higher quality of an EPO search report.

A main reason for not using EPC is that most companies fear putting "all of their eggs in one basket". It is supposd that the number of designated countries, the importance of the invention, its patentability and other reasons will be checked in more detail to determine the filing route in view of their accumulated experiences.

Regarding PCT, most companies have a negative attitude. At least for the time being, an increase of PCT applications cannot be expected. Further studies and improvement on PCT are necessary to change the system into an attractive and favorable one for applicants.

QUESTIONNAIRE AND RESULTS OF SURVEY

*Of the 57 questionnaires mailed out, 52(91%) were returned.

Answers		Mech.	Elec.	Chem.	Other(s)	Total
Your corporate name:						
Type of Industry: [ ] Electrical, [ ] Chemical, [ ] Mechanical, [ ] Other(s)	52	11	13	26	2	52

I. Use of EPC

1. Regarding status of EPC applications

(1) How many EPC applications has your company filed to date?

Electrical & Mechanical Companies	Chemical & Other Companies						
[ ] a. 101 or more	[ ] a. 51 or more		a	0	1	0	0	1
[ ] b. 51 to 100	[ ] b. 21 to 50		b	0	2	5	0	7
[ ] c. 1 to 50	[ ] c. 1 to 20	52	c	9	9	17	2	37
[ ] d. 0	[ ] d. 0		d	2	1	4	0	7

(2) During the first half of this year, the number of EPC applications was what percent of the total number of foreign applications?

[ ] a. 50% or more	a	0	1	4	0	5
[ ] b. less than 50%	b	2	2	8	0	12
[ ] c. less than 20%	52 c	0	4	5	1	10
[ ] d. less than 10%	d	6	5	4	1	16
[ ] e. 0	e	3	1	5	0	9

(3) How many designated countries represent the average number for your EPC applications?

[ ] a. 8 or more
[ ] b. 6 or more
[ ] c. 4 or more
[ ] d. 3 or less

(4) If you checked the above item 1(2) a, b, c or d, what is(are) your reason(s) for filing EPC applications?

[ ] a. to save filing expenses;
[ ] b. to simplify filing procedure and prosecution;
[ ] c. to delay or obviate the filing of translations, e.g., West Germany;
[ ] d. the use of English as the official language;
[ ] e. easier to obtain patents in certain countries which have high examination standards;
[ ] f. rights in registration or non-examination countries may be determined and strengthened;
[ ] g. to anticipate future transfer to CPC;
[ ] h. to determine at an earlier stage the patentability in view of a search report;
[ ] i. to learn what to do regarding EPC;
[ ] j. to delay the payment of translation fees, patent fees and the like;
[ ] k. others (specify).

Answers		Mech.	Elec.	Chem.	Other(s)	Total
45	a	0	0	2	0	2
	b	0	1	6	0	7
	c	4	10	13	2	29
	d	5	1	1	0	7
43	a	7	9	17	2	35
	b	7	9	19	1	36
	c	1	3	6	0	10
	d	6	11	12	1	30
	e	0	1	4	0	5
	f	1	2	4	0	7
	g	0	0	0	0	0
	h	3	2	7	0	12
	i	4	3	7	0	14
	j	0	0	1	0	1
	k	0	1	0	0	1

(5) If you checked the above item 1(2) e, what is(are) your reason(s) for not filing EPC applications?	Answers		Mech.	Elec.	Chem.	Other(s)	Total
[ ] a. it may result in either no patents or, alternatively, patents in all the designated countries;		a	3	0	4	0	7
[ ] b. it may involve complicated procedures;		b	0	0	0	0	0
[ ] c. it may result in higher costs when a small number of countries are designated;		c	1	0	2	0	3
[ ] d. more oppositions may be lodged than for current national applications;		d	0	0	1	0	1
[ ] e. examiners are inexperienced in handling EPC applications;		e	0	0	0	0	0
[ ] f. criteria of examination are not clear;	9	f	1	0	2	0	3
[ ] g. it becomes difficult to obtain patents in registration or non-examination countries;		g	0	0	1	0	1
[ ] h. it is required to submit translations of the priority documents;		h	0	0	0	0	0
[ ] i. unsure of what to do;		i	1	0	0	0	1
[ ] j. the term for opposition is long, and it takes a long time until granting of the patent right;		j	2	0	1	0	3
[ ] k. obtaining a patent is delayed as compared with national applications in certain countries;		k	1	0	0	0	1
[ ] l. others (specify).		l	0	0	2	0	2

	Answers		Mech.	Elec.	Chem.	Other(s)	Total
(6) If the invention is important, for example, because it is currently being practiced, and has high patentability, which of the following would you choose?							
[ ] a. EPC application;	52	a	7	12	17	2	38
[ ] b. national applications filed in several European countries;		b	3	2	10	0	15
[ ] c. PCT-national application;		c	0	0	0	0	0
[ ] d. PCT-EPC application.		d	1	0	1	0	2
(7) If the invention is important, for example, because it is currently being practiced, but has no high patentability, which of the following would you choose?							
[ ] a. EPC application;	52	a	0	4	4	0	8
[ ] b. national applications filed in several European countries;		b	11	10	23	1	45
[ ] c. PCT-national application;		c	0	0	0	0	0
[ ] d. PCT-EPC application.		d	0	0	0	0	0
(8) Which would you choose, EPC application, PCT application or national applications to be filed in several European countries for the defensive purpose?							
[ ] a. EPC application;	47	a	3	8	14	1	26
[ ] b. national applications;		b	5	1	11	0	17
[ ] c. PCT-national application;		c	2	0	0	0	2
[ ] d. PCT-EPC application.		d	2	0	0	0	2

(9) Which would you choose, EPC application, PCT application or national applications to be filed in several European countries for the invention, the practicing of which is not determined because it takes a long time to evaluate it?

[ ] a. EPC application;
[ ] b. national applications;
[ ] c. PCT-national application;
[ ] d. PCT-EPC application.

(10) What merits and drawbacks have you recognized after your actual filing of EPC application(s)? (optional)

Answers		Mech.	Elec.	Chem.	Other(s)	Total
51	a	6	9	13	2	30
	b	2	4	11	0	17
	c	3	0	0	0	3
	d	1	0	0	0	1

Merits: simple procedures (8 companies)
search report (7 companies)
low costs (3 companies)
use of English (1 company)

Drawbacks: complication and uncertainty (3 companies)
high costs (3 companies)
changable criteria of examination (1 company)
high criteria of examination (1 company)
self-collision (1 company)

	Answers		Mech.	Elec.	Chem.	Other(s)	Total
(11) What is your feeling regarding the criteria of examination for EPC applications?							
[ ] a. higher than West Germany;		a	0	0	0	0	0
[ ] b. similar to West Germany;		b	2	3	8	0	13
[ ] c. between West Germany and Britain;	45	c	8	8	13	2	31
[ ] d. similar to Britain;		d	0	1	0	0	1
[ ] e. lower than Britain.		e	0	0	0	0	0
(12) What method(s) of training patent staff for EPC procedures were mainly used?							
[ ] a. abroad;		a	0	2	0	0	2
[ ] b. outside the company, excluding AIPPI seminars;		b	9	7	16	1	33
[ ] c. AIPPI seminars;		c	2	5	10	1	18
[ ] d. within the company;		d	5	7	10	0	22
[ ] e. through daily practices;		e	5	9	16	1	31
[ ] f. self-teaching. If you checked this item, what material(s) did you use?		f	8	11	21	1	41
[ ] f-1 EPC Guidelines;	52	f-1	5	9	18	1	33
[ ] f-2 monthly bulletin "PATENT MANAGEMENT" issued by Japan Patent Association;		f-2	7	7	17	1	32
[ ] f-3 information from the Patent Attorneys Association of Japan;		f-3	2	7	7	1	17
[ ] f-4 information from foreign agents or associates;		f-4	6	8	19	1	34
[ ] f-5 others (specify).		f-5	1	1	5	0	7
[ ] g. others (specify).		g	0	0	0	0	0

	Answers		Mech.	Elec.	Chem.	Other(s)	Total
2. Regarding future use of EPC applications							
(1) Do you intend to increase your percentage of EPC applications?							
[ ] a. increase;		a	5	9	10	1	25
[ ] b. no change;	50	b	6	4	14	1	25
[ ] c. decrease.		c	0	0	0	0	0
(2) If you checked the above item 2(1) a, what is(are) your reason(s) for increasing the percentage of EPC applications?							
[ ] a. to save filing expenses;		a	5	7	6	1	19
[ ] b. to simplify filing procedure and prosecution;		b	4	8	8	0	20
[ ] c. to delay or obviate the filing of translations, e.g., West Germany;		c	0	3	5	0	8
[ ] d. the use of English as the official language;		d	3	7	5	1	16
[ ] e. easier to obtain patents in certain countries which have high examination standards;	25	e	2	1	1	0	4
[ ] f. rights in registration or non-examination countries may be determined and strengthened;		f	2	1	3	0	6
[ ] g. to anticipate future transfer to CPC;		g	0	0	0	0	0
[ ] h. to determine at an earlier stage the patentability in view of a search report;		h	4	2	4	4	14
[ ] i. to delay the payment of translation fees, patent fees and the like;		i	0	0	1	1	2
[ ] j. others (specify).		j	0	0	0	0	0

(3) If you checked the above item 2(1) c, what is(are) your reason(s) for decreasing the percentage of EPC applications?

[ ] a. it may result in either no patents or, alternatively, patents in all the designated countries;

[ ] b. it may involve complicated procedures;

[ ] c. it may result in higher costs when a small number of countries are designated;

[ ] d. more oppositions may be lodged than for current national applications;

[ ] e. examiners are inexperienced in handling EPC applications;

[ ] f. criteria of examination are not clear;

[ ] g. it becomes difficult to obtain patents in registration or non-examination countries;

[ ] h. it is required to submit translations of the priority documents;

[ ] i. the term for opposition is long and it takes a long time until granting of the patent right;

[ ] j. obtaining a patent is delayed as compared with national applications in certain countries;

[ ] k. others (specify).

Answers	Mech.	Elec.	Chem.	Other(s)	Total
0					

II. Use of PCT

1. Regarding status of PCT applications

(1) How many PCT applications has your company filed to date?

Electrical and Mechanical Companies	Chemical and other companies
[ ] a. 21 or more	[ ] a. 11 or more
[ ] b. 11 to 20	[ ] b. 6 to 10
[ ] c. 1 to 10	[ ] c. 1 to 5
[ ] d. 0	[ ] d. 0

Answers		Mech.	Elec.	Chem.	Other(s)	Total
52	a	0	1	0	0	1
	b	0	2	2	0	4
	c	8	8	11	1	28
	d	3	2	13	1	19

(2) During the last twelve months, the number of PCT applications was what percent of the total number of foreign applications?

[ ] a. 5% or more
[ ] b. less than 5%
[ ] c. 0%

52	a	0	3	1	1	5
	b	7	7	10	0	24
	c	4	3	15	1	23

(3) How many designated countries represent the average number for your PCT applications?

[ ] a. 6 or more countries;
[ ] b. 4 or 5 countries;
[ ] c. 3 countries or less.

35	a	1	0	0	0	1
	b	5	10	10	1	26
	c	2	1	5	0	8

	Answers		Mech.	Elec.	Chem.	Other(s)	Total
(4) If you checked the above item 1(1) a, b or c, what is(are) your reason(s) for filing PCT applications?							
[ ] a. to simplify filing procedures;		a	1	0	1	0	2
[ ] b. the use of the Japanese language at the filing stage;		b	6	6	7	0	19
[ ] c. to delay the filing of translations;		c	5	1	4	0	10
[ ] d. filing in many countries with simple procedures and low costs;		d	1	0	1	0	2
[ ] e. possibility of withdrawing an application after receipt of an international search report;	33	e	3	2	3	0	8
[ ] f. possibility of urgently filing an application;		f	7	8	7	1	23
[ ] g. to learn what to do regarding PCT;		g	3	6	8	0	17
[ ] h. others (specify).		h	0	1	0	0	1
(5) If you checked the above item 1(1) d, what is(are) your reason(s) for not filing PCT applications?							
[ ] a. high filing costs;		a	1	0	7	0	8
[ ] b. it is rare to withdraw an application after receipt of an international search report;		b	0	1	2	0	3
[ ] c. to receive an additional search report in the case of PCT-EPC applications;		c	0	0	0	0	0
[ ] d. applicants cannot obtain reasonable advantages because the United States reserves various provisions;	19	d	0	1	2	0	3
[ ] e. complicated procedures;		e	3	1	9	1	14
[ ] f. the number of contracting states is small;		f	0	1	0	0	1
[ ] g. unsure of what to do;		g	2	0	5	1	8
[ ] h. others (specify).		h	1	2	3	0	6

2. Regarding future use of PCT applications

(1) Do you intend to increase your percentage of PCT applications?

Answers		Mech.	Elec.	Chem.	Other(s)	Total
[ ] a. increase;	a	1	3	0	0	4
[ ] b. no change;	b	1	4	7	0	12
[ ] c. decrease;	c	0	0	2	0	2
[ ] d. dependent on circumstances.	d	9	6	14	2	31
49						

(2) If you checked the above item 2(1) a, what is(are) your reason(s) for increasing the percentage of PCT applications?

[ ] a. to simplify filing procedures;	a	1	1	0	0	2
[ ] b. the use of the Japanese Language at the filing stage;	b	0	2	1	0	3
[ ] c. to delay the filing of translations;	c	0	0	0	0	0
[ ] d. filing in many countries with simple procedures and low costs;	d	1	0	0	0	1
[ ] e. possibility of withdrawing an application after receipt of an international search report;	e	1	1	0	0	2
[ ] f. possibility of urgently filing an application;	f	0	2	0	0	2
[ ] g. better understanding of PCT;	g	0	0	0	0	0
[ ] h. others (specify).	h	0	0	0	0	0
4						

(3) If you checked the above item 2(1) c, what is(are) your reason(s) for decreasing the percentage of PCT applications?

[ ] a. high filing costs;
[ ] b. it is rare to withdraw an application after receipt of an international search report;
[ ] c. to receive an additional search report in the case of PCT-EPC applications;
[ ] d. applicants cannot obtain reasonable advantages because the United States reserves various provisions;
[ ] e. complicated procedures;
[ ] f. the number of contracting states is small;
[ ] g. others (specify).

Thank you very much for your cooperation.

Answers		Mech.	Elec.	Chem.	Other(s)	Total
2	a	0	0	1	0	1
	b	0	0	1	0	1
	c	0	0	1	0	1
	d	0	0	0	0	0
	e	0	0	2	0	2
	f	0	0	0	0	0
	g	0	0	0	0	0

Statistics relating to European Applications

from the Annual Report 1979 and
the Latest Statistics of the EPO.

Summarized by T. Kubo
PIPA, October 1980.

* Statistics of "1980 (Jan. - Aug.)" are approximate and subject to corrections.

(1) European and Euro/PCT applications per year

	1978 (6-12)	1979	1980 (1-8)
European applications	3599	11020	11052
Euro/PCT	489 (14%)	1719 (16%)	1515 (14%)

(2) European applications according to country of origin

Country	1978 (6-12)	1979	1980 (1-8)
Fed. Rep. Germany	1210 (34%)	3403 (31%)	3293 (30%)
United States	932 (26%)	2708 (25%)	2565 (23%)
France	312 (9%)	1200 (11%)	1320 (12%)
United Kingdom	347 (10%)	1079 (10%)	988 (9%)
Switzerland	257 (7%)	694 (6%)	672 (6%)
Japan	105 (3%)	518 (5%)	817 (7%)
Netherlands	141 (4%)	341 (3%)	367 (3%)
Others	295 (8%)	1007 (9%)	1030 (9%)
Total	3599	11020	11052

(3) Average number of designations per application

1978 (6-12)	6.23
1979	6.67
1980 (1-8)	6.69

(4) European applications according to place of filing

Place of filing	1978 (6-12)	1979	1980 (1-8)
Munich	1880 (52%)	5416 (49%)	5133 (47%)
United Kingdom	925 (26%)	3079 (28%)	3034 (28%)
France	309 (9%)	1176 (11%)	1371 (12%)
The Hague	398 (11%)	815 (7%)	809 (7%)
Others	87 (2%)	534 (5%)	705 (6%)
Total	3599	11020	11052

(5) European applications according to place/language(English) of filing

Place/Language	1978 (6-12)	1979	1980 (1-8)
Munich/English	1880/439 (23%)	5416/1313 (24%)	5133/1395 (27%)
United Kingdom/ English	925/924 (99.9%)	3079/3078 (99.9%)	3034/3033 (99.9%)
France/English	309/ 11 (4%)	1176/ 45 (4%)	1371/ 121 (9%)
The Hague/English	398/194 (49%)	815/ 423 (52%)	809/ 423 (52%)

(6) European applications according to language of filing

Language of filing	1978 (6-12)	1979	1980 (1-8)
English	1603 (45%)	5043 (46%)	5178 (47%)
German	1548 (43%)	4353 (40%)	4176 (38%)
French	399 (11%)	1494 (14%)	1559 (14%)
Others	49 (1%)	130 (1%)	139 (1%)
Total	3599	11020	11052

Statistics relating to PCT Applications

from the PCT Gazettes.

Compiled by T. Kubo
PIPA, October 1980.

(1) PCT applications per year

1978 (6-12)	1979	1980 (1-6)
459	2625	1608

(2) PCT applications according to receiving office

Receiving office	1978 (6-12)	1979	1980 (1-6)
United States	112 (24%)	1059 (40%)	635 (39%)
Sweden	89 (19%)	266 (10%)	168 (10%)
Japan	52 (11%)	326 (12%)	140 (9%)
United Kingdom	53	216	111
Switzerland	43	174	76
France	46	132	102
Fed. Rep. Germany	36	145	97
Others	28	307	279
Total	459	2625	1608

(3) Average number of designations per application

1978 (6-12)	5.6
1979	6.5
1980 (1-6)	7.6

Questions & Answers on EPC Practices

Compiled and arranged by

Ken-ichi Ooya

Japanese group committee No. 3

Oct. 1980

The International Committee of Japan Patent Association, which is organized by Japanese industrial companies, in April, 1980, received a courteous and polite reply to a questionnaire regarding the practice of the EPO which was sent by the International Committee to the EPO.

Since the reply is very helpful in understanding the practice of the EPO, some of the questions and answers are attached herewith by kind permission of the International Committee.

In conclusion, it should be noted that N.W.P. Wallace, Vice-President of the EPO, states in his letter that accompanied the reply that the views expressed must be regarded, to some extent, as provisional.

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1. NOVELTY, INVENTIVE STEP

1-1 Self-collision

According to the EPC, whole contents of prior filed applications are considered in determining novelty, not obviousness in inventions of later filed applications. However, according to the Guidelines, there seems to be a case where an application claiming a compound closely related to those of prior filed applications, though not the same, may be rejected as lacking novelty. In this case, a self-collision may arise.

In this connection, we would like to ask you to comment on the following questions.

(Question 1)

Can we avoid a possibility of the self-collision by filing a European application claiming the multi-priorities from the Japanese applications, if the filing of a plurality of applications claiming the respective priorities poses a problem of the self-collision? Of course, there is the danger that the filing of divisional applications are required for the European application claiming the multi-priorities.

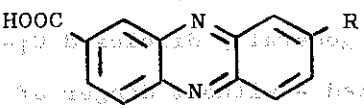
(Answer)

This question arises only when you try to get protection

for exactly the same invention. In the case of Article 54 (3) i.e. Novelty, no consideration is given to whether one disclosure is equivalent to another for example chlorine equivalent to trifluoromethyl. If you file, for example, a series of European applications relying on different Japanese priorities there is no danger of self-collision if the first application is directed to halogen compounds and the later filed applications cover exclusively single individual halogen compounds that have not been mentioned as such in the first application.

(Question 2)

The first Japanese application relates to the compounds of the formula (I).



(I)

The first application claims the compounds wherein R is C_1-C_{10} alkoxy and discloses the compounds wherein R is C_1-C_{10} alkyl, which are not exemplified.

In order to cover the compounds wherein R is C_1-C_{10} alkyl, the second Japanese application containing specific examples for the preparation of the compounds wherein R is C_1-C_{10} alkyl is filed, since the specific examples would be new

matter if introduced into the first application to broaden the scope of the claims. Thereafter, we file one European application claiming the priorities from the two Japanese applications and covering the compounds wherein R is C_1-C_{10} alkoxy or C_1-C_{10} alkyl.

In this case, is there no problem with respect to the self-collision?

Does the filing of the two corresponding European application on different day or same day claiming the priorities from the two respective Japanese application pose a problem of the self-collision?

(Answer)

If it seems important to you to keep the priority date for the originally but very generally disclosed C_1-C_{10} alkyl compounds you are entitled - without danger of self-collision - to claim in your second application those specific individual compounds, falling within the earlier claimed range, that have not been specifically mentioned. That means that you are allowed to claim compounds where R is C_2, C_3..... C_9 alkyl or, if you want, R is isopropyl, secondary butyl, isoamyl, 2-methyl-octyl, etc., but you must not claim R is methyl, because the meaning of the originally disclosed end of the range figure C_1 is methyl.

However, you should be allowed to claim R is decyl in the second application for the above given reasons, since C_{10} exists in a number of isomeric forms (this is a borderline case).

Remark: You are in a better position if your first application contains additionally a list of individual C_1-C_{10} alkyl compounds which you think could possibly be important (giving the explanation for this range R is methyl, ethyl, propyl, isopropyl, butyl, isobutyl, secondary butyl, amyl, isoamyl, hexyl, 2-ethylhexyl). For the disclosure of a chemical compound it is enough, provided the availability is clear or disclosed, to give its exact chemical name.

(Question 3)

The first Japanese application relates to the compound of the formula (I) in Question 2.

The first application claims the compound wherein R is chloro.

After the filing of the first application, we realized that the scope of protection in the first application is too narrow, and then filed the second Japanese application claiming the compounds wherein R is fluoro, bromo or trifluoromethyl. It is well known in the pharmaceutical art that trifluoromethyl group is equivalent to chloro group. Thereafter we filed one European application claiming the

priorities from the two Japanese applications and covering the compounds wherein R is chloro, fluoro, bromo or trifluoromethyl.

In this case, is there no problem with respect to the self-collision?

Does the filing of the two corresponding European application on different day or same day claiming the priorities from the two respective Japanese application pose a problem of the self-collision?

(Answer)

An objection of self-collision cannot be raised. The first application covering the chloro compounds does not destroy the novelty of the corresponding bromo, fluoro or trifluoromethyl compound. There is no consideration of equivalent disclosures (cf. Question 1-1 (1) above).

(Question 4)

In Question 1, the first Japanese application does not contain a sufficient disclosure of the preparation of the starting materials for the compounds of the formula (I). After filing the first application, we filed the second Japanese application claiming the process for producing the starting materials for the compounds of the formula (I) and containing a sufficient disclosure of the process.

Thereafter, we filed a European application claiming the priority from the first Japanese application and covering only the compounds of the formula (I). After the filing of the first European application, we filed the second European application claiming the priority from the second Japanese application and covering the process for producing the starting materials for the compounds of the formula (I).

In this case, is there no problem as to the self-collision?

(Answer)

This is not a case of self-collision, but of disclosure. A chemical compound is only sufficiently disclosed when its formula and manner of manufacture are described. It seems that in your case the new compounds claimed in the first application were not sufficiently disclosed. Therefore the first priority is apparently worthless and it should be deleted. However, if you can give evidence to show that the skilled man was obviously able to prepare the starting materials necessary for the compounds of formula I you can effectively claim the first priority.

(Question 5)

In Questions 2 and 3, the claiming of the priorities from the two Japanese applications filed on different days in filing the two European applications may pose the problem

of the self-collision. If the two European applications are filed on the same day, is it possible to avoid the self-collision by withdrawing the priorities from the Japanese applications during the prosecution of the European applications.

(Answer)

A case of self-collision would only exist in the circumstances of question (2), i.e. when in both applications the same range of C_1-C_{10} alkyl compounds is disclosed. You could remedy this deficiency by abandoning the Japanese priorities but only if this were done before the publication of the European applications. After publication conflict under Article 54 (3) cannot be avoided by abandonment of priorities.

1-2 Selection Invention

(Question 1)

Under the EPC, a selection invention is patentable. Please let us know to what extent the selection invention, to be patentable, must be superior to the prior art.

(Answer)

The Relevant Guidelines are, C, IV, 9.8 and 9.9. If a selection is made from within a group of compounds A-R, in which A is the major part of the molecule and R is a C_{1-20}

alkyl group, of the compounds wherein R is C_3 to C_5, then provided the C_3 to C_5 compounds are novel the inventive step would be established if these compounds showed unexpected special properties in comparison with the known compounds. The selection invention would then be patentable.

2. AMENDMENT

(Question 1)

According to Rule 86, (3), the applicant is given at least one opportunity to file an amendment after the receipt of the first office action from the Examining Division, and any further amendments are permitted only when the Examining Division agrees. Does EPO propose to operate this provision strictly, particularly as to the number of times the amendments are filed?

In relation to the above question, does EPO have any standard for giving or withholding the agreement to further amendments?

(Answer)

In answer to this question you are referred first of all to Rules 86 and 88 and the Guidelines C, VI, 2.5, 4.6, 4.7, and 5. From these it is seen that the applicant has two opportunities to amend without the consent of the Examining Division, first under Rule 86 (2) after receiving the Search

Report and before receiving the first report from the Examining Division and second in response to the said first report (Rule 86 (3)). There is no strict rule in operation by the EPO to restrict the number of amendment stages. The decision is made in the circumstances of each application by the Examining Division. The Guidelines clearly show that the purpose of Rule 86 (3) is to bring proceedings to a conclusion as quickly as possible (C, VI, 4.7). However, there would clearly be circumstances in which further amendment stages would be needed and thus allowed.

(Question 2)

In the instance the amendment(s) filed by the applicant on the occasions provided for in Rule 86, (2) and (3) is not approved by the Examining Division, what does the applicant have in the face of such a disapproval of the amendment(s)? (Please furnish us with detailed information on the order of the steps to be taken, the manner in which the rebuttal is to be made, and the documents required, etc.)

(Answer)

In the circumstances of the Examining Division withholding its consent to amendments, for example when it is considered that they would unduly delay the proceedings, the applicant will be informed that the amendments cannot be allowed having regard to Rule 86 (3), last sentence, and reasons will be

given. If the applicant insists on the amendments without stating adequate grounds, then, pursuant to Rule 86 (3), an interlocutory decision under Article 106 (3) will be issued, ruling that the amendments will not be allowed and giving reasons therefor. This decision can then be appealed against under Article 106 (3) (cf. Guidelines E, X, 6).

(Question 3)

When the Examiner has raised an objection that the invention lacks in an inventive step, is it possible for the applicant to insert by way of an amendment new data establishing inventive merits which were not mentioned in the specification as originally filed? Or, where the specification as originally filed mentions the inventive merits in general terms in a single line or so, is it possible to supplement them later by presenting detailed data?

(Answer)

This question will be answered together with Questions 2-4, 3-1 and 3-1 (4), since these questions are all directed to the subject of adding matter to a European patent application. Article 123 (2) EPC and Guidelines C, II, 4.10 and C, VI, 5.3 to 5.8 are relevant.

The addition of subject-matter which extends beyond tho content of the application as filed is not allowed.

Statements of prior art and clarifications of the text are however allowed. The "novelty test" employed in such situations by the Examining Division in the EPO to check whether additional subject-matter is allowable, reads as follows:

"If the new matter is derivable directly and unambiguously from what is originally disclosed including any features implicit to a person skilled in the art in what is explicitly contained in the originally filed application, it may be admitted. Matter which is derivable directly and unambiguously from the prior art may also be admitted. If the new matter is not one of these two kinds its admission into the application itself should be refused".

However, new Examples or data concerning support in the description for claims or inventive step, can be submitted for consideration by the Examining Division. Such material will be added to the file and thus be available for public inspection under Article 128 (4) (c.f. Guidelines C, III, 6.4 and VI, 5.7).

The references in the questions to the "gist" (the main point or pith of a matter - Chambers Twentieth Century Dictionary) are not clear, since the word is not used in the EPC. The nearest equivalent would appear to be "the matter for which

protection is sought" (Article 84). However, with regard to the questions, it is the content of the application (Article 123 (2)) which must not be changed and the questions posed will be answered in this sense.

The amendments referred to in Question 2-3 would have to comply with the novelty test before they could be admitted into the specification. However, such amendments would be considered by the Examining Division and placed on the file (see above). The references to "inventive merits" are taken to be equivalent to the "statements of advantages of the invention" referred to in C, VI, 5.7 a.

(Question 4)

(I) The examination standard for "Alteration of Gist in Specification" in Japan has established the standard for determination of alteration of gist where the description of a specification and/or claims is amended, as outlined below.

A. When the claim is amended:

(A) The Gist Altered

Amendment on the matter not obvious to a person skilled in the art in view of the original description shall be regarded as altering the gist.

taking habitat, phytotoxicity and the like into consideration. Then, the use as amended is not recognized to be within the scope of the original description. Therefore, this amendment shall be regarded as altering the gist.

Example in A-(B)

Original specification	Amended specification
(Title of invention)	(Title of invention)
Agricultural insecticides	Herbicides
(Claim)	(Claim)
An agricultural insecticidal composition which comprises as an active ingredient 4-(4-chlorophenyl)-1,3,5-oxathiazolinone-(2)	A herbicidal composition - - -

Example in B-(A)

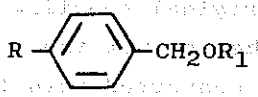
Original specification

(Title of invention)

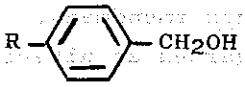
Process for preparing aromatic ether compounds

(Claim)

A process for preparing an aromatic ether compound having the formula



(wherein R is a heterocyclic group and R_1 is a lower alkyl group) which comprises reacting a p- substituted benzyl alcohol having the formula



(wherein R is as defined above) with an ester having the formula

XR_1

(wherein X is an acid residue and R_1 is as defined above)

(Extract of description)

Example 1 (R = pyrimidyl)

Example 2 (R = pynolidyl)

Example 3 (R = piperazinyl)

Amended specification

(Title of invention)

(Claim)

Example 4 (R = thiazolyl)

Example 5 (R = furyl)

(Comments)

The original specification discloses as the heterocyclic group only those compounds having pyrimidyl, pyrrolidyl and piperazyl as Examples, whereas the amended specification contains additional Examples for the compounds having thiazolyl and furfuryl. This amendment is to amend the portion supporting the technical matter in claim, since both thiazolyl and furyl fall within the scope of the heterocyclic group. Moreover, the matter is not concretely disclosed in the original specification. And, it is not obvious whether or not the starting materials as amended may be converted into the corresponding desired compounds by the measures of the present invention and whether or not such desired compounds may be equivalent chemically and in their usage to those desired compounds disclosed in the original specification. Then, the technical matter disclosed in claim does not fall within the scope of the original specification owing to such amendment. Therefore, this amendment shall be regarded as altering the gist.

Example in B-(B)

Original specification	Amended specification
(Title of invention)	(Title of invention)
Process for extracting kainic acid	- - - - -
(Claim)	(Claim)
A process for extracting kainic acid which comprises adding copper sulfate to a solution of digenea active	- - - - - - - - - - - - - - -

extract purified by adsorption on adsorbent and desorption therefrom to precipitate kainic acid in the form of a copper salt and then recovering the precipitate thus separated.	
(Extract of description)	(Extract of description) The kainic acid content in the solution can be determined by a colorimetric determination of yellow color developed with alloxan.
(Remarks) There is no disclosure on determination of kainic acid in the solution	

(Comments)

The amendment is directed to determination of kainic acid. The matter as amended is not disclosed in the original specification, nor obvious from the description. Consequently, the technical matter disclosed in claim remains unchanged with this amendment and falls within the scope of the original description as before, since the matter as amended does not support the technical matter disclosed in claim. Therefore, this amendment shall not be regarded as altering the gist.

(II) In view of the examination standard in Japan as stated above, we would like to have your answers to the following points.

Question (1) Does EPO establish any standards for determination of alteration of gist in amendment other than the Guidelines as seen in the above standard in Japan?

Question (2) Please let us know the details of such standard, if made?

Question (3) Please let us know with pertinent parts of the provisions or the Guidelines how EPO may determine with respect to each of the Examples as recited above.

Question (4) Please let us have an authentic list of such Examples applicable internally in EPO, if available?

(Answer)

A(A) - the amendment referred to would not be allowed as it would fail the novelty test, c.f. C, VI 5.4. It should be noted in connection with this question and others, that no consideration is given in the EPO as to whether the amendments are "obvious to a person skilled in the art", other than in the special circumstances of Rule 88.

A(B) - the question can only be clearly answered when specific details are given (cf. below).

B(A) - the question is not clearly worded, but if amendment of the description is intended, then such amendment would not be allowable as it would fail the novelty test.

B(B) - the question is not clear, but see the answer in the specific instance below.

C - in the circumstances described the disclosure would not be sufficient (Article 83) and the only remedy, since additional subject-matter is not allowed (Article 123 (2)) would be to restrict the claims to correspond to the originally filed disclosure (cf. C, II, 4.10).

Specific Example A(A) - the amendment is not allowable cf. the novelty test and C, VI, 5.4.

Specific Example A(B) - the amendment proposed is allowable as it complies with Article 123 (2). It should be noted however that not all excisions of text comply with Article 123 (2) cf. C, VI, 5.4 and 5.8.

Specific Example B(A) - the amendment proposed is not allowable as it fails the novelty test (C, VI, 5.4).

Specific Example B(B) - the amendment proposed in this instance would be allowable if the added description was a statement of prior art and thus complied with the novelty test. If the applicant failed to indicate and

justify its use as a statement of prior art, then the amendment would not be allowed, (C, VI, 5.3).

Answers to Questions (1) - (4)

In answer to (1), (2) and (4) the EPO has no "standards" other than the novelty test recited above and, as can be seen, in the context of the novelty test examples would not be meaningful. For the answer to (3) please see the Specific Examples above.

3. SPECIAL PROBLEMS IN THE CHEMICAL AND PHARMACEUTICAL FIELDS

3-1-1 Patents for Chemical Substances

(Question 1)

Where in a first official communication by the Examiner, a claim has been objected to as being too broad in the light of the embodiments or examples disclosed in the specification;

(i) Is it possible to insert an additional example by way of an amendment? If so, under what circumstances? For example, is it possible to insert an example for a compound by an amendment where the specification as originally filed discloses the compound only by its name or chemical formula?

(Answer)

The answer to these questions is that it is not possible under any circumstances to add examples which fail to comply with the novelty test, but this subject-matter, including Examples, may be filed to prove that the disclosure was sufficient (cf. the answer to Question 2-3). However, in answer to the question in the third sentence, it would appear to be possible to argue in certain cases that an example of the preparation of a compound originally disclosed was a clarification or was "implicit to a person skilled in the art" (cf. the novelty test).

(Question 2)

Is it possible to maintain the broad claim as originally filed, by presenting an argument (as opposed to an amendment) establishing that the additional example was already available as of the filing date?

(Answer)

In the light of the answer to 1 (i) this action is apparently unnecessary.

(Question 3)

In the above case (i) or (ii), is it necessary to submit a declaration to establish that the additional example was already completed as of the filing date?

(Answer)

As for 1 (ii).

(Question 4)

Is there any other remedy or course of action to take if the insertion of the additional example was rejected in the above case (i)?

(Answer)

See the answer to 1 (i).

(Question 5)

Where compounds covered by a claim are supported only by their names or chemical formulas in the specification and there is no other description or data identifying them (for example, where R being a substituent is defined in a claim to be an alkyl group having 1 to 10 carbon atoms, and examples are given only for R being CH_3 and C_2H_5 and only names or chemical formulas are given for R being C_3H_7, C_4H_9, C_5H_{11}, C_6H_{13}, C_7H_{15}, C_8H_{17}, C_9H_{19} and $C_{10}H_{21}$);

Question (i)

Is the claim allowable which includes compounds identified in the specification only by their names or chemical formulas? (In the above example, is the claim allowable which covers R being an alkyl of 1 to 10 carbon atoms?)

(Answer)

The Relevant Guidelines are C, III, 6.1-6.6 in the circumstances described in this question.

The claim for R=C_{1-10} would be allowable, so long as there was no reason for the man skilled in the art to consider that the process for preparation of the methyl and ethyl derivatives could not be applied to the C_3-C_{10} alkyl compounds.

Question (ii)

Does the Examiner require during the prosecution to submit data to identify the compounds?

(Answer)

The Examiner would possibly require such evidence to establish inventive step or support for claims in the description (see the answer to Question 2-3).

Question (iii)

If the Examiner so requires, is it possible to insert the data in the specification?

(Answer)

Generally the insertion of the data in the description would not be allowed (see the answer to Question 2-3).

Question (iv)

Or, is it sufficient merely to submit such data with remarks?

(Answer)

Yes, this would be acceptable for consideration (see the answer to Question 2-3).

(Question 6)

Where the specification as originally filed does not sufficiently disclose the process for producing the compounds, is it possible to insert a detailed description of the process by way of an amendment?

(Answer)

No, except when the process is a prior art process, when "detailed description" would not be necessary (see Question 2-3 and the novelty test).

(Question 7)

To what extent must the specification as originally filed disclose the effects (or advantages) of the invention to establish an inventive step? Is it necessary or desirous to present experimental results of the invention or comparative test results as compared with the prior art? Or, is it sufficient at the time of filing merely to disclose in general terms an useful effect of the invention

which constitutes the basis for patentability?

Further, with respect to a description of the effects, are the following amendments allowable?

Question (i)

Where there is no utility of compounds disclosed in the specification as originally filed, is it possible to insert the utility by way of an amendment?

(Answer)

Once again, the statements of advantage (preferred to "statements of utility") must comply with the novelty test, but if not admitted into the specification, they are considered by the Examining Division (cf. the answer to Question 2-3).

Question (ii)

Where the specification as originally filed describes only one utility of the compounds, is it possible to insert another utility of the compounds by way of an amendment? For example, where the specification as originally filed describes only a utility as a medicament, is it possible to insert data establishing the utility as an agricultural medicine and thereby to assert an inventivestep on the basis of the utility as the agricultural medicine?

(Answer)

The addition of the specified further utility would not apparently be allowable since it would fail the novelty test and prima facie would extend the content of the application cf. C, VI, 5.6a, but see the answer under (i) above.

3-1-2 Patents for Intermediate Compounds

(Question 1)

Is it possible to claim both the final compounds and their intermediates in a single application?

(Answer)

The Relevant Guidelines are C, III, 7.1-7.7.

In general, no, since, there is no unity of invention (Article 82) except when the two groups of compounds are very similar, e.g. acids and salts.

(Question 2)

To what extent must the specification as originally filed disclose the utility as the intermediates?

(Answer)

The Applicant must decide what statements of utility he needs in his specification (Rule 27 (i) (g)).

(Question 3)

Is it possible to insert the utility as the intermediates by way of an amendment (a) where there is no description of the utility at all in the original specification or (b) where the description of the utility is not adequate?

(Answer)

When the applicant indicates later for the purposes of supporting inventive step, that the new product is patentable because it is a useful intermediate this is allowable, but this late filed subject-matter will not be taken into the application but remains on the file of the application.

(Question 4)

What is the basis for judgement of an inventivestep with respect to intermediates? For example, if the final compounds are patentable as being novel and useful and involving an inventivestep, are their intermediates also patentable provided the latter are also novel?

(Answer)

When the final product is new the intermediate may benefit by any surprising effect of the final product with respect to structurally relevant known final products. In the case where the final product is already known the

intermediate can be patentable provided that the chemical reaction, or one of the chemical reactions, leading from the intermediate to the final product involves an inventive step.

3-1-3 Inventive Step for Chemical Patents

With respect to an inventive step for chemical patents, there is an examination standard in Japan, as follows:

Inventive step of an invention

An inventive step for an invention of a chemical substance is judged on the basis of peculiarities in both (i) the chemical structure of the chemical substance and (ii) the properties and utility of the chemical substance.

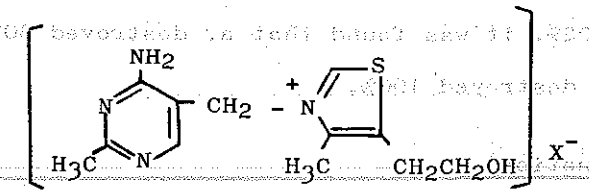
(1) The following inventions are considered to involve an inventive step:

A. An invention of a chemical substance which has a chemical structure quite different from that of any known chemical substances.

B. An invention of a chemical substance which is similar to a known chemical substance in its structure, but which has a special property of its own which can not be expected from the known chemical substance.

Example

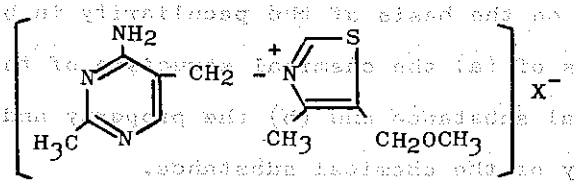
a. (known)



X: halogen

having an effect of vitamin B_1.

b. (the invention of the application)



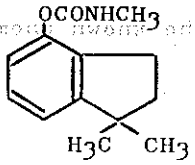
X: halogen

having an effect of anticogsisium.

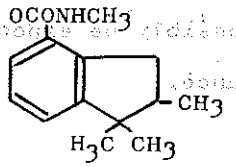
C. An invention of a chemical substance which has a quite superior property although the property itself is expected from a known chemical substance having a similar chemical structure.

Example

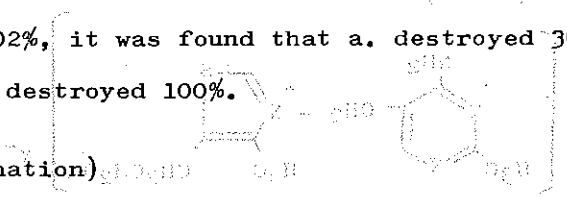
a. (known)



b. (the invention of the application)

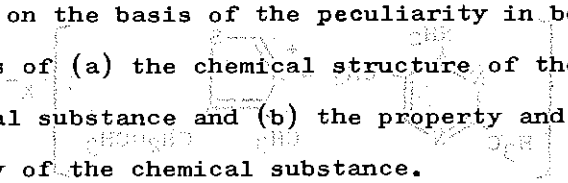


Both of them have insecticidal property. Three days after their application at a concentration of 0.002%, it was found that a. destroyed 30% and b. destroyed 100%.

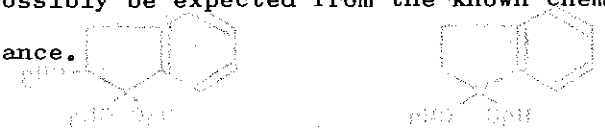


(Explanation)

So far as an invention of a chemical substance should find its essence in the "creation of a useful chemical substance", it naturally follows that the inventive step for the invention is judged on the basis of the peculiarity in both aspects of (a) the chemical structure of the chemical substance and (b) the property and utility of the chemical substance.



Accordingly, it follows that a chemical substance having a special structure is considered to involve an inventive step if it has a utility, and that a new substance having an unexpected or remarkably superior property is considered to involve an inventive step even when the substance is similar to a known chemical substance in its chemical structure, as the interrelation between its chemical sutructure and its property could not possibly be expected from the known chemical substance.



Having presented the examination standard in Japan as above, we wish to know if a similar standard is applicable under the EPC system. More particularly, we wish to have your answers to the following points.

(Question 1)

Is it correct to understand that a substance having a special structure is considered to involve an inventive step if it has a utility, as in the above case A?

(Answer)

The Relevant Guidelines are C, IV, 9.1-9.9.

The practice in the EPO would be very similar to that followed in Japan with regard to judging the inventive step for chemical compounds. Thus the three cases (A) (B) and (C) would all appear to have the inventive step required by Article 56. In the case (A) it is clear that there is inventive step.

(Question 2)

In order to prove an inventive step in the above case C, it is only necessary to establish the superiority by comparing the chemical substance of the invention with the known substance having similar structure and property. Is this also true under the

EPC system? Is it possible that the Examiner requires that the comparison should be made with a superior product among commercially available compounds having the same property as the chemical substance of the invention?

(Answer)

If you give evidence that a new substance is unexpectedly better your invention is patentable. A further proof of superiority is not necessary.

(Question 3)

Is a chemical substance of the invention patentable where a similar compound is already known in a quite different field of utility?

(Answer)

If a man skilled in the art would be unable to predict the properties of the new compound from his knowledge of a similar compound, then a patent can be granted.

3-2 Pharmaceutical Inventions

(1) In Japan there is an examination standard for the description of the specification for pharmaceutical inventions (i.e. inventions having use as a pharmaceutical), as follows:

Presentation of the detailed description of the invention.

1) Statement of pharmacological effects and the like

For an invention of use relating to pharmaceuticals, statements as to the pharmacological effects, effective amounts and manner of administration must be presented at the time of filing.

The pharmacological effects must be supported, as a rule, by clinical tests. However, depending upon the nature of the invention, the clinical tests may be substituted by animal tests or experiments in vitro.

The effective amounts, manner of administration and methods for preparation must be described to such an extend as to enable a person skilled in the art to easily exploit the pharmaceutical invention in question.

2) Toxicity tests

There must be presented at least the results of tests for acute toxicity.

We should like to know the requirements under the EPC system which may be different from the above examination standard. In particular, we should like to have your answers to the following points.

(Question 1)

Are there any special requirements for the description of the specification? Is it essential, to present statements of the pharmacological effects, effective amounts and manner of administration in the specification at the time of filing, as in Japan?

(Answer)

The requirements relating to pharmaceutical inventions are less stringent in the EPO than in Japan. The description must of course comply with Article 83 and Rule 27 (cf. C, II, 4.1 to 4.6, 4.9, 4.10 and 4.12). However in the case of compounds which are new and have inventive step, detailed descriptions of pharmacological use and effect are not required. In the case of compositions containing known compounds details of pharmacological use and effect e.g. particular qualitative effects, quantitative data and comparative experiments, are required.

Some detail of pharmacological effect is required which

varies according to whether the compounds concerned are novel.

(Question 2)

What data must be present at the time of filing in support of the pharmacological effects? In vitro, in vivo, animal tests, or clinical tests?

(Answer)

The nature of the data given is the choice of the applicant.

(Question 3)

Is it essential that experimental data for toxicity are present in the specification at the time of filing?

(Answer)

Toxicity data is not required, but is desirable.

(Question 4)

Is an amendment admissible after filing, which inserts statements of the pharmacological effects, effective amounts or manner of administration?

(Answer)

No, cf Article 123 (2) and C, II, 4.10.

(2) Second Indication

(Question)

With respect to an invention for use as a pharmaceutical, EPO Guideline C-IV, 4.2 states that "however, in the case of a known substance or composition, this may only be patented for the first such use." This statement seems to suggest that only the first indication is patentable and the second or any subsequent indication is not patentable. Is not it possible to obtain a patent for a second indication even when the second indication is quite unexpected from the first indication. Is it useless to apply for a patent for such a second indication?

For example, where it has been discovered that a compound known to be effective as a sedative is effective also as an antitumour agent, there seems to be no problem or nothing wrong in granting a patent for the discovery of the new use.

(Answer)

The relevant articles and Guideline references in this matter of second medical use are Articles 52 (4) and 54 (5) and C, IV, 4.2, 4.3 and 7.4. As is said in this section of your questionnaire, the second indication of therapeutic use of a known compound or composition

is not patentable. If however an application is filed claiming a composition containing the known compound, (after a first therapeutic use in methods of treatment of the known compound) that is novel (per se or as a medicament) and has an inventive step (cf. C, IV, 9.8 (B2)) then such claims would appear to be patentable.

3-3 Patents relating to micro-organisms

(Question 1)

EPO Guideline C-IV, 3.5 indicates that a micro-organism per se is patentable. Please confirm that this is true.

(Answer)

Guidelines C, IV, 3.5 reads in part "thus patents may be obtained .... for micro-organisms and cells when produced by a micro-biological process. Claims limited in this way are allowed, but as yet a clear position on the allowability of claims to micro-organisms per se has not been reached.

(Question 2)

Supposing that the used strain was claimed by way of a certain genus, while only a few strains of the said genus are disclosed concretely in the specification, is the amendment to supplement the explanations, examples and the data concerning the strains of the said genus other than those disclosed allowed?

(Question 3)

Is the amendment to supplement or change the morphological characters of the used strains described in the specification as filed allowed?

(Question 4)

Is the amendment to supplement or modify the physico-chemical properties of a fermentation product described in the specification as filed allowed?

(Answer)

Amendments are generally not allowed (see question 2-3) except in the case of an obvious error, but it has to be immediately obvious that nothing else would have been intended than what is offered as the correction (Rule 88). If, in the field of micro-biology, the only basis of disclosure is the description you cannot add subject-matter to the description. The answers to your questions 2-4 are "no". If such amendments are required then the original disclosure was incomplete or wrongly drafted. If your application was accompanied by a deposit of the culture (according to Rule 28) you cannot lose your priority date if it turns out later that the information given in the file according to Rule 28 (1b) was incomplete or wrong. You are only allowed to amend your application by deleting the wrong information.

Legislation of Compulsory License in the Philippines

Japanese Group, Committee No. 3

Yoshikazu Nishide

Summary

"The Philippines is one of the very few countries in South East Asia which operate under a rather-established patent system, which is similar to that of United States. However, the Philippines patent law has provisions relating to compulsory licenses, which do not exist in the United States Patent Law. And these provisions are the most problematic aspect of the Philippines Patent Law.

In this article, I should like to explain the outline of said compulsory licensing system, focusing mainly on medical inventions."

The Patent Law of the Philippines has been considerably influenced by the United States Patent Law, and is essentially the same as the latter. However, there are several differences and one of outstanding differences is that the Philippines Patent Law has provisions (§34 to 35E) relating to compulsory licenses. And this difference is the most important and problematic aspect of the Philippines Patent Law.

The compulsory license provisions were enacted by drastic amendment to the patent law by Presidential Decree No. 1263 which took effect on January 14, 1978. [The law so amended will be referred to as the new law.] A summary of the new law is as follows.

(1) Any person may apply to the Director of Patents for the grant of a compulsory license at any time after the expiration of two years from the date of the grant of the patent, under any of the following circumstances: [The three-year period under the law prior to the Presidential Decree has thus been shortened. (The law before the amendment will be referred to as the old law.)]:

(a) If the patented invention is not being worked within the Philippines on a commercial scale, although capable of being so worked, without

satisfactory reason;

(b) If the demand for the patented article in the Philippines is not being met to an adequate extent and on reasonable terms;

(c) If, by reason of refusal of the patentee to grant a license or licenses on reasonable terms, or by reason of the conditions attached by the patentee to licensee or to the purchase, lease or use of the patented article or working of the patented process or machine for production, the establishment of any new trade or industry in the Philippines is prevented, or the trade or industry therein is unduly restrained;

(d) If the working of the invention within the country is being prevented or hindered by the importation of the patented article (A provision newly added in the new law); or

(e) If the patented invention or article relates to food or medicine or manufactured products or substances which can be used as food or medicine, or is necessary for public health or public safety. (The case where the patented invention or article relates to manufactured products or substances which can be used as food or medicine has been added as

a ground for the petition in the new law.)

(2) In any of the above cases, a compulsory license shall be granted to the petitioner provided that he has proved his capability to work the patented product or to make use of the patented product in the manufacture of a useful product, or to employ the patented process. (A provision newly added in the new law.)

(3) The term "worked" or "working" as used in (1) and (2) above means the manufacture and sale of the patented article, of the patented machine, or the application of the patented process for production, in or by means of an establishment or organization in the Philippines and on a scale which is reasonable and adequate. Importation shall not constitute "working". (The provision that importation shall not constitute "working" has newly been added.)

(1) to (3) above are provided for in Section 34.

(4) The National Economic Development Authority (commonly known as NEDA) may, by order, provide that for certain patented products or processes, which are of vital importance to the country's defense or economy or to public health, compulsory license may be granted even before the expiration of two years

from the date of the grant of the patent. (A provision newly added --- Section 34-A.)

(5) All products or substances and/or processes involved in any industrial project approved by the Board of Investments (commonly known as BOI) shall be deemed products or substances and/or processes vital to the national defense or economy or to public health, and, if the patent is concerned with such products or substances and/or processes, a compulsory license may, upon application by the proponent of the industrial project or upon endorsement made by the BOI, be issued in his favor without need of complying with the provisions (1)-(4) above (i.e. the provisions of Section 34 and 34-A). (A new provision --- Section 34-B).

(6) The Director shall, within one hundred eighty days from the date the petition was filed, make a decision. [A new provision --- Section 35, Par. (1)]. However, this provision has not been put into practice as yet, as will be mentioned later.

(7) A compulsory license sought under (5) above (Section 34-B) shall be issued within one hundred twenty days. [A new provision --- Section 35, Par. (2)].

(8) A compulsory license shall be non-exclusive. [A new provision --- Section 35-B, Par. (1)].

(9) A compulsory license shall only be granted subject to the payment of adequate royalties commensurate with the extent to which the invention is worked. However, royalty payments shall not exceed 5% of the net wholesale price and, in the case of a compulsory license under (5) above (Section 34-B), the royalty shall not exceed 3%. [A new provision placing the upper limit upon the royalty --- Section 35-B, Par. (3)]. The term "net wholesale price" used herein means the gross wholesale price less (a) discounts and commission, (b) credits or allowances on account of return of the product, (c) any tax, excise or other government charge and the like. [Section 33-A, Par. (3)].

(10) Any one who works a patented invention either under a voluntary license granted under an agreement made by both parties concerned or under a compulsory license shall be free from any liability for infringement even if such working constitutes an infringement on the patent right of a third party. Said third party has the right to recover from the licensor whatever he may have received as royalties

under the license. Accordingly, the licensor is responsible for the infringement. (A new provision --- Section 35-E).

This amendment was enacted principally by the following reasons: (i) a large majority of patents had been issued to foreigners, (ii) patentees were not compelled to do their share in the promotion of economic development by the working of their patents, (iii) the old patent system, which merely protected patent rights, actually hindered rather than promoted industrial and economic development; and (iv) patentees had merely imported patented products, sold the products at high prices and monopolized the trade.

It is, thus, very clear to us that the new law is by far advantageous for the petitioner and this has been reflected in the sharp increase in the number of such petitions filed since the new law came into force (1978), viz. only one in 1975, 2 in 1976, 6 in 1977, 20 in 1978 and 16 in 1979. A large majority of inventions being the subjects of these petitions has been medical inventions.

From the standpoint of patentees, the new law is problematic in the following aspects.

(1) Shortening of the 3 years period to 2 years required to lapse before filing a petition.

The Philippines is a signatory nation to the Paris Convention, and §5A(4) of the Convention provides that a compulsory license may not be applied before 3 years from the grant of a patent. The shortening of the wait time to 2 years might mean a violation of the Convention.

(2) When a patented invention relates to food or medicine (including intermediates), working does not preclude the invention from the subject matter of petition for a compulsory license.

The provisions of §34(1)(a)-(e) (Grounds for a license) are independent provisions in the sense that each of the requirements can be a complete ground for petition on its own. (As a case in point, the chloramphenicol case will be explained later). Moreover, it appears that the language of Paragraph (e): "substances which can be used as food or medicine" is generally interpreted as meaning that any substance meets the definition even if it is only remotely related to food or medicine, and in this sense, intermediates are included in the concept.

(3) An upper limit has been set on royalties

As to ordinary royalty rates, no specific cases are available because the law is still new. It is said that rates are decided on case by case. Though I do not know of any case of grant based on a petition under the new law, there is a Director's decision in which the royalty was set at 2.5% of the net sales under the old law.

(4) A license is granted on mere proof that the petitioner has certain capabilities.

These capability provisions are also independent and it has been construed that a license is granted only if the petitioner proves any one of the capabilities. Therefore, even if one cannot prove "the capability to work the patented product", a license is still granted if "the capability to make use of the patented product in the manufacture of a useful product" can be proved. The problem at this point is that "the capability to make use of ..." could be interpreted very broadly. Taking a medicine as an example, it is generally interpreted that (1) the capability to import a pharmaceutical bulk (patented product), mix it with other materials, formulate into preparations and package them and (2) the capability to import said bulk, formulate it into preparations

and package them correspond to the capability to make use of. To take an extreme position, (3) even the possibility exists that the capability to import a formulated pharmaceutical preparations and package it may be considered to be the "capability to make use of".

(5) A compulsory licensee is not compelled explicitly by law to work the patented invention. That is, the license is not cancelled by non-working. In other words, petitions for the purpose of importation cannot be precluded.

According to the Patent Office, even if the licensee is not working the invention, the patentee has no legal basis for demanding a cancellation of the license, nor does the Patent Office investigate whether the patented invention is being sufficiently worked by the licensee. This means that non-working will not result in a cancellation of the license and, accordingly, it could mean that one may obtain a license for importation purposes only. This is a provision intended to give unilateral protection to petitioner, because patentees are forced to produce in the country under the dictum that importation shall not constitute working, while licenses are

granted for mere importation.

(6) Both compulsory and voluntary licensees are free from liability for infringement.

The possible arguments of patentees against petitions may be as follows (particularly in the case of medicine).

(1) The patented product is not of vital importance for public health.

(2) The grant of a license is against public interest.

(3) Presidential Decree 1263 is unconstitutional.

(4) The petitioner has no intention to work the patent but merely to import the patented product.

(5) The patented product is being worked in the Philippines in a commercial scale and adequately.

(6) The grant of compulsory license will undermine the patent system and can result in the diminution of investments from foreign countries.

(7) The petitioner has no capability to work the patented product.

(8) The petitioner has no capability to make use of the patented product in the manufacture of a

useful product.

(9) The new provision to the effect that a petition can be filed on lapse of two years from the grant of the patent is violation of the Paris Convention.

Of the above arguments, 4, 5, 7 and 8 (7 and 8, in particular) seem to be persuasive especially in the case of a medical invention. Though not a true defense, it may be a substantial defense to have the Director's decision delayed by requesting extension of terms.

The compulsory license procedure in the Patent Office will actually proceed as follows.

(i) Filing of a petition (stating the legal grounds for petition, reasons for petition, etc.)

(ii) Notification to the patentee

(iii) Filing of an answer by the patentee (arguments against the petition)

(iv) Pretrial (stipulation of facts, admission of documents, etc.)

(v) Trial [oral hearings (interrogations by the official in charge and attorneys of both parties with the attendance of witnesses for

both parties), submission of exhibits and documents] (held at intervals of about one month).

(vi) Termination of the trial

(vii) Filing of memoranda (documents summarizing all claims and counterclaims)

(viii) Decision by the Director

Most of the terms specified in the above procedure can be extended, and, in fact, the statutory term "within 180 days" (§35(1)) has not been abided.

As to compulsory licenses, there is a Supreme Court decision adjudicated under the old law (chloramphenicol case; patentee Parke, Davis & Co., petitioner Doctors' Pharmaceuticals, Inc., et al, decided August 31, 1965, No. L-22221). The holdings in this case are still in force and unless they are reversed by the Court, it is generally expected that the same rationale will be applied to future compulsory licensing cases.

Holdings:

(a) The provisions of §34 are independent each other and a petition can be filed if any one of the requirements is fulfilled.

(b) For the grant of a license, it is sufficient

that the invention be related to medicine. It is not required that it be at the same time necessary for public health or safety.

(c) §34 does not require the petitioner to work the patented invention. The petitioner need not work the patented invention.

(d) That the patentee is working the invention is not a valid ground to refuse a license.

Lastly, it is pointed out that anyone who is dissatisfied with final decision of the Director may appeal to the Court of Appeals and, further, to the Supreme Court.

Situations of ASEAN Countries on Industrial Property Protection

Shoji Matsui
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From May 27 to June 12 this year, I visited the ASEAN five countries, i.e., Thailand, Singapore, Malaysia, Indonesia and the Philippines, as the leader of the Fact-Finding Mission on Industrial Property Systems of the ASEAN, organized by the Japan Patent Association.

The mission was composed of 14 members chosen from 13 enterprises, i.e., Ajinomoto Co., Inc., Kawasaki Heavy Industries, Ltd., Kubota, Ltd., Sumitomo Chemical Co., Ltd., Sekisui Chemical Co., Ltd., Takeda Chemical Industries, Ltd., Teijin Limited, Toshiba Corporation, Toray Industries, Inc., Nissan Motor Co., Ltd., Fujisawa Pharmaceutical Co., Ltd., Matsushita Electric Co., Ltd., and Mitsubishi Electric Corporation. Dr. Shoen Ono, a lawyer, also joined us as a legal adviser. The member enterprises have experiences in subsidiary business, technological cooperation, joint-venture business or the like with foreign enterprises.

The organizations and offices visited by our mission in the respective countries were as follows:

1) The governmental organizations where the matters on industrial property rights are dealt with;
2) The governmental organizations where technology introduction, establishment of joint-venture, royalty payment, etc. are controlled;
3) Influential local lawyers' offices;
4) Japanese Embassies, Japan External Trade Organization (JETRO) and local subsidiaries of the member enterprises.

The ASEAN countries belong to the so-called 77-Group, and as a matter of course, these countries have considerably different allegations or opinions on industrial property rights from those of B-Group countries. However, the government officials of most of these countries have stated that they are taking moderate positions.

That is, in my understanding as the result of discussions with the authorities concerned of the respective countries, the ASEAN countries are inclined to support opinions of other 77-Group countries on their common objectives such as the establishment of a new economic order in the world in which social justice prevails and economic inequalities between nations are reduced, but

these countries do not seem to have an intention to take a radical or extreme policy in connection with legitimate industrial property rights of foreign inventors, such as one-sided expropriation of patent rights etc.

What we should bear in mind is the utterance by the government officials of these countries to the effect that the policy on industrial property rights adopted by their countries has been internationally recognized, as reflecting the definitions existing in the Code of Conduct of UNCTAD and the Model Law, and also that they take the view that B-Group countries have, in principle, agreed to guidelines based on resolutions adopted at the conferences of UNCTAD and WIPO. Such positions or attitudes of the ASEAN countries present a problem on how we should cope with their positions, and to what extent we should observe or persist in our own positions at the forthcoming international conferences.

Concerning the matter of technology transfer, like other 77-Group countries the ASEAN countries have also a strong desire to import modern technology from the industrialized countries, which is necessary for the promotion of the economic growth of their countries, particularly, the high levels of technology in the fields of petro-

chemicals and automobiles which require a wide range of correlated industries.

However, I had the impression that the materialization of such a transfer to these countries would be difficult at least at the present stage because they do not appear to be well prepared to receive and adapt such advanced foreign technology, judging from a large technological gap compared with the industrialized countries. Also, as a general tendency, while these countries have shown a positive attitude to the introduction of technology, the governmental regulations in this regard of these countries are of rather unattractive nature to technology suppliers. For instance, while they have an ardent desire to import modern technology, they are also desirous of having technical experts from the licensor's side withdraw from their countries as early as possible based on their own judgement. As you will agree, it is by no means an easy task to have local workers master the technology and know-how in the fields of such precision machinery industries as desired by them, and I emphasized to them that the instruction of higher levels of technology usually takes a long period of time from the experiences of Japan.

As to the matter of keeping technological know-how secret, it seems to be difficult in some countries to impose such obligation on the licensees, viewed from the relevant law which restricts the term of a know-how contract. Furthermore, it would be almost impossible in some countries to prohibit the quitted technical employees from using the know-how independently or at a competitive company.

Concerning the evaluation of technology, the ASEAN countries seem to have adopted a nearly common philosophy and policy. Except for Singapore, the upper limit of royalty rate is virtually provided by the regulation or controlled by administrative guidance. The term to be licensed is also rather short and at the time of renewal of a contract, reduction of the royalty rate is usually required. Also, it will be difficult to conclude a know-how contract the period of which exceeds five years. Considering that expenses required for research and development are showing tendency to increase, it is feared that such a low evaluation of technology would be a bar to a smooth transfer of technology. In other words, unless adequate evaluation of technology is assured, private enterprises of developed countries will not agree to the transfer of

their technology to these countries.

When the opinion was raised that in the case where the most favored nation clause is included in a contract with another party, a lower royalty rate cannot be applied exceptionally to the ASEAN countries, a government official of one country stated that they do not approve the notion of the most favored nation clause and that this idea is backed up by UNCTAD.

As mentioned above, while the ASEAN countries have a strong desire to import modern technology, their control policy for licensing is often unattractive to licensor.

After all, in my opinion, industrialization of the ASEAN countries will not be attained so rapidly and smoothly.

An outline of the up-to-date status of the patent systems of the ASEAN countries is as follows:

Up to now there is no patent law in Indonesia. In Thailand, the patent law has been promulgated as from 1979, but patent protection cannot be said to be sufficient, and there are still not a few unclear points as to its operation. The Filipino patent law is, as a whole, in conformity with the U.S. patent law, except for a compulsory licensing system which is, as will be stated later, a peculiar one. In Malaysia and Singapore,

patent protection is obtainable by registration of British patents.

Now, I will refer to the problems connected with the industrial property systems of the respective ASEAN countries.

[I] Thailand

a) Patent law

The Thai patent law has been promulgated as from September 12, 1979, and patent applications by nationals of Japan have come to be accepted as from March this year. Unpatentable subject matters are machinery used directly in agriculture, food, drinks, pharmaceuticals, chemical compounds used as pharmaceuticals, computer programs, etc. Before a patented product is made or a patented process is used in Thailand, any person may import into Thailand the patented product or the product resulting from the use of a patented process which is made outside Thailand. This implies that even if a patent is obtained in Thailand, the patentee cannot have an exclusive right to his invention unless the patented product or process is worked locally. Furthermore, in the case of a process patent, there is no presumption clause under which the burden of proof

is shifted to an alleged infringer.

b) Transfer of technology

Any licensing agreement for technology transfer cannot be effective until the government approval is given. A royalty rate should be between 1 to 5 percent, and there is a strong probability that reduction of the agreed rate will be required after the lapse of 3 to 8 years. As to a royalty for know-how, it will be difficult to receive it exceeding the period of 5th year.

[II] Malaysia, Singapore -

Registration of British patents affords the corresponding right in Malaysia and Singapore. Protection of the right thus given can be considered best among the ASEAN five countries, because British judicial precedents are in general applicable there. As to know-how protection, however, the British philosophy is not applicable in Malaysia, which makes it impossible to prohibit the quitted employees from using the know-how independently or at a competitive company. Referring to trademarks, a draft of the Malaysian unified trademark law has been completed, but its enforcement has long been drawn out. Concerning the technological transfer in Malaysia, the royalty rate applicable to a technological introduction ranges 1-5%, the term of a

contract is required to be renewed every five years, and reduction of the royalty rate is required on the ground that the technology becomes obsolete as time elapses. The extent of the reduction so required seems to be severer than in Thailand. Compensation for using know-how will not be made exceeding five years. In Singapore, on the other hand, the government has been taking a positive attitude to the introduction of foreign investment or technology, thus no discrimination is seen between enterprises of this country and those of foreign countries, and no substantial restriction is imposed on technological licenses from foreign countries.

[III] Indonesia -

In Indonesia, they do not have a patent law now, and no legal protection is afforded. They are now at the stage of drafting the law, but it is said that they would not disclose the draft before it is submitted to the Parliament, while the skeleton of the law is said to be based on the Model Law suggested by WIPO. In the draft at the present stage, pharmaceuticals, food and chemical subatances, per se are unpatentable, and even a process of making them is not likely to be a patentable subject. Sanction to non-working of a patented invention seems to be considerably severe. The time when the draft is

to be submitted to the Parliament is predicted to be at least two years later, because the deliberation of the copyright law is to be preceded. As to the transfer of technology, no particular restriction on remuneration appears to be imposed. But when the royalty rate is not lower than 2%, remittance of such royalty must be made after-tax, thus a sort of restriction. Referring to the investment, increase of its rate of the local capital is required, resulting in breaking 50% of foreigners' shares.

[IV] Philippines -

The present Filipino Patent Law is based on the United States Patent Law, but it has a peculiar compulsory licensing system. Namely, any person may apply to the Director for the grant of a license under a patent after the expiration of two years from the date of the grant of the patent, if the patented invention is not being worked, and the person thus granted a license is not required to work it, and his non-working of the invention will not result in cancellation of his license. Products or processes vital to the national defense, economy or health may be the subject of a compulsory license even before the expiration of the two-year period from the date of the grant of the patent.

Further, even if such compulsory license should aim at importing the patented product or the product manufactured by the patented process, the patentee cannot refuse to grant the license. To make the situation more miserable, the licensee is said to be exempted from responsibility of any possible infringement on a third party's patent right, and the licensor is required to pay compensation to the third party. The law further provides that the royalty for transfer of technology shall not exceed 5% and the term thereof shall not exceed 5 years, and reduction of the royalty rate will be required when the contract is renewed. No royalty is admitted on the license of using a trademark, unless otherwise specifically approved, except for cases already approved for the payment of royalty. incidentally stating in respect of the field of trademarks, the Monfort Bill has now been discussed at the Parliament, which intends to force the marketing of pharmaceuticals under the generic names. Even if this Bill should not pass the Parliament, it is feared that an alternative law will be submitted to the effect that a pharmaceutical product is required to be marketed under two different names, i.e. its generic name and brand name. No guarantee is seen for not extending

this requirement to any other industrial field.

The economic cooperation of advanced countries with the ASEAN countries will increase its importance all the more hereafter for the mutual benefit. In parallel with the enlargement of the trade, the economic cooperation accompanied with the technology transfer tends to increase.

In this connection, the enterprises constantly investing a considerable amount of the research fund, when they transfer the technology resulting from the research work, will naturally seek reasonable remuneration. For this purpose, early establishment of the patent system as in the advanced countries or at least the system similar thereto as well as of the measures of prompt legal relief will be necessary, and for this purpose, we should make a positive approach to the ASEAN countries.

To say further, as to the technology subjected to inadequate evaluation, we shall have to make efforts to have it evaluated properly, and to repeat the persuasion to get them follow the custom and practice generally accepted internationally. This will be difficult to realize without negotiations on the governmental level through private sectors.

Regarding the protection of technological secret also, an adequate counter-measure will be necessary, though it involves difficult problems pertaining to restriction of move of scientists or laborers in one enterprise to another.

LAW OF THE SEA TREATY: A CONSTITUTION FOR THE SEAS

Comments by

John E. Maurer - Director, Patent Department
Monsanto Company

Before the Pacific Industrial Property Association
Tokyo, Japan

October 24, 1980

In 1970, preliminary negotiations began under the auspices of the United Nations to develop a global treaty on the use of the world's oceans. In 1974, substantive negotiations began on what is now known as the Law of the Sea (LOS) Treaty, culminating in what are purported to be the final negotiations in August of this year.

Today, I would like to outline for you some of the provisions in the present draft of the LOS Treaty to illustrate its scope and to direct your attention to certain provisions which could, in my judgment, have a significant impact upon the field of intellectual property.

Many of us in the United States were quite honestly surprised when we learned of the far-reaching effects of this treaty which, although brewing for a long time, were nevertheless not commonly known. While I can't begin to tell you why the intellectual property group heard little about the treaty,

I believe that I can tell you enough about the present draft to satisfy you that it is a subject worth your review and possible action.

The draft treaty embraces rules of law touching every possible human concern with the oceans. It is not only global in the physical sense but it is also global with respect to the extent it encompasses every imaginable item which one might relate to the seas. The LOS Treaty concerns itself with not only what happens on and under the seas but also what occurs over the seas. Examples of subjects which are included within the treaty are oil and gas exploration on continental shelves, navigation, scientific research, piracy, whaling, sea-bed mining, fishing, protection of the marine environment, the rights of landlocked states, boundaries or territorial limits, procedures for submarines passing through international straits, and rules for military aircraft miles above the seas.

The present draft of the LOS Treaty certainly can be described as a monumental achievement. However, this achievement has not been without cost. There is such a diversity of elements within the context of the treaty that nations have had to make trade-offs on their various interests without necessarily being

able to establish in isolation an appropriate value for any single interest. The draft treaty, if it becomes law, will result in setting several very far-reaching precedents. Some of these precedents are:

1. The mandatory transfer of technology.
2. The establishment of a UN-chartered corporation called the Enterprise which will participate in the production and marketing of minerals from the sea bed and will compete with private corporations. Furthermore, the Enterprise will be given special tax considerations and have a unique financial status.
3. Recognition of the taxing and licensing authority of the United Nations for commercial activities in areas beyond national jurisdictions.
4. Recognition of the concept of resources as the common heritage of mankind, a concept never finalized in the UN Code of Conduct negotiations.

I believe that those points alone should be enough to gain your interest.

Before elaborating on some of those issues, however, I would first like to give you some examples of how several subjects have

been dealt with, after which I will return to the problem areas.

Boundaries

The treaty recognizes the 12-mile territorial limit and also acknowledges a 200-mile "exclusive economic zone" for each coastal nation. Coastal states have jurisdiction over marine resources in their economic zones and on the continental shelves beyond 200 miles.

Ocean Transit

The treaty reaffirms the right of passage on the high seas as well as within the 12-mile limits under certain conditions. It also guarantees unimpeded transit through straits used for international navigation for all ships.

Fishing

The treaty awards coastal states absolute control over the fish in their economic zones and the right to sell fishing interests to other nations if they choose.

Marine Environment

The treaty paves the way for environmental safeguards to protect the seas from contamination, even if the specific pollution originates in inland waterways.

Sea-Bed Mining

The treaty establishes a complicated system for both private and international exploitation of sea-bed minerals.

Jurisdictional Agencies

The treaty provides for the establishment of two governing units. One, called the International Sea-Bed Authority (the Authority), will control and manage the exploration and exploitation of deep sea-bed resources. Under it will be an organization called the Enterprise. There will also be a policy-making assembly which will include a 36-member Executive Council whose responsibility will be to ensure that policies comply with the treaty's provisions. In addition, there will be established a supranational Law of the Sea Tribunal which will arbitrate disputes.

During the remainder of my time, I would like to address the area of mandatory technology transfer to illustrate the reasons for my concerns about the LOS Treaty. I must apologize for not dealing more extensively with many other subjects but my comments are of necessity limited since the draft treaty contains 180 pages, has some 300 articles, and includes 8 annexes.

Article 144 (page 78) of the treaty titled "Transfer of Technology" authorizes the Authority to acquire technology and scientific knowledge to "promote and encourage the transfer to developing States of such technology and scientific knowledge so that all States Parties benefit therefrom."

To this end, the treaty provides [Article 144, paragraph 2(a)] that the Authority and States Parties shall initiate and promote "Programmes for the transfer of technology to the Enterprise and to developing States, including, inter alia, facilitating the access of the Enterprise and of developing States to the relevant technology, under fair and reasonable terms and conditions." Article 270 (page 132) provides, in essence, for international cooperation for the development and transfer of marine technology through existing or expanded or new programs in order to facilitate marine scientific research and the transfer of marine technology, particularly in new fields and through appropriate international funding for ocean research and development.

Article 271 seems to establish a code of conduct by providing that "States, ... shall promote the establishment of generally accepted guidelines, criteria, and standards for the transfer of marine technology .... taking into account, in particular, the interests and needs of developing States."

Article 273 goes on to say that "States shall cooperate actively with competent international organizations and the Authority, to encourage and facilitate the transfer to developing States, their nationals and the Enterprise of skills and technology....."

Article 274 goes further and states, "Subject to all legitimate interests including, inter alia, the rights and duties of holders, suppliers, and recipients of technology, the Authority shall ... ensure; .... (b) that the technical documentation on the relevant equipment, machinery, devices and processes be made available to all States, in particular developing States which may need and request technical assistance in this field; ..."

To help further increase the likelihood of technology transfer, Article 274(d) also instructs the Authority to ensure "that States which may need and request technical assistance in the field, in particular developing States, are assisted in the acquisition of necessary equipment, processes, plant, and other technical know-how through any financial arrangements provided for in this Convention." I see this as allowing our money to be used to ensure that our technology is made available to others under undefined conditions.

As if the above were not enough, the draft treaty states, in paragraph (1) of Article 5, Annex III (page 152), also titled

"Transfer of Technology," that an operator who is authorized to, for example, conduct a mining operation shall make available to the Authority a plan of work which shall include a general description of the equipment and methods to be used in carrying out the plan as well as other relevant "non-proprietary information about the characteristics of such technology, and information as to where such technology is available." That would seem to be some protection since only non-proprietary information is required to be disclosed. However, that does not seem to be the case in fact.

Paragraph 3(a) provides that in any contract awarded, there shall be included the following undertakings by the operator:

> "To make available to the Enterprise (who, you will recall, is a potential competitor), if and when the Authority shall so request and on fair and reasonable commercial terms and conditions, the technology which is to be used by him ... which he is legally entitled to transfer." Paragraph 3(a) does provide that this transfer of technology "may be invoked only if the Enterprise finds that it is unable to obtain the same or equally efficient and useful technology on the open market and on fair and reasonable commercial terms and conditions."

It is not limited, however, to non-proprietary technology. Furthermore, if, as is likely, the technology for sea-bed mining is new and innovative, it would seem likely that the Enterprise would not be able to obtain it on the open market.

I should add that the technology transfer provisions even require the operator to make arrangements so that if he is employing licensed technology, that licensed technology must also be made available to the Enterprise.

Paragraph 3(e) is the final blow, in my opinion. It requires the operator to take the same measures (as those prescribed above for the benefit of the Enterprise) for the benefit of a developing State or group of developing States which has applied for a contract, provided the proposed activities by the contract seeker would not involve transfer of technology to a third State or nationals of a third State. This requirement would apply only where the technology has not been requested or transferred by the operator to the Enterprise, which implies that the Enterprise may be free to disclose to developing States any technology which has been transferred to it. Obviously, as drafted, the treaty fully intends to ensure that a developing State has access to the technology of the developed States.

Paragraph (5) of Article 5, Annex III, raises two other rather interesting problems. It would seem to require the transfer of technology not only with regard to the recovery of minerals from the sea-bed but also an obligation to transfer technology for their processing once recovered from the sea. Secondly, this paragraph extends an obligation to an operator's home country to "take all feasible measures ... within its own legal system" to ensure that such transfer of technology be carried out. Is the choice intended to be coercive licensing or confiscation of technology?

While what I have said so far is concerned with only a small part of the treaty, I hope it will alert you to the problems which this treaty, if ratified, could cause. Other commentators have noted other provisions which they believe are unacceptable, including, for example:

- A specific quota system which has the effect of limiting the number of applicants that any one nation may sponsor for ocean-mining contracts.

- The absence of "grandfather" protection which would ensure that present operators who have already invested in sea-bed mining would be permitted to continue their operations.

- The fact that subsequent amendments to the treaty can be made by the affirmative decision of two-thirds of the States Parties to the treaty, plus the fact that any such amendment would be effective against all States, regardless of their refusal to consent to such changes. (I might add that that particular concept reminds me of some of our experiences with regard to revision of the Paris Convention.)

It seems to me that once the principles proposed in the present draft are accepted, there is little doubt that they will be incorporated into other treaties dealing with new frontiers. One of those now awaiting ratification is the Moon Treaty which would make the whole solar system the common heritage of mankind. On the same basis, developing nations would like to share the rich mineral resources that lie beneath the Antarctic ice surface; a treaty on the southern polar region, currently governed by 12 countries, is expected to come up for negotiation in the near future.

The developing countries are also looking to the world conference on radio transmission that will take place within the next two years. Thus, the air waves, too, may come under the jurisdiction of a UN-governing body.

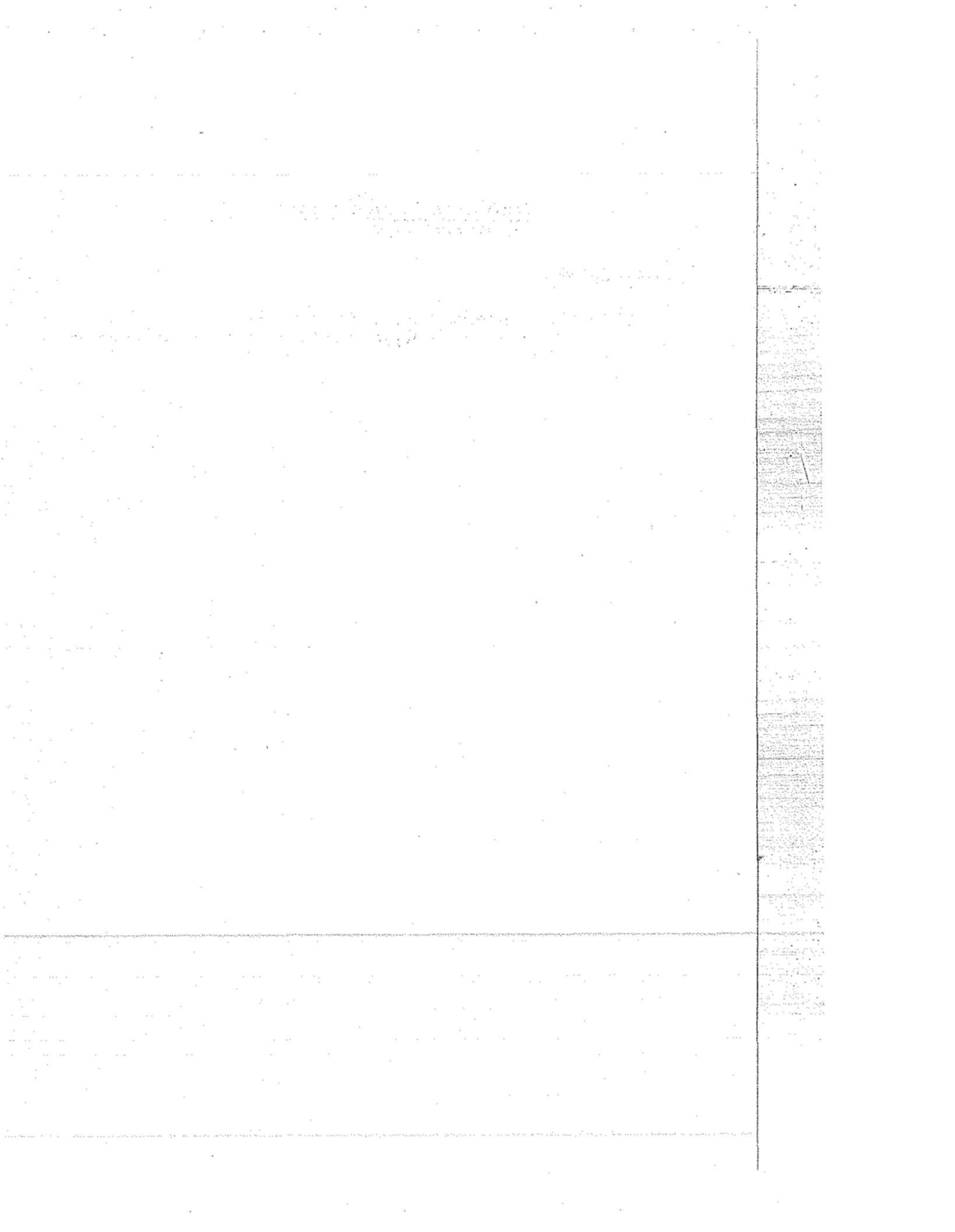
There are certainly good arguments that the resources of the sea should be considered the common heritage of mankind. Conversely, one can argue that the seas should be free for development by anyone willing to take the risks. Even if one favors the common heritage approach, there nevertheless remain, in my opinion, several vital questions. The first question is whether and how much of a new United Nations bureaucracy should be created? Secondly, will the rules governing the transfer of technology be such a disincentive to investment and innovation that the practical effect will be that the resources of the oceans will not become available to mankind?

While I recognize that I have only touched the surface with regard to the draft of the Law of the Sea Treaty, I hope that I have sparked your interest sufficiently so that you and your companies are alerted to the problems not only in that treaty but with respect to future treaties to be negotiated under the auspices of the United Nations, and that you will, therefore, take actions in your own country that you believe appropriate.

Committee Presentation
Committee No.4

Guest Speech

° Problems on International Arbitration
--- Dr. J. Tsubota ----------621



PROBLEMS ON INTERNATIONAL ARBITRATION

By Junjiro TSUBOTA*

1. Arbitrable Subject Matters

(1) Issues involving public policy and public interest:

(a) Antitrust violations;

An arbitration agreement shall not be construed to cover an issue of alleged violation of the Sherman Act. American Safety Equipment Corp. v. J.P. Maguire & Co., (C.A. 2) 391 F 2d 821. In this case, certain provisions in a license agreement were alleged to violate the Sherman Act on the grounds of anti-competitive nature thereof.

(b) Issue on existence of trade secrets;

An issue of whether certain trade secrets existed which were supposed to be the basis of know-how license was also held to be out of the sphere of arbitration because it is a crucial antitrust

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PUBLICATIONS: Basic Problems on Laws of Internationonal Transactions (1970); International Contract (1972); Lectures on Practice of International Transactions, Vol. I through III (1975-79).

issue in the sense that the Sherman Act would outlaw know-how license if the trade secrets forming the basis of know-how license did not in fact exist. A & E Plastik Pak Co. v. Monsanto Co., (C.A. 9) 396 F 2d 710. On this topic, see, Symposium: Arbitration and Antitrust, 44 N.Y.U.L. Rev. No.6.

(c) Fraud and misrepresentations;

The British courts usually refuse to enforce an arbitration agreement by allowing court proceedings, ordering the arbitration agreement to cease having effect or giving leave to revoke submission to arbitration made thereunder. See, Russell on Arbitration, 21 (1970).

It is said that New York cases are uncertain as to the issue of arbitrability of fraud and misrepresentation. See, Eager, The Arbitration Contract and Proceedings 87. This question appears to be related to the question of separability (severability) of arbitration clause from the contract which contains the arbitration agreement and which is alleged to be void or voidable by virtue of fraud or misrepresentation. It is also related to the question of the scope of arbitration agreement. Some New York cases treat the question of arbitrability of fraud and misrepresentation to be a question of

the scope thereof, i.e., whether the scope of arbitration clause is so broad and all inclusive as to cover rescission by fraud or misrepresentation. See, Matter of Potter Co., 2 Misc. 2d 515; Matter of Fabrex Corp., 200 N.Y.S. 2d 278; Matter of M.W.Kellogg Co., 192 N.Y.S. 2d 869.

(d) Usurious contract:

The question of whether an agreement is usurious and void should be determined by the court and an action to compel is denied. Durst v. Abrash, 17 N.Y. 2d 445, 266 N.Y.S. 2d 806.

(e) Illegal transactions;

Where the subject matter of arbitration involves an illegal transaction, a dispute thereon is not arbitrable and arbitration awards not consistent with statutory regulation of mandatory nature cannot have any binding effect. See, Russell on Arbitration 21.

An issue relating to a violation of statutory prohibition or public policy is to be determined by the court and is not within the competence of arbitrators. Eager, ibid. 73. British and American cases are unanimous on this issue.

(2) The Existence and Validity of Arbitration Agreement:

The existence and validity of arbitration agreement itself is not referable to arbitration and such question should be determined by the courts, Eager, ibid. Matter of Gruen, 18 N.Y.S. 2d 990. There is, however, a diversity of cases on this point.

(3) Issues Relating to Patents:

Usually patent laws of civilized nations provide for various types of proceedings for determination by the Patent Examiners and other Patent Office officials of certain disputes relating to patent applications and the patents granted. Only actionable claims at the courts can be subject matters of voluntary arbitration by agreement of the parties concerned and it is submitted that arbitration by agreement cannot substitute specific power of the Patent Office specific procedures for which are set out in the patent laws. See on this topic, Russell on Arbitration 18.

(4) Non-legal Issues:

Although a general arbitration clause usually states the scope of arbitration very broadly (such as "all disputes and differences arising out of or in connection with the Agreement"), ordinary interpretation thereof is limited to "actionable claims" (i.e., legal claims) and does not encompass a matter of appraisal or business issues.

If there is a specific agreement to refer certain business matters to arbitration, such as determination of "reasonable prices" or change of royalty rates under certain circum-

stances (such as a competitor commencing to sell the same products in the same markets and adversely affecting sales prices of the licensed products), such specific arbitration agreement is enforced. Matter of Katz, 201 N.Y.S. 2d 996; Matter of Marshall, 262 N.Y.S. 191.

(5) Tort Claims:

A question of whether or not tort claims are covered by a typical general arbitration clause of "all disputes under the contract" has not been settled quite well. In Astro Vencedor Compania Naviera S.A. v. Mabanaft G.m.b.H. (1 Lloyd's Rep. (1971) 502) the British Court of Appeal ruled that tort claims should be construed to be covered by such general arbitration clause in the case where the charterparty contained such arbitration clause and the claims were based upon alleged wrongful arrest of the vessel.

2. Advisability of Arbitration in Licensing Arrangements

(1) From the Viewpoint of Transaction Costs

Some experienced lawyers disagree with the commonly accepted view that arbitration proceedings are much less expensive than the court proceedings, or in the terminology of economics, transaction costs can be reduced by referring the solution of disputes to arbitration. This commonly accepted view is generally true in case the value involved in the disputes is not very large, but in case it is very large or the disputes are vitally important to a party, then parties understandably retain one of the best and most

expensive lawyers and prosecute or defend the arbitration as aggressively as in the case of court proceedings. At the least, it is very rare that a party can dispense with having legal counsel for the arbitration proceedings particularly in case of international arbitration. In addition to attorneys' fees, the parties must pay all costs for arbitration proceedings and arbitrators' compensation which is not at all cheap when outstanding figures are appointed on the panel of arbitrators, whereas in the case of court proceedings the costs of proceedings and judges' salaries are born by the Government.

It would be fair to say, therefore, that costwise the arbitration is not necessarily better than lawsuit. At least there is ordinarily no significant difference of costs between arbitration and action with the courts.

(2) Speedy Settlement of Disputes

It is generally said that arbitration enables speedy settlement of disputes. Although this may be true for minor disputes, arbitration proceedings for serious disputes easily take several years of time because parties stringently prosecute and defend the cases and sometimes try to remove the case from arbitration and to place into the hands of judges as a delay tactics or in case one party has a bona fide fear that the outcome of arbitration may not be favorable to him. Furthermore, court proceedings are necessary to enforce arbitration awards if the losing

party does not voluntarily comply with the arbitration awards. It is generally true that outcome of arbitration is less predictable than judgments, so that each side of the parties tends to feel somewhat uneasy about possible outcome of arbitration, and this not rarely motivates them to take various legal proceedings to prevent arbitration.

For these reasons, I submit it to be advisable to provide arbitration for disputes involving a claim the value of which does not exceed certain large sum of money (for instance, three million dollars), and otherwise to leave the disputes to be judicially settled.

(3) Quality of Adjudication

It is commonly submitted that the quality of adjudication in arbitration can be superior to court judgements on the grounds that in arbitration outstanding experts can be appointed as arbitrators. Although this argument has undeniable merits, the quality of adjudication should be examined from broader spectrum.

First, the fact that arbitrators need not necessarily follow legal rules and may base their judgment upon common sense can on one hand produce more sensible conclusions in certain cases but on the other hand it can also deteriorate the quality of adjudication because common sense cannot be ascertained objectively and it necessarily involves personal

opinion and value judgment and can further eliminate rational and logical analysis. Three persons can have three different kinds of "common sense" reflecting their personal value biases. Thus, "common sense judgment" can produce sloppy conclusions inasmuch as superior judgments.

Secondly, the fact that arbitration does not follow stringent procedural rules may on one hand enables flexibilities and efficiencies but on the other hand it deprives of procedural due process and safeguards in the process of adjudication. The rules of civil procedure devised from the time of Roman Empire and improved and refined by the wisdom of human beings for over two thousand years may not be so bad and terrible as those who argue in favor of striking them out all together.

Thirdly, the fact that arbitration permits selection of outstanding figures as adjudicators may work better in some cases but there remains a question of whether a class of professionally trained people as called "judges" are so bad in average. Even assuming for <u>arguendo</u> that some of them are slow-minded, ignorant, stupid and crazy, one must demonstrate that businessmen or the people of other professions are better qualified to adjudicate complicated disputes involving sophisticated legal problems.

In case of adjudication of disputes arising out of licensing arrangements of technology, however, quite often technical questions are presented, and it is pointed out that engineers be better appointed as arbitrators so that the adjudicators of such issues can well understand and analyze the problems involved. Certainly this argument has some merits but after all the adjudication of disputes must be reduced to the matter of interpretation and construction of contract and legal conclusion thereupon in so far as the rights and obligations of the parties under the respective agreements are the direct subject matters of arbitration. Rather a problem of engineers being arbitrators is that they tend to be very innovative from lawyers' viewpoint in the interpretation of contract and laws so that they sometime come up with unique interpretations which professional jurists can not possibly imagine at all.

Those questions and problems should be born in mind in selecting arbitrators for particular cases and arbitration has advantages only where most adequate and suitable persons are selected for adjudicating specific issues to which characters special attention should be paid in appointing arbitrators.

3. What Arbitration Means After All

There are pros and cons with respect to arbitration, but

as discussed above, those points which are usually argued to be the merits of arbitration do not command unqualified logical acceptance. Yet many people prefer arbitration to court proceedings, and reasons therefor may be summed up as follows:

(a) The term "arbitration" sounds psychologically better. In this connection many businessmen feel the arbitration to be closer to conciliation and not to be like a battle by stringent legal rules. Some businessmen may wish not to see what they have done to be legally judged right or wrong in the public forum.

(b) From foreigners' viewpoint, arbitration may be attractive in that it can avoid jury trial by local people who might favorably "understand" what their fellow citizens would argue.

(c) A corporate executive or manager could be held to be personally liable if he lost his case in the judicial judgment, or he might fear that he could be fired in such event. In case of arbitration it is easier to put all blames on arbitrators by attributing the unfavorable outcome to the ignorance and stupidity of laymen arbitrators. This can be true for corporate counsel and he may be able to feel safe in avoiding possible judgment by the esteemed judges holding him to be wrong. Certainly he should not be responsible for possible ignorance and sloppy awards of non-professionsl adjudicators.

(d) Arbitration proceedings may take lesser managerial time than the court proceedings.

(e) In arbitration proceedings, persons having been in charge of the matter need not be confronted with public accusations and harsh treatment in the court battle.

4. Selection of the Forum of Arbitration

(1) Neutral Country v. Defending Party's Country

Ordinarily the argument on the selection of the forum of arbitration is to choose between a mutually acceptable neutral country versus defending party's country. To provide defending party's country as the forum for arbitration has significant psychological effect of encouraging negotiated settlement, because a suing party tends to fear that the environment of the forum might not be favorable to him. By the same token, a choice of strictly neutral countries has the practical effect of encouraging a compromise settlement. After all arbitration proceedings are also expensive in terms of the total costs, and the consideration for encouraging a settlement through negotiations should be appreciated.

(2) What the Choice of Forum would mean in Arbitration

(a) The procedural laws of the forum apply with respect to the proceedings of the arbitration (Lex fori).

(b) Judicial assistance of the local courts is available, such as appointment of arbitrators in case the parties are unable to agree upon the selection of arbitrators and provision of legal judgment on questions of law.

(c) Arbitration will normally be conducted in the agreed-upon country but it does not prevent arbitrators from hearing a witness or holding a meeting of arbitrators outside such country, in case of necessity.

(d) The procedural laws of the forum of arbitration determine whether the arbitration awards are valid.

5. Selection of Arbitrators

(1) List of Arbitrators

Private organizations for arbitration usually provide for a list of arbitrators but unless the parties agree to follow the rules on the selection of arbitrators established by the respective private arbitration organization such list is a mere reference only and the parties are free to select those who are not listed in it.

(2) Consideration in the Selection of Arbitrators

In case of disputes arising out of license agreements those who are on the list of arbitrators for commercial arbitration are not necessarily the best choice, because one should have technical backgrounds in the respective field of technology. It has the primary importance, however, that arbitrators have profound knowledge on law. To my experience, usually it is a good choice to select retired judges as arbitrators.

Law professors are also among best arbitrators particularly in case they have practical experience in private practice or in the Government. To say that arbitration is a good method for settlement of disputes, the essential presuposition is to have impartial and most qualified persons as arbitrators, because in arbitration everything depends upon arbitrators and in so far as arbitration awards are legally valid, no retrial by the courts is available, irrespective of how one party is dissatisfied or aggrieved.

6. Governing Law with respect to Arbitration

(1) Governing Law on Substantive Issues

Irrespective of in what country an arbitration is to be held, those laws which are agreed upon by the parties in contract or, in the absence of such agreement on the choice of law, which are identified by the rules of the conflict of laws (international private law) shall be the applicable laws on the substantive issue.

(2) Governing Law on Procedural Issues

As stated above, the procedural laws of forum apply with respect to arbitration proceedings. Local arbitration associations provide for rules on arbitration. Although they are called "rules of arbitration" they are binding upon the parties only in case the parties have agreed to subject themselves to such rules of arbitration and to the extent parties can voluntarily agree within the framework of the local procedural laws. Reference by agreement to rules of arbitration set up by private arbitration associations is

nothing but an abriviated form of providing by agreement between the parties rules of arbitration as they deem fit. Therefore, parties can adopt the rules of arbitration of certain local arbitration association with such particular exceptions as they may wish to deviate.

(3) Governing Law on Enforcement of Arbitration Awards

The laws of the country where arbitration awards are sought to be recognized and enforced govern the question of whether the awards should be recognized and judicially be enforced. Therefore, it is essential to review and examine, when an arbitration clause is inserted in an agreement, local laws and cases of all related countries with respect to the judicial recognition and enforcement of international or foreign arbitration awards.

7. Recognition and Enforcement of Arbitration Awards

(1) Multinational Treaties

So-called "Geneva Conventions on Arbitration" (The Protocol on Arbitration Clauses of July 28, 1924, and the Convention on the Execution of Foreign Arbitral Awards of July 25, 1929) and the "New York Convention on Arbitration" (The Convention on the Recognition and Enforcement of Foreign Arbitral Awards of June 7, 1959) appear not to be self-executory treaties. Therefore, local laws for the implementation of those conventions are necessary for judicial recognition and enforcement of international or foreign arbitration awards.

(2) Bi-national Treaties

There are bi-national treaties concerning judicial recognition and enforcement of arbitration awards, mostly in treaties of friendship, commerce and navigations. Article IV of The Treaty of Friendship, Commerce and Navigation between Japan and the United States of America provides as follows:

> Contract entered into between nationals and companies of either party and nationals and companies of the other party, that provide for the settlement by arbitration of controversies, shall not be deemed unenforceable within the territories of such other party merely on the grounds that the place designated for the arbitration proceedings is outside such territories or that nationality of one or more of the arbitrators is not that of such other party. Awards duly rendered pursuant to any such contracts which are final and enforceable under the laws of the place where rendered, shall be deemed conclusive in enforcement proceedings brought before the courts of competent jurisdiction of either party, and shall be entitled to be declared enforceable by such courts, except where found contrary to public policy. When so declared, such awards shall be entitled to privileges and measures of enforcement appertaining to awards rendered locally. It is understood, however, that awards rendered outside the United States of America shall be entitled in any court in any State thereof only to the same measure of recognition as awards rendered in other States thereof.

Upon carefully reading the language of this provision, one will find that this treaty provision does not *per se* require the judicial recognition of foreign arbitration awards rendered in a Contracting State of the Treaty but simply requires to treat them in the same manner and measure as in the case of local arbitration awards; namely, if the local laws do not recognize arbitration (even local), then a Contracting State of the Treaty is not obliged to entertain the recognition of arbitration awards rendered in the other

Contracting State. In this respect, it should be noted that some States of U.S.A. do not recognize arbitration itself as the avoidance of courts and judicial procedures. However, the federal Arbitration Act will apply in favor of the recognition of foreign arbitration awards but it will be so only in so far as the matters fall into the federal jurisdiction.

(3) Japanese Laws on Recognition of Foreign Arbitration Awards

The Japanese Code of Civil Procedure provides for and recognizes arbitration proceedings and arbitration awards, but by language those provisions are concerned with local arbitration. The prevailing interpretation, however, is that the Code provisions should apply mutatis mutandis in favor of the judicial recognition and enforcement of foreign arbitration awards. There are some lower court cases in conformity with this prevailing interpretation. An English translation of the respective provisions of the Japanese Code of Civil Procedure is attached hereto as MATERIAL A.

LIST OF JAPANESE CASES ON ARBITRATION

Kuchiki Shoji K.K. v. MIKAMI K.K., 7 Minshu 848, Great Court of Cassation (the former Supreme Court of Japan) 1928

American President Lines v. C. Subra K.K., 10 Kakyu Minshu 2232, Tokyo District Court, 1959; see, 6 Japanese Annual of International Law 203 (1962)

Casanegi Compagnia di Novigazione e Commercio S.p.A. v. Nishi Shoji K.K., 10 Kakyu Minshu 1711, Tokyo District Court, 1959; see, 5 Japanese Annual of International Law 112 (1961)

G.D. Rarande v. Oriental Hotel, 24 Minroku 865, Great Court of Cassation, 1918

Articles on Arbitration

Kawakami, Chusai (Arbitration) KOKUSAI SHIHO KOZA (Lectures on International Private Laws) Vol. III, 848

Kawakami, Shogai Chusai Keiyaku (International Arbitration Agreement), in KEIYAKUHO TAIKEI (The Body of Contract Law) Vol. VI, 245

Doi, Case Comment, JURIST No. 293, 109 (1964)

Kawakami & Henderson, Arbitration in U.S./Japanese Sales Disputes, 42 Wash. L. Rev. 541 (1967)

Koyama, Shusaiho (laws on Arbitration, in HORITSUGAKU ZENSHU (Comprehensive Commentary of Law) Vol. 58

Tagawa, Shoji Chusai Hōri Josetsu (Introduction to Law on Arbitration), 45 MINSHOHO ZASSHI 33.

THE CODE OF CIVIL PROCEDURE

1950

COMPILED BY

LIAISON SECTION, GENERAL SECRETARIAT,

SUPREME COURT OF JAPAN.

BOOK VIII

ARBITRATION PROCEDURE

Article 786. An agreement for the submission of a controversy to one or more arbitrators is valid in so far only as the parties are entitled to conclude a compromise with reference to the subject-matter in dispute.

Article 787. An agreement to refer future controversies to arbitration has no effect, unless it relates to determined relations of right and the controversies arising therefrom.

Article 788. If no provision as to the nomination of arbitrators is contained in the agreement of submission, each party nominates an arbitrator.

Article 789. If both parties are entitled to nominate arbitrators, the pursuing party shall signify to the adversary in writing the arbitrator nominated by him and call upon the adversary to do the same on his side also within a term of seven (7) days.

If the term expires without result, the competent Court, upon the application of the pursuing party, nominates the arbitrator.

Article 790. A party having nominated an arbitrator is bound by such nomination as regards the adversary after he has given him notice of the nomination.

Article 791. Where an arbitrator nominated otherwise than by the agreement of submission dies, or his position is vacated owing to some other cause, or he refuses to accept or carry out the functions of arbitrator, the party who has nominated him shall, upon the demand of the adversary, appoint another arbitrator within a term of seven (7) days. If this term expires without result, an arbitrator is nominated, on the application of the party from whom the demand proceeded, by the competent Court.

Article 792. The parties may refuse an arbitrator on the same grounds and under the same conditions as they could refuse a judge.

Refusal may also take place where an arbitrator nominated otherwise than by the agreement of submission improperly delays the execution of his duties.

Incapacitated persons, the deaf the dumb, and persons who are deprived of or suspended from the enjoyment of public rights may be refused.

Article 793. The agreement of submission is no longer operative in the absence of previous provisions, arranged by the parties, for the following cases, namely:

1. Where, specified persons being nominated arbitrators in the agreement, any one of them dies, or his position is vacated owing to some other cause, or he refuses to accept the functions or dissolves a contract entered into by him, or improperly delays the execution of his duties;
2. Where the arbitrators notify the parties that their opinions are equally divided.

Article 794. The arbitrators, before making their award shall hear the parties and make such inquiries into the circumstances underlying the controversy as they may deem necessary.

If the absence of any agreement of the parties as to the procedure, it shall be regulated by the arbirators according to their discretion.

Article 795. The arbitrators, may examine witnesses and experts who voluntarily appear before them.

The arbitrators are not empowered to administer the oath to a witness or an expert.

Article 796. An act bearing or an award which the arbitrators deem necessary to do, but which they cannot perform, shall, upon the application of a party and if the application is admissible, be performed by the competent Court.

The Court which has directed a witness or an expert to testify is also empowered to render the decisions which become necessary in the event of a refusal to testify or to give evidence.

Article 797. The arbitrators may continue the procedure and make the award even where a party asserts that arbitration procedure is inadmissible, and in particular where it is asserted that no valid agreement of submission exists, that the agreement of submission does not relate to the controversy to be decided, or that the arbitrators are not empowered to functions as such.

Article 798. If the award is to be made by several arbitrators, a majority of opinions decides, unless otherwise provided in the agreement of submission.

Article 799. The award must bear a mention of the day, month, and year when it was drawn up, and be signed and sealed by the arbitrators.

An exemplification of the award, also signed and sealed by the arbitrators, shall be served on each of the parties. The original is to be deposited at the competent Court with the documents of service annexed.

Article 800. As between the parties the award has the effect of a final and conclusive judgment of a Court of Justice.

Article 801. Application to set aside the award may be made:

1. Where the procedure was inadmissible;
2. Where the award condemns a party to perform an act the performance of which is prohibited by law;
3. Where in the procedure the party was not represented in conformity with the provisions of law;
4. Where the parties were not heard in the procedure;
5. Where the award is not accompanied by reasons;
6. Where the case comes under Art. 420, Nos. 4 to 8 and the conditions exist on which an action for renewal of procedure is permissible.

The award cannot be set aside on the grounds specified in Nos. 4 and 5 of this article, if the parties have otherwise agreed.

Article 802. Execution in virtue of an award can be annulled only if the admissibility thereof is prononunced by a judgment of execution.

No judgment of execution can be rendered if there exists a ground upon which application can be made for the annulment of the award.

Article 803. After the judgment of execution has been rendered, application for the annulment of the award can be made only on the ground specified in Art. 801, No. 6, and then only if it is rendered credible that the party without any fault on his part has not been in a position to assert the ground for its annulment in the previous procedure.

Article 804. In the case of the preceding article, the action for the annulment of the award is to be instituted within a peremptory term of one (1) month.

The term commences to run from the day on which the party acquired knowledge of the ground for setting aside the award, but not before the judgment of execution has become final and conclusive. After the expi-

ration of five (5) years from the day when the judgment of execution became final and conclusive, the action is no longer admissible.

When the award is set aside (annulled), the annulment of the judgment of execution shall simultaneously be pronounced.

Article 805. The Court competent in action having for their object the nomination or refusal of an arbitrator, the termination (extinction) of an agreement of submission, the inadmissibility of arbitration procedure, the annulment of an award, or the rendering of the judgment of execution, is the Summary Court or the District Court designated in the agreement of submission and, in the absence of any such designation, the Summary Court or the District Court which would be competent if the claim were judicially asserted in a Court of Justice.

Amongst two or more Courts competent in pursuance of the provisions of the preceding paragraph, the Court which is competent is that to which the parties or the arbitrator have first addressed themselves.

Supplementary Provision:

The date for the operation of this law will be determined by Imperial Ordinance.

Supplementary Provisions:

The date for the operation of this Law will be determined by Imperial Ordinance.

The provisions hitherto in force shall apply to a compulsory execution already commenced before the enforcement of this Law. However, the provisions of Art. 570—2 shall be applicable to the abovementioned execution as well.