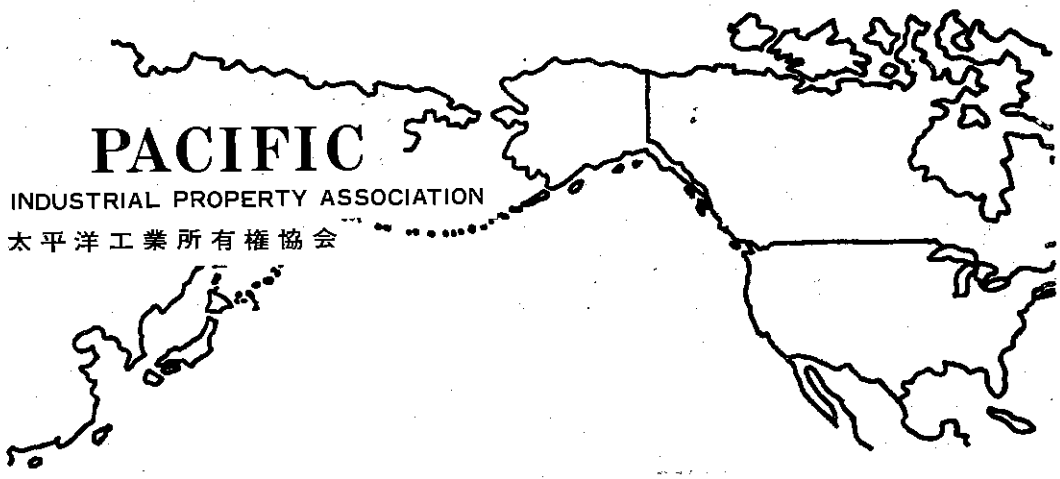
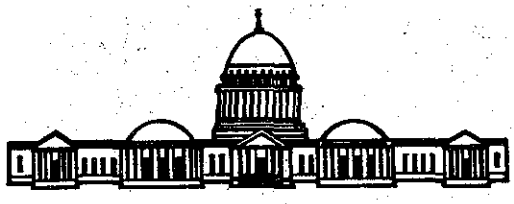


PACIFIC
INDUSTRIAL PROPERTY ASSOCIATION
太平洋工業所有権協会

# PRESENTATIONS

## The Fourteenth
## International Congress

L'Enfant Plaza Hotel
Washington, D.C.
October 19-21, 1983



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# PROGRAM

**WEDNESDAY, OCTOBER 19, 1983**

| | |
|---|---|
| 8:00 a.m. | Registration |
| 9:00 a.m. | Opening Ceremonies<br>Opening of the 1983 Congress — Karl Jorda<br>Report on 1982 Activities — Toshiya Hiraoka<br>Installation of PIPA officers for 1983 |
| | Keynote Address — Karl Jorda, President PIPA |
| | Address by Honorary Chairman — Michael Jaharis, Jr.<br>President & Chief Executive Officer; Key Pharmaceuticals, Inc. |
| 10:00 a.m. | REPORTS OF COMMITTEE NO. 1<br>S. Nakajima and A.E. Hirsch, Jr., Chairmen |
| 10:05 a.m. | Biotechnology & Patents in Perspective<br>Calvin Sparrow — American Group |
| 10:25 a.m. | Coffee Break |
| 10:45 a.m. | Present Situation of Examination of Chemical Substance Patents<br>A. Okumura — Japanese Group |
| 11:05 a.m. | Proposed U.S. Patent Law Revisions Affecting Foreign Trade<br>Bernard Zucker — American Group |
| 11:25 a.m. | Legal Protection of Computer Software in Japan<br>N. Kyomoto — Japanese Group |
| 11:45 a.m. | Abuse of Rights Observed in Litigations Under the Unfair Competition Law of Japan<br>S. Nakajima — Japanese Group |
| 12:15 p.m. | Luncheon |
| | Evaluation of Inventions |
| 1:45 p.m. | Summary of U.S. Practice — American Group<br>R.W. Hampton — J.W. Richards<br>E.R. Coffman — A.E. Hirsch |
| 2:05 p.m. | Summary of Japanese Practice — Japanese Group<br>T. Watanabe — H. Saita<br>S. Suzuki — T. Ohno |
| 2:30 p.m. | Panel Discussions |
| 3:15 p.m. | Coffee Break |
| 3:30 p.m. | REPORTS OF COMMITTEE NO. 2<br>J. Ichimura and William T. McClain, Chairmen |
| 3:35 p.m. | Comments on Joint Inventive Activity Guide of WIPO<br>H. Tahara — Japanese Group |
| 3:55 p.m. | Patent Guarantee Clause in Sales Agreements<br>M. Saito — Japanese Group |
| 4:15 p.m. | Chinese Economic Policies and Business Contract Law<br>K. Shimizu — Japanese Group |

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**RECEPTION AND BANQUET — PIPA AWARD**

7:00 p.m. Cocktails

8:00 p.m. Dinner
Introduction of Honored Guests
PIPA Award — Edgar W. Adams, Jr.

**THURSDAY, OCTOBER 20, 1983**

9:00 a.m. REPORTS OF COMMITTEE NO. 3
Z. Nakamura and P.D. Carmichael, Chairmen

9:05 a.m. Problems Relating to Submission of Translation and Patent Right in European Patent Application
M. Takada — Japanese Group

9:25 a.m. Recent Movements of the Industrial Property System in Taiwan and Korea
K. Murayama — Japanese Group

9:45 a.m. Intellectual Property Rights in Relation to Computer Piracy in Southeast Asia
V. Siber — American Group

10:05 a.m. Patent Restoration Legislation — An Update
R. Andersen — American Group
(Presented by A.E. Hirsch)

10:25 a.m. Coffee Break

11:00 a.m. Address by The Honorable Kazuo Wakasugi
Director General Japanese Patent Office

Address by The Honorable Gerald J. Mossinghoff
U.S. Commissioner of Patents & Trademarks

12:00 noon Luncheon

**THE KENNEDY CENTER**

7:00 p.m. CONCERT, RECEPTION AND DINNER
(Buses leave L'Enfant Plaza Hotel at 6:30 p.m.)

**FRIDAY, OCTOBER 21, 1983**

9:00 a.m. REPORTS OF COMMITTEE NO. 2 (continued)
Basis for Determining Royalties in Patent and Know-How Licenses — Panel Discussion
C. Alexander G.D. Libramento
T.B. Hunter S.R. Suter

10:20 a.m. Coffee Break

10:40 a.m. REPORTS OF COMMITTEE NO. 4
M. Shimokoshi and W.D. Roberson, Chairmen

10:45 a.m. Claim Interpretation under Japanese Law Sec. 72
S. Yanagihara — Japanese Group

11:05 a.m. Provision of Presumption on Manufacturing Process
M. Shimokoshi — Japanese Group

11:25 a.m. Recent Developments and Changes in Section 337 Actions Before the United States International Trade Commission
Francis A. Paintin — American Group

11:45 a.m. New Patent Arbitration Act and Conciliation Revisited
A. Isaacs — American Group

12:15 p.m. LUNCHEON AND CLOSING CEREMONIES

CEREMONIES


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## Report on 1982 PIPA Activities

Delivered by Mr. Toshiya Hiraoka,
President of the Japanese Group,
October 19, 1983, Washington, D.C.

Ohayo Gozaimasu. Good morning, distinguished guests and members of the Pacific Industrial Property Association. It is a great honor for me, and all members of the Japanese delegation, to attend this 14th International Congress here in the capital of the United States of America. On behalf of the Japanese group, I would like to extend warm greetings to our American friends.

We appreciate the good taste of the American group in choosing the conference room of L'Enfant Plaza Hotel for this Congress, and are impressed by the fact that L'Enfant Plaza was constructed as a master plan of the style and function that crystallize the spirit of Pierre L'Enfant's dream for the capital.

Born in 1970, the Pacific Industrial Property Association has since made a considerable contribution, from various standpoints, on both sides of the Pacific. Needless to say, these contributions have been achieved by the efforts of all members present. I would like to express my special appreciation to the senior members of PIPA for their continuing endeavors.

The 13th International Congress of PIPA, which was held at Port Island in Kobe last year from the 3rd to the 5th of November,

was attended by well over 120 representatives from both the U.S. and Japan. Each and every subject presented was very interesting and informative.

Now, about the PIPA activities during the past year, 1982.

Concerning PIPA awards, Mr. Donald Banner became the second recipient of the PIPA award at last year's Kobe Congress. It is with great pleasure that I can introduce this year's awardee, Mr. E. W. Adams, Jr., for his outstanding activities in furthering international cooperation in the industrial property field. Mr. Adams will be awarded during this Washington Congress.

Legislation for a Patent Law in the People's Republic of China is presently of great concern to us. A PIPA Position Paper was presented by the two groups for submission to the proper authorities in the People's Republic of China. We sincerely hope that the law will be both beneficial to them and acceptable to other countries in the world as well.

At this point, I would also like to express our special appreciation for the valuable report regarding the joint government-industry team visit to Taiwan and Korea in March, 1982. The interesting information we gained from the American group has become a great asset to the Japanese group.

The PIPA Conciliation System, which was established in 1975, has not yet been put into actual use. However, the American and Japanese sides recently renewed the Panel of Conciliators by respectively assigning five American and seven Japanese conciliators. I am sure they are ready to take action whenever necessary.

About a month ago, PIPA's president, Mr. Jorda, received a formal letter of invitation from Mr. Wakasugi, Director General of the Japanese Patent Office, concerning a team visit by patent-related leaders of U.S. enterprises to the Japanese Patent Office. Mr. Wakasugi delegated selection of the team members completely to Mr. Jorda with the idea that such a visit to the JPO would be a great opportunity for a dialogue and the maintenance of good inter-nation relations.

At the Joint Governors Meeting held right after the Kobe Congress last year, a mutual understanding was reached on adopting a panel discussion system for certain subjects during the Congress. The theme of the discussion at the Washington Congress will be "Evaluation of Inventions" and "Basis for Determining Royalties in Patent and Know-How Licenses". I am looking forward to the many informative presentations and interesting discussions that should be forthcoming on the subject.

Mr. Thomas I. O'Brien was president of the American group during the year 1981-1982 and served as president of the whole Association in 1981. On behalf of all members of PIPA, I wish to express our great appreciation to Mr. O'Brien for his contributions to the world's patent field.

It is with great pleasure that I present you with this certificate and gift as a token of our gratitute.

Thank you.

Karl F. Jorda
14th PIPA Congress
October 19, 1983
(Final Text)

# KEYNOTE ADDRESS

Shortly after I entered the patent field in 1957, the famous (infamous?) "Melman Report" came out and I became concerned about the future of the Patent System and a patent career. Professor Melman had reviewed the Patent System for the U.S. Congress as had Professor Machlup and both came down hard on the Patent System, to say the least.

Professor Melman answered the question whether the Patent System still fulfilled the Constitutional purpose of promoting science and the useful arts, in the negative and added that in the future "the main impetus for promotion of science and the useful arts will come, not from the patent system, but from forces and factors that lie outside that system." (S. Melman, "The Impact of the Patent System on Research", U.S. Senate Study No. 11, Washington, Government Printing Office (1958) p. 62)

And Professor Machlup's oft-quoted conclusion:

> "If we did not have a patent system, it would be irresponsible, on the basis of our present knowledge of its economic consequences, to recommend instituting one. But since we have had a patent system for a long time, it would be irresponsible, on the basis of our present knowledge, to recommend abolishing it." (F. Machlup, "An Economic Review of the Patent System," U.S. Senate Study No. 15 Washington, Government Printing Office (1958) p. 80.)

But the Patent System has survived Professors Melman and Machlup and other like-minded critics and is going strong indeed. Criticism of the Patent System, certainly from economists' quarters in industralized countries, has become much less strident and acrimonious though it has not completely subsided.

Studies of and proposals for alternatives to patents as incentives were made time and again but again the Patent System survived them as, in the final analysis, the very best and most viable time-honored alternative itself. For instance, another Congressional Study by Gilifillan ("Invention and the Patent System", Joint Economic Committee, Washington, Government Printing Office, 1964) which the author ambitiously called a "first appraisal" of the Patent System, identified "15 or so rival institutions" and proposed additional ones, in particular a "new institution" which

> "would avoid almost all the shortcomings of the existing systems, and support invention much better than ever before, with unlimited funds, and guidance for social welfare, yet with direction by businessmen, through licensed, nonmonopolistic, semi-public trade associations, which would acquire universal membership through gaining control of all good patents, through being granted them on better terms than to non-cooperating inventors." (P. 9)

But it is noteworthy that even this proposed "new institution" is based on patents and involves patent pools.

Mr. George Frost also scrutinized the various alternatives and finding them wanting concluded that it is "exceedingly doubtful that... intense research and new product competition would continue in the absence of a patent system" and that "patent system incentives will have an important place in stimulating business enterprise to create technology and - perhaps more important - to apply it." ("Patents & Progress", Richard D. Irwin, Inc., Homewood, Illinois, 1965, p.84) Incidentally, Frost had previously authored Senate Study No. 2 on "The Patent System and the Modern Economy" (Washington, Government Printing Office, 1957) and in it he stated - which is as valid today as it was then - that

> "It ought not to be necessary endlessly to defend the patent system against the stigma of 'monopoly,' when it is in fact a source of competition. It should not be assumed that every time an excuse is found to invalidate a patent, competition somehow necessarily benefits. It ought not to be necessary to indulge in endless argument over whether the patent laws or the antitrust laws ought to prevail when both serve the same end of maintaining competition and we should be looking for ways to make both more effective." (P. 77)

Most recently, Prof. Dr. Carlos Fernández Novoa of Santiago de Compostela, in the book "Hacia Un Nuevo Sistema de Patentes" (Editorial Montecorvo, S.A. 1982) has dealt with and rejected alternative systems, notably a governmental monetary award system. "... el Sistema de Patentes es el único sistema de incentivar la investigación technológica que es conciliable con el sistema de economía de mercado." (P. 32)

In addition to considerable criticism of the Patent System on the part of economists, complaints were the order of the day that the Patent System had really never been studied in depth to answer such questions as whether the economic benefits derived from the Patent System outweighed its costs. However, in more recent times empirical studies and mathematical models have been made and have provided previously-absent evidence regarding the economic value of patents. A fairly recent double issue of the Quarterly Journal of the American Patent Law Association on the "Economics and the Patent System" (Vol. 10, Nos. 1 and 2, 1982) is "must reading" in this respect.

Accordingly, it can now be stated confidently that patents

1) do promote the innovation process,

2) do facilitate licensing and technology transfer,

3) do have a great impact on research by disseminating information on advances in technology,

4) do encourage high risk investments which lead to industrialization, and

5) do have a significant influence on economic progress.

What kind of patent protection will provide the greatest incentives for

1) domestic research and development with the aim to achieve useful innovations;

2) productive investments and thus economic progress;

3) international technology transfer often coupled with investment ventures? I submit that it will not be a patent system which is overly restrictive in terms of patentable subject matter and patent duration, on the one hand, and overly liberal in terms of compulsory licenses, forfeitures, and other sanctions for non-working, on the other hand.

Rather, it will be a patent system that provides patent protection for the widest scope of subject matter categories especially in new and exploding fields of technolgy including software and in the field of chemistry, not only manufacturing processes but also uses and applications, compositions and formulations, living organisms and, most importantly, chemical substances or compounds per se. Patent protection for processes of manufacturing chemicals is inadequate even with the legal safeguard of the reversal of the burden of proof because it is so easily circumvented and because it places emphasis on the development of new processes to make known products rather than synthesis of new substances.

It will also be a patent law that does not envisage sanctions for non-working in any form or only under very special circumstances. Provisions for compulsory exclusive licenses and for premature forfeiture or revocation as remedies for non-working as per recent proposals for revision of the Paris Convention are especially abhorrent and repugnant and counterproductive. Such a patent law will also provide for efficient prosecution procedures and countenance effective and prompt enforcement of patent rights against infringement including also contributory infringement.

Furthermore, a patent system that provides adequate incentives for research and development, investments and technology transfer, is one that is not niggardly when it comes to the duration or life of a patent, that is to say, one that will provide more, or ideally much more, than fifteen years, rather than less. Five-year terms as exist now in some national laws are completely inadequate as an incentive mechanism even if they are extendible for another five-year period because extension possibilities are narrowly circumscribed. And wasn't there a recent enactment of a one-year patent term in Costa Rica?!

As regards patent term, I personally feel that a 25-year patent life would be "more like it". In fact, a legislative proposal for such a term across the board is now being readied for introduction in the U.S. Congress. This is apart from or in addition to pending "Patent Term Restoration" bills which would extend the term of a patent for up to seven years to compensate for the delay caused by governmental premarketing and regulatory review requirements which is a serious problem in the pharmaceutical and pesticide industries.

Some inventor groups are interested in enlarging the period of patent protection to 25 years because nearly everyone possessing rights under patents is experiencing difficulties in commercializing inventions. And industry spokesmen also have started advocating 25 years terms. For instance, at the LES International Conference in San Francisco last October, Fred Hartly, Chairman of Union Oil Company, made the following plea:

> "The time has come to seek longer life on patents that protect massive, long lead-time investments in all industries. We see today in refining and petro-chemical plant project delays of up to five years and more for environmental permits, construction lead times of three to five years and commitment delays caused by patent interferences. Those factors can be beyond our control and can easily consume half or more of a patent's useful life."

In his oral presentation, as I recall it, he suggested "for starters" an increase from "17 to 25 years".

In fact, it is interesting that voices are starting to be heard that the life of a patent actually should endure for at least fifty years. See W. Schickendanz, "Are 20 Years of Patent Protection Enough?", GRUR, Sept. 1980, p. 828; T. Haffner, "The Short Patent Life - An Injustice and Block to Innovation...", PERFORMING ARTS REVIEW 9, 1979 p. 389 and M. Elphick, "Patent Laws Are Behind the Times", ELECTRONIC DESIGN 6, March 15, 1979, p. 75. Their arguments, in brief, are that many inventions, especially pioneering inventions, are ahead of their time and become commercial only after patent expiration and the distinctions between artistic creation and scientific invention are becoming blurred and hence inventors are being discriminated against vis-a-vis authors.

There are favorable tendencies at work. Things are looking up, indeed. The Patent System is becoming stronger and healthier. The note of pessimism on which I started has by now turned into a high note of optimism.

A favorable turn of events, if not reversal, may also be in the cards as far as the Third World and their industrial property and transfer of technology systems are concerned. Here the crisis situation we have faced for many years now may ease up and be turned around hopefully in the near future due to the phenomenon of reverse technology transfer and the growth of true MNC's.

A new stage has been reached where some developing nations have already become "developed" nations in the sense that they have become technology exporters. In some countries and notably Latin American countries, such as, in particular, Argentina, Brazil and Mexico this has already reached very pronounced proportions. Mexico is the best example one can find in this regard but of universal validity.

Mexico is still classified as a developing country. And insofar as the development of truly new products is concerned, e.g., synthesis of new chemicals, it certainly does not come close to the major European countries or Japan or the U.S. However, Mexico without a doubt has come a very long way as regards technological progess.

Mexico has already sound technology of its own in such fields as agricultural infrastructure as well as such industries as petroleum, beer, cement, glass, steel and others including some in chemical areas. What is more, a full-fledged campaign has been under way in Mexico to export "home-grown know-how". (See Business Week, August 30, 1977, p. 40.)

For instance, the HYLSA process for direct reduction in steel making, which was developed by Hojalata y Lamina, the largest private steel company in Mexico, was first sold to Brazil in 1969 and has since also been bought by Venezuela. The technology DEMEX, invented by PEMEX the state oil monopoly, in order to extract metals from crude petroleum during the refining process, has been sold to ECOPETROL, the state Petroleum company of Columbia as well as to Jamaica. The method CORTINA to reinforce steel structures is used in Columbia and Venezuela. And Peru and Argentina have bought the CUSI process, a method developed by the Bufete Industrial for the manufacture of paper pulp. Lately, Mexican technology has also been found outside of Latin America. Steel plants which incorporate the HYLSA process are being constructed in Iran, Irak, Indonesia and Zambia. The CORTINA technology has been bought by Saudia Arabia to be used in projects of the Department of Housing, and the DEMEX process is even being used in the United States in an expansion of a multi-million dollar refinery in Corpus Christi, Texas.

Mexico has also developed a hydrometallurgical process of its own to make copper electrolytically. It went into the pilot plant stage in 1977 in Baja, California to produce 10 metric tons/day and later 9,000 m.t./year. And by now this process has been exported.

It is also very interesting to note that there has been a drive in Brazil not only to export goods but also, and more recently, to export less sophisticated technology or to re-export technology adapted to the conditions of a developing country to countries which have not yet reached the industrial level of Brazil, such as, Arabic, African and some of the other Latin American countries. INTERBRAS, has transfered technology involved in about 30 projects from Brazil to such other countries including, for instance, two ceramics plants in Nigeria.

In this connection it is also very interesting indeed to note that truly multinational companies already exist in Latin America and have been emerging from developing countries in general for some time now as discussed in a recent Harvard Business Review article (See David Heenan et al., "The rise of third world multinationals", Harvard Business Review, January-February 1979, pp. 101-109).

This is just an illustration and possibly only the tip of an iceberg. But these are not isolated instances; it is becoming a pattern, a systematic practice and a logical development. This ought to be kept in mind for the sake of objectivity and perspective. I don't think there is a clearcut division or gulf or dichotomy between developed and developing countries. From the point of view of

technology transfer it is a dynamic ever-changing picture. The point can be made and this should be born in mind that with respect to the Code of Conduct and restrictions in Technology Transfer agreements, the "chickens may come home to roost" (as we say in the United States) to the developing countries when they start to export technology and practice export of technology themselves.

In this regard it was most interesting to hear also at the Syndeny LES Conference, that the switch from developing to developed countries which is fast coming about also in Asian/Pacific countries such as Korea, Taiwan, Singapore, is taking place without any resort to such restrictive practices as are prevalent in Latin America.

Restrictive patent policies are indeed unfortunate because patents are an important element in stimulating the working of new and useful inventions and of complementary know-how, and consequently, facilitate and increase technology transfer. Therefore, strong rather than weak national patent laws in developing countries are, under cost/benefit evaluations, the best method of contributing to an increased inflow of desired and suitable technology and know-how for the benefit of industrial and agricultural progress.

While favorable tendencies are at work, there is a lot yet to be done and PIPA as an organization and we as individual PIPA members, have to continue our efforts to help shape and strengthen patent systems around the globe.

Goseicho arigato gozaimashita.

THE PACIFIC INDUSTRIAL PROPERTY ASSOCIATION

Address to the 14th International Congress
Of the Pacific Industrial Property Association
Washington D.C., October 19, 1983

By the Honorary Chairman:

MICHAEL JAHARIS, JR.

It is a great honor for me to accept your appointment as Honorary Chairman for the Fourteenth Annual Congress of the Pacific Industrial Property Association. My company, Key Pharmaceuticals, Inc., has been built with industrial property rights as a cornerstone. We have recognized the importance of close understanding and cooperation between Japan and the United States. It is my hope that my countrymen will benefit from Key's example and that the delegates of this Congress will be able to use Key as an example for your management to show the benefits and importance of better international understanding between our countries.

Earlier this year, your government kindly invited to Tokyo our Commissioner of Patents and Trademarks, Gerald J. Mossinghoff. I am delighted that just this week, the Director General of the Japanese Patent Office, the Hon. Kazuo Wakasugi,

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* President and CEO, Key Pharmaceuticals, Inc., Miami, Florida. After working in the field of industrial property protection for a major multinational health care concern (eventually becoming a senior Vice-President), Mr. Jaharis in 1971 (together with Dr. Philip Frost) acquired a then small drug house, today the Miami-based health care concern, Key Pharmaceuticals, Inc., which has in substantial measure grown to its present $100,000,000 year size through its international licensing of proprietary drug delivery systems. Despite his management responsibilities as President and Chief Executive Officer of Key, Mr. Jaharis continues to actively lead licensing discussions and be involved in patent procurement matters.

is in the United States to accept our invitation for cooperative discussions. The trilateral meeting, also including President Van Bentham of the European Patent Office, marks an historic evolution codifying cooperative efforts amongst the leaders of the industrial property world on this one hundredth anniversary of the Paris Convention, and just two years before the hundredth anniversary of the Japanese patent system.

PIPA has already been recognized in the patent field as an important international organization. During the Administrations of the two chief government officers for patents in our countries, international cooperation has been greatly strengthened. Both Director General Wakasugi and Commissioner Mossinghoff must be congratulated on their efforts to cooperate in understanding and avoidance of problems; their historic trilateral meeting just this week with their counterpart from the European Patent Office, Mr. Van Bentham, may well be looked upon years hence as an historic formalization of the cooperation between the three most important patent-granting organizations in the world.

Essential to continued cooperation in this age of high technology is closer and better understanding between the governments and industries of our two countries. Without understandings built upon deep study and personal friendships, we face a danger of restrictions on technology transfer which would threaten the free spread of technology to better mankind. I am particularly pleased to see the efforts of PIPA to bridge the gaps between our two societies, and note the friendships between PIPA members across the Pacific which go a long way to building bridges of friendship and cooperation which are necessary to avoid the threats of restrictive legislation. While PIPA has now established deep roots, at the same time it is still fresh and vigorous. I am honored to be here in the presence of one of the founders from Japan, Mr. Saotome, whose name and reputation are well known to me. By coincidence, Mr. Saotome has been a leader of Mitsubishi Kasei, the first Japanese company with which Key has had major cooperative dealings.

My introduction to industrial property is not recent, but came early in my career when I worked with my very close friend and your Keynote Speaker this morning, Karl F. Jorda. Although I have been introduced to you in terms of my corporate management responsibilities, more than twenty years ago I gained a first hand appreciation of the importance of both domestic and international industrial property rights working in the legal

department as Mr. Jorda's coworker in a major multinational health care concern. At that time, we worked in the industrial property area of a major drug concern, and to this day I continue to profit from Karl's lessons on the importance of international friendships and understanding in the international industrial property community. Today at Key, I am involved personally and often lead patent license discussions with companies from Europe and Japan, and personally participate in patent procurement matters.

Patents are of paramount importance to an R&D company and country; every effort should be made for a better international understanding generally in this field, and particularly between our two countries. Although Key's example of management involvement in patent matters may be relatively rare in the United States, this is not true for Japan. Many leaders of Japanese companies have intimate patent involvement during their careers. American delegates to this Congress should study the involvement of top Japanese management in daily patent concerns to see how their example may benefit American industry.

Cooperation amongst governments, while important, is not enough. The Delegates to this Congress bear a special responsibility to see that the industries of our two countries better understand the workings of the patent systems of both countries, so that the secrets of each are open to all, and so that all may benefit from the systems of both countries, in full keeping with the letter and spirit of the Paris Convention. I am very pleased to say, on behalf of Key Pharmaceuticals, Inc., that we have enjoyed the benefits of the Japanese Patent Office and have received the same fair and equal treatment in Tokyo as we have received in Washington. I am particularly impressed by the open invitation of Mr. Wakasugi to your Keynote Speaker, extending hospitality to a select PIPA delegation of American industry leaders for a visit to the Japanese Patent Office next February to exchange views and to foster better understandings by Americans of the intricacies of the Japanese patent procurement procedures. I encourage the Delegates here at this Congress to be actively involved in assisting your Keynote Speaker in this important mission.

The Japanese attitude toward cooperation and international understanding did not begin, however, with Mr. Wakasugi's dramatic gesture to PIPA. It is but the latest manifestation of continual study of international systems that began with the

Meiji Restoration, exemplified in the patent field by the numerous Japanese delegations to the U.S. Patent and Trademark Office which comparatively study what we are doing. Parallel delegations have made similar ventures to the major European capitals. Out of these studies, benefiting from whatever good practices have been observed in the United States and elsewhere, the Japanese industry and government have gradually synthesized its own modern, distinctly Japanese patent system.

Japanese study of American and other western institutions is not new. Americans should benefit from this example, by having delegates now go forth and study how the Europeans and the Japanese conduct their patent systems. While any change in the American code necessarily and quite properly should be in the American self-interest, Japan and the United States, as the two most highly industrialized societies of the world, share many self-interests in common. As Japan in the past generation has comparatively shopped in Europe and United States for code changes, it would be beneficial to Americans to investigate why Japan has elected many European models and rejected the American counterpart model. To the extent that Americans share a common self-interest with Japan, Japan should serve as an "experimental laboratory model" for law changes which it has gradually adopted in the past generation based upon the European model. One such example bears particular importance:

Comparative study should be made of the present American "patent interference" system with the "first to file" practice of Japan and Europe. PIPA could be an ideal vehicle for such comparative research. I see many benefits to an American move to "first to file". We should carefully study how this system has worked in Europe and Japan, and if indeed such study shows this system to be in the self-interest of the Europeans and Japanese, there is a parallel lesson to be learned here in the United States.

Thank you again for your invitation to address this important Congress. I trust that your meeting this week in Washington will lead to even better trans-Pacific cooperation and friendship.

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Address by the
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cause he was the oldest. Of
I find myself wondering whether that was the reason I was selected.

In any event I am old enough to remember when PIPA was nothing but the brilliant idea of a small but inspired group of U.S. and Japanese experts. PIPA's creation and growth have, since then, resulted in highly significant changes:

- 14 years ago, neither those in the profession in Japan nor those in the U.S. understood the intellectual property systems of the other's country nearly as well as they do now.

- Certainly the industries of our two countries responsible for the creation of new technology did not have the respected voice in international circles that they have now speaking through PIPA.

- Most importantly, all of us who have represented our member companies in PIPA have shared in stimulating intellectual exchange and good fellowship and have developed deep and lasting friendships as we have worked together.

What has all of this to do with my receipt of the PIPA award?

Only this: I receive it with the recognition that I am honored by a most highly respected organization; and that my contribution has been possible only because I have been privileged to represent that organization in many places and to share the respect earned for PIPA by the dedicated work of so many of my associates and good friends.

Edgar W. Adams, Jr.
October 19, 1983

Honorable K. Wakasugi
.1, Japanese Patent Office

che greatest pleasure that I address the
embers of PIPA in Washington. As Mr.
president, mentioned, I am doing my best to
cent administration operate efficiently by
g the special account system and computeriza-
nd at the same time I am also trying to establish
c toward the patent system and patent rights, or
generally respect toward the industrial property
nts and improve the status of those engaged in patent
atters.

As far as I know, the United States pays the highest respect or attaches the highest value to the industrial property right. I think those who are engaged in the patent work, attorneys and other business people in US also enjoy the highest prestige.

Regrettably, Japan is still behind. Perhaps, it is because we are one of the NICS, if not the least developed, and need to try harder. At the same time, I recall that the first Director-General of Japanese Patent Office visited US about 100 years ago to study the patent system. He must have come to Washington and must have met the then Commissioner.

He then went home to Japan and established a modern patent system. We have since made quite a progress during those 100 years. And yet I am still a student of Commissioner Mossinghoff. About this time last year, I received a lesson from him which lasted for more than 1 hour in the Office of American Mission in Geneve. He was more like a professor than Commissioner. I studied the splendid and most ambitious automation program at the US Patent Office. Thus, the lessons which were started 100 years ago still continue and we look up to US as a pioneer.

As you may know, Mr. Takahashi became a prime minister afterwards. But I don't think he has thanked you properly--I understand he had rather a poor memory. Therefore, I would like to express our heartfelt thanks on behalf of him 100 years afterwards.

I have another pleasure today. I am extremely pleased to meet you--pleasant and intimate persons--again after the meeting in Kobe last year. I think PIPA should be called Pleasant and Intimate Persons Association--a group of jolly good persons.

As you know, we had a tripartite meeting. In sum, it was a huge success. One of the European delegates told me that he attended this type of congress for the first time--a congress free of negotiations, trouble or bargaining, and a congress aiming solely at advancement and cooperation. I think it is extremely important that all the members of this Association share the common goal and give impetus to each other in achieving this goal.

We are doing our best to catch up with US and to fill the gap of 3 years in initiating automation program. I think it is the same with EPO, and suspect that US is afraid that Japan may surpass them. I think that it is a rare case where the cooperation and competition are compatible with each other. Although I shall not go into the details of the meeting, I shall just mention the atmosphere was most cordial. Automation or a paperless project is an epochmaking project and the proposed cooperation among three countries is also epochmaking.

That the industrial property right system is most international is very well illustrated by the 100 year history of Paris Convention. There are many treaties to date, but I think it must be the first attempt that countries got together to make the system work rationally by cooperation in respect of actual examinations, paper work and for better efficiency.

I believe that this project will give profound impact beyond mere offering of information or rationalization of clerical work. For instance, the morale of the Japanese Patent Office workers has never been so high. This is the impact of move toward the computerization.

Patent Offices generally have long history and tradition. Japanese Patent Office has a hundred years' history. US has 200 years' history. England has about 300 years' history although I am not quite sure. History and tradition sometimes prove to be inconvenient. They may harbor dislikes or inherent resistance against changes or progress. Such a negative character is being overcome to a considerable degree with this computerization.

I have been admiring Commissioner Mossinghoff or Commissioner Benthem since I met them for the first time as men of ability and action. I am afraid I am most ignorant. Perhaps I am the only one Commissioner of Patents in this whole wide world who has not read through the Patent Law. However, ignorance can be a powerful weapon. I do not hesitate in the face of any rationalization.

Thus I use my ignorance as a weaponry. If I may explain in more detail, I am trying my best to develop an automatic translating machine as I mentioned in the beginning. I am confident that the one from English to Japanese will be completed within 5 years. However, I am told that they do not know for sure when the one from Japanese to English will be completed because of the irregularity in Japanese grammer. I plan to have it completed within a decade.

That I can say that the completion will be within 10 years means that I am completely ignorant. The more one is an expert on the question, the more difficult they claim it to be.

I started studying, but then I felt discouraged. So I decided not to study. Knowledge is quite useless. It has only a negative use. Therefore, I proudly proclaim my ignorance.

Now, I would like to make two points. One concerns the patent administration in Japan. I am quite pleased with myself for being able to say this. For the past 31 years, I have been with the Ministry of International Trade & Industry. I first started working at the Patent Office. Thus, I have been quite familiar with the Patent Office, but I have never once heard of policies or ideas of discrimination against the aliens. On the contrary, my countrymen often criticized that the Patent Office was favorably prejudiced for the foreigners. This type of criticism decreased recently. But it was quite natural because technology overseas was superior.

Secondly, I intended to make the Patent Office completely open to the outside. I hereby declare that everything in the Office will be "see-through" except naturally your trade secrets will be jealously guarded.

Any types of contacts, direct or indirect, by letter, telex or telephone will be most welcome, although telephone contacts may encounter some language barriers until the translating machine is completed. I believe there are great merits for direct contact.

An Australian attorney told me the following at the Geneve Conference last autumn. They had negotiated a license agreement with a Japanese company a while ago. The representative from the Japanese company told him that such conditions would not be approved by the Japanese Government. I telexed my friend in Japan asking if the Japanese Government did indeed interfere with a private contract in such a way. I was told that the Government ceased to interfere more than 15 years ago. Maybe it was 20 years ago. I am not so good at figures.

I was quite surprised to learn that the Japanese Company could be so obsolete, although none of you in audience would be. This will be instantly disclosed by a call or a telex message. I think Americans are closer to Japan and would not believe such a story. But believe me, Japan is trying her best to make everything open and frank.

Naturally there are still NTBs. However, I am confident that not once in the past ten-odd years Japan has retrograded from liberilization or "openliness". She has made a steady progress every year. MITI is dubbed "notorious", but I swear that as far as I am concerned I have done everything to make our Office "open and transparent". I am determined never to allow retreat.

Thus, we welcome direct contacts from you. In order to show our willingness, we would like to ask Mr. Jorda and members of PIPA to visit Japan at an early period next year. In other words, I would like you to meet the examiners. Having thus established the contracts, you will be able to communicate with them by telex, telephone, or by letter.

The Patent Office is generally more inefficient and beaurocratic than you are. However, I always contact Commissioner Mossinghoff instantly over telex. Therefore, I think I am capable of communicating with you, too, through telex or telephone. You are most welcome.

Although I would like to go on, thirty minutes have passed. I do admire the congenial atmosphere at PIPA. I would like to continue attending this Congress as an observer in the future.

This is my second attendance, but perhaps if I attended the Conference 13 times, could I please have the plaque that Mr. Adams got yesterday?

Thank you very much.

Address by The Honorable G. J. Mossinghoff
U. S. Commissioner of Patents & Trademarks

I am delighted to be able to join you today with my colleague, Mr. Wakasugi.

It was two years ago, I believe, that I was honored to address this group in New York City. At that time, I told you of our plans for putting the United States Patent and Trademark Office on a sound financial footing by increasing our fees, and how we had proposed to enter into a bargain with the people we serve, in industry both in this country and internationally, and with inventors--people who use trademarks. And the bargain was that in return for the substantially increased patent fees we were going to bring about a first class operation in the Patent and Trademark Office. At that time, we were adding twenty thousand cases each year to an already huge backlog of cases. It took longer to get a trademark than at any time: twenty-four months. It took longer than at any time in the history of the United States. And our twenty-four million document file was all paper, hand filled and retrieved, and seven percent of those documents were either missing or misfiled.

We formulated an ambitious plan to redress that situation. I am pleased to report two things today: (1) that we are on schedule in achieving the goals that we set out for ourselves in promise for the increased fees which Congress gave us; and (2) that none of the awful things that opponents of the new fees said would happen are happening. Except for a shift in the filings, when everyone in the United States in the patent field cleaned off his or her desk to file patent applications before the new fees went into effect--except for that--we are right back on the same filing trends that we had before the new fees were formulated.

We have hired over five hundred and sixty new examiners. We plan to hire another one hundred and eighty this year and another two hundred and fifteen the following year. At the end of that recruitment program, we will have a steady-state force of fifteen hundred patent examiners.

I am proud, also, of the institutional systems that we have been able to help arrange in one case and to arrange in another case to address in a forceful way the problems of protecting intellectual property and high technology. I think one of the most dramatic improvements in the United States' patent system--probably in its history--was the establishment this past October of the Court of

Appeals for the Federal Circuit. I know, as I look around the room, that the American members of this organization fought very hard to overcome political resistance and to establish that court which is rationalizing and creating a national patent law that can be depended upon by all users of the U.S. system.

Also, institutionally, we have created under the Cabinet Council for Commerce and Trade--this is a Cabinet Council, chaired by Secretary Baldridge, my boss--we have created in that Cabinet Council an "intellectual property working group." Virtually everything we have done in this Administration having to do with patents and trademarks and intellectual property has come out of the ministerial level deliberations of the Cabinet Council, one or the other.

We currently have decided by the Cabinet Council system that we would support patent term restoration. I was informed this morning at a breakfast meeting with Director-General Wakasugi that that is something that the Japanese industry is interested in also: restoring to patentees who are deprived of part of their market life an appropriate amount of patent exclusivity to make up for the time it takes to achieve governmental clearance of new drugs or new agricultural chemicals.

We have taken a strong view against international counterfeiting, and I think both of our nations have a great stake in preserving the integrity of the marketplace, and to come down very heavily on those who would deprive consumers of information about products by pirating another company's trademark.

We have taken a lesson from Japan in the area of the rental of phono records and the rental of videodisks or videocassettes. And the Cabinet Council working group and the Cabinet Council have agreed that copyright owners should be able to participate in rental income of phono records and videocassettes.

The Cabinet Council has decided to endorse strong protection against the copying of the masks that are used to make semiconductor chips. The precise type of protection that we will recommend has not been determined, but it will be copyright-like protection that we will recommend to the Congress be enacted to protect the substantial investment--and it's not necessarily innovative or inventive activity but it's a substantial investment--in creating these fantastic semiconductor chips.

Again, I was interested this morning to hear that Japanese industry is interested in doing the same thing,

perhaps, in Japan, to explore the possibility of protecting the tremendous high tech capability of these chips.

We are looking at protection, possibly, of computer software. It is now copyrightable, but there is a feeling that perhaps a more specific form of protection might be appropriate for computer software.

We expect to recommend--the working group, I believe, will recommend to the Cabinet Council that the United States adhere to the Brussels Satellite Convention, which Convention is in place now. It had been negotiated. The purpose of it is to prevent piracy of television programs and movies which are transmitted by satellite.

We are doing a complete review of all trade laws as they affect intellectual property, and I expect that our working group will have recommendations on amendments to the trade laws to strenghen intellectual property.

Finally, we are presenting next week to the Cabinet Council working group a proposal of the Department of State and of Michael Kirk, whom many of you in this room know, which will be a program to increase our assistance to developing countries in their efforts to establish intellectual property systems in their countries.

The touchstone of this Administration's consideration of intellectual property is that where there is a conflict--a political conflict or an economic conflict--between those who create new technology and new intellectual property and those who copy it, we will come down hard on the side of those who create the new technology and give that new technology to the world.

Internationally, I am very pleased with the results that we obtained at the Third Session of the Diplomatic Conference in Geneva. I will tell you that a part of the success of that conference stemmed from what is referred to as the "Pacific Group"--not the Pacific Industrial Property Association but the Pacific Group. A year and a half ago, there was a Group B meeting, a meeting of developed countries in Munich. Unexpectedly, I ended up heading the delegation to that meeting. I was used to U.N.-type negotiations, based on my career at NASA, in the Committee on the Peaceful Uses of Outer Space of the United Nations. In those debates and deliberations, every country speaks for itself: there are no group negotiations. As you might expect in the space and national security area, the leadership of each side is primarily the United States versus the Soviet Union. Nevertheless, each country does its own negotiating. When I got to Munich, Mike Kirk

explained the group system of negotiation. An issue would come up in Group B, the developed countries, and the European Economic Community would say, "Well, we have not taken a position on that issue, and we must caucus." So they would adjourn the meeting, and each of the delegations would sit in the room or go out and have coffee or sit in a lounge or work the crossword puzzle in the International Herald Tribune for the third time. Two or three hours later, the Community would come in, and the Community Spokesman would tell us--the United States, Japan, Australia, New Zealand and the others--what the answer was. Even though I was new at the job, it didn't seem to me to be a very good idea for the Community to reach its decision independently of our viewpoints and then simply come in and, for example, tell the United States of America and Japan what the answer is in an area that's very important to them.

So we began very informal meetings at Munich. When Mike and I got back, we discussed this with the State Department, we talked to our Ambassador in Geneva, and we proposed that we form a Pacific Group. There was no objection at all. In fact, in group diplomacy, there was a lot of frustration in dealing with the ten-member European Economic Community. When we got to Geneva, we got our own conference room, had discussions with Director-General Wakasugi who had his delegation, with the Australians, New Zealanders and Canadians, and decided we would form the Pacific Group. We did form that; we had good logistic support; we had our own secretary; we had our own telephones; we had our own copying machine. So at the Geneva meeting, when the European Community caucused and then came in and said, "And this is the answer to that question," we would say, "That's a very interesting suggestion; now the Pacific Group will caucus to consider your suggestion, and we will let you know what our decision is on your suggestion."

It worked very well. I think all five members of the group--and I hope Mr. Wakasugi--thought it was a very successful way to handle the multi-lateral negotiations. It also redressed the fact that there's not an economic power, I don't think, in the world that can simply tell the United States and Japan what is or is not in their best interest. So I'm very pleased with that outcome.

As a result of that and several other good developments, we were able, I think, to reverse entirely the earlier results in Nairobi, which would have permitted developing countries to issue exclusive, compulsory licenses in foreign-owned patents in their countries. We regard that, and we always have, as a totally inappropriate and unacceptable expropriation of private property. I believe in the Third Session we were successful in getting that

viewpoint totally adhered to by the Group B countries. And I'm pleased to say that the vast majority of the group of developing countries, Group 77, are prepared to go along with our proposal. I am anxious to begin negotiations again at the Fourth Session to try to lock in what's referred to as "Ambassador Jimenez-Estaval's (?) compromise text."

Finally, let me say a few words about the agreement that we entered into yesterday.

These agreements go very well. I know a number of you in this room are involved in litigation, and one of the first rules of litigation and cross-examination is: "Never ask a question unless you know the answer in advance." You could use that rule diplomatically, also: "Never have a high-level summit conference unless your technicians have worked out all of the issues." so that the matter comes before the heads of offices in a very concrete and specific form. I think Mr. Wakasugi, and K now Bob Van Benthem and I, are extremely pleased with the work and cooperation that has gone on--really since last April--among our assistant directors and assistant directors-general. The conference was well prepared. We had experts' meetings all of last week. The meetings went until eleven or twelve o'clock at night. When we convened the meeting Monday, we had a workbook about three inches think. Every issue had been resolved or it had been identified with the pros and cons on the issues. The result was, I believe, an extremely sweeping emorandum of Understanding among the European Patent Office, the Japanese Patent Office, and the United States Patent and Trademark Office.

I have included at each of your places a copy of that Memorandum of agreement, together with the press release that we released yesterday out of the Department of State.

It sets up a vehicle for us to avoid duplication, for us to learn from each other in the area of automation, and for us to get on with the business of our technical work in serving you, the users of our systems, through our efforts. It's extremely even handed. All three parties come with a lot to offer to the other Offices. I must respectfully disagree with my good colleague Mr. Wakasugi: I would be absolutely delighted if Japan beat the United States in their efforts to automate their office. This is not a zero-sum business: our gains are his gains and his gains are our gains. So there is a strong mutual reinforcement of cooperation among our three Offices.

In your Memorandum of Understanding, there is a

very significant paragraph: Paragraph 10. It identifies, with a view to identifying concrete steps to be taken to implement cooperative efforts as referred to in the paragraphs above.... (Reading) "....various study projects and other proposals were prepared and discussed. These proposals encompassed the following broad subjects." And there listed are several, almost a dozen, areas where we plan to cooperate. Each of those lines in Paragraph 10 is backed up by about one quarter inch of detailed data on what we are going to do in each of these areas of cooperation. So it is not a broad, political type statement. It is a list which is back up by detailed analysis of our respective experts.

In a somewhat lighter vein, let me say that the other day I was reading a request for reconsideration from a decision on petition that I had rendered, and Mr. Wakasugi, the author of the petition to reconsider, suggested that I also needed to read the patent law, and that I also had not studied the patent law as thoroughly as I should.

Let me say finally that it is conceivable to me, given the political skills of Mr. Wakasugi, that we may be visiting today with the second Director-General of the Office who might move on to become Prime Minister of Japan.

In closing, let me just say that there is a strong mutual dependence, particularly among the three big Offices that are now taking these important steps toward automation. Excepts for U.S. industry, Japanese industry is the largest user of the U.S. Patent and Trademark Office. On the other side of the coin, except for Japanese industry, U.S. industry is the largest user of the Japanese Office. And finally, from the U.S. industrial point of view, we are the single largest user of the European Office. U.S. industry files twenty-six percent of the cases that are filed in the European Patent Office. So it makes eminent sense to be able to pull the three efforts together in a very workman-like setting. Our goal is to further the protection of intellectual property internationally, across the board.

To do that, each office intends to cooperate fully in all of the W.I.P.O. efforts to increase dissemination. But to get on with the job, we decided that this was the much better vehicle. It is totally devoid of political considerations. It is truly a technicians' agreement, and that is exactly the way it should be.

I am delighted to report the agreement to you this morning and to say that we really are on track, I think, in making the U.S. Patent and Trademark Office the first class organization it must be.

Thank you very much.

## Closing Address

Delivered by Mr. Toshiya Hiraoka,
President of the Japanese Group,
October 21, 1983, Washington, D.C.

Mr. Jorda, and all of the members attending the 14th Congress of PIPA, the time has come to close this meeting.

In many ways this 14th Congress has been very special, and I wish to extend our heartfelt thanks to Mr. Jorda, the governors and all of the other members of the American Group who made this Congress so successful.

Washington, D. C., the capital of the United States, was a beautiful setting, and we were graced with the presence of three most important gentlemen in the patent field of the world: Mr. Gerald J. Mossinghoff, Assistant Secretary of Commerce and Commissioner of Patents and Trademarks, Mr. J. B. von Benthem, President of the European Patent Office and Mr. Kazuo Wakasugi, Director General of the Japanese Patent Office. This alone would stand out in the history of PIPA, but there are so many other things that also made this Congress meaningful. The address from our honorary chairman, Mr. Michael Jaharis, Jr., eloquently signified the importance of international cooperation in the field of industrial property protection. He was with us despite his very busy schedule, and I hope Mr. Jorda will convey our appreciation to him.

One of the characteristic features of this Congress was the panel discussions in which opinions and thoughts were freely expressed from both the U.S. and Japanese sides. By promoting mutual understanding in this way, we will build a bridge across the Pacific Ocean. The result of the panel discussions at this Congress will definitely influence the programming of future PIPA Congresses.

In addition, all papers presented in this Congress from both the U.S. and Japanese groups will undoubtedly be highly regarded in the patent field. I wish to congratulate all the speakers, and thank them again for their excellent works.

I would like to express our gratitude to Mr. Norris who, as program chairman, organized everything so beautifully.

I must refer to the outstanding role played by three capable interpreters, especially Mrs. Kaiser. Without her able assistance, we would have, I believe, stumbled over the language barriers, to say the least.

I wish to extend my gratitude to Ms. Butts, who is an administrative assistant to Mr. Bell. She did everything from office work to driving a van full of PIPA materials from New York to Washington. I also wish to express our thanks to Ms. Zuther, Mr. Jorda's secretary, for her assistance.

I must add that the visit to Mount Vernon, the birth place of the founding father of this country, was very impressive. All of the members of the Japanese Group will surely remember this tour as a delightful experience. We appreciate your thoughtfulness in arranging the tour.

Listening to the famous National Symphony Orchestra at the Kennedy Center surely satisfied our cultural appetite, and of course, the "sing-along" was just unforgettable.

The kindness extended to the Japanese members from the U.S. members throughout the Congress will be long remembered. We really hope to reciprocate the hospitality when we hold the 15th Congress in Japan next year.

Thank you and sayonara until we meet again!

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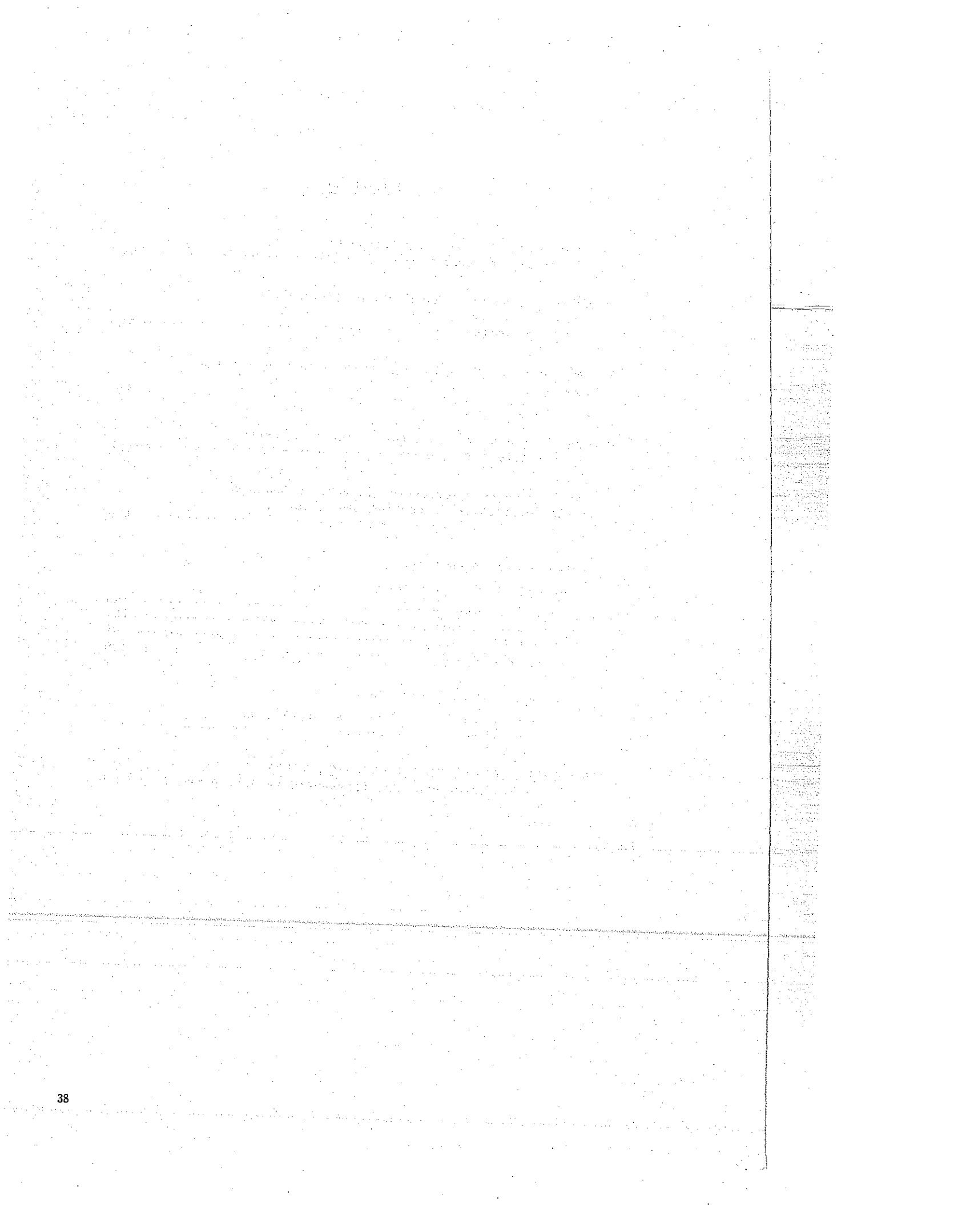
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# BIOTECHNOLOGY AND PATENTS IN PERSPECTIVE

Calvin N. Sparrow
Assistant Patent Counsel
Eli Lilly and Company

I was initially hesitant to prepare a paper relating to biotechnology for this meeting. I told Al Hirsch when he called me that there has been no law since Diamond v. Chakrabarty (1). The Chakrabarty case has been discussed here and there seemed to be nothing to talk about. In retrospect, that initial reaction seems very strange. I was, of course, mentally equating biotechnology with what I'll call genetic engineering, for lack of a better term. I had lost my perspective in making the equation. Genetic engineering is but a small part, albeit a fascinating part, of biotechnology.

Biotechnology is an old technology which has a solid place in modern industry. People have been leavening bread and making beer and wine, and cheese, for millennia. In modern times, biotechnology has been put to uses as diverse as are processing and the production of antibiotics. A large body of law, in particular patent law, has developed as a corollary to the widespread use of biotechnology in modern industry. To see genetic engineering in proper perspective, we must look at it as part of and arising out of a broad content that has long been familiar to us. The body of a patent law that has developed out of the traditional industrial biotechnology is part of that context for us who have a professional interest in industrial property. We must

re-examine that body of law as part of our attempt to put genetic engineering into perspective.

The first question to be asked is whether the existing law applies at all. The answer is rather obviously yes. There are many cases which we can use to guide our thinking on problems of disclosure, claim drafting, reduction to practice, and so on. However, these cases must be used with caution. I am going to discuss briefly three cases which arose out of tradition biotechnology in order to give you at least the flavor of what has been held and to see where a need for caution might arise.

Section 102 of the U.S. patent law sets out the fact situations which bar a person from obtaining a patent for his or her invention. One such bar is a prior description in a printed publication, either before the making of the invention by the person, or more than one year prior to the date in which the person makes application for a patent.

Our courts have long held a prior description is not sufficient to raise a bar unless one skilled in the art could take the description and combine it with his or her own knowledge of the art and from this combination be put in possession of the invention (2). In other words, the description must be enabling. We have some guidance on what

constitutes an enabling description in biotechnology from the two cases, In re Le Grice (2) and Ex parte Argoudelis (3).

In re Le Grice is a 1962 CCPA plant patent case in which the court held that a prior publication which described a new variety of rose, and included a color picture of the rose, was not a bar. A plant breeder could not reproduce that rose unless he also knew something about the ancestral stock and how that stock was crossed to breed the new rose. A mere description of the physical characteristics of the plant and a color picture of the bloom was not enabling.

In re Le Grice was cited with approval in Ex parte Argoudelis, a 1966 Board of Appeals case. Argoudelis et al. had applied for a utility patent on a process for producing an antibiotic by culturing a microorganism knows as a Streptomyces. A prior publication described the production of the same antibiotic by culturing a microorganism of the family. Actinomycetes found in soil from Chiba Prefecture in Japan. (The Streptomyces used by Argoudelis et al. is in the family Actinomycetes.) The Actinomycetes described in the publication was not available to the public. It would be apparent to the skilled microbiologist that the Actinomycetes used in the publication would not be found again without unreasonable experimentation. The publication did not put the person skilled in the art in possession of the invention because of

the need for an unreasonable level of experimentation and was therefore, not a bar.

So far we are on familiar and, I believe, safe ground. The concepts applied in these two cases to analyze the biotechnical fact situation are familiar to us in all fields of art.

Section 103 of the U.S. patent law bars the grant of a patent on obvious subject matter. A third case, In re Mancy (4) gives us some insight or problems of obviousness in relation to microorganisms. At this point I will have to get a little technical.

Mancy et al. applied for a patent on a process for producing an antibiotic by culturing Streptomyces bifurcus, strain X. The prior art taught that the same antibiotic could be produced by culturing Streptomyces coelruleorubidus, strain y, Streptomyces coelruleorubidus, strain z, and Streptomyces peucetius. Those skilled in the art knew that these are many species of Streptomyces and that not all species produce an antibiotic. The CCPA had little trouble in deciding that the cultivation of a new species, Streptomyces bifurcus, to produce an old antibiotic is not obvious even though other Streptomyces are known to produce the antibiotic.

With your indulgence, I will comment briefly on these strange-sounding names. There are names of unicellular microorganisms. Streptomyces is the name of the genus in question and bifurcus, peucetius etc., designates the species. There may be strains or varieties within a species. Microorganisms are classified by a system that goes from the general to the particular. The designation genus occupies a place well down in the system so that microorganisms of the same genus would seem to be very similar organisms, those of the same species should be even closer, and microorganisms of the same strain closest of all. Of course, you are asking what similar, even closer, and closest of all mean. I don't know the answer.

Microbiologists who classify these organisms are called taxonomists and their science, or art, taxonomy. Taxonomists who work with microorganisms are deeply divided in respect of both general principles underlying classification and specific breakdown into genus and species. To complicate matters further, these taxonomists are dealing with living organisms which have an inherent variability in physical characteristics and which are low on the evolutionary scale with a concomitant sensitivity to their environment. Even taxonomists who are of the same school thought on classification find it easy to disagree on a specific classification, particularly at the species level and less frequently but still often, at

the broader genus level. This means to me that we would have to be very cautious in applying a general principle drawn from a case like In re Mancy to a fact situation involving the patentability of a claim to a microorganism per se. A court which is trying to evaluate the identity of a microorganism and listening to cogent expert testimony on either side of the issue might not be able to see the distinction between species and strain that the Mancy court evidently did in the process claim before it.

The law that has developed out of the traditional biotechnology will provide us with help, if used with due caution. However, there are some areas in the new biotechnology for which we can find little help in the existing law. It seems to me that this is particularly true for the recombinant DNA technology. I want to explore one or two of the problems I see in this area with you and I'll have to get a little technical again to do it. I have tried to keep the technology as simple and graphic as possible. I remember how puzzling this recombinant technology was for me when I first got into it. Anyone who encounters it without a background in biology and biochemistry has my sympathy.

A simple organism like a bacterium has a very long, closed loop of DNA called the chromosome contained within it. The DNA is a polymer made up of only four monomers. The DNA

is a template on which RNA is formed. The RNA is also a polymer made up of four monomers, only one of which is different from the monomers of DNA. The RNA leaves the DNA template and migrates to a body in the cell known as a ribosome. There the RNA becomes a template on which amino acids are bonded together in a particular sequence to make a polymer which is a protein. When the RNA has completed its task as a template, it is degraded into the constituent monomers. The DNA template is not so degraded. All of the activities I have described--formation, bonding, degradation, and so forth--are mediated by enzymes which are themselves proteins made by the mechanism I have just described.

In recombinant terminology the DNA is said to "code" for the protein which is ultimately produced. The DNA in the chromosome codes for a large number of proteins. A sequence of monomers within the DNA chain which codes for a specific protein is called a gene.

There is a second source of DNA within many kinds of bacteria. The second source is a much smaller, closed loop of DNA called a plasmid. It was observed that certain plasmids contained genes which coded for enzymes capable of destroying antibiotics. The presence in a bacterium of a gene coding for an enzyme which destroys an antibiotic makes the bacterium immune to the antibiotic. We'll see in a

moment that an interesting use is made of that phenomenon. Scientists had also discovered that enzymes existed which would cut the plasmid at very specific sites and open the loop. These cutting enzymes are called "restriction" enzymes and the sites at which they cut are restriction sites. There may be more than one restriction site of a specific enzyme. Other enzymes, called ligases, were found which would tie cut ends together and restore the loop. So the idea of recombinant DNA technology was born. Remove a plasmid from a bacterium, cut open the loop of a DNA with a restriction enzyme, add a new segment of DNA which codes for a protein you wish to produce, such as insulin, use a ligase to combine the open loop and the new segment and restore the loop with the new DNA in it, put the plasmid back into a bacterium, culture the bacterium, and harvest the desired protein which the bacterium produces as it grows in the culture.

The first of the figures appended to the handout you have shows a part of this process. In the topmost part of Figure 1 you see an opened loop which includes a gene "$TET_R$" which codes for an enzyme which destroys the antibiotic tetracycline. The new DNA segment is the gene for cloning. Recombinant plasmids comprising the $TET_R$ gene and the gene for cloning are placed in bacteria and the bacteria are cultured in the presence of tetracycline. Only bacteria

containing the recombinant plasmid are resistant to tetracycline and will survive. These bacteria can be used in the remainder of the process for producing the protein you desire.

Now we can get to some possible patent problems. Assume you have a recombinant system which produces a protein via a new plasmid. You want to claim your new plasmid. How are you going to do it? The plasmid is a high polymer but you cannot safely follow the types of claims common in traditional high polymer technology. Unlike other high polymers we are familiar with, the precise sequence of the monomers in DNA is of vital importance. A change in the sequence can change the reading of the templates.

One way is to define your plasmid is in terms of a restriction map. Figure 2 in your copy of this text shows a schematic restriction map. The circle is the closed loop of DNA. The letters within the circle designate an enzyme which will open the loop at the point indicated by the associated arrow. Note that the enzyme Xho I, which you see in the upper right hand quadrant of the circle, has only one restriction site in the plasmid. Assume that the DNA sequence running clockwise from Xho I to Sac I codes for a protein product. A sly scientist treats plasmid pEL7 with Xho I enzyme and Sac I enzyme, thus, cutting the DNA sequence out.

The sly scientist puts the cut-out sequence in a different plasmid and produces the protein product. Does our sly scientist infringe a claim to the original plasmid pEL7?

Perhaps we can avoid such possible problems by claiming just the DNA sequence running clockwise between Xho I and Sac I. Another scientist finds that the claim of amino acids which makes up the protein product can be shortened at one end without affecting the usefulness of the protein product. He or she makes a corresponding shortening in your claimed DNA Sequence and uses the resulting truncated gene. Is your claim infringed?

I don't know the answers to these questions. I do think that they are questions we will have to answer in one way or another in the future. It's nice to have unanswered questions, though. They are a form of job security for those who will be charged with finding the answers.

# # #

## REFERENCES

(1) 447 US 303

(2) 133 USPQ 365

(3) 157 USPQ 437

(4) 182 USPQ 303

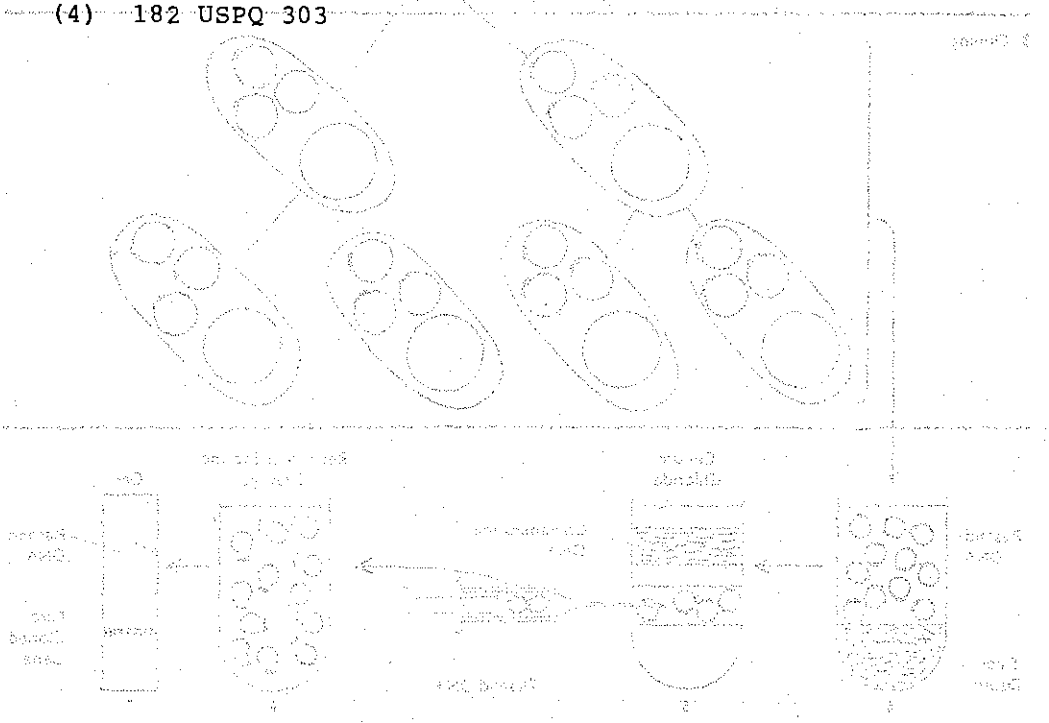
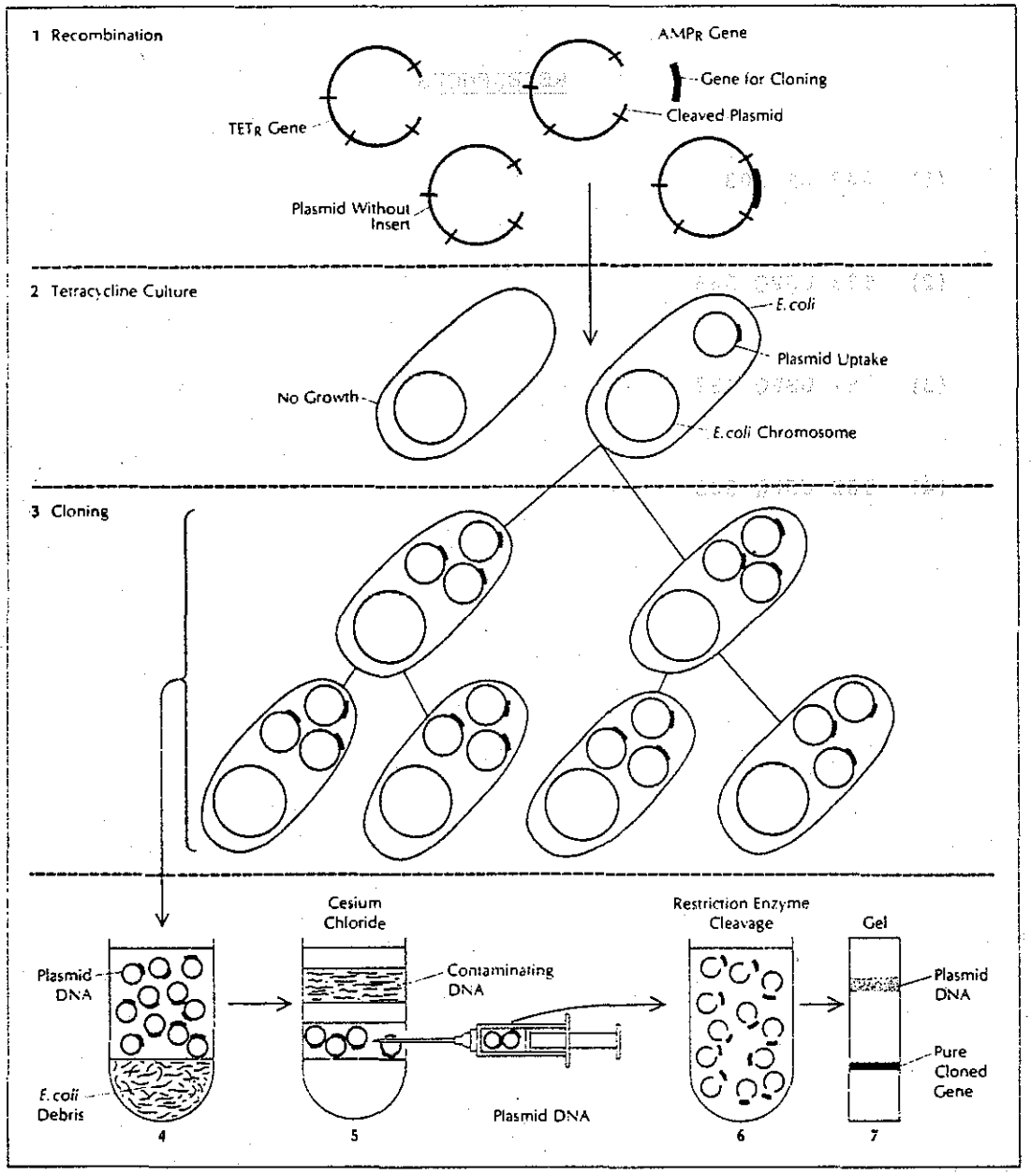


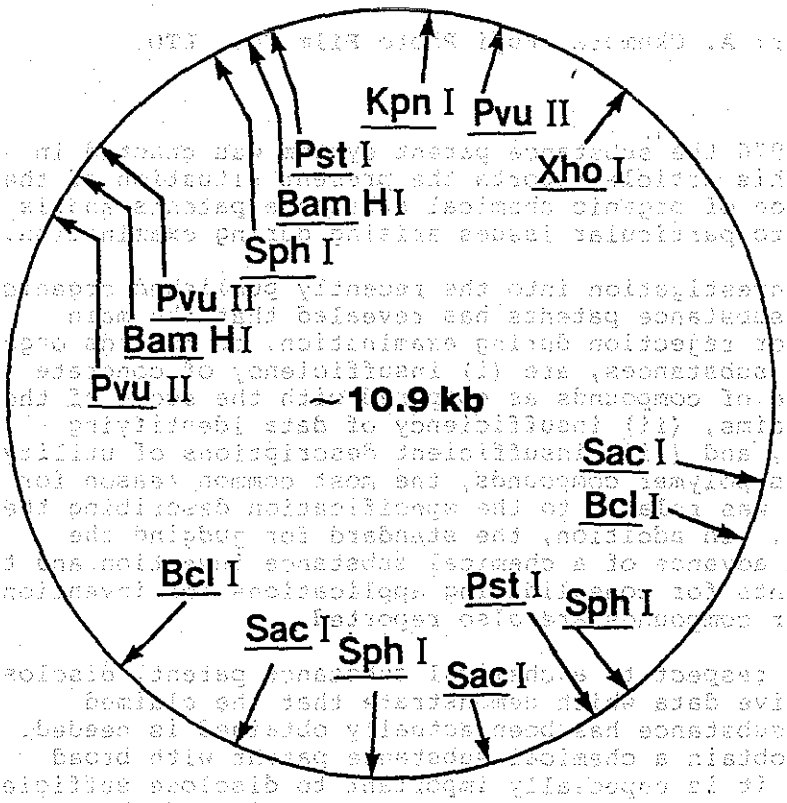
FIGURE 1




*In the depicted example of gene cloning, the plasmid used has been cleared by a restriction enzyme and has genes for tetracycline- and ampicillin-resistance ($TET_R$ and $AMP_R$). The gene to be cloned is grafted into middle of $AMP_R$ (1). All of the plasmids are then added to culture of* E. coli. *The example shown is for inserting recombinant DNA formed by the tailing technique. In this case, plasmids that do not anneal with the foreign DNA will not form circles and, therefore, will not replicate in bacteria. Growing bacteria in tetracycline-containing medium eliminates those that did not accept gene-conteining plasmid with $TET_R$ (2). Now the remaining bacteria are cultured in medium with tetracycline, and multiple copies of the grafted plasmid (and, consequently, the amplified gene) can be obtained (3). Plasmid DNA is separated from other* E. coli *material (4) and purified in a cesium chloride density gradient (5). The amplified gene can be "snipped" from the plasmid with the same restriction enzyme (6) used to cleave the plasmid and then purified on a gel (7). [Illustration courtesy of J. Baxter, "Recombinant DNA and Medical Progress,"* Hospital Practice, *February, 1980.]*

FIGURE 2

## Restriction Site and Functional Map of Plasmid pEL7



# Present Situation of Examination of Chemical Substance Patents

Japanese Group, Committee No. 1
Subcommittee No. 3

| | |
|---|---|
| Shigemitsu Nakajima | Mitsui Petrochemical Industries, LTD. |
| Kensaku Asado | Mitsubishi Petrochemical Company, LTD. |
| Akira Atsumi | Teijin Limited |
| Norio Sayama | Mitsubishi Gas Chemical Co., LTD. |
| Shigeo Nagase | Yamanouchi Pharmaceutical Co., LTD. |
| Atsushi Matsushita | Ricoh Company, LTD. |
| Akio Okumura | Fuji Photo Film Co., LTD. |

Speaker: A. Okumura Fuji Photo Film Co., LTD.

## Abstract

In 1976 the substance patent system was enacted in Japan. This article reports the present situation of the examination of organic chemical substance patents and is directed to particular issues arising during examination.

An investigation into the recently published organic chemical substance patents has revealed that the main reasons for rejection during examination, as regards organic monomeric substances, are (i) insufficiency of concrete disclosure of compounds as compared with the scope of the patent claims, (ii) insufficiency of data identifying compounds, and (iii) insufficient descriptions of utility. As regards polymer compounds, the most common reason for rejection was related to the specification describing the compounds. In addition, the standard for judging the technical advance of a chemical substance invention and the requirements for consolidating applications for inventions of polymer compounds are also reported.

With respect to a chemical substance patent, disclosure of objective data which demonstrate that the claimed chemical substance has been actually obtained is needed. In order to obtain a chemical substance patent with broad coverage, it is especially important to disclose sufficient number of examples to support the production of these compounds.

Therefore, it is important to prepare a specification which considers present examination standards and the actual practice of examination.

## 1. Introduction

On the first day of January, 1976, the "Bill for Revising a Part of the Patent Law etc." was enacted in Japan

which directed that the substance patent system and the multiple claim system would be employed also in Japan. The outline of this revision of the law was already reported in the PIPA Boston Congress in 1975.

In order to properly and systematically comply with the substance patent system and the multiple claim system, "a standard of practical operation concerning the substance patent system and the multiple claim system" was prepared. Preparation of "the standard of practical operation of the substance patent system" was undertaken by the Substance Patent Committee in the Patent Office, and substance patent applications are being made based on this standard of practical operation as well as the examination standard classified according to class.

This article is particularly directed to inventions of organic chemical substances, how the substance patent system is being utilized and practically operated and further how the actual examinations are reported.

## 2. Application Situation of Organic Substance Inventions

For the past several years, the number of the patent applications relating to organic chemical substances (monomeric compounds) was about 6,000 cases per year, and this figure seems considerably stable.

The proportion of the applications with substance claims to all the patent applications relating to monomeric organic chemical substances was about 40% at the start of the introduction of this substance patent system but has recently increased to about 60%.

With the progress of the examination, the number of the published patent applications with substance claims has been rapidly increasing.

3. Investigation into Examination Situation of Chemical Substance Patents

In order to find situations involving the examination of chemical substance patent applications, in particular, organic chemical substance patent applications, we conducted the following investigation.

(1) Objects of Investigation

Among the patent applications belonging to International Patent Class C07 and C08 which were published between January 1, 1982 and March 31, 1983, those believed to be chemical substance patents judging from the title of the invention were selected.

Then, by examining the claims of these patent applications, about 370 patent applications with chemical substance claims were extracted and investigations were carried out on these.

(2) Comparison between Claims as Laid-open and Claims as Published

On the patent applications extracted as above, the substance claims of each application as published in the Official Gazette for Published Applications were compared with the corresponding substance claims as laid-open in the Official Gazette for Laid-open Applications. A comparison was made to determine whether there was any change in the claims. In other words, a determination was made as to whether there was any change in the chemical substance claims before and after the examination. The results are set forth in Table 1.

Table 1

| Applicant | Comparison between Claims as Published and Claims as Laid-open | | |
|---|---|---|---|
| Nationality | Not Changed | Changed | Total |
| Japanese | 152 (60.3%) | 100 (39.7%) | 252 |
| Foreigner | 45 (37.2%) | 76 (62.8%) | 121 |
| Total | 197 (52.8%) | 176 (47.2%) | 373 |

The figure in brackets shows the proportion (%) to the published case.

As can be seen from Table 1, with about 47% of the applications, the claims as published are different from the corresponding ones as laid-open. As described hereinbelow, almost all such changes were made in the course of examination when amendments were made to reduce the scope of the patent claims.

On reviewing the applications which were published without any change in the claims, it was determined that many of them had claimed a very restricted range of compounds at the time of application, among which there are even some cases which had claimed only a single species of compound. On the contrary, with the applications in which the claims as published were different from those as laid-open, almost without exception, a wide range of compounds had been claimed at the time of application and later in the course of examination, the scope of the claims was reduced.

The investigation results as shown in Table 1 exhibit a tendency showing that applications by Japanese have a remarkably higher percentage of cases published without any change in claim as compared with the applications of foreigners.

A principal cause for such a tendency may be analyzed as follows:

With the Japanese applicants, many applications had claimed a narrow range of compounds corresponding to the range of compounds disclosed in the specification at the time of application. On the contrary, with the foreign applicants, many applications included claims which reached beyond the extent of the disclosure in the specification, in the light of the examination practice described later.

In order to obtain a chemical substance patent with a wide coverage in Japan, it is required to describe enough examples to support the production of such a wide range of chemical substances. Therefore, when filing a patent

application for a chemical substance invention, it is deemed important to prepare a specification taking into due consideration the examination standard and the situation of examination practice.

(3) Reasons Why the Claims Have been Changed (Main Reasons for Rejection)

As a second step, the reasons for claim amendments were investigated. This investigation was carried out by examining the file wrappers. The file wrappers of 105 cases were examined. Eighty-eight cases of those related to organic monomeric compounds while the remaining 17 related to polymer compounds.

The results of the investigation of the organic monomeric compounds are reported first followed by the results of the investigation of the polymer compounds.

It might be presumed that main ways of amending claims would be voluntary amendments before the request for examination. However, only 2 such cases were found.

With the rest of the cases, a notice setting forth reasons for rejection was issued during examination and amendments were made to overcome this.

The reasons for the notices of rejection are described below.

In many cases the reason was that the description of the specification was not sufficient under the provisions in Article 36, Para. 4 and/or Para. 5 of the Patent Law.

More specifically, most of the reasons fall into either of the following categories:

(i) Insufficiency of Concrete Disclosure of Compounds as Compared with the Scope of Patent claims

This type of rejection was most frequently seen and, although stated in various expressions, in short, the reason was that the scope of the patent claims were too broad as compared with the compounds disclosed in the specification. In this case, "the disclosed compound" means a compound not only the chemical name or structural formula of which is indicated but also the production of which has been

objectively proven in the specification by showing specific chemical and/or physical properties.

(ii) Insufficiency of Data for Identifying Compounds

This type of rejection is of course related to (i) above.

Such rejection were issued when no data concerning the substance property values for identifying the production of a part or all of the compounds the names or structural formulae of which are disclosed in the specification were given, or when, even if some such values are set forth, the examiner still held it to be insufficient. For example, such expressions as "There is no description of physical and chemical data for permitting identification of the compounds", "Describe the identification values, for example, the melting points" etc. are employed.

(iii) Insufficiency of Description of Utility

The above-mentioned standard for practical operation explains "the effect of a chemical substance invention resides in that a useful chemical substance has been prepared and thus some evidence of utility is required for confirming this effect".

In chemical substance patents, it is commonly believed that the description of utility may satisfactorily be the so-called one-line description, for example, such qualitative expression as "useful as hypotensives" etc.

Among the applications covered by the present investigation, some cases appear to have been rejected on the ground of insufficiency of description of utility since they include claims directed to a so-called use invention, which were allowed to be consolidated with a chemical substance invention. Apart from them, there are also cases of applications claiming only chemical substances which were rejected because, "the effect is not described to the extent sufficient to be objectively recognized".

Main reasons for rejection other than the above are as follows:

(iv) Same as a Known Compound or Obvious over a Known

Compound;

(v) Includes Claim Directed to Intermediates;

(vi) Includes Claim Directed to Compounds Having Remarkably Different Chemical Structures;

(vii) Insufficient Description of Production of Chemical Substances; and

(viii) Functional Expresssion Employed in Claim.

Table 2 shows the breakdown of the reasons for rejection.

Table 2

| Gist of Reasons for Rejection | No. of Cases | Percent to Total Cases Investigated |
|---|---|---|
| (i) Insufficiency of Concrete Disclosure of Compounds as Compared with the Scope of Patent Claims | 63 | 72 |
| (ii) Insufficiency of Data for Identifying Compounds | 21 | 24 |
| (iii) Insufficiency of Description of Effect (Utility) of Chemical Substance | 20 | 23 |
| (iv) Same as a Known Compound or Obvious therefrom | 8 | 9 |
| (v) Includes Claim Directed to Intermediates | 2 | 2 |
| (vi) Includes Claim Directed to Compounds Having Remarkably Different Chemical Structures | 2 | 2 |
| (vii) Insufficient Description of Production of Chemical Substances | 2 | 2 |
| (viii) Functional Expression Employed in Claim | 2 | 2 |

(4) Applicants' Actions responding to Rejection

We will briefly comment how the applicants responded to the above-described rejections.

In most cases, the applicants submited arguments

traversing the rejections and at the same time submited amendments reducing the scope of the claims to overcome the rejections.

In particular it was noted that in order to traverse the above-described rejection (i), "Insufficiency of Concrete Disclosure of Compounds as Compared with the Scope of the Claims", in most cases, the claims were narrowed. In traversing the rejection (ii) "Insufficiency of Data for Identifying Compounds", in most cases, especially rejected compounds were deleted from the claims. On the other hand, there were a couple of cases in which amendments supplementing the disclosure were allowed. In such a case, however, the original specification already included a qualitative description concerning substance property values or described certain substance property values (for example, main absorption values in infrared absorption).

Further, in traversing rejection (iii), where qualitative description concerning utility had already been described in the original specification, there are several cases in which addition of quantitative data was allowed.

(5) Investigation of Chemical Substance Inventions Brought to Decision of Rejection

The results of the investigation described so far all relate to applications which have been published as the result of examination.

We also randomly selected 15 applications among applications which had received a decision of rejection as the result of examination after 1975, and investigated the reasons for rejection. The results are set forth in Table 3.

Table 3

| Gist of Reasons for Rejections | No. of Cases |
|---|---|
| (i) Same as a Known Compound or Obvious over a known Compound | 9 |

| | | |
|---|---|---|
| (ii) | Insufficiency of Concrete Disclosure of Compounds as Compared with the Scope of the Claims | 8 |
| (iii) | Insufficiency of Description of Effect (Utility) of Chemical Substance | 2 |
| (iv) | Insufficiency of Data for Identifying Compound | 1 |

Comparison of the results of Table 3 against the results of Table 2 described above reveals that, in Table 3, there is a higher number of cases which were rejected on the ground of being the same as a known compound or obvious over a known compound.

Many cases encompassed by their rejection are regarded as falling under the rejection "the invention described in a printed publication published either in Japan or a foreign country before the application for patent".

In the case of chemical substance applications, there are effective means for carrying out a novelty search, for example, Chemical Abstracts etc. Accordingly, it is necessary for the applicant to reconfirm the novelty of the substances to be claimed.

When the novelty search at the time of application seems inadequate, it is advisable to reconfirm the novelty at the time of request for examination.

## 4. Problems in Examination of Chemical Substance Patents

In the previous chapter, the results of the investigation into the examination of the chemical substance patents have been reported.

This chapter deals with some of the main problems which come up in the examination of chemical substance patents.

The specific problems discussed here are listed below:

(1) Specification of Compound;
(2) Disclosure of Compound and the Scope of the Claims;
(3) Identification of Chemical Substance;
(4) Description of Utility; and
(5) Judgment Standard for Technical Advance.

(1) Specification of Compound

A chemical substance invention resides in creation of a chemical substance which is industrially useful, and its constituent is the chemical substance per se. Therefore, the chemical substance alleged to be created shall be specified.

On specifying a chemical substance, as commonly practiced in the chemistry field, it is a basic principle to express said substance by items which directly specify the substance, that is, the compound name or the chemical structural formula. However, it is sometimes difficult to determine the compound name or the chemical structural formula as is often the case with natural products or fermentation products, and therefore, such exception is made that if it is possible to specify the substance by the physical or chemical properties, then it may be specified by these properties (more specifically, e.g. melting point, elementary analysis values, IR data, NMR data, molecular weight etc.). Further, when it is difficult to adequately specify the substance merely by these properties but it is possible to specify it by adding the process for the production, then specification by adding such process for the production is allowed. Nevertheless, because the process for the production itself does not directly specify the chemical structure although it may serve as a certain basis for it, specification merely by the process for the production is not allowed.

In examination practice, judgment as to whether the compound has been specified or not seems to be carried out based on whether the whole (image) of the compound is concretely clarified. Therefore, for example, in the case where a useful effect is derived from the framework of the compound, only this framework is clarified. The rest of the structure is expressed as an optional structure. Such a disclosure may be found as being not specified because the whole (image) of the compound is not clear. Further, a functional expression is regarded insufficient for

specifying a compound and therefore a compound represented by a functional expression or that partially containing a functional expression shall be deemed as being unclear and not specified. In fact, such notices of reasons for rejection have been issued as "The expressions of 'protective group' and 'protected' are improper as the expressions for specifying the compound", "'The electron-attracting monovalent organic group' is unclear", "The definition of A is an extremely functional expression and it is not clear what substituent it specifically stands for; Please clarify the substituents by a concrete expression" etc. As for amendment concerning specification of a chemical substance, if the chemical substance after amendment is no longer the same as the chemical substance described in the specification originally attached to the application, this is then deemed to constitute a change of the gist of the specification. With a chemical compound already specified by physical or chemical properties, it is possible to later supplement an expression by means of the compound name or the chemical structural formula.

(2) Disclosure of Compounds and the Scope of the Claims

In the standard of practical operation concerning the substance patent system, it is required that the detailed description of the invention in the specification shall "concretely describe to an extent that all of the chemical substances described in the claim are sufficiently supported". The results of the investigation into the situation of examination of substance patent applications have already been reported above, and among them, reasons for rejection on the ground that the application does not satisfy this requirement are often found. Some specific examples are given below:

a) A case where the substituent represents a lower alkyl group in the compound of the general formula in the claim but the examples only show compounds having a methyl group;

b) A case where the substituent represents a saturated

hydrocarbon group of 1 - 10 carbon atoms in the compound of the general formula in the claim but the examples only show compounds having a butyl group;

c) A case where the substituent represents an acyl group in the compound of the general formula in the claim but the examples only show compounds having a benzoyl group;

d) A case where the substituent represents an alkyl group of 1 - 6 carbon atoms substituted with a saturated heterocyclic group in the compound of the general formula in the claim but the examples only show compounds having an alkyl group substituted with a morpholino group;

e) A case where the substituent represents a lower alkoxy group, a halogen atom, a nitro group, an amino group, a lower alkanoylamino group or a lower alkyl group in the compound of the general formula in the claim but the examples fail to show compounds having a nitro group, an amino group or a lower alkanoylamino group; and

f) A case where the substituent represents a phenyl group, a 1- or 2-thienyl group, a 1- or 2-furyl group or a mono-substituted phenyl group in the compound of the general formula in the claim but the examples only show compounds having a phenyl group.

In order to avoid the above rejections, if the compound of the general formula in the claim in the specification at the time application covers compounds having various substituents, it is desirable to describe at least one example per compound having a different substituent. Further, if the substituents are described by a comprehensive expression, it is desirable to describe several compounds having representative substituents encompassed by such expression as examples.

As far as our investigation goes, the response of almost all the applicants to these rejections are to reduce the scope of the claims to the range corresponding to the compounds described in the examples. Although it is also possible to

submit an amendment to supplement examples without reducing the scope of demand for patent, there are not so many cases where such supplementation of examples was allowed, and one decision in the Board of Appeals passes the following judgment regarding supplementation of examples:

In short, supplementation of examples is allowed only when all the requirements (i) - (iv) are satisfied.

(i) The compound of the example to be supplemented falls in the range of the compounds of the general formula in the claim.

(ii) The description specifically indicating the compound of the example to be supplemented is found in the specification at the time of application; for example, the compound name or the structural formula is described or the name of the group in the compound to be supplemented is specifically described, that is, where the compound to be supplemented contains a propyl group as the substitutent, then the substituent in the compound of the general formula is described as "an alkyl group, for example, methyl, ethyl, propyl, butyl etc.".

(iii) The compound analogous to the compound of the example to be supplemented is described as the example in the specification.

(iv) There is not so remarkable difference in effect between the compound of the example to be supplemented and the compounds described as the examples in the specification at the time of application.

Therefore, in order to traverse a rejection indicating that "it is not concretely described to the extent that all the compounds described in the scope of the claims are sufficiently supported", it is the present author's position that supplementation of examples of compounds satisfying the above requirements (i) -(iv) will be allowed.

In this connection, it is recommended, as the manner of describing a specification at the time of application, to describe as many examples as possible of compounds having different types of groups for the compounds described in the

claim; or, even if it is impossible to describe them in the form of examples, to describe compound names or structural formulae of compounds analogous to the compounds described as the examples; and, in the case where the group names in the general formula are expressed using a comprehensive expression in the claim, to describe in the specification specific group names covered by the group represented by such a comprehensive expression.

Some Examples of Decisions in Trials Concerning Supplementation of Examples

| Year | | Trial for Amendment | No. |
|---|---|---|---|
| 1980 | | | 120 |
| 1981 | | | 51 - 53 |
| 1981 | | | 62 |
| 1981 | | | 79 |

(3) Confirmation of Chemical Substance

In the standard of practical operation concerning the substance patent system, the following are stipulated as regards the identification of a chemical substance:

"Where a chemical substance per se cannot be confirmed in the specification, this chemical substance is treated as being not established as an invention", and

"Amendment to add data for confirmation of a chemical substance to a specification which fails to confirm the chemical substance per se is deemed to constitute a change of the gist of the specification".

In order to confirm a chemical substance, its physical and chemical data must be described in the specification.

These data are essential for the confirmation that the invention has actually been achieved and is not a mere product of desk work and for the disclosure of the technique as scientific literature as well as the disclosure of the data necessary for follow up tests.

Review of the recently published patent applications (the Official Gazette for Published Applications) in respect to the identification of chemical substances revealed that the following physical and chemical data have been largely employed, for example, elementary analysis value, molecular

weight, melting point, boiling point, refractive index, specific rotation, solubility, color, pH, Rf value of chromatography, IR, UV, NMR, mass spectrum, etc. Although to what extent these items must be included varies depending on the invention, in practice, a considerably number of cases describe two or more identification data in the specification; in such a case, combinations of m.p. -elementary analysis value, m.p. - IR and IR - NMR are very common. On the other hand, there are some cases where the identification data on only one item are described, e.g., m.p., b.p., elementary analysis value, IR or NMR. It seems to be acknowledged, however, that data, such as elementary analysis value, which can be calculated from the structural formula are not sufficient alone.

Then, to what extent is amendment of the specification for supplementing or changing these identification data allowed?

As for a fermentation product, if it is a novel substance, the examination standard requires the description of the following physical and chemical properties: (1) elementary analysis value, (2) molecular weight, (3) m.p., (4) specific rotation, (5) UV, (6) IR, (7) solubility in solvents, (8) color reaction, (9) distinction between basic, acid and neutral and (10) color of the substance, and if at least (1) elementary analysis value, (2) IR and (3) one or more of molecular weight, m.p. and color reaction which may be regarded characteristic have been described in the specification at the time of application and hence confirmation of said substance is estimated possible, then supplementation of undescribed data is allowed.

Take an example of a trial for amendment on trichomycin. There had been an error in the elementary analysis value at the time of application, and in the specification published, it was described that the present substance does not contain N, S and X (halogen). An appeal to amend to the effect to mean that it contains N and does not contain S and X was filed but this appeal was turned down on the ground that such an amendment would give rise to

the possibility that the intended substance might be changed to another substance (Trial No. 306, 1956). This decision's point of view seems unchanged even after the enactment of the substance patent system.

However, a problem still remains regarding how the examiner will treat amendment on an item the values of which vary considerably depending on the purity of the compound and the measuring method, for example, m.p.

As another example, in an infringement case in relation to trans-4-aminomethylcyclohexane-1-carboxylic acid, it had been held that the accused substance which had a melting point different from that of the compound described in the patent specification by 100°C although having the same compound name and the structural formula cannot be legally regarded as the substance intended in the patent (Tokyo District Court, Case No. 5716 (Gyo-Wa)/1974).

(4) Description of Utility

According to the standard of practical operation concerning the substance patent system, utility of a chemical substance must be described in order to obtain a patent for the invention of said chemical substance. And where utility of the chemical substance is not disclosed in the specification, the invention of this chemical substance is deemed to be not established as an invention.

The description of utility of a chemical substance must be to the extent to show at least one of the uses of said chemical substance is industrially useful.

Therefore, the description thereof is required to be somewhat concrete. For example, descriptions such as "hypotensives", "herbicides" etc. are accepted but descriptions such as "medicines", "agricultural chemicals" etc. are not concrete and inadequate.

Since the description of utility is enough if some industrial feasibility of said chemical substance is concretely shown to some extent, the fortifying data is not particularly necessary.

However, in practical examination, it is often

necessary to submit data concerning utility. In such a case, it seems generally acceptable to amend the specification by adding data evidencing the utility described in the original specification.

(5) Standard for Judging Technical Advance

As regards technical advance of chemical substance inventions, there is no preceding court case and appeal cases are very scarce. Therefore, on judging technical advance, the standard of practical operation concerning the chemical substance system seems to serve as a guideline. According to this, technical advance of a chemical substance invention shall be judged based on the specificity from two aspects of the chemical structure of the chemical substance and the properties or uses of the chemical substance.

(A) Invention Making a Technical Advance

The invention deemed to have made a technical advance is

(i) an invention of a chemical substance having a chemical structure remarkably different from the chemical structure of known chemical substances;

(ii) an invention of a chemical substance having a chemical structure analogous to the chemical structure of known chemical substances but having a characteristic property which cannot be expected from known chemical substances; and

(iii) an invention of a chemical substance having a property which may although be expected from known chemical substance having a similar chemical structure but the extent of which property is remarkably excellent.

The reason why these inventions are regarded as making a technical advance is because since the true nature of a chemical substance invention resides in the "creation of a useful chemical substance", it is quite natural to judge the technical advance of the invention by the specificity from the following two aspects:

(a) the chemical structure of the chemical substance; and

(b) the properties or uses of the chemical substance.

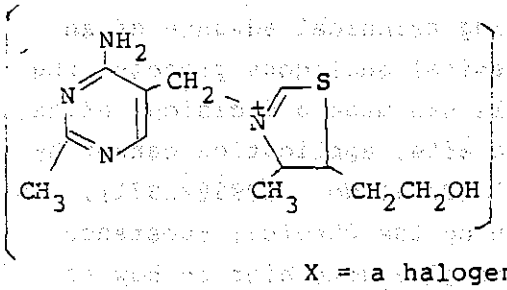
Therefore, a chemical substance having a specific chemical structure is deemed to make technical advance only if it has utility, or in the case of a novel chemical substance having a structure similar to that of the known chemical substance, if its property cannot be expected or the extent of said property is extremely excellent, the combination of its chemical structure and its property cannot be obvious, and thus it is deemed to offer a technical advance.

(B) Specific Examples of Technical Advance and Problems Involved

The inventions applied for patent set forth below are deemed to have made a technical advance:

(Case 1)

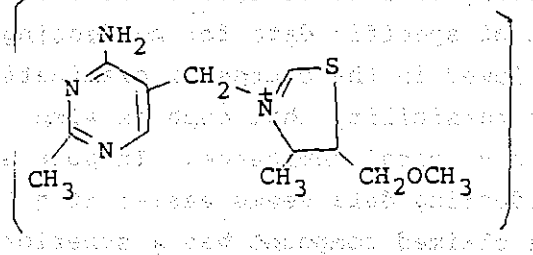
Chemical Structure and Effect of Compound Known before Application:



It has a Vitamin B1 effect.

X = a halogen atom

Chemical Structure and Effect of Compound of Invention Applied for Patent:

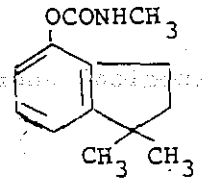


It has an anticoccidium effect.

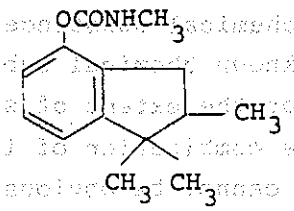
X = a halogen atom

(Case 2)

Chemical Structure of Compound Known before Application:



Chemical Structure of Compound of Invention Applied for Patent:




Both have insecticidal activity, and when applied at a concentration of 0.002%, the degree of killing 3 days later was 30% with the known compound and 100% with the compound of the invention applied for with the patent.

There lies a problem whether the effect of the compound of the invention applied for must be clearly expressed in the specification at the time of application, or may be added by amendment after application.

In this respect, on judging technical advance of an invention of the so-called chemical analogous process, the Patent Office, Board of Appeals has made a decision indicating that the item added or amended after application cannot be employed as a judging material (Trial No. 10998/1971). This decision, although not concerning the chemical substance invention itself, also seems to give some hint on how to judge what is necessary to make a technical advance when dealing with a chemical substance invention.

On the other hand, contrary to this decision, there is a case where supplementation of specific data for evidencing the technical advance was allowed in the course of examination. Further, there seems to be a possibility that such is also accepted in cases involving a chemical substance. In such a case, supplementation of evidencing data seems easier if a generic description that the claimed compound has a superior property as compared with analogous compounds known before application is expressly disclosed in the specification at the time of application.

5. Problems Concerning Polymer Compounds

The actual situation of examination of chemical substance

patents has been discussed in detail in the previous sections, and, monomeric organic compounds have been mainly dealt with. Organic polymer compounds (hereinafter referred to as polymer compounds) are assemblies of molecules having different molecular weights, stereospecificity and sometimes even constituting molecule species, and their performance is recognized as the total nature rather than the characteristics of the individual molecules and thus comprehended as a single compound. Therefore, there are some problems involved with polymer compounds with respect to a chemical substance patent, which are very unlikely with monomeric compounds. Some of these problems are introduced below.

(1) Specification of Polymer Compound

A. Situtation of Examination

We investigated patent applications published during the same period as the case of the above monomeric compounds, that is, between January 1, 1982 and March 31, 1983, to find 32 cases of substance patents relating to polymer compounds.

Among those, in 17 cases the claim were changed during the period between laid-open and publication of the application, that is, during examination. As the result of the investigation of the progress of examination and points of change in the claims, the main reasons set forth in the rejection and their numbers are summarized in the following Table 4:

Table 4

| Reasons for Rejection | No. of Cases |
|---|---|
| (i) Reasons Relating to Specification of Polymer Compound | 17 |
| (a) Insufficient Description of Repeating Units | (2) |
| (b) No Description of Compositional Proportion of Repeating Units | (4) |
| (c) No Description of Molecular Size | (9) |
| (d) Others (e.g. Nomenclature) | (2) |

| | | |
|---|---|---|
| (ii) | Reasons Relating to Novelty or Technical Advance | 2 |
| (iii) | Reasons Relating to Unity of Inventions and Requirements for Consolidation thereof | 4 |
| (iv) | Reason that Range of Compounds Claimed is too Wide as Compared with Examples | 4 |

From the above data, it can be seen that as regards the substance patent applications of the polymer compounds, most of the reasons for rejections are directed to problems concerning the specification describing the compound. This concentration of rejection to the specification seems to be due to the aforesaid particularity inherent to polymer compounds.

B. Requirements for Specifying Polymer Compounds

According to "the aforesaid standard of practical operation concerning the substance patent system and the multiple claim system" and the examination standard for substance patentS of polymer compounds, "organic polymer compounds (No. 2)" published in March, 1977, the following is stipulated as regards the specification of polymer compounds.

Organic polymer compounds shall be specified by the standard described below:

(a) On Specifying an organic polymer compound, in principle, it shall be specified by requirements representing the structure of said compound.

The follwing will suffice as such requirements: (*a*) repeating units, (*b*) arrangement of repeating units (homo, block, graft, head-to-tail structure etc.), (*c*) molecular weight, (*d*) partial characteristics (degree of branching, substituents, double bonds, degree of cross-linking, terminals etc.), (*e*) stereospecificity (stereo-regularity etc.).

(b) Where an organic polymer compound is not sufficiently specified merely by requirements representing the structure, as long as it can be specified by adding requirements representing basic substance properties,

it may be then specified by adding these requirements. However, these requirements must be expressed quantitatively. The basic substance properties as herein used means properties relating to the structure of the organic polymer compound, and examples thereof include viscosity, secondary transition point, density, degree of crystallization, etc.

(c) Where an organic polymer compound is not sufficiently specified merely by the requirements representing the structure or where it is not sufficiently specified by the requirements representing the structure and the requirements representing the basic substance properties, as long as it can be specified by adding a process for the production, the process for the production may be set forth as a part of specifying means. However, specification merely by the process for the production is not allowed.

According to the above examination standard, it is stipulated that a linear organic polymer the backbone of which is composed of repetition of a single atomic group shall be specified at least by said repeating unit and the molecular weight, but there are no provisions for other types of polymers. In the case of a copolymer, the compositional proportion of the respective constituting units may be essential for specifying the compound.

The following may be included in the essential requirements for specifying polymer compounds classified according to the types (Patent News dated October 23, 1981).

(a) Linear Homopolymer

i) The chemical structural formula of the repeating unit and ii) the molecular weight must have been determined.

(b) Random Copolymer

i) The chemical structural formulae of the respective constituting units, ii) the compositional proportion of the respective constituting units and iii) the molecular weight must have been determined.

(c) Alternating Copolymer

That it is an alternating copolymer has been determined and the chemical structural formulae of the respective constituting units and the molecular weight must have been determined.

(d) Block Polymer

For example, in a block polymer having block units [A] and [B], i) it has been determined whether this is an A-B type, an A-B-A sandwich type or a random type such as A-B-A-B-B-B etc., ii) if random, particularly, the compositional proportion of the respective block units [A] and [B] has been determined and iii) the chemical structural formulae and molecular weights (size of each block unit) of the respective block units must have been determined.

(e) Graft Polymer

For the backbone polymer and the respective parts of the graft polymer, the specifying requirements similar to those for the linear homo- or co-polymer have been specified, and further, the number of joints (branch points) per molecule of the backbone polymer must have been determined.

(f) Modified Polymer

The polymer before modification has been specified, and the whole structure, in which the characteristics (e.g. substituents etc.) of the modified parts and their quantitative relation have been clarified, must have been specifiфed by the chemical structural formula.

(g) Crosslinked Polymer

The structural formulae and composition of the constituting units constituting the polymer segments, the three dimentional structure at the crosslinking points and the density of crosslinking must have been determined.

In either case, it is essential to be specified by the requirements representing the structure of the polymer compound, and under the present situation, whenever the

description fails to mention such requirements, it constitutes a reason for rejection.

C. Specification by Process for Production

A process for the production of a polymer compound may be used as a part of the specifying means only when the compound is not sufficiently specified only by the requirements representing the structure or by a combination of the requirements representing the structure and the basic substance properties. Specification of a compound merely by the process for the production is not allowed.

For example, the examiner in front of an application:

"A fluorine-containing flexible copolymer which is a copolymer of vinylidene fluoride and at least one fluorine-containing monomer and which has an intrinsic viscosity of 0.4 - 1.3 in a methyl ethyl ketone solvent at a temperature of 35°C and contains 28 - 92 mole% of vinylidene fluoride units, which fluorine-containing copolymer is characterized by being produced by

i) in the first step of polymerization, polymerizing vinylidene fluoride and at least one fluorine-containing monomer using a water-soluble radical polymerization initiator to produce a copolymer, and

ii) in the second step of polymerization, polymerizing them in the presence of the copolymer produced in the aforesaid step i) using an oil-soluble radical polymerization initiator to produce a copolymer, and containing 1 - 80% by weight of the copolymer of the afore-said step i) and 20 - 99% by weight of the copolymer of the aforesaid step ii)",

rejected this application commenting:

"Although the applicant explains that he employed the process for the production as a means for specifying the combined state of the two random copolymers, the combined state thereof may be possible in several ways, and therefore the structure of the polymer compound has not been specified." This case clearly explains the reason why specification of a polymer compound merely by the process

for the production is not allowed.

In this connection, where a process for the production is employed as a part of the means for specifying a polymer compound, no judicial judgment has been made on whether the scope of right is restricted to the process for the production. So, this point remains to be clarified by the future holdings.

D. Specification Merely by Basic Substance Properties

Where a polymer compound is specified merely by the requirements representing basic subtance properties, for example, viscosity, secondary transition point, density, degree of crystallization etc., in practice, a substance patent is not allowed on the ground that it is not specififed by the requirements representing the structure of the compound. This is substantially different from the case of an organic monomeric compound where the compound can be sufficiently specified by physical and chemically measured values. Such a compound specified merely by these physical and chemical measured values without expressly stating the requirements directly related to the structure is allowed.

This is probably based on the view that because of the above-mentioned particularity of the polymer compound, it is difficult to sufficiently specify the compound merely by the requirements representing basic substance properties.

(2) Requirements for Consolidated Application

In the examination standard for polymer compounds, which is most interesting from an applicant's position is requirements for consolidated application, that is, requirements on the kinds of inventions which may be individually claimed in a single application. The stipulations relating to the present issue in the aforesaid examination standard are summarized and introduced here for reference.

(i) Those which may be claimed in a single application:

A. A polymer compound and a process for the production of said polymer compound

B. A polymer compound and a method of uSing said polymer compound

C. A polymer compound and a machine, implement, apparatus or any otherthihg for producing said polymer compound

D. A polymer compound and a thing which exclusively utilizes a specific property of said polymer compound

"The invention of a thing which exclusively utilizes a specific property of an organic polymer compound" means an invention which is achieved only by utilizing a certain attribute (i.e. a property inherent to the organic polymer compound) of the organic polymer compound and further which clearly shows the utilization of this specific attribute as a constituent.

Examples

(a) A polymer compound X and a hot melt adhesive comprising said polymer compound X

(b) A polymer compound Y and a paint comprising said polymer Y, a pigment and a solvent

A thing which utilizes a polymer compound and specifies the shape and structure cannot be claimed in a single application with said polymer compound, because this is not an invention of a thing which exclusively utilizes a specific attribute of said polymer compound.

Examples

A polymer compound X and

(a) an ashtray comprising said polymer compound X

(b) a sheet comprising said polymer compound X

(c) a fiber comprising said polymer compound X

Further, an invention of a product obtained as the result of treating any other thing by using a specific attribute of said organic polymer compound cannot be claimed in a single application with said polymer compound, becuase this is not an invention of a thing which exclusively utilizes a specific attribute of said polymer compound.

Example

FRANKLIN PIERCE
LAW CENTER LIBRARY
CONCORD, N.H.

A polymer compound X and a covered wire covered with said polymer compound X

(ii) Those which cannot be claimed in a single application:

The following cannot be claimed in a single application because they have different objects:

A. A polymer compound and any other polymer compound

B. A polymer compound and a composition containing said polymer compound or a thing which is made from said polymer compound used as a construction material and which specifies the shape and structure

Examples

A polymer compound X and

(a) a composition of said polymer compound X and a stabilizer

(b) a sheet comprising said polymer compound X

(c) a fiber comprising said polymer compound X

(d) an ashtray comprising said polymer compound X

C. A polymer compound and an intermediate to said polymer compound

6. Conclusion

On filing an application for a patent of an organic chemical substance, it is essential to specify the substance to be claimed and, in principle, this must be shown by the compound name or by the chemical structural formula. Especially, in the case of a polymer compound, specification of the compound is important and it is necessary to give careful consideration to the essential requirements for specification.

In the next place - it seems most important in the writers' opinion - it is necessary to concretely describe the claimed invention in the specification to the extent that all the chemical substances described in the claim are sufficiently supported.

Here, "concretely" means showing that said compound has been obtained objectively by means of examples not only by

showing the compound name or the chemical structural formula but also by showing the synthetic process and the substance property values of the compound produced.

What should be noted is that supplementation of such examples is not allowed except in a small number of exceptional cases.

As regards description of utility of a chemical substance, it is generally sufficient to disclose industrially feasible utility of said chemical substance concretely to some extent. When in the course of examination it becomes necessary to show the utility more concretely, supplementing quantitative data is generally allowed on the utility already described qualitatively in the original specification. However, where a known compound having an analogous chemical structure is present, it is then necessary to sufficiently describe utility so as to show the patent makes a technical advance. In particular, in order to obtain a chemical substance patent with a wide coverage, it is important to prepare a specification taking into due consideration not only the above points but also the examination standard and the practice of examination. By doing this, it will be possible to obtain a patent covering a wide range of chemical substances and hence enjoy protection of a wide range of rights.

SPEAKER: BERNARD ZUCKER
AT&T

COMMITTEE NO. 1
PACIFIC INDUSTRIAL PROPERTY ASSOCIATION
WASHINGTON, D.C.
OCTOBER 19, 1983

# PROPOSED U.S. PATENT LAW REVISIONS AFFECTING FOREIGN TRADE

BY

BERNARD ZUCKER

There are now before Congress a number of U.S. Patent Law revisions which affect foreign trade. I will focus on the current legislative proposals which provide for increased protection (1) for holders of U.S. process patents from importation of products made abroad, and (2) for holders of U.S. product patents from exportation of components of the patented invention for assembly abroad.

Although these proposals have been suggested in the past, they have now received additional support for adoption as part of an overall effort to enhance the competitive position of U.S. industry in world markets and to correct inequities between U.S. law and the laws of other countries. It is significant that a strengthening of the patent laws is viewed as a crucial part of this effort.

On September 12, 1983 President Reagan proposed legislation to Congress entitled "The National Productivity and Innovation Act of 1983." According to the President's statement accompanying the legislation, "the bill will enhance this country's productivity and the ability of U.S. industry to compete in world markets." President Reagan described the parts of the legislation relating to U.S. process patents as follows:

> "Title V of the Act increases Federal protection for process patents. Currently, if someone violates a process patent outside the country and then imports the resulting product into the United States, the importer is not guilty of violating patent law. Our bill closes this loophole, permitting the owners of process patents to obtain their rightful reward by preventing such unauthorized use of their technology."

A bill relating solely to the process patent provisions of the Reagan proposal was introduced in Congress on July 14, 1983 by Representative Carlos Moorhead (R-Cal.) as H.R. 3577. The entire Reagan proposal on innovation and productivity was recently introduced in the House of Representatives as H.R. 3878 and in the Senate as S. 1841. For convenience, I will refer to the process patent provisions of

the Reagan Administration proposals in these Bills as simply the "Administration bill".

On June 23, 1983 Senator Charles Mathias (R-Md.) introduced certain patent law revisions which were proposed by the ABA's AD Hoc Committee to Improve the Patent Laws (S. 1535). The first part of the Mathias bill provides for increased process patent protection.

I will first discuss the provisions of the Administration and Mathias bills which relate to U.S. process patents. I will then discuss the provisions of the Mathias bill which relate to infringement of product patents by manufacture of components for assembly abroad.

Currently, if a product is made abroad using a process which is patented in the United States, the unauthorized importation, sale, or use of that product will not result in any infringement under U.S. patent law. The underlying theory is straightforward. A U.S. patent protects against infringement only in the United States. If the use of the process occurs only outside the United States, there has been no infringement of the U.S. process patent.

The Administration bill would amend of Title 35 of the U.S. Code as follows: First, Section 154 would be changed to extend the rights of holders of U.S. process patents to allow them to exclude others from <u>using</u> or <u>selling</u> products produced by such patented processes, and second, Section 271 would

provide that the unauthorized use or sale in the United States of a product produced by a patented process will infringe the U.S. process patent.

In addition, the Administration bill would assist the patent holder in any infringement action by creating a presumption that a product was produced using the patented process "if the court finds (1) that a substantial likelihood exists that the product was produced by the patented process and (2) that the claimant has exhausted all reasonably available means through discovery or otherwise to determine the process actually used in the production of the product." The burden of overcoming such a presumption would be on the defendant in an infringement suit. Such a defendant would normally be a foreign manufacturer, an importer, or a purchaser.

The approach of the Mathias bill is simply to increase protection for U.S. process patents by adding a new section to 35 U.S.C. §271 providing that "Whoever without authority imports into or sells or uses within the United States a product made in another country by a process patented in the United States shall be liable as an infringer."

The Mathias bill specifically states that importation into the United States of a product made in "another country" by a process patented in the United States is infringement. Thus the Mathias bill is (1) limited to products made in another country and (2) makes "importation" an infringing act.

As a practical matter both bills are aimed at products manufactured abroad. Both bills tend to rationalize the United States patent laws with those of most industrialized countries. However, the Mathias bill does not contain the Adminstration's proposal for a rebuttable presumption that a product will be deemed to have been made using a U.S. patented process when discovery means have been unavailing and are exhausted.

The changes which would result from adoption of either the Administration or Mathias bills can be appreciated by reviewing the protections which are currently available to owners of U.S process patents under the trade laws of the United States. Section 337 of the Tariff Act of 1930 (19 U.S.C. §1337) provides that unfair methods of competition and unfair acts in the importation of articles into the United States, or in their sale, are declared unlawful if they have an effect or tendency to destroy or substantially injure a domestic industry or to restrain or monopolize trade and commerce in the United States. In 1940, Congress enacted Section 337a (19 U.S.C. §1337a) which puts process patent owners on the same footing as product patent holders before the United States International Trade Commission ("ITC"). Section 337a provides that the importation of a product made by a process covered by the claims of any U.S. patent shall have the same status for the purposes of Section 337 as the importation of any product covered by the claims of any U.S. patent.

Once the ITC has determined that such unfair acts or unfair methods have occurred, it may either permanently exclude goods from importation, or direct that respondents before it cease and desist from engaging in the unfair acts or methods for which violations have been found. These are the exclusive remedies available in an ITC proceeding under Section 337a. Therefore the only possible monetary recovery for a complainant would be indirect, i.e. by using the leverage of an ITC action to force a favorable license agreement or by making the sales himself.

The proposed bills would provide the following advantages over an ITC action under Section 337a:

(1) holders of U.S. process patents would have an action for damages or injunctive relief under the patent laws. The possibility of recovering damages for infringement does not presently exist under U.S. trade laws,

(2) no proof would be required to show that the effect or tendency of the importations is to destroy or substantially injure an industry, economically and efficiently operated in the United States. Indeed, many companies are unwilling to bring an ITC action, because they may be required to disclose sensitive financial and other information in order to make out their case.

(3) no showing would be required that any remedy sought would be in the public interest, and

(4) the possibility of a Presidential veto of an ITC exclusion order would not be present in an infringement action.

(5) a complaint for infringement in federal court requires far less detailed information than does an ITC complaint.

If the proposed amendments relating to process patents were adopted, Section 337a would continue to be an option available to holders of U.S. process patents. In certain circumstances, the advantages of an ITC action (i.e., speed, a pro patent forum, the ability to move against goods coming into the country, and the relaxation of the formal rules of evidence in ITC evidentiary hearings), all might make an ITC action a preferable. Indeed, in situations where goods are imported through numerous channels or where the manufacturer is not subject to personal jurisdiction in a federal court, the ability to obtain an exclusion order against the incoming goods at the ITC may be far more useful than the prospect of bringing numerous actions in the federal courts against importers or customers for damages or injunctive relief.

Establishing infringement in a federal court action based on a process patent presents many problems of proof not found in suits based on product patents. Unless the process of manufacture can be determined from a physical examination of the product, information necessary to prove infringement must be obtained from the manufacturer. However, when the manufacturer is located abroad and when, as is frequently the case, the manufacturer is one or two levels removed from the importer, there may exist serious jurisdictional problems both in obtaining discovery and securing meaningful relief.

The Administration bill attempts to deal with the difficulty of obtaining information about what processes of manufacture were actually used, by presuming infringement as long as there is a "substantial liklihood of infringement" and reasonable efforts were made to secure the needed information. It is clear that the requirement of "substantial likelihood" is satisfied when the patented process is the only known method of producing a particular article. The Administration's analysis of the bill suggests the "substantial likelihood" requirement could be met by evidence showing that the selling price of an article makes it certain that the patented method was used. The Administration states that "a patentee will have to establish more than a slight, even if reasonable, possibility that the product was so made."

The Administration bill recognizes that the defendant, whether it is the purchaser or importer, will be in a better position than the patentee to pressure the foreign manufacturer into providing information about the actual process used. Whatever indemnification rights the purchasers might have also would be useful in this regard. However, the bill's presumption of infringement raises questions of due process, because a party can be liable for damages without any actual knowledge of the process of production used and with no means available to reverse the bill's presumption.

In Section 337 actions at the ITC, jurisdictional questions have been greatly minimized because the regulation of importation was involved. In Sealed Air v. U.S. International Trade Commission, 645 F.2d 976, 209 U.S.P.Q. 469, 478 (CCPA 1981) the CCPA upheld an ITC exclusion order of multicellular plastic film manufactured abroad which infringed a U.S. process patent. The ITC's finding of infringement was largely based on the inferences drawn from the failures by foreign manufacturers to provide discovery or participate in the proceedings. The CCPA, in Sealed Air, rejected all arguments based on lack of personal jurisdiction and stated that personal jurisdiction was irrelevant to an ITC proceeding, since importation "is not a vested right, but an act of grace." Personal jurisdiction is not a real concern before the ITC. As long as there is reasonable notice, due process is satisfied.

Under either the Administration or Mathias bills, a finding of infringement would be applicable only against the actual parties to a federal court proceeding who might then be liable for damages or subject to injunctive relief. Jurisdiction over the foreign manufacturer of the goods would depend on the circumstances of each particular case. Additional measures to obtain information, as are included in the Administration bill, are therefore essential for any meaningful legislation on process patents.

Almost all of the major industrial countries already have provisions in their patent laws protecting process patent holders from imports. For example, in Japan importation of products produced using the process of a Japanese patent would constitute infringement. (Japan Patent Law, Article 2, paragraph 3) The Ad Hoc Committee argues, therefore, that legislation is needed because of the inequity which exists when foreign laws protect foreign manufacturers against imports without the same benefit being available in the United States to domestic manufacturers.

I will now discuss the provisions of the Mathias bill dealing with domestic manufacture of components for assembly abroad.

The Mathias bill seeks to reverse the Supreme Court's decision in Deepsouth Packing Co. v. Laitram Corp., 406 U.S. 518, 173 U.S.P.Q. 769 (1972). The Court in Deepsouth held that

domestic manufacture of all material components of a machine for assembly abroad was not an infringement of a combination patent which covered the final assembled product. The Court reasoned that because final assembly took place outside of the United States, the product was not "made" in the United States and therefore was not an infringement under 35 U.S.C. §271.

The Deepsouth decision was widely criticized as demonstrating an overly technical approach to the patent laws, particularly since the apparatus was in fact already substantially "made", requiring less than "an hour" for final assembly, and the failure to accomplish final assembly in the United States was clearly aimed at avoiding the patent.

The Mathias bill would add a new section to 35 U.S.C. §271 providing that the supplying of the uncombined material components of a patented invention in the United States, intending that such components be combined outside of the United States, would be an infringement of the patent. The bill requires both (1) an intention that the material components will be combined outside the United States, and (2) knowledge that if such components were combined within the United States the combination would be an infringement of the patent. It is not entirely clear whether components, if combined in the United States, must be known to infringe directly under Section 271(a) or whether contributory infringement under Section 271(c) would suffice. Moreover, the absence of the phrase "not

a staple article or commodity of commerce" seems to indicate that supplying standard components for combination outside the United States could amount to an infringement.

The Mathias bill provision would strengthen the U.S. product patent holder and thereby encourage domestic innovation. It is directed at intentional evasion of a patentee's rights. However, it is possible that adoption of the provision might simply result in further pressure for domestic manufacturing facilities to move offshore.

In the coming months there will be Congressional hearings and decisions on these legislative proposals. I am sure we all await the outcome with interest.

Thank you.

98TH CONGRESS
1ST SESSION

# S. 1535

To amend title 35, United States Code, to increase the effectiveness of the patent laws and for other purposes.

IN THE SENATE OF THE UNITED STATES

JUNE 23 (legislative day, JUNE 20), 1983

Mr. MATHIAS (for himself, Mr. DOLE, and Mr. DECONCINI) introduced the following bill; which was read twice and referred to the Committee on the Judiciary

# A BILL

To amend title 35, United States Code, to increase the effectiveness of the patent laws and for other purposes.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That section 271 of title 35, United States Code, is amended by adding at the end thereof the following new subsections:

"(e) Whoever without authority imports into or sells or uses within the United States a product made in another country by a process patented in the United States shall be liable as an infringer.

"(f) Whoever without authority supplies or causes to be supplied in the United States the material components of a

patented invention, where such components are uncombined in whole or in part, intending that such components will be combined outside of the United States, and knowing that if such components were combined within the United States the combination would be an infringement of the patent, shall be liable as an infringer.".

SEC. 2. Section 184 of title 35, United States Code, is amended by—

(1) amending the third sentence thereof by striking out "inadvertently" and inserting after "filed abroad" the words "through error and without deceptive intent";

(2) adding at the end thereof the following new paragraph:

"In the case of an application for which a license has been obtained or an application which has been filed in the United States Patent and Trademark Office for more than six months before the filing in a foreign country, and on which no secrecy order has been issued, a license shall not be required for any modifications, amendments, supplements, divisions, or other information filed in or transmitted to the foreign country in connection with such application if such modifications, amendments, supplements, divisions, or information consist only of the illustration, exemplification, comparison, or expla-

nation of subject matter specifically or generally disclosed in such application.".

SEC. 3. Section 185 of title 35, United States Code, is amended by adding before the period in the last sentence thereof the following: ", unless the failure to procure such license was through error and without deceptive intent, and the patent does not disclose subject matter within the scope of section 181 of this title".

SEC. 4. Section 186 of title 35, United States Code, is amended by—

(1) striking out "whoever, in violation of the provisions of section 184 of this title,"; and

(2) inserting "such" after "in respect of any".

SEC. 5. Section 103 of title 35, United States Code, is amended by adding at the end thereof the following:

"Prior art shall not include unpublished information which is developed by the applicant singly or jointly with others, or which is known to the applicant only by virtue of his or her employment.".

SEC. 6. Section 116 of title 35, United States Code, is amended by amending the first paragraph to read as follows:

"When two or more persons have made inventive contributions to the subject matter claimed in an application, they shall apply for patent jointly and each shall sign the application and make the required oath, except as otherwise

provided in this title. Joint inventors need not have made an inventive contribution to each claim of the application.".

SEC. 7. Section 135(a) of title 35, United States Code, is amended by adding at the end thereof the following: "Evidence to establish priority of invention in accordance with section 102(g) shall be provided by affidavit.".

SEC. 8. Section 135(c) of title 35, United States Code, is amended by—

(1) inserting before "shall render" in the third sentence the following: ", unless such failure was through error and without deceptive intent,"; and

(2) striking out the words "during the six-month period" in the fourth sentence and "within the six-month period" in the sixth sentence.

SEC. 9. Section 135 of title 35, United States Code, is amended by adding at the end thereof the following new subsection:

"(d) Parties to a patent interference may determine such contest or any aspect thereof by arbitration. The parties shall give notice of any arbitration award to the Commissioner, and such award shall be dispositive of the issues to which it relates. The arbitration award shall be unenforceable until such notice is given.".

SEC. 10. (a) Title 35, United States Code, is amended by adding after section 294 the following new section:

"§ 295. Licensee estoppel

"(a) A licensee shall not be estopped from asserting in judicial action the invalidity of any patent to which it is licensed. Any agreement between the parties to a patent license agreement which purports to bar the licensee from asserting the invalidity of any licensed patent shall be unenforceable as to that provision.

"(b) In the event of an assertion of invalidity by the licensee in a judicial action, licensee and licensor shall each have the right to terminate the license at any time after such assertion. Until so terminated by either party, the licensee shall pay and the licensor shall receive the consideration set in the license agreement.".

(b) The table of sections for chapter 29 of title 35, United States Code, is amended by adding after the item relating to section 294 the following:

"295. Licensee estoppel.".

SEC. 11. The amendments made by this Act shall apply to all unexpired United States patents granted before or after the date of enactment of this Act.

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Committee on the Judiciary
House of Representatives

Referred to Sub. on Courts, Civil Liberties,
and the Administration of Justice
Chairman, Hon. Robert W. Kastenmeier
Counsel, Mr. Michael J. Remington

Date - 7/18/83

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98TH CONGRESS
1ST SESSION

# H. R. 3577

To protect patent owners from importation into the United States of unpatented goods made overseas by use of patented processes.

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IN THE HOUSE OF REPRESENTATIVES

JULY 14, 1983

Mr. MOORHEAD introduced the following bill; which was referred to the Committee on the Judiciary

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# A BILL

To protect patent owners from importation into the United States of unpatented goods made overseas by use of patented processes.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That section 154 of title 35, United States Code, is amended by inserting after "invention" the second time it appears the words ", and if the invention is a process of the right to exclude others from using or selling products produced thereby,".

SEC. 2. Section 271 of title 35, United States Code, is amended—

(a) by redesignating subsection (a) as paragraph (a)(1): and

(b) by inserting the following new paragraph (a)(2):

"(a)(2) If the patented invention is a process, whoever without authority uses or sells in the United States during the term of the patent therefor a product produced by such process infringes the patent.".

SEC. 3. Title 35, United States Code, is amended by adding the following new section 295:

**"§ 295. Presumption: product produced by patented process**

"In actions alleging infringement of a process patent based on use or sale or a product produced by the patented process, if the court finds (1) that a substantial likelihood exists that the product was produced by the patented process and (2) that the claimant has exhausted all reasonably available means through discovery or otherwise to determine the process actually used in the production of the product and was unable so to determine, the product shall be presumed to have been so produced, and the burden of establishing that the product was not produced by the process shall be on the party asserting that it was not so produced.".

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98TH CONGRESS
1ST SESSION

# H. R. 3878

To promote research and development, encourage innovation, stimulate trade, and make necessary and appropriate amendments to the antitrust, patent, and copyright laws.

IN THE HOUSE OF REPRESENTATIVES

SEPTEMBER 13, 1983

Mr. MOORHEAD introduced the following bill; which was referred to the Committee on the Judiciary

# A BILL

To promote research and development, encourage innovation, stimulate trade, and make necessary and appropriate amendments to the antitrust, patent, and copyright laws.

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

## TITLE I—SHORT TITLE

SEC. 101. This Act may be cited as the "National Productivity and Innovation Act of 1983".

## TITLE II—JOINT RESEARCH AND DEVELOPMENT VENTURES

SEC. 201. For purposes of this title—







(1) the term "joint research and development program" means—

(A) theoretical analysis, exploration, or experimentation; or

(B) the extension of investigative findings and theories or a scientific or technical nature into practical application, including the experimental production and testing of models, devices, equipment, materials, and processes;

to be carried out by two or more independent persons: *Provided*, That for purposes of this title, such a program may include the establishment of facilities for the conduct of research, the collecting and exchange of research information, the conduct of research on a protected and proprietary basis, the prosecution of applications for patents, the granting of licenses, and any other conduct reasonably necessary and appropriate to such program;

(2) the term "antitrust laws" has the meaning given it in section 1 of the Clayton Act (15 U.S.C. 12), except that the term shall also include section 5 of the Federal Trade Commission Act (15 U.S.C. 45) to the extent that said section 5 applies to unfair methods of competition;

(3) the term "Attorney General" means the Attorney General of the United States; and

(4) the term "Commission" means the Federal Trade Commission.

SEC. 202. No joint research and development program shall be deemed illegal per se in any action under the antitrust laws.

SEC. 203. (a) Notwithstanding the provisions of section 4 of the Clayton Act (15 U.S.C. 15), any person entitled to recovery in an action under said section 4 based on conduct that is part of a research and development program and that is engaged in after a notification disclosing such conduct has been filed with the Attorney General and the Commission pursuant to section 204 shall recover the actual damages by him sustained, interest calculated in accordance with the provisions of section 1961 of title 28, United States Code, on such actual damages for the period beginning on the date of service of such person's pleading setting forth a claim under the antitrust laws and ending on the date of judgment, such interest to be adjusted by the court if it finds that the award of all or part of such interest is unjust in the circumstances, and the cost of suit, including a reasonable attorney's fee.

(b) Notwithstanding the provisions of section 4C of the Clayton Act (15 U.S.C. 15c), any State entitled to monetary relief in an action under said section 4C based on conduct





that is part of a research and development program and that is engaged in after a notification disclosing such conduct has been filed with the Attorney General and and the Commission pursuant to section 204 shall be awarded as monetary relief the total damage sustained as described in paragraph (1) of subsection (a) of said section 4C, interest calculated in accordance with the provisions of section 1961 of title 28, United States Code, on such total damage for the period beginning on the date of service of such State's pleading setting forth a claim under the antitrust laws and ending on the date of judgment, such interest to be adjusted by the court if it finds that the award of all or part of such interest is unjust in the circumstances, and the cost of suit, including a reasonable attorney's fee.

SEC. 204. (a) Any person participating in a joint research and development program may file with the Attorney General and the Commission a notification disclosing such program. Such notification shall specify the identity of the parties participating in the program, the nature, scope and duration of the program, and any and all ancillary agreements or understandings. Only conduct specified in a notification filed pursuant to this section shall be entitled to the protections of section 203.

(b)(1) Except as provided in subsection (d), within thirty days of the filing of any notification pursuant to this section,

the Commission shall cause to be published in the Federal Register notice of such notification, describing in general terms the participants, the program, and its objectives.

(2) Except as provided in subsections (c) and (d), all information and documentary material submitted as part of a notification filed pursuant to this section shall be available to the public upon request within thirty days after their submission to the Attorney General and the Commission.

(c) Any person filing a notification pursuant to this section may request that information or documentary material submitted as part of such notification not be made public. Any such request shall specify precisely what information or documentary material should not be made public, state the minimum period of time during which nondisclosure to the public is considered necessary, and justify the request for nondisclosure to the public both as to content and time. The Attorney General and the Commission shall consult with one another with respect to any such request, and each in its sole discretion shall make a final determination as to whether good cause for nondisclosure to the public has been shown. Any information or documentary material that is withheld from disclosure to the public pursuant to this subsection shall be exempt from disclosure under section 552 of title 5, United States Code.





(d) Any person who has filed a notification pursuant to this section may withdraw such notification prior to the time at which notice of such notification is published in the Federal Register and information and documentary material submitted as part of such notification is made publicly available pursuant to subsection (b). Any notification so withdrawn shall have no force or effect, notice of such notification shall not be published in the Federal Register, and no information or documentary material submitted as part of such notification shall be made publicly available.

(e) Actions taken or not taken by the Attorney General and the Commission in response to or with respect to notifications filed pursuant to this section, including without limitation determinations regarding the content of notices published or to be published in the Federal Register pursuant to subsection (b), the withholding from public disclosure of information or documentary material pursuant to subsection (c), and whether to institute antitrust or other investigations or enforcement actions shall not be subject to judicial review.

## TITLE III—INTELLECTUAL PROPERTY LICENSING UNDER THE ANTITRUST LAWS

SEC. 301. The Clayton Act, as amended (15 U.S.C. 12 et seq.), is amended by renumbering section 27 as section 28 and by adding the following new section 27:

"SEC. 27. (a) Agreements solely to convey rights to use, practice, or sublicense patented inventions, copyrights, trade secrets, trademarks, know-how, or other intellectual property shall not be deemed illegal per se in actions under the antitrust laws.

"(b)(i) Notwithstanding the provisions of section 4 of this Act, any person entitled to recovery in an action under said section 4 based on an agreement described in subsection (a) of this section shall recover the actual damages by him sustained, interest calculated in accordance with the provisions of section 1961 of title 28, United States Code, on such actual damages for the period beginning on the date of service of such person's pleading setting forth a claim under the antitrust laws and ending on the date of judgment, such interest to be adjusted by the court if it finds that the award of all or part of such interest is unjust in the circumstances, and the cost of suit, including a reasonable attorney's fee.

"(ii) Notwithstanding the provisions of section 4C of this Act, any State entitled to monetary relief in an action under said section 4C based on an agreement described in subsection (a) of this section shall be awarded as monetary relief the total damage sustained as described in paragraph (1) of subsection (a) of said section 4C, interest calculated in accordance with the provisions of section 1961 of title 28, United States Code, on such total damage for the period beginning





on the date of service of such State's pleading setting forth a claim under the antitrust laws and ending on the date of judgment, such interest to be adjusted by the court if it finds that the award of all or part of such interest is unjust in the circumstances, and the cost of suit, including a reasonable attorney's fee.".

## TITLE IV—PATENT AND COPYRIGHT MISUSE

SEC. 401. Section 271 of title 35, United States Code, is amended—

(a) by redesignating subsection (c) as paragraph (c)(1);

(b) by redesignating subsection (d) as paragraph (c)(2); and

(c) by adding the following new subsection (d):

"(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, unless such conduct, in view of the circumstances in which it is employed, violates the antitrust laws: (1) licensed the patent under terms that affect commerce outside the scope of the patent's claims, (2) restricted a licensee of the patent in the sale of the patented product or in the sale of a product made by the patented process, (3) obligated a licensee of the patent to pay royalties that differ from those

paid by another licensee or that are allegedly excessive, (4) obligated a licensee of the patent to pay royalties in amounts not related to the licensee's sales of the patented product or a product made by the patented process, (5) refused to license the patent to any person, or (6) otherwise used the patent allegedly to suppress competition.".

SEC. 402. Subsection (a) of section 501 of title 17, United States Code, is amended by adding at the end thereof the following:

"No copyright owner otherwise entitled to relief for infringement of a copyright under this title shall be denied relief or deemed guilty of misuse or illegal extension of the copyright by reason of his having done one or more of the following, unless such conduct, in view of the circumstances in which it is employed, violates the antitrust laws: (1) licensed the copyright under terms that affect commerce outside the scope of the copyright, (2) restricted a licensee of the copyright in the sale of the copyrighted work, (3) obligated a licensee of the copyright to pay royalties that differ from those paid by another licensee or that are allegedly excessive, (4) obligated a licensee of the copyright to pay royalties in amounts not related to the licensee's sales or use of the copyrighted work, (5) refused to license the copyright to any person, or (6) otherwise used the copyright allegedly to suppress competition.".





## TITLE V—PROCESS PATENTS

SEC. 501. Section 154 of title 35, United States Code, is amended by inserting after "invention" the second time it appears the words ", and if the invention is a process of the right to exclude others from using or selling products produced thereby.".

SEC. 502. Section 271 of title 35, United States Code, is amended—

(a) by redesignating subsection (a) as paragraph (a)(1); and

(b) by inserting the following new paragraph (a)(2):

"(a)(2) If the patented invention is a process, whoever without authority uses or sells in the United States during the term of the patent therefor a product produced by such process infringes the patent.".

SEC. 503. Title 35, United States Code, is amended by adding the following new section 295:

"**§ 295. Presumption: Product Produced by Patented Process.**

"In actions alleging infringement of a process patent based on use or sale of a product produced by the patented process, if the court finds (1) that a substantial likelihood exists that the product was produced by the patented process and (2) that the claimant has exhausted all reasonably availa-

ble means through discovery or otherwise to determine the process actually used in the production of the product and was unable so to determine, the product shall be presumed to have been so produced, and the burden of establishing that the product was not produced by the process shall be on the party asserting that it was not so produced.".

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## § 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.**

## § 1337. Unfair practices in import trade

**Unfair methods of competition declared unlawful**

(a) 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.

**Investigation of violations by Commission; time limits**

(b)(1) 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 investigation.

(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.

**Determinations; review**

(c) 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 Appeals for the Federal Circuit for review in accordance with chapter 7 of Title 5. Notwithstanding the foregoing provisions of this subsection, Commission determinations under subsections (d), (e), and (f) of this section with respect to its findings on 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, the amount and nature of bond, or the appropriate remedy shall be reviewable in accordance with section 706 of Title 5.

**Exclusion of articles from entry**

(d) 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.

**Exclusion of articles from entry during investigation except under bond**

(e) 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.

**Cease and desist orders; civil penalty for violation of orders**

(f)(1) 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 re-

voke 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.

**Referral to President**

(g)(1) 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.

**Period of effectiveness**

(h) 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.

**Importation by or for United States**

(i) 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 United States Claims Court pursuant to the procedures of section 1498 of Title 28.

**Definition of United States**

(j) 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.

Title of Presentation: Legal Protection of Computer Software in Japan

Japanese Group, Committee No. 1
Subcommittee No. 1

Mineo Takenaka, Mitsubishi Electric Corporation
Masahiko Kato, Toyota Central Research and Development Laboratories, Inc.
Choji Nishizaki, Fuji Heavy Industries Ltd.
Shuichi Fukuda, NEC Corporation
Shigeyasu Horigome, Iwatsu Electric Co., Ltd.
Kazuhira Watanabe, Chiyoda Chemical Engineering & Construction Co., Ltd.
Hitoshi Watanabe, Mitsui Engineering & Shipbuilding Co., Ltd.
Speaker: Naoki Kyomoto, NEC Corporation

Abstract:

The status of legal protection of computer software in Japan has made a remarkable change since 1982. There have been four court judgments or decisions affirming the protection of a program for a computer game under the Copyright Act. There have also been two judgments affirming the protection of computer software under the Act for the Prevention of Unfair Competition.

The Japanese Patent Office, which published "Standards for the Examination of an Invention Relating to a Computer Program (Part 1) in December 1975, published "Guidelines for the Examination of an Invention Relating to Microcomputer Applied Technology" in December 1982, and declared its willingness to accept the patentability of, for example, the control for a microwave oven, process control apparatus or like applied apparatus provided with setting and detecting means.

The Agency for Cultural Affairs is studying the reinforced protection of computer software under the Copyright Act, and the Ministry of International Trade and Industry contemplates the protection of computer software by a new act which will introduce a system for its registration.

This paper will report the status in detail, and point out the necessity of introducing a new act or revising the Copyright Act drastically to achieve the proper legal protection of computer software in Japan.

## 1. Introduction

The growth of the computer industry has brought about a rapidly increased attention of the people concerned with the legal protection of computer software. Particularly since 1982, the development of the legal protection for computer software has been remarkable in the judiciary and executive, branch compared with the past.*

A lot of papers have been published on this subject in Japan since 1981, and have been increasing year by year. (1)-(73) A table is annexed hereto to show those papers as classified by the magazine in which each paper was published, and the month and year of publication. The numbers appearing in the table correspond to those used in the bibliography.

This paper will report the trend of the relevant court decisions and the relevant activities of the governmental organizations, and outline the authors' position concerning the legal protection of computer software.

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* Naoki Kyomoto: Legal protection of Computer Software in Japan, presented at the 1974 PIPA Kyoto Congress and at the 1981 PIPA New York Congress.

## 2. Recent Trend of Court Decisions

### 2.1 Court Decisions under the Copyright Act

Several court decisions have been rendered in connection with the protection of computer software since 1982. Those rendered under the Copyright Act have, among others, been important.

#### [1] Case of Namco v. Jackson et al. (Tokyo District Court Decision of May 24, 1982

##### Outline of the Case (Facts)

Namco Co., Ltd. (creditor) completed a video game machine "DIGDAG" (creditor's product) toward the end of February 1982, and began to sell or use it in the beginning of March 1982. Jackson Co., Ltd. and Sort Electronic Industrial Co., Ltd. (debtors) began to manufacture and sell a video game machine "ZIGZAG" (debtors' product) similar to the creditor's product "DIGDAG" in the middle of March 1982. Although the debtors' product had a different name and was partly modified, both of the machines were designed for an identical game.

The creditor is preparing a suit claiming damages in the amount of ¥12,720,000, (1) on the ground that the debtors have infinged the right of reproduction of the ROM in "DIGDAG" which is a copyrighted movie work, and moreover (2) on the ground that the debtors have infringed the right of reproduction of the ROM in "DIGDAG" which is a reproduction of the source program which is a copyrighted work. The creditor applied for the provisional seizure of the debtors' movable property for the perpetuation of its right to the damages.

##### Summary of the Decision

The court accepted the creditor's petition and ruled the provisional seizure of the debtors' movable property.

##### Comments

This was the first case in Japan to approve the protection of computer software under the Copyright Act. As it was a case of the provisional seizure of movable property, however, the

court did not express the reason for the decision. Therefore, it is not clear in which object the court considered a copyright to exist.

[2] Case of Taito v. I.N.G. Enterprises et al. (Tokyo District Court Decision of December 6, 1982)

Outline of the Case (Facts)

Taito Co., Ltd. (plaintiff) began to sell or rent a TV type game machine "Space Invader Part II" (plaintiff's product) in the middle of August 1979. I.N.G. Enterprises Ltd. (defendant) began to modify a customer's TV type game machine in accordance with his request. The customer's machine was originally so designed as to display a game which was different from the game displayed by the plaintiff's product. The defendant modified it by removing the base board of a computer system in the customer's machine, incorporating the object program read out from the ROM in the plaintiff's product into the ROM in the base or any other ROM added thereto as required, and replacing the base in the customer's machine so that the game of the plaintiff's product might be reproduced on the display of the customer's machine. This act continued from the beginning of September to the end of October, 1979. The plaintiff instituted a suit for damages demanding the payment of two million yen and the interests for an infringement of the copyright of its software program. The defendant responded that the program in question was not a copyrighted work, since the symbolic language used in the program was not a language understandable by man, and could not itself be considered to express any idea objectively, while a copyrighted work must be a creative expression of a certain idea or feeling.

Controversial Points

(1) Is a software program expressed by the symbolic language (assembly language) a copyrighted work which is protected under the Copyright Act, or not?

(2) Is the object program in the ROM a reproduction of the software program, or not?

## Summary of the Decision

The court affirmed both of the controversial points, granted the demand of the plaintiff, and ordered the defendants to pay ¥540,000 and the interests to the plaintiff.

## Reasons

(1) The software program is a combination of various Instructions and other information expressed by the symbolic language (assembly language) communicable to any third party, and intended to reproduce the details of the game on the display of the plaintiff's product. Therefore, the program requires logical consideration of a person preparing it. It is a creative expression of his original scientific idea, and a copyrighted work which is protected under the Copyright Act.

(2) The object program in the plaintiff's product is a reproduction of the software program, and the act of placing it in another ROM is the reproduction of the software program which is a copyrighted work.

## Comments

Everybody will agree that the software program in the plaintiff's product, which is a source program, is itself a copyrighted work which is protected under the Copyright Act (Controversial Point 1), though there is no explicit provision in the Japanese Copyright Act.* Further studies are, however, required as to the court's ruling that the object program in the plaintiff's product is a reproduction of the software program (Controversial Point 2).

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* Paragraph 1 of Section 1 of Article 2 of the Copyright Act:
The copyrighted work shall mean a creative expression of an idea or feeling which belongs to the field of literature, sciences, art or music.

The Japanese Copyright Act provides that the reproduction of a copyrighted work shall mean the act of reproducing it tangibly by printing, photography, copying, sound or picture recording, or any other method.* The reproduction by printing, photography or copying is called "visible reproduction", while the reproduction by sound or picture recording is "reproducible reproduction".** We consider that reproducible reproduction is originally expected to be reproduced in sound or picture. When a sound or picture is recorded on a tape or others recording medium, it may be heard or seen when the recording medium is played back. In other words, we consider that the "reproduction of a copyrighted work" must be some act of producing a reproduction which is perceivable by man, or which can be converted to a form which is perceivable by man. We consider that this position is equally applicable to reproduction by any other method because the Japanese Copyright Act does not originally anticipate other situation, except what it provides explicitly.

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* Paragraph 15 of Section 1 of Article 2 of the Copyright Act:
The reproduction of a copyrighted work shall mean the act of reproducing it tangibly by printing, photography, copying, sound or picture recording, or any other method, and include the following acts for the following works:
a. A scenario or like work for the drama: The sound or picture recording of performance or broadcasting of the work, and
b. A copyrighted work of construction: The completion of a building in accordance with the drawings for the construction.

Article 21 of the Act:
The author shall have the exclusive right to reproduce his copyrighted work.

** Moriyuki Kato: Commentary on the Copyright Act (3rd revision, 1979), p. 33.

We are of the opinion that, though a source program (i.e., a program written in a high-level or somewhat lower level language comprehensible to man, such as FORTRAN, BASIC, COBOL or assembly language) may be a copyrighted work, an object program fixed in a ROM which is obtained by the conversion of the source program (i.e., a program composed of a machine language for direct use with a machine) is not a reproduction of the source program, since it is merely used for the operation of a computer, and not intended for reproducing the source program. Our opinion basically coincides with the opinion of Mr. Richard H. Stern that an object program is not any reproduction of a source program under the U.S. Copyright Act revised in 1980.(41)(43)

Insofar as the object program is not a reproduction of the source program, we consider that the act of placing an object program fixed in one ROM into another ROM is not the reproduction of a copyrighted work.

Some people say that the court was right in holding that "the object program in the ROM of the machine in question is a reproduction of the source program, since it is composed of a machine language obtained by a change from the symbolic language of the source program which is merely mechanical replacement, and does not involve any creative feature", because "the reproduction of a copyrighted work is not always limited to the production of an identical reproduction, but some minor modification, addition or reduction can be considered as a reproduction if it does not involve any new creative feature, but maintains the identity of the original work."*(67)

We do not, however, agree to this opinion for the reason mentioned above.

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* Masao Handa: Outline of the Copyright Act, Revised Edition, p. 121.

In view of the fact that the present case is concerned with a game machine having a display on which an image is reproduced, we consider that protection should have been given to (1) the program fixed in the ROM as a copyrighted movie work, or (2) the original picture of an invader as a copyrighted work of pictorial art. The present case is less interesting to us, since it is a special case in which the defendant hardly presented their argument to ensure the affirmative defense that the object program fixed in a ROM is not a reproduction, and there was no active argument between the parties concerned.

Thus, we are afraid that it may be highly questionable whether the court decision in the present case or the reasons therefor will be equally applicable to other cases, particularly cases concerning the protection of an industrial computer program.

[3] Case of Namco v. Arrow Electric (Tokyo District Court Decision of February 8, 1983)

Outline of the Case (Facts)

Namco Co., Ltd. (creditor) completed a video game machine "Pole Position" (creditor's product) in June 1982, and began to sell or use it toward the end of June 1982. Arrow Electric Co., Ltd. (debtor) was engaged in the manufacture and sale of a similar video game machine "Top Racer" (debtor's product) as of February 5, 1983. Although the debror's product had a different name and was partly modified, both of the machines were designed for an identical game.

The creditor is preparing a suit claiming damages for a breach of the Copyright Act and the Act for the Prevention of Unfair Competition, and filed a petition for the provisional seizure of the debtor's movable property for the perpetuation of its right to the damages. In the petition, the creditor (1) referred to the case of Taito v. I.N.G. Enterprises et al. (Tokyo District Court Decision of December 6, 1982) as hereinbefore described at [2], and insisted that the object program in the ROM of the creditor's product was a reproduction of a copyrighted source program, and (2) also insisted that the ROM in the creditor's product (i.e., the object program fixed therein) was

a "copyrighted movie work".

Summary of the Decision

The court accepted the petition, and ruled the provisional seizure of the debtor's movable property in an amount corresponding to the claimed credit of thirty million yen.

Comments

Although the court did not express the reason for the decision in the present case of provisional seizure, we assume that it took the same position as in the cases hereinbefore summarized at [1] and [2].

[4] Case of Taito v. Makoto Electronic Industrial (Yokohama District Court Decision of March 30, 1983)

Outline of the Case (Facts)

Taito Co., Ltd. (plaintiff) began to sell or rent a TV type game machine "Space Invader" (plaintiff's product) in July 1978. Makoto Electronic Industrial Co., Ltd. (defendant) manufactured and sold a similar TV type game machine "Super Invader" (defendant's product) for a period from the end of March to the middle of December, 1979. The object program in the ROM of the computer system in the defendant's product was similar to the object program in the plaintiff's product, and an identical game was displayed on both of the machines. The plaintiff instituted a suit for damages demanding the payment of fifty million yen and the interests based selectively on (1) the Act for the Prevention of Unfair Competition, (2) the copyright of the original picture of the invader and (3) the copyright of the software program. The defendant argued that it had purchased the parts for the defendant's product from outside suppliers, had left its manufacture to a subcontractor and had not placed the program in the ROM itself, and refuted the number of the products sold and the amount of damages which had been claimed by the plaintiff.

Controversial Points

(1) Is a software program expressed by a symbolic language (assembly language) a "copyrighted work" which is protected under the Copyright Act?

(2) Is the object program in the plaintiff's product a reproduction of the software program?

(3) Is the act of storing the object program in the ROM of the defendant's product an act of reproducing the software program?

Summary of the Decision

The court affirmed all of the points at issue, accepted the plaintiff's claim and ordered the defendant to pay ¥21,255,163 and the interests to the plaintiff.

Reasons

(1) The software program in the plaintiff's product is expressed by a symbolic language called an assembly language, and characterized by the images and the mode of their changes. The software program in the plaintiff's product is intended to reproduce the details of a game on a display, and for this purpose, is expressed by the assembly language. The idea expressed therein of the person who has worked out the program belongs to the field of a science, and creates originality over any conventional TV game. Therefore, the program in the plaintiff's product is a copyrighted work which is protected under the Copyright Act.

(2) The object program in the plaintiff's product is a program expressed by a machine language to which the assembly language used in the software program has been converted by a computer for development and a conversion program, which is understandable by a computer, and which is fixed in the ROM of the plaintiff's product in the form of electric signals. This conversion is achieved mechanically, and does not create any new copyrighted work. Thus, the object program in the plaintiff's product is a reproduction of the software program.

(3) The act of storing a modification of the software program in the ROM of the defendant's product is an act of reproduction, as it produces a tangible reproduction of the software program.

No judgment is required as to the other claims made selectively by the plaintiff.

Comments

The comments which we have hereinbefore made on the case of Taito v. I.N.G. Enterprises et al. apply to the present case, too. It is worthy of notice that the court did not make any judgment as to the claims made under the Act for the Prevention of Unfair Competition or based on the copyright of the original picture of the invader, but accepted the claim based on the copyright of the software program.

It is worthy of notice that there have recently been rendered a number of court decisions affirming the protectability of computer software under the Copyright Act, as hereinabove set forth.

2.2 Court Decisions under the Act for the Prevention of Unfair Competition and Related Acts

Two court decisions have recently been rendered under the Act for the Prevention of Unfair Competition:

[1] Case of Taito v. Uko Enterprise et al. (Tokyo District Court Decision of September 27, 1982); and

[2] Case of Taito v. World Vending et al. (Osaka District Court Decision of March 30, 1983).

In either of the cases, the defendant's product was identical to the plaintiff's product in external configuration, the images reproduced on a video display device and the mode of their changes and the method of playing, and created confusion among the users and the players. The court held that the defendants had impaired the business profits of the plaintiff, and ordered the defendants to pay damages to the plaintiff in accordance

with the provisions of Paragraph (i) of Section 1 of Article 1 and Article 1 bis of the Act for the Prevention of Unfair Competition.* In the decision for the case of Taito v. Uko Enterprise et al., the court says that, though the images, mainly of the invaders, reproduced on the video display device of the plaintiff's product and the mode of their changes taking place with the progress of the game were not themselves intended to express the source of origin of the product, they can be considered to have become well known, and acquired the secondary function of expressing the source of origin of the plaintiff's product in course of trade.

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*(Injunction of an act of unfair competition)
Article 1(1) In case an act coming under any of the following items is committed, a party whose business interests are likely to be impaired by such an act may demand the stoppage thereof:
(i) an act to use an indication identical or similar to any mark well known in Japan, indicating the goods of any other party including the corporate or individual name, trade name, trademark, container or packing of the goods, or to sell, distribute or export the goods carrying said indication, thereby causing confusion with such other party's goods;
[The remainder of the Article omitted]
(Liability for damages)
Article 1 bis One who has committed any of the acts coming under any item of Section 1 of the preceding Article knowingly or negligently shall be liable for damages to those whose business interests are harmed by such acts.
[The remainder of the Article omitted]

The Act for the Prevention of Unfair Competition is not expected to provide any direct protection of computer software, since protection under this Act depends on the judgment as to the confusion of the goods. In the event two different video game machines employ an identical program, however, the confusion of the goods is likely to occur, and in any such event, the Act is expected to supplement the protection of computer software under the Copyright Act.

There has not been any relevant court decision rendered under related acts, such as the Act Concerning Illegal Acts.

## 3. Activities of Governmental Organizations

With the active trend of court decisions as hereinbefore described, several governmental organizations have been engaging in active consideration for the legal protection of computer software. The Patent Office is studying the possibility of protection under the Patent Act, while the Agency for Cultural Affairs is studying the possibility of protection under the Copyright Act. The Ministry of International Trade and Industry is studying the possibility of introducing a new act to protect computer software. The following is a report on these activities:

### 3.1 Movements in the Patent Office

In addition to "Standards for the Examination of an Invention Relating to a Computer Program (Part 1)" (published in December 1975), the Patent Office has published "Guidelines for the Examination of an Invention Relating to Micro-Computer Applied Technology" (December 1982), and affirms the patentability of:

(1) A program worked out in accordance with the law of nature (e.g., a process control method); and

(2) A control for an applied device having setting and detecting means, etc. (e.g., an electric rice cooker, microwave oven, process control device).

The Office, however, denies the patentability of the following:

(1) Any program not relying on the law of nature (e.g., a method for the calculation of salaries, or the custody of stocks); and

(2) Any apparatus not having any applied device to be controlled (e.g., a computer equipped with a salary calculation program).

The Guidelines also explain by way of example the manner in which a specification for an invention relating to microcomputer applied technology may be written.

3.2 Movements in the Agency for Cultural Affairs

The protection of computer software under the Copyright Act was discussed some ten years ago at the Second Committee of the Copyright Council of the Agency for Cultural Affairs, which had been organized to discuss the issues concerning computers. The Committee reported in June 1973 that a computer program would be in harmony with the spirit of the copyright primarily intended to influence the spiritual activity of man by appealing to his intellect, emotion and volition.(54)(55)

The Council organized the Sixth Committee (handling the issues concerning computer software) in February 1983, and the Committee has been studying the following problems:(55)

(1) Personal rights of the Author, particularly the Right to Maintain his Identity

Computer software is improved so often that its identity is difficult to maintain. It is possible that the rights of the author may obstruct its improvements. In this connection, some people point out the exceptions provided in the Copyright Act for the right to maintain identity, and say that improvement in computer software can be likewise handled.

(2) Right of Adaptation

What is the adaptation of computer software, and to what extent its adaptation is permissible are at issue.

(3) Term of Protection

The current Copyright Act grants 50 years of protection after the death of the author (or after publication in the case of a work by a corporate body). A detailed study is under way to see if it will be appropriate to apply these periods of protection to computer software.

(4) Scope of Protection of Computer Software under the Copyright Act

Discussions are under way as to, for example, (1) whether the right of distribution presently granted on a movie should be equally granted for the assignment or rental of a reproduction of computer software, and (2) whether an explicit provision should be introduced to clarify that, for example, the act of inputting or practicing a computer program is an act which is protected, in order to ensure proper protection of computer software under the Copyright Act.

3.3 Movements in the Ministry of International Trade and Industry

The Ministry of International Trade and Industry set up a subcommittee for the adjustment of software bases in the Committee on Information of the Council on the Structure of Industry in February 1983 in order to promote the development and distribution of computer software, and this subcommittee is studying (1) the evaluation of quality of software and (2) proper protection of the rights of a person who has developed software.(53) According to newspapers,* the Ministry is preparing a new act which is essentially characterized by granting the rights of use, reproduction and distribution to a person who has developed software and had its details registered in the Ministry.

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* Nihon Keizai Shinbun, Morning Edition of June 5, 1983, first page; and
Asahi Shinbun, Morning Edition of June 12, 1983, first page.

## 4. Our Opinions

The current Copyright Act involves difficulty in the protection of the execution itself of a computer program, particularly an industrial computer program. Apart from a program for a video game or the like, it is impossible to obtain proper protection of a computer program under the current Copyright Act.

As regards the possibility of protection under the patent system, we cannot deny the fact that it will be impossible to obtain patent protection for all computer programs *per se*.

We, therefore, believe that a new act or a drastic revision of the Copyright Act will be essential to ensure proper protection of computer software.

Annexed List

| Magazine which carried the article \ Published year and month | 1981 | | | | | | | | | | | | 1982 | | | | | | | | | | | | 1983 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Jan. | Feb. | Mar. | April | May | June | July | Aug. | Sept. | Oct. | Nov. | Dec. | Jan. | Feb. | Mar. | April | May | June | July | Aug. | Sept. | Oct. | Nov. | Dec. | Jan. | Feb. | Mar. | April | June | July | Aug. |
| Tokkyo Kanri | | | | | | | | 4 | | | | | | | | | | | | | | | | | | | | | 49 | | |
| Monthly Journal of the Japanese Group of A.I.P.P.I. | | | | 1 | 2 | | | | | | | 7 | | | | | | 14.15 | | 17 | 19 | 24 | 26 | | 33 | 34 | 44 | | | | |
| A.I.P.P.I. Journal | | | | | | | | | | | | | | | | | | 13 | | | 20 | | | 29 | | | | | | | |
| Patent | | | | | | | | | | | | | | | | | | | | | 21.22 | 25 | 27 | 30 | | 35 | | | | | |
| Hatsumei | | | | | | | | | | | | | | | | | | | | | | | | | | 36 | | | 50-64 | | |
| Kogyo Shoyukenho Kenkyu | | | | | | | | 5 | | | | | | | | | | | | 18 | | | | 31 | | | 45 | | 65 | | |
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| Jurist | | | | | | | | | | | | 8.9.10 | | | | | | | | | | | 28 | | | 37-41 | 46 | | 67 | | |
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| Hanrei Times | | | | | | | | | | | | | | | | | | | | | | | | | | | | 48 | | | |
| NBL | | | | | 3 | | | | | | | | | | 12 | | | | | | | | 32 | | | 42 | 47 | | 68 | | |
| Nikkei Computer | | | | | | | | | | | | | | | | | | 16 | | | 23 | | | | | | | | | | 73 |
| Nikkei Electronics | | | | | | | | | | | | | | | | | | | | | | | | | | 43 | | | | | |
| Joho Shori | | | | | | | | | 6 | | | | 11 | | | | | | | | | | | | | | | | | | |

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66. Hiroshi Furusawa: Developments in the Legal Protection of Computer Software in the United States [Annual Report of the Society of Industrial Property Law, No. 6, 1983, p.1]

67. Nobuo Monya: Computer Programs and Copyrights [Jurist, June 10, 1983, No. 792, p.253 ff., see partic. p.255]

68. Topics: Case of Provisional Disposition Involving a Dispute as to Whether Software for Rental Is a Copyrighted Work [NBL, June 15, 1983, No. 283, p. ]

69. Yoshinobu Someno: Basic Problems in the Protection of Intellectual Property [Horitsu Jiho (Law News), Vol. 55, No. 7, p.8]

70. **Nobuo Monya** : Protection of Computer Software [Horitsu Jiho, Vol. 55, No. 7, p.15]

71. Takeo Hayakawa: A Check List for a Software Contract - Mainly for the Protection of Software [Horitsu Jiho, Vol. 55, No. 7, p.29]

72. Hiroshi Furusawa: Legal Systems for Software Protection in Various Countries [Horitsu Jiho, Vol. 55, No. 7, p.42]

73. Katsuhiko Murakawa: The Present Status of a Law Proposed by MITI for the Protection of Software [NIKKEI COMPUTER, August 8, 1983, p.111]

# THE ABUSE OF RIGHTS OBSERVED IN LITIGATIONS UNDER THE UNFAIR COMPETITION PREVENTION LAW OF JAPAN

Japanese Group, Committee No.1
Trademark Subcommittee

Takashi Nakayama, Toshiba corporation
Akio Kobayashi, Mitsubishi Rayon Co., Ltd.
Nagahisa Yuasa, NEC corporation
Isao Ando,Fujisawa Pharmaceutical Co., Ltd.
Hiroshi Yamashita, Rico co., Ltd.

Abstract

This text will first introduce an outline of the McDonald's Case which has drown the attention of many people since it concerns the well-known mark and their arguements brought to the Suprem Court. Continuously it will review the past cases---"Mikuni Tekko Case", "Yashika Case", "National Football Mark Case" and "Dorothée Bis Case"---in which the abuse of the right was discussed.

## Introduction

A number of cases concerning the Unfair Competition Prevention Law have recently occurred one after another. The McDonald's Case and the National Football Mark Case are particularly worthy of notice. With particular reference to the McDonald's Case, it has apparently drawn the attention of many perople, since it concerns the well-known marks of a United States corporation, and since it was finally appealed to the Supreme Court.

We have, therefore, decided to take up the McDonald's Case as a theme for this year. We would, however, like to make an approach which differs from a mere review of the case. In addition to a reveiw of the McDonald's Case, we would like to make a through study of the past cases concerning the Unfair Competition Prevention Law from the standpoint of the "abuse of the right" which was one of the points argued between the parties in the McDonald's Case.

Accordingly, we will first show an outline of the McDonald's Case, a summary of the court decision and some essential points thereof, and then, review the past cases in which the abuse of the right was discussed. We hope that we

shall be able to conclude this paper by pointing out what the past cases teach to us in connection with a trademark administration.

## I. The McDonald's Case

The Tokyo District Court (hereinafter called District Court) passed a decision against the plaintiff who had applied for an injunction pursuant to the Unfair Competition Prevention Law, and the plaintiff appealed to the Tokyo Appeal Court (hereinafter called Appeal Court). And finaly the respondent of appealed case made a appeal to the Supreme Court.(1)

The plaintiff who had lost the case at the District Court changed all of its attorneys and limited its claims when filing the appeal. This complicated the facts, therefore, we will show an outline of the case as simply as possible, and prepare a table for a better undrerstanding of the facts.

1. Outline of the Case.

(1) Japan McDonald's Corporation, the respondent of the final appeal (i.e., the plaintiff, or appellant of the appeal; hereinafter called X), is a company established on May 1, 1971 by the joint investment of McDonald's Corporation, U.S.A., and two Japanese corporations, Fujita & Co., Ltd. and Daiichi Bakery, Ltd.

(2) On July 14, 1971, X made a licensing agreement with McDonald's Corporation, U.S.A., and acquired the exclusive right to use the knowhow, trademarks, tradename, marks and industrial designs of McDonald's Corporation as to the sale of McDonald's products in Japan.

(3) X opened its first shop in the Ginza Branch of Mitsukoshi Department Store on July 20, 1971, and gradually expanded its activities and it had a total of 120 shops as of November 1977.

The marks which X was using will hereinafter be shown at (A) to (H). They were in use on the store signs, menus, containers and packing materials, and the clerk's uniforms. They also appeared in the photographs of newspapaers and magazines which introduced X's business.

(4) Marushin Food Co., Ltd., the appellant of the final appeal (i.e., the defendant, or respondent of the appeal; hereinafter called $Y_1$), is a company established in September 1960 and engaged mainly in the manufacture and sale of processed food, such as ham and sausage. It started to sell hamburgers in or about 1965.

Mac Sangyo Co., Ltd., another appellant of the final appeal (defendant, or respondent of the intermediate appeal; hereinafter called $Y_2$), is a company established on September 22, 1971 by the full investment of $Y_1$. It was engaged in the sale of hamburgers through the vending machines which were owned and installed by $Y_1$ in stores and amusement palces in towns, suburban drive-ins, or the like.

(5) $Y_1$ started to use the marks which will hereinafter be shown at (1) to (3), on the hamburger vending machines in or about the beginning of May 1972. $Y_2$ used those marks on the containers and packing materials for the goods, and sold them by the vending machines, or at the stores.

$Y_1Y_2$ discontinued to use the mark (1) in June 1973, and only the marks (2) and (3) they used thereafter.

(6) Under these circumstances, X instituted a suit requesting a decision to the effect that $Y_1$ and $Y_2$ should not use any of the marks (1) to (3) on the containers, packing materials, advertisements or vending machines for the hamburgers which they made, should not sell any goods by using any of those marks, and should destroy any and all objects indicating any of those marks.

Table of Facts

| Respondent of the final appeal | | Appellant of the final appeal |
|---|---|---|
| McDonald's Corporation was established in USA. | 1955 | |
| | 1960 | Marushin Food Co., Ltd. was established. |
| The growth and unique managing system of McDonald's were introduced in Japanese trade journals, etc. | After about 1966 | |

| | | |
|---|---|---|
| | July 7, 1969 | Marushin acquired the registered trademark (b) "BURGER" (written in Japanese) by assignment. |
| Japan McDonald's Corporation was established. | May 1, 1971 | |
| It opened its first store in Mitsukoshi, Ginza. | July 20, 1971 | |
| (Thereafter, it opened directly controlled storesin major cities one after another.) | July 23, 1971 | Marushin acquired the registered trademark (a) "MAC" (written in Japanese) by assignment. |
| | Sept. 22, 1971 | Mac Sangyo Co., Ltd. was established. |
| | About May 1972 | They began to sell hamburgers under the name of "Mac Burger". |
| | June 1973 | They discontinued the use of the mark (1). |
| Japan McDonald's instituted a suit. | Feb. 1974 | |
| It opened about 65 directly controlled stores. | May 1975 | |
| Its directly controlled stores were increased to about 120. | Nov. 1977 | |

2. Summary of the Court Decision and Essential Points

The Supreme Court dismissed the final appeal, and the decision of the Appeal Court in favor of the appellant was made final and conclusive. The claim calling for the discontinuation of use of the mark (1) by $Y_1$ and $Y_2$ was rejected, as they had already done so, and as the court did not see any possibility of reuse of the mark by them, but all of the other claims which have been mentioned above were granted.

In general, the applicability of Item 1 or 2 of Paragraph 1 of Article 1 of the Unfair Competition Prevention Law[2] depends on whether the following circumstances exist:

(1) The indication of the goods of one party or the indication of its business is well known in Japan;

(2) The indication used by another party is identical or similar to the indication of the goods or business of the one party;

(3) There is a confusion in the goods, or business facilities or activities of the two parties; and

(4) The business interests of the one party are, thus, impaired or likely to be impaired.

In this case, particulaly, the judgment as to points (1) and (3) is worthy of notice , as will hereunder be set forth.

(1) Well-known Indication

There was only less than one year between the opening of the Mitsukoshi-Ginza store by X (July 20, 1971) and the beginning by $Y_1$ and $Y_2$ to use the marks (1) to (3) (May 1972). When did the trademarks of X become well known? The court found that it had occurred toward the end of July 1971, i.e., shortly after the first store of X had been opened.

This is largely due to the fact that the business form of McDonald's Corporation, U.S.A., and its marks began to appear and were described in trade journals for restaurant or related food selling industries in Japan in or about 1966. The reputation of the American parent company and the well-known form of its business, as well as the extensive advertising activity of X at the time of opening its first store, apparently made the court conclude that the trademarks of X had become well known immediately after the opening of its first sotre.

(2) Confusion as to the Source of Origin

The District Court decided that there was no confusion of the goods, since X was selling all of its goods at its directly controlled stores, while $Y_1$ and $Y_2$ were using a different method of selling, i.e., selling the goods by the vending machines. The Appeal Court, however, concluded a great likelihood of confusion in view of examples of actual confusion, and answers of the enquête which were executed for public.

3. Abuse of the Right

$Y_1$ and $Y_2$ argued that the use of the marks (2) and (3) was the use of the registered trademarks (a) and (b). $Y_1$ had acquired the registered trademarks (a) and (b) from third parties, and became the registered owner of those trademarks. Therefore, $Y_1$ and $Y_2$ argued that the use of those trademarks was the lawful exercise of the right according to the provisions of Article 6 of the Unfair Competition Prevention Law,[3] and that the argument of X was wrong.

X refuted the arguments of $Y_1Y_2$ flatly, saying that the use of those trademarks was intended for the free use without permission of the goodwill of well-known marks, and not the lawful exercise of the right, since $Y_1$ acquired the trademark (a) after the proposed entry of McDonald's Corporation into the Japanese market had been reported through the press, and began to use it after the marks of X had become well known.

The Supreme Court held the decision of the Appeal Court which the use of the marks (2) and (3) by $Y_1$ and $Y_2$ was not the use of the registered trademarks, since those marks were not identical to the registered trademarks. Therefore it did not make any reference to the question as to the abuse of the right.[4]

(X's Indication of Business)

(A) 


(B) ビッグマック

(C) マックフライポテト

(D) マックシェイク

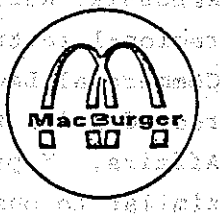
(E) McDonald's

(F) マクドナルド

(G) Mac

(H) マック

(Trademarks Used by $Y_1Y_2$)

(1) 


(2) Mac Burger

(3) マックバーガー

(Registered Trademarks of $Y_1$)

(a) マック

(b) バーガー

## II. Cases of the Abuse of the Right

We would like to review several past cases involving the question of the abuse of the right in order to obtain some hints which will be of help when this question is considered in future.

### A. The Mikuni Tekko Case [(wa) No. 3380/1954 - Osaka District Court Decision of August 31, 1957]

The court concluded that there had been an abuse of the right, since the use of a registered trademark obtained with an illegal intention could not be considered as the lawful use thereof complying with the provisions of Article 6 of the Unfair Competition Prevention Law.

1. Outline of the Case

(1) X (plaintiff) used the tradename "Kabushiki Kaisha Mikuni Tekkosho" from its foundation (1934) to 1944, and thereafter changed it to "Mikuni Jukogyo Kabushiki Kaisha". This company was a leading manufacturer of air compressors, and the tradename of X was widely known among the traders and users. There was, however, no trademark registration as to the tradename.

(2) Y (defendant) set up a company named "Mikuni Tekko Kabushiki Kaisha" in the same region with X in 1953, the regional restriction is defined in the Article 19 of the Commercial Law (Effect of Recordation of a Tradename)[5], and recorded its tradename on the book of the Bureau of Judicial Affairs. Y prepared and distributed a catalog which was very similar to one of X. Y filed a trademark application for "Mikuni Tekko Kabushiki Kaisha" with the Patent Office in July 1954, and obtained its registration.

(3) X brought a suit for an injunction in accordance with Items 1 and 2 of Paragraph 1 of Article 1 of the Unfair Competition Prevention Law, saying that the tradename of Y (Mikuni Tekko Kabushiki Kaisha) was similar to that of X (Mikuni Jukogyo Kabushiki Kaisha), and that Y had aimed at unfair competition, and actually done it.

(4) Y argued that the two tradenames were not similar to each other, and that it did not have any intention or fact of unfair competition, and also insisted that the use of the registered trademark "Mikuni Tekko Kabushiki Kaisha" was the lawful exercise of the trademark right under the Article 6 of the Unfair Competition Prevention Law.

2. Summary of the Dicision

(1) The court held that the tradename of X had been widely known among the users, and that Y had used a similar tradename for the purpose of unfair competition and caused a confusion of the goods and the business facilities or activities.

(2) The court held that the Y's use of "Mikuni Tekko Kabushiki Kaisha" was not the lawful exercise of the trademark right provided by Article 6 of the Unfair Competition Prevention Law, since it was against the bona fide principle to obtain the trademark registration of the tradename for the purpose of making unfair competition and escaping from the application of Items 1 and 2 of Paragraph 1 of Article 1 of the Unfair Competition Prevention Law.

B. The Yashica Case [(wa) No. 1415/1963 - Tokyo District Court Decision of August 30, 1966]

The plaintiff owned a uniquely coined word trademark "Yashica" for use on cameras. The defendant chose a similar trademark for use on cosmetics, and obtained its registration. This is one of typical court decisions that determined the defendant's use of the registered trademark as the abuse of the right, in view of the fact of substantial confusion as to the source of origin of the goods.(6)

1. Outline of the Case

Plaintiff: Kabushiki Kaisha Yashica

Defendant: Dariya Kogyo Kabushiki Kaisha

(1) X (plaintiff) was established in 1949 under the name of Yashima Seiki Kabushiki Kaisha, and changed it in 1958 to the present name including the trademark "Yashica" which had become well known in connection with its principal product, cameras.

(2) The trademark "Yashica" is a word coined as an abbreviation for "Yashima's cameras" when X started the manufacture and sale of cameras in 1953. X advertised it aggressively through media, such as newspapers and TV.

(3) X was engaged in the manufacture and sale of precision machineries in the beginning, but gradually expanded its operations to the manufacture and sale of the product of various fields, including chemical products, and promted affiliates in major cities around the world.

(4) Y had began to use the marks (A) to (G) listed below on cosmetics, and at the same time he registered a right of exclusive use in October 1963 with respect to the trademark (H) registered in the name of the representative of Y on cosmetics, etc.

(5) According to the expandation of Y's business on cosmetics, it caused a confusion of the source of origin against the goods of X, leading to the suit.

2. Essential Points in the Court Decision

The court held that, while the trademark (A) of Y was identical to the registered trademark (H), Y's use of (A) on cosmetics was an unjustified use of the reputation and goodwill of well-known indications of the plaintiff, in view of the following facts;

(1) that the trademark (A) consisted of, or contained the same word or pronunciation as the marks (I) to (M) which had alresdy been well known to indicating the business of X when the Y's trademark was registered, and

(2) that Y was using the marks (A) to (G) in forms very similar to those of the plaintiff.

The court, therewith, decided that Y's use of the trademark (A) is precisely an abuse of the right and couldn't be regarded as the fair use of right, due to the Trademark Law which is reffered in the Unfair Competition Prevention Law. The court also reffered that Y's registered trademark was merely formal and no meaning.(7)

(Tradermaks Used by Y)

(A) ヤシカ

(B) YASHICA

(C) YAIMIKA

(D) YASHICA

(E) ヤシカ化粧品本舗

(F) YASHICA COSMETIC CO. LTD.

(G) ヤシカ化粧品会社

(Marks Indicating X's Business)

(I) ヤシカ

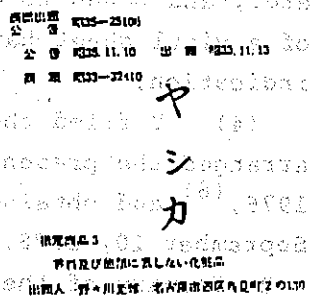
(J) YASHICA

(K) 株式会社ヤシカ

(L) 株式会社 ヤシカ

(M) YASHICA CO., LTD.

(Registered Trademark of Y)

(H) 

ヤ
シ
カ

C. The National Football Mark Case [(wa) No. 6006/1978 - Osaka District Court Decision of July 15, 1980]

The defendant insisted upon the application of Article 6 of the Unfair Competition Prevention Law for the reason that he got the design patent and his product was manufactured upon the lawful right. The defendant's position was, however, not supported because of an abuse of the right.

1. Outline of the Case

Plaintiff: National Football League Properties, Inc. (hereinafter referred to as $X_1$)

Plaintiff: SONY Kigyo Kabushiki Kaisha (hereinafter referred to as $X_2$)

Defendant: Marutake Shoji Kabushiki Kaisha (hereinafter referred to as Y)

(1) $X_1$ is a corporation of California organized for the commercialization and administration of the names and symbols of the teams belonging to the National Football League of the

United States (hereinafter reffered to as the present indication), and having all the rights concerning the use thereof, including the right to grant licenses to third parties.

(2) $X_2$ made a licensing agreement with $X_1$ on the present indication on October 2, 1973, and acquired the rights to exclusively use those symbol marks, including the right to grant sublicenses in Japan. In accordance with this agreement, $X_2$ began to grant a sublicense to, as a rule, only one Japanese company in each of different fields of business with certain conditions for quality control.

(3) Y was engaged in the manufacture and sale of lockers, etc., and began to sell in October 1975 a box-shaped locker made of a vinyl sheet having arranged threreon the present indication.

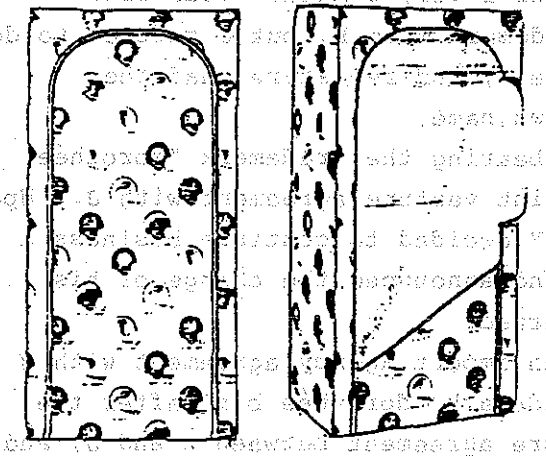
(4) Y filed the design application of box-shaped locker arranged the present indication for the registration on April 1, 1976,(8) and obtained its registration under No. 490,297 on September 20, 1978.

2. Summary of the Decision

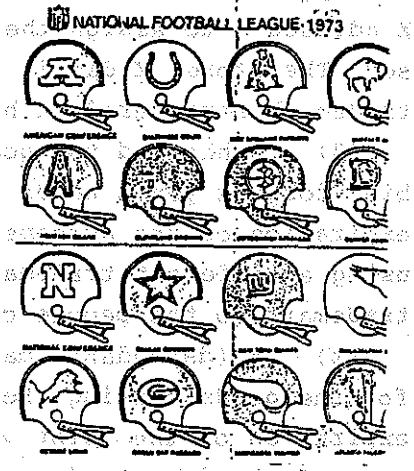
(1) The court found that everybody dealing in the merchandise which is usualy designed by charactered marks or symbols had known that the rpesent indication was an indication of the goods or business of the $X_1$-$X_2$ group in and after 1975. And therefore, the present indication was recognized a widely known indication of the goods as defined in Item 1 of Paragraph 1 of Article 1 of the Unfair Competition Prevention Law, or a widely known indication of business as defined in Item 2 thereof.

(2) The court held that in so far as Y's registered design was consisted of the present indication which had been well known as indicating the business of X at the time of filing of the application for the registration, defendaant could not set up against to have obtained the design right with an illegal intention of utilizing the image of the plaintiffs' indication and the goodwill thereof without permission, and also for the purpose of insisting that it was not doing any unfair competition. The court,therefore, concluded that the act of Y was an abuse of the right.

(Registered Design of Y)



(The present indication)




D. The following case is also concerned with the question of the abuse of the right, though which was argued only under the Trademark Law not the Article 6 of the Unfair Competition Prevention Law.(9)

The Dorothée Bis Case [(wa) No. 1264/1978 - Kobe District Court Decision of December 21, 1982]

Various situations are likely to exist with regard to the question of a relationship between the owner of a stolen trademark in Japan and a person who has adopted it originally and obtained its registration in his own name in his country. In the following case, the plaintiff insisted that the defendant had infringed his trademark right, but the plaintiff's claims were rejected.

1. Outline of the Case

(1) X (plaintiff) owned the right to import and sell the goods bearing the trademark "dorothée bis" which had been adopted originally by a third party J (a French designer) and registered in his name in his country.

(2) When X was going to sell the goods bearing the trademark "dorothée bis" in Japan, X found that a third party K had applied for registration of a very similar trademark.(10) X advised J to assign the trademark from K, but J refused to do so. Therefore, X did it himself, and registered had the trademark registered in his own name.

(3) X handled the goods bearing the trademark "dorothée bis" for six years under a joint venture agreement with J. Upon expiration of the agreement, X decided to continue business using a different trademark and announced the change of his trademark to the people concerned.

(4) Y (defendant) made an import agency agreement with J for the goods bearing the trademark "dorothée bis" after the expiration of the joint venture agreement between X and J, and started the importation and sale of the goods bearing the same trademark.

(5) X instituted a suit asking for the discontinuation of use of the trademark "dorothée bis" by Y and the payment of damages under the Trademark Law.

2. Essential Points in the Court Decision

After a comprehensive study of the following circumstances around X, the court dismissed the X's claims asking for the discontinuation of use of the trademark "dorothee bis" by the defendant as being an abuse of the right:(11)

(1) X purchased the trademark from K for the sole purpose of eliminating an obstacle to the use of the trademark "dorothée bis" in Japan. Upon expiration of the joint venture agreement, the rights of X thereunder expired, and the purpose for which X had purchased the trademark was fulfilled.

(2) The act of insisting upon the right of a trademark which X did not intend to use himself, and thereby preventing the other party's importation and sale of the goods under the newly concluded agency agreement was highly injustice and unsuitable in view of the spirit of Article 53 bis of the Trademark Act.(12)

(3) The court also found that the use of the trademark "dorothée bis" by Y would not be likely to cause any confusion as to the source of origin among the users and that no

substantial damage would occur to the plaintiff , since X had no intention of using the registered trademark.

Conclusion

While we have reviewed a number of cases involving the question of the abuse of the right, we must draw attention to the fact that the theory of the abuse of the right is applicable only exceptionally. Although the limitation of the space has obliged us to describe the cases in a considerably simplified form, it is to be noted that the theory has been applied only after a comprehensive study of all of facts e.g.the complicated human relations, circumstances surrounding each case.

According to the Japanese Trademark Law, a trademark right is created by registration, and granted to the applicant of the first filed application. Therefore, a person who is late in filing an application is primarily unable to obtain protection, and is to be blamed for his negligence.

Referring, for example, to the McDonald's Case, it is likely that the reverse might have been the case. If someone had registered and been using the trademark "MAC" in Japan before Japan McDonald's acquired the license from its United States parent company, its use of teh marks might have been held as infringing the right to "MAC".

It is our recommendation that everybody recognize the fact that according to the Japanese Trademark Law, a trademark right is created by registration on the applicant of the first filed application, and conduct the administration of trademarks which conform to the Japanese law.

NOTES

(1) Tokyo District Court Decision, July 21, 1976,
(wa) No. 924/1974
Tokyo Appeal Court Decision, October 25, 1978,
(ne) No. 1839/1976
Supreme Court Decision, October 13, 1981,
(o) No. 145/1979

(2) Items 1 and 2 of Paragraph 1 of Article 1 of the Unfair Competition Prevention Law.

(Cessation of unfair competition)

Article 1. In case there is one person who commits an act falling under one of the following items, the other person whose business interest is likely to be injured therewith may demand cessation of such an act:

(1) Act of using an indication identical with or similar to such full name, trade name, trade mark, container, packing of merchandise of the other person or any such other indication of merchandise of the other person as widely known in the territory where this law is in force or of selling, distributing or exporting merchandise on which the above indication is used, and thereby causing confusion with merchandise of the other person;

(2) Act of using an indication identical with or similar to such full name, trade name, mark of the other person or any such other indication of the business and good will of the other person as widely known in the territory where this law is in force and thereby causing confusion with the business establishment or activities of the other person;

(3) Article 6 of the Unfair Competition Prevention Law.

Article 6. The provisions of Article 1 item (1), item (2), Article 1 bis, Article 4 paragraph 1 to paragraph 3 inclusive and Article 5 item (2) shall not apply to any act to be regarded as the exercise of right in accordance with the Patent Law, the Utility Model Law, the Design Law or the Trade Mark Law.

(4) The provisions of Article 25 and Item 1 of Article 37 of the Trademark Law do not positively permit the use of any mark similar to a registered trademark.

(Effects of trademark right)

25. — The owner of a trademark right shall have an exclusive right to use the registered trademark with respect to the designated goods. However, where the trademark right is subject to a right of exclusive use, this provision shall not apply to the extent that the owner of that right has an exclusive right to use the registered trademark.

(Acts deemed to be infringement)

37. — The following acts shall be deemed to be an infringement of a trademark right or of a right of exclusive use:

(i) acts of using a trademark similar to the registered trademark on the designated goods or of using the registered trademark or a similar trademark on goods similar to the designated goods;

(5) Article 19 of the Commercial Law.

(Effect of registration of trade name)
Article 19. No trade name which has been registered by another person shall be registered in the same city, town or village in respect of the same kind of business.

(6) This decision is also one of the few court decisions in Japan in which the free-ride and dilution theories were discussed as the case of the impairment of the business interests of the plaintiff had been impaired.

(7) The court held the following decision in connection with the fact that the mark "Yashica" had been well known:
[1] The trademarks and tradenames (I) to (M) of the plaintiff are widely known; therefore, the use on cosmetics of the defendant's trademarks and tradenames which are identical or similar thereto is likely to give the public the impression that the goods are the products of the plaintiff, or at least of its subsidiaries.
[2] As a result of the plaintiff's expensive advertising activity, the trademark "Yashica" has become so well known that the word "Yashica" gives everybody a direct association with cameras. Under these circumstances, the use of any similar indication on cosmetics is likely to impair the business interests of the plaintiff, since it dilutes the image which the word "Yashica" creates, weakens its association with cameras, and reduces its goodwill and publicity effect, thereby lowering the value of the trademark of the plaintiff as an intangible property right.

(8) This was an application relying upon the provisions of Paragraph 2 of Article 4 of the Design Law providing exceptions to the lack of novelty.

(Exceptions to lack of novelty of design)
4.
(2) In the case of a design which has fallen under paragraph (i) or (ii) of Section 3(1) due to an act on the part of the person having the right to obtain a design registration, the preceding subsection shall also apply, provided that such person has filed a design application for the design within six months from the date on which the design first fell under those paragraphs.

(9) "Amanogawa Case" is also well known, though the limited space disables a description thereof.

(10) There was no relation between K and J, and the court concluded that K had stolen the trademark of J.

(11) The plaintiff has appealed from the District Court decision, so this case is not final and conclusive. The decision was passed after a comprehensive study of the special circumstances surrounding the trademark, and not merely based on the fact that the trademark registration had been obtained on the stolen mark of foreign origin.

(12) Article 53 bis and Item 4 of Article 15 of the Trademark Act provide for a foreigner the possibility of claiming the originality of a trademark if certain conditions are satisfied.

53[bis]. — Where a registered trademark is the trademark of a person who has the right to the trademark in a country party to the Paris Convention or is similar to such a trademark, and the goods relating to such right or similar goods have been made the designated goods, and moreover the trademark application concerned was made, without a legitimate reason and without the authorization of the person who has the right to the trademark, by his agent or representative or by a person who was his agent or representative at any time during the year preceding the filing date of the application, the person who has the right to the trademark may demand a trial for the cancellation of its registration.

(Examiner's decision of refusal)

15. — The examiner shall make a decision that a trademark application is to be refused where it falls under any of the following paragraphs:

(iv) the trademark in the trademark application is a trademark or is similar to a trademark which is covered by the rights of a person who has the right to the trademark (but only where such right is equivalent to the trademark right; it is hereinafter referred to as the "right to the trademark") in a country party to the Paris Convention and which is used on goods covered by the right of such person or on similar goods, and the trademark application concerned was made, without a legitimate reason and without the authorization of the person who has the right to the trademark, by his agent or representative or by a person who was his agent or representative at any time during the year preceding the filing date of the application. However, this provision shall apply only where the person who has the right to the trademark files an opposition to the grant of registration on the ground that the said application falls under this paragraph.

Speaker: Robert W. Hampton
Eastman Kodak Company

# PATENT APPLICATION FILING DECISIONS AT THE EASTMAN KODAK COMPANY

Presented at: The PIPA International Congress
Washington, D.C.
October 1983

This paper outlines the manner in which inventions are evaluated at the Eastman Kodak Company. It identifies those who make the decisions to file patent applications, both in the U.S. and internationally, and the criteria used for making those decisions.

In discussing this subject I want to draw a distinction between patent applications filed domestically -- that is in the country where most of a corporation's research and development occur -- and patent applications filed in one or more other countries.

Let me talk first about the domestic filing decision in the context of Eastman Kodak's Patent Department in Rochester, New York, where we have our corporate headquarters.

Our Rochester Patent Department is administratively a single department with decentralized "sections", which are resident at two manufacturing plants and a corporate Research Laboratory. These patent sections concern themselves principally with domestic, that is U.S. patent

matters. In addition, we have a centrally located patent section that handles international patent matters for all of the domestic sections. The International Section is the unit with which I am associated.

The domestic filing decision is typically made by a domestic patent attorney to whom the technical subject matter has been assigned. He may consult with the management of his patent section and with the inventor or other members of the technical or business staffs. His decision is made within the framework of our corporate policy on these matters. Paraphrased, that policy is to apply for patents in all cases in which valuable patents will ensue. The operative phrase is "valuable patents."

At this point I must draw a second distinction, which addresses the value of the patents that can be anticipated from various applications. There are instances in which the value of the expected patents will be so high -- or so low -- that no two reasonable and informed people could differ about the advisability of filing. The "problem" inventions occupy the middle ground and they constitute be the majority of the inventions coming before us for filing decisions. Most of the clearly non-valuable inventions are never submitted to us in the first place. The point of this distinction is that the clearer the case of value, the less need there is for the domestic attorney to consult with others.

A third distinction is needed. The technical community at our corporate Research Laboratories are in the business of making discoveries and inventions. Therefore, they are attuned to the patent system as one means of publishing the fruits of their research. They tend to be willing and ready consultants to the patent attorney in making his filing decision. In fact, they sometimes even volunteer consultation. The technical people at the manufacturing plants, on the other hand, are in the business of making products for the market place. They are apt to have less time available to participate in our relatively abstract process of making decisions about filing patent

applications. The domestic attorney in the research environment has all the help he needs; his colleague in the manufacturing environment often is left to his own devices.

I want to turn back, now, to the first distinction I drew: that between the domestic filing decision and the decision to file in other countries.

In Kodak, the question of whether or not to file abroad usually is addressed several months after the domestic application has been filed. This is because, of course, most filing in other countries is done under the Convention.

The decision to file in a number of other countries entails much greater costs than the decision to file only domestically. Therefore, the process of making the decision to file abroad sometimes involves many people. At our corporate Research Laboratories, there are often ten or more people meeting regularly to participate in what we call "foreign filing" decisions. They include management representatives of the Research Laboratories, manufacturing and the Patent Department, both domestic and international. They also include line and staff personnel from the Laboratories and the Patent Department. Because these committee meetings entail the exchange of technical and legal information bearing on the filing decisions, they incidentally become a more general forum for the useful exchange of technical information among Laboratory and manufacturing people. Perhaps that justifies some of their high costs.

At the manufacturing locations, fewer people are involved but it is still a committee activity in most cases.

An important counterpart to the filing decision is the decision to publish. We publish a rather large amount of technology, some in scientific journals and some in other media. The publication of marginally patentable subject matter is largely a defensive act. It prevents others from patenting the same subject matter on later filed applications, and

then asserting those patents against Kodak. We don't want such patents ourselves, because we would not assert them against anyone and they would simply be expensive publications.

I have focussed on Kodak's several mechanisms for making filing decisions and have said little if anything about the criteria for making those decisions. Let me conclude with the uninformative observation that, at Kodak, the single criterion for deciding to file a patent application or, for that matter, to publish, is the predicted cost-effectiveness of the results. How we predict cost-effectiveness is another subject entirely.

FOURTEENTH INTERNATIONAL CONGRESS

Washington, D. C.

October 19 - 21, 1983

AMERICAN CYANAMID COMPANY, represented by Jack W. Richards, Patent Attorney, DAVIS & GECK DIVISION and LEDERLE STANDARD PRODUCTS, Section Manager.

# EVALUATION OF INVENTIONS

by American Cyanamid Company

1) Research Project
   - i) Selection of Subject Matter
   - ii) Division Research Work
   - iii) Research Meetings and Reports

2) "Inventions"
   - i) Preliminary Selection and Evaluation
   - ii) Technical Recommendation

3) Record Of Invention
   - i) Preparation
     - a) Consultation with Patent Attorney and Liason Preparation
     - b) Number Assignment
     - c) Inventor Review
   - ii) Submission
     - a) Case No. Assignment and Assignment to Patent Attorney
     - b) Patent Administrator Function - Computer Entry (Case No. - Inventors - Title - Date- Attorney - Division)
     - c) Domestic Patent Committee Meeting Review - Composed of Commercial, Technical and Legal People
     - d) Review and Recommendation

4) Preparation of Domestic Patent Application

i) Preparation of Specification and Claims

ii) Action Sheet

iii) Inventor Review

5) Filing of Domestic Patent Application

i) Patent Administrator

a) Action Sheet and Case Folder

b) Computer Entry (Type Claims - Field Use - Product and Code Nos. - Key Words - Trademarks - Laboratory Names and Designations - Abstract - Committee and Meeting No.)

ii) Manuscript Book - Schedule for Foreign Patent Committee Meetings

6) Foreign Patent Committee Meeting

i) Composed of Commercial, Technical and Legal People

ii) Meets Twice a Year Within Six Months U.S. Filing Date

iii) Review and Recommendation

a) File?

b) Where File

7) Preparation of Foreign Patent Application

i) Preparation of Specification and Claims

ii) Combining Cases

iii) Inventor Review

8) Filing of Foreign Patent Application

i) Translation

ii) EPO

iii) Computer Entry

9) Domestic Patent Committee Meetings

i) Prosecution History, Status, Prognosis and Decision Review

ii) Maintenance Review (fees)

10) Foreign Patent Committee Meetings

i) Prosecution History, Status, Prognosis and Decision Review

ii) Maintenance Review (taxes and working)

JWR:mk
10/10/83

# Protection of Inventions in IBM

by E. Ronald Coffman
IBM Patent Counsel
Charlotte, North Carolina

IBM's process for making decisions on its inventions has developed to accommodate a complex business that is characterized by technical, business and geographical diversities.

IBM consists of a set of business area divisions which act within the legal structure of the U.S. corporation and its various subsidiaries. The divisions have their own president, resources, facilities and business objectives. In general, the divisions enjoy substantial independence in making day to day business decisions. There are product and research divisions that create inventions and marketing divisions that sell products that use the inventions.

Patent matters, however, have always been a corporate-wide or headquarters responsibility exercised by the Vice President for Commercial and Industry Relations. The actual administration of invention protection decisions in IBM is dispersed to individual patent departments which are a part of this headquarters organization. The

patent departments are located at remote IBM division facilities; particularly those having laboratories.

Individual decisions on inventions are made at the location patent department as guided by IBM's Selective Filing Policy and a portfolio administration organization called PTAC, (Patent Technical Area Committees). The decision is the primary responsibility of a patent professional, acting upon facts and opinions provided him by available business and technical expertise. This is not to say that inventors and laboratory management do not participate in the decision. Quite the contrary, local laboratory management and technical and business experts, as well as the inventors, are extremely influential on the decisions made, even if the patent professional is the one charged with the responsibility of making the decision.

Let me now tell you about the IBM Selective Filing Policy.

Simply stated, the Selective Filing Policy recognizes that IBM will not seek to patent all patentable inventions that its personnel makes. Instead, patents will be filed only where the legal rights associated with the patent are judged to be important to IBM's business needs. Some inventions that are important to IBM's business do not need patent protection. For example, where IBM has already obtained broad protection in a particular area, additional patents may be redundant.

Generally, IBM does not file patents for the mere purpose of creating prior art or so-called defensive patenting. Instead, IBM has its own publication, entitled the IBM Technical Disclosure Bulletin, which is published monthly to place into the public domain, techniques and ideas which we do not consider worth the expense of patenting. Thus, we have the option to rate a particular disclosure "Publish" in addition to "File" or "Not File". The portfolio administration organization which we call PTAC, provides a framework to assist the professional to reach a decision. We presently have 22 such committees. They are made up of members from the professional ranks of IBM's different patent departments. Each committee is given jurisdiction over a major technology area of IBM's business, for example, impact printers or circuit manufacturing. The committees have co-chairmen, one of whom is a U.S. professional, the other being from outside the United States. Each committee is responsible for developing and maintaining a portfolio strategy based on the committee's insight into IBM's existing patent portfolio as well as technical and business trends both inside and outside of IBM.

The portfolio strategy assists other patent professionals to understand IBM's portfolio needs in a particular technical area. When a professional decides that a patent application should be filed, a formalized recommendation is generated, describing what the invention is, the scope of claims to be expected, the known prior art, and reasons why this invention merits protection. This recommendation is

then reviewed by the appropriate PTAC. The PTAC may have additional information that the professional should consider, or may disagree with the professional's conclusion. If the PTAC agrees that filing is appropriate, it decides on the extent of counterpart filing desired as well as a maintenance plan and other administrative details, all based on the PTAC's judgment on the importance of the invention. The PTAC's decision may change with the passage of time. Inventions which the local professional decides to rate Publish are also circulated to the relevant PTAC prior to actual publication. It is within the prerogative of the PTAC to recommend that such inventions be considered for patent application filing.

While the actual procedures established by individual patent departments may vary considerably from location to location, some general observations can be made.

The primary responsibility for initiating review of an invention is placed upon the inventor. A standard Invention Disclosure form is provided for the inventor to describe the invention to the local patent department. The Invention Disclosure is generally reviewed by at least one technical/business expert who provides specific guidance to the patent professional making the decision. This review, at some locations, is conducted simply through a written questionnaire, at other locations, by an interview, and still other locations by a review panel that sits as a forum. The patent professional to whom the

Invention Disclosure is assigned will conduct as much of a prior art search as he considers appropriate, based upon his view of the invention and the guidance given him by the technical/business evaluator. In the process of reaching a decision, the inventors are generally provided with an explanation of the reasoning behind the decision which may include a discussion of prior art or a discussion of business or technical merit. The inventors are formally advised of the decision by letter in each case.

The decision of where to file counterparts is primarily a responsibility of the PTAC organization. Along with the portfolio strategy, each PTAC develops a counterpart strategy based upon the needs of their particular technology. This strategy typically addresses a set of countries of primary interest. The decision for filing in countries other than those of primary interest, is made by the manager of a patent department assigned to look after those particular countries, with review by the associated PTAC.

The decision on payment of maintenance fees is also a primary responsibility of the PTAC organization and is keyed off the original PTAC decision which was mentioned above. A schedule is maintained for each individual country indicating when a particular patent should be considered for non-payment of maintenance fee. This schedule is reviewed periodically by the appropriate PTAC to assure that automatic abandonment does not produce undesired errors. To assist the PTAC in

reviewing patents, IBM has a computer data base which collects such information as which products the patent relates to and whether the patent has been used in license negotiations.

The IBM approach to making decisions on invention protection is the result of over thirty years of evolution. We believe that its success comes from a good balance between centralized direction and local responsibility and flexibility.

Committee No. 1

Speaker: A.E. Hirsch, Jr.
AT&T

# EVALUATION OF INVENTIONS
# SUMMARY OF U.S. PRACTICE

## SUMMARY

Virtually all inventions made by employees of companies in the U.S. receive careful review and evaluation prior to the filing of a patent application. Generally, this review is undertaken, or at least guided, by a patent attorney. The patent attorney acts to implement the philosophy of the company as established by its management.

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In the U.S., the question is not really whether corporations evaluate inventions made by their employee-inventors, since virtually all companies do so, but is really one of how and to what extent they make such evaluations and what ground rules they use.

Evaluations are deemed necessary because of the relatively high cost of securing a patent and because of the time and expense of preparing the detailed patent specification and drawings required to meet the standards of the U.S. Patent and Trademark Office. Moreover, because of the first-to-invent system used in the U.S., there generally is ample time to make the evaluation. Unlike the first-to-file system, there is no real necessity for rushing to the Patent Office as soon as an engineer has disclosed what might, or might not, be an invention. Rather, we have the time for careful evaluation, provided that we make proper records of what was done. The result of this screening and careful review is that many proposals never mature into patent applications. Often, techniques and ideas that are not selected for patenting, are placed in the public domain by publication. This provides a degree of defensive protection by preventing someone else from later getting a patent on the invention.

In general, patents are sought for inventions that provide some competitive advantage to the company. This advantage may be in the form of an exclusionary right to prevent others from using the invention, for example, from entering the field or directly competing with a product. Patents may be used in a licensing program that provides royalty income to the company. Others use patents to demonstrate company achievement as aid in negotiating cross license agreements with others. A portfolio of patents may be used for other business reasons, for example, to facilitate joint venture agreements, mergers, and so on. Of course, patents help to enhance the stature of the inventor, or the company, or both, by establishing a public record in a form recognized around the world.

Although a decision to file a patent application at some companies results in a reward of money to the inventor, this factor has almost no bearing on the decision to file.

The mechanism employed for making a decision to file varies from company to company. The individual papers presented by the members of this panel demonstrate the variety.

Many companies empower the patent attorney to make the decision after consultation with the inventor, company management, the licensing organization, and others interested in the invention or product involved. The decision, of course, is made within the framework of the corporate policy.

Other companies employ a committee, or group of experts, to review each invention and make the filing decision on the basis of overall company policy. For example, the committee may be made up of managing scientists, marketing specialists, licensing negotiators and others. Using this committee technique, somewhat better control of the balance of the overall portfolio of patents is maintained. Frequently, a separate committee is established for

each product division. There generally is one member who sits on all committees to provide coordination.

Yet, other companies leave the decision entirely to the product and marketing organizations. In these companies the managers decide which patents would enable them better to maintain their position in the market or to receive royalty income. The patent attorney advises only as to the likelihood of securing a patent on the selected invention, and to the scope of the claims to be expected. This system is generally used when the product division is billed for the patent work.

When the decision to file is made by a committee, or by a market manager, a written request for patent action is provided to the patent attorney. The attorney then files the patent application as requested. Thereafter, the attorney keeps the interested parties apprised of the progress of the prosecution.

On the other hand, when the patent attorney is responsible for making the decision on behalf of the company, different procedures may be employed depending upon the particular company and its organization.

For the smaller company, and particularly one with a single or central location, the attorney may gather the necessary opinions directly and informally. The opinions are evaluated and a decision is made.

In other companies, particularly larger ones with many divisions scattered around the country, a more structured arrangement is used. Often, written evaluations are prepared by different organizations within the company and circulated for review. The attorney then coordinates the review and makes the final decision.

Decisions to file in foreign countries are usually made in a fashion similar to the one described above for domestic applications. Typically, the decision is made some time after U.S. filing, but within sufficient time to permit filing under the Paris Convention.

In my company, wherein the U.S. patent attorney, the foreign patent attorney and the licensing organization are at different locations, a system of written comments and recommendations is used. Initially, the domestic attorney discusses the invention with the inventor and other technical people and prepares a foreign filing recommendation based on expected foreign use and other commercial considerations. The foreign attorney reviews the recommendation and records any comments that might bear on the foreign filing. For example, the attorney notes any divulgation that would prevent foreign filing in some countries and may render an opinion on the scope of claims that might be obtained. These comments and recommendations are sent to the licensing organization for review. The licensing organization formulates yet another opinion based on the expectation of licensing value abroad. Each of these organizations suggests in their written comments the countries that should receive patent protection. The foreign attorney then reconciles the various opinions. This is frequently done by telephone. Possibly, in difficult cases, a meeting attended by representatives from all organizations is necessary to reach a final decision. In my company, all of this is usually completed within six or seven months of the U.S. filing date.

Nearly all companies, certainly all those represented here, continuously, or at least periodically, review their patent portfolios to determine whether or not continued maintenance by way of annuity payments is warranted. Some companies maintain computer files which serve to remind the attorney of the need for a review and to provide up-to-date fee data for each foreign country. Decisions to

maintain are made after an evaluation similar to that described above. That is, patents are reviewed to determine whether they are satisfying the goals of the company, whether it be the provision of an exclusionary right, royalty income, or other competitive advantage.

It is hoped that this brief outline of U.S. practice will provide some basis for further discussion by the panel.

# EVALUATION OF INVENTIONS

Japanese Group, Committee No. 1
Subcommittee No. 2

T. Mine (TOSHIBA)

Y. Awakura (AISIN SEIKI)

Y. Ootsuka (TOYOTA MOTOR)

T. Ohno (MITSUBISHI RAYON)

K. Oowada (NIPPON TELEGRAPH & TELEPHONE)

Y. Koyasu (FUJITSU)

H. Saita (SEKISUI CHEMICAL)

H. Nagayoshi (FUJIKURA)

K. Hosaka (HITACHI)

Panelist: T. Watanabe (AISIN SEIKI)

H. Saita (SEKISUI CHEMICAL)

T. Ohno (MITSUBISH RAYON)

S. Suzuki (TOSHIBA)

## Abstract

It is indispensable in the management of patents to adequately evaluate inventions created from technical activities in a business enterprise and to treat such inventions on the basis of their evaluated results. According to a survey by the Patent Management committee of Japan Patent Association, 85.8% of the member companies responding to the questionnaire had already performed evaluations of inventions and/or patents, 45% of them had indicated differences resulting from the post-treatment of inventions and/or patents in response to evaluation rankings and have managed them.

This report will introduce those results on how to evaluate inventions and how to check relevant points for evaluation as well as the statistical performance in the actual evaluation of inventions by Japanese enterprises and the statistical results of the treatment of the inventions by employing the evaluation results. Further, examples of the evaluation standards and formats of invention which have been actually adopted by the various enterprises will be introduced.

It is remarkably difficult to evaluate an invention positively according to foresight. It is also important to specify a format of certain type to evaluate an invention efficiently and to settle on proper evaluation standards, operation policies for evaluation, and proper evaluation manual.

# EVALUATION OF INVENTIONS

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1. Preface

According to the survey of member companies by the Patent Management Committee of the Japan Patent Association in January, 1982, 85.8% of the member companies have performed the evaluation of inventions and patents in various formats, and though the enterprises have great interest in such evaluation work, this theme has never been discussed at past PIPA meetings.

Japan contemplates becoming technical independent country, and Japanese applicants have naturally performed evaluations of inventions with the increase of inventions as by-products of active technical development and have carried out adequate and efficient patent application and examination request as well as providing appropriate compensation to inventors.

In order to make large profits by utilizing inventions created by the research and development activities of an enterprise, it is of course most important to obtain exclusive rights by patents. In other words, it is necessary to file a patent application to obtain adequate and strong rights for an invention, to follow necessary intermediate procedures and to maintain such rights after gaining them. For this purpose, it is necessary to study effective and efficient evaluation methods.

Most enterprises have carried out certain evaluations, but their details have not yet been identified. However, with "The Evaluation of Inventions" published in Information Bulletin No. 111, which statistically summarizes the actual status of the enterprises of the member companies by the Patent Management Committee of the Japan Patent Association this year, actual data on the evaluation of the inventions by Japanese enterprises can be introduced with reference to acutal

survey results on the evaluation of inventions in the enterprises, as summarized in "Inventions in Enterprises and Compensation" issued by the Japan Institute of Invention and Innovation last year.

United States enterprises have filed fewer patent applications from their own States as compared with Japanese enterprises with respect to the population per invention and the relevant scales of enterprises, but this could be considered the result of the severe evaluation of inventions. Accordingly, the actual data of the evaluation of inventions in American enterprises could be identified and activated to improve evaluation by Japanese enterprises.

## 2. Significance and Purpose of the Evaluation of Inventions

### (1) Significance of Evaluation

Since competition among enterprises has intensified and activities in research and development have also increased, a number of inventions have been created by various enterprises, but most enterprises have evaluated these inventions from the points of view of technicalities, rights, economic aspects, have ranked them by their evaluation results, and have variously filed, not filed, or publicly disclosed.

It is effective with regard to reinforcement of inventions to clarify the ranks of the inventions and to concentrate labor in order to expand important inventions. Some enterprises have a policy of filing as many inventions as possible due to such reasons as the establishment of prior application rights, of a reasonable number of applications, and the encouragement of inventions for inventors, but it would be difficult in this case to manage precisely the requisite application.

Inventions do not originally have equivalent value, but the degrees of the contribution of inventions to business are various, and an invention should accordinagly be handled in relation to its content and quality.

Consequently, the judgement of the value of inventions should be performed under policies according to predetermined standards without instantaneous evaluation merely considering the influence of the evluation results on a given enterprise.

(2) Purpose of Evaluation

The purposes of the evaluation of the inventions are to find better inventions that will eventually result in profits for enterprises, to handle inventions, from the viewpoint of their importance, within engineering and patent departments, and to produce strong patents. More concretely, the following purposes can be clarified:

- To obtain good judgement on how to treat the proposed invention such as filing, inact of filing (for the internal stock piling of know-how, or not filing due to the lack of value in filing), or public disclosure.
- Weighing application prosecution to summarize to important applications
- Discussion of whether foreign application is necessary or not and the selection of countries for application
- The settlement of wasteful examination requests and maintenance of rights
- Compensation to the inventor (compensation for application, compensation for registration, compensation for actual results),

Further,

- Improvements in inventions and their procedure and furtherance of the creation of desire to invent or develop due to the feedback of the evaluation to the department where invented.
- Judgement of the positive level of the inventing company's technique

## 3. Evaluation Standards for Inventions

### (1) Evaluation Procedures

An invention becomes valuable for an enterprise when it is established as a patent and is actually used by the enterprise or the others. Not all inventions have always contributed to the profits of an enterprise. It is, therefore, necessary for an enterprise to reevaluate the invention from its creation through the lapse of the patent rights on it. As a result, the Japan Patent Association has searched the objects for 367 Japanese companies, 85.8% of the total number of enterprises answered the questionnaire to the effect that they have been evaluating inventions; the analyzed results according to the types of industrial fields are shown in Fig. 1.

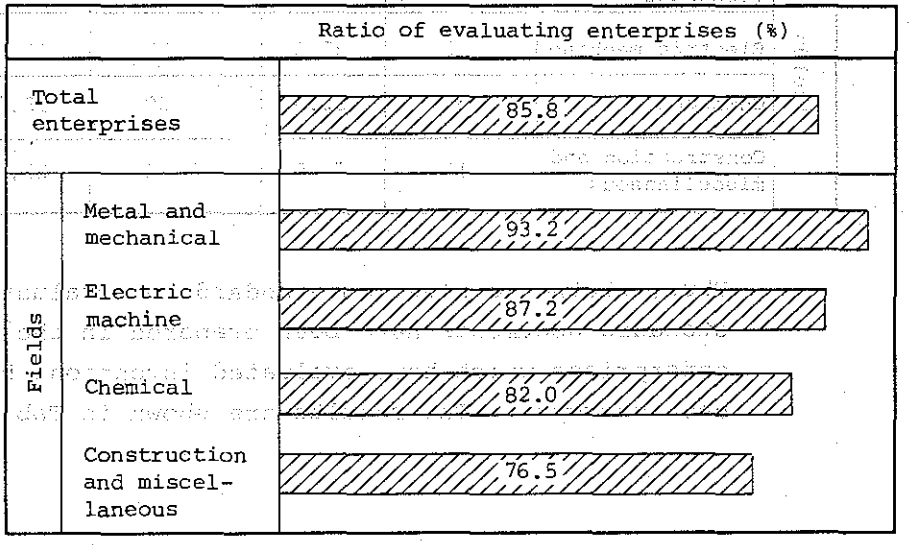



Fig. 1 Performance of evaluations (ratio)

Among the enterprises, 93.2% in the metal and mechanical industrial fields, 87.2% in the electric machinery field, and 82.0% in the chemical field have carried out the evaluation of inventions, proving that the evaluation of inventions is of substantial importance in those enterprises.

The results of the survey of types of the industrial fields are shown in detail in Table 1.

Table 1 Performance of evaluations

| Items / Type of industrial fields | | Performance of evaluation | | | |
|---|---|---|---|---|---|
| | | Yes | | No | |
| | | Number of companies | % | Number of companies | % |
| Total enterprises | | 315 | 85.8 | 52 | 14.2 |
| Fields | Metal and mechanical | 83 | 93.2 | 6 | 6.8 |
| | Electric machine | 82 | 87.2 | 12 | 12.8 |
| | Chemical | 137 | 82.0 | 30 | 18.0 |
| | Construction and miscellaneous | 13 | 76.5 | 4 | 23.5 |

Thus, whether evaluation standards or evaluation-standard documents have been prepared in the enterprises which have evaluated inventions has been surveyed. The results are shown in Table 2.

Table 2 Evaluation standard according to presence or absence of evaluation timing

(Number of enterprises)

| Items / Type of industrial Fields | | Applications | | | | | |
|---|---|---|---|---|---|---|---|
| | | Applications | Foreign applications | Examinations requests | Intermediate prosecution stpes | Annuity payments | Compensation for execution |
| Total enterprises | | 282 | 255 | 278 | 146 | 236 | 225 |
| Fields | Metal and mechanical | 80 | 75 | 81 | 48 | 70 | 73 |
| | Electric machine | 84 | 76 | 82 | 46 | 66 | 75 |
| | Chemical | 104 | 98 | 104 | 48 | 90 | 67 |
| | Construction and miscellaneous | 14 | 6 | 11 | 4 | 10 | 10 |

As a result, evaluations have been performed most at the patent application time among the patent applications time, foreign application time, examination request time, intermediate prosecution time, and annuity payment time.

The result of the survey as to whether established evaluation standard documents have been prepared or not as with the above cases divided according to the application, foreign application, examination request, intermediate prosecution, annuity payments and execution of invention compensation times is shown in Table 3.

Table 3 Evaluation standard documents according to presence or absence of evaluation timing

(Number of enterprises)

| Items / Type of industrial sectors | | Applications | | | | | |
|---|---|---|---|---|---|---|---|
| | | Applications | Foreign applications | Examinations requests | Intermediate procecution steps | Royalty payments | Compensation for execution |
| Total enterprises | | 137 | 104 | 144 | 40 | 97 | 185 |
| Fields | Metal and mechanical | 37 | 30 | 38 | 10 | 30 | 60 |
| | Electric machine | 49 | 46 | 59 | 19 | 32 | 74 |
| | Chemical | 45 | 26 | 42 | 11 | 31 | 45 |
| | Construction and miscellaneous | 6 | 2 | 5 | 0 | 4 | 6 |

As a consequence, evaluation standard documents at the result or execution compensation time have been executed most according the total and individual fields of the enterprises in metal and mechanical, electronic machinery, chemical, and construction and miscellaneous fields.

Evaluation standard documents have also been employed at the examination request and application times by the enterprises.

(2) Items for Evaluation

The items for the evaluation of inventions are required to be those which can appropriately evaluate the examination, technicalities, rights, economics, compensation and social points of invention, patent application or patent, the items can be considered as listed in Table 4 from the these points of view.

The evaluating time is also are important factor, and can be considered at the invention, application, foreign application, examination request, right maintenance, abandonment (or annuity payment), licensing, assigning, and license compensation times.

The items for the evaluation of inventions in Japanese enterprises will be described.

The Japan Institute of Invention and Innovation has studied questionnaire results for 400 enterprises in Japan in 1979 for "Compensation and Inventions in Enterprises". This survey has been executed for the items appended with "*" in the evaluation items in Table 4, which items have been regarded as being more important at the evaluation time by their selection.

The results of the survey are shown in Figs. 2. In the coordinate axes in Figs. 2, the first to third ranks of the selected evaluating items have been listed and indicated for the number of replies. From Figs. 2, the importance of the evaluating items varies depends upon the evaluating times, and will be briefly described.

Table 4 Items of evaluation

| Fields | Items |
|---|---|
| Examination | * Idea and cause of inventions<br>* Originality of inventions<br>* Novelty and inventive step |
| Technicalities | * Degree of relation to own company's technique<br>* Influence and advantages (development of techniques)<br>* Difficulty of inventions<br>* Practical advantages (technical evaluation)<br>Presence and completeness of know-how |
| Rights | * Exclusiveness of rights (controllability)<br>* Presence of replaceable techniques<br>* Utility of conventional techniques<br>* Restraints on other companys' techniques<br>Easiness of discovery and proof of infringement<br>* Peripheral patent status of own company |
| Economics | * Difficulty of execution (foresight of execution)<br>* Ratio of rights residing in product (utility ratio)<br>* Advertising effects<br>* Life-of-rights technique (annual reduction rate)<br>* Saving<br>Size of market<br>Possibility of licensing execution to an other company<br>Foresight of license |
| Compensation | Degree of effort in invention<br>Evaluation in occupation (position and duty)<br>Contribution to the enterprise of the invention (people, money, and products) |

| Fields | Items |
|---|---|
| Social aspects | Publicity |
| | Safety |
| | Danger of public pollution |

(NOTE): The items marked by "*" have been surveyed by the Japan Institute of Invention and Innovation.

① "Invention" time

"Originality" is most seriously evaluated, and when an invention has been judged to show "novelty and inventive step", a preferable "idea and cause", and a large "execution advantage", it is endorsed.

② "Application" time

The proof of a "novelty and inventive step" is noted as a requirement for patentability as the criterion of judging whether the invention can be filed or not, and the "originality of rights" and "executing advantages" are noted next.

③ "Foreign application" time

Since the proof of "novelty and inventive step" as a requirement for patentability has alaready been judged at the application time, business values such as "exclusiveness of rights," and "executing advantages" have been generally evaluated.

④ "Examination request" time

Most enterprises seriously evaluate the "executing advantages", judged as the most important item in determining the necessity of obtaining patents. The "novelty and inventivestep" and "exclusiveness of rights" have then been evaluated.

⑤ "Right maintenance, abandon (annuity payment)" time

In order to maintain the rights, it is necessary to have the right to profit by the invention. The "executing advantages" have been most seriously evaluated, and the "constraints on other companies" and the life of the technique covered by the patent are noted.

⑥ "Licensing" time

When a company's patent is licensed to an other company, the "executing advantages" have been evaluated, as important but the "exclusiveness of rights" and "profit amount" are then evaluated as also very important. Further, "the degree of relation to the company's technique" is also discussed to judge the possibility of licensing.

⑦ "Assigning" time

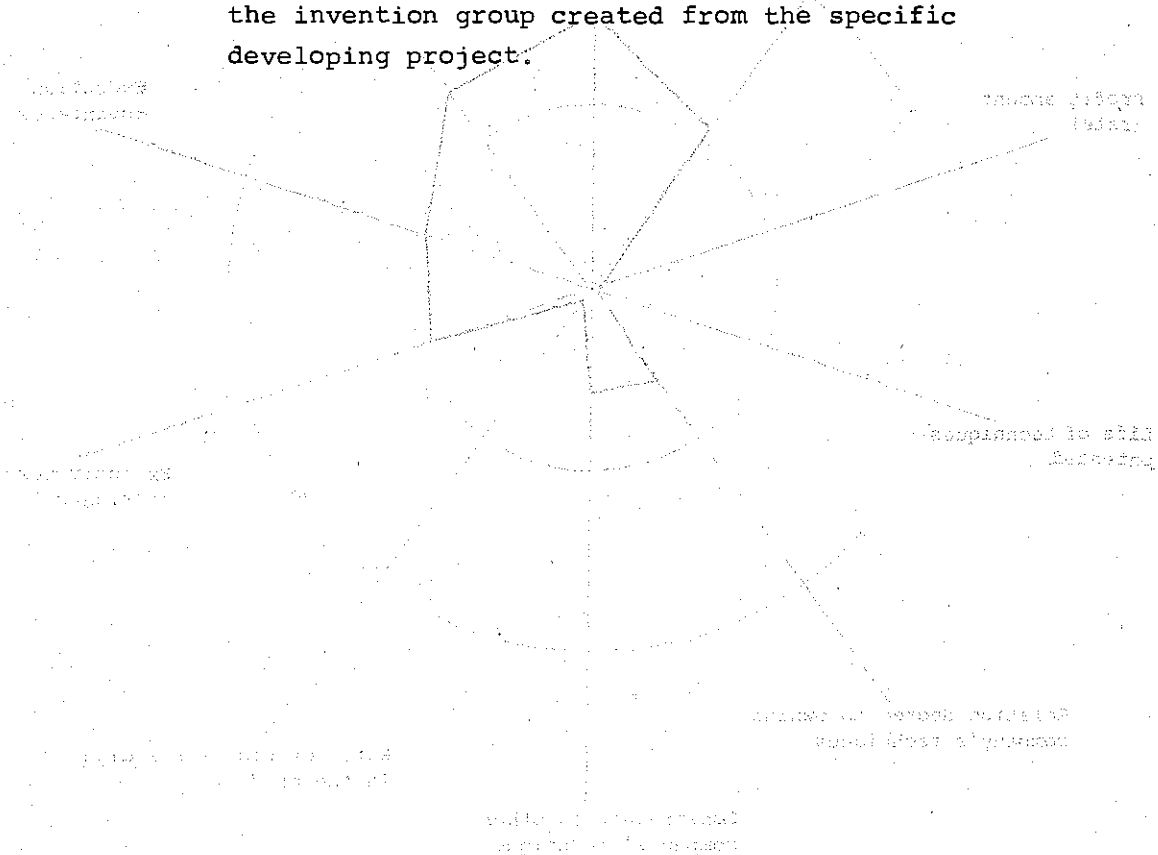
A sequence of evaluating items similar to that at the licensing time is employed.

⑧ "Execution compensation" time (the company's execution time)"

The "profit amount (raito)" is also importantly evaluated as being of progressive importance, but the items are similar to those at the licensing and assigning times.

When evaluation accords with the evaluation timing, the number of replies for the questionnaries is concentrated in the sequence of application, examination request, rights maintenance and abandonment, and can be considered of importance in this sequence.

Normally, every invention or patent has been evaluated, but it is important to evaluate other relating peripheral inventions and patents individually as a single invention group. It is also important to obtain unitary evaluation results for the invention group created from the specific developing project.



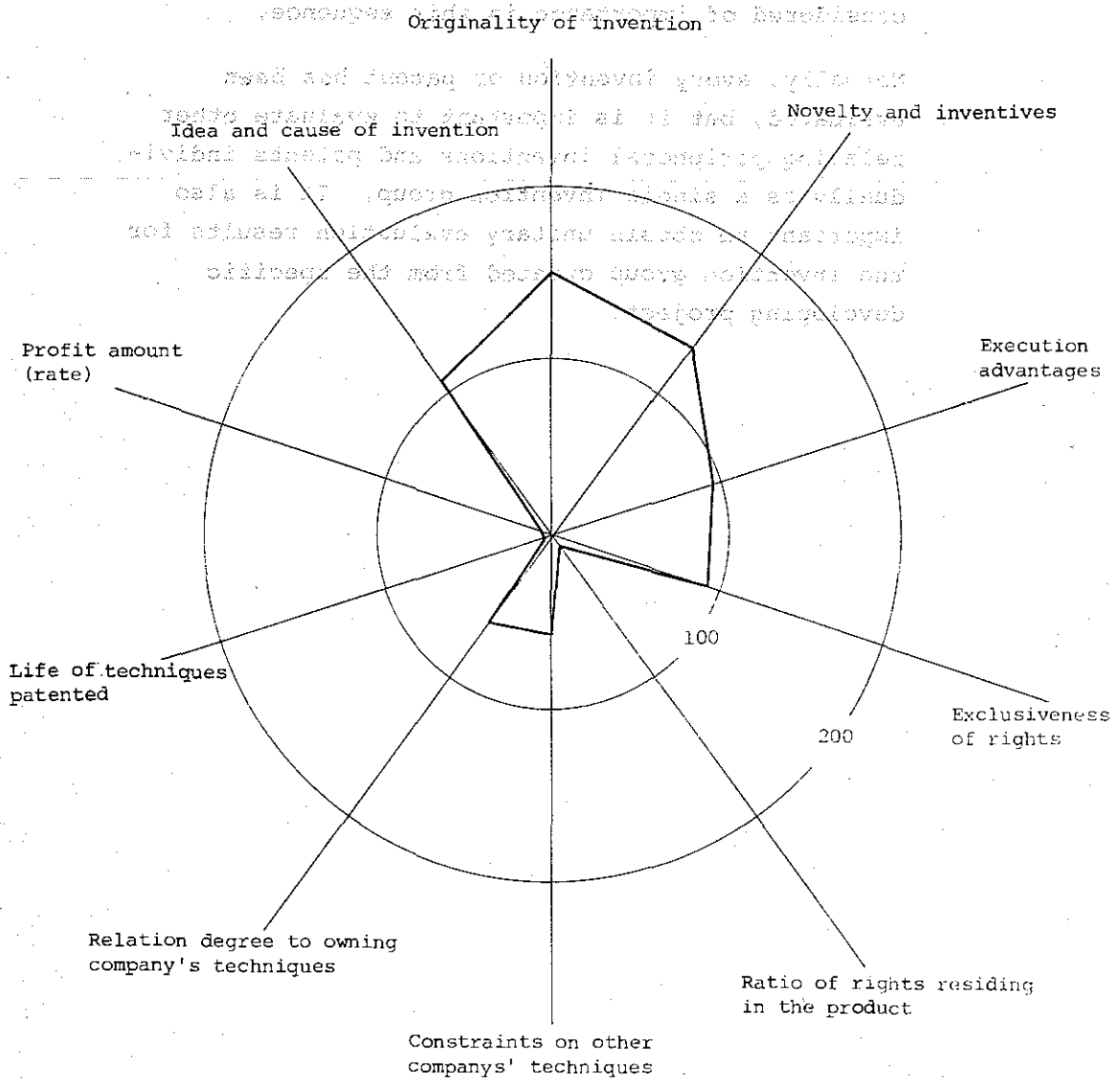



Fig. 2-1 Invention time

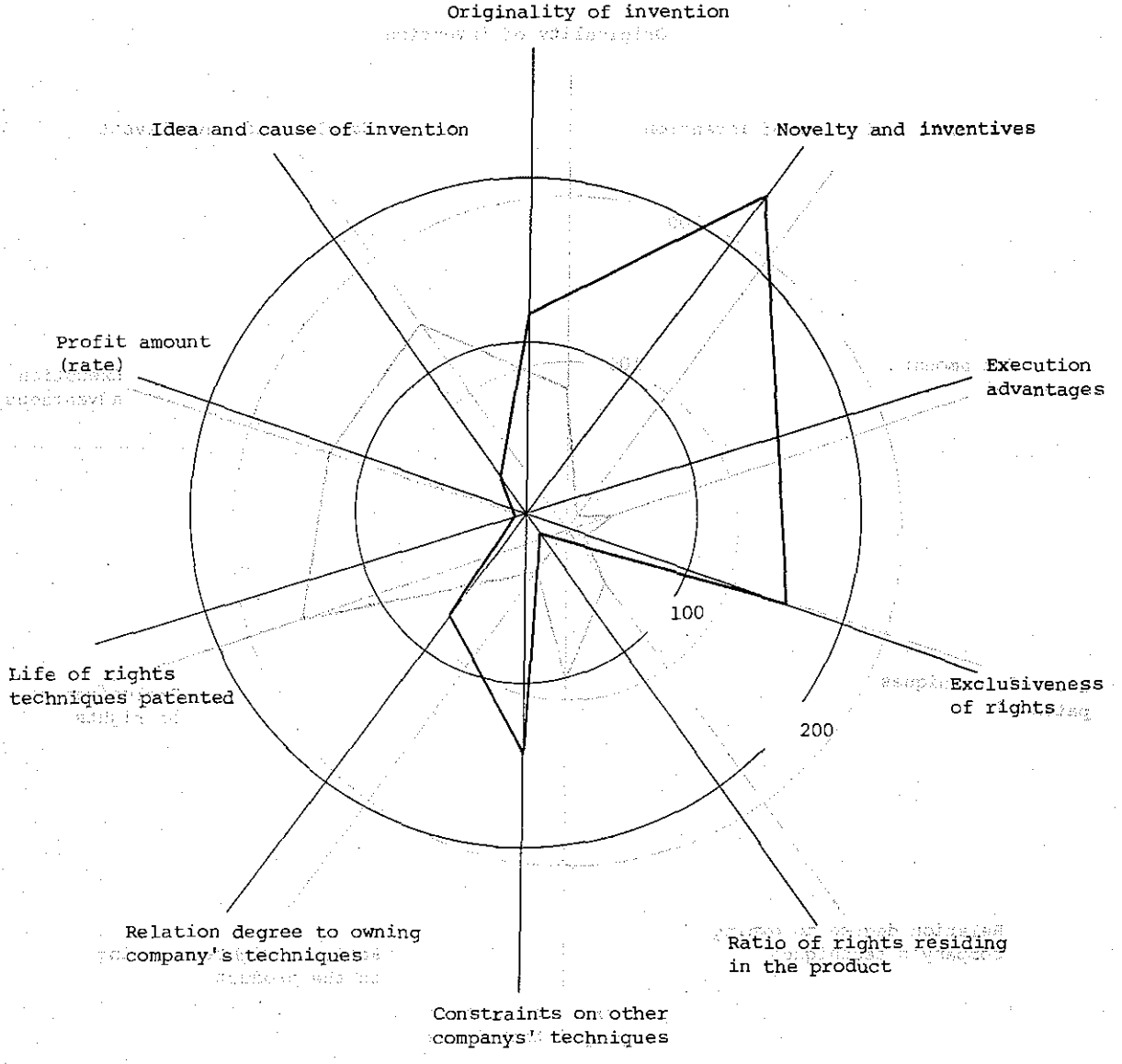



Fig. 2-2 Application time

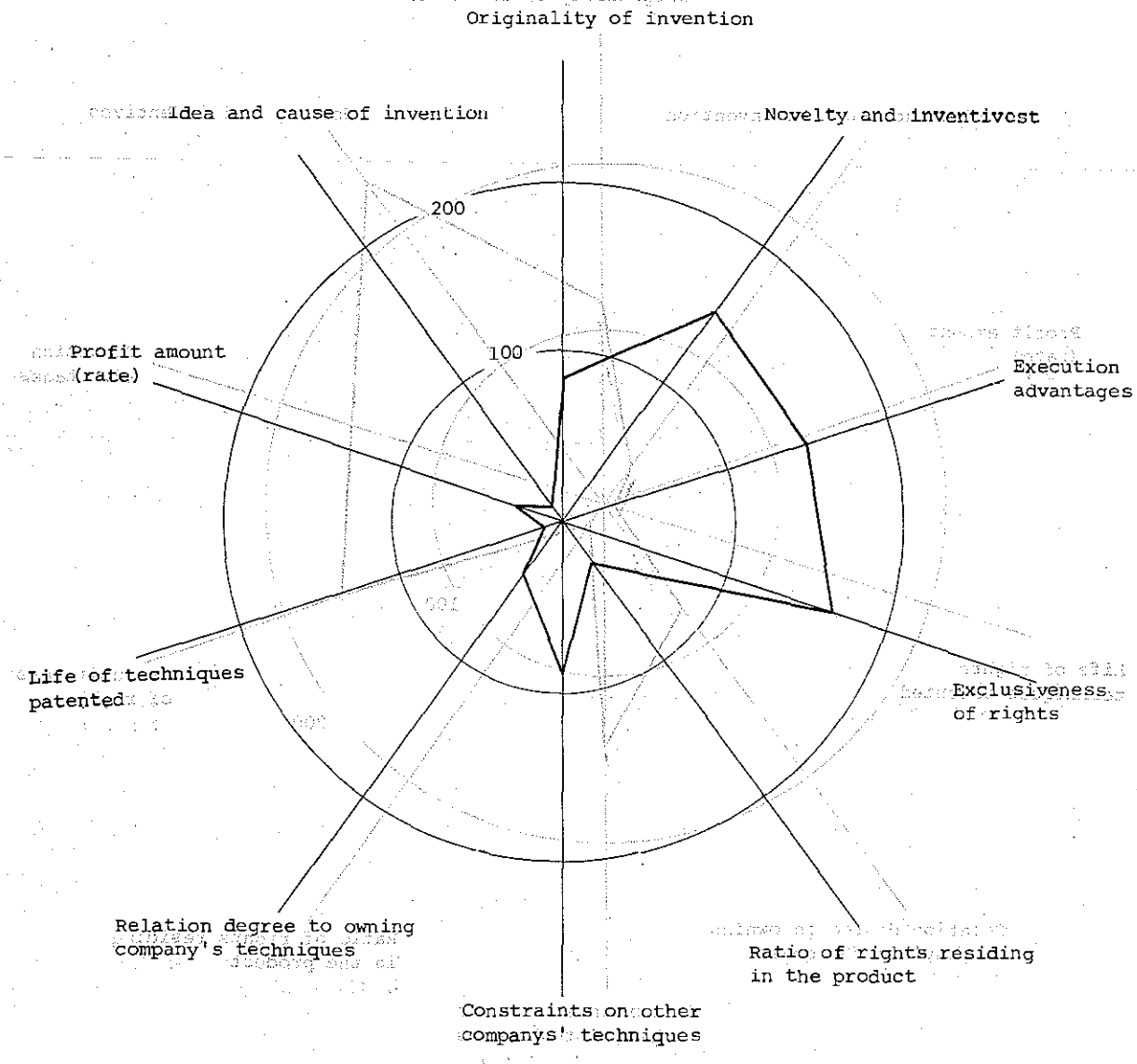



Fig. 2-3 Foreign application time

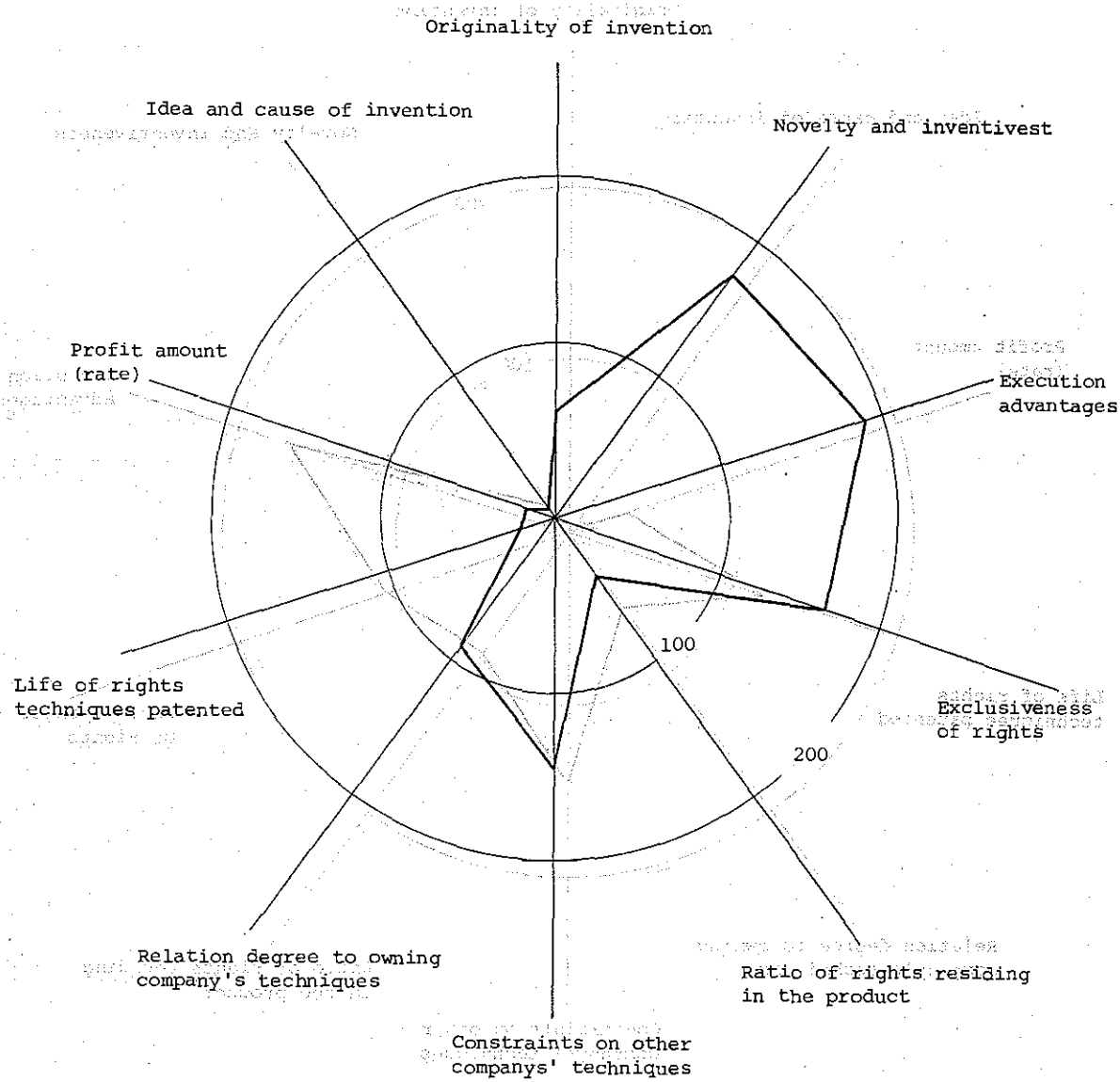



Fig. 2-4 Examination request time

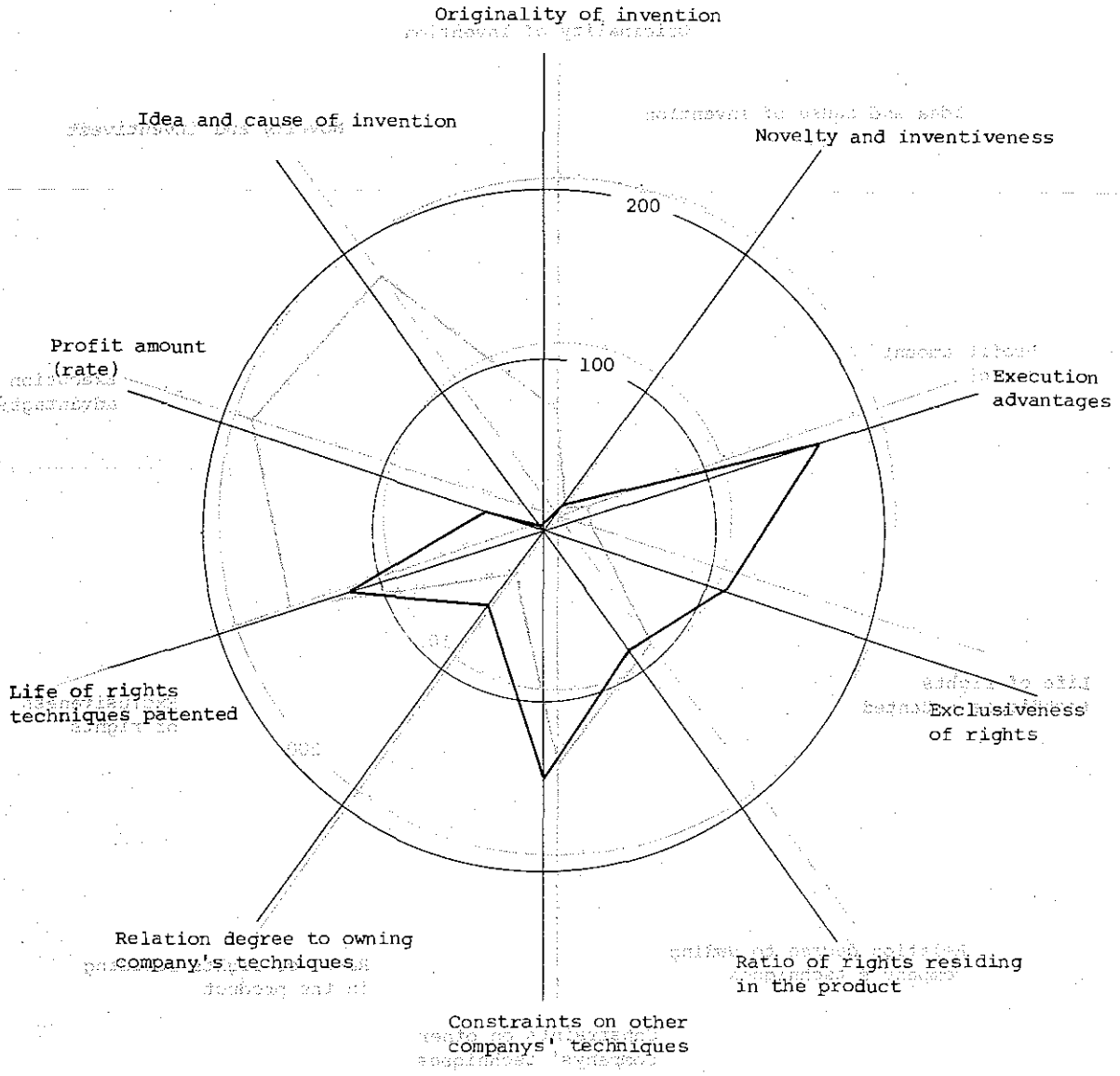



Fig. 2-5 Rights maintenance and abandonment time

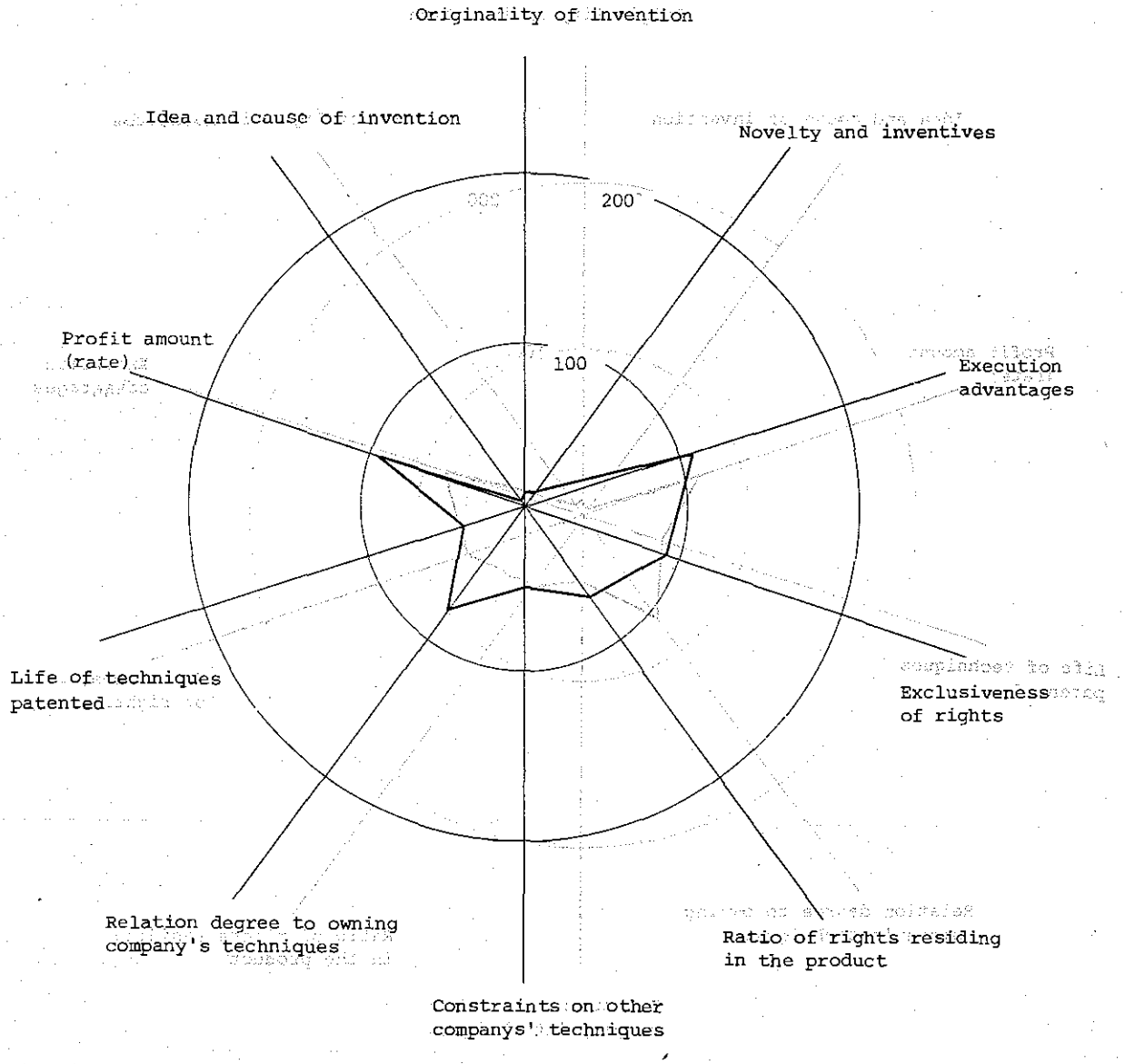



Fig. 2-6 Licensing time

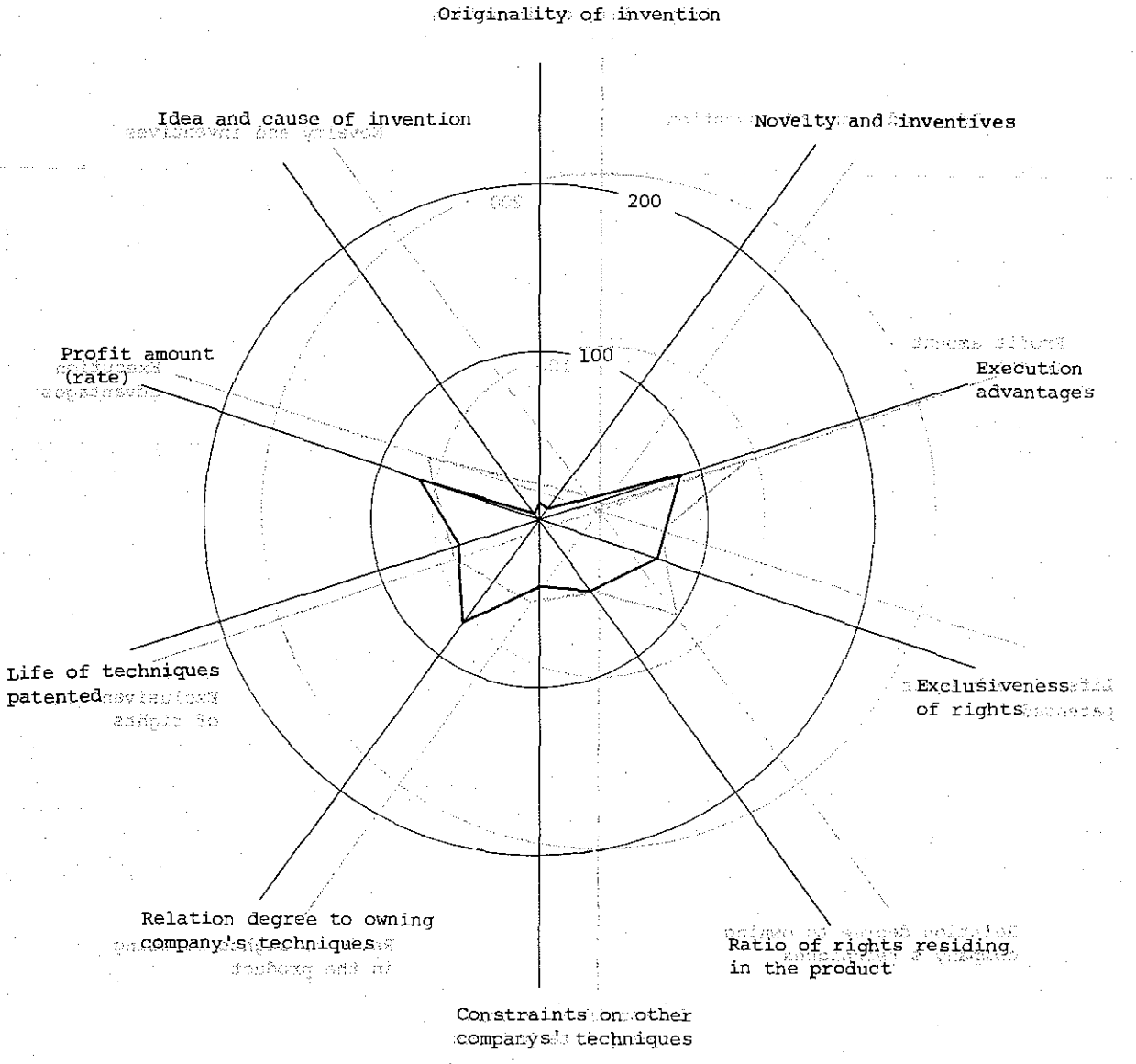



Fig. 2-7 Assigning time

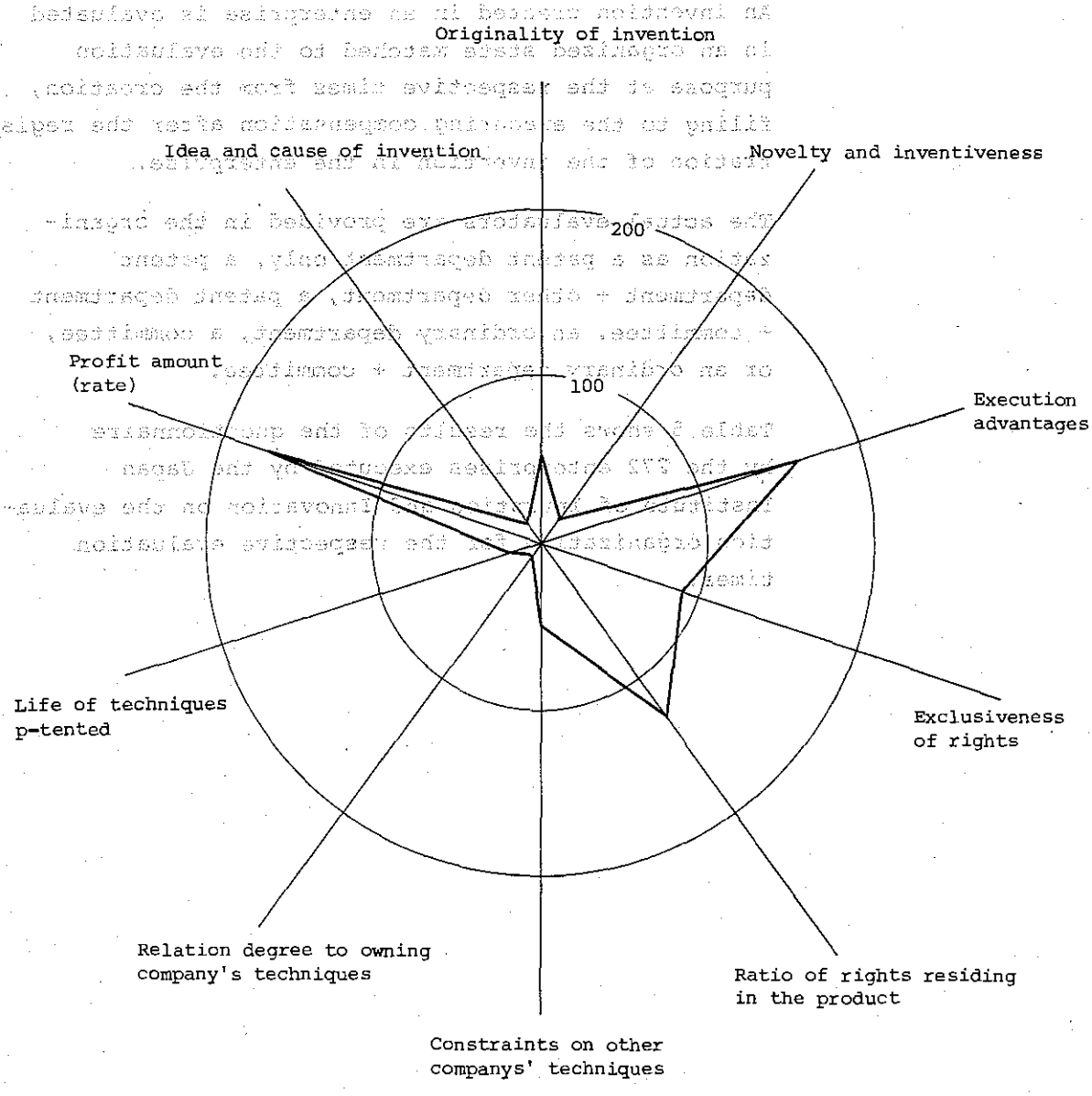



Fig. 2-8 Execution compensation time

(3) Evaluators

(a) Organization

An invention created in an enterprise is evaluated in an organized state matched to the evaluation purpose at the respective times from the creation, filing to the executing compensation after the registration of the invention in the enterprise.

The actual evaluators are provided in the organization as a patent department only, a patent department + other department, a patent department + committee, an ordinary department, a committee, or an ordinary department + committee.

Table 5 shows the results of the questionnaire by the 272 enterprises executed by the Japan Institute of Invention and Innovation on the evaluation organization for the respective evaluation times.

Table 5 Evaluation department at every evaluation time

| Evaluation department / Evaluation times | 1. Only patent department | 2. Patent department + an other department | 3. Patent department + committee | 4. Only an ordinary department | 5. Committee | 6. An ordinary department + committee | 7. Miscellaneous |
|---|---|---|---|---|---|---|---|
| 1. Invention | 38 | 76 | 32 | 67 | 16 | 1 | 5 |
| 2. Application | 100 | 107 | 46 | 9 | 25 | 0 | 4 |
| 3. Examination requests | 55 | 157 | 38 | 11 | 18 | 1 | 3 |
| 4. Rights maintenance and abandonment (annuity payments) | 51 | 149 | 41 | 9 | 27 | 1 | 5 |
| 5. Licensing | 16 | 139 | 36 | 7 | 30 | 2 | 14 |
| 6. Assigning | 12 | 120 | 33 | 6 | 28 | 2 | 12 |
| 7. Execution compensation | 13 | 42 | 110 | 6 | 79 | 15 | 7 |
| 8. Foreign applications | 28 | 136 | 56 | 3 | 28 | 4 | 13 |
| 9. Miscellaneous | 3 | 5 | 4 | 0 | 5 | 0 | 0 |

According to Table 5, most enterprises have the department + an other department situation at the respective evaluation times, except the evaluation and execution compensation times. From this, it is understood that the seriousness of the evaluation is pursued by common evaluation for execution compensation time.

(b) Allotment of Evaluation

It is necessary to evaluate the invention from many points of view such as examinations, techniques, rights, and economics fields, and it is difficult for one specific person. Therefore, an invention is evaluated by persons who have special knowledge of the respective evaluation procedures allotted for the evaluation items. A method of generally summarizing the eventual results of the evaluation is ordinarily adopted.

In other words, an invention is evaluated by the patent department in the examination and rights fields, by persons in the technical department with speciality in the relevent technical field, and mainly by the business department in the economic field so as to specify the economic advantages and profit potential.

The results of the allotted evaluations are necessarily finally summarized in the general evaluation, which is ordinarily performed by the patent department, which in turn is different from the management system depending upon the enterprise.

(c) Points of Consideration in Evaluation

In order to perform an adequate evaluation, the evaluator should fully understand the items of the respective evaluations and the meanings of the evaluation information and should necessarily seriously consider the necessary and accurate information for the respective evaluation items.

In the examination field, the evaluation of patentability should be raised when an invention has a new and large subject matter, no similar public citation, and a high possibility of registration.

In the technical field, an invention which has high utility, technical completeness, and development potential should be evaluated highly.

In the right field, the invention which has fundamentally high exclusiveness should be evaluated more highly. An improved invention is not necessarily evaluated more highly than a fundamental invention, but when an invention is indispensable in the execution of a fundamental technique, it sometimes seems to be important to the fundamental invention, and it should also be necessary to consider its constraints on other companys' registration and protective effect of the own company's technique.

In the economic field, not only the possibility of execution by the owning company, but the life of the technique, the size of the market

and the possibility of licensing to other companies and the economic effects on the enterprise and its profits can be evaluated for the ivention.

(d) Standardization of Evaluation

It is important to enhance the accuracy of the evaluation of the invention, and the improvement of the evaluating capacity and the standardization of the evaluator are necessary. For that purpose, it is important to deeply understand the Patent Law; the Standards of Examination, technical level (prior state of the art), and the trend of application should also be always observed. On the other hand, the microdivision and weighting of the items of evaluation should be devised to enable standardization.

## 4. Utilization of Evaluation Results

### (1) Importance of the Utilization of Evaluation Result

The purposes of the evaluation resides in the discussion of the content of the invention as the results of research and development, the decision on the remedy to adopt the invention, the completion of the legal protection of the business of the enterprise (to which the inventor belongs) and the contribution to the development of the business. If the results of an evaluation performed with expenses cannot be carried out unless the evaluated invention is not adequately activated, these purposes are not met. In a view of the "evaluation of the invention" as the managing activity of a series of PLAN, DO and SEE, the "utilization of the evaluated results" corresponds to the "DO."

On the other hand, as the number of inventions to be evaluated is gradually increasing at present, it is natural to evaluate inventions according to predetermined standards and to treat the results according to their importance. In general, inventions which have high importance, medium importance, and low importance can be classified into three ranks, and are differently pursued and utilized.

### (2) "Invention" Time

The evaluation differs between the case in which the patent managing department handles the evaluation and the case in which it does not do so, and also differs according to the presence or absence of reevaluation at the application time in the patent managing department, even if the patent department handles the evaluation.

(a) When the patent managing department either handles the matter or does not, but the opportunity of reevaluation exists

The evaluation results can be largely sorted in to the following two points: That is, they differ according to whether a proposal or petition is submitted to the manager of the inventor or the manager of the patent department or not. Together with the contents of the invention, the recognition of the inventor(s), clerical matters such as addresses and the like the certainty of surveying the prior art, and the possibility of execution of the invention are evaluated; but, in sum, the judgement of whether the invention created at the field is to be submitted to the patent managing department as an invention of the enterprise of not is must be made, and the invention should be treated according to the results. A special judgement of patentability must frequently be made by the patent managing department.

(b) When the patent managing department handles the matter and no reevaluation exists up to the application time

(The same as the next "application time")

(3) "Application" Time

(a) Degree of Importance

The degree of importance of the invention should be evaluated finally according to its contribution to the enterprise, but since it is frequently uncertain at this time, patentability and exclusiveness of rights are preferred.

(b) High Importance

The invention is evaluated to obtain effective rights and an application is field. In filing, various items such as confirmation and correction of specifications, claims and drawings, urgency of the application, selection of attorney or agent, and discussion of the possibility of foreign applications should be sufficiently discussed.

(c) Medium Importance

An invention of this rank is checked for the above items, but the degree is not so severe as in the above.

(d) Low Importance

An invention should be adequately handled according to reasons such as uncertainty of the contents of the invention, incompleteness of the invention, lack of patentability, presence of prior application in the owning company, no possibility of execution, unnecessary rights to be obtained (but necessary to prevent rights by other company, should the invention be publicly disclosed.).

(e) Special Invention

An invention which does not correspond to the know-how or other inventions of the enterprice shall not be filed, but the following procedure shall be clearly reasoned out.

(4) "Foreign Application" Time

(a) Necessity of Foreign Applications

Foreign applications will frequently be necessitated when a plan for exporting the product or technique or a possibility of manufacturing and selling the product through a company in a foregin country exists.

(b) High Importance

The invention may be filed in foreign country(ies), but not necessary. When the invention is once chosen to be filed in a foreign country, a recheck of the specifications, claims and drawings, and selection of attorney or agent should be carried out, and the possibility of PCT and/or EPC application procedures should be selected together with the selection of countries for filing.

(c) Medium and Low Importance

Inventions except in particular circumstances are not filed in foreign countries, but shall sometimes be filed due to policy reasons or duties in contract or the like.

(5) "Examination Request" Time

(a) High Importance

An application which has elapsed for one year and three months from the filing date should be sufficiently checked for contents since it is the final opportunity for voluntary amendment; the timing of requesting the examination should

be cautiously discussed and the examination request then submitted.

(b) Medium Importance

Items similar to the above items should be checked but shall be carried out in the ordinary way.

(d) Low Importance

An examination request shall not be field as a rule. It is noted that most application of this rank frequently approach the limit of filing the examination rquest and that, if this chance is lost, the application can no longer obtain rights. Therefore, it is necessary to prosecute the judgement of the applications corresponding to this point of view.

(6) "Registration of Right or Maintenance, Abandonment" Time

(a) High Importance

An application evaluated at this point demands concern over whether the annual patent fee (annuity) should be paid to establish the right or not of whether the annuities for years to be, when established, decided or not as well as whether rights should be maintained or abandoned at the time several years have passed after the rights have been established. Since the rights of foreign patents are particularly expensive, different factors from the rights within the nation shall be considered. Consequently, the evaluation factors shall include as most

important the executing advantages, and further, the life of technique patented, presence of the technique to be replaced, and constraint on the techniques of other companies. If they are high, the rights should be certainly obtair and maintained by considering these factors.

(b) Medium Importance

The results of the evaluation at this stage are similar to those in the above paragraph, but if the rights are not yet executed at this time, there is less possibility of execution in question, but, in fact, the minimum fee required to maintain the rights should be paid to frequently establish the rights for the moment. But in case of contimuation, or abandomnment, abandonment shall be discussed.

(7) "Activation of Rights" Time

(a) Difficulty of Evaluation

It would be difficult ot judge the contribution rate (value) patent rights occupy in the sales profit for one product. Because a certain product sells well, sometimes largely depending upon business efforts, a plurality of rights may exist in one product, and the advantages of the rights frequently cannot be clearly identified in one product.

The activation of rights depends fundamentally upon the execution of the owning company's technique as the most frequent activation form, but the expenses required for the establishment of the rights, and the maintenance

of the rights, can be relatively clearly calculated. But the value of existence of the rights can be difficult to calculate in precise amounts, due to the above reasons, and the opporunity of the next licensing and assignment becomes one scale of the royalties.

(b) Specialty in Evaluation

Evaluation facotrs in the case of licensing or assignments largely occupy the excuting advantages, i.e., marketability and profit rates, and entangle the owner's technique and relationships in the business field. On the other hand, the counter-value of the rights is calculated by subtracting the amount calculated on the basis of the evaluation of the above factors by the expenses required for the development and for the establishment, maintenance of the rights, but is further affected ordinarily by power relation to competitors, solvency, and evaluation based on the factors irrespective of the substantial level of the invention, with the result the rights can be evaluated from the point of factors other than the above evaluation.

(8) "Compensation to Inventor(s)" Time

(a) General Facts

The situation regarding compensation to inventor(s) is largely classified into three stages such as application, registration, and execution times, at any of which the compensation is treated according to the employee's invention in the owning company, but application and

registration time compensation are called "ordinary compensation," which are frequently constant compensations. Execution compensation is frequently carried out in response to the execution. Further, in the case of patents and utility model patents, the compensation shall be sometimes performed at the invention, examination request and publication times, but this is rare.

In any of the above three stages, compensation shall be made, or shall be carried out in two or one stages.

(b) Compensation Amounts (Ordinary Compensation in average in 368 companies)

| | "Application" Time | "Registration" Time |
|---|---|---|
| Patent | ¥4,300 | ¥12,000 |
| Utility model | 2,700 | 7,200 |
| Design | 2,100 | 4,700 |

(From "Inventions in enterprises and compensation" issued by the Japan Institute of Invention and Innovation.)

(c) Compensation Form (Ordinary Compensation)

There are single compensation and combination compensation with more than two, but combinations at application and registration time are the most frequent, and the compensation amounts are generally high in small- and medium- scale enterprises.

(d) Execution Compensation

Of the patent rights obtained by enterprises, results compensation shall be frequently carried out (approx. 0.7 or more) in addition to the ordinary compensation on the basis of the regulations for employees' inventions in case the executing advantage has been remarkable, with a large profit obtained. For example, the average amount of results compensation observed according to the type of the business in the case of patents is listed in Table 6 in comparison with the ordinary compensation.

Table 6 Average amounts of various types of compensation observed according to types of businesses

| | | Application time (thousands of yen) | Registration time (thousands of yen) | Maximum limit amount in regulation for execution compensation (thousands of yen) | | | Maximum payment amount in 1978 for results compensation (per one case) (thousands of yen) | | | Total (ditto to left) |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Owning company's execution | Licensing | Assignment | Owning company's execution | Licensing | Assignment | |
| Total enterprises | | 4.3(368) | 12 (366) | 380(204) | 410(141) | 400(107) | 160(150) | 360(49) | 200(11) | 1.38(163) |
| Fields | Metal and mechanical | 3.6(136) | 12.5(128) | 440(81) | 550(53) | 540(44) | 150(64) | 340(19) | 70(5) | 1.21(69) |
| | Electrical machine | 3.1(93) | 8.5(92) | 260(59) | 290(41) | 340(25) | 170(52) | 150(17) | 100(3) | 1.63(52) |
| | Chemical | 4.6(115) | 11.6(102) | 450(45) | 270(34) | 250(31) | 160(23) | 880(8) | 80(2) | 1.54(30) |
| | Construction & miscellaneous | 4.1(34) | 16.6(36) | 310(16) | 330(11) | 370(5) | 170(9) | 280(3) | 1500(1) | 0.74(9) |

( ) indicates number of enterprises
(From "Inventions in enterprises and compensation" issued by the JAPAN Institute of Invention and Innovation")

5. Varying elements of evaluation result

The priority sequence of evaluation items is determined according to the times when the invention is evaluated, and the evaluators are replaced as described before. Accordingly, when such an evaluation system is employed, the invention is sequentially corrected in evaluation, and the preferable result which has no difference between the evaluation result and the result can be obtained.

However, the actual situation is not always limited to the evaluation results, but there is sometimes a considerable difference between the evaluation results and the real results, because there are factors which vary, such the lapse of time in the information for evaluation. In the case of a system which does not respond to variation in information, the system itself has a defect, and it is necessary to improve it.

(1) Causes and Remedies for Variation of Information

(a) Examination (Patentability) Field

Even if the invention is filed so that the invention should have novelty and the inventive step, prior application by a third party is thereafter laid-opened, with the result that there sometimes occurs a problem in the possibility of the registration. In this case, the invention should be considered for the propriety of the examination request, the timing of the examination request and correction. Further, the application for the invention should be sufficiently considered as a selective or utility invention of the prior invention by a third party.

(b) Technical Field

The information in technical fields varies as a progress of the research and development which relates to inventions made after application. In case the development and the novel utility of thetechnique which relates to the invention are discovered, the evaluation of the invention is enchanced. On the contrary, in case a far more excellent technique to replace the invention has been developed, the evaluation of the invention is reduced.

It is necessary to consider means such as abanment or withdrawal of the application from the points of view of the strategy of the enterprise during the period form the filing of the application to the laid-open of the application.

(c) Enconomic Field

An invention which is not of obvious value at the time of filing can be clarified in terms of its true value through the processes of trial production, production and sales, i.e., the sales volume of the executed product, the amount of profits, the foresight of licensing royalty to third party, etc. Then, it is effective for an enterprise to select the establishment of rights at the time when the executed product of the invention is unveiled in the market by selecting the timing of the examination request.

(2) Collection and Analysis of Information

It is important to collect and analyze information irrespective of the evaluation timing, and if

the information is insufficinent or the analysis is mistaken, adequate evaluation of the invention cannot be performed. An invention which has already been laid-opened can thereafter rediscussed, but there is no means of remedy once the filling of the application is stopped or the invention is publicly disclosed. When the irreversible properties of the evaluation results are considered, the collection and analysis of information at the time of filing should be particularly carefully considered.

(3) Selection of Evaluators

The evaluators (in the department) have detailed knowledge in their own technical fields, but frequently do not have detailed intelligence in the other technical fields. This causes the evaluation to lack value. If there is an error in the judgement of the evaluators, this situation results, even if an excellent evaluation system is adopted, in wasteful effect.

Consequently, the evaluator who has frequent difference between the evaluation results and the real results, it is necessary to change or educate the evaluator.

(4) Evaluation Feedback

When the difference between the evaluation results and the real results is large, the evaluation system should be rechecked. That is, the cause should be traced to check whether the information is insufficient or not, whether the information is in error or not, whther the evaluation standards and items have problems or not, whether the evaluator has a problem or not, and the results should be reflected in the evaluation system, thereby improving the system.

## 6. Advantages of Evaluation

### (1) Cost Performance of Evaluation

It is needless to say that the evaluation of inventions is a necessary and important business in the management of the patents in an enterprise, but is not an indispensable requirement in the procedures for application. In other words, application can be performed even without "evaluation". 14.2% of enterprises have actually filed applications without evaluation at present.

The reason for not performing evaluation is considered as due to the actual circumferences of respective enterprises, but the merits of the case of not evaluating an invention cannot be intentionally considered.

In generally, when evaluation is not performed, an invention can be filed immediately upon its creation, but there may be a problem in the course of later processes. Even in case of execution after the rights are obtained, there might be a danger of problems in the effective insistence on rights.

On the other hand, in case an invention is evaluated, the invention can be delicately and severly evaluated in various stages from creation to execution of rights, and the above problems avoided, so that true and necessary effective right establishment can be performed, while in addition to the necessity of evaluators or evaluation time for evaluation, the collection and maintenance of information to be supplied for the evaluation and various expenses for the activities of the various survey organization (several handreds of yen) are required.

However, the purposes of the patent-obtaining activities of enterprises are to gain effective patent rights which can be truly activated, and to consider the possibility of execution through evaluation, thereby providing very good cost performance.

(2) Merits of Evaluation

The merits of evaluation can be listed as follows:

(a) The rights on truly important inventions can be effectively accelerated by an enterprise.

(b) Obtained rights can be effectively activated along the policy of the enterprise.

(c) Maximum managing efficiency can be contemplated as the results of the above paragraphs (a) and (b). In addition to the above merits, the reflection of severe advantages based on evaluation results can be indentified from various data.

① Activity state of disclosed information (Table 7)

② Examination request rate of patents and utility model registration (Table 8)

③ Publication rate of patents and utility model registrations (Table 9)

④ Ratio of foreign applications (Table 10)

Table 7 Disclosure report activity state

| Annual | '76 | '77 | '78 | '79 | '80 | '81 | '82 |
|---|---|---|---|---|---|---|---|
| Number of utilized cases | 144 | 762 | 2,492 | 3,231 | 4,739 | 6,793 | 9,401 |
| Number of utilizing enterprises | 40 | 50 | 59 | 64 | 61 | 71 | 109 |

Comments: As a result of severely selected applications due to evaluation, the number of inventions listed in disclosure reports are increased.

Table 8 Examination request ratio of patents and utility model applications

| Examination request rate (%) | | Application year | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Patents | Simultaneous requests upon filing | 20.5 | 23.1 | 19.1 | 17.5 | 15.7 | 13.8 | 12.5 | 11.1 | 10.0 |
| | | Requests at final stage | 69.1 | 68.6 | - | - | - | - | - | - | - |
| | Utility models | Simultaneous requests upon filing | 24.8 | 29.3 | 24.7 | 23.6 | 22.1 | 19.4 | 17.8 | 16.9 | 15.8 |
| | | Requests at final stage | 66.1 | 67.1 | 65.7 | 65.7 | 66.4 | - | - | - | - |

(Note): Examination request ratio (%)

$$= \frac{\text{number of examination reqeusts}}{\text{number of applications}} \times 100$$

(From the Annual Patent Report for 1982)

Comments: The examination request rate at the time of filing has a tendency to gradually decrease due to the performance of the evaluation of inventions at the time of reqeusting examinations, since requests are reduced to the truly necessary applications.

Table 9 Publication ratio of patents and utility models

List for publication ratio after 1972

| Type / Annual | Patents | | | Utility models | | | Total of patents and utility models |
|---|---|---|---|---|---|---|---|
| | Domestic | Foreign | Total | Domestic | Foreign | Total | |
| '72 | 0.55 | 0.61 | 0.57 | 0.43 | 0.52 | 0.43 | 0.49 |
| '73 | 0.57 | 0.59 | 0.57 | 0.44 | 0.52 | 0.45 | 0.50 |
| '74 | 0.54 | 0.58 | 0.55 | 0.45 | 0.47 | 0.45 | 0.50 |
| '75 | 0.56 | 0.58 | 0.56 | 0.48 | 0.44 | 0.48 | 0.51 |
| '76 | 0.56 | 0.59 | 0.56 | 0.48 | 0.46 | 0.48 | 0.52 |
| '77 | 0.54 | 0.58 | 0.55 | 0.45 | 0.44 | 0.45 | 0.49 |
| '78 | 0.50 | 0.58 | 0.51 | 0.41 | 0.45 | 0.42 | 0.46 |
| '79 | 0.54 | 0.62 | 0.55 | 0.46 | 0.48 | 0.46 | 0.50 |
| '80 | 0.54 | 0.58 | 0.55 | 0.46 | 0.46 | 0.46 | 0.50 |
| '81 | 0.54 | 0.56 | 0.54 | 0.42 | 0.44 | 0.42 | 0.49 |
| '82 | 0.54 | 0.56 | 0.55 | 0.47 | 0.46 | 0.47 | 0.51 |

(Note 1): The publication rates of patents and utility models

$$= \frac{\text{number of publication decisions}}{\text{No. of decisions + No. of rejections}}$$

(From the Annual Patent Report for 1982)

Comments: 50% or more of the publication ratio is maintained by severely selecting the evaluation of the examination requests.

Table 10 Foreign Applications Ratio

| | 1978 | 1979 | 1980 | 1981 | 1982 |
|---|---|---|---|---|---|
| Domestic Applications number | 349,823 | 360,024 | 382,805 | 417,240 | 440,219 |
| Foreign applications number | 38,357 | 42,641 | 45,062 | 40,978 | 47,103 |
| Foreign applications rate (%) | 11 | 12 | 12 | 12 | 11 |

(Note): The number of foreign applications is counted by the Number of certified copies issued from the Patent Office.

Comments: A substantially constant application rate is maintained by the execution of evaluation at the time of selecting foreign applications.

(3) Problems of Evaluation

The effective utilization and activation of the evaluation results should be considered on condition that the evaluation is adequate and severe.

The contents of an invention can be gradually improved due to the improving effort of the evaluation criteria and evaluation methods, but in order to further perform highly accurate evaluation, remedial efforts against the following problems are required:

(a) Correction of Irregular Evaluation

When evaluation of an invention is conveniently and effectively performed, a plurality of departments such as the invention creation department, relevant technical departments, and the patent department.

However, even in the case of identical evaluation criteria and the same evaluation method, irregular evaluation results can always be obtained.

These irregular evaluation results depend upon the technical background, evaluation circumstances of the evaluator, and differences in value judgements, and should accordingly be adjusted.

An evaluation committee system is one convenient method, but its members are important, and final evaluation, which is, for example, reflects business judgement and enterprise strategic judgement, should be considered.

(b) Maintenance and utility of information as evaluation and judging information

The evaluation of an invention can vary with the contents of the evaluation items and the degree of importance at the respective stages of evaluation as described with respect to "3. Evaluation Standards of Invention," but the utility of the imformation as judging information is unavoidable in the respective evaluation stages.

Particularly when the purposes of patent activities in enterprises are recognized in the establishment and utilization of effective rights, it is very important to accurately and quickly identify the variations and trends of daily and monthly advancing techniques and to reflect them in the evaluation.

For those purposes, it is necessary to establish a systematic organization capable of automatically collecting all information media, to process the collected information in a utilizable format and to make an effort to arrange the media. Considering economy, the utilization of external organizations is one method, but the information center concept, communication with the patent departments partly carried out in some enterprises, has value as an effective dissolving method.

(c) Evaluation of Future Inventions

There is the difficulty of judgement by the evaluator in daily evaluation work on a so-called "future invention."

The necessity of developing the preceding idea can be gradually enhanced when there is competition in developing modern techniques among enterprises in addition to the recognition of the importance of managing patents in the respective enterprises, as at present.

Accordingly, the opportunity of evaluating future inventions based on these preceding ideas can evidently be increased, and appropriate and early remedies should be taken.

There is as an orthodox method the transition from past to present technical trends, the historical backgrounds of a product; techniques can be precisely analyzed to predict future techniques. In order to effect this, huge studies and special capacities in analysis are required, which are difficult to carry out readily. However, this is necessary in the long-run, and enterprises which employ this method will multiply, but the method of the moment involves polishing the efforts of the evaluation department by evaluators who have the capacity of grasping the important points of the presence or absence of the blanks capable of obtaining fundamental factors, i.e., the fundamental inventions existing in the field.

## 7. Examples of Evaluation of Inventions by Various Companies

Examples of evaluations of the inventions by several companies in the standards and format of evaluating the invention actually used in companies will be introduced. These are edited from Information Bulletin No. 111 published by the Patent Managing Committee of the Japan. Patent Association.

### (1) Example of Company A (Machinery Manufacturer) (Example 1)

The evaluation column (in thick lines) of the invention to be filled in on an invention (Example 1-1) by managers in the department to which the inventor belongs and the patent department.

The patent department should have a routine for executing the total evaluation. On an examination request a propriety investigation slip (Example 1-2) is filled by the patent department which confirms in a specific routine the evaluation results from the invention department for the necessity of an examination request at the time of investigation, conserning the propriety of the evaluation items and giving any reservations.

### (2) Example of Company B (Chemicals manufacturer) (Example 2)

"Evaluation items for invention," "Evaluation items and evaluators for invention," "Importance of evaluation items at evaluation time", "Evaluation standards at application time," and "Evaluation standards at examination request time" are stipulated in detail as the evaluation standards for the inven-

tion, and the necessity and importance of the evaluation are explained for the evaluator.

An evaluation point system in the evaluation standards at the application time is employed, and the propriety and the weighting of it are determined by the total points.

(3) Example of Company C (Electrical equipment manufacturer) (Example 3)

An observation (evaluation) slip of invention attached to the "invention report" is filled out by an inventor and a manager for the inventor for the evaluation of the invention by evaluation points, and the results are divided into five ranks. An invention having a higher rank is chosen to be filed on foreign applications.

"The note for filling in" intends to indicate the observation point (in thick lines) of the evaluation of the invention for effectiveness of the evaluation.

(4) Example of Company D (Electrical equipment manufacturer) (Example 4)

The "evaluation column for an invention (in thick lines) is provided on the "application request," and the manager for the inventor fills in the evaluation according to the matrix. The concrete description is filled in on the comment column. Further, evaluation by the relevant department can be filled in for the evaluation. The eventual general evaluation is carried out by the patent department, but its results is considered with other opinions.

## 8. Conclusion

It is important that an invention created as the result of technical activities in an enterprise be adequately evaluated and the invention be treated in response to the evaluation results to provide maximum profit for the enterprise. However, it is extremely difficult in fact to evaluate an invention appropriately, and wide viewpoints and technical experiments are required.

The selection of evaluated inventions to be filed depends upon the policy of the enterprise, but the contents and the standards of evaluation have common factors, and it is important to improve evaluation methods so as to efficiently research and develop an invention by considering its cost performance.

As described before, the discussion results and concrete examples based on many experiments as to the items and standards of evaluation have been introduced. In order to efficiently evaluate an invention, a format of a certain type must be decided, and the evaluation standards, operating policy and evaluation notice should be stipulated as important factors.

In this manner, there might be a room for further improving the evaluation items and standards to evaluate an invention effectively and with foresight.

(Example 1-1) (Company A)

# Invention and Device Petition

| Manager in department | Manager in section |
|---|---|
| | |

Submitted on Date:

| 1. Writer of petition | Serial No. | Patent department No. * |
|---|---|---|
| | | |

**Inventor to be filled in**

2. Title of the Invention

3. I(We) swear to assign the rights of filing the patent application for the invention (utility model device, design) to

| | Name | Signed | Address | Belonging to employee number |
|---|---|---|---|---|
| 4. Inventor | | | | Section |
| | | | | Section |
| | | | | Section |

| | | |
|---|---|---|
| 5. | Outside collaborator | None, Name of company or name ( ) Contribution % Necessity of joint inventor necessary or unnecessary |
| 6. | Public disclosure | Date: 1. Outside presentation 2. Outside contribution 3. Product display (model ) 4. Delivery (model ) |
| 7. | Investigation of prior state of the art | Investigated (Range ) · Uninvestigated |
| 8. | Presence or absence of prior state of the art | Unknown · Present (Official gazette, reference ) |
| 9. | Foresight for foreign application | No · Yes (U.S.A. U. K. West Germany ) |
| 10. | Concerned contract | No · Yes (duty to notify duty for joint application) |

**Manager to be filled in**

| | | | | | |
|---|---|---|---|---|---|
| 11. Technical contribution | (1) | Originality of invention | ☐ Basic | ☐ Improved from owner's technique | ☐ Improved from public technique |
| | (2) | Improved advantage of performance and cost | ☐ Large | ☐ Small | ☐ Equivalent |
| | (3) | Preceding to development | ☐ Preceding | ☐ Competitive | ☐ Only an idea |
| | (4) | Technical execution | ☐ Tried | ☐ During trial | ☐ Only an idea |
| 12. Utilization | (1) | Adaptability for invention means | ☐ Optimum means | ☐ Possible | ☐ Impossible |
| | (2) | Difficulty of infringement and discovery | ☐ Easy | ☐ Possible | ☐ Impossible |
| 13. Marketability | (1) | Executing plan | ☐ Adopted (Date: ) | ☐ To be adopted (Date: ) | ☐ Uncertain |
| | (2) | Possible execution by other companies | ☐ Large | ☐ Small | ☐ Unknown |

**Patent department to be filled in**

| | | | | |
|---|---|---|---|---|
| 14. | Patentability | ☐ Yes | ☐ Doubtful | ☐ No |
| 15. | General evaluation | ☐ Application A, B, C | ☐ Technical disclosure | ☐ Dismissal |

**Remarks**

16. Opinions on invention

Conclusions *

Columns marked by "*" will be filled in by the patent department. Fill in the columns by marking within ☐ in the evaluation column after 11.

(Example 1-2)

(Company A)

# Application examination request Propriety Observation slip

To: section, department

Patent department

| | | Observation this time | Observation inquiry date | Reply and return dates | |
|---|---|---|---|---|---|
| Serial No. | ------ | First | Date: | Date: | |
| | | Second | Date: | Date: | |
| Final examination request term | Dated | Final | Date: | Date: | |

Fill in discussed results as to application examination request propriety and return to patent department.

| | Necessitated (file an examination request.) | Reservation (for a while) | Not necessiated (Abandoned for application) |
|---|---|---|---|
| Reasons | ☐ Executed (foreseeing, during execution) from date:<br>☐ Not planned to be execute in our company, but offer to be executed by an other company (Name: )<br>☐ Not planned to be executed by another company, but other company intends to execute (Name and executing state)<br>☐ Not planned to be executed, but important technique (Reason: ) | ☐ Not corresponding to any of the left items, and reservation is taken. | ☐ Public fact discovered. [ ]<br>☐ Same as other prior application [ ]<br>☐ Miscellaneous [ ] |

| Fill in when examination request is required | | |
|---|---|---|
| Technique relating to other companies (Relative patent(s), product name, model and references) | | |
| Improved points after application (Whether the executed machine is out of claim or not.) | | |
| Matters to be corrected | Error, technical error, insufficient description | |
| | Whether excessively smaller scope of claims or not or to be divided or not | |

| | Confirmation by inventor's section | | | Propriety replay column | | |
|---|---|---|---|---|---|---|
| | Manager | | | | | |
| First | | | | Required | Not required | Observation |
| Second | | | | Required | Not required | Observation |
| Third | | | | Required | Not required | Observation |

| Confirmation by patent department | | |
|---|---|---|
| | | |

(Example 2)

Evaluation Standards for Inventions

Since patent management should make a profit for the company by utilizing techniques to their maximum, it is necessary to carry out management in response to the value of the invention. Decisions shall be frequently made from the time of filing a patent application until the lapse of the patent right. For example, it is necessary to decide on the basis of the evaluation standards of an invention at the times of filing the application, the application examination request, submitting an argument to the Examiner, filing a foreign patent application in a foreign country, paying application maintenance fees or patent fees, allowing the licensing, assigning the right and providing compensation for the technique.

(Company B)

## 1. Evaluation Items of the Invention

- When the evaluation items of the invention are studied from technical, legal and economical (actual) fields, evaluation shall be performed concerning the following points:

| Evaluation Items | | | Descriptions |
|---|---|---|---|
| Excellence as a technique | A-1 | Degree of industrial requirements for invention | The desirability of presence of the invention is predicted by the client's needs and market research (business department). |
| | 2 | Novelty of subject to be solved by invention | Grasp of new technical themes, development in a new field and novel subject matter in conventional techniques. |
| | 3 | Magnitude of patentability | An invention to be utilized in industry is to be the object, and is judged with reference to the prior state of the art, examination standards, and trial decisions. |
| | 4 | Magnitude of advantage by execution | Special advantages of the invention (advantages compared with conventional technique). |
| | 5 | Degree of completeness of technique to invention | Only the idea, confirmation of experimental lab work, and confirmation of industrial possibility. |
| | 6 | Technical ease to be executed | Difficulty of economic execution, and inventive steps for peripheral techniques are considered. |
| | 7 | Range of execution application field | Larger expectations of industrial execution as wide as possible in the execution application range of the invention. |
| Strength of rights | B-1 | Fundamentals as a patent | A quality fundamental patent generally has high rights as compared with an improved patent. |
| | 2 | Necessity of execution in the technical field | Breadth of range of rights. Presence of protective technique available in technical and economic fields against the invention |
| | 3 | Degree useful in cross-licensing with other companies | Presence of utility relations to the patent. Whether an other company wishes to obtain or not. |
| | 4 | Ease of identifying infringements | Product invention can be investigated more readily than the method of invention. |
| | 5 | Possibility of utilizing and avoiding an other company's rights | When presence of utility relation of an other company's patent and the utility of the other company's rights are more advantageous, the value is low. |
| | 6 | Reinforcement as owner's peripheral patent | A patent composing patent rights by reinforcing a fundamental patent has a high value. |
| Magnitude of economic profits | C-1 | Magnitude of economic profits | Magnitude of marketability. Magnitude of execution scale of invention as to analysis, measurement, public polution prevention method |
| | 2 | Most of the profit in the previous case | Contribution to substantial business of the invented product (degree of market occupancy) |
| | 3 | Degree of contributing to sales competition | Priority in cost. Degree of removing competitive technical presences and maintaining an exclusive situation (business department) |
| | 4 | Term continuously used with invention technique | Inventive technique does not become old but can be used for a long term with excellent results. |
| | 5 | Majority of profit obtained by contract | Fundamental invention. An invention having high marketability and an invention with mass productivity can obtain high profit. |

(1) An invention is evaluated by summarizing several of these evaluation items and their standard values.

(2) An invention is evaluated at the times of ① filing application, ② requesting examination, ③ prosecuting intermediate procedures, ④ filing foreign applications, ⑤ paying annuity, ⑥ licensing, and ⑦ assigning rights.

## 2. Evaluation Items and Evaluators of an Invention (Company B)

- The evaluation items for an invention are sorted into function allotments; they can be distributed as below.

| | | Evaluation Items | Inventor | Manager in charge | Patent department | Business department |
|---|---|---|---|---|---|---|
| Technical value | A-1 | Degree of industrial requirements for invention | | o | | o |
| | 2 | Novelty of subject to be solved by invention | | o | | |
| | 3 | Magnitude of patentability | o | | o | |
| | 4 | Magnitude of advantage by execution | o | | o | |
| | 5 | Degree of completeness of technique to invention | | o | | |
| | 6 | Technical ease to be executed | | o | | |
| | 7 | Range of execution application field | o | | | |
| Rights value | B-1 | Fundamentals as a patent | | | o | |
| | 2 | Necessity of execution in the technical field | o | | o | |
| | 3 | Degree useful in cross-licensing with other companies | | | o | |
| | 4 | Ease of identifying infringements | o | | o | |
| | 5 | Possibility of utilizing and avoiding an other company's rights | | | o | |
| | 6 | Reinforcement as owner's peripheral patent | o | | o | |
| Economical value | C-1 | Magnitude of economic profits | | o | | o |
| | 2 | Most of the profit in the previous case | | o | o | |
| | 3 | Degree of contributing to sales competition | | o | | o |
| | 4 | Term continously used with invention technique | | o | o | |
| | 5 | Majority of profit obtained by contract | | o | | o |

3. Importance of Evaluation Items at Evaluation Time (Company B)

| | | Evaluation Items | Application time | Examination time | Intermediate prosecution time | Foreign application time | Annuity-paying time |
|---|---|---|---|---|---|---|---|
| Technical value | A-1 | Degree of industrial requirements for invention | | | | | |
| | 2 | Novelity of subject to be solved by invention | | | | | |
| | 3 | Magnitude of patentability | o | o | o | o | o |
| | 4 | Magnitude of advantage by execution | | | | o | |
| | 5 | Degree of completeness of technique to invention | | o | | o | o |
| | 6 | Technical ease to be executed | | o | | o | o |
| | 7 | Range of execution application field | | | | | |
| Rights value | B-1 | Fundamentals as a patent | | | | o | |
| | 2 | Necessity of execution in the technical field | o | o | o | o | o |
| | 3 | Degree useful in cross-licensing with other companies | | | | o | o |
| | 4 | Ease of identifying infringements | o | o | | o | |
| | 5 | Possibility of utilizing and avoiding an other company's rights | | | | | |
| | 6 | Reinforcement as owner's peripheral patent | | | | | |
| Economical value | C-1 | Magnitude of economic profits | | | | | |
| | 2 | Most of the profit in the previous case | | | | | |
| | 3 | Degree of contributing to sales competition | | | | | |
| | 4 | Term contrinously used with invention technique | | o | | | |
| | 5 | Majority of profit obtained by contract | | | | | |

(Company B)

## 4. Evaluation Standards at Application Time

- Decision will be made by summarizing the evaluations of the inventor, manager in charge, and patent department (business department) in the patent department.

| | | Evaluaton Items | Weight | Evaluation points | | | | | Treatment | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Large | Medium | | Small | | Value of T | Treatment class |
| Evaluation in technical field | A-1 | Degree of industrial requirements for invention | 1 | 5 | 4 | 3 | 2 | 1 | 21∿31 | Do not file — C |
| | 2 | Novelity of subject to be solved by invention | 1 | 5 | 4 | 3 | 2 | 1 | 32∿42 | |
| | 3 | Magnitude of patentability | 2 | 10 | 8 | 6 | 4 | 2 | 43∿63 | For ordinary filing — B |
| | 4 | Magnitude of advantage by execution | 1 | 5 | 4 | 3 | 2 | 1 | 64∿79 | |
| | 5 | Degree of completeness of technique to invention | 1 | 5 | 4 | 3 | 2 | 1 | 80∿105 | Cautiously file — A |
| | 6 | Technical ease to be executed | 1 | 5 | 4 | 3 | 2 | 1 | | |
| | 7 | Range of execution application field | 1 | 5 | 4 | 3 | 2 | 1 | | |
| Evaluaton in rights field | B-1 | Fundamentals as a patent | 1 | 5 | 4 | 3 | 2 | 1 | | |
| | 2 | Necessity of execution in the technical field | 2 | 10 | 8 | 6 | 4 | 2 | | |
| | 3 | Degree useful in cross-licensing with other companies | 1 | 5 | 4 | 3 | 2 | 1 | | |
| | 4 | Ease of identifying infringements | 2 | 10 | 8 | 6 | 4 | 2 | | |
| | 5 | Possibility of utilizing and avoiding an other company's rights | 1 | 5 | 4 | 3 | 2 | 1 | | |
| | 6 | Reinforcement as owner's peripheral patent | 1 | 5 | 4 | 3 | 2 | 1 | | |
| Evaluation in economic field | C-1 | Magnitude of economic profits | 1 | 5 | 4 | 3 | 2 | 1 | | |
| | 2 | Most of the profit in the previous case | 1 | 5 | 4 | 3 | 2 | 1 | | |
| | 3 | Degree of contributing to sales competition | 1 | 5 | 4 | 3 | 2 | 1 | | |
| | 4 | Term continously used with invention technique | 1 | 5 | 4 | 3 | 2 | 1 | | |
| | 5 | Majority of profit obtained by contract | 1 | 5 | 4 | 3 | 2 | 1 | | |
| Total of evaluation points | | | | (105) | (84) | (63) | (42) | (21) | | |
| | | | | T | | | | | | |

(NOTE):

(1) When the values of T corss over two treatment classes, the matter must be judged by considering managing policy to decide the class.

(2) Do not file: Certificate of confirming data is carried out is required.

(3) For ordinary filing: When the evaluation of B-4 is small, the application is abandoned before laid-open, and the specification revised to meet the object.

(4) Cautiously file: Specifications are prepared to cautiously file the application

## 5. Evaluation Standars upon Application Examination Request Time (Company B)

| Filing an examination request immediately | Requesting examination later | Not filing examination request |
|---|---|---|
| 1. Execution state of an invention<br>1.1 Executed or nearly executed<br>1.2 Licensing third party or to be licensed<br>1.3 An other company has executed and has no prior application corresponding to the invention. (warning, priority examination)<br>2. Prior application by a third party or presence of patent rights<br>2.1 If executed, it is possible to infringe on the rights.<br>2.2 Not devised to avoid infringement of an other's patent rights.<br>2.3 This invention is to an other's prior application<br>(1) doubtful whether the same or not.<br>(2) utilized,<br>(3) inclusive with a different invention in addition to the same invention,<br>(4) warned against the execution of this invention.<br>2.4 An other's application is the following application (necessity of correction).<br>3. The Marketable value of this invention is high and its short life cycle and can be readily copied.<br>4. Invention during foreign application and patented in examination country.<br>5. Necessity of correction, division and conversion exists.<br>6. Obligated by contract with a third party. | 1. Executing the state of an invention<br>1.1 Expected for execution in the future.<br>1.2 Time is required for the execution of fundamental invention.<br>2. Technical progress is early and an improved invention is expected<br>3. Countermeasures against present product patents and differeneces from means and product (to protect own business)<br>4. Foreign application to be field. | 1. Stop studying and developing due to high cost, lack.<br>2. No executing advantage will be discovered after application.<br>3. Excellent technique in the following application, and is to be executed; there is no foreseeable execution.<br>4. Public citation and prior application exist, and no patentability confirmed.<br>5. "not filing examination request" decided during application time.<br>5.1 Abandon before laid-open<br>(1) Difficulty in observation in infringement due ready copying<br>(2) In secret as know-how<br>5.2 Only laid-open intended<br>(1) Doubtful patentability, but not patented by any third party.<br>(2) No expectation, but not patented by any third party. |

(Example 3-1) (Company C)

# Invention and Device Search Slip

Proposed date:

| Title of the Invention | Inventor belongs to | Manager in department ☐ | Manager in section ◯ | Head inventor |
|---|---|---|---|---|
| | | | | |

| Technical field | Operating product | Key Word |
|---|---|---|
| | | |

Evaluation of Invention and Device

| | Evaluation items and evaluation standards (In paragraphs (1), (2), (3), put (o) on points of the nearest level) | Proposed time evaluation: Proposer | Manager in charge |
|---|---|---|---|
| (1) Restraints against other companies | 1. Replacing the draft cannot be considered due to the same function. | 15 | 15 |
| | 2. Avoidance by other companies would be extremely difficult. | 12 | 12 |
| | 3. There might be other methods, but technically and economically the best. | 8 | 8 |
| | 4. Avoidance by other companies is easy. | 4 | 4 |
| | 5. Constraints on other companies are small. | 2 | 2 |
| (2) Priority | 1. High inventive step; novel concept | 10 | 10 |
| | 2. Strong novelty and inventive step | 8 | 8 |
| | 3. Important technical advantages even in combination with conventional techniques | 6 | 6 |
| | 4. Extensive improvement | 4 | 4 |
| | 5. Mere improvement of conventional technique | 2 | 2 |
| (3) Possible execution | 1. Decision on execution | 5 | 5 |
| | 2. Large possibility of execution within 3 years | 4 | 4 |
| | 3. Possibility of execution in 3 years | 3 | 3 |
| | 4. Possibility of execution in distant future | 2 | 2 |
| | 5. Little possibility even in future | 1 | 1 |
| | Total points ((1) + (2) + (3)) | | |

Decision of rank | SSA: higher than 23 SA: 20 ∿ 22 A: 17 ∿ 19 B: 11 ∿ 16 C: less than 10 |

Fill in the rank of evaluation results. Rank decision by evaluation points of manager in charge.

Related technical description column (similar invention, an other company's product)

* Standards of Rank decision

| | Process policy | Evaluation point standard | Evaluation rate |
|---|---|---|---|
| SSA | More than five | higher than 23 | 5% (10) |
| SA | More than one | 20 ~ 20 | 10% (20) |
| A | Registered in Japan | 17 ~ 19 | 20% (20) |
| B | Not registered even in Japn | 11 ~ 16 | 55% (40) |
| C | Not filing | less than 10 | 10% (10) |

( ) designates standards of the Institute.

| Desire for foreign applications (in principle from A rank) | Desired countries |
|---|---|
| 1. Yes 2. No | ( ) |

Relative patents (proposals and applications)

Comment column (Proposer, manager in charge) (Comments on special matters of marketability of product, examination request, foreign application, correction.)

| Rank | Result of checking foreign applications | Signed | Manager in section | | | |
|---|---|---|---|---|---|---|
| SSA, SA, A, B, C | 1. Filing 2. Not filing (Country names: ) | | Inventor | | | |

Fill in

| Application number | Patent or Utility model No. | Title of invention or utility model at filing |
|---|---|---|
| Application date: | | |

| Reception number and date | | Spec. for person in charge | Employee No. | Name |
|---|---|---|---|---|
| | | | | |

(Example 3-2) (Company C)

Filling-in procedure on invention and device observation slip

(Refer to example on other sheet.)

| | Item | Contents |
|---|---|---|
| 1 | Name | This slip is for both intermediate evaluation and eventual evaluation iquireies, reciprocated between the inventor's section and the patent department. After use, used columns are erased lateral lines. In ( - - ), fill inquiry date and returned data from the section in the columns. |
| 2 | Proposed date | Fill in the same date as on this slip. |
| 3 | Title of Invention or device | Fill in the same title as on this slip. |
| 4 | Inventor | Fill in all names and sections of inventors. |
| 5 | Head inventor | This inventor has contributed most to the creation this invention, and fully understands the contents of the proposal. Proposer shall meet for the application and intermediate procedures. |
| 6 | Technical field | Fill in the technical field to which the inventor belongs. |
| 7 | Application product | Fill in the product name or field applied for the invention or device. |
| 8 | Key Word | Key word and number are selected and filled in from the patent machine retrieval system of the patent issuance. |

(Company C)

| | Item | Contents |
|---|---|---|
| 9 | Evaluation of invention and device | In connection with constraints on other compaies, priority factors, and possibility of execution, select the nearest point for the level of the respective items and put (o). First, the proposer evaluated and then the manager in charge evaluates.<br>(I) Constraints on other companies<br>This is judged by the degree of constraint on the contents of the invention or device to the execution of the products of an other company. Technical and economic fields are evaluated together. Ease of discovery of infringement by other companies is also considered.<br>(II) Priority<br>This is judged by comparing with the technical level executed at present for the idea and its originality.<br>(III) Possibility of execution<br>Expection of execution by owner's company or possibility of execution is evaluated. The standars of the evaluation level are indicated in each item on the invention and device observation slip. |
| 10 | Evaluation of rank | The rank is decided by the total of the evaluation points and by the manager. |
| 11 | Relating techniques description | Fill in inventions similar to those of to other companies, references, proposers in other companies products and prior technical information known by the manager. |
| 12 | Examination request at rank B | The examination is requested as a rule with rank A. But in case of rank B, when the examination is requested due to the marketablity of the product, the possibility of execution by an other company, various contracts, avoidance of rights by other companies, put (o), and describe the reason in the comment column. |

(Company C)

| | Item | Contents |
|---|---|---|
| 13 | Desire for foreign applications | Fill in the desire for foreign applications. An invention to be submitted for foreign application should satisfy the following: (a) an invention obtained directly for own export, product, (b) an invention which improves the owners exports, negotiation, inquiry, (c) an invention relating to the partner country in a technical joint venture, (d) an invention exhibiting a high technical level of the owner's company, and (e) an invention which might be made by a related foreign manufacturer.<br>Decision on a foreign application is decided in foreign application discussion meeting. In the case of rank B, with the desire for foreign application, the reason should be filled in the comment column. |
| 14 | Desired for correction | When the correction of specifications is necessary at intermediate and eventual evaluation times, fill in (o) and describe the reasons in the comment column. |
| 15 | Proposer and seal of manager | A seal is affixed at intermediate and eventual evaluation times. Both acts are carried out by the head proposer and the manager. However, when alternation of organization, or transport of business cause difficulty in the manager's evaluation, the evaluation can be entrusted to the manager of the section in charge. |
| 16 | Relating patents (proposals and applications) | Fill in the relevant patent proposal and application, particularly when there are relating inventions and/or devices applied to the same technical field and product. |
| 17 | Comments column | Fill in merits and requirements which cannot be sufficiently described only in the items on this slip. The reasons for requesting an examination for rank B, the reasons for desiring a foreign application with rank B, or necessary reasons for correction. |
| 18 | Rank check | Fill the rank check eventually decided on for patenting with (o). Further describe the patent or utility mode. |

(Company C)

| | Item | Contents |
|---|---|---|
| 19 | Results from discussing foreign applications | Describe only a patent with (o) from the results of the foreign application discussion meeting. |
| 20 | Patent with (o) sealing | After the contents of the rank check and processes at the respective stages are confirmed and sealed with the patent with (o). |
| 21 | Application number and the like | Fill the application number, date, the title of the invention at the filing of the patent (o). |
| 22 | Reception number | Fill the reception number, date, and person in charge of the specifications together with the invention and/or device report at the receiving time with patent (o). |

(Company D)

Secret

* A * : Computer input items. Fill in clearly.

# Application Inquiry

(Patent Department)

* Purchase this inquiry in 3 sheets (all sheets submitted).
* When the number of inventors exceeds 6, prepare this inquiry in 2 or more sets.

| Received date | Received number |
|---|---|
| | |

A00 Original — Enterprise | Department Code | Original code

A02 Name of inventor

A04 The right of filing this case in Japan and foreign countries shall be assigned to

A06 Scope of invention

| | Enterprise | Department Code | Phone No. | Name code | Name |
|---|---|---|---|---|---|
| Inventor | | | | | |
| Other inventors | | | | | |

Put the signature of the inventor(s) on No. 1st sheet.

A10 Name of invented product / Patent product code

A14 Execution plan: 1. Not yet decided 2. Planned (Date) Name of executing enterprise

Urgent application (when desired): 0. No / 1. Yes → Deadline Date:

Reason: 1. Made public outside of Co. (1. Academic society, lecture, or publication; 2. Customer, Outside order; 9. Outside) — Publication date: — Object party for publication

A08 Name of theme for research & development — Special research No.

| Research No. (Subtitle No.) | Kind of research | Party requesting the research |
|---|---|---|
| | 1. Voluntary 2. Request by others | |
| | 1. Voluntary 2. Request by others | |

Patent management code — A12

A16
a. Relationship with outsider: 0. No 1. Yes (Partner ) 2. Unknown
b. Person applied: 1. Independent 2. Independent by subsidiary 3. Joint 4. Independent by outside of the company 5. Not yet decided
c. Person aquiring the right: 1. Party requesting this application 9. Others
b. Obligation for reporting to outsider: 0. No 1. Yes (Partner ) 2. Unknown
d. Document related to outsider: 0. Not required to be attached 1. Has been attached
When items a. and b. above are 'Yes' or 'Unknown', attach the 'Document related to outsider' without fail.
Check items: 1. Joint invention 2. Joint research, joint application/contract 3. Purchase and sale contract 4. Consignment contract 5. Discussion items with outsiders
Check mark — Section chief

A18 Evaluation selected from (1), (2), (3) from the properties of the invention.

| Evaluation items \ Properties of invention | (1) Invention relating to present product and techniques | (2) Invention relating to novel business product & technique | (3) Preceding idea invention (unstudied as yet) |
|---|---|---|---|
| Technical property — Comparison with pre-existing technologies inside or outside our company | 1. Equivalent 2. Slightly preferable 3. Considerably preferable 4. Remarkably preferable | 1. Equivalent 2. Slightly preferable 3. Considerably preferable 4. Remarkably preferable | 1. Not obvious 2. Normal 3. Important 4. Outstanding |
| Asset technical utilization — Discussion of steps for actual utilization | 1. Not yet discussed 2. Concrete content discussed 3. Utilization discussed 4. Immediately utilized | 1. Undecided 2. Fundamental experiment carried 3. Concrete content experiments 4. Proving | 1. Not obvious 2. Fundamental study required 3. Actual utilization study required 4. Possible by making technique |
| Fundamental originality — Difficulty of avoiding this invention by another company | 1. Easy 2. Slightly difficult 3. Substantially difficult 4. Impossible | 1. Easy 2. Slightly difficult 3. Substantially difficult 4. Impossible | 1. One of various ideas 2. Excellent idea 3. Fundamental idea 4. Remarkable and fundamental idea |
| Economic plan — Plan and scale of productivity | 1. Undecided 2. Trial product expected 3. Trial-producing or already produced 4. Decision on adoption | 1. Undecided 2. Capability test carried 3. Trial product expected 4. Production decision expected | 1. Undecided 2. Actual utilization to be discussed 3. Fundamental experimentation to be discussed 4. Study theme to be discussed |

Remarks: Novelty, importance, technical propriety of subject matter (capability, function, cost)

Problematical points in practical use

Situation in other companies

Concrete execution plan

Scale of execution by own company of the invented portion ( ) Term ( )

Difficulty of discovery for infringement: 1. Easy 2. Difficult (conforming method)

Comment by department chief or party concerned

Supplying original general evaluation: A. Best B. Excellent C. Good D1. Defence (Application) D2. Defence (Joint) E. Past one

Foreign application: 0. No 1. Yes (Nationality Expenses to ) 2. Reservation

A20 Evaluation of relevant client: A, B, C, D1, D2, E — Foreign application: 0. No 1. Yes (Nationality ) 2. Reservation

A30 Total appraisal by the patent department: A B( ) C D1 D2 E( ).

Remarks

Reason for rejection: 1. No novelty 2. Incomplete in invention 3. Difficulty in detecting the violation 4. Small in profit as an enterprise 9. Other ( )

If you have any opinion on the appraisal, contact promptly (not later than ).

To be entered by Section Chief of the party requested

To be entered by the patent department

Signed

Party requested: Inventor (Person entered) — Section chief — Department manager — Patent contactor

Patent department: Responsible person for reversal

Party requested: Returned — Patent contactor

# PATENT TERM RESTORATION - AN UPDATE

PRESENTED BY RUDOLPH J. ANDERSON, JR.
ASSOCIATE GENERAL COUNSEL/DIRECTOR OF PATENTS
OF MERCK & CO., INC.
AT PACIFIC INDUSTRIAL PROPERTY ASSOCIATION
MEETING IN WASHINGTON, D.C.

When last we discussed the subject of Patent Term Restoration at the PIPA meeting in Kobe, there was a possibility of enactment of the legislation during the "lame duck" session of the 97th Congress. As you all know, the legislation was not considered by the House of Representatives due to the press of other legislative business that was required to be attended to during the limited time of that session.

As I have reported earlier, any legislative matter before the Congress expires with the end of the term of that Congress. Thus, when the present 98th Congress convened it was necessary to introduce into the new Senate and House of Representatives fresh legislation on the subject. On May 17, 1983, Senator Charles M. Mathias (R-Md) introduced S.1306, the "Patent Term Restoration Act. of 1983". He was joined in his sponsorship by a number of leaders of the Senate. On June 30, 1983, a similar bill was introduced into the House of Representatives as H.R.3502 by Congressman Michael L. Synar (D-Okla). He was joined by more than 100 other Congressmen as co-sponsors.

In the course of this year, Senator Mathias chaired hearings with respect to the legislation conducted by the new Subcommittee on Patents, Copyrights and Trademarks of the Senate Judiciary Committee. It is anticipated that the Subcommittee will approve the legislation and recommend that the bill be brought to the floor of the full Senate for enactment, hopefully this year.

The situation in the House of Representatives remains a very politically complex one. As with the legislation in the previous Congress, the subcommittee responsible for consideration of the legislation is the Subcommittee on Courts, Civil Liberties and the Administration of Justice of the Judiciary Committee of the House of Representatives, which is chaired by Congressman Robert Kastenmeier of Wisconsin. While Congressman Kastenmeier was the sponsor of the legislation in the House of Representatives in the last Congress, he declined to co-sponsor the legislation in the current Congress. To date the legislation has not been the subject of hearings by the Kastenmeier Subcommittee nor are hearings presently scheduled.

As I indicated in my talk last year, Congressmen Waxman of California and Gore of Tennessee have assumed the role of opponents to the enactment of the Patent Term Restoration legislation. In the current Congress, they have expressed publicly their concern with respect to the enactment of legislation of the scope as presently drafted. It would seem that Congressman Kastenmeier is waiting for a clarification of the positions espoused by various segments of the House of Representatives before holding hearings and attempting to have the Subcommittee consider the legislation.

An additional factor of complication arises from the introduction by Congressman Waxman of H.R.3605 of the "Drug Price Competition Act of 1983". The Generic Pharmaceutical Industry Association, and individual companies member thereof, have argued for many years that the Food & Drug approval process applicable to a duplicate of a pharmaceutical product presently on the market is too complex. They have argued that such complexity prevents them from marketing a duplicative product even after the patent of the originator of the product has expired. They prevailed upon Congressman Waxman to introduce his bill and probably helped select its interesting title. The legislation is designed to eliminate need for a prospective vendor of a duplicative pharmaceutical to perform any studies in man of his product to demonstrate efficacy; that is, to demonstrate that the product will work in man as it is alleged to work. Mr. Waxman's bill provides that the prospective manufacturer of the duplicative product need only prove that it is physically and chemically similar to the originator's product and that when ingested it provides comparable blood levels of the active ingredient of the drug.

The research-based pharmaceutical industry of the United States as represented by the Pharmaceutical Manufacturers Association testified in opposition to Congressman Waxman's duplicative drug bill on a number of grounds. Exemplary of such was the lack of provision in the legislation that any product be on the market after its original Food and Drug approval for a long enough period of time and in a sufficient patient population to permit adverse affects of the drug to be recognized by the medical community. All of you are familiar with recent tragedies with pharmaceuticals whose serious side effects, which necessitated their removal from the market, became apparent only after they were marketed for some time. The legislation was also lacking in protection for the confidential information submitted to the Food & Drug Administration by the originator of the product.

In the present Congress, Congressman Waxman's H.R.3605 for duplicative drugs and Congressman Synar's H.R.3502 for Patent Term Restoration - while unrelated - have become coupled from a political standpoint. It is apparent that if a change is made in the Food & Drug laws of

the nature proposed by Congressman Waxman the originator of a pharmaceutical will be much more dependent upon his patent rights. The erosion of patent term for drugs, which has been clearly demonstrated before Congress in earlier hearings and in this year's Mathias hearings, means that an originator of a pharmaceutical has an increasingly lesser term of patent rights as time goes on and thus less patent rights to depend upon.

In recent weeks there has been a growing recognition that both the problem of the generic industry with respect to Food & Drug approval processes and the deterrent from innovation for the research-based pharmaceutical companies due to inadequate patent protection should be addressed in a single piece of legislation covering both subjects.

At the time of writing this paper, no bill has been introduced in either House of Congress looking to solve both these problems. For such legislation to be introduced would seem to require cooperation between currently opposing camps in the House of Representatives on both pieces of legislation, and, undoubtedly, accommodation of the views of the other by each faction.

I ended my report in Kobe by being unable to predict whether this presentation would be on the Patent Term Restoration Act of 1982 or 1983. I am in a similar position at the present time in being unable to predict the future for Patent Term Restoration. Clearly if the accommodation I refer to earlier is reached the legislation could be enacted by both Houses of Congress at an early date and our PIPA program would not be burdened by another update on Patent Term Restoration. If no such accommodation is reached, we may be speaking on the subject again in Japan next year.

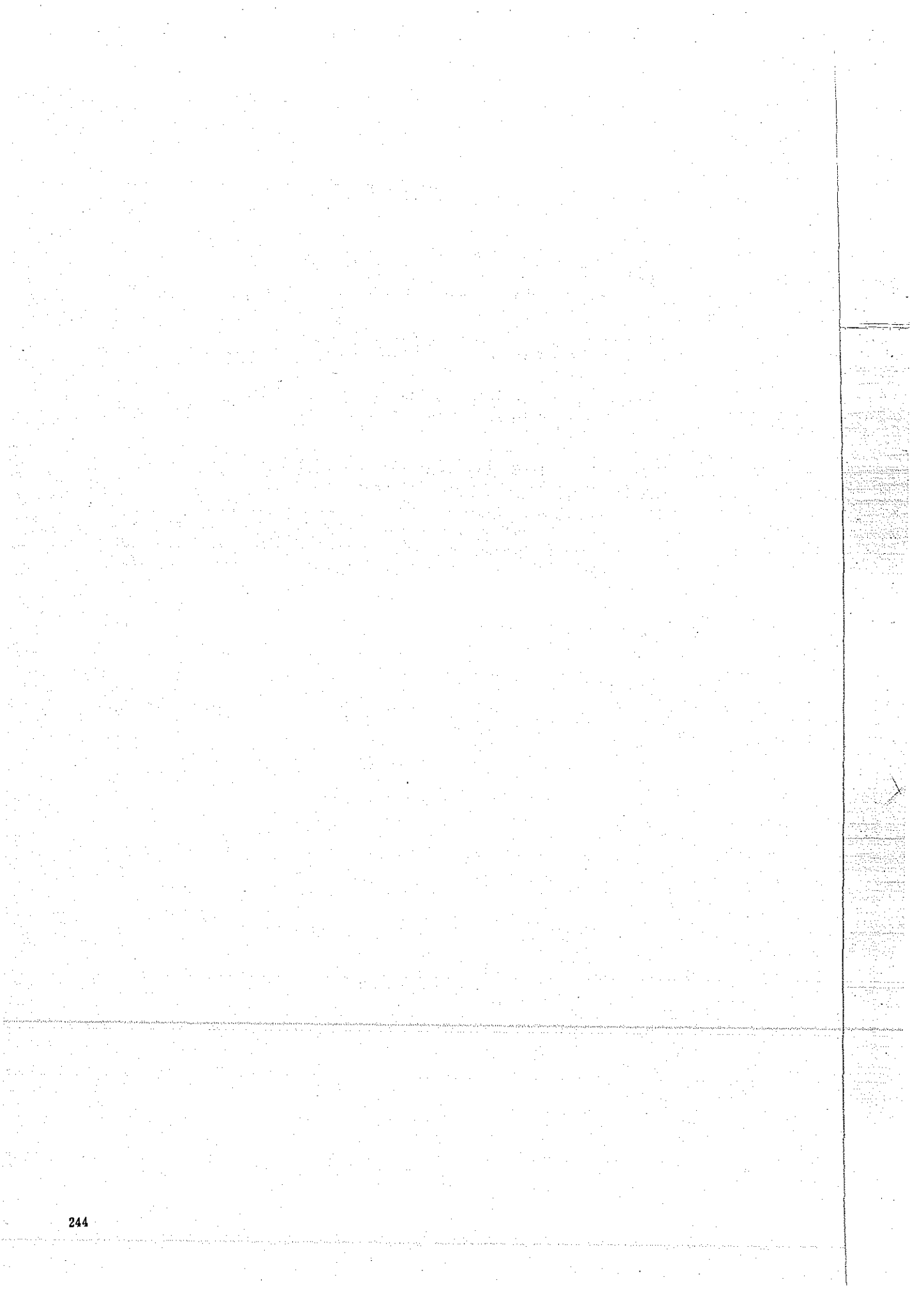
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# COMMENTS ON WIPO'S JOINT INVENTIVE ACTIVITY GUIDE

Japanese Group, Committee No. 2

Chairman: Juro Ichimura
(Shin-Etsu Chemical Co., Ltd.)

Speaker: Minoru Tahara
(Fuji Heavy Industries Ltd.)

Abstract

WIPO's Draft Guide to the Legal Regulation of Questions Concerning the Results of Joint Inventive Activity in the Course of International Scientific, Technological and Economic Cooperation is a useful attempt to offer options for contractual solutions of such questions. However, it still requires a further study and improvement before it is finalized for publication and circulation.

As a general comment, the Draft Guide appears to advocate specific provisions in a number of its paragraphs. It also seems to deal with only horizontal cooperation between profit-making business enterprises. In our opinion, however, the Guide should not establish standards but only offer options and alternatives. We further believe that it should be expanded to cover vertical cooperation and cooperation involving non-profit institutions. The Guide should also pay more attention to important public laws such as the anti-trust and competition laws.

In addition to those general comments, various specific paragraphs of the Guide also need to be reviewed and may have to be revised.

## I INTRODUCTION

WIPO's Draft Guide to the Legal Regulation of Questions Concerning the Results of Joint Inventive Activity in the Course of International Scientific, Technological and Economic Cooperation dated December 13, 1982 (the "Guide") is a significant step towards a better understanding and analysis of questions and problems concerning scientific, technological and economic cooperation between partners from different countries with different social, economic and legal systems. It provides a basis for further discussions on which a useful guide may be prepared. However, the Guide as drafted still requires a careful study and a number of improvements in order to be more comprehensive and practical.

Our Second Committee reviewed the Guide and submitted a summary of its comments to the Japanese delegation to the Experts' Conference on Joint Inventive Activity held in Geneva from May 2 to 6, 1983 (the English text of which is attached to this paper as Annex A). It does not seem, however, that those comments were taken into consideration in the preparation of WIPO's Report dated May 18, 1983 which sets forth the observations made by the member States of WIPO. It may, therefore, be useful to refer to those comments in this paper. This paper also includes additional comments which our Committee members believe to be relevant or useful.

Of course, the comments that follow do not represent the Japanese view in any official capacity, but they incorporate remarks made by experts in various industrial groups of Japan.

## II GENERAL COMMENTS

### 2.1 Purpose of the Guide

Although the Guide states that it does not, as a rule, make specific recommendations, the tone of a number of its paragraphs is such that it advocates certain specific solutions and provisions. However, the purpose of the Guide should not be to establish standards to be followed. It should rather be made more clear that the Guide provides only for various options and alternatives that might be considered for adoption by cooperation partners only if such options and alternatives are practically acceptable in the given situations.

### 2.2 Varying Relations of Partners

It does not seem that, in preparing the Guide, sufficient attention was paid to different forms of cooperation between partners in different situations with different objectives.

First, it seems that the Guide only deals with "horizontal" cooperation between partners in the same business field. Needless to say, however, scientific, technological or economic cooperation takes place in "vertical" relation as well.

Secondly, it also seems that the Guide is primarily designed to cover cooperation between profit-making business enterprises. However, it is not infrequent for non-profit institutions (such as State enterprises, research institutes, Government agencies, etc.) to enter into cooperation agreements with similar institutions or profit-making business enterprises.

The different characteristics of cooperation partners involved would require a different treatment and solution of questions and problems concerning cooperation between them. Some of the paragraphs of the Guide do not properly apply to such cooperation.

### 2.2.1 Vertical Cooperation

As stated, some of the discussions of the Guide are not applicable to vertical cooperation. An example of such discussions is the territorial division of the right to secure legal protection of joint inventions and joint industrial designs and to exploit them. In the case of vertical cooperation between a user and a supplier (such

as between an automobile manufacturer and a maker or supplier of assembly parts for development or improvement of assembly parts for automotive vehicles), the user sometimes has no intention to exploit technological results itself in any territory but wishes to have the supplier use them to manufacture such assembly parts for supply to the user. In such case, there would be no need for territorial division of the right to own or exploit joint inventions and joint industrial designs.

Vertical cooperation differs from horizontal cooperation in many other respects, too. It is advisable, therefore, to add to the Guide a separate section which deals with problems relating to vertical cooperation.

The nature of problems involved in vertical cooperation itself also varies according to the relationship between the partners. In most cases, vertical cooperation aims at development of a particular product to be manufactured by one of the partners ("supplier") for use by the other partner ("user"). Such cooperation takes place:

(a) between a manufacturer of assembly parts or raw materials and a manufacturer of finished products (such as between a petrochemical company and a textile company for development of a petrochemical product to be used as a raw material for manufacture of a textile

product, and between a textile company and an apparel company for development of a textile product suitable for design and production of an apparel product);

(b) between a manufacturer of machinery or equipment and a manufacturer of products using such machinery or equipment (such as between a manufacturer of assembly tools and an automobile company for development of a special tool to be used for assembly of automotive vehicles);

(c) between a manufacturer of machinery or equipment and a company providing services using machinery or equipment (such as between a manufacturer of tools and an automobile repair shop for development of a tool to be used for repair of automotive vehicles); and

(d) between a manufacturer and a distributor or a retailer (such as between a manufacturer of consumer goods and a discount store operator for development of special consumer goods to be sold at discount stores).

Where vertical cooperation aims at development of any special product, vertical cooperation agreements would need to include terms and conditions for commercial transactions relating to purchase and sale of products to be developed in anticipation of success in the development of such products. However, the interest of each partner

in the exploitation of technological results would often differ from that of the other. The supplier might wish to have a secured customer of the product to be developed to ensure that development costs will be recovered. At the same time, however, the supplier might not wish to be exclusively tied to the particular user and might wish to have freedom in the selection of purchasers of the product. On the other hand, the user might wish to have an exclusive right to purchase the product from the supplier and might even wish to have one or more other manufacturers manufacture the product for it. In some cases, however, the user might prefer to allow the supplier to supply the product to other users in return for some compensation or with the expectation of a reduction in the production costs to be paid for the product. These different motives and requirements of the cooperation partners need to be carefully reconciled in drafting the cooperation agreement. There may be a variety of alternatives to deal with these different requirements, which may include the following:

(a) In a case where the cooperation partners desire to continue their close relationship for exploitation, the user may be granted an exclusive right to purchase the product from the supplier for use or resale in a certain specified geographical territory or for certain specified applications. The supplier may be free to sell the product outside of such territory and

applications. In consideration of such exclusive right, the user may be required to purchase a certain specified minimum quantity of the product. These arrangements will terminate at a specified time whereupon each partner will be free from any such restriction and requirement.

(b) A more loose arrangement would be that the supplier would be free to sell the product to other customers with or without payment to the user of specified compensation. The user would similarly be free to buy such product from other sources. However, the supplier would, when requested by the user, supply the product on the most favored terms.

(c) There may be a case where each cooperation partner desires to exploit technological results independently. In such case, the desired arrangement for exploitation would be similar to that under horizontal cooperation. Both the supplier and the user would use the technological results to manufacture the product with or without payment to the other of specified compensation.

In any case, however, there will be a great deal of difficulty in drafting provisions for the cooperation agreement with respect to future commercial transactions, as it would be extremely difficult to foresee what

technological results might be achieved. Without knowing these results, no one can define in the cooperation agreement the appropriate amount of compensation, the minimum purchase quantity, etc. Perhaps, a practical approach would be to set forth only a general guideline the basis of on which more definitive provisions could later be worked out when the agreement for commercial transactions is drafted.

2.2.2 Cooperation with Non-Profit Institutions

Because of their public nature, non-profit institutions often have fixed policies established or approved by the government with respect to certain terms of cooperation agreements to be entered into by such institutions, and such policies cannot be altered by contractual provisions. Consequently, some of the discussions in the Guide cannot be applied to cooperation agreements with or between such institutions.

Some of the areas in which non-profit institutions may have such fixed policies are the following:

(a) The ownership of joint inventions and joint industrial designs;

(b) Exploitation of joint inventions and joint industrial designs;

(c) Licensing of rights to third parties;

(d) Applicable law;

(e) Competence of courts; and

(f) Settlement of disputes by arbitration.

It should be noted in the Guide that the discussions in it would have to be reconsidered in the light of varying policies of each non-profit institution in the case where the cooperation agreement is with such institution.

2.3 Anti-Trust and Other Public Laws

Although, in some paragraphs of the Guide reference is made to national laws, it may be advisable to refer, where necessary, specifically to the anti-trust or competition laws existing in many advanced countries and to the laws on the introduction of technology prevailing in developing countries. Those laws would limit the ability of cooperation partners to freely negotiate and agree on terms of the cooperation agreement. Some of the arrangements recommended in the Guide might, in some countries, even be against those laws.

The Guide would be more comprehensive and useful if it would pay attention to those laws wherever appropriate.

## III SPECIFIC COMMENTS

While in this paper we do not intend to discuss each paragraph of the Guide, our major comments on some specific paragraphs included, as well as on some which are not yet included, are as follows:

### 3.1 Objective and Scope of Cooperation

We note that the Guide lacks discussions of the importance of how to define the objective of cooperation and the scope of joint inventive activity. These definitions are important not only for defining the scope of joint inventions and joint industrial designs but also for determining (i) development costs to be shared, (ii) information to be exchanged, (iii) success or failure of the joint inventive activity, (iv) similarity of other joint inventive activities with third parties, and (v) many other rights and obligations of the partners. Where possible, it may be advisable to set forth target specifications to be achieved in the cooperation agreement.

### 3.2 Responsibility of Each Partner

Once the scope of joint inventive activity is defined, it would then be necessary to allocate the responsibilities to each partner within that scope and to define what contributions each partner is required to make

towards the achievement of the objective of the cooperation. The division of responsibilities between the cooperation partners would again depend on whether the cooperation is horizontal or vertical, on whether the partners include non-profit institutions, and on various other circumstances.

In this connection, consideration should be given to whether there should be a penalty in the event of failure of a partner to fulfill its responsibilities. Since development activity inherently involves a risk of failure, in many cases it would not be appropriate to penalize either partner except for a default in specific obligations such as the secrecy obligation. Indeed, the success of joint inventive activity cannot be secured by any legal means but can be achieved only through the willingness of each partner to make his best effort. For these reasons, it is of utmost importance to choose a reliable partner.

3.3 Cost Sharing

The Guide discusses how to share costs in obtaining and maintaining legal protection of joint inventions and joint industrial designs, but does not offer any options as to how to share development costs.

The typical arrangements for sharing development costs would be either (i) to allocate costs to the partners at fixed percentages (for example, on a 50-50 basis) or (ii) for each partner to bear its own development costs within the scope of its own responsibilities. Except where the latter arrangement is adopted, it would be desirable to specify a mechanism in the cooperation agreement as to how the budget for the total development cost is to be established and controlled in order to prevent either partner from being forced to bear an unexpectedly large amount of costs.

3.4 Restriction on Use of the Other Partner's Information

The Guide states that the cooperation partners should exchange with each other information necessary for the joint inventive activity, but does not discuss the necessity of restricting the use of such information for other purposes. In most cases, each partner is willing to provide information to the other partner only for use in the joint inventive activity and does not wish any such information to be used for any other purpose. This would be especially so in the case of horizontal cooperation.

In this connection, it is important to clearly define in the agreement the purpose of the cooperation and the scope of joint inventive activity, as stated above.

### 3.5 Restriction on Similar Joint Inventive Activity

Cooperation agreements sometimes provide for restriction on entering into other cooperation agreements with third parties for a similar purpose. Such restriction may be desirable to prevent technological results under one agreement from being mixed up with those arising from other agreements. On the other hand, in some countries, such a restriction may be regarded as an unreasonable restraint of trade and as being in violation of the anti-trust or competition laws.

In connection with such a restriction, again, it would be important to clearly define the objective of cooperation and the scope of joint inventive activity so that the similarity of joint inventive activities under different cooperation agreements can be determined.

### 3.6 Term and Termination

How long the cooperation agreement should continue requires careful business consideration. It would generally depend on the types of technology or product involved, the degree of mutual trust between the partners, and various other factors.

In most cases, it would be desirable to divide the entire agreement term into several phases and to set a

target for each such phase. The agreement could further provide that at the end of each phase the partners shall jointly review the progress made during such phase and, where necessary, agree on modifications in the schedule and targets for the subsequent phases. These provisions would help the joint inventive activity proceed in a manner satisfactory to both partners.

Because of the uncertainty of achievement of the objective of cooperation, however, it may be desirable to permit either partner to withdraw from the agreement prior to expiration of its term. In fact, a partner would gain little by forcing the other partner who has lost interest to stay unwillingly. In this connection, it would be necessary to consider whether it is appropriate to permit the withdrawing partner to retain its rights to the joint invention and joint industrial designs acquired up to the date of its withdrawal.

3.7 Arbitration

The Guide states that in international commercial practice, arbitration is increasingly preferred to proceeding before civil courts for the settlement of disputes. We concur. First, proceedings before courts are open to the public and thus have the danger of disclosure of information. Of course, such disclosure should be avoided in the case of technological cooperation

agreements which would necessarily involve sensitive information requiring highest protection. Secondly, the relationship between the cooperation partners is difficult to precisely define in strict legal terms and, as a result, is not suitable for interpretation and resolution in strict accordance with law.

* * *

In closing, we would like to reiterate that the Guide is an useful attempt to suggest possible solutions and options for problems in international scientific, technological and economic cooperation. We appreciate the efforts made by all the persons concerned in drafting the Guide. However, we hope that many more experts throughout the world will contribute their wisdom towards further improving the Guide by revision.

* * * * * * * * *

ANNEXES

A. COMMENTS ON JOINT INVENTIVE ACTIVITY GUIDE OF WIPO
submitted to the Japanese delegation to the Expert' Conference of WIPO.

B. COMPARATIVE ANALYSIS — KOBE PAPER BY JAPANESE COMMITTEE NO.2 AND THE GUIDE.

C. Full copy of THE GUIDE.

- ANNEX A -

COMMENTS ON JOINT INVENTIVE ACTIVITY GUIDE OF WIPO

April 25, 1983
Juro Ichimura, Chairman
Second Committee, PIPA

The Second Committee of PIPA has reviewed "Draft Guide to the Legal Regulation of Questions Concerning the Results of Joint Inventive Activity in the Course of International Scientific, Technological and Economic Cooperation" (hereinafter referred to as the "Guide") which WIPO published on December 13, 1982.

The following are our comments. We would appreciate it if the Japanese delegation to the Experts' Conference on Joint Inventive Activity, to be held at WIPO's headquarters in Geneva, from May 2 to 6, 1983, would take our comments into consideration.

COMMENTS

The Guide is, as a whole, well formulated. Nevertheless, it still seems necessary to pay greater attention to the social, economic and legal systems of various countries, since the Guide is intended to provide guidelines which might, in a sense, rule over all international joint activities. Further, it should be noted that international cooperation may come in various forms.

Our comments are as follows.

1. International cooperation takes various forms. The international partnerships which the Guide seems to be exclusively concerned with are limited to "horizontal" ones between profit-making enterprises. International cooperation may be "vertical" as well, between a semi-product manufacturer and a finished product manufacturer, between a profit-making enterprise and a non-profit organization, or the like. There are certain problems inherent in horizontal international cooperation, and there are other problems inherent in vertical international cooperation. Therefore it would be desirable for guidelines to be made for vertical international cooperation as well.

2. There is the possibility that the Guide may be incorporated into the national laws of developing coutries in its present form. The Guide should therefore be carefully reviewed in the light of the industrial properaty laws, contract laws and antitrust laws of the advanced countries, and it should not be unfavorable to the advanced nations.

3. The Guide seems to set forth guidelines in connection with securing legal protection, joint trademarks, and the-like, in unnecessarily great detail. The Guide, however, does not contain the following important items which should be stated in connection with joint activity.

(1) Scope of Joint Cooperations

Unless the scope of joint cooperation is clearly defined in the agreement, disputes may arise later between the cooperation partners with respect to ownerships of the joint invention and/or the results of the joint cooperation.

(2) Restriction on Use of the other partner's Information for Other Purposes

Provisions restricting the use of information for purposes outside the scope of the cooperation agreement should be prepared. Such provisions need not necessarily be a total ban on the use of information for other purposes. It may be stipulated, for example, that one partner shall not use specific information for other purposes without prior consent of the other partner which has given the information, provided that it may be stipulated that such information could be used for other purposes only if a royalty-bearing license is granted to the partner.

(3) Failure of Joint Cooperation, Termination of Cooperation Agreement

The Clause of the termination in the agreement is, a much greater concern than that of the expriation therein. The treatment of the results of the joint inventive activity after the termination of the cooperation agreement must be set forth in detail in any agreement. A guide line regarding this item should be added.

4. In addition to the afore-mentioned points, we propose that the Guide emphasize the preference of arbitration procedures in settling disputes between the cooperation partners. This is because resorting to court procedures may very likely cause other problems over the protection of know-how, cost, speed and the like.

To sum up the foregoing, the Guide contains many questionable points. It is our recommendation that WIPO carefully review the present Guide and then publish a new, revised Guide.

* * * * * * * * * * * *

- ANNEX B -

# COMPARATIVE ANALYSIS — KOBE PAPER BY JAPANESE COMMITTEE NO.2 AND THE GUIDE

The following is the comparative analysis of the paper read by Japanese Group, Committee No.2, in the 13th Conference in Kobe ("Kobe Paper") and the WIPO's Joint Inventive Activity Guide ("the Guide") with comments on each item.

1. COVERAGE

[Kobe Paper] covers only the joint research and development (R&D).

[the Guide] covers (1) the joint production and other scientific research activities as well as the joint R&D., and (2) the government-sponsored R&D.

Comments

The Guide covers R&D activities in different categories inclusively. Each guide in each category should be prepared separately.

2. BACKGROUND FACTORS

[Kobe Paper] Market of major interest is different in general. Applicable laws including the Patent Law and the Anti-Trust Law and the Thought of contract are different.

[the Guide] points out (1) differences in the social and economic systems, (2) differences in the level of scientific and technological development, and (3) differences in the local Industrial Property Law.

Comments

The factor of market should be taken into account in the Guide.

3. OWNERSHIP

[Kobe Paper] The joint ownership should not be necessarily pursued because;

(1) separate R&D is common, and (2) the different market of major interest affects the patent strategy.

Filing of patent applications should be made taking the following into account;

(1) in view of the first-to-file system any applications to Japan should be filed as earlier as possible. (2) with respect to filing of a corresponding patent application in the partner's country for the solely-owned right, a prior consultation should be made as to whether or not the application is to be handled by the partner. (3) with respect to the inventions made in USA, the patent applications therefor should be filed first in USA.

[the Guide] (G-1) The Guide defines the joint invention as being not only jointly invented by employees of the parties but also solely invented by employees of either party.

(G-2) The R&D achievement for which the parties invested jointly should be jointly shared.

(G-3) The result of the establishement and the activity of a joint venture company should be jointly shared.

(G-4) The joint invention in a narrow definition should be regarded as being of a joint ownership.

(G-5) The joint invention in a broad definition should be regarded as being of an ownership to be determined by an agreement between the parties.

(G-6) With respect to the joint inventive activity the exchange of information is obligated.

(G-7) The Guide suggests a provision of securing legal protection, such as the legal procedures for filing and patent protection.

Comments

(G-1) The joint invention should be construed narrowly thereby allowing the ownership of the invention to the party to which the inventors belong.
It is preferable to determine its ownership, joint or sole, in view of the inherent proprietary.

Identification of the joint invention and its ownership should be separately treated.

(G-5) With respect to the broad definition of the joint invention, it should be owned individually by the company to which the inventors belong. Appropriate adjustment can be taken in view of future use.

(G-6) Consideration should be made as to local acts and rules for confidentiality (ex. the Tarrif Law in USA).

(G-7) Provision for securing legal protection are not appropriate to be included in the joint R&D, production or sales agreement. They can be separately provided for.

A suggestion is made as to the adoption of a system wherein filing of a joint invention by one party is assured and upon a grant of patent, assignment is allowed to ensure the joint ownership. This requires a prior consideration to the local legal system of each country.

4. RIGHT TO EXPLOIT

[Kobe Paper]

Jointly Owned Rights

Basically, the right to exploit the inventions without any restriction should be assured to the parties.

The one-sided restriction of use may raise a question of violating the Anti-Trust Law so that the parties should be careful in this regard.

Solely Owned Rights

Generally, a royalty-free cross license without restriction is available.

Some restrictions may be unavoidable if devotion of the parties to the invention differs. In this case, consideration to the Anti-Trust violation should be throughly made.

Sub-license and share of royalty therefrom should be discussed beforehand.

Background Patents

Patents in this category should be treated in the same manner as the treatment of the solely owned right with some restriction on the license in terms of R&D areas, types of products, and marketing territories.

[the Guide]

Joint Invention

(G-1) Each party has the right to exploit it in its own country. Regarding the third countries, an agreement between the parties should detail which party should have the right to exploit it.

Background Patent

(G-2) Parties are granted a license, either royalty-bearing or royalty-free, during the term of the agreement.

The Guide stipulates detailed procedures for filing and protection.

Comments

(G-1) The Guide does not refer to the case of vertical cooperation, in which the right to exploit would be restricted to some extent.

No reference is made to a sub-license to a third party of the solely owned rights.

There are some cases requiring a right to exploit the joint invention in the partner's country.

Market size of each party should be taken into account.

(G-2) With respect to the detailed stipulation regarding filing and protecting procedures, we do not see the requirement laying behind.

It can be handled in the same manner as for the normal invention of the party to which the inventor belong.

5. DISPOSAL OF JOINTLY OWNED RIGHTS

[Kobe Paper] The following should be discussed befofehand;

(1) Availability of a license to a third party including terms and conditions, shares of royalty, etc.
(2) Availability of assignment or pledge of its share.
(3) Exclusion of a third party's infringement.

[the Guide] (G-1) With respect to the joint inventions, each party has a right to grant a non-exclusive license to third parties in its respective countries. Licenses to third countries should be determined upon mutual consultation.

(G-2) The royalties from the third countries should be shared by the parties. (The royalties from respective countries should be exclusively received by the respective party.)

(G-3) Exclusion of a third party's infringement is subject to the mutual consent of the parties. If either party has no interest in exclusion, the other party may elect the exclusion solely.

Comments

(G-1) With respect to the solely owned rights, the owner has a discretion as to their disposal, with a proviso that the other party's standpoint is well taken into account.

(G-2) With respect to the profits to be shared, arrangements to make them equal are necessary.

(G-3) With respect to a third party's infringement, the owner of rights should have a right to elect its exclusion.

6. KNOW-HOW

[Kobe Paper] Know-how is treated in a substandtially same manner as the invention.

[the Guide] ditto

Comments

A confidentiality provision requiring the recipient of disclosed information not to use for other purposes should be additionally included.

Know-how should be defined as being secrecy.

Refer to the comments on the invention.

7. TRADEMARK

[Kobe Paper] No reference is made in particular.

[the Guide] Detailed provisions are made as to the ownership of the joint trademark, procedures for applications, and assignment or license to a third party.

Comments

In general, detailed stipulations seem not to be necessary. Sufficient is a general stipulation leaving a discretion to determine the details on the parties involved upon mutual consultation.

8. CONFIDENTIALITY

[Kobe Paper] The practice of domestic agreements can be applicable so that no special reference is made thereto.

[the Guide] The parties will have to treat the result of joint activity as confidential.

Comments Nothing in particular.

9. PROVISIONS FOR POST-EXPIRATION

[Kobe Paper] The practice of domestic agreements can be applicable so that no special reference is made thereto.

[the Guide] The fate of titles of protection will have to be decided upon in connection with the expiration or cancellation of cooperation agreement.

Comments

A provision as to earlier termination should be included in the Guide.

10. APPLICABLE LAW

[Kobe Paper] The determination of applicable laws must be made taking a practical view point of the agreement into account.

Suggestion is made as to the languages to be used for the agreement.

[the Guide] In an international cooperation agreement the choice of the applicable law is one of the most important questions.

Comments Nothing in particular.

11. JURISDICTION

[Kobe Paper] Recommended is the settlement of disputes between the parties by arbitration instead of court decisions.

[the Guide] Suggested is the jurisdiction to courts in selected countries or specified courts.

Comments Nothing in particylar.

12. ARBITRATION

[Kobe Paper] Stipulation of the following is recommended.

a) Name of the arbitration organization to use

b) Applicable arbitration rules or applicable laws

c) Place of arbitration

d) Identification of disputes to be settled by arbitration

e) Number of arbitrators and how to select them

f) Decision (majority vote or unanimous vote)

[the Guide] In international commercial practice, arbitration is increasingly prefered to proceeding before civil courts for the settlement of disputes.

Comments

Nothing in particular.

- ANNEX C -

# Full copy of THE GUIDE

## PART I: Introduction

### A. Background

1. Economic, scientific and technological cooperation between various countries, including countries with different social and economic systems, is growing in importance. Within the framework of such cooperation, questions relating to technology play a special role. Usually technology is transferred from one cooperation partner to the other or exchanged between the partners. On the other hand, new technology may be created as a result of the cooperation, and this raises legal questions concerning possible rights of the partners in relation to such jointly created technology. In addition to technology, the cooperation may also lead to a new product design or to new trademarks. The common feature of all those results of cooperation is that they are of an immaterial nature, and may become the subject of industrial property rights. The relevant questions are complex and require careful consideration during the negotiation of the cooperation agreement. Moreover, questions may arise with respect to the obligations of the cooperation partners in connection with the creation of new technology or product design, and with respect to the rights of inventors and creators. The latter questions, which likewise relate to industrial property, also need to be regulated in the agreement.

2. Existing laws and treaties, in particular industrial property laws and treaties, do not appear to contain a complete set of rules governing the above questions. In many respects, the partners in the cooperation will have to adopt their own solutions, nevertheless taking the general legal framework into account. On the one hand, this may facilitate the negotiation and conclusion of the agreement, because of the possibility of adapting each provision to the specific circumstances of the envisaged cooperation. Yet on the other hand, the absence of preexisting legal regulations or guidelines may make the negotiation and conclusion of the contract more complex, since the partners will first have to agree on the definition of a number of basic concepts--a task which requires particular skill where substantial differences exist between the social, economic and legal systems of the countries concerned.

### B. Purpose of the Guide

3. The purpose of this Guide is to facilitate the drawing up of agreements for economic and technical cooperation between partners from different countries, and to give practical advice to the cooperation partners for the legal regulation of questions concerning the results of joint inventive activity.

4. For this purpose, the Guide analyzes the various problems that arise in connection with cooperation agreements in respect of joint inventive activity. It also attempts to develop a uniform approach towards the regulation of those problems (including questions relating to the settlement of disputes).

5. However, the Guide does not, as a rule, make specific recommendations as to the procedures that should be followed and the contractual provisions that should be adopted. Its purpose is essentially descriptive and it analyzes the existing problems and offers possible solutions. Moreover, the Guide is not an exhaustive treatise; it rather presents a systematic outline without attempting to cover every specific situation.

6. The Guide is primarily intended for use by industrial enterprises and research and development institutions that are involved in international scientific, technological and economic cooperation. However, the Guide may also be useful to Government departments with responsabilities in connection with the promotion, planning and implementation of cooperation agreements or those whose task is to promote international scientific, technological and economic cooperation generally.

C. Contents of the Guide

7. This Guide consists of an introduction (Part I), a main part on joint inventive activity (Part II), which is divided into five sections (A to E), and an Annex containing a Glossary.

8. Section A of Part II deals with joint inventions and joint industrial designs resulting from common research and development activities under the cooperation agreement.

9. In the course of the cooperation some results of inventive activity relating to the common tasks may be achieved through the individual effort of one of the cooperation partners. Such independently made inventions and industrial designs are dealt with in Section B of Part II.

10. Section C examines problems relating to know-how obtained through joint activity. Even though know-how does not usually enjoy legal protection per se, it constitutes an important achievement, and problems related to it should not be excluded from consideration when cooperation arrangements are prepared and concluded.

11. Section D deals with problems related to trademarks jointly developed in the course of cooperation. Although trademarks, strictly speaking, are not the result of inventive activity, their creation may nevertheless require considerable effort (in particular, the search for conflicting trademarks and marketing planning), and their use is extremely important for the commercial success of activities that may be covered by the cooperation agreement.

12. The last section (Section E) of Part II considers some particular matters not related to any specific industrial property right, such as confidentiality arrangements, the infringement of third-party rights, the applicable law, the competence of courts and the settlement of disputes.

D. Terminological Questions

13. One of the most important objectives of the Guide is the promotion of uniform terminology, which is essential for any international cooperation. The Annex to the Guide contains a Glossary of the most important terms, with their definitions. In this connection it should be noted that the terminology used in the Guide is the same as that used in other WIPO publications.

14. Two expressions will be frequently used in this Guide, namely "cooperation partner" and "cooperation agreement." Therefore, also as a kind of introductory statement, the following definitions are given here: (i) "cooperation partner" means the legal entity (company, State enterprise, research institute, Government agency etc.) that concludes a cooperation agreement with another cooperation partner; (ii) "cooperation agreement" means a (legally binding) contract between two or more cooperation partners, by which rights and obligations concerning the cooperation are established, amended or terminated (regardless of the name used for the agreement, e.g. "joint venture," "protocol," "memorandum," etc.).

E. Joint Inventive Activity Resulting from Cooperation Between Partners Belonging to Different Social and Economic Systems

15. Joint inventive activity is not a new feature in international cooperation. It emerged with the first agreements and contracts on cooperation in production, research and development, and more recently also in scientific research work between enterprises and institutions of different countries. In the early stages of such cooperation, however, where the partners belonged to countries with the same social and economic system and a similar and comparable level of development, most of the problems could be solved according to the traditional contractual practice.

16. With the internationalization of production, research and development in recent years, joint inventive activity has become a more important feature of international cooperation contracts between partners from countries with different social and economic systems, different levels of development, particularly in science and technology, and different national industrial property legislation. Therefore, special attention should be paid to problems of joint inventive activity during the negotiation and drafting of an international cooperation agreement between partners belonging to different social and economic systems. Since no standards or prototypes exist for contractual clauses regulating questions of joint inventive activity, the cooperation partners should carefully analyze the relevant facts and negotiate with a view to creating a legal structure that fully covers the questions to be regulated and thus ensures successful cooperation.

## PART II: Joint Inventive Activity

17. A common feature of any scientific, technological and economic cooperation is that joint creative effort is required of the cooperation partners to achieve the common tasks and aims agreed upon in their cooperation agreement. This applies in particular to cooperation in technological research and development, where joint creative activities produce immaterial results of considerable economic value. Those immaterial results may be inventions, industrial designs, technovations or know-how. Where the cooperation covers commercial aspects, the results may include trademarks. All these results, with the exception of know-how, are relevant from the point of view of industrial property protection.

### A. Joint Inventions and Joint Industrial Designs

18. The most important results of joint inventive activity are joint inventions. Industrial designs are also important, although not to the same degree as inventions. The legal questions concerning inventions and industrial designs are similar, however, so that both can be treated together.

#### (a) Definition of Joint Invention (Joint Industrial Design)

19. In order to define the joint invention and the joint industrial design, the most important question to be solved concerns the expression "joint." In an attempt at a definition, it could be stated that any invention (or industrial design) made in the execution of a cooperation agreement by employees of the cooperation partners is a joint invention (or joint industrial design), provided:

(i) that at least one of the inventors (or creators of the industrial design) is employed by one of the cooperation partners and at least one other inventor (or creator of the industrial design) is employed by the other cooperation partner, irrespective of where the said invention (or industrial design) concerned was made; or alternatively :

(ii) that the invention (or industrial design) was made as a result of joint research and development and/or production activities on the part of the cooperation partners by one or more persons employed or commissioned by one of the cooperation partners.

20. Thus, two cases would have to be distinguished: first, the case where the invention (or industrial design) has been made jointly by employees of all cooperation partners, and second, the case where the invention (or industrial design) is the result of joint research and development and/or production activities of the cooperation partners. In the first case, there are several co-inventors (or joint creators of the industrial design) who cooperate in the

making of the invention (or industrial design), while in the second case there may be only one inventor (or creator of the industrial design), but the invention (or industrial design) is nevertheless a joint one because it was made in implementation of the cooperation agreement and was based on joint research and development activities and/or joint production activities.

21. Of course, the cooperation partners are free to adopt another definition of the joint invention (or joint industrial design). They may, for example, regard an invention (or industrial design) as a joint one only if it was made jointly by employees of all partners, which means that the contribution of each co-inventor or each joint creator of the industrial design must be such that it corresponds to the definition of co-authorship in each of the industrial property laws applicable.

22. Several practical cases may be distinguished in connection with joint inventions and joint industrial designs.

(a) The most typical case of international cooperation will be that in which employees of the cooperation partners, as a result of their joint creative activity, produce a joint result. Thus the joint achievement character of such a result is determined by the joint creative activity of the employees of the cooperation partners.

(b) If the cooperation partners, in order to achieve the objectives set forth in their cooperation agreement, agree to share the cost of research and development, they may be induced to regard any immaterial result within the framework of the cooperation as having been obtained jointly, irrespective of whether the result was produced by employees of one or all cooperation partners. The joint-achievement character of such a result is determined by the fact that the research and development has been jointly financed.

(c) If immaterial results are produced in an enterprise set up by the cooperation partners ("joint venture"), it seems justified, in view of the close cooperation based on the organizational form of the enterprise concerned, to regard such results as jointly obtained, irrespective of whether they were created by persons delegated to the joint venture by one or by all cooperation partners. The joint-achievement character of such results then resides in the very close cooperation of the partners, which is reflected in the establishment and activities of a joint venture.

(b) Ownership of Joint Inventions (Joint Industrial Designs)

23. Having defined the joint invention and the joint industrial design, the question arises whether the fact that an invention or industrial design has been made jointly leads to joint ownership of the invention or industrial design. In order to reply to this question one has first to consider what "ownership" means in relation to an invention or industrial design. Obviously, ownership does not include merely the title of protection (e.g. the patent) but rather means rights that exist before such a title is granted, namely, the right to obtain a title of protection for the invention (or industrial design) in the country of residence of a cooperation partner and in other countries, the right to work the invention (or exploit the industrial design) in the country of residence of a cooperation partner and in other countries, the right to export--or, depending on the country from whose point of view this question is considered, the right to import--products whose manufacture has involved working the invention or exploiting the industrial design, and the right to transfer any of the aforementioned rights.

24. When the question whether joint inventions or joint industrial designs belong to all cooperation partners as co-owners is considered, due account will also have to be taken of which among the several possible definitions of the joint invention and the joint industrial design was adopted. If the narrow definition based on co-authorship applies, it may already follow from the industrial property laws that both cooperation partners are co-owners of the joint inventions and joint industrial designs (a solution which, under the

laws of a number of countries, assumes that inventions and industrial designs made by an employee in the execution of his contractual obligations belong to the employer). If the broad definition of the joint invention and the joint industrial design (including any result of jointly financed activities) applies, the question of ownership does not necessarily follow from the industrial property laws but--most probably--depends entirely on the contractual provisions adopted by the cooperation partners. Moreover, it may be that the industrial property laws of various countries provide for different solutions, and that the various aspects of ownership are regulated in a different manner. For these reasons it is indispensable that the cooperation partners regulate the question of ownership in their agreement--even where the narrow definition of joint invention (based on co-authorship) has been adopted. Moreover, it appears advisable for the agreement to deal with some of the specific aspects of ownership referred to in paragraph 23. For example, it should be clarified whether joint ownership should automatically have the consequence of all the rights covered by ownership being exercisable only jointly by the cooperation partners. Such specific aspects will be dealt with in one of the subsequent chapters of this Guide.

(c) Exchange of Information Concerning Joint Inventive Activity

25. Before examining questions concerning joint ownership in detail, it is appropriate to deal with an important aspect of the relations between the cooperation partners, namely their obligations concerning the exchange of information.

26. One of the basic provisions of every cooperation agreement should be that the cooperation partners inform each other of any results of joint inventive activity, since this mutual information will be a prerequisite of making arrangements to secure legal protection for such results as well as their exploitation in accordance with the objectives of the cooperation agreement.

27. In particular, it will be required that each cooperation partner

(i) take the necessary measures so that employees who participate in joint activities inform it promptly of any joint inventions or joint industrial designs which might emerge of their work under the cooperation agreement;

(ii) promptly inform the other cooperation partners of any joint invention or joint industrial design (in this connection, however, national laws controlling the disclosure of inventions will have to be respected);

(iii) transmit to the other cooperation partners the relevant papers, documents or specifications relating to every new joint invention or joint industrial design.

28. The obligation to exchange information should not be limited to results that clearly fulfill the legal requirements of patent or industrial design protection. Even where a result is such that it may appear doubtful whether patent or industrial design protection could be validly obtained or where the result is an improvement of an invention or a technovation, the cooperation partners should keep each other informed. This means that the measures taken in order to ensure the obtaining of relevant information from employees have to extend to any kinds of results that might be considered from the point of view of joint inventive activity.

29. The obligation to exchange information should also cover facts that are relevant in order to determine co-authorship between employees of the cooperation partners. This is in particular the case where the narrow definition of joint inventions and joint industrial designs (based on co-authorship) is adopted. However, facts concerning co-authorship may also be relevant in determining whether a person who participated in the development of joint inventions or joint industrial designs may claim author's

rights (for example, the right to be mentioned as the inventor or creator of the industrial design or a right to remuneration in accordance with the appropriate provisions of the laws). In order to regard an employee of a cooperation partner who participated in the process of making an invention as a co-inventor, it is necessary for that employee to have made his own independent creative contribution to that invention, without which the invention would not have been made, or, in other words, for him to have participated in conceiving the invention. In order to clarify this issue the cooperation partners would have an interest in laying down criteria for determining co-authorship in their agreement.

30. As regards the transmittal of relevant papers, etc., it is advisable for the agreement to state that each cooperation partner will promptly communicate to the other cooperation partner, at the request of the latter, all necessary and duly executed documents required for the filing of applications for industrial property rights. Such documents include in particular descriptions and claims in respect of an invention or the reproduction of an industrial design. Moreover, once applications for titles of protection have been filed, there should be an obligation for each of the cooperation partners to inform the other partners promptly of the relevant facts (in particular the date) of the filing, the legal status of the application (in particular whether any action was taken by the industrial property office), as well as an obligation to forward a copy of the application filed to the other partner.

(d) Securing Legal Protection

31. Once a joint invention or a joint industrial design has been made in the framework of a cooperation agreement, the cooperation partners will have to deal with the question whether or not to file applications for legal protection or whether to keep the jointly obtained result secret. Obviously, this is a fundamental question with respect to which a provision should be included in the cooperation agreement. The provision should deal with tne method of reaching a decision on this question, and the most practical solution would seem to be to require agreement by all cooperation partners in every case. However, a solution would also have to be adopted if, in one specific case, there was no agreement between the partners (would this mean that no application could ever be filed or would a particular procedure be required in order to settle the disagreement?). Moreover, the cooperation agreement could establish certain principles, for example the principle that applications for titles of protection are to be filed unless all partners agree that this should not be done.

32. It may happen that one of the cooperation partners does not wish to undertake, or participate in, any measure for obtaining and/or maintaining legal protection for a joint invention or joint industrial design; for such a case, the cooperation agreement should contain a provision which, in order to avoid legal insecurity, could for example require that such a cooperation partner should clearly and in due time enter a waiver, and which would entitle the partner interested in the invention or industrial design to file applications, or act otherwise, in his own name.

33. Some further questions need to be settled in connection with an application filed or a title maintained in force by one partner whereas the other partner is not or no longer interested, in particular questions relating to the exploitation of the invention or industrial design by the partner who--although not interested in obtaining titles of protection--might not wish to be excluded from such exploitation.

(i) Questions Relating to Form of Protection

34. Since some national laws on the legal protection of inventions provide several forms of protection, the cooperation partners will have to decide which form of protection should be chosen in respect of the countries in question. For example, some national industrial property laws permit a choice between a patent and an inventor's certificate, some others provide for a choice between a patent and a utility certificate or registration as a utility model. Any decision as to which form of protection should be chosen will have to take into account the applicable provisions of national laws and international treaties.

35. Moreover, in some countries, namely those party to the European Patent Convention, there exists a choice between a national patent and a regional (European) patent. This is also a question to be decided by the cooperation partners.

36. Finally, the possibilities offered by the Patent Cooperation Treaty (PCT) and the Hague Agreement Concerning the International Deposit of Industrial Designs will have to be taken into account by the cooperation partners. The procedures provided for by those two treaties largely simplify the securing of industrial property titles in a great number of countries.

(ii) First Filing

37. The cooperation partners will have to agree on where the first application is to be filed, which then will serve as a basis for claiming priority under the Paris Convention for the Protection of Industrial Property. In many cases, the most practical solution seems to be for the first application to be filed in the country of the cooperation partner on whose territory the joint invention or the joint industrial design was actually made. The drafting of the application documents would then be facilitated since the facts relevant for identifying the invention or industrial design could be established in the country of the first filing.

38. While the principle of joint ownership would normally require all applications to be filed jointly by the cooperation partners, it may be more convenient for one of them, on behalf of the others to take the measures necessary for obtaining legal protection of the jointly made results. This would mean that the partner concerned would file the first application in his country of residence.

39. Where joint inventions or joint industrial designs arise from the statutory activities of a joint venture enterprise established by the cooperation partners, it would appear most appropriate for the first application to be filed in the country of residence of the joint venture enterprise.

(iii) Filing of Subsequent Applications in Other Countries

40. Taking into account the objectives of the cooperation and in particular the prospects of commercialization of the joint inventions and joint industrial designs, the cooperation partners will have to decide in which countries, in addition to the country of the first filing, titles of protection should be applied for. Here, a distinction has to be made between the country of the other cooperation partners (in contrast to the country where the first filing was made) and "third" countries. As regards the country of the other cooperation partners, the decisions with respect to the filing of an application could be left to that cooperation partner.

41. Where all cooperation partners are interested in titles of protection in third countries, the following provisions could be included in the cooperation agreement. If permitted by the national law, applications should be filed in the name of all cooperation partners; otherwise, the partners would have to determine in whose name the applications should be filed. The cooperation partners would, where filing in the name of all of them is intended, have to agree in respect of each third country on the choice of the representative (whose appointment usually is required where the applicant does not reside in the country of filing).

42. If one of the cooperation partners waives the right to file an application in any third country, the other cooperation partners should be entitled to exercise the right to file an application in that country in their own names and at their expense. The cooperation partner so filing would have the right to exploit the invention or industrial design by manufacture and to grant licenses in that country. However, the question would arise whether the cooperation partner that waived its rights in respect of the country concerned

would even be barred from importing into that country. This question would need to be regulated in the cooperation agreement. In any case, the cooperation agreement should place the cooperation partner that waives its right to file an application in any third country under the obligation to inform the other cooperation partners of this decision in due time before the expiration of the priority period, for example not later than nine months from the filing date of the first application for protection of the joint invention and not later than three months from the date of the first application for protection of the joint industrial design.

(iv) Maintenance of Titles of Protection

43. Since the maintenance of titles of protection affects the property interests of the cooperation partners, it is essential that the partners should reach an understanding on whether the titles should be maintained in force.

44. If one of the cooperation partners wishes to renounce the maintenance in force in any country of a granted title of protection, that partner should be obliged to communicate its wish to the other partners not later than three months before the due date for paying the annual fees, so that the other partners have enough time to examine whether, under the circumstances, they would be interested in maintaining that title in force. If this is the case, the renouncing partner should be obliged to assign its rights in respect of the country concerned to the other partners free of charge. As in the case of a partner who is not interested in filing an application, it would have to be decided whether the renouncing partner could maintain the right to import into that country.

(v) Cooperation in Connection with the Preparation of Application Documents

45. An essential obligation of the cooperation partners, which should preferably be mentioned in the cooperation agreement, consists in assisting each other in preparing the application documents, and especially in exchanging all relevant information. In any case, the cooperation partners should keep each other fully informed on any application filed and also on any action in connection with applications (e.g. appeals against decisions refusing grant). The mutual exchange of such information is of special importance in cases where applications are filed by one cooperation partner in some third countries and by the other partner in others.

46. It will also have to be made cler in this connection that any correspondence with an industrial property office relating to applications is to be handled by the cooperation partner which, in accordance with the cooperation agreement, is competent for the filing of the application; the other cooperation partner, as mentioned in the preceding paragraph, will have to be kept informed.

(vi) Cooperation in Detecting and Proceeding Against Infringements of Titles Granted for Joint Inventions (Joint Industrial Designs)

47. The defense of rights concerning joint inventions (or joint industrial designs) affects the specific interests of all cooperation partners, since any infringement usually interferes with their cooperation objectives.

48. It is therefore essential that the cooperation partners assist each other in detecting, in their countries of residence, infringements of titles of protection granted for joint inventions or joint industrial designs and that they take measures, in accordance with the national law applicable, aimed at the detection and prohibition of the infringement as well as the securing of damages.

49. To the extent that the cooperation partners jointly own titles of protection, they will most probably (depending, of course, on the national law applicable) have to defend their rights jointly. Where legally possible (in particular, where only one cooperation partner owns a title relating to a joint invention or joint industrial design), the cooperation partners may agree that one of them should take measures with regard to defense against infringement. Such an agreement could perhaps even be assumed where the cooperation partners have established a scheme for the distribution of countries between them for the purposes of filing applications.

50. In any case, questions of major importance concerning the defense of rights (for example, initiating a lawsuit) should be decided by common consent between the partners. However, if one of the cooperation partners is not interested in proceeding against an infringement, the others should be allowed to do so at their own expense.

(vii) Questions Related to Expenses for Legal Protection

51. Where applications for titles of protection are filed jointly by the cooperation partners or by one of the partners on behalf of all of them, questions arise concerning the sharing of the expenses (industrial property office fees, patent agent fees etc.) associated with the filing of applications for, and the maintenance in force and defense of, titles of protection. In this respect, the following provisions could be included in the cooperation agreement: expenses incurred in the country of residence of a cooperation partner should be borne by that partner alone; expenses arising in third countries should be shared by the cooperation partners unless otherwise agreed upon; instead of differentiating between country of residence of a cooperation partner and third countries it might be agreed that the overall costs are to be shared according to a fixed key (either equally or in an agreed ratio). Moreover, since the expense of applying for titles of protection and maintaining them in force is more or less calculable, whereas expenses for the defense of rights can hardly be specified in advance, it might be useful to make a separate arrangement with regard to expenses for the defense of rights (notably proceeding against infringements).

(e) Exploitation of Joint Inventions (Joint Industrial Designs)

52. The exploitation of jointly obtained results is--according to the type of cooperation concerned--the principal objective of the cooperation or at least an important element of it. Therefore, special care is required to balance the interests of the cooperation partners in this respect.

53. The cooperation agreement normally fixes each partner's contribution (economic, scientific and technological) to the achievement of the results of joint activities. The sharing between the cooperation partners of the profits and other benefits gained from the exploitation of a joint invention or joint industrial design will have to be regulated in the agreement, due account being taken of each partner's contribution.

54. In particular, the exploitation of joint inventions or joint industrial designs could be regulated in the following way: each cooperation partner should have the right to exploit a joint invention or joint industrial design in its country of residence; as regards third countries, the cooperation agreement could specify the countries where a cooperation partner would be entitled to exploit the joint invention or joint industrial design individually and the countries where the joint invention or joint industrial design could only be exploited jointly by the cooperation partners.

(f) Assignment and Licensing of Rights to Third Parties

55. Any assignment of a title of protection and any grant of a license to a third party will have to take into account the applicable provisions of the relevant national law. Within this framework, the cooperation agreement will have to regulate several questions.

56. As far as the licensing of joint inventions or joint industrial designs to third parties is concerned, the agreement could provide that the cooperation partners should have the right to grant non-exclusive licenses confined to the territory of their country of residence, whereas licensing in third countries should be based on their mutual agreement.

57. Licensing in third countries might be effected in two ways: if industrial property titles are owned by all cooperation partners, license contracts could be concluded either jointly or by one of the cooperation partners; if industrial property titles in certain third countries are owned by one of the cooperation partners in its own name, whereas the other partners own titles in other third countries, it is appropriate that licensing in the respective third countries should be effected by the partner that owns the titles.

58. Particular attention is to be paid to the income from license contracts. As a matter of principle, the sharing of profits gained from joint activity results is an important feature of the exploitation of those results. This matter calls for regulation in the cooperation agreement, due account being taken of the character of cooperation and the specific interests of the cooperation partners.

59. It appears to be a simple, but fully appropriate, solution that profits gained from the licensing of joint inventions (or joint industrial designs) in third countries should be shared, whereas profits gained from licensing in the individual home countries need not be shared between the cooperation partners.

60. In this connection, any expenses incurred by one cooperation partner in the negotiation and conclusion of a license agreement, and any remuneration to be paid to inventors, would have to be deducted from any profits gained. In addition, it would be considered an inducement for the licensing of jointly made results if adequate commission were paid to the cooperation partner who initiated and negotiated the licensing agreement.

(g) Remuneration of Inventors of Joint Inventions and Creators of Joint Industrial Designs

61. The provisions concerning the treatment of inventors and creators are of special importance not only with respect to safeguarding the rights of these persons, but also in the public interest, in order to stimulate joint creative activities for the better achievement of the objectives set forth in the cooperation agreement.

62. The remuneration of co-inventors (or joint creators) of a joint invention or joint industrial design will have to be determined under the national law of the country of the cooperation partner that is the employer of the inventor or creator. In addition, the cooperation agreement may contain specific provisions. It will have to be considered whether, if one cooperation partner pays remuneration to its employee, the other partner should bear a share. If the remuneration depends on the actual exploitation of the joint invention or joint industrial design, account will have to be taken of the degree of benefit derived by each cooperation partner from such exploitation. Thus the question of remuneration of employees may be very complex.

63. Another solution which appears to be simpler and more practicable could be for each cooperation partner, under its national law or the specific conditions of the employment contract, to pay remuneration to those inventors and creators who are employed by it, without there having to be any clearing operations between the cooperation partners as regards payments made.

64. As far as joint ventures are concerned, an appropriate solution would consist in paying remuneration to inventors and creators in accordance with the national law of the host country of the joint venture. The payment of remuneration in accordance with the national law of the inventor's home country could also be considered.

B. Independently Made Inventions and Industrial Designs

65. Owing to the nature of industrial cooperation--and cooperation in activities relating to science and technology in particular--the cooperation partners will normally be starting from the scientific and technological level which they had reached at the beginning of their cooperation. That level is reflected, first of all, in the industrial property titles owned by each cooperation partner at that time.

66. If such pre-existing immaterial results that have been achieved independently by one of the partners may be included in the cooperation agreement for exploitation in order to attain the objectives set forth in that agreement, the cooperation partner will have to agree on the terms and conditions of use of such independently made inventions (or industrial designs). This also holds true of immaterial results which are made independently by one of the cooperation partners during the validity of the cooperation agreement and which are essential for the objectives set forth in the agreement to be achieved.

(a) Definition of Independently Made Invention (Industrial Design)

67. An invention (or industrial design) is to be regarded as having been made independently, if it is not covered by the definition of a joint invention (or joint industrial design), in particular if it existed with one of the cooperation partners before any joint activities started.

(b) Ownership

68. Any independently made invention (or industrial design) belongs to the cooperation partner that made it. Subject to any specific provisions in the cooperation agreement, the titles of protection of inventions and/or industrial designs acquired by one partner outside the joint activities will have to remain the property of that partner even if it undertakes to inform the other partner about them.

(c) Exchange of Information (Concerning Independently Made Inventions and Industrial Designs that are Possibly Relevant from the Point of View of Joint Inventive Activity)

69. Each cooperation partner will have to inform the other partners of titles of protection that it owns or obtains during the period of joint research work if such titles are directly related to the subject matter of the joint activities.

70. Consideration should be given to providing in the cooperation agreement that each cooperation partner should be obliged to grant a royalty-free license to the other partners for inventions (or industrial designs) that bear a direct relation to joint activities, such license being limited to the period of validity of the cooperation agreement.

(d) Securing Legal Protection

(i) General

71. Each of the cooperation partners will obviously be free to decide on measures to be taken in order to secure legal protection, in its own country and in other countries, for independently made inventions or industrial designs. After filing an application in his country for a title of protection for an independently made invention (or industrial design) that relates to the subject matter of the cooperation, the cooperation partner should inform the other partner of its action within a reasonable period (for example three months) following the filing date, indicating the countries in which it intends to file subsequent applications.

(ii) Cooperation in Acquiring Legal Protection and in Detecting and Proceeding Against Infringements

72. Each cooperation partner should afford assistance, in its country of residence, to the other partners in acquiring legal protection for independently made inventions (or industrial designs) and in detecting and proceeding against infringements.

(iii) Questions Relating to Expenses for Legal Protection

73. Any expenses incurred in applying for titles of protection for independently made inventions (or industrial designs) and maintaining them in force, whether in the countries of residence of the cooperation partners or in third countries, will have to be borne by the partner who filed the application or who owns the title, in the absence of any provisions to the contrary in the cooperation agreement.

74. Any decision with regard to the surrender of the title of protection of an invention (or industrial design) made independently in the course of cooperation and relating to the subject of cooperation should be taken by either partner only after preliminary consultation of the other partners. The latter may be given an opportunity to maintain the title in force, provided that they bear the expenses incurred thereby.

(e) Exploitation of Independently Made Inventions (Industrial Designs)

75. The cooperation partner who owns or obtains a title of protection for an independently made invention or industrial design that is related to the subject matter of the joint activities should, on request, promptly grant to the other partners the right to exploit the title, free of charge, within the limits of the joint activities and during the time in which that work is carried on, but only in direct relation to the subject matter of the joint activities. In addition, the cooperation agreement could contain provisions concerning the exploitation of such a title of protection outside the cooperation agreement or after its termination.

(f) Assignment and Licensing of Rights to Third Parties

76. The partner that is the owner of an independently made invention (or industrial design), should, in principle, be free to license or assign the rights concerning such an invention (or industrial design), even where it relates to the subject matter of the cooperation agreement. However, it should inform and consult the other cooperation partners about its intention to license or to assign those rights. The partner that owns the independently made inventions (or industrial designs) should, in the case of licensing to third parties during the validity of the cooperation agreement, respect the interest expressed by the other partner in those inventions (or industrial designs).

(g) Remuneration of Inventors (Creators)

77. Normally, the inventors (creators) of independently made inventions (or industrial designs) should receive remuneration from the cooperation partner with which they are employed, in accordance with national legislation or the employment contract. Where the other partners make use of such independently developed inventions (or industrial designs) it might be considered that they should pay a remuneration to the inventors (assuming that there is no license fee to be paid). That remuneration should be agreed upon between the cooperation partners and based on the provisions of national legislation and the employment contract.

C. Know-How

78. There is no generally accepted definition of the term "know-how," but for the purposes of this Guide "know-how" means "technical information, data or knowledge resulting from experience or skills which are applicable in

practice, particularly in industry" (see WIPO Model Law for Developing Countries on Inventions, Vol. II, Part. II, Section 201, p. 13). Know-how plays an important role in the practical application of inventions. Whenever questions relating to technology are considered, the particular role of know-how has to be taken into account.

(a) Definition of Joint Know-How

79. Know-how can be considered joint if it has been developed in the course of joint activities. In this case, the conditions set forth in paragraphs 19 to 22 apply mutatis mutandis to joint know-how.

80. The cooperation partners participating in joint activities may also agree upon other criteria for qualifying know-how as joint know-how.

(b) Rights Concerning Joint Know-How

81. The rights concerning joint know-how will have to be defined in the cooperation agreement. In particular there will have to be clarification of who should have the right to exploit joint know-how in the countries of residence of the cooperation partners and who should have the right to exploit joint know-how in third countries.

(c) Exchange of Information Concerning Joint Know-How

82. If know-how is developed in the course of joint activities and research work, each cooperation partner will be under the obligation to inform the other cooperation partners about such know-how. It is advisable to identify the subject-matter of the know-how and any rights in it in a document duly certified by the cooperation partners.

83. The cooperation partners will have to make the necessary arrangements to be promptly informed by those of their employees who participate in joint activities of any joint know-how which might be developed by them in the course of their work under the cooperation agreement.

(d) Exploitation of Joint Know-How

84. The exploitation of joint know-how is generally one of the objectives of the cooperation or at least an important element of it. Therefore, and also because of the complexity of the legal questions relating to know-how, special care is required in order to balance the interests of the cooperation partners.

85. Taking the objectives of cooperation into account, the exploitation of joint know-how may be regulated in a manner similar to that in which the exploitation of joint inventions and joint industrial designs is regulated (see paragraphs 52 to 54). Nevertheless, any exploitation of joint know-how in third countries should be the subject of a special agreement between the cooperation partners.

(e) Communication of Joint Know-How to Third Parties

86. Since disclosed know-how--in contrast to patented inventions--can generally be freely exploited by anybody interested, it is essential, in order that the benefits of the joint know-how may be safeguarded for the cooperation partners, to ensure that it remains confidential. Thus the cooperation agreement should contain a provision obliging each cooperation partner neither to disclose joint know-how to the public nor to communicate it to third parties unless the other cooperation partners agree. However, the cooperation agreement should provide for a reasonable period on the expiration of which the joint know-how could be communicated to third parties, subject to the sharing between the cooperation partners of any remuneration received for such communication.

(f) Independently Developed Know-How

87. Where this is necessary for the achievement of the cooperation tasks, any cooperation partner in possession of know-how that has been developed independently of the joint activities but which is essential for the common work should make it available free of charge to the other cooperation partners, for use during the period of joint activity.

88. In any case, the principles laid down in Section B (Independently Made Inventions and Industrial Designs, paragraphs 65 to 77) will apply mutatis mutandis to independently developed know-how.

D. Trademarks

89. At a more advanced stage of joint activity, notably in the production and marketing phase, the partners may use trademarks for goods manufactured and services offered by them as a result of the joint activity. For this purpose, the cooperation partners will have to agree on the means of settling problems related to the creation and use of trademarks in the course of their cooperation.

90. Any provisions in the cooperation agreement concerning the joint development and use of trademarks will have to take into account the existing provisions of national legislation concerning joint-ownership of trademarks: licensing, registration of users, etc.

(a) Definition of Joint Trademarks

91. A "trademark" is a sign that serves to distinguish the goods--as does the service mark with regard to services--of an industrial or commercial enterprise from those of other enterprises; the expression "trademark" will be used in the broad sense that refers also to services.

92. In the course of cooperation, the partners may jointly create and use trademarks to distinguish the goods and services offered and marketed by them. Such trademarks will be considered joint trademarks.

(b) Ownership of Joint Trademarks

93. Depending on the national law of each country, ownership of a trademark is acquired through either registration or use. Where a trademark has been jointly created by the cooperation partners there arise the questions of which among the partners will be entitled to use the trademark, which could register it in its name and the conditions under which it could be assigned or licensed. This question--which is treated here as relating to "ownership" of the trademark--obviously needs to be regulated in the cooperation agreement. As in the case of joint inventions and joint industrial designs the matter may be regulated differently, country by country, depending on the commercial activities of each cooperation partner.

(c) Securing Legal Protection

94. Normally, the cooperation agreement would allow each cooperation partner the right to secure--either by registration or by use--legal protection of the joint trademark in its country of residence in its own name and as the sole user.

95. As regards third countries, the cooperation agreement will have either to draw up lists of countries in which each partner would be entitled or even obliged, to secure protection, or to provide a procedure for determining those countries at a later stage (for example, by mutual agreement of the cooperation partners). In third countries a joint trademark should as a rule be registered, jointly in the name of the cooperation partners. If the national law of a country in which the trademark is to be registered does not permit joint registration, the cooperation partners will have to reach an understanding on which of them should have the trademark registered in its name.

96. The cooperation agreement will have to regulate the question of which partner bears the expense of acquiring trademark registrations, and renewing and defending them. It may also have to regulate questions concerning the advertising of joint trademarks.

(d) Assignment and Licensing to Third Parties

97. As a rule, joint trademarks that have become the joint property of the cooperation partners may be assigned and licensed only jointly. As regards a joint trademark registered in the name of one cooperation partner, the cooperation agreement will have to regulate the procedure for assignment and licensing. In particular, it will have to deal with the question of sharing, between the cooperation partners, any royalties gained from the licensing of joint trademarks to third parties.

(e) Independently Developed Trademarks

98. The cooperation partners may agree to use the trademark of one of the partners for products manufactured by them as a result of their cooperation. The procedure for the use of such an independently developed trademark has to be regulated in the cooperation agreement.

99. In addition or instead, the cooperation partners may agree on the licensing or assignment to one partner of a trademark independently developed by the other, in accordance with the general principles governing the licensing and assignment of trademarks.

E. Specific Questions

(a) Confidentiality Arrangements

100. As a general rule, the cooperation partners will have to treat the results of joint activity (joint inventions, joint industrial designs, joint know-how and joint trademarks) as confidential either as long as an application for the corresponding industrial property title has not been filed or indefinitely, according to circumstances and subject to agreement between themselves. There is an exception, however, in the case of trademarks, in so far as use is required in order to secure legal protection.

101. In particular, the cooperation partners will have to respect the confidentiality of know-how, trade secrets and other technical information belonging either of them at the beginning of the joint activities and furnished by that partner to the others for use under the cooperation agreement with an indication that confidentiality is required.

102. If the confidential information has become generally available, the confidentiality arrangements will no longer apply. The partner who invokes general availability will have to prove it.

(b) Claims by Third Parties for Infringement of their Industrial Property Rights

103. The cooperation partners will have to take all reasonable measures to ensure that the use of the results of their cooperation does not infringe third parties' industrial property rights. The cooperation agreement will have to specify the countries for which such measures are to be taken and the nature of the measures (for example, evaluation of the scope of protection of existing patents and industrial designs owned by third parties).

104. Moreover, the cooperation agreement will have to deal with problems resulting from actual infringement of third parties' industrial property rights. In particular, the cooperation agreement should provide for measures to be taken where one of the partners is sued for infringement of third parties' industrial property rights. In general, the partners should cooperate closely in defending their rights.

(c) Treatment of the Results of Joint Inventive Activity After Expiration of the Cooperation Agreement

105. Taking into account the duration of titles of protection, the cooperation partners should be aware of the possibility that such titles may still be valid even after the expiration, for whatever reason, of the cooperation agreement. The fate of such titles of protection will have to be decided upon in connection with the expiration or cancellation of the cooperation agreement.

106. The specific problems involved here are due to the fact that no definite arrangement can really be made at the time of conclusion of the cooperation agreement, because such an arrangement has to take into account the cicumnstances and the individual interests of the cooperation partners at the time of expiration of the cooperation agreement. For this reason, it seems appropriate that the cooperation agreement should oblige the partners to agree on the subsequent legal status of existing industrial property titles relating to the results of joint inventive activity.

107. As long as they have not yet reached the required agreement, the partners should, as a temporary measure, agree to continue with the legal regime established by the cooperation agreement for such titles.

(d) Applicable Law

108. In an international cooperation agreement the choice of the applicable law is one of the most important questions. Subject to the mandatory provisions in force in the countries concerned, the partners are free to choose the applicable law. It has to be borne in mind, however, that the various national laws do not usually contain rules dealing specifically with this new form of contractual relationship concerning international scientific, technological and economic cooperation. Moreover, when drafting the agreement, possible uncertainties should be avoided to the fullest extent by providing for the comprehensive regulation of all issues of interest to the cooperation partners.

109. It will be in the best interests of the cooperation partners to specify in advance the national law that will be applicable to questions not expressly regulated in the agreement. Such aspects include in particular: the legal relations of the cooperation partners with the inventors (co-inventors, creators, joint creators) employed by them; the legal relations between co-inventors (joint creators); the recognition of a person who participated in the joint research work as a co-inventor or a joint creator; the calculation of the amount of remuneration to be paid to inventors (creators), and the individual shares of co-inventors or joint creators in that amount; and the possibility of instituting legal action claiming remuneration.

(e) Competence of Courts

110. As the cooperation agreement is in the nature of a contract governing private law obligations, the partners under the agreement could resort to proceedings before the civil courts whenever there is a dispute concerning rights and obligations arising out of the agreement. However, whether the civil courts of a given country are in fact competent to decide a case is a matter that depends in each country on the provisions on the international competence of courts; those provisions are either contained in national legislation or in international treaties applicable in the countries concerned.

111. Since the partners under a cooperation agreement normally reside in different countries, they are often faced with a situation where the courts of both countries are competent to hear a given case. For this reason, it is advisable to have cooperation agreement provide for the competence of the civil courts of one specific country or of one specific court. In the absence of such a provision, the plaintiff may have the option of several competent courts.

(f) Settlement of Disputes by Arbitration

112. In international commercial practice, arbitration is increasingly preferred to proceedings before civil courts for the settlement of disputes. That is why civil court proceedings are likely to play a relatively minor role in settling disputes arising in connection with joint inventive activity.

113. Like virtually all international contracts, cooperation agreements of the kind covered by this Guide usually contain arbitration clauses for the settlement of any dispute between the cooperation partners. In this respect international business practice offers to those concerned a sufficient variety of arbitration procedures for the one best suited to the particular case to be chosen.

114. The settlement by arbitration of disputes arising in connection with international commercial relations--whether by arbitration courts or ad hoc arbitration--has proved to be the most effective way of settling such disputes owing to a number of definite advantages, namely the expert knowledge of arbitrators specialized in a particular type of dispute, the simplicity of the proceedings, the rapidity of the proceedings and their low cost. In addition, the discreet treatment of the subject matter at issue in closed proceedings is most likely to satisfy the readily-understandable interests of the partners concerned.

115. In so far as cooperation agreements permit arbitration, any disputes in connection with joint inventive activity should be settled by arbitration. One should be well aware of the limits of arbitrability, however. In particular, arbitration courts cannot decide finally, whether industrial property rights are valid or void. If an element of the subject matter at issue is not arbitrable, the competent body (civil court or Patent Office) should be resorted to for the settlement of the dispute.

116. The cooperation agreement may provide that any dispute or controversy arising between the cooperation partners in connection with inventions, industrial designs and trademarks should first be the subject of amicable negotiations between the parties concerned before the actual arbitration procedure is embarked upon.

117. It is recommended that the agreement provide for a method of choosing the arbitrators; otherwise the appointment of all the arbitrators would have to be left to the arbitration body responsible for settling the parties' disputes.

118. Finally, it should be noted that an agreement has been concluded between the countries members of the Council for Mutual Economic Assistance (CMEA), which regulates the settlement of disputes by arbitration in respect of scientific and technological cooperation between entities of those countries.

[Annex follows]

# PATENT GUARANTEE CLAUSE IN SALES AGREEMENT

Japanese Group, Committee No.2

Chairman: Juro Ichimura, Shin-Etsu Chemical Co., Ltd.

Subcomittee No.2

| | |
|---|---|
| Masao Tanaka, | Nippon Telegraph & Telephone Public Corporation |
| Hiroshi Yamada, | Teijin Limited |
| Eiken Shibata, | Mitsui Petrochemical Industries Ltd. |
| Yoshimasa Shimura, | Sekisui Chemical Co, Ltd. |
| Speaker: Mitsuyuki Saito, | Asahi Glass Co., Ltd. |


## Abstract

It has become very impotant for the buyer to obtain from the seller a patent guarantee with respect to the goods in the sales transaction, and the effect of the patent guarantee has become to pose a substntial weight in the sales transaction. On the other hand, there are few court cases in Japan which are concerned with the patent guarantee clause in a sales agreement, such as a dispute between the seller and the buyer in connection with the compensation of the damage, and the actual state relating to the patent guarantee are not openly known. Accordingly, we have conducted an investigation in the member companies of this committee on this question to grasp the current situation in Japan.

On the basis of the results obtained from the investigation, we shall introduce samples of standard form patent guarantee clauses and the actual state relating to the patent guarantee, and we shall report on various problems arisend from the patent guarantee clause, relations with the Civil Law and the Antimonoply Law, and on the results of our study.

A standard form of the patent guarantee clause commonly employed in sales agreements does not clearly define the content, scope or limit of the patent guarantee and is usually worded in broad abstract terms. Accordingly, it is quite likely that once a dispute has arisen between the seller and buyer with respect to the patent guarantee clause, there will be a dispute over the interpretation of the clause, and various troubles

are expected for the settlement of the dispute over such a clause.

Consequently, in the preparation of patent guarantee clause, it is advisable to specifically define the responsibilities and obligations of each of the buyer and the seller including the risks to be shared by them, which may vary depending upon the kinds and nature of the goods in the sales tensaction, the current status of the business fields in which the goods are dealt or used and the situations or positions of the buyer and the seller. Further, a one-sided patent guarantee clause which puts obligations and risks only on the seller, is against the rule of equity, and a non-specific abstract patent guarantee clause is expected to create disputes or troubles. So we think such a patent guarantee clause should better be left out.

## [I] Introduction

When a buyer uses goods such as parts or materials purchased from a seller or when he sells or exports products manufactured by using such goods, there is always a possibility of danger that the buyer will be charged for infringement of industrial property rights owned by a third party, in a form of a warning notice or a court action. Such a possibility is certainly increasing, reflecting the ever increasing competition among the enterprises in the research and development. Under the circumstances, it has become very important for the buyer to obtain from the seller a so-called patent guarantee with respect to the goods in the sales transaction, and the effect of the patent guarantee has become to pose a substantial weight in the sales transaction.

On the other hand, there are few court cases in Japan which are concerned with the patent guarantee clause in a sales agreement, such as a dispute between the seller and the buyer in connection with the compensation of the damage. Accordingly, the actual state and the problems relating to the patent guarantee are not openly known.

We have conducted an investigation in the member companies (about 26 companies) of this Committee on this question to grasp the current situation in Japan. On the basis of the results obtained from the investigation, we shall report on the actual state and problems relating to the patent guarantee in the sales transaction and on the results of our study.

[II] Examples of the patent guarantee clause

In a sales agreement between companies, it is now common to provide a patent guarantee clause for various reasons, for instance, as follows,

(1) to ensure that the buyer is capable of using the goods or selling or exporting the products manufactured by using such goods, without any trouble of infringement of any industrial property rights of a third party;

(2) to ensure that when the buyer is charged by the third party for infringement in the form of a warning notice or a court action, the buyer will receive full cooperation from the seller;

(3) to specify that if any dispute arises from such an infringement charge, the seller shall be responsible for the settlement of the dispute, and the buyer shall be free from being a party to the dispute;

(4) to expressly provide for the seller's obligation to pay a compensation in case any damage has been incurred to the buyer as a result of such an infringement dispute. To obtain such a guarantee from the seller is one of the important factors for the buyer to finally decide the purchase of the goods from the seller.

It is common that such a patent guarantee is provided for either in the basic sales agreement or in a separate patent guarantee agreement for the transaction of any particular goods.

In a case where the seller intends to sell newly developed goods, the buyer often requires the seller to give a patent guarantee in a form of a undertaking, a confirmation or a letter of guarantee which is one-sided and rather severe to the seller.

Samples of standard form patent guarantee clauses are shown in the appendix 1. However, the content of such a guarantee clause varies depending upon the tradition of each company, the type or nature of the business or the attitude or the policy of the patent department, the purchase department or the business department of each company.

In many cases, the buyer employs patent guarantee clauses as shown in the attached sheets not only for the sales transactions with Japanese companies but also for the sales transactions with foreign companies.

[III] Problems relating to the patent guarantee clause and measures to deal with such problems

As is evident also from the typical samples shown in the appendix 1, a standard form of the patent guarantee clause commonly employed in sales agreements does not clearly define the content, scope or limit of the patent guarantee and is usually worded in broad abstract terms. Accordingly, it is quite likely that once a dispute has arisen between the seller and the buyer with respect to the patent guarantee clause, there will be a dispute over the interpretation of the clause, and various troubles are expected for the settlement of the dispute over such a clause.

For instance, in the case of the patent guarantee clauses having broad contents as shown in the attached samples, there will be the following problems:

(a) With respect to the scope of the patent guarantee

The question of the scope of the patent guarantee includes various problems, for instance, as follows. Is the guarantee sufficient if the seller guarantees

that the goods do not infringe any product and process patent? Or, should the seller also guarantee a non-infringement of any patent relating to an application of goods (hereinafter referred to as "a use patent")? Does the guarantee extend to cover not only the Japanese patents but also various foreign patents? Is the patent guarantee restricted to the protection of the buyer himself or does it extend to protect the buyer's customers and the latters' customers?

Example 1

In a case where the seller is not certain for what purposes the buyer will use the goods sold to the buyer, the seller is not in a position to guarantee non-infringement of a use patent since he is unable to conduct a patent search without knowing the particular purposes. Further, in such a case, it is reasonable to consider that the buyer is responsible for the use the goods for his own purposes. Under such circumstances, the seller will not be able to guarantee non-infringement of a use patent, and it is advisable to provide for an exception to exclude such a use patent from the guarantee or to provide for a partial responsibility of the buyer. From such a viewpoint, some of the companies make it a policy to provide for such an exception to exclude a use patent when so requested by the seller.

Example 2

In a case where the buyer infringes a patent by the use or application of the goods supplied from the seller or by the sale of the final product made from such goods, it is possible that the amount of damage caused by the infringement is substantially higher than the sales of the goods by the seller, and such an amount is unreasonably high for the seller to bear (for example, in the case where the damage is calculated based on the sales price of the final

product). In view of such a problem, there is a case, as shown sample 2 in the appendix 1, where a limitation for the liability is provided for to the effect that the amount of the damage to be born by the seller shall not exceed the amount of the sales of the parts sold by the seller to the buyer.

Example 3

In a case where the products manufactured by using the goods sold by the seller are to be exported, a question arises as to whether or not the patent guarantee should extend to cover the countries to which the products are exported. In this respect, there are some problems, for instance, as follows.

(1) in some cases, it is not known to which countries the buyer will export the products;

(2) it will be too expensive to conduct patent searches in various countries;

(3) in some cases, the costs for such searches will exceed the sales or the profit of the seller;

(4) such a patent guarantee may be practically difficult in view of the patent systems, the interpretation of rights or patent practice in various countries. In view of these problems, it is desirable for the seller to specify the countries for which he is able to give a patent guarantee, or for the buyer to specify the countries for which he desires such a guarantee.

Example 4

In a case where goods based on the design or the specification specified by the buyer or goods based on the joint development by the buyer and the seller are not excluded from the subject of the patent guarantee, it is possible that, in a case of a dispute, the buyer demands an unreasonable patent guarantee. It is therefore necessary to set out a clear provision in this respect. In the case where the goods based on the design or specification

specified by the buyer are excluded from the subject of the patent guarantee, the provision is usually as follows: it is common that the buyer will be responsible for any dispute on the product patent matters with respect to such goods and that the seller will be responsible for the process patent for manufacturing such goods unless specifically instructed by the buyer as to such a process. With respect to the goods based on the joint development by the buyer and the seller, it is common that both the buyer and the seller are responsible for any dispute on the patent matters.

(b) With respect to the duration for the patent guarantee

In many cases, there is no clear provision as to how a patent should be dealt with which has been laid open or published after the patent guarantee was made based on the patent searches. In such cases, a trouble is likely to occur as to the duration of the patent guarantee during which the seller is responsible. Especially in a case where a use patent has been granted after the patent guarantee was made, it may be unjustified to impose the responsibility on the seller, and it is considered to be reasonable that the buyer will assume at least a part of the responsibility.

(c) Calculation of the damage, etc.

There is no court case or established standard in the business for the calculation of damage, for instance, as follows.

(1) For the calculation of the amount of the compensation to be paid from the seller to the buyer in the case where the buyer paid to the patentee a damage, compensation or royalty in settlement of the infringement of a patent relating to the use or application of the goods supplied from the seller;

(2) for the calculation of the damage in the case where an injunction was imposed on the buyer based on a

patent relating to the product, process, use or application of the goods supplied from the seller

(3) for calculation of the damage resulting from the loss of oppotunity;

(4) for the manner as to how to deal with an indirect damage resulting from a patent dispute in which the buyer was involved.

(d) Other problems

Even if the buyer has imposed on the seller a responsibility for the compensation of the damage incurred to the buyer as a result of a patent dispute, there will be a case where the buyer will still suffer from an extremely large economical damage or loss of credit, for instance, when an injunction is imposed on the buyer. Further, there may be a case where it is difficult to recover the loss of credit or reputation of the buyer even if he receives a monetary compensation. Furthermore, even if a responsibility is imposed on the seller for the compensation of the damage incurred to the buyer as a result of a patent dispute, there may be a case where the seller is incapable of paying the compensation, or the guarantee can not be performed because the seller has gone to bankrupt or liquidation. Therefore, from the standpoint of the buyer, it is important as a practical matter to impose on the seller a responsibility of the patent guarantee. And also, it is important to conduct an investigation of his own on the possible infringement of the industrial property rights of a third party or to let the seller conduct such an investigation by giving specific instructions to the seller.

[IV] Current practice of the patent guarantee in Japan

In Japan, the buyer is in a stronger position than the seller in view of the predominant position in the sales transaction, the severe competition among the

sellers or the hierarchy of the enterprises serialized. Accordingly, for provision of the patent guarantee clause, a demand by the seller is hardly accepted by the buyer, and there is a strong tendency that the patent guarantee clause is quite favorable to the buyer.

However, for the settlement of a patent dispute based on the patent guarantee clause between the buyer and the seller or for the settlement of the compensation of the damage incurred to the buyer as a result of a patent dispute, it is common as follows. Namely, both parties discuss the matter taking into consideration the Civil Law, other laws, general business customs and the sales practice in the particular field as well as the positions of both parties, and it is usual that the matter is solved amicably with the seller's position respected. There has been no cases in which a dispute on the patent guarantee between the buyer and the seller has been developed to a litigation.

[V] Relation with the Civil Law and the Antimonopoly Law

The Japanese Civil Law provides for the seller's warranty against defects (Article 570 of the Civil Law, ref. appendix 2) in the case where a defect exists in the sales object. There is a theory that infringement of third party's industrial property rights by an article delivered in a sales transaction is regarded as "a defect in the sales object" provided for in Article 570 of the Civil Law. Accordingly the buyer is entitled to demand a compensation of any damage resulting from such a defect, to demand a reduction of the price and to terminate the sales agreement. However, upto now there has been no court case which holds that infringement of third party's industrial property rights is deemed to constitute such a defect, and the provision of the Civil Law is applicable.

Therefore, it is advisable to specifically provide for a seller's responsibility for patent guarantee in the sales agreement and to ensure that in case the seller fails to perform the responsibility, the buyer is capable of relying on the provision in the sales agreement to persuade the seller to perform the responsibility.

When the buyer demands the seller's performance of the responsibility based on the patent guarantee clause, a question of violation of the Antimonopoly Law arises if the demand includes an unreasonable claim. For instance, the following acts of the buyer are likely to be regarded as an abuse of the predominant position and thus constitute an unfair trade practice: In a case where the buyer suffered damage as a result of a patent dispute for the infringement of a third party's industrial property rights by the goods supplied from the seller, the buyer demands an unreasonable compensation including certain damage not directly related with the dispute. In the case where a patent application of a third party relating to the goods supplied by the seller has been laid open, but the invention of the laid-open patent application is apparently unpatentable, the buyer nevertheless cancels the sales agreement or demands a reduction of the price unreasonably by reason of the infringement of the patent application. It is advisable to take a due care in this respect.

## [VI] Conclusion

When certain goods are beleived to infringe industrial property rights, the owner of the industrial property rights will usually send to the seller or buyer of such goods, or to both, a warning notice for infringement, or he will take a court action for infringement. In such a case, it is common that whether the buyer or the seller is the party to the

issue, they will together discuss the matter on the basis of the patent guarantee clause in the sales agreement for the settlement of the issue. Either the seller or the buyer, or both together will take care of the warning issued or the court action taken by the owner of the industrial property rights. In the event the buyer suffers damage as a result of such an infringement issue, the amount of the compensation for the damage or the proportions of the damage to be shared by the buyer and the seller will likewise be discussed by them on the basis of the patent guarantee clause in the sales agreement. In most cases, they will be settled amicably in a reasonable form, as mentioned above.

In many cases, the patent guarantee clause in the sales agreement is not specific in its contents as shown in the attached Samples, and in some cases, it is favorable to the buyer. Whereas, an infringement issue is unpredictable as to when, against whom or in what manner it will be raised, and it is likewise uncertain how the issue will develop. Therefore, it is important to make sure that the patent guarantee clause specifically covers all foreseeable problems. The patent guarantee clause should also be fair and reasonable to both the buyer and seller to avoid any future dispute. From the standpoint of the seller, it is important to specify the types of the patents for which no infringement is guaranteed (for instance, is the guarantee restricted to a product patent only or to product and process patents?; or does it cover all of product, process and use patents?). And also it is important to specify the countries to which the guarantee extend, the limit of the compensation, and the duration of the guarantee. On the other hand, there are some cases that even if the patent guarantee clause specifies otherwise, he might be made a party to a patent infringement dispute depending upon the attitude

of the patentee; he might be obliged to bear damage by himself; or his credit or reputation might be badly damaged. So, from the standpoint of the buyer, it is important to take into accounts such possibility. Therefore, the problems of infringement of third party's industrial property rights should better be taken as problems common to both the buyer and the seller. Firstly, it is important that the buyer and the seller cooperate with each other to make sure that the goods in the sales transaction would not infringe any types of patents (i.e. product, process and use patents) owned by third parties. Then, in the preparation of patent guarantee clauses, it is advisable to specifically define, taking into accounts any possible infringement problems, the responsibilities and obligations of each of the buyer and the seller including the risks to be shared by them. On this case, it is necessary to consider and depend upon the kinds and nature of the goods in the sales transaction, the current status of the business fields in which the goods are dealt or used and the situations or positions of the buyer and the seller.

In the sales transactions, both the seller and the buyer make profits, i.e. the seller is able to make a profit by the sales of the goods, and the buyer is able to make a profit by the use of the goods or the sales or exportation of the products manufactured by using the goods. Therefore, there is no good reason why only the seller must bear the obligations and risks. Such a one-sided patent guarantee clause is against the rule of equity. On the other hand, a non-specific abstract patent guarantee clause is expected to create disputes or troubles, and we think such a patent guarantee clause should better be left out.

Appendix 1

## SAMPLES OF PATENT GUARANTEE CLAUSES

Sample 1

1. The seller shall guarantee that the goods delivered from the seller do not infringe any industrial property rights of any third party. In the event any claim for infringement is raised by a third party or any other dispute arises with respect to the goods delivered from the seller, the seller shall be responsible to settle such claim or dispute and shall protect and save harmless the buyer.

2. If any damage is incurred to the buyer due to such claim or dispute, the seller shall compensate the buyer for the damage.

Sample 2

1. The seller shall guarantee with respect to the manufacture of the delivered parts that the parts or the process for the manufacture thereof does not infringe any industrial property rights of any third party.

2. If the delivered parts or the process for the manufacture thereof has infringed or is likely to infringe any industrial property rights of any third party, the seller shall promptly inform the buyer.

3. Should any dispute arise between the buyer and a third party regarding infringement of industrial property rights, with respect to the delivered parts or the process for the manufacture thereof, the seller shall positively cooperate with the buyer for the settlement of the dispute, and the seller shall compensate any damage incurred to the buyer including the costs spent by the buyer for the settlement of the dispute, provided that the amount of the compensation shall not exceed the sales of the parts.

4. Should any dispute arise between the seller and a third party regarding infringement of industrial property rights, with respect to the delivered parts, the seller shall act to settle the dispute at his own expense and responsibil-

ity, and the buyer shall cooperate with the seller if so requested by the seller.

Sample 3

1. The seller shall take every precaution to make sure that the delivered parts and the process for the manufacture thereof do not infringe any industrial property rights of any third party.

2. When the seller manufactures the parts in accordance with the buyer's design or specification, the seller shall take every precaution to make sure that the process for the manufacture of the parts does not infringe any industrial property rights by any third party.

3. Notwithstanding preceding paragraphs 1 and 2, should a dispute arise between the seller and a third party regarding infringement of any industrial property rights, etc., the seller shall immediately inform the buyer in writing, and at the same time, shall promptly act to settle the dispute at his own expense and responsibility. If the buyer suffers any damage as a consequence of such a dispute, the seller shall assume all responsibility for such damage, except for the case where the buyer has specifically instructed the seller as to the process for the manufacture in accordance with the buyer's design or specification.

Appendix 2

## THE CIVIL CODE OF JAPAN

(Warranty against defects)

Article 570. If any latent defects exist in the object of a sale, the provisions of Article 566 shall apply mutatis mutandis, except in the case of a compulsory sale by official auction.

cf

(Sale of object subject to usufruct)

Article 566. Where the object of a sale is subject to a superficies, emphyteusis, servitude, right of retention or pledge and the buyer was unaware thereof, he may rescind the contract only if the object of the contract cannot be attained thereby; In other cases the buyer may demand only compensation for damages.

2. The provisions of the preceding paragraph shall apply mutatis mutandis in cases where a servitude, which has been represented as existing in favor of the immovable which is the object of the sale, does not exist, or where a registered lease exists on such immovable.

3. In the cases mentioned in the preceding two paragraphs the rescission of the contract of the demand of compensation for damages shall be made within one year from the time when the buyer became aware of the fact.

# Chinese Economic Policies and Business Contract Law

Japanese Group, Committee No. 2
Subcommitee No. 3

Akira Taguchi, Chiyoda Chemical Engineering & Construction Co., Ltd.
Shun Uyeda, Ricoh Company, Ltd.
Juro Ichimura, Shin-Etsu Chemical Co., Ltd.
Speaker: Katsuhiko Shimizu, Ebara Corporation

Abstract

As China's economy expands, economic relations with the Western bloc are growing much closer. This has led to various problems. Some of these are due to China's own special circumstances, and when we consider Japan's experiences, we find some of these problems there as well. Nevertheless, it seems that the manner in which these problems arose and the methods for solving them depend on what can be called features peculiar to China.

In the course of making these reports, we have first of all attempted an investigation of problems in the relationship between Western countries and China. It should be noted, however, that China today has indicated that it is working for reform by studying the strong points of our countries and, where practicable, adapting our thinking to its traditional methods.

We would like to consider below various aspects of Chinese economic policies and Business Contract Law, including the problems that have been experienced, what reforms are contemplated, and the significance of business contracts in China.

## Part I: China's Experience

Akira Taguchi

We still remember quite vividly the suspension and postponement of many plant construction projects in China during 1979 and 1980, which had a considerable influence on Japan, the U.S. and Western Europe. Apparently it happened quite abruptly. Nevertheless, it was a natural result of various problems involved in the policies to import foreign technology which China had adopted so far. But, taking advantage of this

opportunity, China has organized a qualitative change in its policies of importing foreign technology, and, as a result, the country's economic readjustment appears to have proceeded relatively smoothly for the past three or four years.

In this chapter, we wish to reveal the nature of current policy changes in China, outlining how China imported foreign technology up to 1979, and the problems incurred.

## 1. Imports of Foreign Technology, 1950-1977

During this time, China engaged in large-scale importation of foreign technology. We can divide the period in two: The decade from 1950 was the first "high tide," with the construction of many plants imported from the Soviet Union. The second high tide occurred between 1973 and 1977, with the import of many plants from Japan, the U.S. and Western Europe.

The first tide ended in political confrontation between China and the Soviet Union, and the original plans were not realized. Nevertheless, China seems to regard this period now as having played a positive role in establishing a fundamental basis for her industrialization, and having had a moderate effect on her technology and economy.

By contrast, the second tide led to problems in absorbing the imported technology, due to the postponement of basic construction and inadequate operation of plants. One Chinese analysis holds that only one third of the projects proved successful.

## 2. Technology Imports in 1978

We can call 1978 the third high tide; in this year alone, contracts worth $6.4 billion were signed for the import of foreign technology. Most of the projects under these contracts were later suspended or postponed. It has been said that this was caused by a lack of overall balance and long-term planning. From a reckless confidence in the country's financial strength and energy resources came haphazard plant purchases, leading to such problems as the duplication of plants in various regions.

In July 1980, in the midst of these problems, one Chinese official described the Baoshan Steel Works Project--the largest of the projects then under way--as "a burden." In April 1981, new regulations from such organs as the State Planning Commission called a halt to haphazard and duplicated construction.

3. Policy Changes

Following the ruptures of 1978, all those Chinese officials who had arranged the wholesale importation of foreign technology were urged to undertake an all-embracing reflection.

Between 1950 and 1979 China paid $14 billion to import technology from abroad. Of this amount, industrial plants represented 93 percent, and technology not involving hardware, less than 10 percent.

The following problems have been analyzed as the result of this preference for hardware:

(a) Insufficient investment in domestic research because most of the funds were spent on undesirable plant imports.

(b) A bad influence on the creative abilities of Chinese scientists, because they were forced to concentrate on absorbing the new technology.

(c) Increased dependence on Western technology because China was importing hardware but lacked the means to manufacture it herself.

Accordingly, China has come to realize that the purchase of hardware has not contributed to the development of the country's own technology, and has prevented her from establishing her own independent and comprehensive science and technology system.

At the end of 1981, at the fourth session of the Fifth National People's Congress, Prime Minister Zhao Ziyang announced a change of direction in the introduction of foreign technology, when he said: "In the future we shall refrain from depending completely on imported plants, and will import only simple apparatus and major equipment that we cannot manufacture ourselves."

The main points of his new policy were to:

(a) Import technology; manufacture hardware.
(b) Rely on imports for important equipment only.
(c) Concentrate on the renovation of existing facilities, etc.

These plans aim at a change in the method of technology introduction in China, with the ideal of nurturing the country's technological potential. While not abusing this ideal, China has also introduced an interim measure to import important equipment and a practical measure to emphasize renovating existing factories, and is doing all this at a moderate pace. So while it is backing down from its former plans, it can now be said to be trying to strike a balance.

No new technology, whether patented or know-how technology, can be easily absorbed or assimilated without a well-developed technical base. We suppose, therefore, that a hasty change of direction would be hard to accomplish. But the Chinese leaders appear to be well-informed on this point.

In addition, China has reversed its previous policy of always buying the world's most advanced technology. This was a major cause of her "indigestion" over foreign technology. Recently she has started thinking that it is not necessary to have the newest in the world, provided that it is the newest in China. It seems that the philosophy of "appropriate technology," which other semi-developed countries have already put into effect, is also being recognized in China.

The new policy of importing technology has been reflected in actual business transactions. For example, during 1982 there were about 30 cases of technology importation from Japan, none of them involving hardware.

## Part II: Attempts at Reform

Shun Uyeda

As outlined above, China has learned a lot from its experiences of importing foreign technology and is now changing its economic policies. From 1979 the policy has been to open the country to the outside world and to stimulate the domestic economy. Its way of reforming the economic structure has been to carry out various experimental economic reforms.

In this report I will try to explain details of China's reform of its economic structure, including the expansion of local autonomy, the promotion of the Specialization and Joining of Corporations, and the transfer of power to conduct foreign trade.

### 1. The Expansion of Autonomy for Local Regions and Industry

Increasing local autonomy has nurtured the spirit of enterprise of local regions, governmental departments, companies and the general public. Such experimental reforms, aimed at tapping the power of the regions and the talent of the people, are intended to boost the national economy. For instance, the experimental expansion of local autonomy has taken the following form in Sichuan province:

Originally the central government administered all public finances; but in the province of Sichuan, some of the finances are now administered by the central government and the rest by the local government.

Of the various kinds of income, Sichuan handles agricultural taxes, salt taxes, local taxes, profits on locally administered industries, and a portion of business taxes. The central government collects from Sichuan industrial taxes, customs duties, the profits of national industries, and the remainder of the business taxes.

Of expenditure, Sichuan is responsible for such items as the cash flow for basic construction and industry, and funds for technological improvement.

Such expansion of local autonomy was applied experimentally to 6,600 industries in June 1980. In general, the following proposals were implemented:

(a) Companies themselves have the right to determine their own production plans, based on local conditions and profits.

(b) A company fund was created by keeping a portion of company profits in reserve. This fund is based on three types of profit: first, there are planning profits and excess planning profits; second, there are gross profits; and third, there are the independent profits system, the profit and loss self-responsibility sytem, and the income tax assessment system.

(c) A system for allowing companies to use the fixed assets of the government was created, with the state's basic construction fund administered by banks. After converting to fixed assets, interest will be paid for the benefit of industry.

(d) Companies guarantee the settlement of the order debt mentioned in the contract. They have the power to market their own products at their own expense.

(e) A special salary scale was created, changing the system under which employees are paid whether they work hard or not. Under the new system, payment is made according to the company's productivity or the ability of the workers.

(f) The company leadership system was reformed, with a new system of apportioning responsibility according to group leadership.

2. Promotion of the Specialization and Joining of Corporations

The administration of Chinese industry was originally organized in self-contained sectors under government departments. The result was that inefficient, versatile factories developed with little communication between departments or companies. China, therefore, saw a need to reform the administrative structure of its industry.

In order to modernize industry, the new organizations "Specialized Corporation" and "Joint Corporation" have been introduced to the economic framework.

These corporations organize economic activities within or between the corporation, going beyond the limits of a particular region or industry. They put into effect independent economic budgets and take responsibility for profits and losses. They maintain their own necessary funds, and bear legal and financial responsibility for their own managerial activities, in accordance with the above-mentioned reforms to expand local autonomy. In this connection, large and small corporations, or corporations and independent enterprises, are all carrying out joint economic activities under contract.

3. Transfer of Power to Trade Abroad

The above-mentioned expansion of local autonomy is limited not only to domestic economic activities. The power to engage in foreign trade--once the monopoly of the state trading corporation--is now enjoyed at the provincial, city and autonomous regional level.

Special measures have been taken for Canton and Fukien provinces, and a large amount of independent power has been given to Shanghai, Tianjin and other port cities. The authorities are taking steps to give greater power to introduce new technology, to deal in foreign currency, to restructure old industries, and to open up foreign markets.

4. Relationship between Economic Structure Reforms and the Government's Administrative Structure

From its past experiences, China has learned that putting the economy under government management is not successful. It is, therefore, taking a number of measures to its economic administrative structure and mechanism.

For instance, provincial-level agencies and bureaux of Jiangsu province do not administer the companies directly. Instead, the cities administer those industries within their boundaries.

China believes that such reforms will vitalize and simplify the mechanism, reduce the role of government, and boost efficiency. They will also serve to decentralize power and rationalize the organic structure of companies and their productivity.

5. Future Economic Structural Reforms

China's reforms are aimed at imitating similar reforms in the Soviet Union and Eastern Europe. They are noteworthy in that they move from centralized power to decentralization and from directly administered management to indirect economic management. But China itself worries that implementing policies which expand local autonomy and open China to the outside world will lead to a growth in egotism and free thinking.

To correct such tendencies, Prime Minister Zhao announced the following measures at a national industrial communications conference on March 4, 1982:

(a) Concerning foreign trade, the relevant authorities must organize themselves into a unified group to face the outside world. (In March 1982, the Ministry of Foreign Trade and Economic Relations was formed from an amalgamation of the Ministry of Foreign Trade, the Ministry of Foreign Economic Relations, the Import and Export Control Commission, and the Foreign Investment Control Commission.)

(b) Under current government policies, all products must be sold strictly according to the relevant plan. It is forbidden for companies to retain some of these products for their own use, to use them in cooperative operations, or to sell them as a result of price-fixing.

(c) Barriers to inter-regional economic activity will be done away with. Companies will be able to sell their products throughout the country, except for those goods to be sold under the plan. Moreover, companies will also have the power to buy independently, without interference from local government or Party organs.

(d) The systems for administering commodities and taxation should be unified and centralized. Without permission from the central government, local authorities cannot of their own accord alter taxation rates, nor can they freely raise or lower taxes.

Looking again at the above measures, China hopes to expand local autonomy, open its economy to the outside world and, to some extent, weaken the planned economy. But to achieve a unified and planned economy, there must be a balance between big plans and small freedoms, between major concentrations of power and minor decentralizations, and between thoughts of national unity and the spirit of individual enterprises in local regions.

In its efforts toward a successful economy, China will continue to implement many policies and reforms. Some of them might not succeed. Nevertheless, it is important that Western countries adopt a new stance towards China in anticipation of these reforms.

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## Part III: The Significance of Business Contracts

Katsuhiko Shimizu

### 1. The Constitution and Business Contract Law

The third Chinese constitution was adopted and promulgated on March 5, 1978, at the first session of the Fifth National People's Congress. This ordained for the first time that the Congress has the authority "to supervise the ruling of the constitution and the laws" (Clause 22:3). In addition, state employees were to "comply with the constitution and laws in exemplary fashion" (Clause 16). These were positive steps to strengthen the Socialist order under law.

Again, on December 4, 1982, at the fifth session of the Fifth National People's Congress, a new constitution was adopted. This made clear the power of the legislative body (Part 3), and clearly proclaimed the principle of the rule of law based on the constitution and the statutes (Part 1).

Concerning the economy, this new constitution recognized investment in China by foreign enterprises and, by protecting their profits (Clause 18), demonstrated a determination to open the economy to the outside world. It also made clear (Clause 15) that economic modernization will proceed according to the principles of a planned economy.

For a socialist country to achieve a planned economy, there must be agreement on production plans between government departments and industrial companies, and between different industrial companies. In China the business contract is now given a role as a measure for managing a planned economy.

When companies are unable to perform these business contracts, the state plan will be liable to fail, so of necessity, the business contracts will be subject to inspection by government agencies.

Central or regional government departments which are administering such business contracts must continually supervize the performance of the companies in regard to the contract.

A Business Contract Law, promulgated on July 1, 1982, ordained that departments administering the contracts must

strictly supervize the companies, by considering the state of performance of the contract as one economic indicator (Clause 51).

2. Administration of Business Contracts

As indicated, business contracts play an important role in a planned economy. Moreover, as stated in Part II, the importance of the contracts in furthering economic structural reform has increased.

In China there is still no specialized organization for administering all business contracts as a whole. Instead, a system of separate jurisdiction has been exercised. The latest legislation of the Business Contract Law made no change in the system; each department of business administration controls the contracts falling under its jurisdiction (Clause 51) as follows:

(a) Administration of contracts between the business section within each department relating to industry, agriculture, commodities, transportation, commerce, etc., shall be handled independently by the respective departments.

(b) Administration of the contracts between different departments concerning industry (e.g., light industry and heavy industry), between departments concerning industry and commodities, construction departments, agriculture departments, industry/agriculture/commodities and transport departments of organs/groups/units/operations units and industry, or between transport departments, shall be handled by an economic committee or an appropriate organ, at the respective level.

(c) Administration of the contracts between different departments concerning commerce (such as foodstuffs and cooperative societies), between industrial departments, agriculture departments, or organs, groups, units, operation units and commerce shall be handled by respective ranks of industrial or commercial administration bureaux.

(d) Design contracts and construction contracts, which operate under different systems, shall be handled by

respective ranks of a basic construction committee or an appropriate organ.

Moreover, the administration departments are not compelled to approve the conclusion of contracts they will themselves administer. In addition, they cannot control these contracts in total under statutes or adjustment mechanisms.

On June 6, 1983, at the Sixth National People's Congress, the government announced that the planned economy had struck some trouble resulting from the transfer of administrative powers to regional governments and industry under the plan to expand local autonomy.

Further, on July 26, 1983, the New China News Agency (Xinhua) reported as follows:

"According to the fiscal 1983 People's Economic Social Development Plan, adopted at the National People's Congress in June 1983, investment funds for basic construction in fiscal 1983 have fallen 8.7 percent from the previous fiscal year. However, as the central government's policy was not spread throughout the country, local governments and industries used bank loans, etc., to haphazardly expand the basic construction plan, and in January-June 1983 achieved a 17-percent rise from the same period of the previous year. Prices of cement, steel, etc., jumped, and material and energy shortages became acute.

"As a result, the central government abandoned its original objective after just two months, and, in order to restrain investment, took measures to stop projects which consumed large amounts of electric power and raw materials, even where such projects had been authorized under the national plan."

Business contracts are important for ensuring the success of a planned economy; at the same time they are affected by the degree of success of a planned economy. There is no guarantee therefore that the events of 1979 will not occur again.

3. Altering or Cancelling Business Contracts

Examining the Business Contract Law, we find that those contracts which infringe on state planning or policies are rendered void (Clause 7). Also, the following points are decreed for altering or cancelling business contracts (Clause 27):

Part 3: Altering or Cancelling Business Contracts

Clause 27: Generally speaking, when one of the following conditions arises, the alteration or cancellation of the business contract will be permitted:

(a) The two parties concerned reach agreement at a meeting. Moreover, there will be no loss of profit to the state, and no effect on the execution of state plans.

(b) A state plan under which a business contract is concluded is altered or cancelled.

(c) It is recognized that one party cannot perform the contract due to a business shutdown, halt in operations or a turn-around in production.

(d) One party becomes unable to perform the contract due to an act of God or an unavoidable external factor not resulting from his own negligence.

(e) It becomes unncessary to perform the contract, due to the negligence of one party.

When one party demands the alteration or cancellation of the contract, he must immediately notify the other party. When damage is incurred to one party as a result of altering or cancelling a contract, the party responsible must pay compensation, except in cases where the party can claim exemption from responsibility under law.

When one party amalgamates or becomes independent, the party who altered the contract has the obligation of performing the contract and has the appropriate right.

When we consider the above administrative situation and the statues, it is advisable to judge carefully such legal questions as when the contract becomes effective and how long it remains so.

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## Conclusions

In these reports we have given a general outline of recent Chinese industrial and economic reforms.

China now continues to persevere with reforms by trial and error, and it is emerging from its historical backwardness. Its policy seems to be to adopt, where practicable, the good points of capitalism, while steadfastly maintaining its socialist principles.

However, in China, a socialist country, law might be called a codification of national policies; even the constitution cannot avoid this restriction. It has been revised several times to help solve national issues which occur at a certain stage in the building of a socialist country.

Therefore, although China nowadays is promoting the establishment of laws and a socialist order based on law, we must understand that the Chinese legal system is wholly based on the Chinese way of thinking.

When entering negotiations with China we should, paying attention to this point, take necessary measures to promote future harmonious economic relations.

From the business point of view, we should keep in mind the following measures:

(a) The time when contracts come into effect or expire should be positively stipulated.

(b) Alteration or expiration of contracts should not occur under the Business Contract Law, but should occur in accordance with the conditions previously agreed to under contract.

(c) For important contracts, it is desirable to obtain a guarantee from the associated administrative departments of the central government.

SPEAKER: CRUZAN ALEXANDER
THREE M COMPANY

COMMITTEE NO. 1

# CONSUMER PRODUCT LICENSE

BY

CRUZAN ALEXANDER
THREE M COMPANY

## ABSTRACT

AN EXAMPLE OF A NOT UNCOMMON NEGOTIATION ON THE ACQUISITION OF A NEW PRODUCT BY A CORPORATION FROM AN INDIVIDUAL INVENTOR. SOME GROUND RULES AND SOME SOLUTIONS

# CONSUMER PRODUCT LICENSE

By Cruzan Alexander

My participation as panelist in this program is as a manufacturer--licensee in the consumer product field. Unlike process or machinery licenses in basic industries, many of the potential new products come from independent inventors or small corporations with limited finances, thus presenting many special problems not normally associated with more conventional licensing.

In this type of situation, the licensor does not have unlimited legal assistance at his disposal and desires a quick return to cover his paid out expenses in developing his new product. On the other hand, the licensee is often a large well established corporation who wants reasonable assurance that the new product will be a success before he invests. The licensee corporation is willing to share a reasonable amount of its profit from the new product but at the same time the licensee corporation must retain enough profit to be consistent with its overall objectives of profit margins and return on investment. In other words, the corporation-licensee cannot justify entering a new market if the financial return (after payment of royalty) will be less than his other products or what it could make by other available investments.

These factors can best be illustrated by the following hypothetical license situation involving an individual inventor of a consumer product who desires to sell his invention to a large corporation.

A large well established corporation is soliciting patentable ideas on consumer products from the outside. An individual inventor approaches the corporation with an idea for a new ski goggle on which he has applied for a patent in the U.S.A. several months before. The corporation is interested and asks the inventor to send a copy of the patent specification on a nonconfidential basis, no claims, no filing date and no serial number. After reviewing the specification, the large corporation is interested in buying the invention and has discovered that the new ski goggles use a plastic lens manufactured by it. The large corporation asks the inventor to start negotiations. However, the inventor quotes a price for the invention far in excess of what the corporation believes is fair and reasonable for an undeveloped and market unproved product. The inventor asks the corporation for a good faith payment before negotiations start. The inventor also asks the corporation to send its attorney to him and he will negotiate personally. This inventor cannot afford to travel nor hire an attorney to negotiate, he says.

## SUMMARY OF RESPECTIVE POSITIONS OF PARTIES TO NEGOTIATIONS:

### INVENTOR:

Use General Lawyer (personal friend)
Large lump sum cash payment (thinks he has world-beater)
Likes the corporation (feels they are honest)
Has other inventions he wants to sell
Would like to work for corporation

CORPORATION:

Invention needs further development
Wants market test before fully committed
Feels invention could be a real money maker
Also uses other corporate products
Fits well into current product lines
Good foreign market potential
Corporate attorney feels product not broadly patentable

RESULTS OF NEGOTIATIONS:

1. Use of personal friend as lawyer -

Big Company agreed to reimburse inventor for legal fees for negotiations up to maximum of $10,000
Inventor agreed to use both his personal lawyer and a reputable San Francisco patent lawyer of his choice

2. Further development and estimate of market potential --

Parties agreed to a six months evaluation period during which Big Company could test goggles and study market potential and inventor agreed not to offer invention to anyone else with a right of first refusal for 6 months thereafter
Big Company pay inventor $5,000 for this option

3. After option period Big Company likes sales potential and negotiates agreement -

Exclusive worldwide license and right to license others
Up front payment of $25,000 to licensor creditable against royalties - 1/2 of inventor's investment
5% of net sales price of licensed products covered by issued patent - based on 1/2 of excess above minimum profit margin
Minimum royalty per year of $5, $10, $20,000 to maintain exclusivity - determined by 1/3 of royalty due on 5 year forecast
2-1/2% royalty for 3 years on products not covered by patent
Licensee reimburse inventor cost of filing and prosecution of patents worldwide - control of prosecution solely that of licensor. Maximum obligation/country/year. 1/2 of costs creditable against royalties

4. Consulting agreement with inventor -

Renewable on year to year basis by Big Company
Work on improving product
Not work for others on same subject

SPEAKER: GRANT D. LIBRAMENTO
AT&T COMPANY

COMMITTEE NO. 1

# REMARKS ON ROYALTIES IN PATENT AND KNOW-HOW LICENSES TELECOMMUNICATIONS INDUSTRY

BY

GRANT D. LIBRAMENTO
AT&T COMPANY

## ABSTRACT

THIS PAPER BRIEFLY EXPLAINS THE PATENT LICENSING PRACTICES OF THE AT&T COMPANY AND THEN DISCUSSES FROM THE POINT OF VIEW OF A LARGE HIGH TECHNOLOGY TELECOMMUNICATIONS COMPANY SOME FACTORS WHICH INFLUENCE THE ROYALTY CHARGED FOR LICENSED TECHNOLOGY

PIPA CONGRESS - WASHINGTON, D. C. - OCTOBER 1983

Committee No. 2 - Remarks on Royalties

in Patent and Know-how Licenses

Telecommunications Industry

Grant Libramento, Division Manager, Technology Licensing, AT&T

My remarks will touch first on patents and then on know-how licensing, viewed from the perspective of a very large, high technology company in the telecommunications and electronics fields.

The news media has given lots of attention lately to the breakup of the Bell System, which includes AT&T and its subsidiaries. With some help from the United States government, we are in the process of splitting into smaller parts by separating the local telephone companies from the parent company, AT&T. I'm with AT&T, the part of the System that can't use the Bell name any more.

We will, however, still have the Bell Laboratories, which two months ago was awarded its 20,000th patent. That staggering number works out to about a patent a day since the Labs was founded in 1925. These patents form the bulk of our stock in intellectual property. How do we license these patents and what royalty rates do we charge?

This brings me to perhaps the most important factor in determining royalties, namely the <u>reason</u> or <u>motivation</u> for licensing.

At AT&T, for more than 30 years, the primary reason for our patent licensing activity has not been the income from royalty, but rather to <u>acquire rights</u> under the patents of others. This was so that we could have the design freedom we needed to develop the best possible communications systems, but also, to encourage open technical discussion with other companies'

scientists, without the threat of patents becoming an obstacle to the free interchange of ideas. Royalty income has been a secondary purpose of our licensing activities.

These purposes are consistent with the Consent Decree issued by a U. S. court in 1956 which has governed our licensing practices ever since. That judgment required that all of our U. S. patents issued before the judgment be licensed royalty-free to all applicants.

Further, the judgment directed us to make available, non-exclusive licenses to all of our subsequent patents at reasonable, non-discriminatory royalty rates to all applicants. We were, however, permitted to obtain a grantback under a licensees patents, including any future patents for a five-year period.

So, it is our practice to enter into cross-license agreements, exchanging rights to existing and future patents for specific types of products. We have such cross-license agreements with the major telecommunications companies throughout the world, granting licenses for such types of products as central switching systems, transmission systems, telephone station systems, and semiconductive apparatus. We normally exchange rights under all existing patents and future patents for a period of five years, and customarily renew agreements at the end of that period. We now have more than 500 cross-license agreements in force with companies that find use for our patented inventions.

How do we handle royalties? The 1956 Consent Decree required us to be non-discriminatory in our royalty rates. The best way we know to be non-discriminatory is to have standard royalty rates applicable to

all licensees. So, for each of the more than 100 standard product types we license, we established a unilateral royalty rate. The unilateral rate is the rate we would charge to a licensee if rights flowed only to the licensee, and no rights were granted to us in return. We set the rates by careful study and comparison of the value of our patent portfolio to the industry patent position for that type of product. The rates vary from under two percent for major telecommunication systems, where there is a very large royalty base in relation to the utility of the patents, to a maximum of six percent for certain "exotic" materials.

But how do we apply these unilateral rates to a cross-license situation where valuable rights are returned to our company royalty-free? After all, even if the licensee has no existing patents of interest to AT&T, the rights under his future patents have potential value.

So, in establishing royalty rates in a cross-license agreement, we begin with unilateral rates, and then in return for the rights granted us, we reduce those unilateral rates by an amount commensurate to the value of the rights we receive. We accomplish this by a very careful analysis of the patent position and the inventive potential of the licensee. We perform this analysis as if our government were looking over our shoulder in order to be sure that we adhere to the letter and spirit of the Consent Decree. For example, say we were to enter into a cross-license agreement for bubble memory devices, where we have basic patents, and where our unilateral royalty rate is two percent. If the licensee has a sufficient patent position and inventive potential in bubble memories to justify a fifty percent reduction in the royalty rate,

then we will "pay" for the rights flowing to us by reducing the two percent rate fifty percent, and charging the licensee only one percent.

Has this approach been successful? Unequivocally, yes! Through these cross-license agreements our laboratories have had design freedom. We save by not having to conduct extensive right-to-use searches or having to contest the validity of patents. Because we exchange rights under future patents, in-depth technical discussions between scientists can take place without the usual concerns. Certainly many companies and countries benefit from the use of our inventions.

Recently, the Consent Decree has been modified and we are no longer under many of the old constraints. Consequently, in the future, changes in the way we license patents may take place, but for now our patent licensing practices remain the same.

I would like to turn now to a subject that is perhaps even more interesting than patents - proprietary technical information.

The 1956 Consent Decree also deals with the licensing of our technical information, but I believe it would be more useful in my remaining time to touch on international technology transfer and to offer some practical observations on the process leading to agreement on the price of technology. This is from the point of view of a very large, high technology, telecommunications company whose motivation is to try to expand into international markets - markets that are normally closed to U. S. companies because of national purchasing policy. It is typical for such a company to license technology to a manufacturer in another

country who is well established in his local markets.

In establishing a royalty level for licensed technology, the overriding goal is to arrive at terms which will be, in the long run, beneficial to both parties, a sharing of profits, a win-win situation. Any other arrangement is doomed to failure.

In arriving at such an arrangement, the first order of business is to see what kind of pie we have to share, then if we have one, find the size of the pie, decide how it is to be divided among the parties, and then arrange for when and how the pie should be eaten. Sounds simple, but as you know, many obstacles lie in the path to a successful licensing arrangement. Often, arrangements that would be beneficial to all parties fall victim to such obstacles.

To illustrate some of these obstacles, let me use a hypothetical case with a typical scenario. Let us say that HI-TEC, a major U. S. telecommunications firm needing to expand its markets, is proposing to license its telephone system technology to LO-TEC, a medium size, foreign electronics manufacturer that needs a modern telephone system to expand its product line. There is a substantial profit possible from using this technology. That HI-TEC knows, from an assessment of LO-TEC's market (primarily, sales to their own government), from an analysis of pricing structures and manufacturing costs, and by applying cumulative discounted cash flow techniques which are "well known by one skilled in the art." (See References.) HI-TEC estimates that there will be a total profit of $100M (present value) over a 10-year project life from the sale of licensed telephone systems. We have here the makings of what we all look for in the intellectual property business,

a win-win situation.

How does HI-TEC get there from here? HI-TEC's Licensing Manager uses the rule of thumb that the licensor receive about a 30 percent (10 to 50 percent, depending on circumstances) share of the profits generated by a licensing venture because the greater part of the financial risk is assumed by the licensee. He concludes that $25-$35M in fees over the project life would be appropriate compensation to HI-TEC for the use of its technology and recommends this to his company's management.

In any large, highly segmented company, there are a number of autonomous divisions, each with its own specific, if sometimes conflicting, interests. First, HI-TEC's head of R&D, who has spent more than $2B developing the telephone system, is angry that LO-TEC would receive the fruits of his work for a more $25M. "LO-TEC ought to pay at least $150M if they want to share in this leading edge technology." The Licensing Manager argues convincingly that for success, licensing fees should not be related to sunk development costs, but must instead be based on a fair sharing of profits. "If there is no incentive for both parties, then there's no deal." The head of R&D reluctantly agrees, but his deeply felt views exert some upward pressure on the royalty to be proposed.

Next, HI-TEC's sales manager, who expects to sell major subsystems to LO-TEC during the early stages of the project as well as a considerable volume of parts and components throughout the project, wonders why HI-TEC "wants to inflict such an onerous fee burden on LO-TEC." "Wouldn't it be better to give them the technology for some

nominal fee so LO-TEC could be more competitive and we could rely on the profits from the sales of parts and components for our compensation?" The sales manager was reminded that LO-TEC had no obligation to purchase parts from HI-TEC, and indeed, LO-TEC's government would strongly encourage LO-TEC to develop in-country sources for parts and components. He reluctantly agrees that it would be prudent for HI-TEC to share directly in the profits generated by LO-TEC's sales through mechanism of royalty, but his strong views exert a downward pressure on the royalty to be proposed.

Then the lawyer: "Is it true that you previously licensed this same technology to a U. S. company at a higher royalty rate?" "Yes." "Then that U. S. licensee might have cause for action against HI-TEC, should it find itself at a competitive disadvantage to LO-TEC when they meet in some market." However, it is highly unlikely that LO-TEC will be able to export before the U. S. licensee has exhausted payments under the agreement. Moreover, if necessary, differences in royalties might be justified by the technology now being nearer the end of its useful life. The lawyer never quite agrees, but he doesn't disagree either. In any case, his views exert an upward pressure on the royalty.

Next, HI-TEC's head of manufacturing wants to know "why we're giving away our technology, the crown jewels of the company, instead of keeping it for our own competitive advantage. Why are we creating new competitors we don't need?" It is politely pointed out to him that LO-TEC's country is a market closed to HI-TEC because of nationalistic procurement policies, and that if he is so worried

about competition from LO-TEC, even with HI-TEC's three year product manufacturing lead, very high volume production, new processes and systems on the drawing board, then perhaps he shouldn't even be in the business of making telephone systems. End of discussion!

That is just a typical sampling of HI-TEC's internal deliberations before proposing a license to LO-TEC for royalties amounting to $35M to be collected in a combination of up-front payments, running royalties and lump sum software right-to-use fees. In addition, training and technical assistance are offered on a pay-as-you-go basis.

HI-TEC's proposal to LO-TEC is greeted with mild shock. "Why are the rates so high? Isn't the industry standard for this kind of telephone systems technology only three percent?" "No, it's more like five percent." "Why must we pay three million dollars up front?" "There is pure teaching value in the technology and considerable start-up effort in planning and implementing the technology transfer." "Don't you trust us?" "Of course we do, otherwise we wouldn't be negotiating with you."

After six months of negotiations, HI-TEC and LO-TEC sign a technology transfer agreement which provides for about $30M in royalties. It is submitted to LO-TEC's government for approval, according to the law of that country. LO-TEC's government rejects the agreement for several reasons. Among them, royalties which are said to be abusively high and contrary to the national interest. Three more months of negotiating with LO-TEC's government and the agreement is finally approved, the transfer of technology is implemented, to the great

benefit of all concerned. Now this is a happy ending to our hypothetical story. A win-win situation. Drinks all around. But it's just as likely that any one of the obstacles I mentioned would be fatal to the project.

As managers of intellectual property, professionals who combine the three disciplines of law, business and science, the responsibility falls upon us to teach those victims of parochial thinking who, with all good intentions, become obstacles to productive licensing arrangements. We will have ample opportunity to do so.

## RECOMMENDED REFERENCES TO AID IN REACHING AGREEMENT ON ROYALTY IN NEGOTIATING A LICENSE AGREEMENT

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SPEAKER: THOMAS B. HUNTER
BORG-WARNER CORPORATION

COMMITTEE NO. 1

# ROYALTY STRATEGY OF BORG-WARNER CORPORATION

BY

THOMAS B. HUNTER
BORG-WARNER CORPORATION

ABSTRACT

A DISCUSSION OF THE ROYALTY STRATEGY OF BORG-WARNER CORPORATION, A LARGE AND DIVERSIFIED MANUFACTURING AND SERVICE ORGANIZATION. INCLUDED ARE COMMENTS CONCERNING LICENSING AND ROYALTY STRATEGY FOR THE INDUSTRIES IN WHICH BORG-WARNER IS ENGAGED AND THE VARIOUS FACTORS AFFECTING THE DETERMINATION OF THESE ROYALTIES.

# ROYALTY STRATEGY OF BORG-WARNER CORPORATION

By way of background, Borg-Warner Corporation is a diversified manufacturing and service organization with annual sales in excess of three billion dollars. It is a company that has, over the past ten years, changed its business mix from virtually 100% durable and industrial products to about 40% service businesses, specifically financial and protective services, and 60% manufactured goods.

In considering licensing strategy, these service businesses may be ignored, because we have not been involved actively in franchising or setting up licensees in these areas.

This leaves us with the main non-service businesses in which Borg-Warner is currently engaged: chemicals -- principally engineering polymers and specialty chemicals; air conditioning and refrigeration equipment; transportation products -- i.e. components for original equipment, automotive and truck manufacturers; energy equipment -- industrial pumps and nuclear products.

For most products of the mechanical type, such as air conditioning and refrigeration equipment, clutches, drive chains and similar products, the royalty range is normally within a range of 3 to 5 percent of net sales. Traditionally, Borg-Warner has not demanded large front-end payments and where front-end payments are required at all, they are designed to cover the rather heavy expenses of transferring the technology to the licensee during the

START-UP PERIOD. NORMALLY, THIS WOULD INVOLVE SEVERAL TRIPS BY KEY PERSONNEL, SPECIAL DRAWINGS, TRANSLATIONS, ETC.

WHERE MINIMUM ROYALTIES ARE PROVIDED FOR IN THE AGREEMENT, IT IS DESIRABLE TO SET THESE MINIMUMS AT REALISTIC LEVELS, SO THAT THEY WOULD NORMALLY BE CONSIDERABLY LESS THAN THE EARNED PAYMENTS WHICH CAN BE EXPECTED FOR THE PARTICULAR PERIOD IN QUESTION. TYPICALLY, THE FIRST AND POSSIBLY THE SECOND YEAR'S MINIMUM ROYALTIES ARE WAIVED TO PROVIDE THE OPPORTUNITY TO SET UP THE LICENSED PRODUCT LINE AND ESTABLISH IT IN THE LOCAL MARKETS. THE MINIMUM ROYALTIES WILL BEGIN TO TAKE EFFECT AFTER THE "GRACE" PERIOD AND INDEX UPWARDLY THROUGHOUT THE PERIOD OF THE LICENSE. IT HAS BEEN OUR EXPERIENCE THAT WHERE LARGE MINIMUMS OR HEAVY FRONT LOADING OF ANY LICENSE AGREEMENT HAVE BEEN INVOLVED, THE LICENSEE GENERALLY HAS GREAT DIFFICULTY IN ABSORBING THESE EXPENSES AND, AS A RESULT, A DETERIORATION OF THE RELATIONSHIP OCCURS AND THE AGREEMENT IS EVENTUALLY TERMINATED WITH A GOOD DEAL OF UNHAPPINESS ON THE PART OF BOTH PARTIES.

IN THE CHEMICAL AREA, WE SOMETIMES BASE THE ROYALTY ON THE WEIGHT OF PRODUCT SOLD RATHER THAN ON THE "NET SALES VALUE" OF THE PRODUCT. HONDA MOTOR COMPANY HAS (OR USED TO HAVE) A SLOGAN: "WE KEEP IT SIMPLE"; AND THAT IS GOOD ADVICE FOR ROYALTY ACCOUNTING. WE HAVE USED CONSIDERABLE INGENUITY IN TRYING TO MAINTAIN THE ACCOUNTING BASIS AS SIMPLE AS POSSIBLE. IN THIS CONNECTION, WE HAVE ONE LICENSE UNDER CONSIDERATION WHICH INVOLVES A PROCESS FOR

DEPOSITING A COATING ONTO A SUBSTRATE, AND WE WERE CONCERNED OVER THE PROBLEM OF USING SUCH CRITERIA SUCH AS SURFACE AREA PLATED, ETC. AS AN INDICATION OF PROCESS USE. WE FINALLY DECIDED ON A VERY SIMPLE STANDARD WHICH WOULD BE BASED ON THE QUANTITY OF COATING MATERIAL CONSUMMED, WHICH IS EASILY DETERMINED AND DOES PROVIDE A FAIR INDICATION OF THE EXTENT OF PROCESS USE. IT IS ALSO A GOOD MEASURE OF THE VALUE ADDED IN THIS PARTICULAR INSTANCE.

SINCE "VALUE ADDED" DOES INDEED REFLECT, IN A QUANTITATIVE MANNER, THE BENEFITS RECEIVED BY THE LICENSEE FROM PRACTICING THE LICENSED PROCESS OR MAKING AND SELLING THE LICENSED PRODUCT, WE HAVE OFTEN PROVIDED FOR APPROPRIATE DEDUCTIONS OR A LOWER THAN NORMAL ROYALTY IN RESPECT TO PRODUCTS WHERE THERE IS VERY LITTLE VALUE ADDED.

OVER THE YEARS, WE HAVE HAD SOME UNUSUAL LICENSING ARRANGEMENTS IN WHICH THE ROYALTY IS EITHER BASED ON AN UNORTHODOX ACCOUNTING SYSTEM OR IN WHICH THE ROYALTY IS NOT EVEN PAID IN MONETARY CONSIDERATION. ONE SUCH SITUATION INVOLVED THE LICENSE OF A MARINE PRODUCT UNDER WHICH, AT LEAST IN THE ORIGINAL AGREEMENT, WE WERE TO PROVIDE COMPLETE UNITS OF THE PRODUCT TO THE LICENSOR INSTEAD OF CASH ROYALTY PAYMENTS. THIS TURNED OUT TO BE A TOTALLY UNSATISFACTORY METHOD OF ESTABLISHING THE ROYALTIES AND THE AGREEMENT WAS LATER CHANGED TO PROVIDE FOR CASH PAYMENTS BASED ON NET SALES IN THE MORE TRADITIONAL MANNER.

MANY OF THE LICENSE AGREEMENTS WHICH WERE ENTERED INTO DURING THE 1960'S HAD AS ONE OF THEIR OBJECTIVES THE ESTABLISHMENT OF A TRUE PARTNERSHIP WITH THE LICENSEE IN HIS HOME TERRITORY. IN SUCH CASES, WE HAVE SET UP A NEW CORPORATE ENTITY BASED IN THE HOME COUNTRY OF THE LICENSEE. THE LICENSEE MAKES AN INITIAL PAYMENT AS CONSIDERATION FOR THE TRANSFER OF KNOW-HOW AND/OR OTHER TECHNOLOGY AND THIS PAYMENT IS IMMEDIATELY CONVERTED INTO EQUITY PARTICIPATION IN THE NEWLY FORMED COMPANY. THIS HAS WORKED OUT EXTREMELY WELL IN MOST INSTANCES, PARTICULARLY WHEN THE JOINT VENTURE HAS ENJOYED COMMERCIAL SUCCESS WITH THE PRODUCT LINE. IN SUCH CASES, THE VALUE OF THE EQUITY HAS GROWN ALONG WITH THE INCOME DERIVED FROM THE ROYALTIES. IN AT LEAST TWO INSTANCES, THE PARTNER BOUGHT BACK A SUBSTANTIAL PORTION OF OUR SHARES AT A LATER DATE.

BUSINESS CONSIDERATIONS ALSO ENTER INTO OTHER TYPES OF LICENSE AGREEMENTS IN WHICH THE CONSIDERATION FOR A "ROYALTY-FREE" LICENSE WILL BE THE RIGHT TO PROVIDE THE LICENSEE'S REQUIREMENTS OF A PRODUCT FOR A REASONABLE PERIOD OF TIME. TYPICALLY, THESE AGREEMENTS ARE STRUCTURED SO THAT AFTER A PERIOD OF TIME, SUCH AS FIVE YEARS, THE CUSTOMER/LICENSEE CAN MANUFACTURE (OR HAVE MANUFACTURED FOR IT) UP TO ABOUT 50% OF ITS OWN REQUIREMENTS FOR SUCH PRODUCT.

IT CAN BEEN SEEN FROM THE FOREGOING DISCUSSION THAT THERE IS REALLY NO RIGID STRATEGY EMPLOYED AND THE MANNER IN WHICH THE AGREEMENT IS FINALLY STRUCTURED IS EXTREMELY FLEXIBLE AND FASHIONED BY BUSINESS CONSIDERATIONS WHICH ARE AS DIVERSE AS THE

VARIETY OF PRODUCTS WHICH ARE AVAILABLE FOR LICENSING. WHILE OUR JAPANESE FRIENDS WOULD, NO DOUBT, LIKE TO HAVE US GIVE THEM SOME GUIDANCE AS TO WHAT MIGHT BE EXPECTED IN TERMS OF A U.S. BASED LICENSOR FOR THE PRODUCTS BEING LICENSED, THE FACT IS THAT THERE ARE NO HARD AND FAST RULES GOVERNING THESE TYPES OF ARRANGEMENTS.

THE ATTACHED TABLE SETS FORTH THE BASIC TERMS FOR A CROSS-SECTION OF PRODUCTS CURRENTLY LICENSED. THE LISTED LICENSES WERE SELECTED AT RANDOM FROM MORE THAN 100 LICENSES CURRENTLY IN EFFECT.

I HOPE THAT I HAVE BEEN ABLE TO SHED SOME LIGHT ON OUR CURRENT LICENSING PRACTICES AND WOULD BE PLEASED TO ANSWER ANY QUESTIONS DURING THE OPEN DISCUSSION PORTION OF THIS PROGRAM.

T. B. HUNTER
10/04/83RR

## KEY TERMS OF REPRESENTATIVE BORG-WARNER LICENSE AGREEMENTS

| PRODUCT | TERRITORY | EARNED ROYALTY | ANNUAL MINIMUM ($) | ENGINEERING FEE ($) | GRANT * |
|---|---|---|---|---|---|
| Automotive | S. America | 3% | None | None | M=E/S=NE |
| Automotive | Mexico | 1-3/4% | 10,000 | None | M=E/S=NE |
| Air Conditioning | Mexico | 2 - 3% | 10,000 | 25,000 | M=E/S=NE |
| Polymers | Australia | 2% on P; 1% on TM | None | None | M=E/S=NE |
| Air Conditioning | Australia | 2-1/2% - 5% | None | None | M=E/S=NE |
| Pumps | Japan | 5 - 6% | None | None | M/S=E |
| Automotive | Japan | 1-1/2% | 10,000 | None | M=E/S=NE |
| Automotive | Japan | 1-1/2 - 5% | None | None | M/S=E |
| Polymers | Japan | 0.60% of Sales | None | 1,000,000 | M/S=E |
| Air Conditioning | Malaysia | 2% | 45,000 | 30,000 | M=E/S=NE |
| Pumps | S. Africa | 7-1/2% | 7,000 | None | M=E/S=NE |
| Air Conditioning | New Zealand | 5% | 20,000 | None | M=E/S=NE |

* CODES:
S = Selling
M = Manufacturing
E = Exclusive
NE = Non-exclusive

PACIFIC INDUSTRIAL PROPERTY ASSOCIATION

FOURTEENTH INTERNATIONAL CONGRESS

OCTOBER 19, 20, 21, 1983

WASHINGTON, D.C.

COMMITTEE 2 U.S. GROUP

WILLIAM T. McCLAIN, CHAIRMAN

# BASIS FOR DETERMINING ROYALTIES IN PATENT AND KNOW-HOW LICENSES - A VIEW FROM THE PHARMACEUTICAL INDUSTRY

BY

STUART R. SUTER

ASSISTANT PATENT COUNSEL

SMITHKLINE BECKMAN CORPORATION

PHILADELPHIA, PENNSYLVANIA

Within the pharmaceutical industry the factors affecting the determination of a royalty in a patent and know-how license depends on many varied considerations. The evaluation of these factors and the resulting determination of the royalty in any license arrangement can be a very complex procedure. During this presentation I will attempt to enumerate many of these factors and try to give an overview of the effect these factors have on the final royalties which may be agreed upon by the licensor and licensee. Later during the open discussion part of the program hopefully we will be able to hear of the experiences of others in the audience here today.

First, it should be noted that technology agreements in the pharmaceutical industry are primarily patent licenses. Although know-how is included as a part of most transfers by the licensor, it is the licensor's patent or patents which is of primary importance to the licensee. For this reason, agreements which are totally know-how or tradesecret licenses are not very common in the industry.

The first factor assessed in determining a royalty is what technology is being licensed. Within the pharmaceutical industry, patents covering many varied inventions are granted but each type of invention does not have equal value. The royalty will depend on the perceived value of the technology to each party to the agreement.

These varied types of inventions or technology can be listed as follows:

1. A new chemical compound which is useful as a therapeutic agent and is protected by product per se claims in a patent.

2. A new chemical compound which is useful as a chemical intermediate to prepare the new therapeutic agent. This also is protected by product per se claims. An intermediate may be specific for one drug or useful to prepare a series of drugs. For example, 6-APA is a basic intermediate for the penicillin antibiotics.

3. A new chemical process useful to prepare the therapeutic agent or chemical intermediate.

4. A new pharmaceutical formulation or dosage form. This type of invention also may be specific to one therapeutic agent or be of a general nature such as a drug delivery system capable of use with many drugs.

5. A new use for an old chemical compound is more unique to the pharmaceutical industry than other industries. This type of invention is not universally protectable by patent; however, patents of this type are common and very useful in the United States.

Know-how also comes in a variety of forms which have varied value. It may be rights to a government-approved product registration so that the licensee would be able to quickly enter the market with a new product. It might be chemical process information. Many times the know-how will be biological data developed on a new drug candidate which may include some clinical cases where the drug had been used to treat patients.

As an aside, I should note that the emerging biotechnology field is enlarging this list. Patents have been granted which cover plasmids, vectors, genes, processes to perform various genetic engineering transformations as well as modified bacteria or other hosts useful as chemical factories. Time does not permit us to go into further detail in this area except to note that patents and know-how directed to basic technology exist in this area and are being licensed.

Another basic factor affecting the size of the royalty is the scope of the license grant. Because of the high cost and risk associated with development of new products, pharmaceutical companies prefer to be the exclusive seller of a product. Therefore, an exclusive license, by providing product exclusivity, will have a higher royalty and may, in fact, be two or three times higher than a non-exclusive license.

Let us now look at a group of factors which apply more to the licensing of new products or potential products than the other types of technology.

One important factor is the stage of development of the product being licensed. If the product is fully developed and has approved registrations from governmental agencies, this product is more valuable and demands a higher price than a compound which may just have basic toxicity data and limited clinical data at the time the negotiation is proceeding. Although this factor may be reflected in the size of the royalty paid, in many cases it is reflected in the size of the initial payment or license fee paid as a lump sum up-front payment. If the compound needs extensive development, the cost and perceived likelihood of success will affect the size of any initial payment and/or royalty payment.

A further factor in determining a reasonable royalty is how the licensor and the licensee perceive the market for the particular product. This perception is influenced by the knowledge that each has of the particular therapeutic area which the product will enter. Does the new product provide a new distinct advantage over what exists in the market? Will the product capture a significant share of the market? Answers to these questions by the licensor and licensee have an important effect on the royalty negotiations. Coupled with this is an assessment of how much of the particular market segment this new product may capture. In addition, if the product will give the licensee an entry in a new therapeutic field in which he wants to become established, the licensee may view the value of the product differently than if he has several products in this field already.

Another factor having an effect on the overall size of any royalty is whether other patents owned by third parties exist and must also be licensed. Occasionally, products within a crowded art area will have patents owned by different parties which cover the final product and several intermediates or processes. If in such a situation each of three licensors demanded a 10% royalty, the product would most likely not be able to succeed in the market because of the 30% total royalty burden.

Now let us turn to the various types and typical amounts of consideration. I said consideration because royalties are but one form which is used to compensate the licensor for granting a license to the licensee. One form of consideration which many companies are now seeking is rights to a product owned by the licensee; that is, the agreement becomes a product exchange agreement. Another form, which we have alluded to, is an initial lump sum payment or license fee.

The initial lump sum payment may be viewed either as advance royalties which will be credited against the first earned royalties when product sales begin or as a payment to cover the costs incurred by the licensor in developing the technology. This initial payment may be totally non-refundable or may have some portion of it refundable if the product is not approved by certain governmental agencies.

The initial lump sum payment may vary from a few thousand dollars up to several million dollars. The size of the payment depends on several factors. If a product is ready for the market, the initial payment may be large. However, if the product needs much development work by the licensee, the payment is likely to be small. The payment also may be large if the licensor has a need for cash. In that case he may prefer a large initial payment in exchange for a lower royalty rate on future sales.

Running royalties are used in most agreements within the industry. They are expressed as a percentage of net sales of the product or as a sum of money for each unit or amount of product made or sold. The percentage rate may be constant for all sales or may vary. The percentage rate may escalate as the amount of product sold increases on the theory that the increased volume results in lower production and sales costs for the licensor. On the other hand, the percentage rate may decrease as sales increase as an encouragement for the licensee to promote and sell more of the product.

After all of these factors have been considered, it is still difficult to make rules regarding royalty rates. The royalty rate for an exclusive license to a product which is fully developed or nearly so may exceed 10% and command a large initial payment. A non-exclusive or a sole license for a product are more likely to have a royalty in the area of five percent. Special circumstances can always cause an increase or decrease to these rates.

Royalty rates for the other types of technology listed in the beginning of this talk are generally lower. Process technology is licensed for royalties in the two to five percent range. Royalty rates for intermediates and new uses for an old compound are generally in the same range. Again, circumstances specific to each individual case will affect the royalty.

In summary, one factor mentioned previously may play the most important role. This factor is the perceived value of the technology to both licensor and licensee. When U.S. courts are attempting to determine a reasonable royalty as a damage award, they state it as what would a willing buyer and willing seller agree to as a royalty rate. In the end, this is the final and most important factor.

Thank you.

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# PROBLEMS RELATING TO SUBMISSION OF TRANSLATIONS AND PATENT RIGHTS IN EUROPEAN PATENT APPLICATIONS

Japanese Group Committee No. 3

K. Imai, Toshiba Corporation
N. Yonemoto, Mitsubishi Rayon Co., Ltd.
T. Kubo, Nissan Motor Co., Ltd.
H. Inose, Fujitsu Ltd.
F. Hosokawa, Sekisui Chemical Co., Ltd.
N. Okabayashi, NEC Corporation
T. Hasegawa, Mitsubishi Chemical Industries Ltd.

Speaker: Z. Nakamura, Takeda Chemical Industries, Ltd.

Abstract

In accordance with the large increase in European patent applications, the number of cases granted has also increased remarkably. EPO statistics show that during the period from June 1979 up to the end of March 1983, 20438 cases where recommended to grant and among which 11445 cases were granted.

This paper relates to the problems encountered with the submission of translations and the patent rights in European patent applications, particularly on the submission of translation of claims at the time of and/or after the first publication; submission of a translation of the full text at the time of allowance; and confirmation of transfer into national stage. This paper further seeks to introduce the present attitude of Japanese companies relating to submission of translations, the major problems they face and their expectations as to improvements regarding European patent applications.

1. Introduction

European patent applications have been increasing steadily from the outset. Japanese applications have been increasing very rapidly, particularly in the last two years. The Japanese share in 1979 was only 4.7%, but in 1982 it reached 14% which is the third largest share following the United States and West Germany. It is considered that this large increase is due to the many Japanese companies who have until now, taken a "wait and see" attitude, fully realizing the advantages of the EPC.

According to the large increase of filings the number of cases recommended to grant has also been increasing notably.

The transfer to the national stage, is explained in the EPO's brochure "National law relating to the EPC". However, it seems that the most Japanese companies have not as yet studied same in detail. To supplement their understanding, the Japanese Group of the PIPA No. 3 committee made enquiries to the attorneys in the EPC contracting states regarding submission of translations and patent rights, particularly as to the following three points on which most applicants seem to have a keen interest.

(1) Filing of translation of claims after publication ... 18 months from the priority date.

(2) Treatment of translation of claims and full text on and after the application is recommended to grant.

(3) Confirmation of transfer into national stage.

At the same time we have made enquiries to the PIPA member companies in Japan to ascertain the attitude of Japanese companies concerning the following points.

(a) Preparation and submission of translation of claims and full text at the time the application is recommended to grant.

(b) Whether or not the member companies submit a translation of the claims on or after the first publication for obtaining compensation rights.

(c) Problems regarding the EPC and requests to the EPO.

This paper summarizes the answers from some of the attorneys of the EPC contracting states togehter with the result of the requiries to the Japanese Group of PIPA members. The items 3-1 and 4 treat the same subject matter but with different approaches. It should be noted however, that there is some overlap between the content of this paper and the explanation set forth in the EPO's brochure "National law relating to the EPC".

2. Submission of the Translation of Claims after the First Publication.

2-1. Submission of the Translation of Claims for Provisional Protection.

Article 67 EPC prescribes that from the date of the first publication, under article 93 a provisional protection is conferred on the applicant in the designated states. However, most contracting states provide such provisional protection only upon submission of a translation of the claims in the offical language of the designated state, and only after such a time that the translation of the claims is (a) made available to the public or (b) the translation has been communicated to an infringer. In the Netherlands, provisional protection becomes effective 30 days after the above mentioned communication. The only contracting state that does not require any translation in this respect is the United Kingdom.

The nature of the protection is some what different from country to country (viz., state to state). In the U.K., France, Italy and Switzerland, "damages" can be claimed. In other countries, "compensation reasonable in the circumstance" may be claimed. In general, "compensation" is considered to be assessed lower than "damages", however, how they differ in practice is not explicit. Further, the meaning of "compensation reasonable in the circumstance" is ambiguous. In several countries, a suit for claiming the compensation can only be filed after the grant of the European patent. Conditions for provisional protection and the nature of compensation rights conferred in each contracting state, and the way and manner to confirm the submission of the translation

of claims avaiable to the third party are shown in Table 1 (which corresponds to columns 3 and 4 of Table III A and column 7 of Table III B of the EPO brochure).

The result of the survey by questionaire to the Japanese PIPA members shows that very few Japanese companies are regularly submitting a translation of claims after the first publication to date. In other words, most Japanese companies do not submit a translation of claims for obtaining provisional protection. Submissions on a "case by case" basis is also very low.

2-2. Correction and Amendment of Translation of the Claims pursuant to Article 67(3) EPC

2-2-1. Correction

Correction of translated claims is possible in practically all countries except for the Netherland where no specific provisions are to be found in the National Law. However, the absence of explicit regulations to this respect in the Netherlands is definitely not an answer "No" but more probably an answer "Yes".

Please see column 8 of Table III B of EPO brochure (3rd edition May 1983), which is reproduced in Table 2 in this paper.

It should be noted that a "correction of a translation" is not an "amendment" of a translation in the sense that a

translation of amended claims is to replace the translation of claims in an earlier formulation.

Any protection conferred by a European patent application prior to grant under the provision 69(2) EPC depends on the disclosure of the publication of the European application according to Article 93 EPC and especially on the latest filed published claims (in most practical cases the originally filed claims). The translation according to Article 67(3) EPC must be a translation of the claims as published in the publication of the European patent application under Article 93 EPC and not a translation of claims amended later on and covering different subject matter.

Such a translation under Article 67(3) EPC may be corrected if it contains defficiencies or mistranslations in a manner to remove these inaccuracies, but such corrections still relate to the text of the latest filed published claims (in most practical cases the originally filed claims) and not to the text of any amended claim differing in substance from the claims as published under Article 93 EPC. In other words, "corrections" of a translation are limited to "mere correction of errors".

2-2-2. Amendment

There is no EPC provision for "amending" the translation of the claims or for filing a second set of translated claims

which is different from the first filed one. In fact, such an amendment would not make sense in view of the fact that the translation is supposed to reflect the content of the claims as originally published in the publication of the European patent application udner Article 93 EPC. The legal relevancy and significance of the filing of "amendment" of translated claims is uncertain.

In view of this situation, there does not seem to be any necessity for a later amendment of the translation of the claims. Therefore, it is practically important to ensure that the claims as published are as broad as possible having regard to the scope of the disclosure.

However, for very important cases, it may be possible to submit a translation of amended claims during the time period of first publication and the patent granting decision. The National Patent Office will only take those translations of amended claims to the respective file. There will be no republication and no notice of amendment or the like in any of the Patent Bulletins of the member countries.

In practice, in those very important cases, the applicant would later send the translation of amended claims with a complete translation of the application documents to the potential infringer in the respective country and not to the National Patent Office in the infringer's country. In this case, the situation may become more favorable for the

applicant, since the possible infringer has all the documents at hand can evaluate whether the newly amended claims (or the broader claims) have a sound basis in the original documents, and thus cannot later on argue that he has used the invention bona fide. The applicant in this manner may be a better opportunity to compensation between the publication of the EPC application and the publication of the decision of patent grant.

2-2-3. Creation of intervening rights by correction or amendment of translated claims.

The only stipulation relating to intervening rights in connection with translations of European patent applications or European patents is found in Article 70 (4) (b) EPC. The intervening right which may come into existence under this provision is the consequence of a "correction" of a translation of the application text as originally filed or of the text of the European patent as granted.

This provision does not relate to the situation wherein a translation of "amended" claims relating to subject matter different from the claims as published under Article 93 EPC, is filed. In this situation, which has no support in the EPC provisions, there is no basis for the coming into existence of any intervening rights under Article 70 (4) (b) EPC. In addition, there is no explicit statement in the EPC relating to

the question of the creation of intervening rights if claims are "amended" during the period between the first publication and the grant of a patent.

In general, an intervening right, in the sense of a right to continue to use an invention the use of which would not constitute an infringement of the claims of a published European patent application under Article 93 EPC (but would constitute an infringment of subsequently amended claims relating to subject matter not covered by the original claims of said patent application), is not available to a third party.

An intervening right (right to continue to use for a third party) can come to existence only if the provisions of Article 70 (4) EPC are given, that is in cases only in which a translation of the text of a European patent application or a European patent into the respective national language has been corrected (linguistically) later on. Thus, in member states which have not adopted a provision under Article 70 (3) EPC, namely Belgium, West Germany, the Netherlands and the United Kingdom, intervening rights according to Article 70 (4) EPC cannot come into existence at all. Please see Table V, column 2 of the EPO brochure, supra (reproduced in Table 2 in this paper).

3. Translation of full text at the time of grant of patent

3-1 Treatment in the designated states

In Germany, the United Kingdom and Luxembourg, the translation of the full text at the time of grant of patent is not required. Other countries excluding the above, require a translation under Article 65 into an official language of the designated country.

In Austria and Sweden the translation is published as a printed patent document, and any subsequent corrections of the translation is also published in the same manner. Further, the Swedish Patent Office sends a copy of the printed translation to the applicant. In France, Italy, Switzerland/Liechtenstein and the Netherlands, the translation is not published as a printed patent document. A mention of the filing of the translation is published in the patent bulletin in France, the Netherlands, Austria and Sweden.

The EPC does not contain any regulations as to the form of publication of the translation. According to Article 65 (2) EPC, any contracting states may prescribe that the costs for possible printed publication of translation has to be paid by the applicant. In fact, in Austria and Sweden, applicants must pay higher fees for the printed publication of the translation which become a burden for applicants.

In France, the Netherlands, Austria and Sweden, a third party can confirm the publication at the respective Patent

Office or through the search of the patent bulletin. In Italy, Switzerland/Liechtenstein and Belgium, confirmation of filing of translation can be confirmed in the reading room of respective National Patent Office. In most countries, copies of the filed translation are available.

Table 3 which corresponds to column 3 of Table III A of EPO brochure, shows how the translation of the full text is treated in each designated country.

The result of enquiries to the PIPA member companies shows that most Japanese companies request the translation, including that of claims be done by the patent firm through which the original filing of the European Patent application was requested. As for the management of further proceedings after recommendation to grant to EPO, for example, instructions for making translation and filing, time limit watching, etc., few companies manage same themselves without requesting substantial management from an "out-side" patent firm. This would be mainly caused by the comprehensiveness of the proceedings, language problems and shortage of experience. Different from the United State companies, the language handicap has a large influence on the extent of self-management by many Japanese companies.

3-2. Restoration of patents in which a translation has not been finely filed

Each EPC member country sets a term for filing a translation of the specification after the date of publication in the European Patent Bulletin. The possibility of restoration or revival of the patent wherein a translation of the specification is not filed in due time is a matter of national law.

In Austria, Sweden and Switzerland, it may be possible to restore or revive. However, even in these countries, the restoration or revival is severely limited to the cases where the non-filing of the translation is due to circumstances beyond the control of the patentee and/or his representative.

Many attorneys commented that there is a theoretical possibility of restoration or revival in France and Italy. However, in practice, the restoration or revival may be impossible.

The Netherlands has a provision for the restoration or revival in the national Patent Act. It is, however, unclear at present whether the provision is applicable to the translation of a Europena patent.

Belgium does not permit the restoration of the patent when a translation is not filed in due time. Germany, the United Kingdom and Luxembourg do not require any translation of the granted specification.

3-3. Movement to Harmonize the procedure for submission of translations among the EPC member countires

The Administrative council of the European Patent organization is making an effort to harmonize the procedure for submission of translations among the EPC member countries. The administrative council has recently set up a group, called "Working party on National Law" which is examining the possibilities of harmonizing the national provisions governing European patent applications and patents.

A report by the Working Party has been published in the 1983, July issue of the Official Journal of the European Patent Office in which it was recommended that the time limit provided by Article 65 (1) of EPC for filing the translation of the European patent specification should be a uniform period which expires three months from the date of publication in the European Patent Bulletin of the grant of the European patent. However, achievement of complete harmonization is unfortunately unlikely in the near future according to the information received from European patent attorneys.

4. Confirmation of the completion of national stage procedure:

The applicant or a third party can confirm the completion of the national stage procedure by enquiring at the national Patent Office, checking the register, patent bulletin or

official gazzette published by each national Patent Office. It is also possible to confirm same by obtaining copies of the relevant notification and/or publication issued by the respective national Patent Office.

In Germany, Luxembourg and United Kingdom, the national phase registration takes place automatically upon grant of the European patent, without any need for special national action to be taken on behalf of the patent proprietor. However, it is recommended that a local representative is appointed to provide an "address for service" in each of these countries. In Germany the applicant or the authorized Germany representative will receive a communication from the German Patent Office indicating the German patent number for the German part of the corresponding EPC patent.

The applicant receives some sort of receipt from any designated National Patent Office in case a translation has to be filed.

In general, the national Patent Offices do not make a routine practice of informing the patentee when the national stage procedure has been completed. However, in some instances, a national patent Office may write to the patentee's appointed national representative in the usual way to call attention to any minor defects or deficiences noted in the documentation filed with the necessary translation.

The Swedish Patent Office sends a copy of the printed

translation to the applicant. This in effect is a confirmation of the completion of national stage procedure.

In France, the Netherlands and Sweden as well as in Belgium, Italy, Switzerland and Liechtenstein, the translation on display in the respective reading room of the official authority is available to confirm completion.

In Belgium and Austria, the applicant receives confirmation from respective national Patent Office and in the Netherlands, the applicant would be informed by his Dutch patent attorney.

On the other hand, in the European Patent Bulletin, the "Date of lapse of the European patent in a Contracting State" is published. If such publication is not made after grant, the national stage procedure has been completed by the applicant.

In France and Switzerland, if the requested translation is not filed in due time, this fact is mentioned in the official Patent Bulletin so as to publicize the fact that the patent has lapsed so far as France and Switzerland are concerned.

In brief, the best way presently to ascertain completion of the national stage is to have a local agent check the appropriate resgister

5. Requests to the EPO

As a result of enquiries to the PIPA member companies, about 20 requests and/or complaints were received. The major items are as follows:

(1) Harmonization of national stage procedures.

Although the prospect of the harmonization in the very near future seems pessimistic, the early actualization of same is eagergly awaited.

(2) Admission of a second use of a pharmaceutical compound.

The second use of pharmaceutical compound is admitted in the United States and Japan. Almost all pharmaceutical companies wish the admission of a second use ~~of~~ pharmaceutical compounds.

(3) Exemption from submission of a translation of the priority document or documents.

Submission of translation of priority document is not required in the majority of industrialized countries. To save labor and cost, many companies would like the submission of translation to be unnecessary unless "requested by the examiner."

(4) Extension of term for request of substantive examination.

Several companies wish the extension of this term, since the current term --up to the end of 6 months after the date on which the European Patent Bulletin mentions the publication of the search report-- is in general too short to make a careful review.

## 6. Conclusion

Several points relating to the submission of translation and patent rights are still not clear. However, we expect that they will be cleared gradually via future court decisions and promulgation of related legislations.

Since the majority of Japanese companies have not had much experience, it would be a little early to positively discuss the attitudes of Japanese companies relating to matters subsequent to patent grant at EPO.

As stated at the beginning, the use of the EPO route by Japanese has been increasing rapidly. This tendency will continue at least for the next couple of years. Further, we hope the harmonization of procedures after recommendation to grant to EPO will be realized in the near future so as to further develop the utility of the EPO.

Table 1

Submission of Translation of Caims after the First Publication

| | Right to compensate after the first publication | | How to confirm submission of translation of claims |
|---|---|---|---|
| | Condition | Compensation right | |
| Germany | Translation of claims to National Patent Office or communication to the user | Reasonable compensation | Printed publication. (Translation of claims is printed in Patent Bulletin) |
| United Kingdom | No translation is required | Damages | |
| Luxembourg | Translation of claims to National Patent Office or communication to the user | Reasonable compensation | Inspection in reading room of National Patent Office. Copies available |
| France | Translation of claims to National Patent Office or communication to the user | Damages. Possibly sizure of infringing articles | Notice in Patent Bulletin. Inspection in reading room. Copies available |
| Italy | Translation of claims to National Patent Office or communication to the user | Damages. Possibly description and seizure of infringing articles | Inspection in reading room. Copies available |
| Switzerland/ Liechtenstein | Translation of claims to National Patent Office or Communication to the user | Damages | Inspection in reading room. Copies available |
| Netherlands | Translation of claims to National Patent Office or communication to the user. 30 days after notification of applicant's rights | Reasonable compensation | Inspection in reading room. Mention in Patent Bulletin |
| Belgium | Translation of claims to National Patent Office or communication to the user | Reasonable compensation | Inspection in reading room. Copies available |
| Austria | Translation of claims to National Patent Office or communication to the user | Reasonable compensation | Inspection in reading room. Copies available. Mention in Patent Bulletin |
| Sweden | Translation of claims to National Patent Office. Notice is published in patent Bulletin | Reasonable compensation | Inspection in reading room. Copies available. Mention in Patent Bulletin |

Table 2

## Correction of Claim Translation

| Country | Correction of translated claims under 67 (3) EPC permitted? | Has provision pursuant to 70 (4) (b) EPC made? |
|---|---|---|
| Germany | Yes | — |
| United Kingdom | Translation of the published claims is not necessary | — |
| Luxembourg | Yes | Yes |
| France | Yes | Yes |
| Italy | Yes | Yes |
| Switzerland/ Liechtenstein | Yes | Yes |
| Netherlands | Yes | — |
| Belgium | Yes (Errors of transcription) | — |
| Austria | Yes | Yes |
| Sweden | Yes | Yes |

Table 3

Submission of Translation of Full Text

| Country | Notification of filed translation in designated country | Confirmation of filing of translation in designated country by third party |
|---|---|---|
| Germany | Translation is not required | |
| U.K. | Translation is not required | |
| Luxem-bourg | Translation is not required | |
| France | Translation not published as a printed patent document. Mention of the filing of the translation appears in the Patent Bulletin | Search of patent Bulletin. Inspection in the reading room. Copies available |
| Italy | Translation not published as a printed patent document | Inspection in the reading room. Copies available |
| Switzer-land/ Liech-tenstein | Translation not published as a printed patent document | Inspection in the reading room. Copies available |
| Nether-lands | Translation not published as a printed patent ducument. Mention of the filing of the translation appears in the Patent Bulletin | Search of Patent Bulletin. Inspection in the reading room. Copies available |
| Belgium | Translation not published as a printed patent document | Inspection in the reading room. Copies available |
| Austria | Translation not published as a printed patent document. Mention of the filing of the translation appears in the Patent Bulletin | Search of Patent Bulletin. Inspection in the reading room |
| Sweden | Translation not published as a printed patent document. Mention of the filing of the translation appears in the Patent Bulletin | Search of Patent Bulletin. Inspection in the reading room |

Table 4

Confirmation of the Completion of National Stage Procedure

| Country | Common to all contracting countries | Applied to respective country |
|---|---|---|
| Germany | Enquire at the National Patent Office. Check the register, patent Bulletin of official Gazzette. Obtain a copy of relevant notification and/or publication | Registration takes place automatically upon grant of European patent. Appoint a local attorney to provide "address for service" |
| United Kingdom | | Registration takes place automatically upon grant of European patent. Appoint a local attorney to provide "address for service" |
| Luxembourg | | Registration takes place automatically upon grant of European patent. Appoint a local attorney to provide "address for service" |
| France | | Obtain receipt of filing of translation. Check translation on display in National Patent Office. |
| Italy | | Obtained receipt of filing of translation |
| Switzerland/ Liechtenstein | | Obtain receipt of filing of translation |
| Netherlands | | Obtain receipt of filing of translation |
| Belgium | | Obtain receipt of filing of translation. Applicant receives confirmation |
| Austria | | Obtain receipt of filing of translation. Applicant receives confirmation |
| Sweden | | Obtain receipt of filing of translation. National Patent Office sends a copy of printed translation to the applicant |

# RECENT MOVEMENT OF THE INDUSTRIAL PROPERTY SYSTEMS IN TAIWAN AND KOREA

Japanese Group Committee No. 3

Kyoji Murayama, Fujisawa Pharmaceutical Co., Ltd.
Kiyoshi Yamashita, Sumitomo Chemical Company, Limited
Mamoru Takada, Mitsubishi Electric Corporation

Speaker: Kyoji Murayama, Fujisawa Pharmaceutical Co., Ltd.

## ABSTRACT

TAIWAN: As well known, recently there are various problems on industrial property rights in Taiwan, e.g. protection of chemical substance, counterfeit of trademark, etc. Under such situation, Japan Patent Association dispatched the Mission for requesting the Government authorities as concerned to improve the present Taiwanese industrial property system and discussing and exchanging with the high officials as concerned thereof about the matters. Japanese Group wish to report the results of the Mission's visit to Taiwan and give some information.

KOREA: In Korea also, there are some problems on industrial property rights, which foreigners want to improve. In this respect, the U.S. Government/Industry group delegations as well as the INTERPAT delegations visited to Korea to seek improvement of protection of industrial property rights in Korea. Under such circumstances, in order to know what problems Japanese companies have on protection of invention in Korea, Japanese Group of PIPA made an investigation. The results of investigation are reported.

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## PART I : TAIWAN (THE REPUBLIC OF CHINA)

### Chapter 1. Introduction

From February 23 to March 2, 1983, the Japan Patent Association (JPA) dispatched the Mission composed of 11 delegates of Japanese leading companies (hereinafter referred to as MISSION) to Taiwan for the purpose of requesting the Taiwanese Government authorities to improve the present Taiwanese industrial property system, and discussing and exchanging opinions with the high officials as concerned thereof about the matters.

The Government offices and important officials which the MISSION visited and met are as follows.

- Ministry of Economic Affairs (MOEA) : Mr. Wu, M.T. Vice Minister
- National Bureau of Standards (NBOS) in MOEA : Mr. Wan, Wei-Chun, Director General
- Department of Patent in NBOS : Mr. Lee, Director and other officials as concerned
- Department of Trademark in NBOS : Mr. Chin, Vice Director, and other officials as concerned

- Appeal Committee of MOEA : Mr. Chou, Chin-Hshang, Chairman
- International Trade Bureau of MOEA : Dr. Chiany, Pin-Kung, Deputy Director General

The MISSION also exchanged opinions and information with people of the following non-official groups.

- American and European Chambers of Commerce, Taiwan :
  Mr. H. TH. Stiftl, Upjohn Int'l Inc., Taiwan Branch
  Mr. Paul B. Stewart, Boehringer Ingelheim Taiwan Limited
  Mr. Hitoshi Taniguchi, Pfizer Limited
- Asian Patent Attorney's Association (APAA)
- Taiwan Inventor's Association

## Chapter 2. Generals

The MISSION submitted the following papers to the above important and key officials of the Government, copies of which were also handed over into the non-official group's own hands.

- Position Paper Regarding the Industrial Property System of the Republic of China, which is addressed to Minister, the Ministry of Economic Affairs, Taiwan.
  (Copy of the same is separately presented here as ATTACHMENT I)
- Japan's Experience in Adoptation of Product and Pharmaceutical Patent System.
  (Copy of the same is separately presented here as ATTACHMENT II)

In each of the meetings with the high officials as concerned, especially Mr. Wu, Vice Minister of the Ministry of Economic Affairs (MOEA) and Mr. Wan, Director General of the National Bureau of Standards (NBOS), the MISSION explained their purpose of visiting Taiwan, having expressed Japan's view that the Taiwanese system for protecting the industrial property, including patent, trademark, etc., is not always completely satisfactory, still having various problems to be solved from the international viewpoints, and then requested said officials to make improvement of such unsatisfactory points, taking the Japan Patent Association's Position Paper into their consideration in handling the presently planned amendment of the Taiwanese Patent Law and any possible similar plan in the future as well.

To the MISSION's request as above, the Taiwanese key officials, Mr. Wu and Mr. Wan expressed their views, generally speaking that :

- As the MISSION said, they fully recognized and duly noted that the present Taiwanese system for protecting the industrial property is not always satisfactory from the various aspects, and this has been incurring international disrepute from various foreign countries.
- Under such situations, they are sincerely considering that

it would be indispensable for Taiwan to do the best to improve such unsatisfactory points for acting as one of the members in the international economy.

- Accordingly, they are thinking that they should do the best efforts to improve the present Taiwanese industrial property system to the more preferred direction as possible as they can, taking note of the Japan Patent Association's Position Paper and the others.

Further, the detailed discussions were continued on patent matters mainly with Mr. Lee, Director of the Department of Patent, on trademark matter with Mr. Chin, Vice Director of Department of the Trademark and Dr. Chiany, Deputy Director of the International Trade Bureau, and on appeal matters with Mr. Chou, Chairman of the Appeal Committee. The summary of the discussions and some information are given in the following.

## Chapter 3. Patent

### 1. Patentable Subject Matters

#### (1) Patent Protection of Chemical Substance, Pharmaceutical Product, etc. [see Position Paper [1], 1.(1)]

One of the most important requests made by the MISSION to the Taiwanese Government authorities was directed to patent protection of chemical substance and pharmaceutical

product. The MISSION expressed their strong request to the authorities that a patent should be granted on chemical substance and pharmaceutical product from a viewpoint of the international trend.

To such MISSION's request, the National Bureau of Standard's (NBOS) view was as follows :

- It can be said that the time has come when a serious consideration should be given to the protection of chemical substance in Taiwan. Accordingly, the Government authorities is now seriously studying this problem.
- Twice, in January 24 and 28, 1983, NBOS held a public hearing, gathering responsible persons of the local big enterprises as concerned (chemicals, agricultural medicines, pharmaceuticals, etc.) and the foreign enterprises* located in Taiwan, in which the NBOS invited such enterprises' opinions and the discussion was made between the both on this problem.
- The NBOS will report the result of said public hearing to the Ministry of Economic Affairs in not-far future soon after the arrangement thereof has been finished.
- However, as to how protection of chemical substance goes on in furure, the NBOS themselves can not give a definite answer at the present stage. What the NBOS can

say is only that the time has come for seriously considering this matter.

* Note : 17 American and European companies located in Taiwan jointly submitted "Position Paper re Patentability of Pharmaceutical Products" to the Ministry of Economic Affairs, such companies being Boehringer Ingelheim, Bristol-Myers, Ciba Geigy, Cyanamid, Eli Lilly, Essex, Johnson and Johnson, Pfizer, Roche, Shering, Squibb, SKF, Teh Hwa Chemical Pharmaceutical, Upjohn, U.S. Summit, Warner-Lambert and Winthlop. In this position paper, they proposed the permission for granting patent to pharmaceutical products by deleting Article 4(3) of the Patent Law prescribing that pharmaceuticals and their concoctions are unpatentable, the shift of the burden of proof to infringer in the process patent infringement litigation, and so on.

During the discussion, the MISSION were impressed that the Government authorities have been anxious that the adoptation of product patent system would give bad influences in economics and industrial development in Taiwan, for example, the price increase of products, the monopoly of products, etc. Accordingly, the MISSION stressed them to

the effect that the adoptation of product patent system has given good effects on the industrial development in Japan, while it has never given any bad influences, e.g. the price increase of products, the monopoly of products, etc., referring to the MISSION's submitted paper "Japan's Experience in the Adoptation of Product and Pharmaceutical Patent System" to the Government authorities.

(2) Patent Protection of Use Invention [see Position Paper [1], 1.(2)]

Even in countries which do not give a patent protection to a chemical substance, many countries admit a patent protection on an invention relating to new use of a chemical substance in the chemical field (other than pharmaceuticals and food) e.g. plasticizers, agricultural chemicals (germicides, insecticides, herbicides, plant growth regulators, etc.) in the form of claim as "agent", "composition" or "method of use". And it is well known that a use patent achieves an important role in protection of a chemical invention particularly in a country that does not adopt a product patent system as yet.

Accordingly, under the present situation in Taiwan that any use of a chemical product is unpatentable, the MISSION eagerly requested to the authorities that, even if the revision of the current Patent Law prescribing chemical

substance, pharmaceutical product, etc. as being unpatentable would be delayed in Taiwan, the current examination practice should be revised as soon as possible by establishing relevant Examination Standards for such use inventions to be properly protected by a patent.

To such MISSION's request, the NBOS's view was as follows :

- Mr. Lee himself has an opinion that, since a use invention is only findings of simple use of the product already having existed, there is not any technical novelty, in other words, it is nothing but to transpose the use from left side to right side. Accordingly, a patent can not be given to findings of such a simple use.

For example, in case that there is a prior knowledge that salt gives whiteness to the teeth, even if a person would invent dentifrice including salt, such dentifrice can never be said to be a use invention, because there is not any newly technical addition in said invention.

- However, if any newly and technically added value is possessed in the use for bringing about new use, the NBOS think that they may grant a patent to such a use in view of the technical novelty, even if the Taiwanese Patent Law does not stipulate for patentability of a use invention.

As to the above NBOS's view, the MISSION felt that the NBOS's understanding on a use invention in the Chemical Field is slightly different from general understanding in the foreign countries (e.g. Japan, U.S.A., W. Germany, etc.). Accordingly, the MISSION explained to the NBOS's officials the meaning of a use invention which the MISSION understand, referring to an actual example of the patent for new use (i.e. insecticide) of D.D.T. That is, a use invention should mean firstly an invention in case where, when there is no prior knowledge of any use in respect of a certain compound, any effective use of said compound is found out, and, secondly an invention in case where, when there is prior knowledge of some use (e.g. dyestuff) in respect of a certain compound, there is found out the new use (e.g. insecticide) thereof, which is substantially and quite different from the known use of said compound.
Then, the MISSION again requested the officials to give a protection to such a new use of chemical substance in Taiwan.

To such MISSION's request, the NBOS expressed as follows :

- Upon studying and arranging the discussion this time, they are going to study as to whether the protection of a use invention be expressly stipulated in the law.

(3) Patent Protection of an Invention relating to the Shape, Construction or Combination thereof [see Position Paper [1],1.(3)]

In Taiwan, an invention and a device relating to the shape, construction or combination of articles may be the subject of patent (as invention) or that of utility model registration (as device).

However, it seems to be the present situation in Taiwan that, as to the inventions filed as patent applications, most of them have been rejected on the ground that their theories and/or principles were publicly known.

Most of the inventions are usually completed on the basis of known theories and/or known principles and are a creation of technical ideas made on the basis of such known arts. And, among such inventions, the invention comprising the highly advanced technical creation should be seized as the subject of patent and the other comprising the ordinarily advanced technical creation be as that of utility model registration.

However, in Taiwan, even the inventions which could be patented in the major countries have been registered only as utility models, while most of the inventions as filed as patent applications have been rejected, if said patent applications were not changed to utility model applications.

Under such present practices in Taiwan, the MISSION requested to the officials that the inventions of the

technical level, which could be granted as patent in the major countries, at least, the United States of America, Japan, West Germany, etc., should be granted as a patent in Taiwan, too and that the level of the judgement of patentability should be improved properly in that direction.

To such MISSION's request, the NBOS's view was as follows :

- The NOBS have been puzzling over the problem as to where there should be placed a diverging point between patent and utility model. As to an invention relating to the shape, construction or combination thereof, most of the examiners in the Department of Patent understand that an invention to be granted as a patent is an improvement of a product, which comprises considerably high technical idea, while a device to be granted as utility model registration is only a simple improvement of a product. However, it is the actual situation that the ways of understanding about the definition and standard for patent and utility model are various and different among scholars, mens of businesses, officials as concerned with patent matters, etc. and have not been fixed.
- There is a proposal, especially from some foreign enterprises that utility model registration system should be abolished.

If utility model registration system would be abolished, a way of protecting an invention may be simplified and such problem will be solved in a considerable ease. This problem will be one of the subjects to be discussed in amendment of the Patent Law which is contemplated in the future.

- Anyway, as explained above, at the present situation that understanding of the definition and standard are divided and opinions have not yet been in accord, it seems to take time a little longer to solve this problem, and accordingly the NBOS wish to have some time allowance to settle the matters.

2. Patent Protection on Process for the Production of a Product

(1) Burden of Proof as for Process for the Production of a Product [see Position Paper [1], 2.(1)]

In the infringement suit of a patent right concerning a process for the production of a new product, the burden of proof as to process for the production of said product as infringed is shifted to a suspected party of the infringement in many countries, and in most of the countries (e.g. Japan, Korea, etc.), there is provided a provision of that line in their patent laws.

However, in Taiwan, the latter part of Article 42 of

the Patent Law states that a patent right shall extend to a product produced directly according to the process in case that the invention relates to a process, but it is prescribed that the burden of proof with respect to the infringement litigation of a patent right shall be considered in accordance with the corresponding provision of the Criminal Procedure Code under which, in the infringement litigation relating to a new product, a patentee (sufferer) is required to prove that the product in question is the one which has been produced directly according to the patented process, that is to say, a patentee is required to establish the process that an alleged infringer is actually using. However, attention should be paid to the actual circumstances in the chemical field that it is almost impossible for a patentee (sufferer) to practically establish the process which is being used by an alleged infringer and a patentee therefore cannot enforce his patent right.

Therefore, under the current Taiwanese Patent Law that does not have any provision concerning shift of the burden of proof, if one should have got a patent right relating to such a process, the patent right would be useless and it is not too much to say that there is not any patent protection in practice on such a process.

From the above viewpoints, the MISSION eagerly requested to the officials that, for a patent relating to a process for

the production of a novel product, a provision with respect to shift of the burden of proof should be established in the Taiwanese Patent Law so that the safeguard for a patentee may be properly strengthened to diminish unjust infringement of a patent right.

To such MISSION's request, the NBOS's view was as follows :

- As the MISSION pointed out, the NBOS recognized that it is a great defect in the Taiwanese Patent Law that the proof of infringement as to a process for the production of a new product as infringed shall be burdened to a patentee under the provisions of the Criminal Procedure Code*, in other words, the burden of proof is not shifted to a suspected party of the infringement.

* Note : See Taiwanese Criminal Procedure Code Article 161.

- The NBOS are considering that the shift of burden of proof must be stipulated in the patent law, and in addition, since this is a very serious problem, the NBOS are now considering that they themselves would address a request to the judicial authorities in not-far future to the effect that the NBOS eagerly want the authorities to deal with the case in the course of admitting the shift of burden of proof even before the provision therefor be entered in

planned amendment of the Patent Law.

The MISSION expressed an earnest desire to the NBOS to the effect that the NBOS should make the best of handling this problem toward the improvement.

(2) Definition of Reaction Condition in Process Patent

[see Position Paper [1], 2.(2)]

Under the current examination practices in Taiwan, in the case of a patent application relating to a process for the production of a chemical product, it is required to define the parameters of detailed reaction conditions (e.g. proportion of materials used, reaction temperature, reaction pressure, solvent, pH value, etc.), which are not concerned with the essential constituting elements of the invention, concretely and clearly in detail in Claim.

However, when the Claim of a process patent is restricted by such parameters of the detailed reaction conditions in such a way, the scope of a patent right will be extremely narrowed and it will become easier for the third party to work the patented process without causing infringement thereon. In addition, as for the product which has been produced according to the same process as the patent right, it is very difficult in practice to find and establish the fact of infringement thereon.

Therefore, also in this connection, the substantive protection of the invention with respect to a process patent can not be expected at all.

Accordingly, the MISSION requested to the authorities that such peculiar examination practices giving only an extremely narrow right for a process patent should be properly revised in the way that most of countries of the world are currently implementing to give a reasonable protective scope for a process patent, saying that the countries which implement such peculiar examination practices are only few ones such as the Soviet Union, Argentina, etc. other than Taiwan.

To such MISSION's request, the NBOS's view was as follows :

- As the MISSION pointed out, it is compulsory that the parameters of detailed reaction conditions should be put in the Claim in respect of a process patent.
- In this respect, this obligation seems to be apparently unreasonable demand under the present status that only a process patent is admitted, while a product patent is not opened.
- However, the NBOS consider that this problem could be gradually led up to improvement.

Nevertheless, it seems that it would take time a little longer in order to meet the MISSION's request.

3. Identity with the Specification of a Foreign Application [see Position Paper [1], 3.]

Taiwanese Patent Law, Article 60(4) prescribes that "a patent as issued shall be cancelled in the case where contents of the specification is not identical with that of the specification of the corresponding application as filed in a foreign country."

On the other hand, when applicants file applications to foreign countries out of their own country, they usually take the following steps from the viewpoints of right and protection, expenses, procedures etc. That is, the applicants sometimes add some new matters (e.g. working examples) to the specification as filed in the first country and file said revised specification to the second country, or sometimes they draft a specification by combining the plural specifications as filed in the first country and file said combinedly drafted specification to the second country. In such cases, it will sometimes happen that contents of the second application are not exactly the same as that of the first application.

Therefore, provision of Taiwanese Patent Law under Article 60(4) is really exceptional according to the common sense of the international society in the industrial property field, and the MISSION wonder if there would not be any positive reason that this provision shall be retained in Taiwan.

Accordingly, the MISSION requested to the authorities

that the provision of Article 60(4) should be abolished and the restriction on the foreigners be eliminated.

To such MISSION's request, the NBOS's view was as follows :

- The NBOS admitted that the provision under Article 60(4) is very unreasonable. However, up to the present, there have been no cases* where a patent was cancelled by application of this provision.

* Note : The MISSION pointed out that there was the case in 1964 where the patent was cancelled by this provision. To this pointing out, the NBOS said that cancellation of said patent is only one case so far, which was decided about twenty years ago.

- The NBOS are considering that they would bring about this problem to their upper authorities (i.e. MOEA) in the course of cancellation of the Article 60(4).

4. The Decision of Rejection on the Ground of New Reason in the Re-examination Stage [see Position Paper [1], 4.(2)]

In Taiwan, the examination of patent in the Department of Patent is conducted in the two stages, i.e. the first

examination stage and the re-examination stage in the case where an application is rejected in the first one.

In the course of such examination stages, in case where, after an application is rejected on the ground of Reason X in the first examination, the applicant demands the re-examination of its application by submitting a written argument to the Reason X. Nevertheless, it is a matter of no uncommon occurrence that the said application is again rejected on the ground of newly cited Reason Y without any notice (in other words, without any chance for the applicant to state any argument to the newly cited Reason Y) in the re-examination.

Such a way of the examination is unreasonable, because an applicant can not have a chance of stating any argument to the newly cited Reason Y and is forced to go to the Appeal Committee, demanding its reconsideration of the application, for which it takes much times and costs, which is inconvenient for the applicant.
Accordingly, the MISSION strongly requested to the officials that such unreasonable way of the examination should be improved.

To such MISSION's request, the NBOS's view was as follows :

- Mr. Lee, Director, himself thinks that the decision of

rejection on the ground of newly cited Reason without any notice in the re-examination is very unreasonable dealing as pointed out by the MISSION.

- The reason for causing such situation is due to the fact that most of the examinations are conducted by the External (Entrusted) Examiners, and bitter complaints are heared against such measures from the inside and outside.
- Even at the present, the NBOS is guiding the External Examiners in their examination way, saying that "when a new reason for rejection is found out in the re-examination, an examiner shall give to an applicant once a chance of submitting a written argument."

Anyway, in order to improve such unfavorable situation, the NBOS will continue to guide the Examiner at the various occasion.

5 Submitting of the Original Copy of Documentary Evidence [see Position Paper [1], 4.(3)]

Under the provision of Article 29 of Implementation Rule of Patent Law, for the case where documentary evidences are employed as prior arts in the opposition or the invalidation trial, it is required to submit the original copies of the said evidences.

However such documentary evidences often belong to a public library (e.g. the Diet Library, university library,

etc.) or private possession, but not to an opponent or a person who demands an invalidation trial. In this regard, such case where the original copy of a documentary evidence is not able to submit as required will very possibly happen.

Accordingly, the MISSION requested to the officials that application of the said provision should be soften so that a counterpart (e.g. electrostatic copy) of the original documentary evidence may be submitted in case where the original is beyond control of the opponent, etc.

To such MISSION's request, the NBOS's view was as follows :

- In the present age when the copying technics has been developed, it is a matter of frequency that "phoney" documentary evidence is easily produced by using a copying machine from the original document. Most of such "phoney" documentary evidences have been produced and submitted as the evidences for the opposition or invalidation trial raised by the natives. Therefore, such an obligation as provided in the Article 29 is assigned.
- However, the purpose of the Article 29 lies in establishment of the authenticity of the original documentary evidence, and therefore it is acceptable if a counterpart of the original document as submitted

would be proved to be the same as the original one.

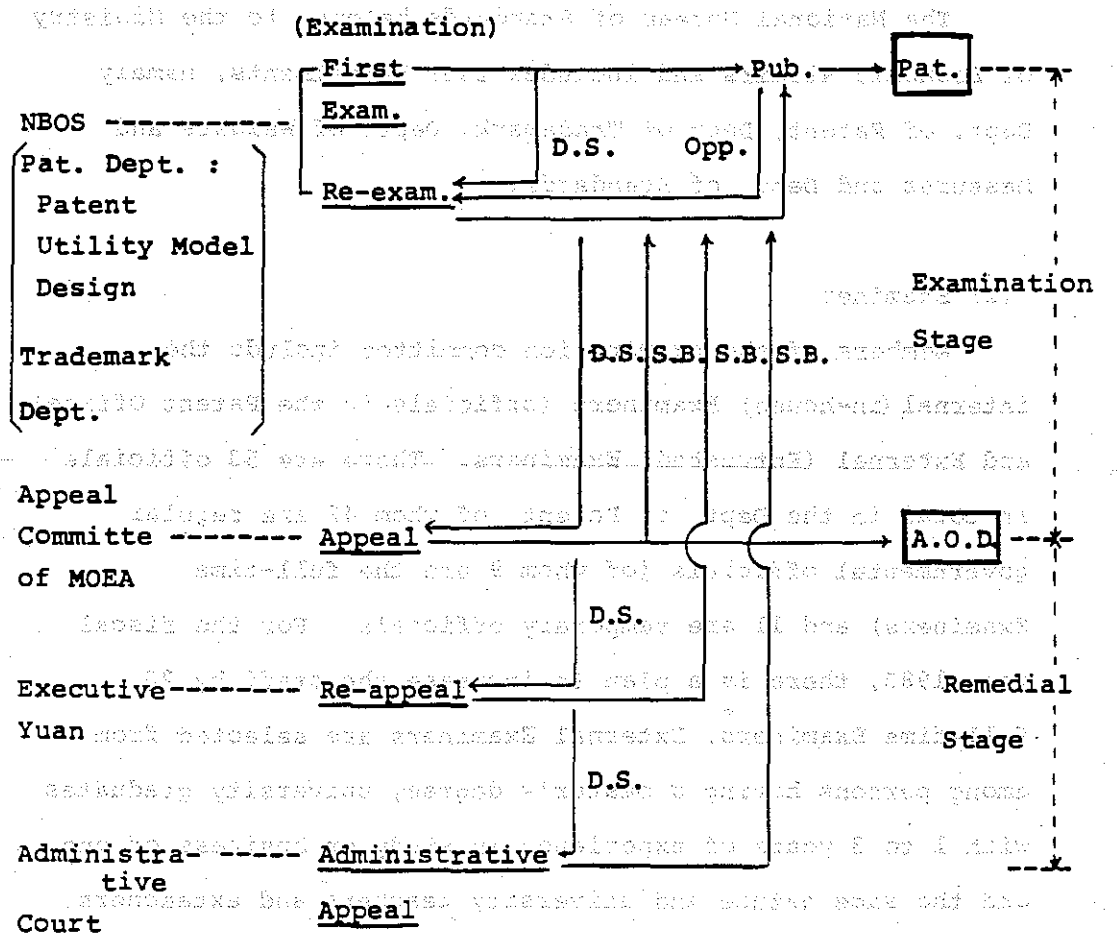
Accordingly, in case of the foreigners (e.g. Japanese), a certified and legalized copy of the original documentary evidence is acceptable. That is, it meets the purpose of the Article 29 if a copy per se of the original documentary evidence should be certified to be the truth by a notary public in the foreign country, where a copy is obtained, and then be legalized by the Taiwanese diplomatic channels as concerned (i.e. a consulate or a diplomatic agency of a like nature) or the National Bureau of Standards.

6. Other Informations

The MISSION obtained some information on the Taiwanese Patent System by means of question and answer. Questions were mainly directed to Mr. Lee, Director of the Department of Patent and the following informations were received.

(1) Organization and Steps of Examination Procedure

The organization and the steps of examination procedure are as schematically shown below.




Note : NBOS : National Bureau of Standards

MOEA : Ministry of Economic Affairs, Appeal Committee

Pub. : Publication after Examination

Pat. : Patent

Opp. : Opposition

D.S. : Dissatisfaction

S.B. : Sending Back

A.O.D.: Affirmation of Original Decision

The National Bureau of Standards belong to the Ministry of Economic Affairs and includes four Departments, namely Dept. of Patent, Dept. of Trademark, Dept. of Weights and Measures and Dept. of Standards.

(2) Examiner

Members of the examination committee include the internal (in-house) Examiners (officials in the Patent Office) and External (Entrusted) Examiners. There are 53 officials in total in the Dept. of Patent, of whom 42 are regular governmental officials (of whom 9 are the full-time Examiners) and 11 are temporary officials. For the fiscal year 1983, there is a plan to increase the staff by 20 full-time Examiners*. External Examiners are selected from among persons having a master's degree, university graduates with 1 to 3 years of experience in study or business of one and the same nature and university teachers and exteachers.

The constitution of the examiners classified by the industries is given below.

| Industry / Numbers | Mechanical | Chemical | Electrical | Physics | Public Works | Material Science | Pharmaceutical | Agricultural | Fishing | Applied Mathematics | Industrial Design | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Internal (in-house) Examiner | 2 | 5 | 1 | 2 | 1 | | | | | 1 | 1 | 13 |
| External (Entrusted) Examiner | 67 | 30 | 45 | 26 | 12 | 5 | 22 | 27 | 4 | 1 | 11 | 250 |

* Note : Taiwanese News Paper (Daily Economic) dated May 2, 1983 reported as follows :

- The NBOS is studying on adoptation of the Internal Examination System and planning to bring said system into operation.
- The Government have agreed to pay 6 million Yuan (about 36 million Yen in Japanese currency) out of the reserve funds for newly employing 20 staffs of the Internal Examiners.
- On the other hand, the NBOS are planning to appoint 10 officials of Dept. of Patent, who are entitled to be an examiner, to the post of the Internal Examiner.

- Accordingly, the Department of Patent will be able to secure about 40 Internal (full-time) Examiners in total in near future.
- Then, utility model and industrial design, which are of low grade in technics, will be examined mainly by the Internal Examiner to the best of their abilities, while patent applications, most of which are filed by foreigner, will be examined by the External Examiner for the time being.

(3) Examination

Substantive examination is performed mostly by External Examiners. Consequently, the indication by the MISSION of lack of unity in examination was not disputed.

The NBOS announced that, in the present state of scarcity of the Internal Examiners, there is no choice but to entrust the External Examiners with the task of examination. The necessity of establishing the standards for examination is strongly felt. Such standards are in preparation and, when established, will be published.

(4) Interview with Examiner

Formal interview is not permitted at the present, although in very rare cases, an interview was granted at

the discretion of the Office through the intermediary of the National Bureau of Standards. However, as the MISSION pointed out, the NBOS themselves think that an interview should be preferably conducted.

Now, most of examinations are entrusted to External Examiners (Note : almost the professors of university and college), some of them working at the distant places. Therefore, it is difficult to obtain an interview from the viewpoints of expenses and confidentiality. Under such situation, it is impossible to request such examiners to accept an interview with the applicants, since the NBOS could not control the External Examiners and such examiners are not the official staffs in the government.

Nevertheless, the NBOS are considering that such formal interview system would be made as soon as possible, when an increase of the in-house examiners is realized.*

* Note : Taiwanese News Paper (Daily Econimic) dated May 2, 1983 reported as follows :

- Bitter complaints are heared against the NBOS's measure that they have not given a chance for an applicant to have an interview and discussion with the Examiner.
- Under such bitter complaints, the NBOS have an intention to partly release the interviewing

system to an applicant, but are studying on payment of the expenses therefor so that the examination may not be harmfully influenced by an abuse of such interviewing system.

(5) Secret Examination System

The secret examination system referred to in the questionnaire addressed by the MISSION is rather a faulty expression. Since most of the External Examiners are university teachers and are not public servants, they cannot enter or sign their names in official documents. Although the examination system seems to be a secret one, such is not the reality.

(6) Trial for Invalidation or Cancellation

Due regard is being paid so that examinations be made by examiners as much experienced as possible. As a rule, one application is examined by one examiner. In exceptional cases, when an application covers more than two technical fields (e.g. chemical, mechanical, etc.), the application may be examined by more than two examiners as concerned jointly. The possibility of a collegiate system being adopted in the trials is little for the time being because of personnel and budget problems.

(7) Demand for Grant of Compulsory License

Only a few demands have been made based on Article 67 of the patent Law. According to the statistics for the latest 5 years, 7 demands were filed with the Department of Patent, of which 5 demands were rejected as having no grounds. In one of two cases accepted, upon appeal, decision was given in favor of the plaintiff (patentee). Another case is now on trial.

(8) Planned Amendment of Patent Law.

As to the present subject matters planned for the amendment of Patent Law, the NBOS announced as follows.

1) To make heavy the penalty (e.g. raising of fine) for preventing the imitation and infringement of the patented invention.
2) To settle the problem on the unpatentable subject matter (Patent Law Art. 4), investigating and studying as to whether a patent shall be granted to chemical substance and pharmaceutical product.
3) To shorten the period of procedure steps for the administrative relief so as to speedily settle the trouble in respect of patent.

7. Discussion with the Non-Official Groups

The MISSION had discussion with people of the American

Chamber of Commerce, Taiwan, Asian Patent Attorney's Association, etc.

In such discussions, the MISSION were very impressed by the active action made by the pharmaceutical committee of the Americal Chamber of Commerce, Taiwan (ACC).

ACC's people's commonts are as follows.

- The visit of the MISSION to Taiwan this time is very beneficial and instructive and ACC wish to highly estimate their visit to and activities in respect of industrial property in Taiwan.
- European and American enterprises located in Taiwan also submitted the Position Paper re Patentability of Pharmaceutical Products and have been requesting the Taiwanese Government Authorities to improve the present Taiwanese industrial property system, which is not always satisfactory at the present.
- ACC are going to continue their request to the Taiwanese Government, and therefore want to act in this respect in cooperation with Japan.

As to the above proposal, the MISSION promised Japan's cooperation with European and American sides.

8. Taiwanese News Paper (Daily Economics) reporting on the MISSION

Taiwanese News paper (Daily Economics) dated February 25,

1983, in which the NBOS's views expressed in the meeting with the MISSION are reported. Translation in English of said News Paper is attached hereto as ANNEX 1.

## Chapter 4. Appeal (the Appeal Commission, Ministry of Economic Affairs)

The MISSION could have a chance of meeting and discussing about the Appeal matters relating to the industry properties in Taiwan with Mr. Chin-Hashang Chou, Chairman of the Appeal Committee,Ministry of Economic Affairs (MOEA) and 11 officials as concerned, and obtained some informations on the matters, which are briefly reported as follows.

1. Organization and Position

(1) Organization

The Appeal Committee (hereinafter, "the Committee") is a committee under the direct control of the MOEA and is composed of 12 members (of whom 4 have science and engineering backgrounds), most of which are advisers of the MOEA. The members of the Committee are required to possess the qualification for university professors or of doctors or to be men of learning and experience.

As the subordinate organization of the Committee, there are 21 Internal (in-house) Examiners, who are the officials of the MOEA and all of whom are graduates of the faculty of law.

(2) Position

Based on administrative control right, the committee aims at relieving appellants from undue or illegal dispositions made by subordinate administrative organs. Under the Petition Law instituted according to Article 16 of the Constitution, the Committee has the authority to hear and deal with dissatisfactions against administrative dispositions. In actuality, appeals concerned with industrial property rights (patents, trademarks, etc.) account for 80-90% of the cases, the remaining being cases in the agricultural, industrial and commercial fields.

2. Examination of the Appealed Cases by the Committee

(1) The Committee as a rule examines and reviews whether an administrative disposition is legal or illegal. Legally speaking, however, it can give their own decision after substantive examination by annulling the National Bureau of Standards (NBOS) decision. In practice, the Committee, as a supervisory authority, sends back those cases, in which the original decisions are to be reversed, to the relevant subordinate administrative organs for the purpose of training the same.

(2) Cases are examined at meetings held two times a week. The 12 members of the Committee give a decision after consultation under a collegiate system.

In case the ayes and noes are equally divided, the chairman has the right of decision. When the case is complicated, one of the members is nominated, who reviewed the case until the next meeting. Each meeting deals with about 50 cases.

(3) The substantive study of the content of each case is closely made by the Internal (in-house) Examiners (21 examiners, all jurisprudent university graduates). In some cases, expert opinions of the External (entrusted) Examiners are invited, although such opinions are not binding.

(4) In case where there are opposite parties such as in an opposition, invalidation or cancellation case, hearing or on-the-spot inspection is conducted as necessary. In 1982, 29 hearings were held.

(5) In case that the decision on reexamination as given by the NBOS is dissatisfying, the applicant can appeal to the Committee. A brief (a statement of reasons for appeal) should be filed within 45 days after appeal . A copy of each of the documents as submitted to the Committee (e.g. petition of appeal, brief, evidence, etc.) should be sent to the NBOS. The NBOS should submit a statement of answer or opinion, together with the file wrapper documents, to the Committee within 20 days after its receipt of the brief.

(In patent cases, as a matter of fact, it takes about 3 months for the NBOS to submit such a statement.)
Decision is made in about 5-6 months.

3. Appeal Cases relating to Patent and Trademark Applications (1982)

Numbers of appeals : 4,355 cases

- In 154 cases, the NBOS Standards cancelled its own decision of the rejection on its own initiative (recognizing illegality of the said decision) during prosecution. The cancellation was made at the time when the statement of answer of the NBOS was to be submitted to the Committee.
- In 662 cases, the applicants' causes of appeals were affirmed, hence the original decisions were to be reversed, and the cases were sent back to the NBOS.
- In 3,539 cases, the appeals were dismissed (in 41% of these cases, reappealing was made).

## Chapter 5. Trademark

### 1. Generals

With the increased demand for brand-name of goods of advanced countries in overseas market, various types of counterfeits and wrong acts have invaded the market of genuine goods in an international scape. More than 90% of the counterfeits are said to be produced and sold in Southeast Asian countries, or exported from these areas to overseas market.

The Trademark Committee, Japan Patent Association have recently (1982) made a survey of counterfeiting on the trademarks of Japanese companies, details of which are reported in the Paper Presentation titled "MEASURES FOR PREVENTION OF INFRINGEMENT OF TRADEMARKS IN SOUTHEAST ASIAN COUNTRIES" presented in this the 14th International conference of PIPA. As the results of said survey, it revealed that the highest ratio of the counterfeits is found in Taiwan as shown in the following, and 45% of total of counterfeits is produced in Taiwan.

Countries where counterfeits were found
(Total: 54 cases over 12 countries)

| Taiwan | Thailand | Hong Kong | Singa-pore | Saudi Arabia | Kuwait | Korea | Phili-ppines | Malay-sia | Others |
|---|---|---|---|---|---|---|---|---|---|
| (16) 30% | (8) 15% | (6) 11% | (5) 9% | (5) 9% | (5) 4% | (2) 4% | (2) 4% | (2) 4% | (3) 5% |

Under such situation, Premier Sun Yun-suan last year directed the Ministry of Economic Affairs and the Ministry of Legal Affairs to hasten the pace of revision to the trademark law, patent law and other related regulations.

Then, the authorities as concerned had conducted a serious study of alternatives to combat illegal practices on the part unscrupulous businessmen such as commercial counterfeiting, trademark, etc. in order to preserve the good reputation of Taiwanese products in the international market place.

The matters included in the MISSION's petition and questionnaire and discussed mainly with the National Bureau of Standards, Department of Trademark as well as the matters discussed with Board of Foreign Trade of the Ministry of Economic Affairs are summarized below.

2. Department of Trademark

(1) Amendments to the Taiwanese Trademark Law

The Legislative Council, the legislative organ of the Taiwan, discussed a bill for partial amendment of the Trademark Law as presented by the Administrative Council, from early January, 1983, and passed the bill on January 14, 1983. The new law was promulgated by an order of the President and came into force as of January 26, 1983.

The important points of the amendment are explained in the following.

1) Strengthening of Penalty for Acts committing Infringement

Newly provisions for strengthening the penalty are inserted into Article 62, which are shown as follows.

- Supplement 1

A person who defrauds another with intent by using a design which is identical with or similar to a well-known foreign trademark which has not been registered in this country for the same goods or goods in the same class, shall be punished with an imprisonment of not more than three years, detention, or a fine of not more than 30,000 yuan.

The above punishment shall apply to the case only if the country to which such foreign mark belongs has the law, or treaty or agreement with the Republic of China for reciprocal protection of the registered trademarks in the Republic of China.

- Supplement 2

A person who knowingly sells the commodities specified in the preceding two Articles, or displays the same for sales with intent, exports or imports the same shall be punished with an imprisonment of not more than one year, detention, or a fine of not more than 10,000 yuan.

- Supplement 3

The commodities to be manufactured, sold, displayed, exported or imported which violate the provisions of the preceding three Articles belonged to the criminals shall be confiscated.

Under the above new provision, our foreigners hope that the Taiwanese Government authorities will take necessary and justifiable measures.

2) Use of Trademark

① Proof of use of Trademark in Application for Registration for Renewal

New Provision was inserted as Supplement 1, 2) in Article 25, providing that "an application for registration of renewal filed within the term of exclusive right of use of a trademark may not be approved if any of the following cases is occurred:- .... 2) Having not been put to use, without good cause, within two years prior to the application for registration of renewal.

Accordingly, the owners of registered trademarks have to prove their use of the trademarks when they file applications for renewal registrations.

② Non-use Period of Non-use Cancellation System

The amendment bill presented this time proposed that the non-use period should be 3 years. However, in view of

the current status of Taiwan, 2 years was considered adequate, and accordingly, 2 years was provided for uniformly in Article 31, para. 2 of the Trademark Law.

③ Broadening of Standards for Acknowledgement of Use

In connection with Proof of Use and Non-Use Cancellation System, the standards for Acknowledgement of Use were more broadened by insertion of additional provision into Article 6 as compared with the old Law.

In accordance with the provision of Article 6 of the amended law concerning the use of a trademark, "advertisement on television or in newspaper or the like" is also regarded as the use of a trademark. The Taiwanese Publication Law defines "newspaper or the like" as follows:

-Newspaper, journal, magazine

-Other publications

Therefore, in this sense, catalogues and pamphlets are not included.

The publication as meant in the Publication Law is a newspaper or publication registered and published within Taiwan. Therefore, any publication issued in foreign countries cannot be regarded a publication in the meaning of the law.

In connection with export of product, a trademark on a commodity, the package or container thereof, circulating in the export market is also regarded as the use of a trademark.

In connection with import of product from foreign country, the non-use of trademark having regard to goods of the import prohibition goods list is interpreted to be justiable cause for non-use.

Since an "advertisement" is also regarded as the use of a trademark according to Article 6 after amendment, the problem that it is difficult for foreigners to establish the fact of use of trademarks due to import duties imposed on foreign products is considered to have become not very serious.

④ Protection of Un-Registered Well-Known foreign Trademark

In accordance with the amended law (Supplement 1 of Article 62), unregistered foreign well-known (famous) trademarks also can now be protected. However, this is on the reciprocal principle. When there is no reciprocal treaty, protection cannot be received. Therefore, it is hoped that a way be looked for to make a reciprocal treaty on the protection of such trademarks.

(2) Other Informations

1) Standards for Judging as to Similarity of Goods

There are no standards for judging as to similarity of goods. Based on the classification of goods, those goods which belong to the same class are regarded as

similar with one another.

There are classified tables of goods according to the old and new classifications as an in-house material. This is for use by examiners only and has not been published. Its future publication of such tables is not being planned. A detailed classified table of goods according to the new classification is now in preparation and will be published in the not far future.

2) Actual State of Obligatory Indication of Licence or Authorization

The object of indicating the fact that the article is a licensed or authorized one is to make the origin of the article clear to consumers. Such indication is obligatory under the Trademark Law (Article 26), but in reality is not practiced.

Failure in such authorization indication is a reason for cancellation of the approval of the licence, although there is no precedent for such cancellation of approval.

How to make such authorization indication is not provided for definitely. It is hoped that such indication be made in a clear and distinct manner in accordance with the provisions of the Trademark Law.

3) Foreigner's Right to Lodge a Complaint

Whether a foreigner has a right to lodge a complaint is a problem to be judged by the court.

Nevertheless, the Government itself is studying this problem. In the past, several study meetings were held under the auspices of the Ministry of Economic Affairs, which is appealing to the Ministry of Justice to grant foreigners the right to lodge a complaint. (According to a recent news, it seems that Americans now have such right on the basis of an interpretation of the past agreement between the two countries.)

4) Establishment of Court of Trademark and Patent Appeals

The Government is inclined to establish the Court of Trademark and Patent Appeals. The National Bureau of Standards is of the same opinion.

The Ministry of Economic Affairs has already formally approached the Ministry of Justice in this respect and hopes for an early realization. Whether associated organs are included in this court is a matter of court organization and the National Bureau of Standards has no prospect in that respect for the time being.

5) Enactment of Prevention of Unfair Competition Act

The Ministry of Economic Affairs is studying in preparation of the enactment of the Unfair Competition Prevention Act. However, the expected time of enactment and so on are unknown.

3. Board of Foreign Trade of the Ministry of Economic Affairs

The MISSION could have a chance of meeting and discussing with Dr. Din-hung Chiang, Deputy Director General mainly on the trademark matters in connection with export and import of the goods as concerned. Some information obtained there are briefly reported as follows.

(1) Role of the Board of Foreign Trade, Imitation Watching and Prevention Subgroup

The Board of Foreign Trade possesses a great concerns in infringement of trademarks and patents and is playing a role of the administrative and prosecutory nature in a special group "Imitation Watching and Prevention Subgroup" with the Deputy Director of the Board of Foreign Trade being leader of said group. The principal object of this organ is to eliminate the gloomy image from an international point of view as coming from acts of infringement.

(2) Outline of Activities

In Taiwan, governmental licenses are required for the export of products (the license issue service being entrusted to bank clerks in usual cases other than exceptional cases). Entry of the trademarks to be attached to the products in said licenses is obligatory.

An application for issuance of a license should meet the following requisites:

1) In cases where the product carries no trademark, entry of "no trademark" is required;

2) In cases where a registered trademark is used, attachment of a copy of the Certificate of Registration is required; and

3) In cases where a foreign trademark is used, submission of a statement from abroad demanding the use of said trademark.

At the customhouse, the trademark entered in the license is checked with the trademark actually used. In any of the cases mentioned below, the customhouse sends the relevant documents to the Imitation Watching and Prevention Subgroup:

1) In case where a disagreement is found between the two trademarks mentioned above;

2) In case where, although the two trademarks are in agreement, the trademark is a well-known (famous) foreign trademark, hence there is a possibility of the exporter imitating said foreign trademark;

3) In case where the indication of the country of origin, namely "Made in Taiwan", is missing.

A failure in indicating the country of origin is a violation of the law and rules. Accordingly, the Board of Foreign Trade gives a warning to or inflicts a penalty

(e.g. cancellation of the export license for a definite period) on the exporter.

In case where the trademarks disagree with each other, whether there is a trademark infringement is investigated by inquiring the National Bureau of Standards about the trademark actually attached to the product. If no registry is found in the Bureau, a warning is made.

In case where the trademark infringes on another person's trademark right, the Imitation Watching and Prevention Subgroup sends the papers pertaining to the case to the Prosecutors office. Said Office decides between prosecution and non-prosecution and informs the Subgroup of the decision. In case of prosecution, the Prosecutors Office requests the Board of Foreign Trade to punish the exporting company. When a sentence has been finalized as a result of prosecution, the Board of Foreign Trade deprives the company of the qualifications for exporting and importing.

The most important is the problem of imitation of foreign trademarks. Foreign as well as domestic companies can lodge complaints also with the Imitation Watching and Prevention Subgroup. In this case, when documents capable of identifying the company and the time of exportation are available, said Subgroup investigates the matter and takes action accordingly. However, when such documents are not

available, the Subgroup will not make investigations to ascertain when and by which company the product in question was exported.

(3) Patent Infringement

The problem of patent infringement is a matter of considerable difficulty. While the administrative authorities can cope with the problems concerned with trademarks and indication of the country of origin to a certain extent, it is difficult for the administrative authorities to take the initiative in the patent infringement problem. Therefore, in this case, the patentee should either lay a complaint or raise a suit against the infringer.

(4) Procedure for Involvement of the Imitation Watching and Prevention Subgroup

It is desirable for the owner of a patent or trademark right to make notification of the patent or trademark in advance so that infringement can be prevented at the water's edge.

Such notification from an expected sufferer can be filed directly with the Subgroup. Foreign enterprises can proceed in the same manner.

(5) Plans for the Future

According to plan, registered trademarks and well-known (famous) foreign trademarks will be stored in an electronic data processing system so that trademark infringement can be

checked at the time of license issuance and at the same time said license issuance can be performed using the electronic data processing system.

(6) Future Subjects

From the administrative standpoint, positive measures, such as creation of organizations, administrative guidance and awarding an honor to persons exporting products under their own tradenames through rearrangements of the Exportation Design Act, the Foreign Trade Promotion Decree and the like, are preferred to negative measures such as severer punishment. The actual state in Japan will be one of future subjects of study.

(7) Personnel Organization of Imitation Watching and Prevention Subgroup

The Subgroup are composed of 10 responsible persons 5 persons in full service and 5 persons serving concurrently from the authorities concerned.

## Chapter 6. Conclusion

The MISSION believe that their visit to Taiwan this time is fruitful and has been crowned with success. The Taiwanese Government Authorities' views expressed in the meeting seem to be somewhat unclear and indefinite in some portions. Nevertheless, it can be said that the important and competent officials are strongly impressed by the discussion with the Mission and are considering the necessity of improvement of the industrial property in Taiwan.

The following is the Mission's impression.

- It should be necessary to repeatedly present the same types of position paper from various governmental and private sectors of well-developed countries and this should be continuously followed up, which will be effective in making the system improved.
- In order to achieve the preferable and effective development in this respect, supports of several local companies and collaboration of Key APAA attorneys must be necessary.
- Since the Taiwanese Government Authorities seem to be affected by the behavior of Korean counterpart, parallel approach to both countries might be useful.

News Paper (Daily Economics) dated February 25, 1983, in which the National Bureau of Standards' views expressed in the meeting with MISSION were reported, English translation of which is attached hereto as ANNEX 1.

## PART II : KOREA (THE REPUBLIC OF KOREA)

### Chapter 1. Generals

As you know, the U.S. Government/Industry group delegations visited to Korea from March 28 to 30, 1983 in order to investigate problems and to seek improvements of the protection of industrial property rights in Korea.

The INTERPAT delegations* also visited Korea from June 30 through July 5, 1983 in order to call attention to introduction of product patent system, i.e. patent protection of chemical substance and pharmaceutical product.

In this respect, the ean News Paper (YAKUP SHINMOON) dated July 7, 1983 reported on the INTERPAT delegations' visit to Korea, English translation of which is attached hereto as ANNEX 2.

* Note: Dr. Laudin, patent advisor of Boehringer Ingelheim (West Germany), Mr. Brian A. Yorke, a director of Sandoz (Switzerland) and Mr. Shoji Matsui, patent advisor of Takeda Chemical Industries (Japan)

These movements are reflections of the concerns among patent specialists about inadequate protection of industrial property rights in Korea such as lack of protection for chemical substance per se and pharmaceutical product, unnecessary restrictions on technology transfer and so on.

Under such circumstances, in order to know what problems Japanese companies have on the protection of invention in Korea, Japanese group of PIPA made an investigation by sending questionnaires to the Japanese members of PIPA. And it has become clear from this investigation that there are considerable concerns in the Japanese industries about inadequate industrial property rights protection of the invention in Korea.

The companies having answered to the questionnaires are 44 in total, and particularly the category of business of the answerers are 21 Chemical, 12 Electorical, 9 Mechanical and 2 Others.

The results of the investigation are briefly reported in the following.

## Chapter 2. Results of the Investigation on the Korean Patent Matters made by PIPA Japanese Group

### 1. Protection of Invention

In answer to the question whether or not the protection of invention in Korea is adequate, 33 (75%) out of 44 answerers answered that the protection of invention in Korea is inadequate. (see Question 1).

Thus, most of the Japanese members of PIPA consider that inventions are not adequately protected in Korea. Generally speaking, as the reason for the inadequate protection, most Chemical Companies point out the problem on

the patent system per se, while the Electrical and Mechanical Companies and other rather point out the procedural or practical problems. (see Question 2).

2. Problem on the Korean Patent System

(1) Patent on Chemical Substance and Use Patent

About two third of the Chemical Companies answered point out problems on the Korean patent system per se.

More specifically, they point out the exclusion of chemical substance, pharmaceutical product and a use of chemical substance from the patentable subject matters, and strong desire that at least a use of chemical substance should be included in the patentable subject matter even if chemical substance per se remains unpatentable is expressed in the answers. (see Questions 3 and 4)

(2) Patent on Microorganism and the Deposit thereof

Most of the Chemical Companies desire that a patent should be granted on a microorganism per se. (see Question 5).

With respect to the deposit of microorganism for the purpose of patent application, the local deposit is required in Korea. Chemical Companies want Korea to accede to the Budapest Treaty for the Deposit of Microorganisms.

(3) Patent Term

Most of the Chemical Companies point out short period

of patent right (presently 12 years from the registration of a patent right, but not exceeding 15 years from the application) (see Question 6).

Thus, most of the Chemical Companies answered consider that chemical inventions are not adequately protected in Korea because of the present Korean patent law and practice. On the other hand, the Electrical or Mechanical Companies or Companies in Other Field point out some difficulties or problems on the examination of applications rather than the problems on the patent system per se.

3. Problems on the Examination of Applications for Patent and Utility Model Registration

(1) Reason for Rejection of Application

As shown in the answers to the Questions 8 and 9, many answerers point out that reasons for rejections are too vague to understand. Korean examiners sometimes issue rejections without any specific reason for their rejections. It is pointed out in some of the answers that applications are rejected as being anticipated or obvious without citation of any prior arts. In such cases, the applicant can not know the reason why his application is rejected at all.

Some answerers consider that it is doubtful if the

examination practices in the examination as well as trial are unified and if a just and reasonable examination is conducted in Korea. In this respect, the following examples are reported from the answerers' experiences so far.

- Rejection of application without any citation of concrete and definite prior arts on the abstruct ground that the invention as concerned was only an art of common knowledge.
- Rejection of application over a prior art which was very far from the invention as concerned.
- Rejection of patent application on the ground that the invention as concerned had been filed as a utility model registration application in the corresponding Japanese application.
- Rejection of application on the ground that a request for the examination had not been submitted for the corresponding Japanese application in Japan.

(2) Examiner's Request on the Corresponding Foreign Application

As the answers to Question 13 shows, a considerable number of applicants are requested by Korean examiners to submit a copy of the corresponding published Japanese or American patent specification and to bring the cliams of the Korean application in agreement with the claims of

the published Japanese or American patent. Some of Korean applications are allowed with the same claims as the claims of the corresponding Japanese or American patent without any further examination when a copy of the patent is submitted.

In this connection, such an extreme case is reported in the answers that a Korean application is rejected on the ground that the corresponding Japanese application has not been allowed or has been rejected.

Under such a way of examination as above, there is some concerns among the answerers about the enforcement of a Korean patent with the claims resulted from the examination in a foreign country.

(3) Technical Level in the Examination

A considerable number of the answerers point out that there are some examiners who do not have enough technical knowledge, particularly in a high-tech area. The answerers point out that their applications are sometimes rejected by an examiner who seems to be not able to understand the invention due to the lack of the relevant knowledge.

4. Protection of Patent Right

With respect to the protection of patent rights, 21 answerers out of 44 answered that the protection is inadequate

but a considerable number of answerers reported that they do not have sufficient knowledge about the remedy system and its practices. Many of them state that they do not have any sufficient experience in enforcing a Korean patent. (see Questions 21 and 22).

Although, as a specific problem, some of the answerers point out that the enforcement of a Korean patent is suppressed for the national interests and that strict restrictions are imposed on the technology transfer by the Government authorities, generally Japanese companies do not have enough knowledge about the enforcement of a Korean patent or the remedy system for the infringement and many of the answerers do want any publications of the relevant information.

Particulars of Questions and Answers are given below.

ANSWERS TO THE QUESTIONNAIRES ON KOREAN PATENTS

Category of Business of Answerers

| CHEMICAL | ELECTRICAL | MECHANICAL | OTHERS | TOTAL |
|---|---|---|---|---|
| 21 | 12 | 9 | 2 | 44 |

Question 1 Protection of Invention

| ANSWER | CHEMICAL | ELECTRICAL | MECHANICAL | OTHERS | TOTAL |
|---|---|---|---|---|---|
| 1. Adequate | 1 | 1 | 1 | 0 | 3 |
| 2. Inadequate | 18 | 10 | 3 | 2 | 33 |
| 3. Others | 2 | 1 | 4 | 0 | 7 |

Question 2 Reason for the inadequate protection of invention

| ANSWER | CHEMICAL | ELECTRICAL | MECHANICAL | OTHERS | TOTAL |
|---|---|---|---|---|---|
| 1. Re. problems on the patent system itself | 15 | 5 | 2 | 0 | 22 |
| 2. Re. procedual or practical problems | 7 | 6 | 2 | 2 | 17 |
| 3. Others | 0 | 0 | 0 | 0 | 0 |

Question 3 Patent on Chemical Substance

| ANSWER | CHEMICAL | ELECTRICAL | MECHANICAL | OTHERS | TOTAL |
|---|---|---|---|---|---|
| 1. A patent should be granted on it. | 19 | 10 | 4 | 0 | 27 |
| 2. No absolute need to grant a patent. | 0 | 0 | 0 | 0 | 0 |
| 3. No need to change. | 1 | 0 | 0 | 1 | 2 |
| 4. Not interested in. | 1 | 2 | 4 | 1 | 8 |

Question 4 Use Patent

| ANSWER | CHEMICAL | ELECTRICAL | MECHANICAL | OTHERS | TOTAL |
|---|---|---|---|---|---|
| 1. A patent should be granted on it. | 19 | 9 | 5 | 0 | 33 |
| 2. No absolute need to grant a patent. | 1 | 0 | 0 | 2 | 3 |
| 3. Not interested in. | 1 | 3 | 2 | 0 | 6 |
| 4. others | 0 | 0 | 1 | 0 | 1 |

Question 5 Patent on microorganisms

| ANSWER | CHEMICAL | ELECTRICAL | MECHANICAL | OTHERS | TOTAL |
|---|---|---|---|---|---|
| 1. A patent should be granted on it. | 16 | 9 | 4 | 0 | 29 |
| 2. No absolute need to grant a patent. | 2 | 0 | 0 | 0 | 2 |
| 3. Not interested in. | 3 | 8 | 3 | 2 | 16 |
| 4. others | 0 | 0 | 1 | 0 | 1 |

Note: Most of Chemical Companies want Korea to accede to the Budapest Treaty for the Deposit of Microorganisms.

Question 6 Patent Term

| ANSWER | CHEMICAL | ELECTRICAL | MECHANICAL | OTHERS | TOTAL |
|---|---|---|---|---|---|
| 1. No need to change | 4 | 4 | 4 | 1 | 13 |
| 2. to be extended | 17 | 8 | 5 | 1 | 31 |
| 3. others | 0 | 0 | 0 | 0 | 0 |

Question 7 Rate of the office actions to which no prior art is attached

| ANSWER | CHEMICAL | ELECTRICAL | MECHANICAL | OTHERS | TOTAL |
|---|---|---|---|---|---|
| 1. 30% or less | 7 | 2 | 1 | 0 | 10 |
| 2. 30-50% | 1 | 5 | 2 | 0 | 8 |
| 3. 50-70% | 2 | 2 | 4 | 0 | 8 |
| 4. 70% or more | 11 | 3 | 2 | 2 | 18 |

Question 8 Can you understand the examiner's intention when rejected as obvious with no citation of any prior art?

| ANSWER | CHEMICAL | ELECTRICAL | MECHANICAL | OTHERS | TOTAL |
|---|---|---|---|---|---|
| 1. Yes | 8 | 1 | 2 | 1 | 12 |
| 2. No | 8 | 8 | 4 | 1 | 21 |
| 3. others | 3 | 3 | 3 | 0 | 9 |

Question 9 Can you understand an examiner's rejection for insufficient disclosure?

| ANSWER | CHEMICAL | ELECTRICAL | MECHANICAL | OTHERS | TOTAL |
|---|---|---|---|---|---|
| 1. Yes | 9 | 5 | 3 | 1 | 18 |
| 2. No | 6 | 5 | 4 | 1 | 16 |
| 3. Others | 4 | 1 | 2 | 0 | 7 |

Question 10 How do you handle the case when you don't understand the examiner's action?

| ANSWER | CHEMICAL | ELECTRICAL | MECHANICAL | OTHERS | TOTAL |
|---|---|---|---|---|---|
| 1. Prepare a response. | 16 | 10 | 5 | 2 | 33 |
| 2. Leave it to the Korean agent | 1 | 2 | 8 | 0 | 11 |
| 3. Have the agent an interview. | 3 | 1 | 1 | 1 | 6 |
| 4. Others | 2 | 0 | 2 | 0 | 4 |

Question 11 Interview with an examiner

| ANSWER | CHEMICAL | ELECTRICAL | MECHANICAL | OTHERS | TOTAL |
|---|---|---|---|---|---|
| 1. Almost all cases. | 0 | 1 | 0 | 0 | 1 |
| 2. Only important cases | 8 | 2 | 3 | 1 | 14 |
| 3. Rarely | 11 | 7 | 4 | 1 | 23 |
| 4. Others | 2 | 2 | 2 | 0 | 6 |

Question 12 Effectiveness of an interview with an examiner

| ANSWER | CHEMICAL | ELECTRICAL | MECHANICAL | OTHERS | TOTAL |
|---|---|---|---|---|---|
| 1. Effective | 2 | 0 | 0 | 0 | 2 |
| 2. Effective to some extent | 6 | 4 | 4 | 1 | 15 |
| 3. Ineffective | 2 | 0 | 2 | 1 | 5 |
| 4. Others | 9 | 6 | 3 | 0 | 18 |

Question 13 Agreement of claims with the claims of the corresponding foreign application

| ANSWER | CHEMICAL | ELECTRICAL | MECHANICAL | OTHERS | TOTAL |
|---|---|---|---|---|---|
| 1. Requested in almost all cases | 2 | 0 | 1 | 2 | 5 |
| 2. About a half | 2 | 1 | 1 | 0 | 4 |
| 3. Sometimes | 6 | 3 | 1 | 0 | 10 |
| 4. Rarely requested | 10 | 8 | 4 | 0 | 22 |
| 5. Others | 1 | 0 | 2 | 0 | 3 |

Question 14 How often are oppositions lodged?

| ANSWER | CHEMICAL | ELECTRICAL | MECHANICAL | OTHERS | TOTAL |
|---|---|---|---|---|---|
| 1. 10% or more | 3 | 0 | 0 | 0 | 3 |
| 2. A few | 4 | 1 | 0 | 0 | 5 |
| 3. Rarely | 12 | 9 | 7 | 2 | 30 |
| 4. Others | 2 | 2 | 2 | 0 | 6 |

Question 15-A Do you submit a translation of a basic Japanese application in case of an application claiming priority based on a single application?

| ANSWER | CHEMICAL | ELECTRICAL | MECHANICAL | OTHERS | TOTAL |
|---|---|---|---|---|---|
| 1. Yes | 9 | 0 | 2 | 1 | 12 |
| 2. Yes, for some cases. | 3 | 0 | 0 | 0 | 3 |
| 3. No | 7 | 12 | 6 | 1 | 26 |
| 4. Others | 1 | 0 | 0 | 0 | 1 |

Question 15-B Do you submit translations of basic Japanese applications in case of an application claiming priority based on plural applications?

| ANSWER | CHEMICAL | ELECTRICAL | MECHANICAL | OTHERS | TOTAL |
|---|---|---|---|---|---|
| 1. Yes | 9 | 1 | 2 | 0 | 12 |
| 2. Yes, for some cases | 3 | 0 | 0 | 1 | 4 |
| 3. No | 7 | 8 | 6 | 1 | 22 |
| 4. Others | 1 | 3 | 0 | 0 | 4 |

Question 16 Do you have a registered patent administrator in Korea?

| ANSWER | CHEMICAL | ELECTRICAL | MECHANICAL | OTHERS | TOTAL |
|---|---|---|---|---|---|
| 1. Yes | 13 | 8 | 4 | 2 | 27 |
| 2. Yes, for some cases | 3 | 1 | 0 | 0 | 4 |
| 3. No | 4 | 2 | 3 | 0 | 9 |
| 4. Others | 1 | 1 | 1 | 0 | 3 |

Question 17 Protection of Patent right

| ANSWER | CHEMICAL | ELECTRICAL | MECHANICAL | OTHERS | TOTAL |
|---|---|---|---|---|---|
| 1. Sufficient | 1 | 1 | 1 | 0 | 3 |
| 2. Insufficient | 14 | 4 | 1 | 2 | 21 |
| 3. Others | 6 | 6 | 4 | 0 | 16 |

Question 18 Reason for the insufficient protection of a patent right

| ANSWER | CHEMICAL | ELECTRICAL | MECHANICAL | OTHERS | TOTAL |
|---|---|---|---|---|---|
| 1. Re. problems on the remedy system per se. | 4 | 1 | 0 | 1 | 6 |
| 2. Re. procedual or practical problems | 8 | 4 | 2 | 1 | 15 |
| 3. Others | 1 | 0 | 0 | 0 | 1 |

## Chapter 3. Conclusion

Our investigation shows that most of Japanese members of PIPA are not satisfied with the protection of industrial property rights in Korea and that they hope that Korea will improve the protection of inventions.

For this purpose, it would be advisable to approach the Korean Government authorities in mutual cooperation of American and Japanese Groups of PIPA.

APPENDED PAPERS

1. ANNEX 1 attached hereto:
   Taiwanese News Paper (Daily Economic) dated February 25, 1983 (Translation)
2. ANNEX 2 attached hereto:
   Korean News Paper (YAKUP SHINMOON) dated July 7, 1983 (Translation)
3. ATTACHMENT I presented separately:
   Japan Patent Association's Position Paper Regarding the Intellectual Property System of the Republic of China
4. ATTACHMENT II presented separately:
   Japan's Experience in Adoptation of Product and Pharmaceutical Patent System

ANNEX 1

News Paper (Daily Economics)

dated February 25, 1983

(Translation)

The Mission of the Japan Patent Association received answers from the National Bureau of Standard (NBS) in the meeting, as follows.

1. The National Bureau of Standard, Ministry of Economic Affairs (NBS) in the Republic of China announced yesterday that, in case that the patent examination system (exterior examiner's examination system) now adopted is changed to the interior examiner's examination system, they were ready to permit the direct interview of applicant with examiner for avoiding the defect of so-called secret examination system.

2. The representative of Japan raised a question if the Authorities could change the secret examination system presently adopted to the direct interview system so as to have better communication for understanding contents of application. To this question, the NBS answered that the reasons for impossibility of the interview of applicant with examiner lies in the fact that

most of the examiners are professors of universities and college, who are not the public officials, and they are very reluctant to be disturbed and troubled by the applicants. Nevertheless, NBS are ready to allow such an interview of the applicant with the examiner, if an increase of 20 new interior examiners can be realized in NBS.

3. NBS announced that the amendment of the ROC Patent Law is now under examination, the subjects of which are as follows.

3-1. To raise the fine for preventing the imitation of the patented invention.

3-2. To examine as to whether a patent shall be granted to chemical product and medicine.
The Japan's representatives expressed their view that a patent shall preferably given to chemical product and medicine and it has already led to good result in Japan.

3-3. To shorten the period of procedure steps for the administrative relief so as to speedily settle the trouble in respect of patent.

3-4. A patent is given only to goods and method. NBS are now examining as to whether a patent shall be given to the use invention having new idea.

3-5. In the discussion of the trademark, the Japan's representatives expressed their view that the law for preventing unfair competition shall be introduced so that the trademark system can smoothly work, maintaining order of liberalistic economic society.

anslation)

ANNEX 2

YAKUP SHINMOON

July 7, 1983

3 INTERPAT-delegations have visited Korea from the 30th of June to July 5th. They visited government authorities concerned such as Patent Office in order to call attention to introduce the substance patent system for the pharmaceutical products.

The delegations are consisting of Dr. D. Laudien, a patent advisor of Boehringer Ingelheim in West Germany, Mr. Brian A. Yorke, a director of Sandoz in Swiss and Mr. Shoji Matsui, a patent advisor of Takeda in Japan. At a press conference held on the 4th at Chosun Hotel they presupposed that "Korea is still persisting the patent system of process for the manufacturing method of product, even though she reached at a considerable high level in pharma-technology so as to get technological protection through substance patent system.

They explained that the purpose of their visit to Korea this time aimed to call attention to the immediate adoption of the substance patent system in the pharmaceutical field in Korea.

Their visit to Korea is a link in the chain of the travel programm in the Pacific Asian countries such as Taiwan, Philippines etc. in order to grasp the actual state of the patent system and to confer with the authorities concerned.

Delegations also pointed out that the substance patent system is normally misunderstood as if it obstructs and arrests the development of the technology in the own country; in contrary, however, developing the pharma-technology is possible by adopting the substance patent system.

They took Japan as an example, who applies both substance- and process patent system in parallel since 1976. When the Revised Patent Law was drafted in 1975, a strong objection arouse by medium-/small sized enterprises; however, the ill-effects in the patent system of process for the manufacturing method of products was enormous that Japan government had to adop the substance patent system.

For instance of ill-effects of the patent of process for production method, development and contrivance of the process for manufacturing method was activated in the early stage, however, the development of useful new products became dull and the imported pharmaceuticals manufactured with the different method,which does not violate against the existing local patent, were deluged in the market which led to the low level of the technology in the development of new products.

However, ever since the substance patent has prevailed in parallel, the volition for R&D was enhanced so that the new drugs followed on the heels of another; besides, the cost price of drugs were not affected.

They emphasized that the immediate adoption of the substance patent system will bring an epochal turning-point t Korean pharmaceutical industry instiling the will for R&D of new drugs, since 5% of total pharmaceutical companies are in a position to develop new drugs.

Yet, they complained that all the members of INTERPAT, who have some connection with Korea, are not under the perfect protection due to the patent system prevailing in Korea.

These delegations are planning to visit Patent Office, MHSA, NIH, KPIA, German Embassy, KGCCI, and American Chamber in order to make reflect object of their visit to Korea.

**ATTACHMENT II**

(ATTACHMENT I is omitted)

# Japan's Experience in the Adoptation of Product and Pharmaceutical Patent System

Japan Patent Association

(February, 1983)

The responsibility for the sentences:

Kyoji Murayama, Fujisawa Pharmaceutical Company, Ltd., Japan.

The New Patent Law of Japan as amended June 25, 1975 went into force on January 1, 1976, proclaiming that chemical substances, pharmaceutical products, foods and beverages and articles of taste are also patentable. In this connection, we shall present below a brief review of Japan's experience in the adoption of a product patent system.

## 1. Brief Review of the Circumstances Preceding the Adoption of Product Patent System in Japan

### 1.1 The Cradle in Japan's Chemical Industry

About a century ago, that was in 1885, Japan enacted and promulgated the Patent Ordinance which was her first patent law. While this Ordinance was essentially modeled after the Patent Law of France, it referred to pharmaceutical invention as an unpatentable invention and, in an invention of the chemical field, afforded protection to the production process only, not to the substance per se.

This patent law was amended in 1888, 1899, 1909 and 1921 in succession, but on none of the occasions was there a debate on the protection of chemical substance and pharmaceutical product, and the inventions of them remained to be unpatentable.

This status guo was occasioned by the following circumstances. As to chemical substance, since the chemistry was still young in the cradle, new processes of producing chemical compounds were on the way of research and development. Accordingly, the research activity was mainly directed to development of new processes of producing chemical compounds rather than to creation of new compounds, and the development of new processes of producing known chemical compounds was considered more important and given priority. As for pharmaceutical product, there was paid the general consideration that there should be avoided any problems such as the quantitaty restriction, price increase, etc. which patent monopoly eventually bring about.

Though the product patent system was theoretically needed even under the above circumstances, Japan dared to continue limiting patent protection to the production process without protecting the substance per se. In other words, in those days the invention of a process was considered to be more important and more meaningful than the invention of a chemical compound. Since a variety of novel and improved processes were conceivable

for the production of a given compound, the process patent system well served its purpose by giving an adequate incentive to finding out new and improved processes.

1.2 The Undesirable Side of Process Patent System

However, the process patent system which had long been regarded by many as a worthwhile system began to prove out of line with demands of the age and cause the following adverse situations.

(1) At first, the inventive activity for new and improved process were extensively made and it appeared to anybody's eye that the process patent system was working successfully. However, as years went by, the inventions for such excellently improved processes tended to decrease in the number.

(2) The researches, besides the researches for the discovery of better processes, were directed to the invention of "detour" processes, intending to avoid patent infringement of the process patents owned by others, and such invention came forward in succession, such detour process being inferior and rather retrogressive in comparison with the already patented processes.

As the time elapsed, this trend grew up more and more to cause such an undesirable situation as the ill-use of the process patent system only to avoid the control of the existing process patents. Thus, the object of the process patent system *per se* had decreased its value.

(3) The extensive conducts of researches aiming at an invention of so-called "round-about" or "detour" processes resulted in increasing a number of infringement actions in the court.

(4) There were imported a large number and quantity of chemical compounds allegedly to have been produced in a foreign country by processes (whether the processes are "improved" or "retrogressive" ones) different from those already patented in Japan, which increased the quantity of imports in total. Patent litigation cases also increased.

(5) The major research effort was directed to the development of processes for avoiding the infringement of others' patents and the basic research such as the research for creating useful and new compounds, which was demanded in the international field of advancing technology, was often disregarded. Consequently, the

relative level of domestic technology for finding out new compounds became more and more depressed as compared with the levels in foreign countries.

(6) There arose many meaningless research competitions among companies which did not truely contribute to advancement of technology in the companies involved.

Thus, in order to fully protect his right, even the creator of a new chemical compound or his assign was forced to conduct useless research and development and file useless patent applications, with the result that his essential attitude toward research and development was often side-tracked and fruitful litigations arose one after another.

In the pharmaceutical industry, in particular, even research-oriented companies were forced to conduct a lot of useless researches in order to fully protect their new drugs.

(7) In regard of chemical processes as such, there became less and less room for innovations everywhere in the world, while many researches in the world were directed to new compounds or new uses for known compounds, so that the process patent system came to having not served this new current.

1.3 Moves to Adoption of Product Patent System

(1) In 1955 and onwards, in order to overcome the above undesirable situation on the process patent system and also from international viewpoint, the necessity to promote progress of chemical technology had been keenly felt and, indeed, the time was ripe for a revision of the patent system.

Under the circumstances, for the purpose of investigating the possibility of revising the patent law along this line, the Japanese government (the Patent Office) in March, 1955 conducted an opinion survey sending questionaires to 1352 companies, etc. including chemical manufacturers, chemical user companies using chemical compounds, universities, research institutions, academic circles, etc. The result was that the positive and negative responses were nearly even, among which 52.0% of the pharmaceutical manufacturers, 52.2% of the chemical user companies, 63.3% of the research institutions and 53.3% of the academic circles favored the adoptation of a product patent system.

(2) The 1959 Revision of the Patent Law.

In the questionaire survey of 1955, positive and

negative responses were nearly even, and the adoptation of product patent system was strongly voiced. However, in view of such a vital revision, government took a cautious attitude and a rush to adoptation of the product patent system was then withheld for the reason of prematureness in time. Thus, the matter was postponed till the next revision of the Law, this postponement having been ultimately repaid with a delay in the progress of technology. However, the government was watching for a good opportunity for adopting the product patent system, realizing that the voice on the affirmative side became higher and higher in the related business world so that the necessity of said system was felt more and more.

(3) The subsequent Development

1) International Trend

In 1958 a conference for revision of the Paris Convention was held in Lisbon. The debated and discussions in this conference resulted in a recommendation to the effect that, in view that the maximum protection should be given to inventions in order to promote the progress of technology, the member countries should study the possibility of providing

for the patent protection of new chemical compounds independently of production processes.

Thus, the time was truly ripe for the product patent system and, in pursuance with the spirit of the above recommendation, the Federal Republic of Germany adopted a product patent system at its revision of her patent law in 1968.

2) The 1970 Revision of the Patent Law

In 1970, the Patent Law was partially revised with improvement for making the same come nearer to the international level, which was mainly directed to an early disclosure of applications and an examination request system, the patent product system was not included in the bill to the Diet despite the keen demand for adoption of the product patent system. However, the bill was passed with a additional resolution to the effect that efforts should be made to form a definite plan on chemical and pharmaceutical patents at the earliest possible data.

3) In response to the above additional resolution at the 1970 revision of the Patent Law, the Japan Patent Association conducted an opinion survey, i.e. the Questionaire Survey related to a Product and Pharmaceutical

Patent System, sending questionaires to its 335 member companies. As shown in Table 1, the majority of the members favored the adoption of such a system.

Table 1

Results of a Questionaire Survey relating to Adoption of Product and Pharmaceutical Patents (1970)

| | Total pros and cons | | | Pros and cons; non-committals excluded | |
|---|---|---|---|---|---|
| | Yes | No | Non-committal | Yes | No |
| Product patent | 59.6% | 8.6% | 31.8% | 87.4% | 12.6% |
| | Unqualified 6.0% | | | Unqualified 8.8% | |
| | Qualified 53.6% | | | Qualified 78.6% | |
| Pharmaceutical patent | 38.2% | 15.9% | 45.9% | 70.6% | 29.4% |
| | Unqualified 5.2% | 5.2% | | Unqualified 9.5% | |
| | Qualified 33.0% | 33.0% | | Qualified 61.1% | |

Notes:

(1) In terms of "total pros and cons", the percentage of those who favored the grant of pharmaceutical patents was as low as 38.2% but this was most probably because more than a half of the respondents were non-chemical companies which were naturally not much concerned with pharmaceutical patents. In fact, non-committals accounted for as many as 45.9%. In terms of "pros and cons, non-committals excluded",

the percentage of those in favor of the system was as high as 70.6%.

(2) Those who favored the grant of product and pharmaceutical patents with some qualification demanded, for both kinds of patents, that the grant of patent be made with stringent criteria and that there be restrictions on the exercise of rights (for example, more liberal conditions for compulsory licenses).

However, as the above results of a questionaire survey indicate, there were still some one who opposed to the grant of product and pharmaceutical patents. However, these oppositions were not openly acknowledged. And the Japanese government, both the Ministry of Health and Welfare and the Ministry of International Trade and Industry combined, held the firm view that the product and pharmaceutical patent system was necessary not only for the growth of the individual companies but also for technological progress in the chemical and pharmaceutical industries.

4) Given the above impetus to revision of the patent system, "Product Patent Study Team" composed of representatives of the government (the Patent Office),

the Japan Patent Association and the Chemical Industries Association of Japan was organized in 1971. The team visited the United States and European countries where they made a detailed study of the status and problems in respect of their product and pharmaceutical patent systems for the purpose of obtaining referential data for the adoption of a similar system.

1.4 Adoption of the Product and Pharmaceutical Patent System

(1) The Japanese government (the Industrial Property Council) began to study and discuss the possibility of adopting a product and pharmaceutical patent system in 1971 and submitted a conclusion, in 1973, reporting that "a product patent system should be adopted". Based on this proposal, a bill for Revision of the Patent Law was draft and submitted to the Diet in 1975.

Oppositions to this bill were voiced by some of the small and medium companies and especially those not research-oriented. However, the Japanese government had by then been well aware of the absolute need to adopt a product patent system for encouraging the advance of technology in long-term prospectives. In fact, throughout the parliamentary session, there was not a

single move against the proposal, even from the minority parties. This was because all the political parties of Japan thought that a product patent system should provide their chemical and pharmaceutical industries with a strong incentive to technical development.

Ultimately, on the 29th day of May, 1975, the bill for Revision of the Patent Law incorporating a product patent system passed the Diet. The law was promulgated on the 25th day of June the same year and became effective on the 1st day of January, 1976, giving patent protection to chemical substance and pharmaceutical product.

(2) Meanwhile, the validity of patent right on a chemical product invention extends to the production and use of the chemical substance, regardless of the process for its production or of its uses. Therefore if a product patent system be adopted the influence of such a right on third parties should be greater than it was when the 1975 patent law providing only for process patent and use patent (excepting pharmaceutical product, beverage and food) was in force. In order to lessen such influence, the following measures were taken to strike a balance between a chemical product patent and the third

party's rights (a process patent, a use patent and a selection invention patent).

① Relation of a Prior Patentee to a Later Patentee

In case a later patented invention (a novel production process for the chemical substance patented by a prior patent, a novel use of the chemical substance patented by a prior patent, etc.) is one which utilizes a prior patented invention (an invention of the chemical product), the later patentee (a process patentee, use patentee, etc.) cannot effect the working of it's own patented invention (a production process or use) without the grant of a license from the prior patentee (a patentee for the chemical substance).

Therefore, it has been proved that:

(i) a later patentee may, when the patented invention is one which utilizes the patented invention of a prior patentee, demand of the prior patentee a consultation as to the granting of an ordinary license for the prior patented invention, and (ii) when such consultation has not successfully been concluded or it is impossible to hold such consultation, the later patentee may demand the arbitration of the Director of the Patent Office as to the granting of an ordinary (non-exclusive)

license for the prior patented invention.

Thus, the latter patentee could effect the working of its own patented invention.

② Relation of a prior patentee to a later patentee

In this connection, when a license for the working of the right (the one to produce or use the patented chemical substance) owned by the prior patentee (a chemical product patentee) is granted to the later patentee (a process patentee, a use patentee, etc.), the later patentee can enjoy the benefit as mentioned in the above (1). On the other hand, if the prior patentee cannot effect the working of the later patentee's right, i.e. the invention of a novel or improved production process or a novel use, the prior patentee (a chemical product patentee) who developed a novel chemical substance spending much labor and expense will have to sustain a great deal of loss and disadvantage. The prime purpose of affording protection to a chemical product invention is to give an incentive to a chemical product invention is to give an incentive to the development of a novel chemical substance, and therefore, if the interest of the patentee who invented a novel chemical substance is

injured, the significance of adopting a chemical product patent system will be considerably lost.

In order to avoid the undesirable situation as mentioned above;

(i) It has been provided that in case the later patentee comes to demand of the prior patentee such a consultation as stated above, the prior patentee may demand of the later patentee a consultation as to the granting of an ordinary (non-exclusive) license for the working of the later patentee's patented invention, and

(ii) When this consultation has not successfully been concluded or it is impossible to hold such consultation, and also when a demand for an arbitration as mentioned in the above (i) (ii) is made (i.e. when the later patentee has demanded the arbitration of the Director of the Patent Office as to the granting of an ordinary license for the working of the prior patentee's patented invention), the prior patentee may also demand the arbitration of the Director of the Patent Office as to the granting of an ordinary license for the working of the later patentee's patented invention.

By this way, a balance was striken between the positions of the prior patentee and the later patentee

in the form of cross licensing.

## 2. Background and Necessity of Adopting a Product Patent System in Japan

The above is a brief history of adoption of the product patent system in Japan, and the proposal was made with the understanding that the time was ripe for the adoption of the system in view of the moves in other countries and the trend toward an international unification of patent systems. Its background and necessity are outlined below:

### 2.1 Relation of Process Invention and Use Invention with the Product Invention

#### (1) Avoidance of meaningless Research and Development as well as unnecessary Conflicts

Under the process patent system which provided patent protection only to the production process for a chemical substance, protection of a valued chemical substance, if developed, was insufficient. Therefore, the person who created such chemical substance was obliged to make research and development for many production processes and to file many patent applications for the purpose of obtaining sufficient protection of his invention. On the contrary, the research activities of

other persons than the first creator of the chemical substance concerned were mostly directed to the follow-up studies of the original invention. As a result, the real purpose of research and development was distorted, and conflicts took place often. Under the circumstances, there was strongly voiced a desire to avoid such meaningless research and development as well as such unnecessary conflicts.

(2) Research and Development for Production Process or Novel Use Inventions

There was a fear among some people concerned that adoption of a product patent system might impede research and development for superior production process or novel use inventions. However, it was finally recognized that, even if a product patent system was adopted, once a valued novel chemical substance was produced and came to be known, an improved production process for the substance or its novel use would also be separately patented, and therefore that research and development for these inventions would not be impeded as far as these inventions were concerned with superior improved production processes or new uses.

(3) The Status of the Patentee Who Invented an Improved Production Process or a New Use

The later patentee who obtained a patent on a novel production process or novel use which is connected with the prior patented invention on a certain chemical substance cannot effect the working of his patented invention without obtaining a license for the working of the patented invention of the prior patentee (product patentee). However, when the later patentee cannot obtain such a license (an ordinary license) from the prior product patentee even under reasonable terms and conditions, the later patentee of improved production process or new use can effect the working of his invention by demanding an arbitration for a license (an exclusive license) as to the chemical substance concerned. Therefore, it was recognized that the later patentee would never be adversely treated.

2.2 Relation with Commodity Prices

(1) It was once thought that a product patent system would lead to increased patented commodity prices. Actually, however, it was found that such a view was near-sighted and that the adoptation of a product patent system would not cause price increases.

The price of commodities is governed by a variety of factors. Though a product patent system may be one of the factors influencing the price, it can never be a determinant factor. The price of commodities is largely a function of the industrial and financial policies of the government.

Taking pharmaceutical products as an example, a survey of international drug prices revealed that the prices of drugs in the countries with a product patent system were not higher than those in the countries without such a system.

That the adoption of a product patent system will not cause price increases is apparent from German experience as shown in Table 3. There, the prices of pharmaceutical products were not particularly influenced by the adoption of the product patent system.

Table 3

| Year | Drug price index (A) | Living cost index (B) | Real drug price index*1 (A/B x 100) |
|---|---|---|---|
| 1962 | 100 | 100 | 100 |
| 1965 | 103.2 | 108.7 | 95 |
| 1966 | 108.7 | 112.7 | 96 |
| 1967 | 110.2 | 114.6 | 96 |
| 1968 | 112.7 | 116.4 | 97*2 |
| 1969 | 11.4 | 119.5 | 96 |
| 1970 | 120.5 | 123.5 | 98 |
| 1971 | 126.0 | 130.1 | 97 |
| 1972 | 132.0 | 137.2 | 95 |
| 1973 | 137.9 | 146.8 | 94 |
| 1974 | 150.5 | 159.1 | 95 |

(Notes)

*1) The drug price index includes the cosmetic products.

*2) The year when the product patent system took effect.

(Wirtschaft und Statistik's data for December, 1965 to November, 1974)

(2) A number of different drugs with equivalent clinical efficacy are available on the market. Under such circumstances, it was recognized that if the price

of a drug protected by a patent is unreasonably high, the public will not use such an expensive drug but use some other equivalent drug, and therefore there was no problem in this respect.

(3) It was also recognized that if, for some reason or other, the price of a drug tends to increase beyond a reasonable level, the price can be controled by means of a compulsory license system from the standpoint of public interest.

2.3 Relation with the Monopoly of Commodities

Pharmaceutical products are indispensable to human life in view of their close relation to our health and hygine. Though there are some drugs for almost any kind of disease today, there may arise the circumstances that even such drugs are not always sufficient. There may be anticipated the cases in which there is virtually not a substitute once a very effective drug having a specific efficacy is developed. This problem will be particularly serious if a completely new, effective drug has been created and developed for a disease for which no other effective drug is available.

In such a case, the company which had developed

such a new drug will be in the possible position to dictate its output and price without regard to competition. In this sense, a fear was expressed that there could arise serious problems owing to monopoly of the commodities.

However, it was realized that, in such a case, the monopoly of commodities can be controlled by taking the proper measures as follows.

(1) In case the owner of a product patent monopolizes the working of the patented invention and does not make available a sufficient supply of the product (drug).

For such a patentee (enterprise), all that is necessary is only to pay attention to the size of demand and the maximum share of the market irrespective of production price (cost). Accordingly, it may pursue the maximum profit without regard to other factors, and therefore, there is the possibility not only of market monopoly but also of price increase. However, in this case also, it is possible to establish a non-exclusive license for reasons of non-working or, in certain cases, a non-exclusive license in the interest of the public. In addition, in the case of pharmaceutical

products, the Ministry of Health and Welfare may order the company to observe a supply duty of the drug and to thereby prevent undesirable results.

(2) In case the owner of a product patent does not work the invention in Japan nor does it grant a license to a third person, supplies the drug only through importation and, moreover, control the import.

There is the possibility of market separation and price discrimination in this case. However, the evil results can be prevented by means of the demand for establishment of a non-exclusive license (the establishment of a compulsory license) for the reason of non-working of the patented invention.

2.4 Encouragement of Research and Development

For the progress of chemical and pharmaceutical industries,it is most important to encourage researchers in the field. It was recognized that the companies should be encouraged to invest more in scientists and their researches and that for this purpose, a product and pharmaceutical patent system would be the most effective and suitable means.

2.5 Others

(1) Some pharmaceutical companies had opinions that it

was too early to adopt a product patent system. However, most of the oppositions were not based on any detailed study of how many years ahead they will be ready to accept a product patent system but were merely wishful, irresponsible arguments to maintain the status quo.

(2) The recommendation at the 1958 Lisbon conference for revision of the Paris Convention that the member countries should study the possibility of providing for the patent protection of new chemical products resulted in the advent of earnest studies and efforts, in many areas of the world, to adopt a product patent system.

## 3. Recognition at Present Stage after the Adoption of the Product Patent System

### 3.1 Research and development

The following is a brief review of the status of research and development following the adoption of the product patent system, limiting the subject to pharmaceutical products.

In the first place, the trend of research and development is said to be truly reflected on new patent applications as results of such endeavors. In this

sense, the trend of patent applications prior to the adoption of the product patent system and that after the adoption are shown in ANNEXED DOCUMENTS 1 and 2.

It will be apparent from these tables that, while the figures for 1975 and before, of course, represent process patent applications only, the total number of the early publication of patent applications related to chemical substances and pharmaceutical products in 1977 (the year immediately following the adoption of the product patent system) accounted for about 60% of the total number of the applications in these areas, and for about less 70% in 1978. In 1979 and onwards, the percentages are almost constant at about 70%. In contrast, the percentage of the early publication of the process patent applications was 40 to 34% during the initial years (1977-1978) and has since 1979 been constant at about 30%.

The above figures appear to indicate that research and development have been mostly concentrated into the development of new chemical substances.

However, the fact that the applications of production processes still account for about 30% of the total number of the applications seems to indicate that the importance of the process patents is also well recognized and the

research and development for improved processes are not disregarded.

As a conclusion, it is believed that the product patent system of Japan is and will continue providing a strong incentive to her chemical and pharmaceutical industries.

3.2 Monopoly of Commodities and Price Increases

There was initially a concern that the adoption of a product patent system would invite monopoly of commodities and price increases. However, actually, none of such results occurred.

(1) Regarding pharmaceutical products, Japan as in the case of Germany did not see any real increase in the drug prices as a consequence of adoption of the product patent system. This is because the Ministry of Health and Welfare has the authority to determine the drug prices under administrative procedures.

Incidentally, recently, the Ministry of Health and Welfare has made it a rule to examine, against reasonable criteria, the prices of clinically equivalent drugs to see if they are reasonable or not. This is evidence that the product patent system is only one factor for deciding the price of commodities.

(2) Lastly, in regard to the monopoly of pharmaceutical products, the bad influence of monopoly has never been encountered since the adoptation of the product patent system. That is, a large variety of products for the treatment or prevention of the same disease are available in Japan at the present stage, probably as in the rest of the world. Therefore, the public has an option to select any desired drug from among a variety of products on the market for the same disease.

4. Conclusion

The foregoing is a brief description of Japan's experience in the adoption of a product patent system. The product patent system is and will keep encouraging the researchers and companies to make inventions and thereby stimulating their volition to research and development. We believe that the system will contribute to further advances of technology in the chemical and pharmaceutical fields. It is also believed that these advancements are best assured by the product patent system.

The responsibility for the above sentences:
Kyoji Murayama, Fujisawa Pharmaceutical Company, Ltd., Japan.

**REFERENCE**


1. **Product Patent in the U.S. and European countries, Report of the Product Patent Fact-finding Team.**
2. **Patent and Pharmaceutical, written by Dr. E. Jucker**
3. **Patent-why 1982 (Note: Summary of "Patent and Pharmaceutical" as listed in the above 2.**

(Supplemented here in the 14th PIPA Conference)

NUMBER AND RATIO OF JAPAN PATENT APPLICATION IN PHARMACEUTICAL FIELD(1981-1982)

| COUNTRIES | 1981 TOTAL | 1981 PRODUCT * | 1981 PROCESS | 1981 COMPOSITION | 1982 TOTAL | 1982 PRODUCT * | 1982 PROCESS | 1982 COMPOSITION |
|---|---|---|---|---|---|---|---|---|
| UNITED STATES | 444 | 286 | 108 | 50 | 497 | 321 | 121 | 55 |
| W. GERMANY | 216 | 151 | 43 | 22 | 261 | 172 | 64 | 25 |
| UNITED KINGDOM | 141 | 100 | 27 | 14 | 161 | 124 | 26 | 11 |
| SWITZERLAND | 137 | 86 | 33 | 18 | 139 | 99 | 24 | 16 |
| FRANCE | 111 | 82 | 21 | 8 | 138 | 112 | 15 | 11 |
| ITALY | 90 | 65 | 16 | 9 | 109 | 71 | 24 | 14 |
| NETHERLAND | 12 | 9 | 3 | 0 | 15 | 10 | 2 | 3 |
| OTHER LIBERALISTIC COUNTRIES | 70 | 47 | 13 | 10 | 81 | 47 | 21 | 13 |
| SUB-TOTAL (A) | 1,221 | 826 | 264 | 131 | 1,401 | 956 | 297 | 148 |
| HUNGARY | 44 | 32 | 0 | 3 | 47 | 28 | 15 | 4 |
| OTHER SOCIALISTIC COUNTRIES | 14 | 6 | 5 | 3 | 13 | 8 | 3 | 2 |
| SUB-TOTAL (B) | 58 | 38 | 14 | 6 | 60 | 36 | 18 | 6 |
| ( A+ B ) | 1,279 (100) | 864 (68) | 278 (22) | 137 (10) | 1,461 (100) | 992 (68) | 315 (22) | 154 (10) |
| JAPAN (C) | 1,867 (100) | 955 (51) | 617 (33) | 295 (16) | 2,332 (100) | 1,196 (51) | 809 (35) | 327 (14) |
| TOTAL (A+B+C) | 3,146 | 1,819 | 895 | 432 | 3,793 | 2,188 | 1,124 | 481 |
| RATIO OF APPLNS.OF FOREIGNERS (%) (A+B)/(A+B+C) | 40.7 | 47.5 | 31.1 | 31.7 | 38.5 | 45.3 | 28.0 | 32.0 |

* NOTE:THESE APPLICATIONS CONTAIN THOSE CLAIMING THE FOLLOWING TYPES OF CLAIMS ;
(1) PHARMACEUTICAL SUBSTANCES,
(2) PHARMACEUTICAL SUBSTANCES AND PROCESS FOR PREPARING THEM,
(3) PHARMACEUTICAL SUBSTANCES AND PHARMACEUTICAL COMPOSITION THEREOF, AND
(4) PHARMACEUTICAL SUBSTANCES, PROCESS FOR PREPARING THEM AND PHARMACEUTICAL COMPOSITION THEREOF.

The statistics data are investigated by Patent & Trademark of Fujisawa Pharmaceutical Co., Ltd, in Japan.

Number and Ratio of Japanese Patent Applications in Pharmaceutical Field

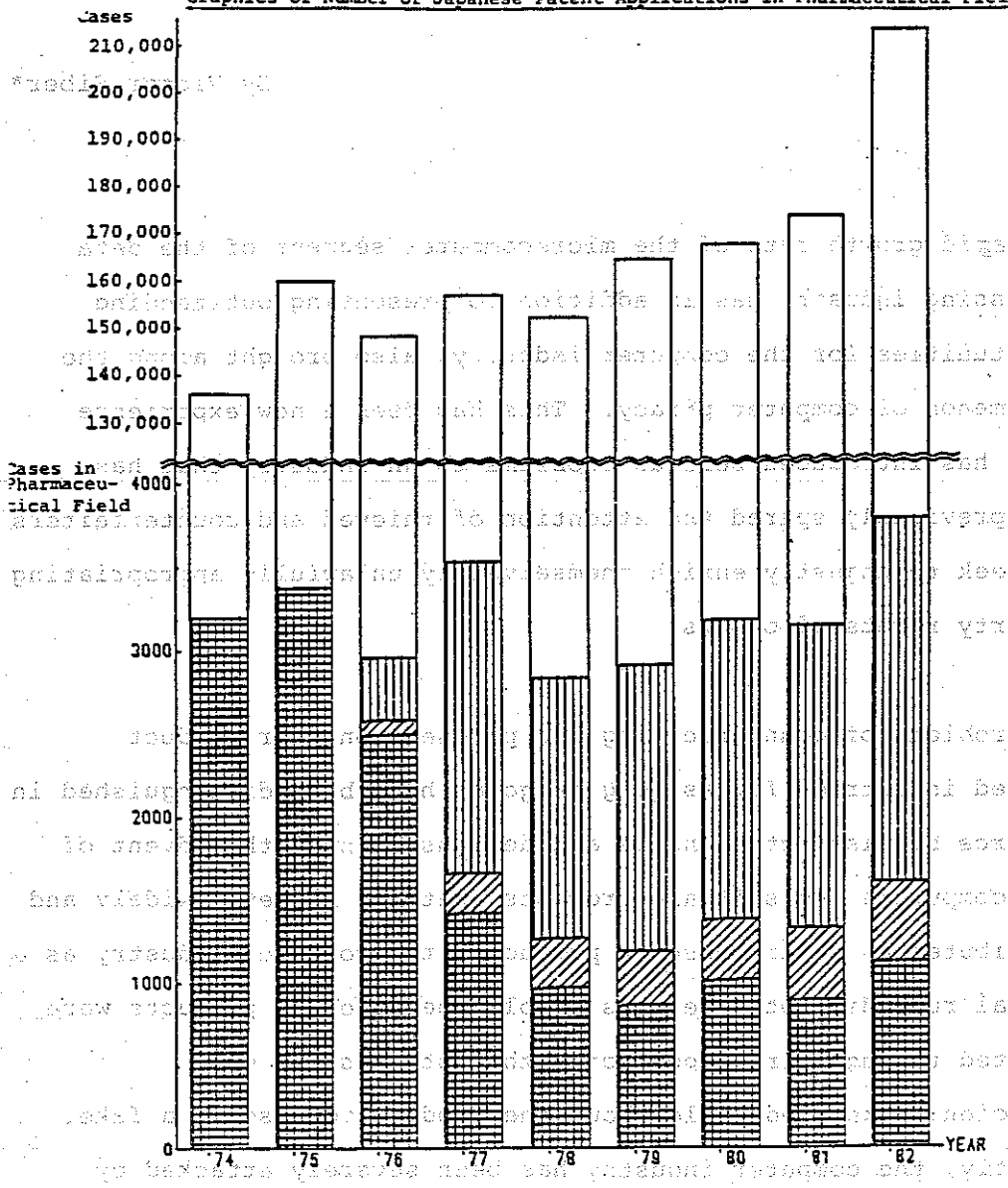
| Years / Kinds of Pat. Appln. | 1974 | 1975 | 1976 | | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Jan.-June | July-Dec. | | | | | | |
| Total of early published Pat. Applns. | [100] 136,000 | [100] 159,900 | [100] 74,999 | [100] 72,798 | [100] 156,800 | [100] 151,400 | [100] 164,400 | [100] 167,300 | [100] 173,000 | [100] 212,900 |
| | | | 147,797 | | | | | | | |
| Early published Pat. Applns. in pharmaceutical field | [2.4] 3,196 | [2.1] 3,373 | [1.8] 1,339 | [2.2] 1,615 | [2.2] 3,527 | [1.9] 2,829 | [1.8] 2,905 | [1.9] 3,172 | [1.8] 3,146 | [1.8] 3,793 |
| | | | | (100) | (100) | (100) | (100) | (100) | (100) | (100) |
| | | | 2,954 | | | | | | | |
| Early published Pat. Applns. directed to pharmaceutical substances* | — | — | — | 382 (24) | 1,873 (53) | 1,569 (56) | 1,721 (59) | 1,800 (57) | 1,819 (58) | 2,188 (58) |
| Early published Pat. Applns. directed to only pharmaceutical compositions | — | — | — | 87 (5) | 240 (7) | 295 (10) | 325 (11) | 364 (12) | 432 (13) | 481 (13) |
| Early published Pat. Applns. directed to only processes for preparing pharmaceutical substances | 3,196 | 3,373 | 1,339 | 1,146 (71) | 1,414 (40) | 965 (34) | 859 (30) | 1,008 (31) | 895 (28) | 1,124 (29) |

* These applications contain those claiming the following types of claims;
  (1) Pharmaceutical Substances,
  (2) Pharmaceutical Substances and Process for preparing them,
  (3) Pharmaceutical Substances and Pharmaceutical Composition thereof, and
  (4) Pharmaceutical Substances, Process for preparing them and Pharmaceutical Composition thereof.

The statistics data are investigated by Agreement & Patents of Fujisawa Pharmaceutical Co., Ltd. in Japan.

ANNEX 2

Graphics of Number of Japanese Patent Applications in Pharmaceutical Field




|||||||| : Applications directed to substances
//// : Applications directed to composition only
▦ : Applications directed to process only

1) January 1, 1976: Introduction of Product and Pharmaceutical Composition Claims

2) July 1, 1976: Commencement of early publication of patent applications claiming Convention Priority directed to Product and Pharmaceutical Composition

3) July 1, 1977: Commencement of early publication of whole patent applications directed to Product and Pharmaceutical Composition

# Intellectual Property Rights Relating to Computer Piracy in Southeast Asia

By Victor Siber*

The rapid growth rate of the microcomputer segment of the data processing industry has in addition to presenting outstanding opportunities for the computer industry, also brought along the phenomenon of computer piracy. This has been a new experience which has introduced serious problems to an industry that has been previously spared the attention of thieves and counterfeiters who seek to unjustly enrich themselves by unlawfully appropriating property rights of others.

The problems of counterfeiting has plagued consumer product related industries for as long as goods have been distinguished in commerce by distinctive names and designs. Until the advent of microcomputers and software products that are marketed widely and distributed as other consumer products, the computer industry as a general rule did not face this problem because its products were marketed through direct contact with customers who were sufficiently knowledgeable about the product to discern a fake. Recently, the computer industry has been severely attacked by unscrupulous individuals and companies seeking to pass-off on to the public, products that purport to be originals but in fact are inferior copies. These parasites that thrive off the creativity of others contribute nothing and trample on the legitimate rights

*Patent Counsel, Contract & Licensing Matters
IBM Corporation

of computer manufacturers and program publishers who have made significant investments in developing new technology.

While the majority of industrial companies operating in Southeast Asia carry out their business in a legitimate manner, it has become readily apparent that counterfeiting operations have their primary source in that region. This is in large part due to the failure of governments and the judiciary of countries in the region to adequately protect intellectual property rights. By the Southeast Asia region I am particularly referring to the lesser developed countries such as Hong Kong, Indonesia, Malaysia, Philippines, Singapore, Sri Lanka, South Korea, Taiwan and Thailand.

There have been countless reports of counterfeit personal computer products being manufactured in a number of these countries. Furthermore, these copies or counterfeit products are generally exported to either the United States, Europe and Japan. The level of activity has become so severe and widespread that it is not uncommon to find sectors within a city where specialty stores have been formed for manufacturing counterfeit machines to order. Also, along with the counterfeit machine, which is usually sold at a fraction of the price of an authentic one, copies of copyrighted software and manuals are made available to consumers merely for the cost of the media.

There have been numerous attempts by American companies to enforce their rights in countries such as Taiwan and in many cases their efforts have been frustrated by the judicial process. One recent such example is the dismissal of one of the infringement actions brought by Apple Computer in which the court found that the plaintiff, Apple, lacked jurisdiction because it was not a registered corporation doing business in Taiwan. This decision was reached under Interpretation No. 533 of the Judicial Yuan. Fortunately, the lower case decision of dismissal was reversed by the high court, which apparently recognized the serious repercussions that this decision might have, in terms of political and economic impact, on Taiwan. Clearly, the lower court decision was in direct conflict with Article 6(4) of the Treaty of Friendship which guarantees U.S. nationals freedom of access to the courts in Taiwan and the lower court decision was a discriminatory and incorrect.

It is essential for countries that are seeking to encourage foreign investment to provide equal protection under their national laws for foreign citizens. To do otherwise, is to encourage a lack of confidence in foreign inventors and sources of technology, thus tending to perpetuate a continuation of a lack of change in the industrial development of that country. Industrial development is not keyed off the encouragement of the abuse of the rights of foreigners, or from the misappropriation of foreign technology, but rather through the cooperation and exchange of industrial know-how, technology, and legal access to intellectual

and industrial properties. It is unlikely that a foreign investor would choose any country which abuses foreigner's rights, as a place to develop technology or invest in any sort of research or development activity.

In order for industry to be motivated to invest in research or development of technology, particularly where there is a high initial capital investment required, it is essential for governments to provide an environment of stability and predictability with regard to their laws and judicial procedures. Subjective interpretations or decisions that encourage or forgive infringement of intellectual property rights act to undermine the confidence necessary for industrial investment in these countries.

In other legal actions which have been brought in Taiwan for trademark infringement and, in particular, criminal actions which have been initiated by plaintiffs, there are numerous examples of inconsequential fines being awarded and of the defendants being able to effectively buy their way out of prison sentences which have been imposed. Within the last year, the Taiwanese government has amended their trademark laws to make criminal sentences mandatory in certain infringement actions. Hopefully, this will act as a deterrent by raising the price of counterfeiting. Of course, we must await and see how the courts apply this new statute and whether infringers in fact will be treated in as harsh a manner as would be appropriate to discourage future counterfeiting activities.

The problem of disrespect for intellectual property rights is not limited to trademark matters nor is it limited only to Taiwan. Illustrative of this is a recent study published by the Japan Machinery Design Center, JMDC NEWS, No. 170, 1981, dealing with Japanese products which have been found to be counterfeited in other countries. For the period of 1967-1980 there have been reported 2132 cases of design and/or Trademark counterfeits of Japanese goods. The breakdown by country is Taiwan - 711, South Korea - 209, Hong Kong - 196, Thailand - 95, Singapore - 57, U.S.A. - 86. In 1980 alone the report indicates 314 cases which are: Taiwan - 75, South Korea - 8, Hong Kong - 8, Thailand - 10, Singapore - 1, U.S.A. - 31, Australia - 16, Germany - 13.

An examination of some of the intellectual property laws in countries in Southeast Asia show that with regard to computer technology, protection is inadequate. In order to facilitate a quick overview of the present status of the copyright laws in Southeast Asian countries as they apply to computer programs in both printed and read only memory (ROM) form, I have included in this paper a summary chart. This information was compiled from opinions obtained from copyright counsels practicing in Southeast Asia, and is based on existing statutory and case law. An examination of this data shows that a significant number of the countries are not members of any international copyright treaty. In addition, some of the countries such as South Korea, Singapore and Malaysia require either first or simultaneous publication within their country in relation to first publication. Clearly,

these provisions act to preclude a foreigner from obtaining copyright protection within those countries. Even if programs were copyrightable subject matter in those countries, it is highly unlikely that one could justify publishing every program simultaneously in both the country of origin and in another country having relatively small market.

## COPYRIGHT PROTECTION FOR PROGRAMS IN SOUTHEAST ASIA

| | UCC | BERNE | COPYRIGHT PROTECTION FOR FOREIGN CITIZENS | COPYRIGHT OF PROGRAMS | FORM OF PROTECTION UNDER COPYRIGHT LAW |
|---|---|---|---|---|---|
| HONG KONG | YES | YES | YES | PROBABLY | PRINT-YES<br>ROM-? |
| INDONESIA | NO | NO | NO | NO | NO |
| MALAYSIA | NO | NO | PUB. WITHIN 30 DAYS | PROBABLY | PRINT-YES<br>ROM-ARGUABLE |
| PHILIPPINES | NO | YES | YES | YES | PRINT-YES<br>ROM-PROBABLY |
| SINGAPORE | NO | NO | PUB. WITHIN 14 DAYS | PROBABLY | PRINT-YES<br>ROM-? |
| SRI LANKA | NO | YES | YES | PROBABLY | PRINT-YES<br>ROM-? |
| SOUTH KOREA | NO | NO | 1ST PUB IN KOREA | NO | NO |
| TAIWAN | NO (TREATY WITH U.S.) | NO | YES | YES | PRINT-YES<br>ROM-? |
| JAPAN | YES | YES | YES | YES | PRINT-YES<br>ROM-PROBABLY |

Delving further into the issue of copyrights in this region, we find that the protection of software in the form of ROM's or other machine readable media is questionable and in some cases, the underlying basis of copyrightability of programs is further in question.

The most fundamental and widely used legal protection available for computer programs that are marketed on a mass distribution basis is copyright. What purpose is served by permitting abuse of copyright without adequate compensation to the author or developer of software? No apparent specific economic benefit flows to national governments which encourage piratical activities by not offering legal protection mechanisms. Rather, what results is a lack of confidence which discourages foreign investment and in the long term leave these countries in a lesser developed state.

As a result of the sudden widespread availability of personal computer products and the apparent insatiable desire of consumers to have as much software as they can possibly obtain to run on their personal computers, there has developed what I consider to be a decline in the moral and ethical attitudes in relation to property rights in these products. The attitude that programs are there to be copied and distributed at will has become so pervasive that it is even sometimes encouraged in institutions of learning. Perhaps, this is merely a question of education and public awareness as to the proper use of these products and respect for the property rights of manufacturers, publishers and authors. It

is incumbent upon both government, industry and intellectual property associations to fill this educational gap.

We as members of industrial property organizations which are dedicated to the promotion and encouragement of the concept of recognition and protection of intellectual property need to become involved in this matter, we must do whatever is possible to educate and convince national governments to amend their laws to provide adequate protection for copyright as well as other intellectual properties and to strive for fair or just enforcement of those rights.

Another legal mechanism which is essential for protecting the rights of manufacturers of personal computer products are laws dealing with an unfair competition. These laws generally prohibit the copying of trade dress or appearance design of products. While some of the countries in Southeast Asia, such as Hong Kong, do recognize industrial design protection under copyright. Other countries, such as Taiwan, do not have adequate provisions under their national laws which grant protection for industrial designs. In the field of personal computer products, the rights of a manufacturer to exclude someone else from making an exact duplicate of the appearance of the product is essential. This is, in many cases, as significant a property right as the trademark which identifies the product. It is a favorite technique of personal computer counterfeiters to duplicate the covers and appearance design of a product and, internally, substitute

inferior circuit boards and other components which functionally operate in a similar manner to the authentic machine. The identical appearance of the product deceives the consumer as to the source of the goods and the quality that it represents. The practice of copying the appearance design of personal computers has become so widespread as to now include mail order businesses which advertise pictures of what appear to be original products. These mail order houses operate out of Southeast Asia and ship counterfeit products into other parts of the world.

Now looking at patent protection, as it might be available in this region, we find that only the Philippines, Sri Lanka, South Korea and Japan are members of the Paris Convention and that Indonesia does not even have a patent law. It is a necessary and essential step for any country interested in industrial development to have an effective patent system and to join with other countries in recognizing the industrial and intellectual property rights of its citizens as well as of foreigners. This could be accomplished by a country becoming a member of the Paris Convention. So long as there is an apparent lack of understanding and action to provide adequate legal remedies and protections for the intellectual property rights of foreigners, countries such as the United States will move unilaterally to assert political and economic pressure on those nations where their citizen's rights appear to be abused. An example of this is the present proposed U.S. legislation which seeks to authorize the President to take certain measures against countries that engage in unreasonable practices, including the

denial of protection of intellectual property rights. Furthermore, the United States International Trade Commission has recently initiated a fact finding study of the effects of commercial counterfeiting on U.S. industry (Investigation No. 332-158). The result of this study may be the recommendation of legislation to specifically counteract the increasing tide of counterfeit products into the United States from several of the countries in Southeast Asia. It is possible also that the wanton disregard for intellectual property rights of foreign citizens of the United States may cause the United States to reconsider the general system of preferences, with the possible result of the suspension of importation benefits for countries that systematically disregard the intellectual property rights of U.S. citizens.

These are drastic measures which have severe economic and political consequences and are generally less desirable than having a uniform application of industrial property rights throughout the world.

In many cases, illegal conduct of particular individuals or firms engaged in the business of counterfeiting are known by government officials through complaints of foreign companies or through the court system. It would be extremely helpful if there were national laws which would prevent offenders who are now engaging in or have been, convicted of counterfeiting trademarks or products, from obtaining valid export licenses for the further

exportation of counterfeit goods. In addition, adequate police authority should be given for investigation and seizure of goods under national laws to prevent the continuing infringement of intellectual property rights and for the seizure and destruction of infringing goods so as to make the price of conducting such unlawful activities high enough to discourage continued action.

If there is a continued encouragement of the counterfeiting conducted by companies that do not stand behind their product, there will be created a lack of confidence in the integrity and quality of any product originating from the source countries. This effect could spill over to other industries and have a disastrous effect on the exportation of legitimate goods manufactured in those countries, either under license or through independent development. It is not in the interest of any developing country to instill in the mind of the consumer an image of shoddy knock-offs as a representation of the quality of its national industry.

We as members of industrial property organizations, and practicing attorneys in the field of industrial property should do everything within our power to communicate the concerns of the owners of intellectual property rights and foster the respect and equal protection under national laws for the owners of such rights.

An example of the kinds of activities which we ought to be encouraging, and where possible, become directly involved in, is

the recent visit by a government-industry delegation from the United States, with their counterparts, in Taiwan and South Korea. Through the meetings conducted by this delegation, representatives from industry associations and government were able to frankly discuss some of the major issues which confront their respective countries, and suggest measures which might be taken by their governments to correct abuses of the rights of United States citizens. As a result, both the Taiwanese and South Korean governments indicated that they would begin to take some measures to study the problem and find appropriate solutions. Through such a continuing dialogue, I believe that we can convince governments in Southeast Asia and other parts of the world that it is in their own self interest to join international treaties dealing with the protection of intellectual property rights and to pass national laws that provide adequate protection for the intellectual creativity embodied in technology, writings and industrial products.

In the arena of microcomputer technology, which promises to be one of the most dramatic growth industries of the 80's, now is the time to promote the protection of intellectual property which would encourage development and investment within these countries. Through mutual respect of each others rights, cooperation, technological exchange and industrial development can flourish.

# MEASURES FOR PREVENTION OF INFRINGEMENT OF TRADEMARKS

# IN

# SOUTHEAST ASIAN COUNTRIES

Japanese Group

Committee No. 3

N. Tatsumi Ricoh Ltd.

S. Tokuda IBM Japan Ltd.

S. Yonezawa Hitachi Ltd.

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## II. DETAILS OF MEASURES FOR PREVENTION OF INFRINGEMENT BY COUNTRIES

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## INTRODUCTION

With the increased demand for brand-name goods of advanced countries in overseas markets, various types of counterfeits and wrong acts have invaded the markets of genuine goods in an international scale, and have brought considerable risk to the public.

More than 90% of the counterfeits are said to be produced and sold in Southeast Asian countries, or exported from these areas to overseas markets. If the production of counterfeits in these areas can be prevented, most counterfeits will disappear in the markets.

Technical levels in Southeast Asia, especially in such countries as Taiwan, Korea, Singapore, Hong Kong and Malaysia, have recently been improved with growing connections to subtle wrong acts. Even products in advanced technical fields tend to be imitated. Counterfeiting acts has become more and more difficult to find and identify, and the legal remedies are insufficient due to weak protection system of intellectual properties. Under

such situations, the trademark right has an important role in anti-counterfeiting.

This article is compiled on the basis of "Measures for Prevention of Trademark Infringement in Southeast Asian Countries" published by the Trademark Committee, Japan Patent Association. Part 1 outlines the measures for the prevention of trademark infringement in Southeast Asian countries, and Part 2 describes characteristics of infringement in Taiwan, Korea, Hong Kong, Singapore and Thailand where infringement is frequently found, and the methods of abatement.

# I. OUTLINE OF MEASURES FOR PREVENTION OF INFRINGEMENT

## 1. Present Situations

### (1) Technical Fields of Counterfeits

#### i) Chemicals and pharmaceuticals

Since goods in this field is rarely used by general consumers, and consumer goods such as drugs require governmental approval or permission, little infringement is found. However, counterfeiting drugs in package designs and trademarks are occasionally found in the market.

#### ii) Fabric goods

In this field, the brands of well-known Japanese manufacturers were found to have been attached to materials, which are supplied to processing industry, and counterfeits are difficult to find.

iii) Electric and mechanical equipment, motor vehicles

Counterfeiting in these fields is most frequently found, amounting to about 90% of total infringements. Some examples are as follows:

° In motor vehicles, fenders, bumpers, oil filters, rearview mirrors, gaskets or other repair parts are frequently counterfeited together with their packages.

° In household electric appliances, for those which can be manufactured relatively easily such as radios and electric fans, final goods are counterfeited, and for those requiring high technology such as tape recorders and VTRs, accessories such as recording tapes are counterfeited.

° In mechanical equipment, watch dials, cameras and their parts are counterfeited.

iv) Sundries, groceries

The counterfeits of stationery such as staplers, musical instruments and sporting goods are reported.

(2) Manner of Counterfeiting

i) Dead copies (use of the same trademark in the same product)

The package as well as the good itself is exactly same as the genuine goods. Some counterfeits are so exquisite that they cannot be distinguished from genuine goods from appearance without conducting mass examination or performance tests.

ii) Counterfeit packages (package simulation)

Only packages are counterfeited and bad goods or regenerated goods are used.

iii) A partial modification to trademark (use of the similar trademark for the same product)

A well-known Japanese trademark a part of which is changed is used. Some uses the same calligraphic style but a different spelling.

iv) Use of trademarks in other goods

Well-known Japanese trademarks are occasionally used for other types of goods. In the past, the brand-name of a leading Japanese electric equipment manufacturer has been used for watches, and that of a camera manufacturer has been used for attaché cases.

v) Use of brands as part of tradename

Well-known Japanese brand-name are used as a part of the tradename of a company to confuse the subjects of marketing.

(3) Survey of Counterfeiting on Japanese Companies

(Questionnaire)

i) Fact of counterfeits

* Figures in ( ) shows the number of counterfeits.

(A) Industrial fields

(Total: 42 cases)

| Electric appliances | Motor vehicle parts | Fabrics | Chemicals, pharmaceuticals | Others |
|---|---|---|---|---|
| (17) 40% | (14) 33% | (5) 12% | (3) 7.5% | (3) 7.5% |

(B) Manner of counterfeit trademarks

(Total: 42 cases)

| Same as genuine trademark | Similar to genuine trademark |
|---|---|
| (32) 76% | (10) 24% |

ii) Countries where counterfeits were found and produced

(A) Countries where counterfeits were found

(Total: 54 cases over 12 countries)

Philippines

| Taiwan | Thailand | Hong Kong | Singa-pore | Saudi Arabia | Kuwait | Korea | | Malay-sia | Others |
|---|---|---|---|---|---|---|---|---|---|
| | | (6) | (5) | (5) | (5) | (2) | (2) | (2) | (3) |
| (16) 30% | (8) 15% | 11% | 9% | 9% | 4% | 4% | 4% | 4% | 5% |

(B) Countries where counterfeits were produced

(Total: 42 cases over 8 countries)

| Taiwan | Thailand | Japan | Korea | Singa-pore | Hong Kong | Unknown | Others |
|---|---|---|---|---|---|---|---|
| | (5) | (3) | (1) | (1) | | (5) | (2) |
| (19) 45% | (6) 14% | 12% | 7% | 2.5% | 2.5% | 12% | 5% |

iii) Method of counterfeiting

(Total: 58 cases)

| Indication on goods | Indication on packages | Adver-tisement | Pamph-lets |
|---|---|---|---|
| (27) 47% | (23) 39% | (5) 9% | (3) 5% |

## 2. Anti-counterfeiting Actions

(1) Letter of Warning

i) When infringement is relatively slight, a letter of warning requesting the discontinuation of use of the trademark is sent to the other party.

ii) Considering local customs or problems on languages, the letter of warning should be written by the local agent, and sent under the name of the local agent.

iii) As the letter of warning may give the chance to destroy evidence, this should be kept in mind when it is sent.

(2) Warning with Advertisement on Newspapers

i) Advertisements are made on newspapers to warn the manufacturers and dealers of counterfeits, and also to advise general consumers not to purchase the counterfeits. Advertisement is usually made under the name of the agents.

ii) As unclear advertisement may affect the marketing of genuine goods, difference between genuine and counterfeit goods should be described in detail as much as possible.

(3) Negotiation with the Other Party

i) In case the manufacturer of the counterfeits is known, and damage is slight, it is common practice to negotiate with the opposite party before proceeding legal procedures.

ii) In Taiwan, it is said to be effective to go to the manufacturer or dealer of the counterfeits together with the local lawyer (and policemen), capture the counterfeits and negotiate not to manufacture (or deal with) counterfeits.

(4) Abatement of Counterfeits through Civil or Criminal Suit

i) Whether civil or criminal procedure or both are taken is determined according to the conditions of infringement. Since most manufacturers of counterfeits in Southeast Asian countries are petty, indemnity cannot be expected, and the criminal procedures are more effective.

ii) In civil suit, the following items should be claimed:

° Prohibition of infringement
° Demand for indemnity
° Measures for recovery of credits (request an apology in newspapers)

(5) Settlement through Industry Coalition

(6) Legal Actions taken by Japanese Companies against Counterfeiting (Questionnaire)

i) Actions

(Total: 63 cases)

Warning on newspapers ↓ Stopping customs clearance ↓

| Criminal suit | Letter of warning | Neglect | Negotiation | Civil suit | | | Others |
|---|---|---|---|---|---|---|---|
| | | | | (6) | (4) | (3) | (7) |
| (17) 27% | (10) 16% | (9) 14% | (7) 11% | 10% | 6% | 5% | 11% |

ii) Solutions or remedies awarded

(Total: 44 cases)

| Criminal penalty | Discontinuation of infringement | Indemnity | Apology in newspapers | Others |
|---|---|---|---|---|
| (14) 32% | (13) 29% | (7) 16% | (6) 14% | (4) 9% |

iii) Applicable laws

(Total: 50 cases)

| Trademarks Act or Regulations | Prevention of Unfair Competition Act | Criminal Law | Drugs, Cosmetics and Medical Instruments Acts |
|---|---|---|---|
| (29) 58% | (13) 26% | (7) 14% | (1) 2% |

3. Preventive Measure for Counterfeiting

(1) Participation in international anti-counterfeiting coalition:

i) Tougher laws and regulations

ii) Educational compaigns

(2) Registration and Maintenance of Valid Trademarks

i) Trademarks should be registered in as many countries as possible for a wide range of goods.

ii) Proper use of trademarks

Avoidance of cancellation of registration of trademarks not in use: Use of uniform trademarks in all advertisement

(3) Avoidance of Misuse of Trademarks

(4) Establishment of Policy on Intellectual Properties and Announcement to Third Parties

i) Distribution of position letters

ii) Announcement of policy in newspapers

1. TAIWAN

1-1 Features of Infringement

According to survey on the counterfeiting of designs and trademarks conducted by Japan Machinery Design Center in 1980, the number of cases of counterfeiting Japanese goods found throughout the world was 314. Of these, the number found in Taiwan was 75 accounting for 24% of the total. The number of counterfeits of Japanese goods produced throughout the world was 241, of which produced in Taiwan was 178 accounting for 74% of the total.

It should be noted from the above survey that Taiwan is not only the area where the counterfeits of Japanese good are frequently found but also the area where more than 70% of the counterfeits are produced.

According to survey on counterfeiting conducted by the Trademark Comittee also, Taiwan ranked first as the area where counterfeits were found and where they were produced, and the fields of the counterfeits

ranged over almost all industries. The degree of counterfeiting was also diverse, from dead copy to a partial modification to a trademark.

## 1-2 Actual Cases of Counterfeiting

(1) The case where a character in the trademark of a well-known drug was replaced with a homophonic different one.

(2) The case where the packages of motor vehicle parts, hydraulic control valves, etc. were counterfeited.

(3) The case where the dead copies of video tapes, no-fuse circuit breakers, electromagnetic switches, etc. were produced, sold and exported.

(4) The case where the label, design and color of adhesive tapes were counterfeited, and those on which a trademark almost indistinguishable from the genuine one is attached were produced and sold.

## 1-3 Preventive Measures Against Counterfeiting

(1) Establishment of own trademark right

(2) Proper use of trademarks

The licensing of a trademark requires the approval by the Government, and without obtaining such approval, the trademark right may be cancelled (Article 26(1) and Article 31 of the Trademark Law). The licensee of the trademark must indicate the use of such licensed trademark on his goods (Article 26(2) of the Trademark Law). Furthermore, if the licensee's infringement on licensing conditions is tacitly permitted, the trademark right may be cancelled (Article 31(1)W of the Trademark Law).

## 1-4 Detection and Survey of Counterfeiting

(1) In most cases, the fact of counterfeiting is reported by local agents or resident representatives. Information may also be provided by local trademark attorneys or natives.

In Taiwan, some retired policemen are said to carry out market survey, and to offer information on counterfeiting.

(2) As the investigation of counterfeiting should be made confidentially, it may be better to entrust trustable natives.

(3) When counterfeits are found, purchase one or more as evidence and obtain the receipt in order to clarify the place and time of purchase.

(4) If it is unclear whether counterfeits fall under the infringement of the trademark, the use of the affirmation judgement system should be considered (Article 54 of the Trademark Law) It takes about 3 weeks for the conclusion.

1-5 Anti-Counterfeiting Actions

(1) The discontinuation of counterfeiting and the settlement with a time limit sould be demanded with warning to the counterfeiter by a content-certified mail.

If compromise is made in this stage, make the other party report the number of counterfeits produced and sold, stop counterfeiting, collect the counterfeits and deliver them to the trademark owner or dispose them in the presence of the trademark owner.

(2) When required, demand the indemnity, and make the counterfeiter publish an apology in a newspaper.

(3) If the producer of counterfeits is unknown even by investigation, the advertisement of warning in newspapers should be considered in order to check the counterfeiter and to notify to public. The expense for an advertisement is about US$1,500.

(4) Complaint or Denunciation

Although the Taipei District Court decided that foreigners have no right of complaint, complaint by Americans has recently been accepted

through the interpretation of the treaty between the countries.

(5) When drugs are counterfeited, it is effective to request the Government to cancel the manufacturing license.

(6) When counterfeiting is in a large scale, anti-counterfeiting actions through industry coalition should be considered. For Japanese goods, satisfactory results were obtained in the following cases.

1. The case of Japan Automobile Industry Association in 1979

2. The case of Japan Tool Union in 1980.

1-6 The Trademarks Act of January 28, 1983

In the revision of the Act, well-known foreign trademarks are protected in Taiwan even if they are not registered. Namely, the one who uses a trademark

same as or similar to a well-known foreign trademark which has not been registered in Taiwan shall be punished with imprisonment for not more three years or detention and/or a fine not exceeding NT$30,000. In addition, the penalty for trademark infringement has also been strengthened.

## 2. KOREA

### 2-1 Features of Infringement

According to survey on counterfeiting of trademarks by Japan Machinery Design Center mentioned above, the number of counterfeiting cases in Korea is the second to that in Taiwan, and are frequently found in machinery and electrical equipment. The total number of cases of counterfeiting Japanese goods found in Korea between 1967 and 1980 was 209.

All of 8 cases found 1980 were in the fields of machinery and electrical equipment.

According to questionnaire by the Trademarks Committee, the numbers of counterfeits produced in Korea were 2 in electrical equipment and 1 in textile.

### 2-2 Actual Cases of Counterfeiting

(1) The case where electric heating cabinets and electric mixers on which the house mark of a well-known electric manufacturer was attached were manufactured and sold.

(2) The case where polyester fiber was counterfeited in Korea and exported to Middle East.

## 2-3 Effective Preventive Measures Against Counterfeiting

Both above cases were settled through the delivery of letters of warning from local agents, and negotiation with counterfeiters. It seems in Korea that the cases are settled through negotiation after warning, probably because of strong regulations by the Government. It should be noted for the preventive measures against counterfeiting of licensed trademarks that the registration of the right of using the trademarks must be confirmed. If it has not been registered, said trademark right may be cancelled.

## 3. HONG KONG

### 3-1 Features of Counterfeiting

As Hong Kong is a free port, and plays a role of a transit port in the Chinese marchant route, counterfeits produced in other countries are frequently found in Hong Kong. According to answers to the above questionnaire, the number of cases found ranked third after Taiwan and Thailand. The fields of counterfeiting range widely, such as electric appliances, machinery, textile and motor vehicles.

### 3-2 Actual Cases of Counterfeiting

(1) The case where switches on which a trademark same as the well-known one was attached were imported from Taiwan (probably).

(2) The case where automotive parts on which a trademark same as the well-known one was attached imported from Taiwan and sold.

(3) The case where adhesive tapes on which a trademark similar to the well-known one was attached were imported from Malaysia and Taiwan and sold.

(4) The case where watches on which a trademark same as the well-known one was attached were manufactured and exported to the U.S.

3-3 Effective Preventive Measures Against Counterfeiting

(1) When it is considered to relate to public benefits, it can be filed with the Department of Trade, Industry and Customs. The examples of relating to public benefits are the cases where the place of origin is improperly indicated, such that "Made in Japan" is indicated on goods produced in Hong Kong, or where the commercial image of Hong Kong or the benefits of consumers are ill-affected by such a counterfeiting.

For example, when complaint was filed against counterfeits on which a trademark same as the well-known one was attached with the Department of Trade, Industry and Customs, the importer and the dealer who were doubted to have the stock of counterfeits were investigated, and the counterfeits could be seized.

(2) The offerers of information on counterfeiting are invited using advertisement with awards.

## 4. SINGAPORE

### 4-1 Features of Infringement

Because Singapore is a free port mainly supported by transit trade, imitations infringing trademark rights easily appear on the market. In the questionnarie, it takes substantial place as a location where the imitations are found. Also in the data of the Japan Machine Design Center, 11 imitations out of 314 cases found were in Singapore (3.5%).

### 4-2 Actual Cases of Counterfeiting

By the questionnarie, infringement against trademark rights by such imitations was found as printed cotton, micro motors, contact points and plain-paper copiers.

### 4-3 Effective Prevention and Abatement of Infringement

(1) Register trademarks in Section A of Trademark Law. Registration in Great Britain is prerequisite to the registration of trademarks

for textile products. If a license is granted for a trademark, it is required to register it on the original register. Although a well known trademark can be theoretically protected by common law, it is difficult to obtain expected result, because there is difficulty in proving that it is common knowledge, and because, even if it is accepted, there is a jucidial decision to reject the appeal for abatement under such reason why it is not produced and sold in Singapore.

(2) Raise An Advertisement with Awards for An Informer on the Imitation

Infringement becomes difficult because the infringer cannot know who informs him.

(3) Sand A Warning Letter to the Infringer, or Proceed Against Him Criminally with Evidences

Even if it fails to prove the fact of infringement, it serves to prevent recurrence because it shows the interest of the rightful person.

## 5. THAILAND

### 5-1 Features of Infringement

Thailand is next place to Taiwan in South East Asia on discovery and production of imitations. According to the data of the Japan Machine Design Center, the imitations found in Thailand were 10 out of 314 cases (3%), which was seventh in the world. According to the questionnarie, the imitation was predominated by the field of "automobile." Discovery and production were 77% and 66% respectively in entire industries.

### 5-2 Actual Examples of Counterfeiting

(1) Cases where production and sales were conducted for brake shoes, clatches, gaskets and oil filters of automobiles by attaching same trademarks on them.

(2) A case of a vacuum bottle with a similar trademark.

5-3 Prevention and Abatement of Infringement

(1) It is essential to apply and register the trademark. An unregistered trademark may be protected under common law if it is very well-known one. However, it should be noted that it is very difficult to prove that the mark used is well known.

(2) A criminal action may be taken as a means to seize the imitation in a short period, while its assesment is light. The proceeding is commenced by reporting it to the local police. A that case, it is required to obtain sufficient evidence on the infringer and the imitation. It is advised that, the collect such evidence, an expert such as a local patent agent mainly work with asseistance of the local representative.

# COMMENTS ON THE PROPOSAL FOR CONVENTION PRIORITY EXTENSION

Japanese Group, Committee No.3
S. Mayeda, Teijin Ltd.

ABSTRACT

We have carefully studied the "Proposal" for convention priority extension based upon optional early publication advanced by the PIPA American Group at the PIPA Kobe Congress. The "Proposal" is unlikely to be accepted in Japan, because the introduction of new optional early publication system requires a revision of the relevant laws in Japan and also because priority period extension is substantially attainable by the use of the PCT route. In Japan, discussions are now aroused as to the problems awaiting a prompt solution for the benefit of the applicants including law revisions for the introduction of domestic or internal priority and acceleration of the PCT route which is strongly urged by the Japanese Patent Office. Therefore, the "Proposal" which may cause to decrease the use of the PCT will not be supported by the Japanese government and applicants.

We, the PIPA Japanese Group, Committee No.3, have carefully studied the "Proposal" advanced by the PIPA American Group (representative proposer, Mr. Martin Kalikow) at the PIPA Kobe Congress, with the eventual result as mentioned below.

1. Mr. Kalikow proposed to the effect that consideration be given to adding the following paragraph (5) to Article 4C of the Paris Convention:

"Article 4C (5)

If any country of the Union requires publication or provides for optional publication of the complete original patent application of its nationals, and a complete original patent application is so published before the expiration of the 12-month priority period for patents referred to above, the priority period for such published patent application shall be extended from 12 months to 18 months."

Under this proposal, any national patent office could, upon the timely request of any national applicant and upon the payment of an appropriate fee, undertake to publish his complete original patent application before the expiration of the normal 12-month priority period. With respect to any application so published, the priority period would, under this Article 4C (5) be extended to 18 months.

2. As for the Japanese Group, Committee No.3, the proposal which was put forward by Mr. Kalikow is in no way acceptable from the reasons mentioned below.

(1) The establishment of publication on dual system in Japan, with 18-month "ordinary publication" and 12-month "early publication", is not desirable for Japanese corporations in general, because such a publication system inevitably incurs a further complication and more labor in the management of their own patents and in the watching of patents applied by other companies as well. Things differ in Japan from the U.S.A. and the introduction of a system like this into this country requires the revision of the Patent Law which seems rather difficult since such revision increases the complexity of the system contrary to the project of administrative reform now in progress in the country, or a Japanese edition of the Small Government. We see no enough merit in the proposed system to encourage ourselves to adopt such system.

(2) If the proposal aims at the extension of the priority period to 18 months solely for allowing enough time to decide whether the patent is worthy of filing an application with foreign countries, the same effect can be obtained by utilizing the PCT application. More particularly, when the PCT is utilized, the presentation of translated specifications to the designated states can be deferred up to 20 months after the initial patent application is filed in case of the routine procedure and 25 months in case where the request for the international preliminary examination is made.

Therefore, so far as the presentation of translated specifications, which forms a serious item of expenditure in the foreign patent application, is concerned, the utilization of the PCT offers more amply sufficient time. (Incidentally, the reform proposal for extending said period to 30 months in case of the request for the international preliminary examination being made is now under investigation by the WIPO and is expected to be agreed upon by the contracting states in 1984.)

(3) The number of applications for patents and utility models filed by the U.S. nationals with the Japanese Patent Office accompanied by declarations of priority stood at 11,430 in 1980, 12,974 in 1981, and 12,536 in 1982, while the number of applications made by the U.S. nationals under PCT with designated states including Japan was 1,313 in 1980, 1,909 in 1981, and 1,679 in 1982 respectively. These figures show that, of all the applications for Japanese patents filed by the U.S. nationals, 11.5% for 1980, 14.7% for 1981, and 13.4% for 1982 are under PCT and this fact indicates that more than 13% of the whole applications of the U.S. nationals have substantially enjoyed the merit of 20-month priority period under PCT already in the past three years cited above.

(4) It is counted as one of the merits of the proposal that the extension of priority period up to 18 months allows an application to obtain the result of the examination (or search) made by the patent office of this state well in advance of his having to decide whether he should apply for foreign patents or not; however, this can be hardly expected under the present situation of patent examination in Japan which generally extends to about two years and a half in spite of all efforts directed by the Patent Office to the promotion of examination. If we utilize PCT applications, we can obtain an international search report within a period of about 15 months after the priority date and accordingly we are allowed to have a plenty of time to study the patentability before setting ourselves to the task of preparing

translated specifications for the respective designated states.

(5) Some may hold a view that "early publication" is beneficial for applicants since it can be used as prior art against applications for others; however, in European states and Japan, where the first-to-file principle and the whole contents approach (the whole contents described in the specification of a prior application have an effect to abate subsequent applications) are adopted, the "early publication" within 12 months after the date of application brings about no merit to the applicant except for a special case.

(6) Provided that an application filed by a foreigner, of U.S. nationals, for instance, is subjected to "early publication" in English in the U.S.A. within 12 months after the date of application, it does not always follow that Japanese nationals can make effective use of "early publication" materials in English with ease. Also, it will pose a new problem for Japanese to have applications from abroad laid open in the Japanese language about 6 months later than before. (The application in the Japanese language is going to be filed with the Japanese Patent Office 18 months after the priority date, which means 6 months later than the currently provided 12 months, and accordingly it seems that the procedure for laying open the application to public inspection will be delayed as much.)

(7) In discussing the present proposal, it is necessary first to resolve the issue of Hilmer doctrine which is the point in dispute in the light of the Paris Convention. Even if the merit of the present proposal lies in the extension of priority period to 18 months, the merit can not be appreciated in the U.S.A. by foreigners so far as the Hilmer doctrine remains effective.

(8) In Japan, discussions are now aroused as to the problems awaiting a prompt solution for the benefit of the applicants including law revisions for the introduction of domestic or internal priority and acceleration of the PCT route which is strongly urged by the Japanese

Patent Office. Therefore, we are afraid that the proposed optional "early publication" which may cause to decrease the use of the PCT will not be supported by the Japanese government and applicants.

3. The above is the conclusion reached and supported by the PIPA Japanese Group, Committee No.3. Though the present proposal started by Mr. Kalikow has created a vivid interest as one of the counterproposals advanced by the senior nations with regard to the revision of the Paris Convention, it seems to keep the possibility of introducing further confusion into the negotiations for the revision of the Paris Convention. We sincerely hope that the PIPA American Group will be very careful about the handling of said proposal.

COMMITTEE NO. 4

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# ON INCOMPLETE USE - DOES EXHIBIT A WHICH CLEARLY LACKS AT LEAST ONE OF THE ESSENTIAL COMPONENTS OF A CLAIMED PATENTED INVENTION CONSTITUTE INFRINGEMENT OF THE PATENT?

Japanese Group
Committee No. 4
Subcommittee No. 1

K. Okuda,
Ube Industries, Ltd.
N. Kyomoto,
NEC Corporation
H. Koide,
Ricoh Company, Ltd.
T. Nakamura,
Shin-Etsu Chemical Co., Ltd.
H. Yamamoto,
TOSHIBA CORPORATION
Speaker: S. Yanagihara,
Fujikura Ltd.

## Abstract

This is a presentation reporting the recent trend of decisions rendered by the Japanese courts regarding the alleged infringement by an invention which clearly lacks at least one of the elements of a prior patent claim (so called incomplete use). It is generally difficult in Japan to apply the Doctrine of Equivalents to such alleged infringement by an imitation of the prior patented invention. However, about 15 years ago a decision held that such imitation infringed the patent right of a third party in that it met certain requirements because the imitation constituted incomplete use of the prior patent. In many infringement litigations in the following years, plaintiffs relied on the intent of this decision or the concept of incomplete use, but such allegations were rejected by the courts. Therefore, it is absolutely necessary that the claims recite only the elements which are essential to the invention in order to prevent theft (in an incomplete form) of the patented invention. The plaintiff's assertion that the element was originally arbitrary and not essential to the patent invention is rarely allowed in patent infringement litigation once the nonessential element has been recited in the claims.

## 1. Introduction

One of the modes of patent infringement is a concept of invention use. Among various definitions of invention use, the most widely prevalent theory is "the invention use must be such which contains all the features recited in the claim

of a prior patent, and which fully utilizes the features thereof."[1] In other words, if an accused device or process contains all the elements of the claim of the prior patent, as well as other matters, then this alleged infringing device or process may be said to use the invention of the prior patent. In the case of the alleged infringement as discussed above, infringement is almost invariably admitted.[2] Although we are not well versed in the US patent matters, it is assumed that such thinking is quite similar to the "all the elements rule"[3] of the United States. Contrary to the invention use, there occasionally exists a device or process accused of infringement which lacks an element or a part of an element of the prior patent claim and therefore does not achieve substantially the same result as the prior patent, but which is capable of achieving to a certain degree the object or operational effect encompassed by the claims of the prior patent. Generally, such alleged infringement has been deemed to fall outside the scope of protection afforded by the prior patent since it does not contain all the elements of the prior patent claim.[4] There has not been much discussion made on this point.[5] However, there was rendered a decision about 15 years ago which deemed that the patent right was infringed by the Exhibit A (alleged infringement) which met certain requirements. Such infringement was specifically referred to an infringement by an "incomplete use" or "incomplete embodiment". ("Toy Block of Plastics" case, Osaka District Court Decision of Showa 42 [WA] 3553 rendered in 1968). We have examined this case in further detail, and analyzed and studied many of later decisions where the defendant alleged "incomplete use". We report here the result of our study.

## 2. General Construction of Patent Claim

### (1) Technical Scope of Patented Invention is Determined Based on the Scope of Patent Claim

In determining the scope of right of a patented invention (including utility model registration), it is desirable to specify the scope by some objective means since this would

be free from the subjective opinions of the patentee or a third party. Japanese Patent Law gives the following definition with respect to the technical scope of a patented invention.

> [Technical Scope of Patented Invention]
> Article 70. The technical scope of a patented invention shall be determined on the basis of the description in the scope of the demand for patent in the specification attached to the application document.

The terminology "scope of demand for patent" is the same as that of the claim, and "the scope of demand" may be called the sole determinant for the technical scope of the invention.

Article 70 stipulates in sum that one should not deviate from the description of the patent claim, should not include any matters which are not described in the claim in determining the technical scope of patented invention, but should base one's judgement on the description of the claim alone.(6) The only exception is that when the language of the claim alone is not objectively and unilaterally clear from the patent. In such a case, the claim is judged based on the description in the patent text(7) as well as by a study of all the relevant patent documents and the state of the prior art.(8)

The scope of protection for the patented invention is also recognized to go beyond the literal interpretation of the claim language and covers a reasonable range of equivalents. In other words, the doctrine of equivalents is also recognized in Japan.(9)

(2) Every Element Recited in the Claim is an Indispensable Matter

Relevant to Article 70, the Patent Law states in Article 36, Paragraph 5 that in the scope of demand for patent "..... only the matter indispensable to the construction of the invention described in the detailed explanation of the

invention shall be stated." This provision stipulates that all the indispensable features of the invention must be recited in the claim, and further specifies that it is necessary to delineate all the essential elements of the patent, thereby to define the protective scope of the patented invention.(10) Thus, a patentee is not allowed to assert that the element recited in the claim is a matter dispensable to the patent or is an additional matter. Instead, the patentee must always assert that the element is indispensable for the patent.(11)

(3) Is There an Instance Where the Exhibit A Which Clearly Lacks an Element of the Claim in the Prior Patent Falls within the Scope of an Equivalent to the Prior Patent?

Such an alleged infringement is governed by a technical thought different from the prior patent, and does not constitute an infringement unless there is a special reason. Even if the element thus lacking is an incidental matter, the above statement holds.(12) The patented invention comprises an organic combination of a plurality of technical elements. The patented invention covers this organic combination in its entirety and gives protection to it.(13)

Supposing several of the elements in the patent claim were to be taken out and incorporated in an application for a patent, and this application was patentable, this first patented invention would be supported by the first claim. What is called Elementenschutz or partial protection in West Germany is not recognized in Japan.(14)

We already discussed that the Doctrine of Equivalents is accepted in Japan as in the United States. However, this scope of equivalents is said to be extremely narrow because of the conservative attitude of the legal society.(15) An exhibit A of the defendant becomes an equivalent invention of the prior patent mainly when (i) the exhibit A is embodied in a mode where at least one element of the prior

patent's claim may be substituted with another technical element having a substantially the same effect to this element, or when (ii) the exhibit A is embodied in a mode where several elements of the prior patent claim are replaced, reversed, unified or sectioned.(16) Therefore, it is extremely difficult to apply the doctrine of equivalents to the above mentioned exhibit A, or the exhibit which clearly lacks one of the elements of the prior patent claim; this is clearly true without reviewing the other requirements of the doctrine of equivalents.

(4) Designing Around to Obtain a Holding of Incomplete Use

This concerns a case where a third party, well versed in the relevant technical field, reads the patent specification of the other party which has been laid open. The third party then designs the invention by embodying it in a device which lacks an insignificant or incidental element among those of the prior patent claim with a view to avoid infringing the prior patent. This device may happen to be capable of substantially or completely achieving the result of the patented invention. That is to say, the patented invention created by an inventor is easily modified by a third party who manufactures imitations in an incomplete mode. Generally speaking, it is difficult to apply the Doctrine of Equivalents to thus manufactured products and therefore the patent is not infringed. However, it is debatable as to whether such practice conflicts with the Principle of Faithfulness as stipulated by Article 1 of the Japanese Civil Code. There are several contradicting opinions concerning this matter.

(5) Opinions on the Above Matter

(I) That the infringement is not constituted:

(a) Under the Japanese Patent Law, the scope of patent claim must recite only the matters indispensable to the construction of the invention, or only the indispensable constituent features of the invention. (Art. 36, Para. 5), and the technical scope of the patent invention is to be determined based on this recital (Art. 70).

Therefore, the absence of even one element and its equivalent function of the prior patent claim places the accused device outside the claim coverage.

(b) All the elements of patent claim constitute the metes and bounds by which the scope of the patent is determined. Since the applicant willfully and knowingly set all the elements of the claim, he should not be allowed to allege an arbitrary and selfish extension of his right over the device lacking a constituent element of the invention. This would result in permitting the patentee to have a right wider than the scope of the claim which it was originally allowed. This would not be acceptable and would be an injustice.(17)

(c) If the device or process lacking a constituent element of the claim were to be covered by the claim of the subject patent, then the metes and bounds of this particular claim would not be discernible by third parties. This would be an inconvenience to third parties and would damage their protection afforded by the law.

(II) That the infringement is constituted provided that certain conditions are met:

(a) Exclusion of conspiracy to evade a clear case of infringement by working the invention by "incomplete use" not only meets the intent of the Patent Law, but also would be approved under the "principle of faithfullness" as defined by Article 1 of the Civil Code.(18)

(b) To hold such working of the invention as unacceptable provides justice, so the accused device should be interpreted as falling within the scope of protection under the prior patent.(19) Such interpretation is bound to be permissible in the light of the doctrine of the Patent Law.(20)

(c) Whereas an alleged infringement by a detour invention which uses the same starting and final conditions as the elements of the prior patent claim and adds useless and easily feasible conditions to the intermediate step is basically deemed as falling within the scope of

equivalents of the prior patent, it is unfair for an alleged infringement which eliminates an insignificant condition of the patented invention to cause technical deterioration allowing the devices to be deemed as being outside the scope of the pior patent equivalent.(21),(22)

3. Tendency of Court Decisions

(a) "Toy Block of Plastics" Case - (Osaka District Court Decision of Showa 42 [WA] 3553 rendered in 1968)

The alleged infringement in this case lacking a portion of elements of the prior patent was held by the court as infringing the prior patent under certain conditions. Although the Decision did not use the term "incomplete use", it was a case which affirmed the concept of "incomplete use".(23) This decision spurred various discussions on "incomplete use", and lead to allegations by plaintiffs of the incomplete use in many patent infringement litigations.

Outline of the Case

The plaintiff owned a utility model registration for "Toy Block of Plastics" and was engaged in the manufacture and sale of the toy blocks. At the time the plaintiff filed a UM application for the toy blocks, the plastic toy block shown in Fig. 1 was already known. This known toy block was a small box-shaped piece made of a plastic material, and there were provided in two orderly rows a plurality of short column-like projections (1) on the front face of the piece. On the back of the piece were formed a plurality of concave portions for securely receiving the projections of the other toy block. These concave portions were formed in the following manner. Four corners of the back of the piece were encircled by a wall (2) to thereby form a rectangular and hollow portion, said hollow portion being sectioned in a cross by another wall (3) provided along the center lateral line and a plurality of walls (4) provided in a vertical direction, to form a

plurality of small square chambers (5) aligned in two regular rows. Children play with these toy blocks by piling them high in various shapes. When these plastic toy blocks are injection moulded, the cooling rate at points where one wall provided in lateral direction along the center line crosses the plural walls provided in vertical direction perpendicular thereto is remarkably different from the cooling rate in other area, and there occurred strains inside the piece which lead to disformation. The toy block invented by the plaintiff obviated this defect as shown in Fig. 2 where the portions (6) where the walls crossed each other were eliminated during manufacture.

Fig 1

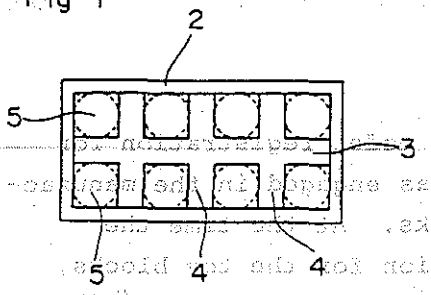



Fig 2

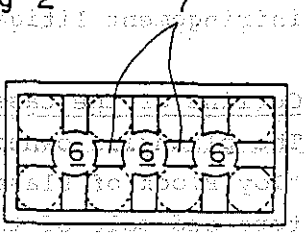



Fig 3

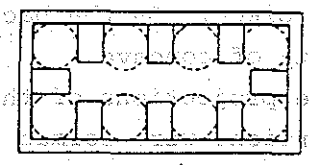
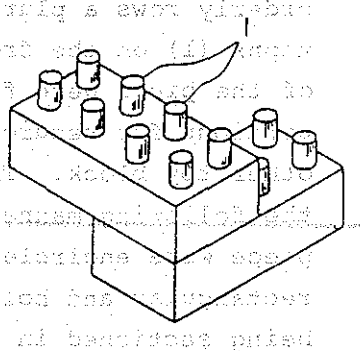


Fig 4



In other words, the toy block of the plaintiff was characterized by the fact that the small chambers in two lateral rows were connected to each other with a small clearance therebetween, while the projections provided on the surface of the other piece were still securely supported by the four walls for engagement with these small chambers. The plaintiff included in the claim the partition walls (7) ~~and (8)~~ located between one pair of small chambers facing each other so as to cause respective projections to be always supported by the four walls. However, the other party's patent for which infringement was alleged disclosed an embodiment where the middle partition wall (~~8~~ 7) was eliminated from the partitioning walls of the respective pair of small chambers facing each other, and where the small chambers in four corners were eliminated as shown in Fig. 3.

Plaintiff's Assertion

The patent for which infringement was alleged contained all the elements of the claim except the "middle partitioning wall". The plaintiff's claim clearly recites "a middle partitioning wall", but this is not an indispensable matter. This "middle partitioning wall" is not necessarily required for achieving the operational effect for this invention.

Decision

".....the presence of the middle partitioning wall enhances the operational effect of causing spherical projections to be securely supported by four faces and to be tightly engaged. Therefore, it is easily understandable that the middle partitioning wall is an indispensable matter in order to engage the toy blocks in arbitrary way.....".

There generally arises no infringement where a product of a third party lacks one of the requirements recited in the scope of claim for utility model registration

so long as the said recital contains only the matters indispensable to the construction of the invention described in the specification even when there are parts common to the features of the third party's product and the utility model claim. This is because the constituent requirements for the utility model claim are integrally combined to represent one definite technical thought, and these constituents are afforded protection as a whole, not as separate and individual elements.

However, if a third party were to manufacture a product which is similar to the patented product by using a technique composed of the constituent requirements of the patent but excluding minor matters, which would accompany no superior operational effect but would merely deteriorate the operational effect of the patent solely in order to evade allegation of the infringement, his manufacture should reasonably be interpreted as infringing the scope of protection afforded to the utility model because this is nothing more than using the patented technology by adding undesirable matters to the constituent elements of the patented invention...

Based on the above fact, the alleged product does infringe the scope of the present utility model even though it lacks one of the elements of the invention.

According to this decision, there are three requirements for constituting an infringement by means of incomplete use.

( i) To eliminate an element which is comparatively insignificant from the constituent elements of a patented invention and has no superior operational effect except to deteriorate the operational effect of the invention.
( ii) To manufacture a product similar to that made by working the patented invention.

(iii) To commit the above deed particularly to evade the liability of infringement.

The above decision mentioned that "the alleged infringement does infringe the protective scope of the invention because it adds undesirable matter to the constituent elements of a prior invention and uses its technology...". This decision presumably applied the theory that the detour invention falls under the scope of the equivalents of the prior patent, and also assumedly did not specify the concept of "the incomplete use". However, the gist of the decision appears to have substantially adopted the theory of "the incomplete use".(24)

Decision in Appeal Court (Osaka High Court Decision Showa 43 [NE] 906 rendered in 1970)
This case was appealed in the High Court and not only was the decision of the lower court upheld, but the concept of "incomplete use" was clearly recognized as is evident from the following statement.

".....so called "incomplete use" of the invention means a deteriorated mode of working an invention to achieve the operational effect of the invention to a certain degree, though incompletely, by using a technique which has eliminated a comparatively insignificant matter from among the constituent elements in order to evade infringement of a third party's right to a utility model registration. Such a deteriorated working is equal to using a technical thought of the invention by adding undesirable matter to the constituting elements of the invention. Therefore, it is understood that such mode of working infringes the protective scope of the utility model in question."

(b) "Handy Hair-Dryer" Case (Tokyo District Court Decision Showa 46 [QA] 6807 rendered in 1973).
This case concerns a dispute over the device allegedly

infringing the plaintiff's utility model registration because the device was equivalent to incomplete use of the utility model registration as it lacked one of the elements of the utility model claim. The court denied the doctrine of incomplete use and infringement.

Plaintiff's Assertion

Although the accused device lacks one of the elements of claim, this eliminated element is of a lesser significance and is incidental, and is therefore not essential. Elimination of this element is no way entails superb operational effects. Therefore, even if the accused device does not contain all the elements of the claim, it fully uses all the other fundamental elements. The device infringes the rights of the present utility model from the point of so-called "incomplete use".

Decision

".....assuming that the said element were indeed an incidental element as alleged by the plaintiff, it remains to be an indispensable matter since it is recited in the claim. Therefore, the accused device lacking that element does not fall under the technical scope of rights of the present utility model..... What the plaintiff means by "incomplete use" is not clear to the court, and the concept of incomplete use cannot be regarded as having been affirmed by courts in this country".

(c) "Photocomposer" Case (Tokyo District Court Decision Showa 46 [WA] 4758 rendered in 1975)

This case did not recognize the plaintiff's allegation of the incomplete use (deteriorated working) because although the allegedly infringing device which was manufactured and sold by the defendant lacked one of the elements recited in the claim, this element was one of the fundamental elements for the patented invention of the plaintiff.

Decision

In the former part of the decision, the judge stated that (i) although the plaintiff alleged that the element (E) was an auxiliary element, the specification did carry the description of the operational effects of the element (E) and on the other hand there was no suggestion therein to indicate that the element (E) was a matter to be excluded when determining the technical scope of the present patented invention; and (ii) the technical thought of the plaintiff's claim from which the element (E) had been excluded was recognized as being known by the prior reference submitted as an Exhibit and therefore the plaintiff's assertion that the element (E) was an auxiliary element was not recognizable. The judge further stated the following in respect of the incomplete use or the deteriorated mode of practicing the invention in the middle part of the decision.

".....The above mentioned element (E) should be considered as being one of the basic requirements for the present patented invention. Therefore, it is not deemed necessary to consider whether or not this accused device lacking this particular element is the deteriorated working of the present patented invention". Thus, the decision suggested that infringement by incomplete use (deteriorated working) holds, provided certain conditions were met.

(d) "Mother's Milk-proof Pad" Case (Nagoya District Court Decision Showa 55 [YO] rendered in 1980)

In addition to elements related to materials, plaintiff's utility model claim recites (1) pre-forming mother's milk-proof pad in a cup shape, and (2) forming in advance a cavity for receiving the nipple in the center of the pad. The alleged infringement used the material equivalent to what was recited in the claim, but lacked the above mentioned elements (1) and (2). In other words, the latter did not fit the curvature of the breasts when not in use because of its disc shape.

The plaintiff cited the decision of "Toy Block of Plastics" mentioned before, and asserted the doctrine of the incomplete use in vain.

Decision

".....however, as mentioned earlier, the elements (1) and (2) are essential and important in the present invention, and the allegedly infringing device clearly does not belong to the technical scope of the present invention. Thus, the plaintiff's theory of incomplete use is mistaken in its premises, and is therefore not to be adopted". This decision does not deny the doctrine of incomplete use, but judges that the Exhibit A does not infringe the patent because it does not meet the requirement of the doctrine of incomplete use.

(e) "Window Frame for Mortaring" (Osaka District Court Decision Showa 52 [WA] 5768 rendered in 1980)

This case concerned a plaintiff's allegation of infringement of his utility model by a third party's product because it was a deteriorated working of the invention incompletely using the invention and therefore fell under the protective scope of the present invention. The plaintiff's assertions were not permitted.

Decision

"Even if we were to approve the concept or doctrine of so-called incomplete use, it is not necessarily clear how it would be applied as related to make plaintiff's attack in relation to how the scope of the utility model registration claim is to be interpreted (Article 26 of the Utility Model Law, Article 70 of the Patent Law). However, we shall review here the presence or absence of the general constituent conditions of the incomplete use as alleged by the plaintiff. The court indicated that even if the doctrine of incomplete use per se were to be recognized, it should not be abused. In all probability, the doctrine of the incomplete use is ready to evaluate an invention

lacking one of the constituent elements of the subject invention (substitution with other incomplete construction instead of elimination is also considered as lacking the requirement) in the same way as the invention satisfying all the constituent elements. This is therefore considered as incorporating the initiative to deny the basic principle related to the technical scope of the patented invention.....

.....In other words, although the eliminated constituent element may not correspond to the central object and operational effect most emphasized in the present invention, it is also true that this element is expected to achieve a considerable effect. This is readable from the specification of the present invention. It is not reasonable to interpret this as being "a constituent element which is not comparatively important", and to disregard the same".

(f) "Folding Door" Case (Osaka District Court Decision Showa 54 [WA] 5030 rendered in 1981)

The case pointed out the difference in construction between the prior patent claim and the alleged infringement, and held that the alleged infringement did not fall within the protective scope of the prior patent, and did not allow the assertion of incomplete use by the plaintiff.

Decision

To recognize the doctrine of the incomplete use under a special requirement or not is subject to discussion. The above doctrine tries to evaluate an invention lacking one part of the constituting element of the subject invention in the same way as where the first invention meets all the constituting elements of the subject invention. This results in denying the basic principle concerning the technical scope of the invention, thus application of this concept should not be abused. Assuming that this theory was acceptable, if the difference between the alleged infringement and the

present patented invention was an essential and indispensable element of the present patent invention and if this difference brought about a significant difference in the objective and operational effect, then there is no room for any holding with respect to incomplete use.

(g) "Compacting Machine" (Tokyo District Court Decision Showa 57 [WA] 1196 rendered on July 22nd, 1983)
The plaintiff's assertion that the allegedly infringing invention was equivalent to the patented invention based on the incomplete use was rejected.

Decision

"The plaintiff who is the inventor of the present invention clearly showed and emphasized that the technical matters recited in the Claim of the present patent were indispensable for constructing the patented invention, that to adopt this construction was the object of the patented invention, and that only by this construction the object of the patented invention could be achieved and the operational effects performed. However, the plaintiff asserts that the defendant's device was equivalent to the patented invention with respect to one of the constituent elements and that elimination of the other elements was a so-called incomplete use. However, the defendant's device lacks either one of the above mentioned constituent elements which the inventor himself demonstrated and emphasized as an essential constituent for achieving the desired operational effects of the present invention, and such a difference in the construction clearly causes the difference in the operational effects thereof. There is no room, therefore, for discussing the equivalency and incomplete use concerning such a device of the defendant".

Having discussed several decisions, we may summarize our point that it is extremely difficult to have the court

recognize that one of the elements recited in the plaintiff's claim is dispensable in the invention in infringement litigation.

## 4. Conclusion

So far as recent Japanese court decisions demonstrate, the concept of incomplete use cannot be recognized as being firmly accepted in Japanese practice. Therefore, minute care should be paid to drafting the claims in filing the application in order not to recite arbitrary and incidental matters.

In most of cases, the patentees who have described elements which are considered as arbitrary and incidental in subjective terms at the time of filing the application, are not allowed to assert, after the patent issues, that this element is after all not essential.

However, the doctrine of the incomplete use per se is not necessarily denied in many of the decisions. There are also many jurists and lawyers who assert that the above mentioned alleged infringement falls within the scope of equivalents from the point of social justice or equity.

Notes

(1) Osaka District Court Decision Showa 35 (YO) 493 dated May 4, 1961

(2) Osaka District Court Decision Showa 37 (WA) 310 of 1967
Osaka High Court Decision Showa 45 (NE) 140 of 1973
Tokyo High Court Decision Showa 47 (NE) 830 of 1973
Tokyo District Court Decision Showa 50 (WA) 3687 of 1980

(3) Chisum, "Patents" vol. 4, Chapter 18, pp. 31 - 32.1

(4) Tokyo District Court Decision Showa 37 (WA) 3657 of 1964
Tokyo High Court Decision Showa 35 (GYO-NA) 27 of 1962
Tokyo High Court Decision Showa 38 (GYO-NA) 2 of 1965
Osaka High Court Decision Showa 44 (LA) 342 of 1972

(5) Takii, T., Tokkyo Kanri, Vol. 26, No. 9, p. 943

(6) Osaka District Court Decision dated May 4th, 1961
Tokyo High Court Decision Showa 41 (GYO-KE) 62 dated April 15, 1970

(7) Tokyo High Court Decision dated September 27, 1979

(8) Supreme Court Decision dated December 7, 1962

(9) Umase, F., Tokkyo Kanri, Vol. 33, No. 2, p. 133

(10) Yoshifuji, K., & Monya, N., Legal Counselling on Patent, Design and Trademark Matters, p. 371

(11) Tokyo High Court Decision Showa 50 (NE) 309 dated June 17, 1976
Tokyo District Court Decision Showa 50 (WA) 3731 dated April 27, 1977
Tokyo District Court Decision Showa 50 (WA) 10500 dated November 30, 1977

(12) Umase, F., Tokkyo Kanri, Vol. 25, No. 9, p. 925
Tokyo District Court Decision Showa 46 (WA) 6807 dated May 30, 1973

(13) Umase, F., Tokkyo Kanri, Vol. 25, No. 9, p. 924

(14) Yoshifuji, K., Tokkyo Kanri, Vol. 26, No. 9, p. 908
Umase, F., Tokkyo Kanri, Vol. 25, No. 9, p. 924

(15) Umase, F., Tokkyo Kanri, Vol. 33, No. 2, p. 135

(16) Umase, F., Tokkyo Kanri, Vol. 33, No. 2, p. 136

Tokyo High Court Decision Showa 54 (NE) 867 dated October 20, 1981.

(17) Takii, T., Tokkyo Kanri, Vol. 26, No. 9, p. 943

(18) Tomioka, K., Records of Counselling on Practical Matters of Industrial Property Rights, p. 249.23

(19) Nakayama, N., Basics of Industrial Property Laws, p. 161

(20) Hariyama, Y., Patent, Vol. 75, No. 12, p.71

(21) Yoshifuji, K., Tokkyo Kanri, Vol. 26, No. 9, p. 909

(22) Takii, T., Tokkyo Kanri, Vol. 26, No. 9, p. 943

(23) Nakayama, N., Basics of Industrial Property Laws, p. 159

(24) Tomioka, K., Records of Counselling on Practical Matters of Industrial Property Rights, p. 249.14

# Provision of Presumption on Manufacturing Process

Japanese Group, Committee No. 4
Subcommittee No. 2

Hiroatsu Kaneko, Teijin Ltd. (Chairman)
Akira Yoneyama, Toray Industries, Inc.
Kenzo Hayashi, Kanebo, Ltd.
Shin Ando, Kyowa Hakko Kogyo Co., Ltd.
Masao Shimokoshi, Ajinomoto Co., Inc. (Speaker)

Abstract:

Although chemical substances were not patentable up until 1975 in Japan, a manufacturing process of a novel product was patentable and had been protected with the effect substantially similar to that of a product patent. The protection, consequently, greatly contributed to the importation of technical know-how from overseas countries which founded the basis for high-rate economic growth and to the development of domestic industries.

When the Patent Law was amended in 1975, a few issues concerning the process patent remained unsolved in parallel with the introduction of the product patent. Those issues are:

(1) Article 104 should be treated as the provision for court procedures, and questions remain if it should be treated or interpreted as to circumscribe the effect of the patent right.

(2) As Article 104 interprets Novelty as what is not publicly known in Japan on "the first filing date", a plural number of process patents may be issued for a single product and can be the object of the application of Article 104. Is it not about the time to correct such over-protective provision?

(3) In the provision of overriding presumption, the provision presuming the fact (the manufacturing process) and the matter which should be judged by the jurisdiction such as infringement of a right are mixed in competition. It would be necessary to separate and review the issues to burden of proof and equity.

This paper reports the current trends in academic and judicial society on the above mentioned issues.

## Provision of Presumption on Manufacturing Process

### 1. Introduction:

Japanese Patent System was partially amended in 1976[1] to newly grant patents to inventions of chemical substances, foods and medicines. Although this amendment of the Patent Law considerably reduced the significance of the presumption provision for the manufacturing process of a novel matter, the process patents which were filed in the time when the product patent was not recognized will not expire before 1995 and will be governed together with subsequent applications by the presumption provision for manufacturing process. The patents to which this presumption provision intends are not limited to those for novel chemical substances but conveniently to general novel "matters" and novelty is judged territorially "inside Japan". In this context, the presumption provision existing in parallel with and under the product patent system is of a great significance.

The presumption provision for manufacturing process may appear somewhat strange from the view point

of the current US Patent practice under which the effect of a process patent does not extend to "a product which is manufactured by said process". There are undeniably opinions which advocate for the revision of US Patent Law in order to expand the effect of the process patent. The recent administrative guideline of the International Trade Commission goes in the direction that imported goods should be cleared of infringement on any of the US process patents(2).

This paper will discuss the modes of protection by the process patents. The authors hope it will be interesting and useful to the patentees of Japanese patents who are interested in infringement litigations as well as those who take interest in the revision of US Patent Law on the process patent.

Note: Differences in court procedures between Japan and US

Upon application of the presumption provision of manufacturing process, proceedings would be conducted duly and expedited if the defendant (the party who is accused of an infringement will be referred to as a defendant hereinafter) discloses their manufacturing process. In US court procedures, the defendant has an obligation even in a general court to disclose the manufacturing process under the discovery remedy* and

therefore there always is a way to specify the process of the defendant in the court. As both the defendant and the plaintiff have obligation of faithfulness in the court, shouldn't the defendant voluntarily disclose his process? In Japanese court, however, there is no such provision as "in camara" and problems will arise if one were asked to disclose secret know-how in the open chamber. Other problems may arise in the course of evidence examination as a defendant without a burden of proof might refuse to disclose the process on the ground of Article 281 of the Code of Civil Procedures and perpetuation of evidences is not enforcible.

2. Outline of the Presumption Provision on Manufacturing Process:

2.1 Article 104 of Patent Law reads:(3)

In a case of patent for an invention of a process of manufacturing a product ①, where such a product ① was not publicly known ② in Japan ③ prior to the filing ④ of the patent application concerned, any identical product ⑤ shall be presumed to have been manufactured by the process ⑥.

[Note]

① the term product as used herein can be interpreted to include matters other than chemical substances. There is a precedence [Decision

by Osaka District Court dated April 11, 1975. Case No. 47-(WA)-1135. Demand dismissed] wherein an infringement was claimed on a "synthetic pressure-resistant hose" on the ground of this article.

② The phrase, "not publicly known", could be read as including the case where the object of the infringement is not publicly known even if a portion of the product is known(17).

While in the case of an invention of a [thing], the most prior application alone is granted a patent, in the case of a process invention, plural applications might be granted patents by the time the substance per se becomes publicly known. Therefore, there may be plural number of patents for an identical substance to which this article may become applicable. From this point of view, even under the chemical product patent system, the raison d'etré of this article is still profound.

③ This provision is interpreted to be applicable to the product which is publicly known outside Japan. Although Article 29 of the Patent Law may be a bar to patenting a thing which has been disclosed in references, it should be noted that Article 104 is applicable to a

product which has been known and used abroad.

④ "Prior to the filing of an application" could read that prior to the first filing date if it claims priority under Convention[4]. But there exist some criticisms about this interpretation.[11] [13]

⑤ "Identical product" should read that the object of the patented process coincides with the object of the infringement. For instance, a slight difference in melting points is judged identical[5], but two substances with a difference exceeding 100°C are judged different[12], even if the infrared absorption spectrum is similar to each other.

In the case of Vitamin B6-disulfite, its hydrochloride and hydrate were judged identical. [This is adopted in the Current Examination Standard]. When the category of equivalence is brought in, applicability of this provision might be subject of dispute[6].

⑥ "The process" means the process described in the Scope of the Patent Claim and unless the presumption is defeated, it is judged as infringement.

## 2.2 Intent of Article 104

Presumption of the manufacturing process was

provided in 1909 Patent Law[7], but its intent is not quite clear. The Patent Law was influenced by the 1891 German Patent Law and its presumption rule for a novel matter was probably introduced. As a chemical substance was patentable under the 1909 Patent Law, the provision did not intend to heavily protect the process patent in lieu of the product patent.

The 1921 Patent Law[8] continued the Meiji Law as it was. By 1950s, it was realized that this provision provided an extremely useful means of attack for a patentee in the patent infringement litigation. Although the 1959 law revised wordings of the provision, it merely clarified the intent of the old one and did not change it's substance.

With the introduction of product patents in 1976, it was said that the significance of this provision had somehow been diluted. But we believe this provision is still significant and should be left in existence along with the product patent system. We should not forget that the manufacturing process presumption rule for a novel matter will continue to function as it has been even along with the patent of a novel thing.

There are three theories for the enactment grounds.[9] [10]

( i) As a remedy for the difficulties in proving a process patent procedure. Some interpret that

this switching of the burden of proof has contributed to expedite and optimize court procedures[11].

(ii) The theory that since only one manufacturing process is known for a novel thing, the probability that the process of the allegedly infringing party (or the defendant) is identical to the patented process runs high[12].

(iii) The theory that the invention of a novel thing is favored, and consequent denial of the product patent is compensated by this favorable court procedures.

To be precise, all of the three theories mentioned above are problematic. Therefore, the intent of enactment should be considered the complex concept of these three theories.

2.3 Effect of Article 104

The presumption provision of 1891 German Law is said to have been enacted to allow German patentees to exclude imported goods (mainly dyestuff, etc.) which flowed into the country from surrounding nations, and the provision functioned as a protecting policy for the domestic industry. Contrary to Germany, almost all of the Japanese patentees in the former years were foreigners, and manufacturers and importers in Japan were often held as the defendant. Although it has the same content as

its German counterpart, the Japanese provision seldom functioned as a protection for the Japanese because of the different technical background. Instead it promoted the introduction of technical know-how from overseas. It should be noted that the examination standard for the process patent for a novel substance was less strict than that for the process patent for a known substance. This is evident from the fact that many of the process patent were granted as the invention of a chemically analogous method so far as the utility (or novelty) existed in the aimed product. This is one of the reasons why Japan has become such a lucrative technical market for licensers.

3. Discussion on Problematic Issues:

3.1 Effect of Process Patent

Article 2, Paragraph 3, Item 3 of the Japanese Patent Law provides that "working" of an invention means "in the case of an invention of a manufacturing process of a product, acts of using, assigning, leasing, displaying for the purpose of assignment or lease, or importing the product manufactured by the process in addition to the acts mentioned in the preceding paragraph [meaning the acts of using the process]". According to the stipulation in the text, the act of working the product obtained by the patented manufacturing process

constitutes a patent infringement unless the party is duly authorized.

We should note first that the Japanese Patent Law protects not only the manufacturing process but also the product obtained by that process.
In order to have Article 104 of the Patent Law applied, two requisites should be satisfied: that the object of the process patent was a novel thing at the time of filing and that the thing which the defendant deals with is identical to the object. If these two conditions are met, the presumption provision becomes operative. Unless the defendant can prove that he uses an entirely different manufacturing process for this product although the object is identical to his product, and that his manufacturing process does not belong to the technical scope of the patented process, his act will be found as infringing the plaintiff's patent. In the case of chlortetracycline [Tokyo District Court Decision dated September 9, 1955; Case No. Sho 29-(YO)-9026, Case of Application for an Injunction], the court granted an injunction because the defendant** could not prove the difference between the strain used by the defendant and the strain disclosed in the patented process. Proving identity of asexually reproduced things like strains are said to be difficult. In such a case, passing the burden of proof from one party to the other plays a

a decisive role in the court proceedings.

During the time when Japan boasted a high economic growth, it enthusiastically imported technical know-how from industrialized countries in the cause of founding the nation on technology. At that time, the provision provided a very strong ground for exercise of "the patent right of manufacturing chemical substances" by the peoples of the industrialized countries. It was used to earn the position in lieu of the product patent system which was denied in Japan because of the considerations under the industrial policy. As a matter of fact, this provision was sought to play such a role. In this context, the provision which was essentially a rule merely for court procedures has actually been operated as if it was a rule having the substantial effect of patent right because of superior technical know-how of the plaintiff in overseas countries and the industrial demands (or the intent of Japanese industries wanting to exclusively work the technical know-how imported from abroad).

Under the product patent system, provision of Article 104 should be interpreted as a mere court procedure. Positions of the plaitiff such as a patentee and of the defendant should be treated equal and fair, and a patentee of a process patent for a novel thing should be judged taking into considerations the situation

under which he did not acquire a patent for "the novel thing". Therefore, if the defendant disclosed the whole or a part of his process, and if the disclosed process was bona fide and specific but different from the patented process, the provision of Article 104 should be interpreted as not applicable any more.

3.2 Problem of Patent Invention with Priority Claim

Article 104 of the Patent Law provides criteria territory-wise as well as time-wise for judging the novelty of a product as a prerequisite for application of this provision. There is no ambivalence involved in the territory which is provided as inside Japan. But when an application is filed for "a product which was not publicly known in Japan prior to the filing of the patent application", and claims priority under the Paris Convention, it is not quite clear whether the time criterion of the application should be placed on the filing date in the first country or the actual date of filing in Japan, thereby permitting two interpretations.

Both court precedents and prevailing opinion hold that it should not be known publicly inside Japan at the time of filing in the first country. In the case of tetracycline[14], the debtor alleged the following regarding application of this Article but the court did not recognize his allegation:

(a) The fact was that on the date of US filing on which the priority claim was based (September 25, 1953, and October 15 of the same year), tetracyline was already known publicly in USA(15).

(b) The invention in question could not have been granted a patent even if Japan had adopted the system of a product patent(16).**

In the judgement, the court held that whether it was publicly known in other countries or not was irrelevant to this provision and cited Article 4, Paragraph B of the Paris Convention which read "....any subsequent filing in any of the other countries of the Union before the expiration of the periods referred to above shall not be invalidated by reason of any acts accomplished in the interval, in particular, another filing, the publication or exploitation of the invention,---------- and such acts cannot give rise to any third-party right or any right of personal possession". The court recognized, therefore, that the novelty of a patent invention with priority claim should be judged by the time point of filing in the first country. The court judged on (b) that it could not be interpreted to be applicable to the most prior application alone. The judgement followed the precedent of Vitamin B6 disulfite case which became the leading case.

In reviewing the judgement of the court, we

believe that the provision in question is relevant to the court procedures and the court proceedings are the most typical of lex fori. On the other hand, Article 4, Paragraph A explicitly provides that "any person who has duly filed an application for a patent..... shall enjoy for the purpose of filing in the other countries". The effective scope of the priority right is limited to the filing procedures. Accordingly, the provision of Article 104 is irrelevant to the provision of the Convention. The popular view which contends that the phrase "for the purpose of filing in the other countries" (Article 4, Paragraph B of the Convention) is not limited to the filing procedures but extends to the effect of patent right merely because Article 4 provides that such an act cannot give rise to any third-party right.....or any right to prior use" is misleading. Such a view is defective because it misinterprets Article 104 as providing the effect of a patent right.

The Convention offers protection to a patent applicant between the time of filing in the first country and that in the second country in order to prevent the third party from obtaining any kind of right, and there exists no concept under Article 104 which falls under the act of a third party or the right accruing therefrom.

It can therefore be said that the court precedent and the popular view which contend that "prior to filing" as mentioned in Article 104 should read as prior to filing in the first country is questionable(11).

Interpretation that the intent of Article 104 has a substitutional function for the system which does not recognize a chemical substance patent is not applicable as far as the tetracycline case is concerned. It should be discussed anew whether it is fair or not to pass the burden of proof on the defendant (debtor) even in this type of case.

Today where patent information activities become so international and patent applications are filed in so wide and diversive territories, it may be reasonable to deem the filing date as the filing date in the first country so far as it claims the priority right. However, the territorial limitation imposed on the judgement of novelty (limited to inside Japan) is highly improper. It should be judged by the criteria of the public knowledge and public use in the world. If the reform of the provision is not to be expected, then "the filing date" should be interpreted as "the date on which the application form and specification were filed" inside Japan at least for the case like the tetracycline case. Such discretion of the court would not betray the general public.

### 3.3 Question Concerning Overturning of Presumption Provision

In general court procedures, the plaintiff (patentee, licensee) bears the burden of proof in alleging patent infringement[9]. Therefore, the plaintiff must assert that;

(a) the plaintiff owns the patent right A;

(b) the defendant executes the process X;

(c) the process X belongs to the technical scope of the patent A; and therefore

(d) the defendant infringes the patent A; and

prove (a) - (c).

However, if Article 104 is applied to the case, the presumption provision becomes operative, and the plaintiff may in lieu of the proof (b) prove that;

(i) the object of the patent A was novel at the time of filing, and

(ii) the defendant manufactures, sells and uses things which are identical to the object mentioned above.

According to the prevailing opinions and court precedents, if this provision is applied, the defendant should; (1) disclose the manufacturing process of the object, and (2) prove that thus specified manufacturing process of the defendant does not belong to the technical scope of the patent A[14].

But in the case of Dipyridamole[17] the court

of the first instance held a new view: "The matter of which manufacturing process the other party is actually executing essentially belongs to the realm governed by the other party and is of the character which cannot be recognized from outside. As it is always considerably difficult for the patentee to allege and prove such, the process patent comes to exist only in name and not in deed. This provision intends to maintain the fair balance in the proceedings by placing the burden of disclosing the manufacturing process on the side of the opposite party (unless such an obligation is fulfilled, he will lose the case) if there exist facts prescribed as prerequisites by Article 104. The intent of the provision is nothing more nor less than that. In order to overturn the presumption mentioned above, if the opposite party must bear the burden not only of disclosing the manufacturing process but also of proving to such an extent that his manufacturing process does not belong to the technical scope of the patented invention, and particulary that his process is not equivalent to the patented process, the burden placed on the opposite party becomes unduly heavier than in other proceedings, disturbing the equity between parties". But this new findings of the first instance was overturned by the appeal court and the court decision was revised to follow the precedent cases. [Tokyo High Court Decision dated

June 30, 1982, Case No. Sho 54-(NE)-825]

There are no disputes over the interpretation that the article provides presumption of facts. On the premise that the burden of disclosing the process rests with the defendant, contradicting views exist about what is presumed by this provision.

The first view argues that the defendant is presumed not only to have disclosed his process, but also that his process belonged to the technical scope of the patented invention of the plaintiff. From this point of view, the defendant must also allege that his process does not belong to the patented process. (So-called two-stage overturning theory, or non-infringement counter-argument theory, the theory of majority).

The second view contends that if the defendant's process is concretely disclosed and his process particularly feasible, the provision is no more applicable. Returning to the general principle of distribution of burdens of allegation and proof, the plaintiff must prove that the defendant's process belongs to the technical scope of the patented invention of the plaintiff. (One-stage overturning theory or non-infringement denial theory, the theory of minority).

In short, the former contends that the presumption of Article 104 is to presume said (b) and (c). In order to eliminate the presumption, the defendant must prove

beyond reasonable doubts that although his product is identical to the object product (in other words, a prerequisite fact exists) there exists no presumed facts. So far as it is presumed that "his product is manufactured by the patented process", the defendant must prove that the product is actually manufactured by a process other than the patented process and this other process does not infringe the patented right. The court precedent follows this prevailing theory.

As seen in the judgement of the first instance on Dipryridamole case, the latter theory is fairly convincing when viewed from the point of equity in the court procedures and based upon the opinion that whether the defendant's process belongs to the patented invention or not should be judged by the discretion of the court rather than presumed according to Article 104 (accordingly, the matters of technical scope, equivalent process, detour process are irrelevant to Article 104). Sinagawa theory(18) which argues that at least the equivalent process and detour process are irrelevant to this provision may be found reasonable.

If the defendant can prove that his manufacturing process does not clearly belong to the technical scope of the patented invention by disclosing a part of his process, the provision of Article 104 should be interpreted as not being applicable any more. Relevant

precedent is the judgement given to the case of synthetic process of steroids which reads that the process is found directly not belonging to the technical scope because the starting materials and reaction products are different.

Basically, the burden of disclosing the manufacturing process is placed upon the defendant, and the plaintiff may allege and prove, only after the defendant's manufacturing process is specified, that the process of the defendant infringes the patent.

Application of Article 104 is limited to the one identical to the patented process, and since an equivalent process or a detour process is not an identical process even if it falls under the protective scope of the patent and constitutes infringement, it should be interpreted as being outside the presumption provision of Article 104. In the case where the defendant's process is identical to the patented process or not is contested, it may be proper to distribute the obligation of allegation and proof upon the side of the plaintiff that the defendant's manufacturing process indeed belongs to the technical scope of the patented invention.

Following four cases may be assumed:

(A) The case where the defendant does not disclose the manufacturing process of his product or the defendant confessed that the process of the object

product belongs to the technical scope of the patented invention.

(B) The case where the defendant alleges that the manufacturing process disclosed by the defendant does not belong to the technical scope of the patented invention and there are disputes between him and the plaintiff. (This is the case where the process is found substantially identical with the patent process).

(C) The case where the plaintiff is convinced that the process disclosed by the defendant is different from the patented invention, alleges that the defendant's process is either an equivalent or a detour process (or modified in design) (even if it is an equivalent or detour process, it cannot be found identical).

(D) The case where the process disclosed by the defendant is recognized to be different from the patented invention. (The presumption is not applicable).

Among the above four cases, the case (A) is only the instance where Article 104 is unconditionally applicable and the plaintiff does not need to allege or prove. In the case (B) it is the court which should preside over allegation and counter-allegation of the defendant and the plaintiff. Is it not the defendant who bears the final burden of proof?

### 3.4 Specifying the Object of Injunction

There arises an issue of how to specify the demand for injunction under Article 100 of the Patent Law in the case where the defendant fails to overturn the presumption or the defendant could not disclose the manufacturing process (e.g. the object product is an imported good and the manufacturer does not disclose the process).

This issue should be argued from the point of legal interpretation as well as the represented technology which may be executed in practice.

Kosaka[20] argues that in applying for injunction based on the patent right, the concrete mode of infringement by the defendant should be specified. It should be understood that the litigation requesting injunction of such an abstract object as "a product or process which belongs to the scope of patent claims" is not acceptable. The patentee of a process has a specific right of claims to third-party (the infringer) merely within the frame of valid patent right which is recognized by the substantive law. Even if the presumption provision is applicable, the right cannot be permitted to extend to such a limit as to remove the substantial frame imposed on the patent right of a manufacturing process. Therefore, the plaintiff must specify the product process when he applies for injunction. Kosaka further argues that

the presumption provision of Article 104 does not play a decisive role in application for injunction. In sum, according to Kosaka's theory, so far as the injunction of manufacturing process of a thing based on the presumption of Article 104 is not applicable, it would mistake a means for an end if the application for injunction for manufacture, sales and use of the thing produced by the process is permitted.

But his theory still lacks supports by the majority. According to the Patent Law, there is no doubt that injunction can be applied for a thing manufactured by the patented process (Article 2, Paragraph 3, Article 68, and Article 100 of the Law). As Article 104 presumes that the product is manufactured by "the patented process", it also presumes that "the manufacturing process belongs to the technical scope of said patented invention". Therefore, unless the defendant succeeds in counterproving the presumption, the injunction for the defendant's process and for importation, sales, use of the product can naturally be applied. If the application for injunction is found not permissible on the ground that the presumed process is not specified, then, the intent of enacting Article 104 becomes ambiguous. If the application for injunction of the patent right is denied, on the other hand, then the patent system will ultimately be denied. Theoretically, prevailing opinion is that the

application for injunction should be accepted.

In practice, problems lie in specifying the object of application. Whether an object of injunction should be specified by the method or it is sufficiently specified by the thing per se is not unilateraly settled. The problem is acutely felt especially as it includes the issue of how to remedy the production by a different process developed after the final arguments were heard by the court.

The judgement of the court reads that "when a manufacturing process is presumed according to this Article, the injunction of such an act is applied, and the application aims at inhibiting working of the process of the patented invention", difficulties may arise subsequently in execution of the injunction, etc. Therefore, it suffices if the thing per se which is to be manufactured alone is described in the application(4). "In chroltetracycline case which was fought under the Old Law (Taisho Law), the court found that production can be stopped by specifying the process discosed by the debtor while in the case of tetracycline under the current Law, it was found that the importation from overseas company can be stopped by specifying the foreign company (the manufacturer).

Theoretically, the defendant may be redressed by the objection for the application. But as the text of the court judgement should contrive(21) (such as

the specific expression in describing the purpose of the plaintiff's application), especially when the process disclosed by the defendant is disputed or contested, consideration (whether it is executable or not) from practical aspect should be taken.

4. Conclusion:

The paper briefly discussed various issues related to Article 104 of Japanese Patent Law. Contradicting theories exist over this provision. The legal interpretation should be in favor of facilitating the development of Japanese industries, which is the original purpose of the Law.

We should not forget the fact that, from such a point of view, during the time of high economic growth, legal interpretations and precedents of the court which clearly reflected an industrial policy favoring import of technical know-how have heavily accumulated.

However, with the introduction of the system which grants patents on chemical substances, medicines, food etc. in 1976, and as we have attained an international status in technology and the economy in Japan has entered a slower-but-steady growth, it is questionable that maintaining the conventional interpretation of law really contributes to the development of industries or not.

This is the rationale why we should seek a new

**interpretation of the law in the context of the internationalized patent system.**

Methocarbamol Case

Tokyo District Court Case No. Showa 42 [WA] 14112

(Rendered on September 27, 1972)

* The case where the plaintiff's demand was rejected because the defendant's method A of reacting guaiacol glycerin ether [3-(0-methoxy-phenoxy)1,2-propanediol] with carbonic diether esters, further reacting the resultant product with ammonia and then obtaining the aimed substance of methocarbamol (alkoxyphenoxy-2-hydroxy-propylcarbamate) do not fall within the technical scope of the plaintiff's patented method which absolutely requires the use of phosgene instead of carbonic diether ester.

* Views of the Court on Article 104

(1) "Identical Product"

Defendants asserted that their product was not identical to the patented product because of the difference in melting point and therefore the former is not to be presumed as having been manufactured by the present patent method. But unless there are special situations, chemical substances having the same structural formula should be deemed as identical. Just because the melting points are somewhat different, they should not be deemed as being two different

substances. Even in the same substance, the melting point can be different depending on the measurement precision and the purity of substance.

(2) Re "Filing Date"

The court understands the phrase "prior to the filing of the patent application" as used in Article 104 of the Patent Law to mean as prior to the filing of the patent application in the first country on which the priority claim is based, if the Japanese patent application claims the priority under Convention. When Article 4 of the Paris Convention, Articles 26 and 104 of the Patent Law are considered in combination, protection of the patentee who made a process invention for the novel thing becomes short unless the laws are interpreted as above.

(3) Regarding "Burden of Proof of Defendant for Non-infringement"

In case the plaintiff asserts application of Provision of Presumption of Article 104 as its ground for Claim and his assertion is to be allowed, the defendant can as his counter argument (i) disclose the manufacturing method used by him and assert that said method does not fall within the technical scope of the plaintiff's patented invention, and (ii) assert and prove that the defendant owns a patent, etc. and that use of the manufacturing method as disclosed by

the defendant is working such an invention under said right. The plaintiff may assert as their counter-claim against such defendant's assertion that the defendant's right infringes or uses the patent right which the plaintiff filed prior thereto and cannot be worked, etc. (Article 72 of the Patent Law and Article 17 of the Utility Model Law, etc.)

Vitamin B6-disulfide Case

Tokyo District Court Decision No. Showa 45 [WA] 7935

(Rendered on November 26, 1971)

* The case where the plaintiff's demand for injunction etc. of importation, sale and preparing into pharmaceuticals of the defendant's products was permitted because the aimed substance of the plaintiff's patented method of reacting 3,4-bis-bromomethyl-5-hydroxy-6-methylpyridine or its acid addition salt with water soluble inorganic disulfide in the presence of water or organic solvent, and isolating Vitamin B6-disulfite from thus obtained reaction mixture was not publicly known prior to filing of the plaintiff's patent application in the first country, and therefore the defendant's product which is identical to the aimed substance of the plaintiff's patent should be presumed as having been manufactured by the method of plaintiff's patent under Article 104 of the Patent Law.

* View of the Court on Article 104

(1) On "Filing Date"

* What the present Law means by "a thing not publicly known" continues to mean novelty, and so long as it is thus interpreted, judgement of the above mentioned

novelty should naturally have been made by applying the provision of Article 4, Section B of the Paris Treaty, and the time to base such a judgement should be the date of filing in the first country on which the priority claim is based.

* Regarding Article 104 of the Patent Law, if the filing date of such a patent were to be deemed as the date of filing of a patent application in Japan, then this Article would become a rule to reduce the effect of application in the first country based on the fact which occurred after said filing date in the first country on which the priority claim is based, and this will conflict with the provision of the Paris Treaty. Therefore, such an interpretation cannot be adopted.

* Regarding the patent right for which the priority claim is made under Article 4 of the Paris Treaty, it is problematic to interpret the filing date of the patent to which Article 104 of the Patent Law is to be applied as the filing date in this country; it is on the other hand deemed reasonable to consider this date as the filing date in the first country on which the priority claim is based.

(2) Regarding the "Defendants' Burden of Proof of Non-infringement"

The substance described in the attached catalog which the defendants import, sell and use may be presumed as having been manufactured by the method of the plaintiff's patented invention. In the present case where the defendants made no assertion and proof regarding the fact that the above mentioned substance were manufactured by a method other than that of the plaintiff's patented invention, the above mentioned deed of the defendants' should be deemed as infringing the plaintiff's patent right.

(3) Regarding "Specifying the Object of Demand"

If this Article not only demanded the plaintiff to clarify the substance which the defendants' manufacture, etc. in order to specify the defendants' deed, but also required the plaintiff to specify the manufacturing method of the defendant as well, then the significance of existence of this Article which tried to alleviate the burden of proof of the plaintiff will be lost.

In the patent infringement litigation regarding the invention of a method for manufacturing a substance, there is no need to specify the defendants' manufacturing method under Article 104, but the claim may be

made for the matter which the defendants manufacture, etc. as the object of claim.

Tetracycline Case

Case No. Showa 46 [GYOMO] 20184

The case concerns a method of preparing tetracycline by using streptmyces aureofaciens or a strain having the most of its unique properties. The obligee asked for an approval of legal injunction claiming that tetracycline was a novel substance and should not be imported under the provision of Article 104.

The obligor asserted that tetracycline was known prior to the priority date and therefore application of Article 104 should be excluded, and that even if it were not publicly known, there should not be any application of Article 104.

Views of the Court

Presumption of manufacturing method under Article 104 of the Patent Law means that where the case is subject to this Article, the patentee should merely assert and prove the requirements prescribed by said Article; so long as such requirement is satisfied, it should be interpreted that the other party not only should disclose the method they are working but should also assert and prove that their method does not belong to the technical scope of the patent right being asserted of infringement. Provided, however, if the language of

the Law reads "to presume" as in Article 104, and unless there is any special situation regarding the Law, it should be interpreted that such an assumption under the Law recognizes the effect provided by the Law once the prerequisite is proven; and the other party should prove that the presumed matter is erroneous. To thus interpret the Law meets the intent of Article 104 which is for protecting the patentee regarding the method of manufacturing a thing. Although the obligor asserts that it is unbearable for the alleged party to have the distribution of the burden of proof under Article 104 of the Patent Law thus interpreted, when we consider that the object thing of the patented invention was not publicly known in Japan, which is the requirement of said Article 104, and that the patentee must bear the burden of proof that the opponent's product is identical to the object matter of the patented right, then we cannot say that the opponent is unilaterally burdened with a heavy responsibility.

Dipyridamole Case

The Tokyo District Court Decision No. Showa 48 [wa] 4882
(Rendered on March 23, 1979)
The Tokyo High Court Decision No. Showa 54 [NE] 825
(Rendered on June 30, 1982)

A case where the defendant's demand was rejected because the defendant's exhibit A method of adding diethanolamine to 2,6-bischrolosulfonyl-4.8-dipyperidino-pyrimido[5.4-d]pyrimidine, which is the starting material, and heating the resultant mixture at 100 - 120°C to obtain dipyridamole(2.6-bisethanolamino-4.8-dipyperidino-pyrimido[5.4-d]pyrimidine), and exhibit B method of heating the reaction mixture which was obtained by reacting at 0 - 5°C with phosphate buffer solution, at 95 - 130°C do not belong to the technical scope of the plaintiff's patented method of obtaining the substance identical to the above two methods by adding a specific substance HR to a specific pyrimido[5.4-d]pyridine derivative, and reacting the resulting mixture at -20 - 250°C, based on the reasons that (the defendant's starting material is not included in that of the plaintiff's, and that sulfonyl base in the defendant's starting material is not necessarily useless in manufacture of dipyridamole).

Views of the District Court

In order to exclude the presumption under the Article 104 of the Patent Law, it is reasonable to understand that it is sufficient for the party being accused of patent infringement to assert and prove their own method of manufacture, and further that it is not necessary for them to assert and prove that their method does not belong to the technical scope of the patented invention, particularly that their method is not equivalent to the patented invention.

In all probability, the intent of this provision is to achieve an equity under the Law, and not more and not less since what manufacturing method the other party is actually working belongs originally to the realm controlled by the other party and not recognizable from outside, thus it is only with the considerable difficulties that the patentee alleges and proves the infringement. The patent right on manufacturing method, therefore, actually becomes nominal if there does exist any premises as prescribed in the said Article, and then the other party is placed with the burden of proof for disclosing the manufacturing method. (Reasons III-3)

View of the High Court

Once the requirement under the provisions of Article 104 of the Patent Law that the object of the

patented method of the appellant be identical to what the appellee is manufacturing and selling, and that the thing was not publicly known in Japan prior to filing of the patent application were asserted and proven, presumption under this Article becomes operative, and in order to overturn this presumption, the party being alleged of patent infringement should disclose the method they were practicing, and assert and prove that their method is different from the patented method and does not infringe the patent right.

Note:

(1) Amendment of 1975

(2) 19 USC 1337 (a): Tarif Act of 1930

(3) Translation of Japanese Laws published by AIPPI

(4) Vitamin $B_6$ - disulfide Case [Tokyo District Court Decision No. Showa 45 (WA) 7935]*

(5) Methocarbamol Case [Tokyo District Court Decision No. Showa 42 (WA) 14112]*

(6) F. Umase, "Patent and Enterprise", Vol. 39, pp. 10 - 14 (1972)

(7) Article 28, paragraph 3

(8) Article 35, paragraph 2

(9) Y. Kubota, "Theses in Honor of Judge Hara on Occasion of His Retirement", pp. 517 - 546 published by Yuhikaku

(10) S. Kosaka, "Memorial Thesis to Dr. Toyosaki", pp. 275 - 306 (1981)

(11) M. Miyake, ibid., pp. 235 - 274 (1981)

(12) Tokyo District Court Decision No. Showa 49 [WA] 5716 [IIC Vol. 9, No. 6, 565 - 569 (1978)]

(13) T. Kishimoto, "Kigyoho Kenkyu" ("Study of Laws on Enterprise"), No. 205, pp. 24 - 27 (1972)

(14) Tetracycline Case [Tokyo District Court Decision No. Showa 46 (MO) 20184]*

(15) J. American Chemical Society, Vol. 75, No. 18

(16) There was a prior application directed to tetracycline by Charleo Feiser and Co. Inc. (Priority: U.S.A., October 23, 1952)

(17) Dipyridamol Case [Tokyo District Court Decision No. Showa 48 (WA) 4882]

(18) S. Shinagawa "Jitsumu Horitsu Taikei" ("Outline of Laws for Practice"), No. 10, pp. 460 - 475

(19) Steroid Case [Tokyo District Court Decision No. Showa 49 (WA) 10087]

(20) S. Kosaka, "Kigyoho Kenkyu" ("Study of Laws on Enterprise"), No. 148, pp. 17 - 21 (1968)

(21) T. Koseki, "Thesis in Celebration of Dr. Kaneko's 60th Birthday" published by Yuhikaku (1969)

PIPA Committee #4
American Group

# RECENT DEVELOPMENTS AND CHANGES IN SECTION 337 ACTIONS BEFORE THE UNITED STATES INTERNATIONAL TRADE COMMISSION

By
Francis A. Paintin
E. I. du Pont de Nemours and Company

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## RECENT DEVELOPMENTS AND CHANGES IN SECTION 337 ACTIONS BEFORE THE UNITED STATES INTERNATIONAL TRADE COMMISSION

The U.S. International Trade Commission (ITC) handles a wide variety of investigations relating to import trade. Several of these have little or no connection with intellectual property, e.g., antidumping, market disruption, countervailing duty, and agricultural product investigations. Section 337 of the Tariff Act empowers the ITC to investigate the harm likely to be caused to domestic industries by "unfair methods of competition or unfair acts" in the importation of articles into the United States.

The scope of Section 337 has been held to cover patent, trademark and copyright infringement, trade secret misappropriation, false labeling, passing off and predatory pricing. Initially, about 90% of the Section 337 actions were patent-based complaints. However, in 1982 about one third of such actions were based on other grounds and it is estimated that nonpatent cases may constitute almost half of the 337 actions in 1983.

At the 1980 PIPA conference in Tokyo, Edward Dreyfus of the Western Electric Company presented a comprehensive paper entitled "Patent Litigation and Licensing before the U.S. International Trade Commission." Mr. Dreyfus thoroughly dealt with the fundamental nature of a Section 337 action, practice and procedure, and the remedies available. No effort will be

made in this paper to cover the same ground except as may be necessary to explain the recent developments and changes.

The filing of Section 337 actions has increased greatly in recent years. This increase seems to be influenced by recent economic conditions which cause domestic companies to seek relief against foreign competition, and by a growing realization that it may be more desirable to seek relief from the ITC as an alternative to filing suit in the courts.

As many previous authors on this subject have pointed out, ITC actions have some definite advantages for the party bringing the action (the complainant) along with some disadvantages. Some important advantages are: the ability to proceed against several parties both foreign and domestic without concern about jurisdiction or venue, the short time in which relief can be obtained (1 to 1 1/2 years), and the ability to obtain an exclusion order barring the imported goods from the U.S. Some important disadvantages are: the failure to obtain damages, and the necessity for the complainant to prove his case on several issues not present in ordinary patent infringement litigation, e.g., that the patent covers a domestic industry, that the industry is efficiently and economically operated, and that the industry is being or is likely to be injured by the imported infringing goods.

Some recent developments in ITC decisions have a bearing on these advantages and disadvantages of ITC actions.

## I. MAY GOODS MANUFACTURED ABROAD ESTABLISH THE DOMESTIC INDUSTRY?

In the classical action under Section 337, the complainant is a U.S. company that owns a U.S. patent which covers goods that complainant is manufacturing and selling in the U.S. When infringing goods are imported from abroad, complainant can allege not only a threatened loss of sales and profits, but also can contend that the jobs of its domestic manufacturing employees are threatened.

The case of Certain Ultra-Microtome Freezing Attachments (referred to hereinafter as Freezing Attachments) presented a different picture. Complainant was the exclusive licensee of a patent covering the products that complainant was selling in the U.S. Unlike the classical case, however, complainant's products were being manufactured abroad by complainant's foreign subsidiary and complainant was importing them into the U.S. for sale. The evidence showed that complainant had a plan for the ultimate manufacture of the patented products in the U.S. However, complainant decided to await evidence that the products would be well received in the U.S. before beginning to manufacture domestically, whether or not the infringing importation was prevented by the ITC. The ITC terminated the investigation (i.e., refused complainant the relief sought) "because there is no definable producing industry in existence, nor is there an industry within the

purview of the statute prevented from being established" (emphasis added). The ITC relied on the legislative history of Section 337[2] and an early U.S. Court of Customs and Patent Appeals (CCPA) case[3] to infer that "the intent of the statute was the protection of domestic manufacture of goods" (emphasis added).

More recently, the ITC considered the case of Certain Airtight Cast-Iron Stoves[4] (hereinafter Stoves). Jotul, a Norwegian company, manufactured the stoves abroad and sold them in the U.S. through its wholly-owned subsidiary Jotul U.S.A.[5] and its distributors and retailers. None of the stoves was manufactured in the U.S.; however, after arrival in the U.S., the stoves were warehoused, tested, advertised, sold, installed, serviced, repaired, etc. Jotul (Norway) and Jotul U.S.A. were complainants before the ITC in an action against several respondents who were importing stoves primarily from Taiwan. The basis for complainants' action in the ITC was unfair competition and trademark infringement rather than patent infringement.

The ITC found that complainants had established a "domestic industry" to be protected by Section 337 despite the absence of U.S. manufacture of their stoves. The ITC considered its previous decision in Freezing Attachments and the legislative history of Section 337 and concluded that the U.S. Congress intended to use a broader term when it used the

words "domestic industry" instead of "domestic manufacturer." The broader term "industry" includes service industries which add a significant value to the product using American labor. The fact that one complainant was a foreign corporation and the other was its wholly-owned U.S. subsidiary did not deprive the industry from being "domestic" as long as the bulk of the industry consists of domestically owned and operated distributors and retailers employing domestic workers. This case was not appealed.

In 1982, the ITC decided the case of Certain Miniature, Battery-Operated, All Terrain, Wheeled Vehicles[6] (hereinafter Toy Trucks) involving alleged patent infringement and false designation of origin. The toy trucks that were sold in the U.S. by complainant were all manufactured in Hong Kong. One ITC Commissioner concluded that complainant's activities in the U.S. of designing and patenting the trucks together with quality control, developing and marketing were a sufficient use of American land, labor and capital for the creation of value added to comprise a domestic industry as defined in the Stoves case. A majority of the ITC, however, disagreed. Commissioner Haggart, one of the majority, expressly stated that in her opinion the legislative history of Section 337 "supports a conclusion that the activities performed in the United States must be part of the production process" (emphasis added). This case is on appeal.

Finally, the ITC reviewed this issue again in Certain Cube Puzzles.[7] In that case, complainant's cube puzzles (Rubik's Cube) were manufactured in various overseas locations. Complainant had spent substantial sums on U.S. manufactured production molds that were used to make the cube puzzles abroad. Complainant also employed 200 workers in quality control, packaging, repair, and design improvement. Commissioner Haggart, this time, voted with a majority of two to find sufficient "production" activities performed in the U.S. to establish a "domestic industry". Commissioner Stern dissented essentially disagreeing with Haggart but affirmed her own finding of a domestic industry in the Stoves case.

The Cube Puzzles case set off an interesting exchange of letters[8] between Ambassador William E. Brock, U.S. Trade Representative[9] and ITC Chairman Alfred E. Eckes. Brock's letter expressed concern about the use of government resources to investigate cases not clearly within the statute, noting that Section 337 was intended to be "available to U.S. producers who are being injured, etc." (emphasis added). The letter acknowledged that the Toy Trucks case is on appeal and that the Court of Appeals for the Federal Circuit (CAFC) will decide the issue. Brock indicated, however, that the expenditure of resources in cases which might have to be changed because they are inconsistent with the Court's decision should be avoided where possible.

Eckes' reply alleged that Brock is suggesting that the ITC should investigate only the meritorious cases, although there is no way of determining merit prior to an investigation. He concluded his reply with the opinion that the ITC cannot halt investigations merely because of the unlikely contingency that a recommendation that may or may not be appealed might affect future decisions.

A decision from the CAFC on the Toy Trucks case is expected soon which should clear up the current controversy. A more complete discussion of this issue appears in an article written earlier this year by George M. Sirilla.[10]

## II. WHEN WILL A GENERAL EXCLUSION ORDER BE ISSUED?

Paragraph (d) of Section 337 provides for the "exclusion of articles from entry" if the ITC finds a violation. This exclusion order is "in rem" against the goods themselves rather than "in personam" against the respondents. Such an order is very valuable to complainant since it is directed against all imported goods coming within the scope of the investigation, whether manufactured or imported by a respondent (who was a party to the investigation) or someone not a party.

Exclusion orders operate by being sent by the ITC to the U.S. Secretary of the Treasury and directing that the

imported goods be excluded from entry. The order is then passed on to the District Directors of Customs at the U.S. ports of entry who actually carry out the exclusion order.

The nature and operation of an exclusion order reveals the value of an ITC action to a complainant, especially in a patent-based action. As noted in Sealed Air Corp. v. U.S.I.T.C., 209 USPQ 469, 486 (CCPA 1981):

> The purpose of the exclusion remedy was to get away from in personam procedures which United States business found unsatisfactory. Being unable in most cases to sue a foreign supplier, a U.S. business faced with infringing products from abroad was forced to pursue a multiplicity of individual importers, and if a court enjoined one, another could be found to take his place. Thus the exclusion remedy was conceived.

Until recently, a general exclusion order was the usual remedy in a patent-based ITC action. Such an order was typically phrased:

> . . . an exclusion order pursuant to subsection (d) of section 337, preventing importation of _____ made in accordance with claims _____ of U.S. Patent _____ for the remaining term of said patent except under license . . .

In the case of Certain Headboxes Etc.,[11] the ITC found a violation and issued a general exclusion order against importation of infringing products. Upon referral, the President indicated disapproval based on the "broad scope of the exclusion order and its potential adverse impact on the domestic papermaking industry." The President found that the

burden of proof imposed on other foreign manufacturers and importers could cause delays in customs clearance and delivery and disrupt the domestic production of paper and restrictions in domestic acquisition of machinery. The President suggested that an exclusion order directed only to the products of respondents or a narrowly drawn cease and desist order would be appropriate.

The ITC, in response to the President's letter, issued a new order[12] which would apply only to infringing headboxes manufactured by KMW or any of its affiliate companies, parent or subsidiary companies, or other related business entities, their successors or assigns.

Shortly after its new order in Headboxes, the ITC, in its decision in Certain Airless Spray Pumps[13] (hereinafter Spray Pumps), indicated that a complainant seeking a general exclusion order must prove both a "widespread pattern of unauthorized use" of its invention and certain "business conditions" from which one might reasonably infer that foreign manufacturers other than respondents to the investigation may attempt to enter the U.S. market with infringing articles. The ITC thereafter listed three types of evidence indicating "a widespread pattern of unauthorized use" and five types of "business conditions" referred to above.

The ITC in Spray Pumps elaborated on why a general exclusion order might have a "chilling effect" on foreign

trade. It was pointed out that "customs officials burdened with massive workloads" may be unable to perform accurately the complex analysis necessary to determine infringement. In such cases a customs official, when in doubt, might decide to exclude the articles and shift the burden to the importer to appeal their exclusion. This may be a slow, costly and uncertain process.

It is of interest to note that the ITC issued a limited exclusion order in Certain Silica-Coated Lead Chromate Pigments[14] barring infringing "pigments manufactured by Toho...or any of its affiliated companies...." The ITC noted that U.S. Customs had expressed reservations concerning the enforceability of the limited exclusion order and had contended it would be virtually impossible for it to enforce it on any shipments other than those specifically identifying the manufacturer named in the order. The ITC recognized Customs' difficulties but found the scope of definition necessary to prevent the order being circumvented.

The ITC has placed on complainant the burden of proving his need for a broad general exclusion order. This is not an insurmountable task, however, as can be seen in Certain Methods for Extruding Plastic Tubing.[15] In that case the ITC granted a general exclusion order finding that complainant had satisfied the requirements set forth in the Spray Pumps case.

The foregoing sections deal with recent decisions which affect the jurisdiction of the ITC and its remedies under Section 337. Other changes have also taken place recently which have a bearing on Section 337 cases in the ITC.

## III. REVIEW OF SECTION 337 ACTIONS BY THE COMMISSION

An investigation under Section 337 is initially assigned to an administrative law judge (ALJ). The ALJ handles all aspects of the investigation in the pretrial phase and presides over a full trial of the case where evidence is formally presented and the testimony of witnesses is taken. In short, the ALJ handles the case in the same way that a federal district court judge handles an infringement action.

In investigations initiated prior to June 10, 1982, the ALJ at the end of the trial issued a Recommended Determination. That determination was automatically reviewed by the full Commission which received new briefs and oral arguments from the parties and held a hearing on the matter. The Commission then issued its own decision which was the decision of the ITC in the investigation. The Commission often overruled the Recommended Determination of the ALJ not only on trade issues such as domestic industry, injury, etc., but also on findings concerning the validity and infringement of patents involved.

Effective June 10, 1982, Section 337 investigations are no longer automatically reviewed by the full Commission. Under the new rules (19 CFR 210.53 to 210.56) the ALJ after trial shall issue an Initial Determination which shall become the determination of the Commission unless the latter orders a review thereof.

Any party may petition the Commission for a review of the ALJ's initial determination by the Commission. The petition, however, must allege that

(A) a finding or conclusion of material fact is clearly erroneous;

(B) a legal conclusion is erroneous, without governing precedent, rule or law, or constitutes an abuse of discretion; or,

(C) the determination is one affecting Commission policy.

In addition, the Commission may on its own motion review the Initial Determination.

The main reason for the rule change was to enable the commissioners to avoid review of the many cases that are uncontested or contested with only token response. Inquiry with the ITC staff, however, revealed that the Commission is refusing review to a greater extent than expected, especially in view of the fact that it only takes the vote of one commissioner to grant review. This may in part be due to the

fact that until very recently there were only three commissioners on the Commission (out of six authorized by law). The presence of a fully staffed Commission may increase the frequency of review somewhat.

Most observers of ITC decisions believe that the ITC has gained the reputation of being more inclined to find a U.S. patent valid than most federal district court judges. It remains to be seen whether that reputation will be affected by less Commission review.

In any event, the rule change enhances the importance of the Initial Determination by the ALJ. Currently, the ITC has two ALJ's: Chief Judge Donald K. Duvall and Judge Janet D. Saxon. Reportedly, several recent cases are being assigned to Judge John J. Mathias, an ALJ who has been with the Federal Trade Commission.

## IV. NEW FACES ON THE COMMISSION AND ITS REVIEWING COURT

The ITC is made up of six commissioners, each appointed for a term of nine years. Vacancies and the time taken by the U.S. Senate to confirm new appointees has brought about a situation in recent years where the Commission has been operating at times with just three commissioners, only one having been on the Commission more than two years. As of this writing, there are four commissioners: Alfred E. Eckes,

Chairman, Paula Stern, Veronica A. Haggart, and Seeley G. Lodwick. Biographical data on each is provided at the end of this paper.

Decisions of the ITC formerly were appealable to the United States Court of Customs and Patent Appeals (CCPA). The CCPA was a five judge court that heard appeals from the Patent and Trademark Office (PTO), the ITC and the U.S. Customs Court. All five judges sat on every appeal.

Effective October 1, 1982, the CCPA and the United States Court of Claims were abolished and a new United States Court of Appeals for the Federal Circuit (CAFC) was formed. The twelve judges from the CCPA and the Court of Claims form the bench for the new court. The CAFC has jurisdiction over all the matters the CCPA and the Court of Claims had plus exclusive jurisdiction to hear appeals relating to patents from all federal district courts. Present indications are that the CAFC is extremely busy.

The CAFC ordinarily sits in panels of three judges. Since only five of the twelve judges are former CCPA judges, the chances are that any panel hearing an ITC appeal will have a minority of former CCPA judges.

There is no good indication that the "new faces" on the CAFC will cause any distinct change in law affecting Section 337 cases. Nevertheless, the CCPA had the reputation among many practitioners of being a court that might be

somewhat more likely to find a patent valid than a federal district court. Whether the new CAFC will also have this reputation remains to be seen.

One member of the ITC staff pointed out that the judges of the CAFC who were former Court of Claims judges used to spend all their time hearing complaints against the U.S. Government and frequently had to decide cases against it. With that background they might be less likely than the average person to feel that the Government is always correct whether in granting a patent or in administering a contract.

BIOGRAPHICAL DATA OF ITC COMMISSIONERS:

Alfred E. Eckes, Chairman

Alfred E. Eckes was sworn in for a term of nine years as a member of the United States International Trade Commission on September 21, 1981. The term will expire on June 16, 1990. He was designated Chairman by President Ronald Reagan on June 17, 1982, for the two-year term expiring June 16, 1984.

A resident of Alexandria, Virginia, Chairman Eckes is a practicing economic historian and a former executive director of the House Republican Conference. He began his legislative experience as a research assistant to Representative Samuel L. Devine of Ohio's 12th district. He served as the director of the House Republican Conference from July 1979 to March 1981.

Besides service at the congressional level, Eckes' experience with the Federal Government extends to the Department of State. Between 1966 and 1969 he was a Foreign Service Reserve Officer.

A former resident of Columbus, Ohio, Eckes was, from 1969 to 1978, a professor in the Department of History at Ohio State University where he became a tenured faculty member. In 1977 he began a two-year assignment as editor of the editorial page for The Columbus Dispatch.

Born on July 11, 1942, in North Conway, New Hampshire, Eckes directed his education toward his specialty area of

recent U.S. history in international trade and economic relations. In 1964 he graduated magna cum laude from Washington and Lee University with a B.A. in history and economics. In 1964 and 1965 Eckes held a Fulbright Fellowship in international economics at Christ's College, University of Cambridge. He continued his study at the Fletcher School of Law and Diplomacy at Tufts University, where he received an M.A. in international relations in 1966. In 1969 Eckes completed his Ph.D. in American history at the University of Texas at Austin. His dissertation topic was "Bretton Woods--America's New Deal for an Open World."

Chairman Eckes' publications include: The United States and the Global Struggle for Minerals; A Search for Solvency: Bretton Woods and the International Monetary System, 1941-1971; A History of Presidential Elections: From George Washington to Jimmy Carter; American Conservatism from Hoover to Nixon; "American History Textbooks and the New Issues of Trade, Payments and Raw Materials;" and "Open Door Expansionism Reconsidered: the World War II Experience."

Paula Stern

Paula Stern, senior United States International Trade Commissioner, was sworn in for a term of nine years on October 16, 1978. Her term expires June 16, 1987.

Raised and educated (public schools) in Memphis, Tennessee, Dr. Stern received her B.A. from Goucher College

(1967); an M.A. in regional studies from Harvard University (1969); an M.A. (1970), M.A.L.D. (1970) and Ph.D. (1976) in international affairs from the Fletcher School of Law and Diplomacy.

Dr. Stern served as a legislative assistant to Senator Gaylord Nelson (D-Wis.) from 1972 to 1974. From 1975 to 1976 she was a guest scholar at the Brookings Institution, working on a manuscript published in 1979 by Greenwood Press under the title, Water's Edge: Domestic Politics and the Making of American Foreign Policy. In 1976 she was senior legislative assistant to Senator Nelson, and also served as a policy analyst on matters related to the State Department for the Carter-Mondale Transition Team. From December 1977 to October 1978 she was an international affairs fellow with the Council on Foreign Relations. She served on the Board of Directors of the Inter-American Foundation, an independent government corporation which supports and stimulates social change in Latin America and the Caribbean, in 1980-1981.

Dr. Stern is the author of numerous articles on domestic affairs, international trade, foreign policy, including Middle East and Soviet issues, and the women's movement. Her experience overseas includes travel to Israel and the Arab World. She reported from the Middle East and North Africa during 1970-71 as a recipient of The Alicia Patterson Foundation Award. She is a biographee in a number of publications referencing women in government and politics.

Veronica A. Haggart

Veronica A. Haggart, of Washington, D.C., was sworn in on March 23, 1982, as a member of the United States International Trade Commission. Her term expires on June 16, 1984.

Before becoming a member of the Commission, Commissioner Haggart was a senior partner in the law firm of Heron, Haggart, Ford, Burchette & Ruckert, in Washington, D.C. She specialized in administrative law and litigation as they relate to international trade and agriculture. Her international trade practice has involved extensive work with the GATT; Section 301 cases; the Generalized System of Preferences; and various bilateral trade issues involving such matters as tariffs and licensing practices.

Prior to starting her own firm, Commissioner Haggart was associated with the Washington law firm of Pope, Ballard & Loos. In 1977 and 1978, Commissioner Haggart was law clerk to the Honorable June L. Green, U.S. District Court for the District of Columbia. Prior to her clerkship with Judge Green, Commissioner Haggart was a law clerk with the Washington firm of Cole, Corette & Bradfield and with the U.S. Department of Justice.

From 1973 to 1975, Commissioner Haggart gained executive branch experience by serving as Special Assistant to an Assistant Secretary of Agriculture. At the Department of

Agriculture, she contributed to the agency's international trade and consumer services programs. She has also served as Special Assistant to the Deputy United States Trade Representative.

Commissioner Haggart was born in Lincoln, Nebraska, in 1949 and grew up in St. Paul, Nebraska. She received her B.A. from the University of Nebraska and her J.D. from Georgetown University Law Center, where she served as an editor on the American Criminal Law Review. Commissioner Haggart is admitted to practice in the District of Columbia and before the Court of Claims. She is a member of the District of Columbia Bar Association, the Bar Association of the District of Columbia, the Federal Bar Association, the Women's Bar Association, and the American Bar Association. Commissioner Haggart is the co-author of the section on the Office of the United States Trade Representative in the Federal Administrative Practice manual soon to be published by the Administrative Law Section of the Bar Association of the District of Columbia. She currently serves as chairman of the Agriculture Committee of the ABA Administrative Law Section.

Seeley G. Lodwick

Seeley G. Lodwick was sworn in on August 12, 1983 as a member of the United States International Trade Commission for the term expiring December 16, 1991. A Republican, Lodwick was

confirmed by the United States Senate on Thursday, August 4, 1983.

Lodwick served as Undersecretary of Agriculture for International Affairs and Commodity Programs in 1981-1982. Previously, he was Iowa Administrator for Senator Roger Jepsen in 1979-1980. He served as a State Senator in Iowa for seven years. Lodwick also has held the positions of secretary to the Commodity Credit Corporation and Associate Administrator of the U.S. Department of Agriculture's Agricultural Stabilization and Conservation Service. He also served as director of government relations in the Washington office of the American Farm Bureau Federation. He has farmed and managed livestock and grain, and farm supply and grain elevator businesses.

Lodwick served as a lieutenant in the First Marine Division during World War II. He is a member of the Iowa Farm Bureau, American Soybean Association, Iowa Corn Growers Association, Soil Conservation Society of America, Society of American Farm Managers, Society of Agricultural Consultants and Rotary International.

Lodwick was born on October 19, 1920 in Evanston, Illinois and is a graduate of Iowa State University.

FOOTNOTES

1. Investigation No. 337-TA-10, USITC Publication 771.

2. 62 Cong.Rec. 4638, 4648.

3. Frischer & Co. v. Bakelite Corp., 39 F.2d 247 (CCPA 1930).

4. 337-TA-69, 215 USPQ 963 (USITC 1980).

5. Originally, the principal US distributor was a US-owned company, Kristia. Before the case was over, Kristia was acquired by Jotul (Norway) and renamed Jotul U.S.A.

6. 337-TA-122, _____ USPQ _____ (USITC 1982).

7. 337-TA-112, _____ USPQ _____ (USITC 1983).

8. BNA's Patent, Trademark and Copyright Journal, Vol. 25, page 476 (April 7, 1983).

9. Section 337(g) provides for referral of ITC decisions to the President who may indicate disapproval within a 60-day period. In fact, those functions are normally carried out for the President by his US Trade Representative.

10. J.Pat.Off.Soc., Vol. 65, No. 1, pp. 46-60 (Jan. 1983).

11. 337-TA-82, 213 USPQ 291 (USITC 1981).

12. 337-TA-82A, USITC Publication 1197 (Nov. 1981).

13. 337-TA-90, 216 USPQ 465, 473 (USITC 1981).

14. 337-TA-120, USITC Publication 1374 (April 1983).

15. 337-TA-110, 218 USPQ 348, 356 (USITC 1982).

ABSTRACT OF F. A. PAINTIN PAPER

FOR PIPA COMMITTEE #4

An increase has taken place in recent years in the number of conplaints made to the U.S. International Trade Commission (ITC) under Section 337 based on unfair methods or acts in the importation of articles into the U.S. While patent-based complaints predominate, there is an increase in actions based on other grounds. Currently, a controversy exists on the ITC as to whether and to what extent goods manufactured abroad can constitute the "domestic industry" protected from unfair imports. Recently, it has become more difficult for a domestic industry to obtain a general exclusion order directed to all infringing goods regardless of origin. New procedures by ITC make the determination of the administrative law judge less likely to be reviewed by the entire Commission. New faces on the ITC and its reviewing court could affect the future course of ITC decisions.

PIPA Committee #4
American Group

# NEW PATENT ARBITRATION ACT AND CONCILIATION REVISITED

by
Alvin Isaacs
POLAROID CORPORATION

Presented at the Pacific Industrial Property Association
14th International Congress
Oct. 19-21, 1983

"THE AVERAGE LITIGANT IS OVERDISCOVERED, OVERINTERROGATORIED AND OVERDEPOSED. AS A RESULT, HE IS OVERCHARGED, OVEREXPENSED AND OVERWROUGHT."

Judge Ruggero J. Aldisert

"INSTEAD OF APPEALING TO A COURT DIRECTLY, OTHER EFFECTIVE PROCESSINGS, ORGANIZATIONS FOR SETTLEMENT OR PROCEDURES SHOULD BE ATTEMPTED FIRST, AND, APPEAL TO A COURT SHOULD BE LIMITED TO THOSE CASES FOR WHICH THE ONLY POSSIBLE SETTLEMENT IS CONSIDERED TO BE THROUGH THE COURT, THUS RATIONALIZING THE BURDEN OF THE COURTS."

Judge Haruo Nakamura

## I. INTRODUCTION

Public Law 97-247, known as the PTO (Patent & Trademark Office) Fee Bill, was enacted August 27, 1982 and became effective February 27, 1983. While the Bill creates a new fee structure for patents and trademarks, a very significant passage at the end creates a new section of the U.S. Patent Code (35 U.S.C. 294) relating to arbitration of disputes concerning validity or infringement. Not only does this section suffer a lack of identity for being an addendum to unrelated matter, but it is a paradox that passage of this arbitration provision was required in the first place.

When one considers that patents relate to commerce and we already have a chapter in the U.S. Code permitting arbitration of matters of commerce; when one considers that arbitration of patent disputes has the endorsement and support of the Commissioner of Patents and Trademarks, the Department of Commerce (under which The Patent Office lies), the Department of Justice, the American Bar Association's Section on Patent, Trademark and Copyright Law, and the support of numerous members of the private sector; and when one considers that the concept of arbitration is endorsed by the Chief Justice of the U.S. Supreme Court as a means to reduce the work load of the Courts, it seems strange that in 1983 a new act of Congress is required to permit arbitration of disputes involving validity or infringement.

In this paper we will consider the need for this new section of the U.S. Code; we will revisit conciliation, particularly the PIPA Conciliation System; and we will discuss and compare the merits of arbitration and conciliation.

## II. WHY THE NEED FOR 35 U.S.C. 294?

There is, of course, nothing new about arbitration in the U.S., nor is it new in the U.S. to arbitrate certain disputes pertaining to patents. Arbitration in fact goes back a long way in both Japan and the U.S. In Japan I understand arbitration to be set forth in the Code of Civil Procedure. In the U.S. arbitration is currently provided for generally by Title 9 of the U.S. Code, enacted in 1947. Included in its provisions are sections dealing with arbitration of matters of commerce between the states or with foreign nations. A provision in any contract involving commerce that future disputes are to be settled by arbitration is stated in Title 9 to be valid, irrevocable and enforceable, unless grounds exist at law or in equity for revocation.

Some patent matters relating more personally to the disputants have already been held to be subject to arbitration. For example, licensing issues such as ownership of an invention or accounting issues are often settled by arbitration. Why not validity and infringement?

The root of the problem necessitating the new enactment lies in the prevailing view by the Courts

in the U.S. that competition should not be repressed by worthless patents. In essence, the Courts have held, this concern to protect the public transcends the rights of individual disputants in matters affecting the validity of patents as distinguished from personal matters involving licensing and which have little or no effect on others.

While I don't want to take the time to make a whole treatise on the subject, reference to a few court decisions will help you to understand the need for the new patent act.

In the 1930 Zip case[1], the defendant to an infringement suit brought a motion under the Arbitration Act mentioned earlier that the proceedings be stayed pending arbitration in accordance with a provision in a contract between the two parties calling for arbitration of validity and infringement. The Arbitration Act specifically empowers the Court to stay the trial until arbitration has been had. In denying the motion, the Court held that the determination of the validity or infringement of a patent is a matter that is inherently unsuited for arbitration and even though the parties had previously agreed to arbitrate these questions, the agreement did not relate to commerce within the meaning of the Arbitration Statute.

In the Beckman case[2], the Court of Appeals held that questions of patent validity are inappropriate for

1. The Zip Manufacturing Company and The Zip Abrasive Company v. The Pep Manufacturing Company, (1930, D.C. Del.), 7 USPQ 62.
2. Beckman Instruments, Inc. v. Technical Developments Corp.(1965, C.A. 7th Cir.), 167 USPQ 10

arbitration. Specifically, a demand by one of the parties for arbitration under the terms of an agreement between them was denied by the Court. In so holding, the Court relied upon the Lear case[3] wherein the U.S. Supreme Court stated: "The complex principles of patent law which a court must consider and apply when deciding issues of validity and infringement, affect important questions of public policy and public rights."

I mention these two cases because they were specifically cited by the Report of the Committee on the Judiciary of the House of Representatives in its explanation of the purpose of the Bill. [For those interested in knowing the legislative history of an enactment, the passages relevant to the Arbitration provision are reproduced in APPENDIX A.]

To summarize, prior to the new bill, even though some aspects of disputes arising under patent licenses had previously been held enforceable by the courts, disputes involving validity or infringement were not. This was true even though both parties had previously agreed in writing to arbitration.

Before considering the new arbitration provision along with its merits, let's take another look at conciliation.

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3. Lear v. Adkins, 395 U.S. 653, 162 USPQ 1 (1969)

## III. CONCILIATION, REVISITED

Some eight years prior to enactment of the new arbitration section, PIPA members recognized the need for some alternative to the harrowing expense, time and effort of litigating in the Courts.

In 1975 PIPA published the rules and regulations of the conciliation system which are reproduced in APPENDIX B of this paper. This was reported jointly by Dr. Newman and Mr. T. Teshima at the 6th PIPA Congress in '75[4].

Briefly, this conciliation procedure is available on a voluntary basis if just one party to the dispute is a resident or national of either Japan or the United States. Such a party seeking the conciliation procedure simply writes to the Secretary of either the Japanese or American PIPA group. PIPA has the obligation of maintaining a panel of at lest ten possible conciliators, experts in various aspects of industrial property. However, the parties to the procedure need not select a member of this panel, but may instead agree upon some other conciliator. While a 30-day limit to the conciliation process is suggested, the parties may agree to extend it.

The basic principles followed in promulgating the Rules and Regulations for the conciliation procedure were stated to be:

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4. Presentations, Sixth International Congress (1975) pp 375-383 (English Version)

1. A procedure which is simple to invoke, yet carries enough formality for the parties and the conciliator to proceed expeditiously.

2. A procedure that is non-binding, and thus encourages participation.

3. Neither party is penalized if the dispute is not settled by conciliation.

4. There are specific rules to protect proprietary and confidential information.

5. The procedure is open to non-members as well as members of PIPA to give it the broadest possible value.

It is important to understand and therefore worth repeating that the conciliation process is entirely voluntary so that both parties must agree to it; and the procedure is non-binding so that if settlement is not reached, either or both parties may seek other available remedies to settle the dispute.

Although the intriguing concept of conciliation is not novel to either country, I understand it to be much more common in Japan where it was introduced almost sixty years ago and provided for by the Civil Conciliation Act. [Actually, it is my understanding that a system of conciliation known by the now obsolete term "Kanki" was instituted in 1884, the 17th year of the Meiji era. It was abandoned in 1890 at the time of the establishment of the Code of Civil Procedure.] While I understand quite a large percentage of the civil disputes in Japan to be settled by conciliation, it does not appear to be used extensively in the U.S. in

disputes involving industrial property. Nevertheless, it is well established in other legal matters, e.g. labor disputes.

It seems clear that the concept of conciliation demands the free will of the involved parties if settlement is to be reached. Since it is a non-binding procedure, the success of conciliation depends entirely on the good will of the parties. If they are sincerely interested in resolving their differences and are not emotionally or philosophically antagonistic, the procedure has an excellent chance of resolving the issues through an informal, open, unstructured exchange of views.

Before moving on to the next topic, perhaps I should note certain aspects of the PIPA conciliation procedure which illustrate how painstakingly the rules were drafted to encourage the use of this procedure.

Since the conciliators play a most important role, the method of selecting them is, in turn, extremely important. It is critical that the conciliator have the trust of all the parties. If this trust is lacking, it is not likely that the disputants will agree to suggestions proposed by the conciliator. In the PIPA Conciliation System, unlike other typical systems wherein some agency appoints the conciliators, the disputants choose the conciliators wholly of their own free will.

Another point worthy of mention relates to the apprehension that may be felt by the parties should conciliation fail and a lawsuit then appear likely. A

disputant may fear the consequences of information disclosed during conciliation proceedings being used as evidence during subsequent court proceedings. If such apprehensions exist, it is most likely that the disputants may fail to make the facts clear to the conciliators or stick stubbornly to legal argumentation without undertaking mutual compromise.

In setting up the PIPA Rules for Conciliation, the Board of Governors quite clearly gave commendable attention to this concern. The Rules (APPENDIX B) contain three essential provisions directed to such apprehensions: (1) the conciliation procedure is private and all documentation, proceedings and results are maintained in confidence; (2) upon termination of the conciliation, to maintain this confidentiality all correspondence is removed and destroyed; and (3) statements, proposals, offers of compromise or any other aspect of a failed conciliation procedure may not be introduced in any subsequent proceedings.

As we have seen, the concept of conciliation is not new. It existed in Japan as far back as 1884 and was in fact introduced into the U.S. a year earlier, in 1893, in the state of North Dakota by immigrants from Norway and Denmark where such a system was found about one hundred years earlier. While conciliation is highly regarded by respected and learned attorneys in both the U.S. and Japan and the PIPA system itself is a thoughtful, well reasoned and intelligent alternative to litigation, I must note sadly that it does not seem to have ever been used by PIPA members having patent disputes.

The foregoing comments concerning conciliation are in the nature of review summarizing what has already been presented to PIPA members.[5]

While I had intended initially to restrict this paper only to the topic of arbitration, I have again invited your attention to conciliation because the two alternatives should be considered concurrently. Perhaps in some way the arbitration act will also spur the use of conciliation as an alternative to lengthy litigation.

Let's move on now to the alternative of arbitration.

## IV. THE NEW ACT, 35 U.S.C. 294

With the enactment of 35 U.S.C. 294, a new era in the resolution of patent-related disputes has been said to have dawned.

When he signed the Bill into law, President Reagan stated:

> "...A major deterrant to using the patent system, especially by small businesses and independent inventions, is the inordinately high cost of patent litigation. This bill authorizes voluntary arbitration of patent validity and infringement disputes. This

5. Presentations, Sixth International Congress (1975), pp 375-383, supra; 7th International Congress (1976), pp 344-356; and 9th International Congress (1978), pp 325-336.

will not only improve the patent system and encourage innovation, but will help relieve the burden on the Federal Courts."6

35 U.S.C. 294, reproduced in APPENDIX C has five paragraphs.

Paragraph (a) contains the main provisions permitting a contract involving a patent to contain an arbitration provision or for the disputants to agree in writing to settle the dispute by arbitration. Any such provision or agreement shall be valid, irrevocable and enforceable except for any grounds that exist for revocation of the contract for arbitration itself. This paragraph in effect overrules the limitation on the United States Arbitration Act imposed by the courts that validity or infringement issues cannot be arbitrated, thus laying to rest the paradox mentioned earlier in this paper.

Paragraph (b) states that the arbitration is governed by the Arbitration Act, Title 9 to the extent it is not inconsistent with the new section; and further requires that the arbitrator must consider the usual defenses to validity, infringement or unenforceability of a patent under Section 282. Perhaps this latter requirement needs some further comment.

Many defenses to a patent are based on facts that might give rise to a claim under the antitrust laws. For example, asserting rights under a patent known to the patent

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6. Statement by President Reagan, White House Press Release, Aug. 28, 1982

holder to be invalid or fraudulently obtaining a patent may be actionable under the antitrust laws as well as being grounds for invalidation. While it is not absolutely certain such a defense can be considered by the arbitrator, it is believed that it can in an arbitration to resolve a patent dispute, even though arbitration of such matters as a claim of antitrust violation per se would still be prohibited for public policy reasons.

Paragraph (c) contains two important provisions. While the first of these two is quite apparent, the import of the second is more subtle and may not be as apparent upon a casual reading.

The first point is that while an award by the arbitration is binding to the parties, it has no force or effect on others. Thus, a third party can still contest the validity even though it has been held valid in a previous arbitration decision.

The second point, covered in the last two sentences of paragraph (c), relates to a situation in which a patent is held valid in an arbitration, but is subsequently held invalid or unenforceable by a court decision. The parties may agree that in such a situation the arbitration award may then be modified upon application by any party to the arbitration to the appropriate court without prior consent from the other party. What is perhaps not so obvious is that this provision is beneficial to the one charged with infringement, but is of no help to the patent owner. If the arbitrator finds the patent invalid

and in subsequent court litigation with a third party the patent is in fact held to be valid, it appears that the arbitration award would still be binding as between the parties to the arbitration.

[This raises a very interesting issue I am not prepared to answer in this paper. What if the Patentee, P, licenses another, L, with the right to sub-license and P and L subsequently get into a dispute which is resolved by arbitration favorable to L, namely the patent is held invalid. In a subsequent proceedings, P sues an infringer, I, and the court finds the patent valid and infringed. Suppose then that I takes a sub-license from L. Can he be held accountable under the court action between P and I or can he assert the rights of L under the arbitration agreement?]

Paragraphs (d) and (e), the final two paragraphs of the Section, require that arbitration awards must be provided to the Commissioner of Patents and Trademarks and they become a part of the public record of the patent. While such notice can probably be introduced in evidence in a subsequent court action, it is clear that it will only be considered for whatever probative value it may have and it will not be dispositive or binding on the court.

Finally, it should be noted that the Patent and Trademark Office has promulgated a new Rule 335 of the Rules of Practice covering the filing of notices of arbitration. This Rule, which requires no comment, is reproduced in APPENDIX D.

## V. SHOULD WE ARBITRATE

Those who use and support arbitration as a means of resolving intellectual property and licensing disputes state the following advantages of arbitration over litigation in this technical field:

1. relative speed and economy;

2. privacy;

3. convenience;

4. informality;

5. reduced likelihood of damage to ongoing business relationships;

6. More suitability to international problems; and, especially important,

7. the ability of the parties to select arbitrators who are experts and familiar with the subject matter of the dispute.

Perhaps the last-mentioned advantage may be of special interest to the Japanese members, or any non-residents of a country, for that matter, who may be concerned with court action in a foreign country and which, of course, is not conducted in their native language. Under Rule 16 of the Patent Arbitration Rules published by the American Arbitration Association, if one of the parties is a national or resident of a country other than the United States, the sole Artibrator or the neutral Arbitrator shall, upon the request of both parties, be appointed from among the nationals of a country other than that of any of the parties.

The possibility of using a neutral Arbitrator from a third country is also an intriquing possibility if the parties are sufficiently concerned over the possible adverse effects and ill will in terms of future business relationships engendered by litigation in the courts. If such is of grave concern, the parties should for this reason alone seriously contemplate a provision for arbitration by a neutral third-country Arbitrator.

It must be noted that there are attorneys with extensive experience in licensing and litigation who are strongly opposed to arbitration. They make the following essential arguments:

1. With arbitration they have lost their option for cross-examination of witnesses they feel essential to lay bare false statements and get at the truth of the matter.

2. They want the decision to be based (hopefully) upon the formal rules of evidence, including admissability of documents and testimony of witnesses, as are applied in the courts.

3. They are not comfortable with the selection of the arbitrators, e.g. where each party selects one and a third neutral arbitrator is appointed, and they do not understand clearly how arbitrators arrive at their conclusions. [Other litigating attorneys, I might add, have the same thoughts about how Judges decide cases.]

There are many issues on the topic which will not be addressed in this paper. The question of whether or not to arbitrate and the strategies and pitfalls of arbitration are exceedingly complex and require in-depth study. One must also consider the business relationship of the parties and whether one has strong wishes to continue amiable relationship with the disputant regardless how the controversy is decided. Clearly, arbitration is less emotional

than litigating in the courts. One should perhaps also consider the relative importance of the dispute, is it one I can "afford to lose?" While surveys have shown only a very small number of U.S. corporations have previously favored arbitration of patent disputes, there appears to be a growing sentiment in favor of arbitration of disputes one can afford to lose, e.g. cases where the dollar value or the consequence to one's business is relatively small.

Assuming there is agreement to arbitrate, this paper also does not address the topic of arbitration clauses and the manner of arbitration. This again presents very complex issues.

Now that patent disputes can be resolved by arbitration, what type of arbitration clause should one use. The number and selection of the arbitrator requires serious thought. Should there be a single arbitrator or a panel of three? Should they be selected from the panel maintained by the American Arbitration Association or directly appointed by the parties? If complex and expert evidence is contemplated, the parties should give consideration to whether there are to be limitations as to the type and amount of evidence to be submitted. Cost and time should be weighed aginst the degree of completeness and opportunity for cross-examination the parties may desire. In more important cases, the disputants may consider using the Federal Rules of Civil Procedure as they would in court proceedings rather than informal submission of evidence by affidavit.

Consideration should be given to arbitrating through the American Arbitration Association whose Patent Arbitration Rules will be found in APPENDIX E as a guideline for your consideration. Mainly for the benefit of the Japanese members who may not have convenient access to the U.S. Code, Title 9-Arbitration is also included in APPENDIX F.

In the following section I will refer to an actual dispute resolved by arbitration which fully illustrates how disputants can settle a controversy without going to court if they really want to. The more detailed discussion of this dispute appearing in the Appendix warrants your thoughtful attention.

## VI. SHELL OIL COMPANY v. INTEL CORPORATION A REAL PATENT DISPUTE

With the permission of the authors, Paul Janicke of the Houston, Texas firm of Arnold, White & Durkee, andRoger Borovoy of Intel Corporation, Santa Clara, California, I am reproducing in APPENDIX G the relevant pages of an article which appeared in Vol. 62, No. 6 of the Journal of the Patent Office Society describing how a potentially complex patent infringement suit was resolved through arbitration by the authors who represented the respective adverse parties.

The case history is a lesson on how a patent dispute can and should be settled without going to court. I urge you to read it thoroughly.

The respective attorneys are to be commended for their innovative thinking and for their mutual cooperation. More importantly, perhaps, when you consider this arbitration occurred many years before passage of 35 U.S.C. 294, the conduct of the parties clearly illustrate that disputes can be settled either by conciliation or by arbitration if the disputants so wish.

Briefly, Shell called Intel's attention to two patents Shell said Intel was infringing. Intel replied they felt Shell's claim was barred by laches. Although Shell preferred to negotiate a license with Intel, they felt compelled to bring suit to stop Intel's laches defense. Rather than "heating up the litigation" the parties then decided to sit down and negotiate. Offers and counteroffers for a paid up license followed. After further amiable discussions, it appeared that the only unresolved issue was whether one of Shell's patents was infringed by Intel.

After further discussion, the two sides, through their attorneys, agreed that the matter would be submitted to arbitration with the following general provisions: (1) the arbitrator would be agreed upon and they would split his fee no matter who won; (2) discovery procedures would be flexible so that nobody would be foreclosed from presenting evidence; (3) there would be no review or appeal; and (4) there would be no written opinion further to upset the loser. Recognizing a major weakness of many arbitration proceedings is that arbitrators are not paid enough, they agreed to pay the arbitrator, a former patent trial judge of

the Court of Claims, his full hourly rate. Both parties agreed it was money well spent.

Arbitration was to be handled much like an appeal, submitted on deposition transcripts, briefs and oral argument. They agreed live testimony was not necessary. Confidence between opposing counsel was sufficient that no formal discovery rules were needed. A convenient discovery schedule was worked out and both parties agreed to keep discovery to a minimum, but take whatever depositions they wished.

The Federal Rules of Evidence were to apply and the briefing and hearing schedule was agreed upon.

As further conditions for arbitration, the parties had also agreed: (1) Shell would select a single patent claim said to be infringed and a single Intel device they said was infringing; and (2) Intel would early on identify the prior art it would rely upon.

Since the Arbitrator was a retained professional, he was willing to agree in advance to a time limit for rendering his decision. This limit was 30 days after the hearing, if possible, but in no event more than 60 days. The decision was rendered in a brief letter from the Arbitrator about 30 days after the hearing.

As noted in the article, the Arbitrator was paid $7,000.00. The outside counsel for Shell billed them for about $40,000.00. Intel used in-house counsel. It is therefore fair to say that, assuming both parties used outside counsel, the total cost would have been something

less than $50,000.00 for each disputant. The total time from the beginning to receipt of the Arbitrator's decision was about four months.

## VII. CONCILIATION OR ARBITRATION?

It is my hope this paper will stimulate very serious consideration of settlement of disputes through either of these alternatives to the courts.

Those fearful of submitting to binding arbitration may find the non-binding aspects of the conciliation procedure more attractive. They may consider they have nothing to lose. After all, if they don't like the results, they are not stuck with them. If no agreement can be reached, they may conclude it was worth the effort anyhow. If conciliation fails, all other means available to resolve the dispute are still open.

Others may feel that for about the same effort and maybe a little more expense they may just as well use a procedure that will give binding and enforceable conclusions. They may conclude it is best to get it over with once and for all.

It seems clear that the conclusions one may reach may vary according to such factors as the nature of the dispute and the relationship of the parties. I believe that each case should be considered on its own merits to determine how one should consider going about settlement of the dispute. For this reason I also believe there is little I can possibly say to lead you towards this decision. My

main purpose instead is to stress that alternatives are available and to urge that you consider these alternatives.

## VIII. SUMMARY

Referring to the U.S. pretrial discovery procedures, including interrogatories and depositions of the opposing party, Judge Aldisert of the Third Circuit Court of Appeals once stated, "The average litigant is over-discovered, overinterrogatoried, and overdeposed. As a result, he is overcharged, overexpensed and overwrought."

A better way has to be found to settle disputes. I am personally of the view that if one can mend something with a small finishing nail or brad, he should not use a large nail or a spike.

For these reasons, conciliation and arbitration are interesting and attractive alternatives to litigation in the courts with conciliation being the small nail, the courts being the spike and arbitration somewhere in the middle.

It is astounding that the PIPA Conciliation Procedure has never been used. There seems to be everything to gain and very little to lose. It is non-binding and if an amiable solution to the dispute cannot be found, the parties could always look to the courts and now they have the further option of arbitration. I would assume that if the parties so elect, they could devise a clause in a licensing agreement calling for submission to the conciliation procedure as a prerequisite to binding arbitration.

Both alternatives are of course voluntary and an advocate of either or both alternatives in one given instance or with a particular party may disfavor either in another.

## IX. POST SCRIPT

In writing this paper I have attempted to be both informative as to the alternatives now available to bringing suit and provocative with respect to these alternatives.

In so doing and considering the limitations as to length of the paper, I have chosen to touch lightly on the subject and this paper lacks depth in certain aspects.

Nothing has been said about the nature and contents of arbitration clauses and agreements. I have not touched on international arbitration, e.g. arbitration of worldwide patent disputes. For instance, while arbitration is well known in Japan, I am of the impression (and my Japanese colleagues can correct me if I'm wrong) that according to Section 123, the Patent Office is the only entity authorized to decide the validity of a patent and although there seems to be no precedent as to whether parties may settle validity issues by arbitration, it is believed that it would not be permitted as a matter of public policy. Can validity of Japanese patents be settled by arbitration and, if not, should provision be enacted to permit it, as we have done now in the U.S.? Finally, a more detailed analysis of the merits and dangers of voluntarily submitting to binding arbitration is needed.

One thing I know and want to stress is that a viable alternative to the expense and years of litigation is needed to settle patent disputes. It is my hope this paper will provoke thought and further papers and dissemination of views on the subject.

# A P P E N D I X


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97TH CONGRESS
2d Session

HOUSE OF REPRESENTATIVES

REPORT
No. 97-542

# PATENT AND TRADEMARK OFFICE AUTHORIZATION

MAY 17, 1982.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. KASTENMEIER, from the Committee on the Judiciary, submitted the following

## REPORT

[To accompany H.R. 6260]

• • • •

Section 17(b) adds a section 294 to title 35 providing for the voluntary arbitration of patent disputes by the parties to the dispute. The section requires that the Commissioner be notified in writing of an award made by an arbitrator or modified by a court. Such notification will be entered in the record of the prosecution of the patent.

At present, agreements to arbitrate some aspects of disputes arising under patent licenses are enforceable by the courts; however, there have been court decisions that have disapproved arbitration of disputes concerning patent validity or infringement. In this regard, see, for example, *Zip Mfg. Co.* v. *Pep Mfg. Co.*, 44 F.2d 184, 7 U.S.P.Q. 62 (D. Del. 1930) and *Beckman Instruments, Inc.* v. *Technical Developments Corp.*, 433 F.2d 55, 167 U.S.P.Q. 10 (7th Cir. 1965).

Partly as a reaction to those decisions, during the 93rd Congress both the Department of Commerce and the Department of Justice endorsed a provision specifically authorizing arbitration of validity and infringement disputes. This provision, included in an omnibus patent law revision bill, S. 2504, was never enacted due to the many controversial aspects of that legislation.

In the view of the Committee, a statutory authorization of voluntary agreements to arbitrate validity and infringement disputes would benefit both the parties to these disputes and the public.

Statutory endorsement of arbitration agreements would assure the parties that they could avail themselves of the numerous advantages of arbitration without the possibility of having to reargue the dispute in court. The advantages of arbitration are many: it is usually cheaper and faster than litigation; it can have simpler procedural and evidentiary rules; it normally minimizes hostility and is less disruptive of ongoing and future business dealings among the parties; it is often more flexible in regard to scheduling of times and places of hearings and discovery devices; and, arbitrators are frequently better versed than judges and juries in the area of trade customs and the technologies involved in these disputes.

The enforcement of voluntary arbitration provisions would serve the public in two ways. First, the availability of arbitration with its numerous advantages will enhance the patent system and thus will encourage innovation. This view is supported by the Committee for Economic Development in their January 1980 statement entitled "Stimulating Technological Progress." Secondly, arbitration could relieve some of the burdens on the overworked Federal courts. Chief Justice Burger in his speech to the American Bar Association on January 24, 1982, generally endorsed the use of arbitration to reduce the judicial backlog. Also, I think it is important to note that the American Bar Association's Section on Patent, Trademark and Copyright Law has endorsed court enforcement of arbitration agreements calling for arbitration of validity and infringement. • • • •

APPENDIX B

# PACIFIC INDUSTRIAL PROPERTY ASSOCIATION CONCILIATION SYSTEM

# 太平洋工業所有権協会の調停機構

## 1975

PACIFIC INDUSTRIAL PROPERTY ASSOCIATION

APPENDIX B
( continued )

# PACIFIC INDUSTRIAL PROPERTY ASSOCIATION CONCILIATION SYSTEM


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## INTRODUCTION TO PIPA CONCILIATION

The Pacific Industrial Property Association was formed in 1970, by 86 leading Japanese and United States corporations. Its membership, as of May 1975, numbers 147 companies. The purposes of this Association, as stated in its Constitution, include

(i) fostering rights and interests in industrial property, such as inventions, patents, licenses, trademarks, confidential technology, and know-how;

(ii) promoting commercial progress through innovative technology and distinctive marks of origin, and related industrial property rights; and

(iii) supporting institutions favoring the recognition of rights and interests in industrial property;

all particularly as concerns the industry and commerce of the United States of America and Japan, as well as other industrialized nations bordering the Pacific Ocean, such as Canada, and more particularly as concerns the commercial and industrial relations of enterprises in these countries with each other and with the rest of the world.

As one aspect of the implementation of these purposes, this Association has adopted a procedure for the conciliation of disputes that might arise in the industrial property field. The basic principles followed in preparing the Rules and Regulations for this procedure are these:

a procedure that is simple to invoke, yet which carries enough formality that the parties and the conciliator will know how to proceed;

a procedure that is non-binding, and thus encourages participation, since it does not penalize either party if the dispute remains unsettled;

a procedure that protects the proprietary and confidential information of the participants; and

a procedure that is open to non-members as well as members of PIPA, to give it the broadest possible value.

The Rules include the following major points:

Article 1 requires that one party to the dispute be a resident or national of Japan or the United States.

Article 2 imposes on PIPA the obligation of maintaining a Panel of at least ten possible conciliators, experts in various aspects of industrial property. The parties need not select a member of this panel, if they agree on some other conciliator.

Article 3 sets out the method for invoking this procedure, by writing to the Secretary of either the Japanese or American Group. Article 6 affirms the privacy of the proceedings, including the identity of the participants.

Article 7 suggests a 30-day limit to the conciliation process, unless the parties themselves want to extend it. It further affirms that nothing said in the course of an unsuccessful conciliation, for example offers at compromise, shall be used against a party.

The Appendix is a suggested clause for incorporation into contracts on industrial property.

The Regulations provide some elaboration to the Rules, and contain additional guidance on the mechanics of conciliation.

Comments and suggestions are welcomed from those who may participate in this procedure.

## PACIFIC INDUSTRIAL PROPERTY ASSOCIATION
## RULES FOR CONCILIATION

Article 1.

The objective of conciliation and the procedures therefor are to facilitate the settlement of disputes relating to intellectual property matters, outside the courts. Conciliation shall be made available under the auspices of the Pacific Industrial Property Association (hereinafter PIPA) whenever at least one party to the dispute is a resident or national of one of the countries of PIPA.

Article 2.

(a) PIPA shall maintain a Panel of at least ten persons who shall have been approved by the Board of Governors, and who have stated their willingness to act as conciliators, subject to availability at any given time.

(b) The Panel of conciliators shall include experts in industrial property from both member states of PIPA and from non-member states. However, at the request of the parties, a conciliator for any particular dispute need not be selected from this Panel but may be any expert in intellectual property matters approved by the Board of Governors.

(c) Administration of these Rules and accompanying Regulations shall be carried out by the Secretaries of the American and Japanese Groups, or by other persons designated by them and approved by the President of the pertinent Group, which persons shall hereafter be included in the term "Secretary" for the purposes of these Rules and Regulations.

(d) The Secretaries of the American and Japanese Groups shall each maintain a current file of approved conciliators, their qualifications, fields of expertise, fees, and any other available pertinent information

Article 3.

(a) The application for initiation of the conciliation procedure shall be made in writing by either party or by both parties to the Secretary of either the American or the Japanese Group, as appropriate, stating the general subject of the dispute. Such Secretary shall determine, subject to advice and consent by the Board of Governors, whether the subject and character of the dispute falls within these Rules and Regulations and is subject to conciliation hereunder, and shall promptly so notify the applicant(s). The applicant(s) shall make a written declaration that he (they) will submit to conciliation in accordance with these Rules, and that he(they) will not commence any legal action until this conciliation is deemed to have failed.

(b) If only one party applies for the conciliation procedure, the appropriate

Secretary shall promptly notify the other party, requesting that it state, within thirty (30) days, whether it agrees to submit to conciliation in accordance with these Rules.

(c) If such other party rejects the PIPA conciliation procedure or fails to reply to the Secretary's notification and request, the Secretary shall notify the applicant that the conciliation procedure cannot be implemented.

Article 4.

If both parties have agreed to conciliation, the appropriate Secretary shall advise the parties of the Panel of possible conciliators, and shall use his best efforts to assist the parties in selecting an acceptable conciliator who is able to act. If no such conciliator is selected within forty-five (45) days after the parties have agreed to conciliation (or such longer time as mutually agreed), all proceedings under these Rules are terminated. Unless the parties agree otherwise, there shall be one conciliator selected.

Article 5.

(a) Following selection of the conciliator, the appropriate Secretary shall, in consultation with the parties and the conciliator, set a date and location for commencement of conciliation, and for continuing meetings during the conciliation procedure. Representatives of the parties may include counsel and shall include persons who are authorized to act on behalf of the parties.

(b) The representatives of the parties shall meet together with the conciliator, and shall provide and exchange appropriate documentation to facilitate settlement of the dispute, with full and open discussion of the issues, subject to any confidentiality restrictions agreed upon by the parties. Such conciliation shall proceed diligently, including subsequent meetings which may be held by mutual agreement, and the parties shall act in good faith to reach a prompt and acceptable conclusion.

Article 6

(a) The conciliation procedure shall be private, and all documentation, the proceedings, and results shall be maintained in confidence by the participants, the conciliator, and the Secretary and other PIPA officials and their designates. The conciliator shall, promptly following conclusion of conciliation, destroy or return all documentation and materials related to the conciliation. No report other than statistical shall be made by the conciliator or by the Secretary, and the parties will not be identified without their consent.

(b) No proposed settlement shall be binding unless agreed to by the parties and contained in a signed written agreement. The conciliator shall be prepared to assist the parties in reaching a written agreement, which in such event shall be deemed part of the conciliation process.

(c) The conciliator shall notify the appropriate Secretary of termination of conciliation, and shall advise whether the parties reached agreement.

(d) Upon termination of the conciliation, in order to maintain the confidentiality of the same, the appropriate Secretary shall remove from his files all correspondence involving the participants, and immediately destroy the same.

Article 7.

(a) If no agreement is reached within thirty (30) days after the commencement of meeting with the conciliator, conciliation under these Rules will be deemed to have failed, and the conciliator shall so notify the Secretary. This time period can be extended by common consent.

(b) Upon failure of the attempt at conciliation, the parties shall be free to act in accordance with other available procedures.

(c) Neither statements, proposals, offers of compromise, nor any other aspect of a failed conciliation procedure shall be binding upon either party, nor may they be introduced in any subsequent proceedings.

Article 8.

(a) A fee shall be paid to PIPA for the costs and administration of such conciliation procedures, as set forth in the Regulations. Such fee shall be due and payable when the application for initiation of the conciliation procedure is made in writing by either or both parties to the pertinent Secretary. This fee is not returnable, unless the Secretary determines that the dispute is not subject to conciliation hereunder, as set forth in Article 3(a), in which event the fee shall be refunded at the time the Secretary so notifies the applicant(s). The parties shall each bear their own additional expenses.

(b) The conciliator is not an agent of PIPA. Any fees or expenses of the conciliator shall be shared equally by the parties, and paid directly to the conciliator.

Article 9.

Regulations shall be issued from time to time for the purpose of implementing and supplementing these Rules.

Article 10.

These Rules may be amended by majority vote taken, subject to prior notice, of those present and voting at any annual meeting of PIPA. The Regulations may be amended at any time by a majority vote of the Board of Governors.

Article 11.

(a) The Board of Governors, through the Secretaries of each national group or such

other person or persons designated for this purpose, is responsible for administration of these Rules and Regulations.

(b) The Secretaries or such other person or persons designated for this purpose shall report annually on the use and their estimate of the value of this conciliation procedure (without identifying participants), and shall recommend changes in the Rules and/or Regulations as necessary.

. . . . . .

Appendix to Rules.

The following clause may be incorporated in contracts pertaining to industrial property matters between Japanese and American companies:

"Any dispute arising out of this contract which the parties are unable to settle between themselves shall be submitted to conciliation in accordance with the Rules for Conciliation of the Pacific Industrial Property Association, before any other remedy is pursued."

# PACIFIC INDUSTRIAL PROPERTY ASSOCIATION

## REGULATIONS

The following Regulations are for the purpose of implementing and supplementing the Rules for Conciliation of disputes on intellectual property matters, and are to be applied in conjunction therewith.

1. Subject matter for PIPA conciliation

   Disputes involving:

   a. Patents
   b. Trademarks
   c. Copyright
   d. Know-how
   e. Technical information
   f. Trade secrets

   Examples:

   a. License agreements
   b. Secrecy agreements
   c. Other contracts on the above subject matter
   d. Validity, interpretation, and/or scope of patents
   e. Infringement matters

   Not included:

   Conciliations in conflict with national legal considerations affecting either party.

2. Panel of conciliators

   a. An eventual panel of fifteen to twenty persons is contemplated, depending on need, but PIPA participation shall not become effective until a minimum of ten (10) conciliators have been selected and have agreed to become members of the Panel.

   b. The Board of Governors shall be responsible for the selection of the Panel. Committee 4 shall provide the Board of Governors with a list of proposed Panel members as they are initially and from time to time required.

   c. The Panel shall include experts, to the extent possible, in the various aspects and technical fields of intellectual property.

   d. The Panel preferably shall comprise about one-third Japanese experts, one-third American experts, and one-third from other countries, but this proportion shall not be binding upon the Board of Governors except to the extent that the number of Japanese and American experts shall be substantially equal.

c. Upon the written request of any PIPA member or any other person having an interest in the PIPA conciliation procedure, all pertinent information including a copy of the Rules and Regulations shall be provided to such person by the Secretary of either Group.

3 Conciliation procedures

a. Conciliation proceedings may be commenced by either party to a dispute upon notice to the other party in accordance with the Rules.

b. In setting dates and locations for commencement and continuation of conciliation, the parties shall have due consideration for the convenience of each other and of the conciliator.

c. To the extent possible, an adequate block of time shall be set aside to permit conclusion of conciliation in consecutive daily sessions.

d. The consiliator is expected to conduct an orderly exchange, while maintaining the necessary informality of this type of procedure. The submission of oral and written arguments and objections shall be at the discretion of the conciliator.

4. Fees

The fee paid to PIPA in accordance with Article 8(a) of the Rules shall be $100.00 per party, or such other fee as may be set by amendement of these Regulations.

5. Language

a. The conciliation procedure may be carried out in any language or languages selected by each party, with due consideration to the convenience of each other and the conciliator.

b. When either party requires for itself translation or interpretation, such shall be at its own initiative and expense

c. When the conciliator requires or requests translation or interpretation in order to carry out his duties, any additional expense of such translation or interpretation shall be shared equally by the parties to the conciliation.

## OFFICE FOR APPLICATION

**The application for initiation of the conciliation procedure shall be made for the attention of**

The Secretary of American Gronp of PIPA
Pacific Industrial Property Association
P.O. Box 3477
Grand Central Station
New York, New York 10017, U.S.A.

or

The Secretary of Japanese Group of PIPA
c/o Japan Patent Association
Kanda Sanwa Building 4 F
5, 2-chome, Kanda Ogawamachi
Chiyoda-ku, Tokyo, 101, Japan
Tel. 03-295-8475

## The New Amendment to the United States Code . . .

### 35 USC 294

# VOLUNTARY ARBITRATION

(a) A contract involving a patent or any right under a patent may contain a provision requiring arbitration of any dispute relating to patent validity or infringement arising under the contract. In the absence of such a provision, the parties to an existing patent validity or infringement dispute may agree in writing to settle such dispute by arbitration. Any such provision or agreement shall be valid, irrevocable and enforceable, except for any grounds that exist at law or in equity for revocation of a contract.

(b) Arbitration of such disputes, awards by arbitrators and confirmation of awards shall be governed by title 9, United States Code, to the extent such title is not inconsistent with this section. In any such arbitration proceeding, the defenses provided for under section 282 of this title shall be considered by the arbitrator if raised by any party to the proceeding.

(c) An award by an arbitrator shall be final and binding between the parties to the arbitration but shall have no force or effect on any other person. The parties to an arbitration may agree that in the event a patent which is the subject matter of an award is subsequently determined to be invalid or unenforceable in a judgment rendered by a court of competent jurisdiction from which no appeal can or has been taken, such award may be modified by any court of competent jurisdiction upon application by any party to the arbitration. Any such modification shall govern the rights and obligations between such parties from the date of such modification.

(d) When an award is made by an arbitrator, the patentee, his assignee or licensee shall give notice thereof in writing to the Commissioner. There shall be a separate notice prepared for each patent involved in such proceeding. Such notice shall set forth the names and addresses of the parties, the name of the inventor, and the name of the patent owner, shall designate the number of the patent, and shall contain a copy of the award. If an award is modified by a court, the party requesting such modification shall give notice of such modification to the Commissioner. The Commissioner shall, upon receipt of either notice, enter the same in the record of the prosecution of such patent. If the required notice is not filed with the Commissioner, any party to the proceeding may provide such notice to the Commissioner.

(e) The award shall be unenforceable until the notice required by subsection (d) is received by the Commissioner.

NEW PATENT OFFICE RULE 335
IMPLEMENTING 35 U.S.C. 294

## § 1.335 Filing of notice of arbitration awards.

(a) Written notice of any award by an arbitrator pursuant to 35 U.S.C. 294 must be filed in the Patent and Trademark Office by the patentee, or the patentee's assignee or licensee. If the award involves more than one patent a separate notice must be filed for placement in the file of each patent. The notice must set forth the patent number, the names of the inventor and patent owner, and the names and addresses of the parties to the arbitration. The notice must also include a copy of the award.

(b) If an award by an arbitrator pursuant to 35 U.S.C. 294 is modified by a court, the party requesting the modification must file in the Patent and Trademark Office, a notice of the modification for placement in the file of each patent to which the modification applies. The notice must set forth the patent number, the names of the inventor and patent owner, and the names and addresses of the parties to the arbitration. The notice must also include a copy of the court's order modifying the award.

(c) Any award by an arbitrator pursuant to 35 U.S.C. 294 shall be unenforceable until any notices required by paragraph (a) or (b) of this section are filed in the Patent and Trademark Office. If any required notice is not filed by the party designated in paragraph (a) or (b) of this section, any party to the arbitration proceeding may file such a notice.

[48 FR 2696, Jan. 20, 1983; effective Feb. 27, 1983]

APPENDIX E

## "PATENT ARBITRATION RULES"

### For the Arbitration of Future Patent Disputes:

The American Arbitration Association recommends the following arbitration clause for insertion in all patent contracts:

**STANDARD PATENT ARBITRATION CLAUSE**

Any controversy or claim arising out of or relating to this contract, or the breach thereof, including any dispute relating to patent validity or infringement arising under this contract, shall be settled by arbitration in accordance with the Patent Arbitration Rules of the American Arbitration Association, and judgment upon the award rendered by the Arbitrator(s) may be entered in any Court having jurisdiction thereof.

### For the Submission of Existing Patent Disputes:

We, the undersigned parties, hereby submit to arbitration under the Patent Arbitration Rules of the American Arbitration Association the following controversy: (cite briefly the matter in dispute, including specific reference to any existing patent validity or infringement dispute arbitrable under 35 U.S.C. §294(a)). We further agree that the above controversy be submitted to (one) (three) Arbitrator(s) selected from the National Panel of Patent Arbitrators of the American Arbitration Association. We further agree that we will faithfully observe this agreement and the Rules and that we will abide by and perform any award and that a judgment of a Court having jurisdiction may be entered upon the award.

# Patent Arbitration Rules

### 1. Agreement of Parties

The parties shall be deemed to have made these Rules a part of their arbitration agreement whenever they have provided for arbitration by the American Arbitration Association under its Patent Arbitration Rules. These Rules and any amendment thereof shall apply in the form obtaining at the time the arbitration is initiated.

### 2. Name of Tribunal

Any Tribunal constituted by the parties for the settlement of their dispute under these Rules shall be called the Patent Arbitration Tribunal.

### 3. Administrator

When parties agree to arbitrate under these Rules, or when they provide for arbitration by the American Arbitration Association under its Patent Arbitration Rules and an arbitration is initiated thereunder, they thereby constitute AAA the administrator of the arbitration. The authority and obligations of the administrator are prescribed in the agreement of the parties and in these Rules.

### 4. Delegation of Duties

The duties of the AAA under these Rules may be carried out through Tribunal Administrators or such other officers or committees as the AAA may direct.

### 5. National Panel of Patent Arbitrators

The AAA shall establish and maintain a National Panel of Patent Arbitrators which will include individuals having experience in patent law and/or special technical expertise and shall appoint Arbitrators therefrom as hereinafter provided.

### 6. Office of Tribunal

The general office of a Tribunal is the headquarters of the AAA, which may, however, assign the administration of an arbitration to any of its Regional Offices.

### 7. Initiation under an Arbitration Provision in a Contract

Arbitration under an arbitration provision in a contract may be initiated in the following manner:

(a) The initiating party shall give notice to the other party of its intention to arbitrate (Demand), which notice shall contain a statement setting forth the nature of the dispute, the amount involved, if any, the remedy sought, and

(b) The initiating party shall file at any Regional Office of the AAA three copies of said notice, together with three copies of the arbitration provisions of the contract, together with the appropriate administrative fee as provided in the Administrative Fee Schedule. The AAA shall give notice of such filing to the other party. The party upon whom the Demand for Arbitration is made may file an answering statement in duplicate with the AAA within twenty days after notice from the AAA, in which event said party shall simultaneously send a copy of the answer to the other party. If a counterclaim is asserted it shall contain a statement setting forth the nature of the counterclaim, the amount involved, if any, and the remedy sought. If a monetary claim is made in the answer, the appropriate fee provided in the Administrative Fee Schedule shall be forwarded to the AAA with the answer. If no answer is filed within the stated time, it will be assumed that the claim is denied. Failure to file an answer shall not operate to delay the arbitration.

### 8. Change of Claim

After filing of the claim, if either party desires to make any new or different claim, such claim shall be made in writing and filed with the AAA, and a copy thereof shall be mailed to the other party, who shall have a period of twenty days from the date of such mailing within which to file an answer with the AAA. After the Arbitrator is appointed, however, no new or different claim may be submitted except with the Arbitrator's consent.

### 9. Initiation under a Submission

Parties to any existing dispute may commence an arbitration under these Rules by filing at any Regional Office two copies of a written agreement to arbitrate under these Rules (Submission), signed by the parties. It shall contain a statement of the matter in dispute, the amount of money involved, if any, and the remedy sought, together with the appropriate administrative fee as provided in the Administrative Fee Schedule.

### 10. Administrative Conference

At the request of the parties or at the discretion of the AAA a meeting with the administrator and the parties or their counsel will be scheduled to facilitate the administrative arrangements for the arbitration.

### 11. Fixing of Locale

The parties may mutually agree on the locale where the arbitration is to be held. If the locale is not designated within twenty days from the date of filing the Demand or Submission, the AAA shall have power to determine the locale. Its decision shall be final and binding. If any party requests that the hearing be held in a specific locale and the other party files no objection thereto within twenty days after notice of the request, the locale shall be the one requested.

### 12. Qualifications of Arbitrator

Any Arbitrator appointed pursuant to Section 13 or Section 15 shall be neutral subject to disqualification for the reasons specified in Section 19. If the agreement of the parties names an Arbitrator or specifies any other method of appointing an Arbitrator, or if the parties specifically agree in writing, such Arbitrator shall not be subject to disqualification for said reasons.

### 13. Appointment from Panel

If the parties have not appointed an Arbitrator and have not provided any other method of appointment, each Arbitrator shall be appointed in the following manner: Immediately after the filing of the Demand or Submission, the AAA shall submit simultaneously to each party to the dispute an identical list of names of persons chosen from the National Panel of Patent Arbitrators. Each party to the dispute shall have seven days from the mailing date in which to cross off any names objected to, number the remaining names to indicate the order of preference, and return the list to the AAA. If a party does not return the list within the time specified, all persons named therein shall be deemed acceptable. From among the persons who have been approved on both lists, and in accordance with the designated order of mutual preference, the AAA shall invite the acceptance of an Arbitrator to serve. If the parties fail to agree upon any of the persons named, or if acceptable Arbitrators are unable to act, or if for any other reason the appointment cannot be made from the submitted lists, the AAA shall have the power to make the appointment from among other members of the National Panel of Patent Arbitrators without the submission of any additional list.

Any Arbitrator appointed pursuant to this section or any Chairman appointed pursuant to Section 15 shall be skilled in patent law.

### 14. Direct Appointment by Parties

If the agreement of the parties names an Arbitrator or specifies a method of appointing an Arbitrator, that designation or method shall be followed. The notice of appointment, with name and address of the appointing party, shall be filed with the AAA by the appointing party. Upon the request of any such appointing party, the AAA shall submit a list of members of the National Panel of Patent Arbitrators from which the party may, if it so desires, make the appointment.

If the agreement specifies a period of time within which an Arbitrator shall be appointed and any party fails to make such appointment within that period, the AAA shall make the appointment.
If no period of time is specified in the agreement, the AAA shall notify the parties to make the appointment and if within seven days thereafter such Arbitrator has not been so appointed, the AAA shall make the appointment.

### 15. Appointment of Neutral Arbitrator by Party-Appointed Arbitrators

If the parties have appointed their Arbitrators or if either or both of them have been appointed as provided in Section 14 and have authorized such Arbitrators to appoint a neutral Arbitrator within a specified time and no appointment is made within such time or any agreed extension thereof, the AAA shall appoint a neutral Arbitrator, who shall act as Chairman.

If no period of time is specified for appointment of the neutral Arbitrator and the parties do not make the appointment within seven days from the date of the appointment of the last party-appointed Arbitrator, the AAA shall appoint such neutral Arbitrator, who shall act as Chairman.

If the parties have agreed that their Arbitrators shall appoint the neutral Arbitrator from the National Panel of Patent Arbitrators, the AAA shall furnish to the party-appointed Arbitrators, in the manner prescribed in Section 13, a list selected from the National Panel of Patent Arbitrators, and the appointment of the neutral Arbitrator shall be made as prescribed in such Section.

### 16. Nationality of Arbitrator in International Arbitration
If one of the parties is a national or resident of a country other than the United States, the sole Arbitrator or the neutral Arbitrator shall, upon the request of both parties, be appointed from among the nationals of a country other than that of any of the parties.

### 17. Number of Arbitrators
If the arbitration agreement does not specify the number of Arbitrators, the dispute shall be heard and determined by one Arbitrator, unless the AAA, in its discretion, directs that a greater number of Arbitrators be appointed.

### 18. Notice to Arbitrator of Appointment
Notice of the appointment of the neutral Arbitrator, whether appointed by the parties or by the AAA, together with a copy of these Rules and the signed acceptance of the Arbitrator, shall be filed with the administrator prior to the opening of the first hearing.

### 19. Disclosure and Challenge Procedure
A person appointed as neutral Arbitrator shall disclose to the AAA any circumstances likely to affect impartiality, including any bias or any financial or personal interest in the result of the arbitration or any past or present relationship with the parties or their counsel. Upon receipt of such information from such Arbitrator or other source, the AAA shall communicate such information to the parties, and if it deems it appropriate to do so, to the Arbitrator and others. Thereafter, the AAA shall determine whether the Arbitrator should be disqualified and shall inform the parties of its decision, which shall be conclusive.

### 20. Vacancies
If any Arbitrator should resign, die, withdraw, refuse, be disqualified or be unable to perform the duties of the office, the AAA may, on proof satisfactory to it, declare the office vacant. Vacancies shall be filled in accordance with the applicable provisions of these Rules and the matter shall be reheard unless the parties shall agree otherwise.

### 21. Time and Place
The Arbitrator shall fix the time and place for each hearing. The AAA shall mail to each party notice thereof at least five days in advance, unless the parties by mutual agreement waive such notice or modify the terms thereof.

### 22. Representation by Counsel
Any party may be represented by counsel. A party intending to be so represented shall notify the other party and the AAA of the name and address of counsel at least three days prior to the date set for the hearing at which counsel is first to appear. When an arbitration is initiated by counsel, or where an attorney replies for the other party, such notice is deemed to have been given.

### 23. Stenographic Record
The AAA shall make the necessary arrangements for the taking of a stenographic record whenever such record is requested by a party. The requesting party or parties shall pay the cost of such record as provided in Section 50.

### 24. Interpreter
The AAA shall make the necessary arrangements for the services of an interpreter upon the request of one or more of the parties, who shall assume the cost of such service.

### 25. Attendance at Hearings
The Arbitrator shall maintain the privacy of the hearings unless the law provides to the contrary. The parties and their representatives shall have the right to attend hearings. The Arbitrator shall otherwise have the power to require the exclusion of any witness, other than a party or other essential person, during the testimony of any other witness. It shall be discretionary with the Arbitrator to determine the propriety of the attendance of any person other than a party.

### 26. Adjournments
The Arbitrator may take adjournments upon the request of a party or upon the Arbitrator's own initiative and shall take such adjournment when all of the parties agree thereto.

### 27. Oaths
Before proceeding with the first hearing or with the examination of the file, each Arbitrator may take an oath of office, and if required by law, shall do so. The Arbitrator has discretion to require witnesses to testify under oath administered by any duly qualified person or, if required by law or demanded by either party, shall do so.

### 28. Majority Decision
Whenever there is more than one Arbitrator, all decisions of the Arbitrators must be by at least a majority. The award must also be made by at least a majority unless the concurrence of all is expressly required by the arbitration agreement or by law.

### 29. Order of Proceedings

Unless the parties agree otherwise, a preliminary hearing with the parties will be scheduled by the Arbitrator to specify the issues to be resolved and to stipulate uncontested facts. Consistent with the expedited nature of arbitration, the Arbitrator shall, at the preliminary hearing, establish (i) the extent of and a schedule for the production of relevant documents and other information, the identification of any witnesses to be called and a schedule for any hearings to elicit facts solely within the knowledge of one party, and (ii) a schedule for further hearings to resolve the dispute.

Each hearing shall be opened by the recording of the place, time and date of the hearing and the presence of the Arbitrator, the parties, their counsel, and all other persons. The Arbitrator may, at the beginning of a hearing, ask for opening statements.

The Arbitrator shall have discretion to establish the procedure at any hearing but shall offer full and equal opportunity to all parties for the presentation of any material or relevant proofs. All witnesses shall submit to questions or other examination. Unless the Arbitrator orders otherwise, at any hearing in which claims, defenses or proofs are presented, the complaining party shall proceed first. Exhibits received in evidence and the identity of all witnesses shall be made a part of the record.

### 30. Arbitration in the Absence of a Party

Unless the law provides to the contrary, the arbitration may proceed in the absence of any party who, after due notice, fails to be present or fails to obtain an adjournment. An award shall not be made solely on the default of a party. The Arbitrator shall require the party who is present to submit such evidence as the Arbitrator may require for the making of an award.

### 31. Evidence

The parties may offer such evidence as is pertinent and material to the controversy and shall produce such additional evidence as the Arbitrator may deem necessary to an understanding and determination of the controversy. The Arbitrator, when authorized by law to subpoena witnesses or documents, may do so upon the Arbitrator's own initiative or upon the request of any party, with notice to all parties. The Arbitrator may subpoena witnesses by describing with reasonable particularity the matter on which testimony is required and directing the subpoena to an organization which will be responsible for designating an appropriate witness.

The Arbitrator shall be the judge of the relevancy and materiality of the evidence offered, and conformity to legal rules of evidence shall not be necessary. All evidence shall be taken in the presence of all the Arbitrators and of all the parties, except where any of the parties is absent in default or has waived the right to be present.

### 32. Evidence by Affidavit and Filing of Documents

The Arbitrator shall receive and consider the evidence of witnesses by affidavit, but shall give it only such weight as the Arbitrator deems it entitled to after consideration of any objections made to its admission. All documents not filed with the Arbitrator at the hearing, but arranged for at the hearing or subsequently by agreement of the parties, shall be filed with the AAA for transmission to the Arbitrator. All parties shall be afforded opportunity to examine such documents.

### 33. Inspection or Investigation

Whenever the Arbitrator deems it necessary to make an inspection or investigation in connection with the arbitration, the Arbitrator shall direct the AAA to advise the parties of such intention. The Arbitrator shall set the time and AAA shall notify the parties thereof. Any party who so desires may be present at such inspection or investigation. In the event that one or both parties are not present at the inspection or investigation, the Arbitrator shall make a verbal or written report to the parties and afford them an opportunity to comment.

### 34. Conservation and Protection of Property

The Arbitrator may issue such orders or interim awards as may be deemed necessary to safeguard the property that is the subject matter of the arbitration, to preserve evidence and/or to protect any trade secrets or other proprietary information that might be disclosed during the arbitration.

### 35. Closing of Hearings

The Arbitrator shall specifically inquire of all parties whether they have any further proofs to offer or witnesses to be heard. Upon receiving negative replies, the Arbitrator shall declare the hearings closed and a minute thereof shall be recorded. If briefs are to be filed, the hearings shall be declared closed as of the final date set by the Arbitrator for the receipt of briefs. If documents are to be filed as provided for in Section 32 and the date set for their receipt is later than that set for the receipt of briefs, the later date shall be the date of closing the hearings. The time limit within which the Arbitra-

tor is required to make the award shall commence to run, in the absence of other agreements by the parties, upon the closing of the hearings.

### 36. Reopening of Hearings

The hearings may be reopened on the Arbitrator's own motion, or upon application of a party at any time before the award is made. If the reopening of the hearings would prevent the making of the award within the specific time agreed upon by the parties in the contract out of which the controversy has arisen, the matter may not be reopened unless the parties agree upon the extension of such time limit. When no specific date is fixed in the contract, the Arbitrator may reopen the hearings, and the Arbitrator shall have sixty days from the closing of the reopened hearings within which to make an award.

### 37. Waiver of Oral Hearings

The parties may provide, by written agreement, for the waiver of oral hearings. If the parties agree to waive oral hearings but are unable to agree as to the procedure, the Arbitrator shall specify a fair and equitable procedure.

### 38. Waiver of Rules

Any party who proceeds with the arbitration after knowledge that any provision or requirement of these Rules has not been complied with, and who fails to state objection thereto in writing, shall be deemed to have waived the right to object.

### 39. Extensions of Time

The parties may modify any period of time by mutual agreement. The AAA for good cause may extend any period of time established by these Rules, except the time for making the award. The AAA shall notify the parties of any such extension of time and its reason therefor.

### 40. Communication with Arbitrator and Serving of Notice

(a) Unless the parties and the Arbitrator otherwise agree, there shall be no communication between the parties and a neutral Arbitrator other than at oral hearings. Any other oral or written communications from the parties to the Arbitrator shall be directed to the AAA for transmittal to the Arbitrator.

(b) Each party to an agreement that provides for arbitration under these Rules shall be deemed to have consented that any papers, notices or process necessary or proper for the initiation or continuation of an arbitration under these Rules and for any court action in connection therewith or for the entry of judgment on any award made thereunder may be served upon such party by mail addressed to such party or its attorney at its last known address, or by personal service within or without the state wherein the arbitration is to be held (whether such party be within or without the United States of America), provided that reasonable opportunity to be heard with regard thereto has been granted such party.

### 41. Time of Award

The award shall be made promptly by the Arbitrator and, unless otherwise agreed by the parties or specified by law, no later than sixty days from the date of closing the hearings, or if oral hearings have been waived, from the date of transmitting the final statements and proofs to the Arbitrator.

### 42. Form of Award

The award shall be in writing and shall be signed either by the sole Arbitrator or by at least a majority if there is more than one. It shall be executed in the manner required by law.

### 43. Scope of Award

The Arbitrator may grant any remedy or relief which the Arbitrator deems just and equitable and within the scope of the agreement of the parties, including, but not limited to, specific performance of a contract or injunctive relief to terminate infringement. The Arbitrator, in the award, shall assess arbitration fees and expenses in favor of any party or parties and, in the event any administrative fees or expenses are due the AAA, in favor of the AAA.

### 44. Award upon Settlement

If the parties settle their dispute during the course of the arbitration, the Arbitrator, upon their request, may set forth the terms of the agreed settlement in an award.

### 45. Delivery of Award to Parties
Parties shall accept as legal delivery of the award the placing of the award or a true copy thereof in the mail by the AAA, addressed to such party at its last known address or to its attorney, or personal service of the award, or the filing of the award in any manner that may be prescribed by law.

### 46. Release of Documents for Judicial Proceedings
The AAA shall, upon written request of a party, furnish to such party, at its expense, certified facsimiles of any papers in the AAA's possession that may be required in judicial proceedings relating to the arbitration or as required for filing with the Commissioner of Patents and Trademarks.

### 47. Applications to Court
(a) No judicial proceedings by a party relating to the subject matter of the arbitration shall be deemed a waiver of the party's right to arbitrate.

(b) Neither the AAA nor any Arbitrator in a proceeding under these Rules is a necessary party in judicial proceedings relating to the arbitration.

(c) Parties to these Rules shall be deemed to have consented that judgment upon the arbitration award may be entered in any Federal or State Court having jurisdiction thereof.

### 48. Administrative Fees
As a not-for-profit organization, the AAA shall prescribe an Administrative Fee Schedule and a Refund Schedule to compensate it for the cost of providing administrative services. The schedule in effect at the time of filing or the time of refund shall be applicable.

The administrative fees shall be advanced by the initiating party or parties, subject to final apportionment by the Arbitrator in the award.

When a matter is withdrawn or settled, the refund shall be made in accordance with the Refund Schedule.

The AAA, in the event of extreme hardship on the part of any party, may defer or reduce the administrative fee.

### 49. Fee When Oral Hearings Are Waived
When all oral hearings are waived under Section 37, the Administrative Fee Schedule shall apply.

### 50. Expenses
The expenses of witnesses for either side shall be paid by the party calling such witnesses.

The cost of the stenographic record, if any is made, and all transcripts thereof, shall be prorated equally among all parties ordering copies unless they shall otherwise agree and shall be paid for by the responsible parties directly to the reporting agency. All other expenses of the arbitration, including required traveling and other expenses of the Arbitrator and of AAA representatives, and the expenses of any witness or the cost of any proofs produced at the direct request of the Arbitrator, and the neutral Arbitrator's fee shall be borne equally by the parties, unless they agree otherwise, or unless the Arbitrator, in the award, assesses such expenses or any part thereof against any specified party or parties.

### 51. Arbitrator's Fee
The per diem fee for each neutral Arbitrator shall be agreed to by the parties and the Arbitrator prior to the commencement of any of the activities by the Arbitrator. The arrangements for compensation shall be made through the AAA and not directly between the parties and the Arbitrator. If, in the opinion of the AAA, the parties do not reach agreement on the per diem fee of a neutral Arbitrator within a reasonable time, the AAA will have the sole power to determine the per diem fee and will communicate it in writing to the parties and the neutral Arbitrator.

### 52. Deposits
The AAA may require the parties to deposit in advance such sums of money as it deems necessary to defray the expense of the arbitration, including the Arbitrator's fee, and shall render an accounting to the parties and return any unexpended balance.

### 53. Interpretation and Application of Rules
The Arbitrator shall interpret and apply these Rules insofar as they relate to the Arbitrator's powers and duties. When there is more than one Arbitrator and a difference arises among them concerning the meaning or application of any such Rules, it shall be decided by a majority vote. If that is unobtainable, either an Arbitrator or a party may refer the question to the AAA for final decision. All other Rules shall be interpreted and applied by the AAA.

## ADMINISTRATIVE FEE SCHEDULE

The administrative fee of the AAA is based upon the amount of each claim and counterclaim as disclosed when the claim and counterclaim are filed, and is due and payable at the time of filing.

| Amount of Claim | Fee |
|---|---|
| $1 to $20,000 | 3% (minimum $200) |
| $20,000 to $40,000 | $600. plus 2% of excess over $20,000 |
| $40,000 to $80,000 | $1000. plus 1% of excess over $40,000 |
| $80,000 to $160,000 | $1400. plus ½% of excess over $80,000 |
| $160,000 to $5,000,000 | $1800. plus ¼% of excess over $160,000 |

Where the claim or counterclaim exceeds $5 million, an appropriate fee will be determined by the AAA.

When no amount can be stated at the time of filing, the administrative fee is $500, subject to adjustment in accordance with the above schedule as soon as an amount can be disclosed. In those claims and counterclaims which are not for a monetary amount, an appropriate administrative fee will be determined by the AAA.

If there are more than two parties represented in the arbitration, an additional 10% of the initiating fee will be due for each additional represented party.

## OTHER SERVICE CHARGES

$50 payable by a party causing an adjournment of any scheduled hearing;

$100 payable by a party causing a second or additional adjournment of any scheduled hearing;

$50 payable by each party for each hearing after the first hearing which is either clerked by the AAA or held in a hearing room provided by the AAA.

## REFUND SCHEDULE

If the AAA is notified that a case has been settled or withdrawn before a list of Arbitrators has been sent out, all the fee in excess of $200 will be refunded.

If the AAA is notified that a case has been settled or withdrawn thereafter, but before the due date for the return of the first list, two-thirds of the fee in excess of $200 will be refunded.

If the AAA is notified that a case is settled or withdrawn thereafter, but at least 48 hours before the date and time set for the first hearing, one-third of the fee in excess of $200 will be refunded.

# TITLE 9 — ARBITRATION

*[This title was enacted into positive law by Act July 30, 1947, ch 392, § 1, 61 Stat. 669]*

Chapter

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2. Convention on the Recognition and Enforcement of Foreign Arbitral Awards ..... 201

## CHAPTER 1. GENERAL PROVISIONS

Section

1. Maritime transactions and commerce defined; exceptions to operation of title
2. Validity, irrevocability, and enforcement of agreements to arbitrate
3. Stay of proceedings where issue therein referable to arbitration
4. Failure to arbitrate under agreement; petition to United States court having jurisdiction for order to compel arbitration; notice and service thereof; hearing and determination
5. Appointment of arbitrators or umpire
6. Application heard as motion
7. Witnesses before arbitrators; fees; compelling attendance
8. Proceedings begun by libel in admiralty and seizure of vessel or property
9. Award of arbitrators; confirmation; jurisdiction; procedure
10. Same; vacation; grounds; rehearing
11. Same; modification or correction; grounds; order
12. Notice of motions to vacate or modify; service; stay of proceedings
13. Papers filed with order on motions; judgment; docketing; force and effect; enforcement
14. Contracts not affected

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### § 1. "Maritime transactions" and "commerce" defined; exceptions to operation of title

"Maritime transactions", as herein defined, means charter parties, bills of lading of water carriers, agreements relating to wharfage, supplies furnished vessels or repairs to vessels, collisions, or any other matters in foreign commerce which, if the subject of controversy, would be embraced within admiralty jurisdiction; "commerce", as herein defined, means commerce among the several States or with foreign nations, or in any Territory of the United States or in the District of Columbia, or between any such Territory and another, or between any such Territory and any State or foreign nation, or between the District of Columbia and any State or Territory or foreign nation, but nothing herein contained shall apply to contracts of employment of seamen, railroad employees, or any other class of workers engaged in foreign or interstate commerce.
(July 30, 1947, ch 392, § 1, 61 Stat. 670.)

### § 2. Validity, irrevocability, and enforcement of agreements to arbitrate

A written provision in any maritime transaction or a contract evidencing a transaction involving commerce to settle by arbitration a controversy thereafter arising out of such contract or transaction, or the refusal to perform the whole or any part thereof, of an agreement in writing to submit to arbitration an existing controversy arising out of such a contract, transaction, or refusal, shall be valid, irrevocable, and enforceable, save upon such grounds as exist at law or in equity for the revocation of any contract.
(July 30, 1947, ch 392, § 1, 61 Stat. 670.)

**§ 3. Stay of proceedings where issue therein referable to arbitration**

If any suit or proceeding be brought in any of the courts of the United States upon any issue referable to arbitration under an agreement in writing for such arbitration, the court in which such suit is pending, upon being satisfied that the issue involved in such suit or proceeding is referable to arbitration under such an agreement, shall on application of one of the parties stay the trial of the action until such arbitration has been had in accordance with the terms of the agreement, providing the applicant for the stay is not in default in proceeding with such arbitration.
(July 30, 1947, ch 392, § 1, 61 Stat. 670.)

**§ 4. Failure to arbitrate under agreement; petition to United States court having jurisdiction for order to compel arbitration; notice and service thereof; hearing and determination**

A party aggrieved by the alleged failure, neglect, or refusal of another to arbitrate under a written agreement for arbitration may petition any United States district court which, save for such agreement, would have jurisdiction under Title 28 [28 USCS], in a civil action or in admiralty of the subject matter of a suit arising out of the controversy between the parties, for an order directing that such arbitration proceed in the manner provided for in such agreement. Five days' notice in writing of such application shall be served upon the party in default. Service thereof shall be made in the manner provided by the Federal Rules of Civil Procedure [USCS Rules of Civil Procedure]. The court shall hear the parties, and upon being satisfied that the making of the agreement for arbitration or the failure to comply therewith is not in issue, the court shall make an order directing the parties to proceed to arbitration in accordance with the terms of the agreement. The hearing and proceedings, under such agreement, shall be within the district in which the petition for an order directing such arbitration is filed. If the making of the arbitration agreement or the failure, neglect, or refusal to perform the same be in issue, the court shall proceed summarily to the trial thereof. If no jury trial be demanded by the party alleged to be in default, or if the matter in dispute is within admiralty jurisdiction, the court shall hear and determine such issue. Where such an issue is raised, the party alleged to be in default may, except in cases of admiralty, on or before the return day of the notice of application, demand a jury trial of such issue, and upon such demand the court shall make an order referring the issue or issues to a jury in the manner provided by the Federal Rules of Civil Procedure [USCS Rules of Civil Procedure], or may specially call a jury for that purpose. If the jury find that no agreement in writing for arbitration was made or that there is no default in proceeding thereunder, the proceeding shall be dismissed. If the jury find that an agreement for arbitration was made in writing and that there is a default in proceeding thereunder, the court shall make an order summarily directing the parties to proceed with the arbitration in accordance with the terms thereof.
(July 30, 1947, ch 392, § 1, 61 Stat. 671; Sept. 3, 1954, ch 1263, § 19, 68 Stat. 1233.)

### § 5. Appointment of arbitrators or umpire

If in the agreement provision be made for a method of naming or appointing an arbitrator or arbitrators or an umpire, such method shall be followed; but if no method be provided therein, or if a method be provided and any party thereto shall fail to avail himself of such method, or if for any other reason there shall be a lapse in the naming of an arbitrator or arbitrators or umpire, or in filling a vacancy, then upon the application of either party to the controversy the court shall designate and appoint an arbitrator or arbitrators or umpire, as the case may require, who shall act under the said agreement with the same force and effect as if he or they had been specifically named therein; and unless otherwise provided in the agreement the arbitration shall be by a single arbitrator.
(July 30, 1947, ch 392, § 1, 61 Stat. 671.)

### § 6. Application heard as motion

Any application to the court hereunder shall be made and heard in the manner provided by law for the making and hearing of motions, except as otherwise herein expressly provided.
(July 30, 1947, ch 392, § 1, 61 Stat. 671.)

### § 7. Witnesses before arbitrators; fees; compelling attendance

The arbitrators selected either as prescribed in this title or otherwise, or a majority of them, may summon in writing any person to attend before them or any of them as a witness and in a proper case to bring with him or them any book, record, document, or paper which may be deemed material as evidence in the case. The fees for such attendance shall be the same as the fees of witnesses before masters of the United States courts. Said summons shall issue in the name of the arbitrator or arbitrators, or a majority of them, and shall be signed by the arbitrators, or a majority of them, and shall be directed to the said person and shall be served in the same manner as subpoenas to appear and testify before the court; if any person or persons so summoned to testify shall refuse or neglect to obey said summons, upon petition the United States district court for the district in which such arbitrators, or a majority of them, are sitting may compel the attendance of such person or persons before said arbitrator or arbitrators, or punish said person or persons for contempt in the same manner provided by law for securing the attendance of witnesses or their punishment for neglect or refusal to attend in the courts of the United States.
(July 30, 1947, ch 392, § 1, 61 Stat. 672; Oct. 31, 1951, ch 655, § 14, 65 Stat. 715.)

**§ 8. Proceedings begun by libel in admiralty and seizure of vessel or property**

If the basis of jurisdiction be a cause of action otherwise justiciable in admiralty, then, notwithstanding anything herein to the contrary, the party claiming to be aggrieved may begin his proceeding hereunder by libel and seizure of the vessel or other property of the other party according to the usual course of admiralty proceedings, and the court shall then have jurisdiction to direct the parties to proceed with the arbitration and shall retain jurisdiction to enter its decree upon the award.
(July 30, 1947, ch 392, § 1, 61 Stat. 672.)

**§ 9. Award of arbitrators; confirmation; jurisdiction; procedure**

If the parties in their agreement have agreed that a judgment of the court shall be that a judgment of the court shall be entered upon the award made pursuant to the arbitration, and shall specify the court, then at any time within one year after the award is made any party to the arbitration may apply to the court so specified for an order confirming the award, and thereupon the court must grant such an order unless the award is vacated, modified, or corrected as prescribed in sections 10 and 11 of this title. If no court is specified in the agreement of the parties, then such application may be made to the United States court in and for the district within which such award was made. Notice of the application shall be served upon the adverse party, and thereupon the court shall have jurisdiction of such party as though he had appeared generally in the proceeding. If the adverse party is a resident of the district within which the award was made, such service shall be made upon the adverse party or his attorney as prescribed by law for service of notice of motion in an action in the same court. If the adverse party shall be a nonresident, then the notice of the

§ 10. Same; vacation; grounds; rehearing

In either of the following cases the United States court in and for the district wherein the award was made may make an order vacating the award upon the application of any party to the arbitration—

(a) Where the award was procured by corruption, fraud, or undue means.

(b) Where there was evident partiality or corruption in the arbitrators, or either of them.

(c) Where the arbitrators were guilty of misconduct in refusing to postpone the hearing, upon sufficient cause shown, or in refusing to hear evidence pertinent and material to the controversy; or of any other misbehavior by which the rights of any party have been prejudiced.

(d) Where the arbitrators exceeded their powers, or so imperfectly executed them that a mutual, final, and definite award upon the subject matter submitted was not made.

(e) Where an award is vacated and the time within which the agreement required the award to be made has not expired the court may, in its discretion, direct a rehearing by the arbitrators.

(July 30, 1947, ch 392, § 1, 61 Stat. 672.)

§ 11. Same; modification or correction; grounds; order

In either of the following cases the United States court in and for the district wherein the award was made may make an order modifying or correcting the award upon the application of any party to the arbitration—

(a) Where there was an evident material miscalculation of figures or an evident material mistake in the description of any person, thing, or property referred to in the award.

(b) Where the arbitrators have awarded upon a matter not submitted to them, unless it is a matter not affecting the merits of the decision upon the matter submitted.

(c) Where the award is imperfect in matter of form not affecting the merits of the controversy.

The order may modify and correct the award, so as to effect the intent thereof and promote justice between the parties.

(July 30, 1947, ch 392, § 1, 61 Stat. 673.)

### § 12. Notice of motions to vacate or modify; service; stay of proceedings

Notice of a motion to vacate, modify, or correct an award must be served upon the adverse party or his attorney within three months after the award is filed or delivered. If the adverse party is a resident of the district within which the award was made, such service shall be made upon the adverse party or his attorney as prescribed by law for service of notice of motion in an action in the same court. If the adverse party shall be a nonresident then the notice of the application shall be served by the marshal of any district within which the adverse party may be found in like manner as other process of the court. For the purposes of the motion any judge who might make an order to stay the proceedings in an action brought in the same court may make an order, to be served with the notice of motion, staying the proceedings of the adverse party to enforce the award.
(July 30, 1947, ch 392, § 1, 61 Stat. 673.)

### § 13. Papers filed with order on motions; judgment; docketing; force and effect; enforcement

The party moving for an order confirming, modifying, or correcting an award shall, at the time such order is filed with the clerk for the entry of judgment thereon, also file the following papers with the clerk:

(a) The agreement; the selection or appointment, if any, of an additional arbitrator or umpire; and each written extension of the time, if any, within which to make the award.

(b) The award.

(c) Each notice, affidavit, or other paper used upon an application to confirm, modify, or correct the award, and a copy of each order of the court upon such an application.

The judgment shall be docketed as if it was rendered in an action.

The judgment so entered shall have the same force and effect, in all respects, as, and be subject to all the provisions of law relating to, a judgment in an action; and it may be enforced as if it had been rendered in an action in the court in which it is entered.
(July 30, 1947, ch 392, § 1, 61 Stat. 673.)

### § 14. Contracts not affected

This title shall not apply to contracts made prior to January 1, 1926.
(July 30, 1947, ch 392, § 1, 61 Stat. 674.)

## CHAPTER 2. CONVENTION ON THE RECOGNITION AND ENFORCEMENT OF FOREIGN ARBITRAL AWARDS

Section
201. Enforcement of Convention
202. Agreement or award falling under the Convention
203. Jurisdiction; amount in controversy
204. Venue
205. Removal of cases from State courts
206. Order to compel arbitration; appointment of arbitrators
207. Award of arbitrators; confirmation; jurisdiction; proceeding
208. Chapter 1; residual application

### HISTORY; ANCILLARY LAWS AND DIRECTIVES

**Amendments:**

1970. Act July 31, 1970, P. L. 91-368, § 1, 84 Stat. 692, amended Title 9 by adding chapter 2 heading and the analysis of sections for such chapter.

**Other provisions:**

Convention on the Recognition and Enforcement of Foreign Arbitral Awards. See USCS Administrative Rules, Foreign Arbitral Awards Conv.

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### § 201. Enforcement of Convention

The Convention on the Recognition and Enforcement of Foreign Arbitral Awards of June 10, 1958, shall be enforced in United States courts in accordance with this chapter.

(Added July 31, 1970, P. L. 91-368, § 1, 84 Stat. 692.)

### § 202. Agreement or award falling under the Convention

An arbitration agreement or arbitral award arising out of a legal relationship, whether contractual or not, which is considered as commercial, including a transaction, contract, or agreement described in section 2 of this title, falls under the Convention. An agreement or award arising out of such a relationship which is entirely between citizens of the United States shall be deemed not to fall under the Convention unless that relationship involves property located abroad, envisages performance or enforcement abroad, or has some other reasonable relation with one or more foreign states. For the purpose of this section a corporation is a citizen of the United States if it is incorporated or has its principal place of business in the United States.

(Added July 31, 1970, P. L. 91-368, § 1, 84 Stat. 692.)

§ 203. Jurisdiction; amount in controversy

An action or proceeding falling under the Convention shall be deemed to arise under the laws and treaties of the United States. The district courts of the United States (including the courts enumerated in section 460 of title 28 [28 USCS § 460]) shall have original jurisdiction over such an action or proceeding, regardless of the amount in controversy.
(Added July 31, 1970, P. L. 91-368, § 1, 84 Stat. 692.)

§ 204. Venue

An action or proceeding over which the district courts have jurisdiction pursuant to section 203 of this title [9 USCS § 203] may be brought in any such court in which save for the arbitration agreement an action or proceeding with respect to the controversy between the parties could be brought, or in such court for the district and division which embraces the place designated in the agreement as the place of arbitration if such place is within the United States.
(Added July 31, 1970, P. L. 91-368, § 1, 84 Stat. 692.)

§ 205. Removal of cases from State courts

Where the subject matter of an action or proceeding pending in a State court relates to an arbitration agreement or award falling under the Convention, the defendant or the defendants may, at any time before the trial thereof, remove such action or proceeding to the district court of the United States for the district and division embracing the place where the action or proceeding is pending. The procedure for removal of causes otherwise provided by law shall apply, except that the ground for removal provided in this section need not appear on the face of the complaint but may be shown in the petition for removal. For the purposes of Chapter 1 of this title any action or proceeding removed under this section shall be deemed to have been brought in the district court to which it is removed.
(Added July 31, 1970, P. L. 91-368, § 1, 84 Stat. 692.)

§ 206. Order to compel arbitration; appointment of arbitrators

A court having jurisdiction under this chapter may direct that arbitration be held in accordance with the agreement at any place therein provided for, whether that place is within or without the United States. Such court may also appoint arbitrators in accordance with the provisions of the agreement.
(Added July 31, 1970, P. L. 91-368, § 1, 84 Stat. 693.)

**§ 207. Award of arbitrators; confirmation; jurisdiction; proceeding**

Within three years after an arbitral award falling under the Convention is made, any party to the arbitration may apply to any court having jurisdiction under this chapter for an order confirming the award as against any other party to the arbitration. The court shall confirm the award unless it finds one of the grounds for refusal or deferral of recognition or enforcement of the award specified in the said Convention.
(Added July 31, 1970, P. L. 91-368, § 1, 84 Stat. 693.)

**§ 208. Chapter 1; residual application**

Chapter 1 applies to actions and proceedings brought under this chapter to the extent that chapter is not in conflict with this chapter or the Convention as ratified by the United States.
(Added July 31, 1970, P. L. 91-368, § 1, 84 Stat. 693.)

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# RESOLVING PATENT DISPUTES BY ARBITRATION: AN ALTERNATIVE TO LITIGATION

*Paul Janicke* *
*Roger Borovoy* **

## I. Introduction

To resolve a potentially complex patent infringement suit with minimum business disruption and expense, we recently represented the two adverse parties in an arbitration proceeding. We wrote our own rules of procedure, incorporating them into a patent license which was executed before the arbitration began. Shell Oil Company was licensor; Intel Corporation was licensee. The case involved semiconductor memory patents owned by Shell. Some of the royalties due under the license were contingent upon the arbitrator's infringement ruling. Other royalties, for an admittedly infringing second product, were payable regardless of the arbitrator's ruling.

Intel had determined to forego the luxury of a validity challenge—under all the circumstances, it simply wasn't worth it.

On the unresolved infringement issue, the arbitration proceeding was quick, inexpensive and determinative. All judicial review was waived in advance. Disruption of the parties' business, the largest and often the most unappreciated cost of modern patent litigation, was minimal.

We will discuss the concept of "hiring your own court," and describe how it worked in actual practice. The subject of enforceability of future-disputes arbitration clauses in patent cases will also be treated. Finally, we will venture some predictions as to the kinds of patent cases wherein arbitration procedure will likely be effectively used in the future by parties who would otherwise find themselves litigants.

* Arnold, White & Durkee, Houston, Texas.
** Intel Corporation, Santa Clara, California.

## II. A Case History

### A. *Shell's Licensing Program*

During the late 1960s, Shell Oil Company attempted to develop a large, high-speed computer with lots of memory to manipulate data generated by seismic exploration. During seismic exploration, explosions are set off at multiple points around a potential oilfield. Calculations from the resultant seismic data enable experts to determine the possibility of finding oil or gas. These calculations require the storage and rapid manipulation of massive amounts of data. Shell correctly concluded that existing computers did not have adequate random-access-memory ("RAM") to do the job.

Shell worked to develop low-cost, high-speed random access semiconductor memories. Although the overall project was eventually terminated, Shell obtained more than 30 patents in the semiconductor memory field. Since 1972, Shell offered licenses on these patents to all comers.

Intel received a letter in September 1972 offering a license. Correspondence between Intel and Shell continued until November 1973, Intel maintaining that there was no infringement. In 1974, Shell licensed IBM on a paid-up basis. In mid-1977, Shell sued Texas Instruments, Inc. and Mostek Corporation for infringement of two of the patents. The suit against Texas Instruments settled early, when T.I. took a license. The Mostek suit continued, but was also settled by a license in 1979.

### B. *The Proceedings Between Shell and Intel*

Shell had not recontacted Intel between 1973 and 1978, and Intel's RAM product line had changed. In October 1978, Shell first specifically called Intel's attention to the two U.S. patents 3,514,765 and 3,678,473 which were in litigation in Dallas with Texas Instruments and Mostek. Intel replied in early December 1978 that it believed Shell's claim was barred by laches, but offered to meet with Shell to discuss the matter. Shell did not

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reply to Intel's letter but instead filed suit in Dallas. Intel was served on January 22, 1979. By then, the Texas Instruments suit had been settled, but the Mostek suit was still pending in the same court.

About a week after suit was filed, Roger Borovoy, Intel's Vice-President and General Counsel, called Ted Bieber, the member of the Shell Patent Department involved with the semiconductor patents. Bieber explained that the suit had to be filed to stop Intel's stated laches defense. He said that Shell still preferred to negotiate a license with Intel under the patents.

This was the time the negotiations were the most fragile. From Intel's standpoint, there were two "emotional" issues: (1) Shell was not a semiconductor company and Intel believed that an oil company shouldn't "fish in its pond"; and (2) Shell's filing suit without response to Intel's "friendly" laches letter was downright nasty. Fortunately, Intel properly decided to ignore emotions and to negotiate, rather than to heat up the litigation and possibly build a bigger wall between the parties. Certainly Shell's assurance that the suit was to protect against laches was helpful.

The first face-to-face meeting was at Shell's headquarters in Houston on February 15. Intel made an initial offer to take a paid-up license. Shell rejected it.

The second meeting was at Intel's headquarters in Santa Clara, California on March 1. Again there were offers and counteroffers.

By the third meeting on March 26 in Houston, the dollars were converging sufficiently that it appeared to both sides that an agreement was possible. The stumbling block to agreement was that Shell attached a very large royalty requirement to Intel's 4K (4096-bit) RAMs. Both sides agreed these devices didn't infringe one of the two patents, and Intel believed they didn't infringe the other. Agreement was reached on an appropriate payment for a paid-up license for all other Intel RAMs, as to which there was no infringement issue.

### C. *The Arbitration Idea*

At this point, Paul Janicke, who represented Shell in all three lawsuits, suggested that if the only unresolved issue was the infringement of one patent by the Intel 4K RAMs, why not go to the Judge in Dallas and try that issue alone, perhaps even in chambers. Borovoy suggested that the procedure be even easier: We could agree upon an arbitrator, preferably a reputable neutral patent attorney, and informally take the issue to him. Janicke liked that idea and agreed to suggest it to his client. It seemed like an excellent way to have an earnestly fought battle, but without the costs and disruption of litigation.

Shell agreed, with only two minor addenda: (1) The arbitrator should be agreed upon and named prior to executing the license; and (2) discovery procedures should be flexible, so that nobody would be foreclosed from presenting evidence. Intel agreed. The license was signed. A copy of the arbitration provisions is included as Appendix A hereto.

In addition, counsel further agreed by letter

(1) that the parties would split the arbitrator's fee regardless of outcome;
(2) that there would be no review or appeal; and
(3) that no written opinion would be required of the arbitrator.

The arbitrator need only check a box "Intel" or "Shell" and by the single stroke of a pen, cause or prevent the payment of about $500,000!

Since Intel agreed not to contest patent validity, it insisted that the arbitration be restricted to infringement of a single claim (there were two claims in dispute). Shell wanted to arbitrate both. To resolve this final impasse, Janicke and Borovoy agreed that Shell could take a deposition of an Intel engineer who knew the product in advance of selecting the claim, and make its election later, based upon a full technical understanding of Intel's 4K RAM.

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The license agreement was signed on May 1, 1979, providing for immediate payment on the agreed matters, and for arbitration of the remaining infringement issue. The license was unrestricted and "paid-up" (subject to the arbitration outcome). Hal Cooper of Cleveland, former patent trial judge of the Court of Claims, was selected as arbitrator. Neither he nor his law firm had had any dealings with Shell or Intel. He had no background in electronics.

A major weakness of many arbitration structures, including that of the American Arbitration Association, is that the arbitrators aren't paid enough. We agreed to pay Hal Cooper his full hourly rate. It was money well spent (total bill $7,000).

The arbitration was to be handled much like an appeal, submitted on deposition transcripts, briefs and oral argument. The parties agreed live testimony was unnecessary and wasteful for resolving the issue at hand: There was no doubt what the patent said; and there was no doubt how the Intel RAM worked.

At this point, the confidence between opposing counsel was sufficient that no formal discovery rules were needed. A convenient discovery schedule was worked out. It was understood that the discovery would be limited to infringement. Prior art was to be considered only insofar as it might affect the doctrine of equivalents. Both sides would keep the discovery expense to a minimum, but could take whatever depositions they desired. Each side would hire its own expert. Intel would take the testimony of the inventor (no longer employed by Shell). The lawyers jointly requested his testimony and agreed to split his consulting fee.

The Federal Rules of Evidence were to apply.

The briefing and hearing schedule was agreed upon by the parties, in conference calls with the arbitrator.

D. *How it Worked Out*

(1) *Discovery*

Depositions were taken according to the pre-agreed schedule. Before the license and arbitration agreement was signed, each side had named the witnesses it intended to depose. Dates were selected later, based on mutual convenience. Each side reserved the right to take additional depositions, or to re-examine previously deposed witnesses, if it thought that was desirable. As things turned out, neither side needed to take any further depositions. Once you know how a product works, you don't need much else for evidence of infringement or non-infringement.

Court reporters were engaged to take the testimony, and to transcribe it in the normal manner, captioning each transcript with "In the Matter of the Arbitration Concerning U.S. Patent No. _____." The signed transcripts were filed with the arbitrator.

We had thought of the possible problem of an important non-party witness who for some reason was unwilling to testify. Although that situation did not arise in our case, the plan was to persuade the witness that if the arbitration could not be successfully concluded because of his unwillingness to testify, we would have to go back to litigating in the district court, whereupon his attendance would be compelled. We thought that would persuade most witnesses.

Although we did't realize it at the time, the Federal Arbitration Act,[1] which controls voluntary arbitrations in cases involving interstate or foreign commerce, gives a private arbitrator power to *summon* witnesses to attend a hearing before him, much in the same manner as a subpoena for appearance to testify before a court! Violation of the arbitrator's summons subjects the witness to court sanctions. We could therefore have agreed to have the arbitrator present at the testimony of an unwilling witness, and thereby compelled the witness to

[1] 9 U.S.C. §1 et seq.

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testify.[2] To accommodate the procedure to the rules for subpoenas for court testimony, the arbitrator would probably have had to hear the testimony at a place within 100 miles of the witness' residence. That would have been only a minor burden and expense under the circumstances.

In lieu of arbitrator subpoenas under the Federal Arbitration Act (Title 9, U.S.C.), we do not believe that any federal judge today would have the slightest objection to allowing the parties to conduct their own trial of the merits of the case, aided by the court's discovery powers, especially since arbitration is "favored" as a matter of public policy,[3] and is statutorily authorized. The Federal Arbitration Act provides for the court to have limited supervisory powers over the arbitration proceedings,[4] for court orders confirming arbitration awards upon application by any party to the arbitration,[5]

[2] 9 U.S.C. §7 reads as follows:
"The arbitrators selected either as prescribed in this title or otherwise, or a majority of them, may summon in writing any person to attend before them or any of them as a witness and in a proper case to bring with him or them any book, record, document, or paper which may be deemed material as evidence in the case. The fees for such attendance shall be the same as the fees of witnesses before masters of the United States courts. Said summons shall issue in the name of the arbitrator or arbitrators, or a majority of them, and shall be directed to the said person and shall be served in the same manner as subpoenas to appear and testify before the court; if any person or persons so summoned to testify shall refuse or neglect to obey said summons, upon petition the United States district court for the district in which such arbitrators, or a majority of them, are sitting may compel the attendance of such person or persons before said arbitrator or arbitrators, or punish said person or persons for contempt in the same manner provided by law for securing the attendance of witnesses or their punishment for neglect or refusal to attend in the courts of the United States."

[3] Galt v. Libbey-Owens-Ford Glass Co., 376 F.2d 711 (7th Cir. 1967); Amoco Oil Co. v. Oil, Chemical & Atomic Workers Union, 548 F.2d 1288 (7th Cir. 1974), *cert. denied*, 431 U.S. 905 (1975); Hanes Corp. v. Millard, 531 F.2d 585 (D.C. Cir. 1976); Coenen v. R. W. Pressprich & Co., 453 F.2d 1209 (2d Cir. 1972), *cert. denied*, 406 U.S. 949 (1972).

[4] 9 U.S.C. §5 provides for the court to name the arbitrator if the parties for any reason fail to do so; 9 U.S.C. §7 provides for court sanctions against witnesses who fail to obey the arbitrator's subpoena to attend a hearing; 9 U.S.C. §§10 and 11 provide power for the court to correct or vacate arbitration awards under certain narrow conditions, discussed *infra*.

and for judgment to be entered on the arbitrator's decision.[5] Therefore, the pendency of a federal action for infringement is in no way an impediment to resolving the issues by arbitration.

(2) *Selection of Single Claim and Single Product*

As mentioned above, as one of the conditions for arbitration, Shell had agreed to select a single claim from its patent and a single Intel 4K RAM as representative of infringement. On a related topic, it was also agreed that Intel would early on identify the prior-art references it would rely upon as affecting the lawful equivalence scope of the claim chosen by Shell.

These binding elections of claim, product and prior art represent yet another example of the need for a basic motivation and intention of the adversary parties and attorneys to conduct the arbitration expeditiously. Without such an intent in both parties, it is our feeling that an arbitration proceeding, like a federal lawsuit, can easily get out of hand and bog down in disputes about contentions and unresolved procedural details.

(3) *The Hearing: A Shortcut to Appeal*

As previously explained, the parties decided to let the hearing be procedurally similar to an appeal, with all the evidence reduced to deposition transcripts, and for the case to be presented on briefs and arguments of counsel. In fact, this is also the way most patent cases are actually decided today at the *district* court level. Typically, "trial" in the district court is little more than a marshalling of the evidence. The judge seldom announces even tentative views. He orders post-trial briefs to be filed during a period of several months following trial. After briefing, a hearing date is set for argument of the case. That post-trial hearing corresponds very closely to the hearing held in our case in Cleveland before Hal Cooper. The main difference is

[5] 9 U.S.C. §9, *infra*, n. 19.
[6] 9 U.S.C. §13, *infra*, n. 19.

that Cooper was a retained professional, and was therefore willing to agree in advance to a *time limit* for rendering his decision. The limit was 30 days after the hearing if possible, but in no event more than 60 days after the hearing. (We had the decision in about 30 days.) Federal judges, apparently because of the press of other matters, usually give the parties *no* clue as to when their case will be decided. There are presently a number of patent cases which were fully briefed and argued *a year or more ago*, and in which no decision has yet come down!

The mechanics of conducting our hearing were only slightly different from the mechanics encountered in the typical post-trial hearing in a district court. The difference was that there was no time rush on the argument. Each side had estimated it might take about an hour to present its case, but we had agreed with Cooper to take all the time we wanted (a distinct advantage of employing a capable professional and paying him his full hourly fee). The hearing, with questions by the arbitrator, took about one and one-half hours per side. This gave each side the feeling that they were not being rushed, and that the arbitrator was interested in hearing and understanding the parties' positions on each point in controversy.

Extensive use was made of visual aids by both sides at the hearing.

The arbitrator had been provided with each party's brief promptly after service thereof on the adverse party. He took this opportunity to study the case rather thoroughly before the hearing. This in turn enabled him to ask a number of pertinent questions at the hearing, and thereby gain a fuller understanding of the positions of the parties on various points of fact, technical jargon, and law.

E. *Decision*

A decision was rendered in a brief letter from the arbitrator about 30 days after the hearing. The parties had

determined in their original rules for the arbitration that no formal written opinion should be rendered by the arbitrator. This stipulation was made partly to save time and money, but also partially on the ground that the parties wanted to discourage each other from the usual nit-picking indulged by the losing party when a trial court opinion comes down. We didn't want to stir up the emotions of the losing side by a long rationale, or by detailed findings, both of which are subject to intelligent debate even with the best of decisions.

Cooper ruled for Shell, and Intel paid the agreed royalty.