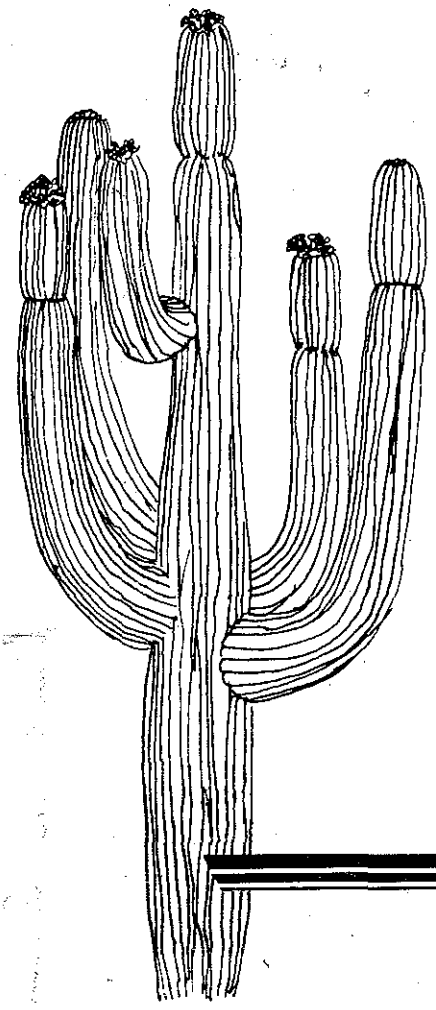
PACIFIC
INDUSTRIAL PROPERTY ASSOCIATION
太平洋工業所有権協会

PRESENTATIONS

The Twentieth International Congress





TUCSON

October 4 - 6, 1989

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PROGRAM

WEDNESDAY, OCTOBER 4, 1988

7:30 a.m. REGISTRATION

8:00 a.m. OPENING CEREMONIES

Opening of the Congress - P. Carmichael
Report of the 1988 Activities - K. Norichika
Installation of PIPA Officers for 1989

Remarks of Executive Assistant to the Assistant Secretary and Commission of Patents and Trademarks - E.R. Kazenske

Historical Perspective: American Perspective - M. Kalikow
Japanese Perspective - K. Ono

10:00 a.m. COFFEE BREAK

10:20 a.m. REPORTS OF COMMITTEE No. 1 - Chairmen: J. Sinnott/T. Sawai

Y. Miura: "Examination Practice and Problems in Cases Involving Invention of Compositions and Products Defined by its Physical Properties"

L. Gibson: "Management of Trademarks in a U.S. Company and Service Marks in the U.S."

F. Hayakawa: "Interviews by Examiners in Japan"

12:00 p.m. LUNCH

1:30 p.m. G. Samuels: "The Status of Parameter Claims in the Court of Appeals for the Federal Circuit"

J. Sinnott: "Recent Changes in U.S. Patent, Copyright and Trademark Law with Some Speculations About the Future"

K. Okada: "Amendment and a Change of Gist"

Y. Suzuki: "Japanese Associated Trademark System"

2:30 p.m. REPORTS OF COMMITTEE No. 2 - Chairmen: R. Childress/K. Shimizu

R. Brink: "U.S. Antitrust Guidelines for International Licensing"

S. Naganuma: "On Guidelines for Regulation of Unfair Trade Practices With Respect to Patent and Know-How Licensing Agreements"

3:30 p.m. COFFEE BREAK

3:50 p.m. K. Okamoto: "Software Protection and Reverse Engineering in Japan"

W. Ellis: "Legal Considerations of Reverse Compilation and its Adverse Effects on the Commercial Right of the Originator"

A. Pedus: "Licensor Tort Liability in U.S. Licensing Know-How and Patents"

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7:00 p.m. RECEPTION AND BANQUET

Presentation of the 1989 PIPA Award to Karl Jorda

THURSDAY, OCTOBER 5, 1989

8:00 a.m. REPORTS OF COMMITTEE No. 3 - Chairmen: L. Welch /K. Kamisugi

Harmonization of Patent Laws

-Publication and Accelerated Examination	M. Taniguchi/A. Cole
-Administrative Revocation	E. Satoh/B. Snyder
-Changes in Granted Patents	K. Komaki/R. Megley
-Claim Interpretation	Y. Noda/P. Wilde

10:00 a.m. COFFEE BREAK

10:20 a.m. Y. Noda: "On the Doctrine of Equivalents Among the U.S., West Germany and Japan"

K. Komaki: "Comparative Study on Identical Inventions Between Japanese and European Patent Offices"

P. Stringer: "Whole Contents, A European Perspective"

N. Kuroishi: "Present Situation of Computer Programs by Copyright Laws and Issues Therein"

E. Satoh: "On Amendments to Section 337 of 1930 United States Tarriff Act and Current Problems"

11:30 a.m. Address by Ira Wolf, Legislative Assistant to Senator John D. Rockefeller IV

12:30 p.m. TOUR

6:00 p.m. DINNER AND SOCIAL EVENING

FRIDAY OCTOBER 6, 1989

8:00 a.m. REPORTS OF COMMITTEE No. 4 - L. Welch/A. Wakamatsu

T. Tetsuka: "Warnings of Infringements and Unfair Competition Law"

W. Norris: "The Right to Use Confidential Information on the Expiration of Confidentiality Obligations"

A. Wakamatsu: "Assessment of Damages When Part of a Product Constitutes a Patent Infringement"

10:00 a.m. COFFEE BREAK

10:20 a.m. PANEL DISCUSSION ON ITC

V. Fabiano: "Conflict of ITC Procedures and the GATT"

K. Kamisugi: "Japanese View of ITC Issues"

12:00 p.m. LUNCHEON AND CLOSING CEREMONIES

CEREMONIES

* Opening of the Congress
  --- Paul D. Carmichael, President, PIPA 3

* Report of the 1988 Activities
  --- Kensuke Norichika, President,
  PIPA Japanese Group 6

* Remarks of Executive Assistant to the Assistant Secretary and Commissioner of Patents and Trademarks
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* Historical Perspective
  American Perspective
  --- Martin Kalikow 15

  Japanese Perspective
  --- Koichi Ono 21

* Presentation of the 1989 PIPA Award :
  Award Acceptance Speech
  --- Karl F. Jorda 25

* Closing Address
  --- Mamoru Takada, 1st Governor,
  PIPA Japanese Group 30

PAUL D. CARMICHAEL, PRESIDENT, PIPA

OPENING REMARKS

LADIES AND GENTLEMEN, PIPA MEMBERS, GUESTS AND OBSERVERS, WELCOME TO TUCSON AND THE 20TH INTERNATIONAL CONGRESS OF THE PACIFIC INDUSTRIAL PROPERTY ASSOCIATION.

THIS CONGRESS IS PARTICULARLY SIGNIFICANT FOR A NUMBER OF REASONS:

FIRST, IT IS THE 20TH CONGRESS AND THE 20TH ANNIVERSARY OF THE FOUNDING OF THE ORGANIZATION, AND AS SUCH, IT IS A TIME TO REFLECT ON THE ACCOMPLISHMENTS OF THE ORGANIZATION AND TO RENEW VALUED FRIENDSHIPS.

SECOND, IT IS ALSO A TIME TO PAUSE AND CONSIDER THE DIRECTION OF THE ORGANIZATION FOR THE NEXT 20 YEARS AND INTO THE TWENTY-FIRST CENTURY.

I WOULD LIKE TO COME BACK AND DISCUSS THESE FIRST TWO ITEMS IN GREATER DETAIL AFTER POINTING OUT A FEW OTHER REASONS WHY THIS PARTICULAR CONGRESS IS SIGNIFICANT.

THIS CONGRESS FOR THE FIRST TIME HAS OBSERVERS AND ASSOCIATES PRESENT FROM TAIWAN AND CANADA. I WOULD PARTICULARLY LIKE TO EXTEND A WARM WELCOME TO PHIL ERIKSON OF NORTHERN TELECOM LIMITED OF MONTREAL, CANADA, AND MR. SIMON LEE OF ACER, INC. OF TAIPEI, REPUBLIC OF CHINA. WE ARE MOST PLEASED THAT YOU COULD JOIN US. I WOULD ENCOURAGE EACH OF OUR MEMBERS TO MEET WITH THESE OBSERVERS AND ASSOCIATES AND SHARE WITH THEM THE SPIRIT AND FRIENDSHIP OF PIPA.

THIS IS THE FIRST TIME A UNITED STATES CONGRESS HAS NOT BEEN HELD IN OR CLOSE TO A MAJOR CITY. THE CONSIDERATION HAD ALWAYS BEEN THAT IT WAS IMPORTANT TO BE NEAR A MAJOR CITY FOR CONVENIENCE OF TRANSPORTATION AND ACCESS TO ASSOCIATES AND PATENT OFFICES. ATTENDANCE AT THIS CONGRESS WILL APPROACH 175, WHICH IS THE LARGEST ATTENDANCE TO DATE AT ANY OF OUR INTERNATIONAL CONGRESSES. I AM SURE THE INCREASING IMPORTANCE OF INTELLECTUAL PROPERTY IN THIS COMPLEX WORLD WE LIVE IN HAS HAD A LOT TO DO WITH THE SUBSTANTIAL INCREASE IN ATTENDANCE THAT WE ARE SEEING THIS YEAR.

THIS VISIT TO TUCSON GIVES MANY OF OUR JAPANESE MEMBERS AND GUEST, AS WELL AS A NUMBER OF OUR AMERICAN MEMBERS AND GUESTS, AN OPPORTUNITY TO BECOME ACQUAINTED WITH A UNIQUE PORTION OF THE UNITED STATES WHICH IS RICH IN HISTORY AND CULTURE. YOU MAY NOT BE AWARE OF IT, BUT ARIZONA WAS THE LAST CONTINENTAL STATE TO BE ADMITTED TO THE UNITED STATES IN 1912. AND AS WE HEARD LAST NIGHT, THE SONORA DESERT HAS A UNIQUE ECOLOGY. I THINK YOU WILL ENJOY THE TOUR OF THE DESERT MUSEUM, OLD TUCSON AND THE AIR MUSEUM THAT IS PLANNED FOR THURSDAY AFTERNOON.

AS I MENTIONED BEFORE, THIS IS THE 20TH CONGRESS AND A WATERSHED POINT IN THE HISTORY AND LIFE OF PIPA. IT IS A TIME FOR LOOKING BACK AND MAKING JUDGMENTS AS TO HOW WE HAVE DONE, AS WELL AS A TIME TO SET GOALS AND DIRECTION FOR THE FUTURE.

WE WILL HEAR LATER THIS MORNING FROM MARTY KALIKOW AND ONO-SAN, WHO WILL SHARE WITH US SOME OF FACTORS THAT LED TO THE FORMATION OF PIPA AND ITS EARLY STRUGGLES. ALSO, AT VARIOUS TIMES DURING THE PROGRAM WE WILL SHARE WITH YOU MESSAGES FROM PAST PRESIDENTS AND AWARD WINNERS OF PIPA. I THINK YOU WILL BE IMPRESSED, AS I WAS AS I READ THROUGH THESE MESSAGES, WITH THE DEPTH OF FEELING THESE LEADERS OF OUR PROFESSION IN BOTH COUNTRIES HAVE FOR THIS ORGANIZATION AND ITS MEMBERS.

PIPA'S MAIN PURPOSE IS TO BRING ABOUT A BETTER UNDERSTANDING AND APPRECIATION OF THE INTELLECTUAL PROPERTY SYSTEMS OF THE UNITED STATES AND JAPAN. YOU WHO HAVE BEEN ACTIVE IN PIPA AFFAIRS OVER THE YEARS AND ATTENDED PRIOR CONGRESSES WILL FORM YOUR OWN JUDGMENTS AS TO HOW WELL THIS PURPOSE HAS BEEN ACCOMPLISHED, BUT I SUBMIT IT HAS BEEN HIGHLY SUCCESSFUL. THE PAPER PRESENTATIONS AT THESE CONGRESSES, THE CLOSE PERSONAL FRIENDSHIPS THAT HAVE DEVELOPED, AND THE VISITS TO THE JAPANESE AND UNITED STATES PATENT OFFICES HAVE ALL HELPED TO BUILD BASIC UNDERSTANDING OF THE DIFFERENT INTELLECTUAL PROPERTY SYSTEMS OF THE TWO COUNTRIES AND TO OPEN CHANNELS OF COMMUNICATION THAT PERMIT RATIONAL AND FRANK DISCUSSIONS AND SOLUTION OF PROBLEMS.

WITH THE IMPROVEMENT IN COMMUNICATIONS, OTHER TECHNOLOGY AND TRAVEL, ONE MIGHT THINK THAT THE NEED FOR AN ORGANIZATION SUCH AS PIPA IS BEHIND THE TIMES OR PHASE AND THAT IT HAS OUTLIVED ITS USEFULNESS. NOTHING COULD BE FURTHER FROM THE TRUTH. THE TRADE DISPUTES BETWEEN THE U.S. AND JAPAN, THE ROCKEFELLER HEARING AND LEGISLATION IN THE UNITED STATES, THE RISE OF THE NEWLY INDUSTRIALIZED COUNTRIES OF TAIWAN AND KOREA IN THE ASIAN AREA, THE FREE TRADE AGREEMENTS BETWEEN THE U.S. AND CANADA, THE GATT NEGOTIATIONS, THE WIPO PATENT HARMONIZATION AND OTHER CURRENT INTELLECTUAL PROPERTY ISSUES CLEARLY DEMONSTRATE THE NEED FOR PIPA NOW AND IN THE FUTURE. WHILE WE MAY NOT AGREE ON VARIOUS MATTERS, THE ONLY WAY THE PROBLEMS CAN BE SOLVED IS FIRST THROUGH AN UNDERSTANDING OF THE VARIOUS INTELLECTUAL PROPERTY SYSTEMS FOLLOWED BY RATIONAL DISCUSSION, NEGOTIATION, AND YES, EVEN CONFRONTATION. BUT SUCH NEGOTIATION AND CONFRONTATION SHOULD BE BASED ON FACTS AND CONSIDERED JUDGMENT RATHER THAN IGNORANCE AND EMOTION. HERE IS CLEARLY THE CHALLENGE FOR PIPA AND ALL OF US FOR THE FUTURE. IT IS IMPORTANT THAT DURING THIS CONGRESS EACH OF US THINK ABOUT WHAT ROLE PIPA SHOULD PLAY IN THE FUTURE AND WHAT NEW INITIATIVES ARE TO BE UNDERTAKEN.

AGAIN, WELCOME TO TUCSON. IT GIVES ME GREAT PLEASURE TO DECLARE OPEN THE 20TH ANNUAL INTERNATIONAL CONGRESS OF PIPA.

THANK YOU.

PIPA Annual Report
PIPA 20th Congress, Tucson
October 4, 1989
Kensuke Norichika, President
PIPA Japan Group

Good morning, Honorable Guests, Friends and Fellow Members of the American and Japanese Groups of PIPA. It is a great pleasure and honor for me to be here in Tucson, fantastic place, in the middle of nowhere, and to report on the activities of PIPA during the past year. I would like to thank Mr. Paul D. Carmichael, the President of PIPA American Group, Mr. Jeffrey Hawley, the First Governor, and other members of PIPA American Group who took pains to organize this Congress and helped us visit such a nice place in Arizona. You may remember that in the last Congress in Toba in October we had rain because of the untimely typhoon. Therefore, I believe American Group chose this place in the desert, where there is little chance of rain, as the place for the 20th Congress. Good idea!

This Congress is particularly important because, as you may all know, it marks the twentieth Anniversary of the PIPA, in other words, twentieth birthday of PIPA. In Japan, twenty years of age have a special significance. When one becomes twenty years old, he is legally considered to be an adult, or grown-up. He is not a teen ager any longer. He is responsible for all what he says and does. He is independent. Since PIPA is twenty years old it is now a complete grown-up.

Conversely, since PIPA has been a child, it has the father. But, PIPA has many fathers, not like human beings. We will soon welcome the speeches from the group of Founding Fathers of PIPA, Mr. M. Kalikow and Mr. Ono. Looking back over the innumerable contributions that PIPA have achieved during the past two decades we owe very much to all the Founding Fathers of PIPA.

We very well remember that a Senate hearing was held last June chaired by Senator John D. Rockefeller IV. The Senate hearing addressed the so called "unfairness" of the Japanese Patent System to foreigners while giving "unfair" advantage to Japanese companies. PIPA have for so many years discussed the differences between and the developments in the U.S. system and the Japanese system, that we were in one of the best positions to know the intellectual property systems of both U.S. and Japan. Further, PIPA has carefully built up significant and reliable communication channel between major corporations in the U.S. and Japan. It was on such occasion that the Hearing was held and I believed that it was PIPA's right and at the same time duty to express ourselves in order to help remove the misunderstandings and resolve the problem that may exists, if any, between U.S. and Japan. This, I think, was one of the challenges that PIPA was faced at the

age of nineteen and had to break through to become a twenty-year old grown-up. Just before PIPA 19th Congress in Toba, a letter dated September 29, 1988 from PIPA American Group was submitted in the name of then President A.E. Hirsch, Jr. to the Sanator Rockefeller. It explained the PIPA's activities and expressed the opinion that there is nothing of any major importance in the Japanese Patent Law or the way that it is implemented by the JPO that discriminates against U.S. applicants. We all know that this letter helped the Senate Subcommittee to understand that great efforts have been under way between U.S. and Japanese corporations.

Let me now Turn to the other PIPA activities over the year. This past year, as in the past, has seen a vigorous activities of PIPA.

On October 11, 1988 after PIPA 19th Congress in Toba, the members of the PIPA American Group visited Japanese Patent Office and had a frank discussion with Commissioner Fumitake Yoshida and other key members of the Office.

In December 1988, the information Meeting for Non-Governmental Organizations on Intellectual Property was held in Geneva. Mr. Hiroshi Kataoka of Nippon Shinyaku, one of PIPA Japan Group members, attended this informal meeting.

In January of 1989, we received with appreciation a letter of condolence at the demise of late Emperor Hirohito from Mr. A.E. Hirsch, Jr., then President of PIPA American Group.

On February 28th, 1989 a second Rockefeller Hearing was held, Three experts testified at the Hearing, namely, Mr. Michael Kirk, Assistant Commissioner, U.S.P.T.O., Mr. Alan Lawley of Smith Clein Beckman, representing the Work Force of U.S.-Japan Conference, and Mr. A.E. Hirsch, Jr. of AT&T as a representative of PIPA American Group. In my view, the second Senate hearing reflects more reality, reasonableness and objectivity than the first hearing.

In particular, Mr. Hirsch elaborated on the past communication between the members of PIPA American Group and the Japanese Patent Office, for example, one week long seminar in 1984 dedicated to the members of PIPA American Group, and the four such meetings following it. In these meetings the PIPA American Group informally requested improvements on a number of aspects of the Japanese Patent systems, such as, introduction of the interview system, extended period for lodging an opposition, refinement of multiple claim system, improved administration on the liberal interpretation of the chemical claim. Almost all seemed to be improved as a result, though, in Mr. Hirsch's opinion, some other aspects still needs streamlined. Such includes joint oppositions where an application receives oppositions from multiple parties, limited application of

the doctrine of equivalence and limited freedom for amending translation errors and lack of number of examiners in the Japanese Patent Office.

Also from Mr. Karl Jorda was submitted a Summary Statement of the Pacific Industrial Property Association, which stated in short that the first Senate Hearing was rather one-sided and that from his experience the examiner of the Japanese Patent Office has been cooperative. He also confirmed that other aspects have kept improving.

From April 24, through 28 the Committee of Experts on the Harmonization of Certain Provisions in Laws for the Protection of Inventions was held at WIPO in Geneva. From PIPA Japanese Group, Mr. Kazuo Kamisugi of Takeda Yakuhin, Chairman of the Third Committee participated. The conference focused upon the number of important provisions of the treaty, such as the publication of the application, search, post grant opposition, correction of the issued patent, unity of invention and first-to-file system and other items, and with the heated discussions, produced consensus on many aspects among the participants.

I would like you to note that on this Congress we have invited a few guests, the observers from Canada and Korea. I remember having observers on a first couple of PIPA Congresses eighteen or nineteen years ago. But, somehow or other we have had no observers ever since. It is very symbolic and memorable that we have observers on this 20th Congress. As long as PIPA is the Pacific Industrial Property Organization, we should not forget other Pacific rim countries. I would like all the observers here to witness our activities and understand what we are trying to do. Of course, also enjoy yourselves at every minute of the meeting time as well as the non-meeting time.

Following this Congress, the delegation of Japan Patent Association consisting mostly of PIPA members is scheduled to fly to Washington, D.C. to visit the United States Patent and Trademark Office for exchange of views on the intellectual Property matters. It will be the third return visit. I want to thank PIPA American Group for kindly coordinating the visit. I hope that this meeting will promote mutual understanding between the U.S.P.T.O. and the Japanese companies.

Finally, I wish to express my sincere appreciation for your participation in this 20th Congress. We have worked very hard to come to Tucson. Now let us make this Congress a big success. Thank you.

E.R. Kazenske
Executive Assistant to the
Assistant Secretary and Commission
of
Patents and Trademarks

Opening Remarks:
Pacific Industrial Property Association

Tucson, Arizona
October 4, 1989

First of all, I wish to thank you for inviting me to speak to this Association. I know Commissioner Quigg deeply regrets that he could not be here - he feels very close to this Association and his many friends who are here today.

Secondly, let me congratulate you on your 20th Anniversary.

Today, I want to take this opportunity to do two things:

- One, present a very brief update on our activities at PTO; and

- Two, address some of the topics facing intellectual property internationally.

We have seen some major accomplishments and improvements at the PTO.

During 1988, we had a record breaking year for patent application receipts. We received over 137,000 utility plant and reissue applications. this year, filings are running at an all time high (projections indicate around 152,000).

Even with this high increase, it appears we have accomplished a major milestone. I believe we have made our 18 month average patent pendency goal. We should know for sure this weekend when we run our pendency report. We will not just be publishing an application in 18 months as most countries do. We will be granting a patent in 18 months.

In the hot area of biotechnology, our comprehensive 13-point plan to deal with the rapidly increasing activity is on schedule. Our new biotechnology Group now has over 100 examiners and we have seen the turnaround in pendency in this area from a peak of 27.2 months to a current pendency of 25 months.

To help improve the training of our biotechnology examiners we formed a Biotechnology Institute as part of our Patent Academy. This Institute will provide technical and legal training programs to ensure high quality examination of biotechnology patent applications.

In our automation program, an Industrial Review Panel completed a comprehensive review of the program and found that it was justified and offered real benefits.

We also did a rigorous stability test of APS. That test was very successful and has removed the concerns about the reliability of the system. So successful was the test that the Secretary of Commerce cited our automation efforts for meritorious achievement.

We have now made our APS-Text System and our T-Search System available to the public in our Search Rooms. The APS system provides the text of all U.S. patents that have been issued since 1975 and English language abstracts of Japanese and Chinese patents.

Speaking of automation--Our PTO Board of Patent Appeals and Interferences has taken a step into the future by holding two ex parte appeal hearings by video teleconferencing. This is a pilot program to evaluate the effectiveness of teleconferencing hearings. At one hearing, the Board members were in Washington and the attorneys were in San Francisco.

We have received some very positive comments on this pilot program.

Even with our efforts to reduce pendency, we are not backing off on quality--just the opposite, in fact. We are seizing every opportunity to improve the quality of our service and products.

In addition to our Quality Review Program, we are continuing to enhance our Quality Reinforcement Program. We have placed continued emphasis on the inclusion of motivation in the rejection of claims under Section 103. Over the past year we have held meeting with managers, supervisors, and examiners to point-out the significant role of quality office actions when communicating with applicants and attorneys in the prosecution of an application.

To further reinforce the importance of quality and pendency, we implemented a trial Gainsaying Program for patent professionals. The purpose of the Program is to provide increased incentives for significant contributions to enhanced quality, productivity, and pendency.

There are many more initiatives and accomplishments happening at the PTO including:

- A reorganization of our PCT operations;
- Patent term restoration extended to animal drugs and veterinary medicines
- The initiation of our Project 400
- The implementation of the Trademark Law Revision Act of 1988
- Our educational efforts through PROJECT XL.

But, let me talk a few minutes about our international efforts.

I'm sure you have all heard about the frank viewpoints expressed by Commissioner Quigg and Commissioner Yoshida (from JPO) before the Japan-American Society in Seattle, Washington. Even with the obvious disagreements on certain issues, I see both men having the same dreams for the future of patents -- the world is becoming increasingly "borderless" and a Nation's success in the international markets will be increasingly dependent upon the establishment of sound and fair systems of protection throughout the world.

The viewpoints they express has much to do with their perspective. It's much like the farmer who was driving his horse and wagon to town for a load of grain and had a head-on collision with an automobile. He was lying there seriously injured.

And later followed the usual legal procedures with the insurance company and all, and he was on the stand and a lawyer said to him, "while you were lying there at the scene of the accident, didn't someone come up to you and ask you how you were feeling? And didn't you answer that you never felt better in your life?" "Well," he said, "yes-yes, I guess, I remember that happening."

Later, on redirect, the other attorney asked, "What were the circumstances when you gave that answer as to how you felt?" "Well," he said, "I was lying there and a car came up and a deputy sheriff got out. My horse was neighing with pain and had two broken legs. The deputy put his gun to his ear and put the horse out of his misery. My dog had a broken back and was whining with pain, and he went over and did the same thing. Then he came over to me and said, 'Now, how are you feeling?'''

* * *

As you all know, the United States has been engaged in international patent law talks for a number of years and on a number of fronts. The scope of these discussions more recently has ranged from our bilateral sessions with a number of Pacific-rim countries including Japan, to our on-going talks in the GATT and the World Intellectual Property Organization (WIPO). It is too early to tell if these discussions will bear any fruit or if the fruit they will bear will be desirable to patent applicants and practitioners in the United States.

Under the GATT, we are working with other countries to establish minimum standards of protection for a number of forms of intellectual property. The basis of these negotiations is contained in the Ministerial Declaration adopted at Punta del Esta, Uruguay, in September 1986.

In these negotiations, the European Commission, Japan, the United States, Australia, Switzerland, and the Nordic countries submitted papers outlining what they perceived to be the problems encountered in connection with intellectual property rights. All mentioned inadequate and nonexistent international standards, as well as inadequate enforcement of such rights. Other countries, led by Brazil and India, argued that those problems are more appropriately dealt with in WIPO.

Even though the GATT negotiations are for setting minimum standards and not harmonizing the laws, some standards do overlap with harmonization negotiations, such as the proposed patent term of 20 years from filing.

The Japanese and Europeans have been very helpful in GATT in opposing the effort by certain developing countries to block progress.

* * *

Harmonization discussions are ongoing in WIPO. These discussions include 22 items including the first-to-file principle, publication of applications, and the term of patents.

Commissioner Yoshida sees the United States as being timid in these negotiations and discouraged by the way the U.S. is tackling this matter. He seems to feel that we are out-of-step with the world in the way we grant patent rights. If we are out-of-step, it is only because our gait is quicker and we are waiting for the everyone to realize the current intellectual property pace.

He says we don't have a first-to-file principle which is observed by Japan and Europe. We don't observe the practice of publishing after 18-months. We don't have a request for examination practice-- yet it is accepted by most countries of Europe and in Japan. We don't have an opposition system for stabilizing rights and a patent term based on filing date as do the Europeans and Japan.

As to the first-to-file practice, we do not completely oppose this practice. But, it must be part of a "balance package.'''

I want to explain exactly what I mean by that.

We are looking for equality significant concessions on the part of our partners in such a treaty. Stated in another way, we expect to gain items of interest to the United States ... items such as an international grace period, an all encompassing definition for patentable subject matter, a reasonable scope of claim interpretation, an adequate patent term, among a number of other things.

There are many arguments for and against the United States going to a "First-to-File" system. Some arguments opposing a "First-to-File" system include:

- More applications will be filed;
- Sloppy filing, poor quality applications;
- U.S. constitution refers to inventor, not first-to-file;
- First-to-File system is unfair to the true inventor; and
- Prior user right definition and limitation problem.

Some arguments favouring a "First-to-File" system include::

- Interference practice and cost eliminated;
- Great bargaining chip for U.S.;
- Multinational firms must already operate as if on a "First-to-File" system;
- Diligence in filing is already an issue in the U.S.; and
- U.S. filing date already determines first-to-file rights overseas.

As to publishing an application at 18-months, we patent at 18-months. Not only is the technology available for public inspection, the patent rights are known by everyone.

Currently, we are seeing at least 5 years for a patent in Japan (a 2 year period before examination is requested and a 3 year period to complete the examination). A major cause of delay, we believe, is that the Japanese Patent Office is seriously understaffed to handle the volume of applications it receives. Last year, approximately 511,000 patent and utility model applications were filed with the JPO contributing to a backlog of approximately 2.5 million (of which 627,000 have requested examination). Their office has approximately 860 patent examiners to handle this number.

Commissioner Yoshida has characterized this as his greatest challenge. He has proposed a comprehensive program to address this issue including automation efforts, increasing the number of examiners, and contracting-out search work. We have yet to see any effect however and "justice delayed is justice denied."

* * *

When considering opposition proceedings throughout the world, it is the Japanese and very few other countries that have a pre-grant opposition after allowance of the application. This system enables competitors to delay the grant of a patent and to increase the cost of obtaining a patent in Japan.

Often several competitors will file oppositions if an examiner decides that an invention is patentable. Each opposition may be based on the same or different information. Each competitor has only the cost of a single opposition. The applicant must bear the costs of translating and responding to each opposition. Many applicants, particularly small businesses, either agree to license the competitors at low rates or give up entirely. Either way, the local competitors win.

* * *

There are more issues I could address (see comparison chart), but I believe you can see we have many problems with just jumping into step with Mr. Yoshida's position. And if you have reviewed Mr. Yoshida's comments in Seattle, you can see he has problems with our pace.

* * *

From everything I have been addressing it may seem hopeless. But, that is not the case -- we are seeing many positive, cooperative efforts being accomplished. The USPTO, the JPO, and the EPO have worked together very effectively in our Trilateral negotiations.

We have seen the three Offices:

- Recognize the high importance of achieving a integrated procedure for the handling of applications in an electronic way.

- Commit to the dissemination of automated patent data.

- Agree upon a text for harmonizing the unity of invention practice.

- Agree upon a text for harmonizing examiner interview practice.

- Agree on the exchange of search results.

We will be holding a Trilateral meeting two-weeks from now in Washington -- hopefully we will see many more positive results.

* * *

Even with the diversity and inconsistency of patent laws -- despite the obvious legal and administrative difficulties, most industrialized nations have started to show a growing appreciation for the economic advantages to be gained through overseas patent protection. I believe that it is to everyone's benefit to remove (or at least lower) some of those international patenting hurdles. While changes are always very difficult to make ... in this case, the benefits certainly outweigh the difficulties.

Thank you.

Martin Kalikow
Counsel, Helfgott & Karas
New York, NY

HISTORY OF PIPA - AMERICAN PERSPECTIVE

Good morning. It is indeed a great pleasure for me to be able to share this podium with my good friend, Ono-San, and to have the honor and privilege of again addressing my favorite patent association, PIPA.

What I would like to do this morning is to give you, from the perspective of the U.S. PIPA members, a brief historical review,

of the formation of PIPA and the development of its committee structure,

of some of the interesting places visited and events enjoyed by PIPA members,

of some important intellectual property matters discussed and dealt with relating to international treaties and to countries outside of US and Japan as well as to US and Japan itself,

of the influence and importance of PIPA with respect to the US Patent Office and to the Japanese Patent Office as well as to the WIPO,

and finally, of the value of PIPA to its members.

Back in 1969, just before PIPA was established, the main intellectual property matters under consideration were the proposed Patent Cooperation Treaty, and its offshoot, the European Patent Convention. There were several different viewpoints including those of the Soviet block, the developing countries, the European countries, and other industrialized countries such as US, Canada and Japan outside of Europe. Within the US there were also differences of opinion between the patent attorneys employed by corporations and the independent patent attorneys of the private patent bar. The patent section of the NAM represented the attorneys employed by corporations, and reflected the viewpoint of US industry.

A diplomatic conference on the PCT had been scheduled for 1971, but only delegates from national governments and observers from international patent associations would be invited to attend. Since NAM was purely a national association, it would not be invited. John Shipman, the international patent counsel of IBM was, therefore, asked by Fred Hess, the chairman of the NAM patent section, to see if there was any interest in Japan and Canada in forming a new international intellectual property organization together with the US. John Shipman, therefore, contacted the Japan Patent Association through Ono-San, the manager of the IBM-Japan Patent Department, and a meeting was arranged in Tokyo in October 1969 between John Shipman, Paul Enlow of AT&T, and me representing the United States and Saotome-San, chairman of the board of JPA, Shinohara-San, managing director of JPA, Ito-San of Hitachi, Sakama-San of Mitsubishi Heavy Industries and Ono-San of IBM Japan, representing Japan.

At this meeting it became quickly evident, from both the US and Japanese viewpoints, that the main reason for forming such an international association was not the PCT representation, but rather the need to know more about each other and each other's intellectual property systems. The corporate patent attorneys in the US were heavily involved in the procurement and evaluation of Japanese patents, and in the licensing of patents and knowhow to Japanese companies. They were confused and frustrated with problems of Japanese translation and patent procurement and claim interpretation. Moreover, deep and important business relationships were being established between US and Japanese companies, and the US corporate patent attorneys needed to know and be able to work with their counterpart Japanese corporate patent managers. The Japanese patent representatives had similar problems with respect to the US, and it was agreed to go ahead with the formation of an international organization on the basis of separate American and Japanese groups.

Upon return to the US, a planning session of 14 US patent counsel was held in New York and a draft constitution prepared. After review by the Japanese, a modified constitution was agreed upon calling for memberships to be limited to corporations having at least one full time patent professional, with separate American and Japanese groups, each having a president, two board representatives, and a staff director - together constituting the Board of Governors, - and with the presidency of the association rotating each year between the two groups. The Canadian corporations were not very interested, but were given associate membership allowing their representatives to attend meetings.

An organization meeting of the American group was held on January 20, 1970, and I was elected president, John Shipman and Fred Hess elected first and second representatives, and Ray Bennett of NAM appointed staff director. By the time of the first joint congress in Tokyo in March 1970, the American group had 60 members, including many of the largest corporations in the U.S., and 24 US patent counsel made the trip to Tokyo to attend the first Congress.

With prior agreement of the Japanese group, at this first meeting four standing committees were established relating to:

1. Patent Law and Practice
2. Trademark Law and Practice
3. Licensing Law and Practice, and
4. Regional and International Treaties and Conventions.

The first three standing committees have remained until the present. However, after the first few years of PIPA, the PCT and EPC were adopted and implemented, and there was little further international treaty activity. About the same time, a Mediation Board was established by PIPA for conciliation of intellectual property disputes between Japanese and American companies. Therefore, a standing committee #4 on Conciliation of Disputes was substituted for the original International Treaty Committee #4. More recently this committee #4 has been expanded to cover all types of dispute resolutions.

Each year a meeting of the American Group has been held in the US in order to discuss any topics of current interest and prepare for the next Congress, and also to elect officers. The presidents of the American Group after me have been Edgar Adams of Bell Telephone, John Clark of Monsanto, Cornell Remsen of IT&T, Harold Levine of Texas Instrument, Paul Enlow of AT&T, Pauline Newman of FMC, Tom O'Brien of Union Carbide, Carl Jorda of Geigy, William Norris of Dow Chemical, Al Hirsch of AT&T, and Paul Carmichael of IBM. In 1974 Ed Bell of Singer was elected Secretary-Treasurer, and he took over the duties of the Staff Director, Ray Bennett. Ed continued in this position until a few years ago when he resigned, and was succeeded by our present Secretary treasurer, Allen Spiegel. Sad to say, several of these distinguished gentlemen, including John Shipman, John Clark, Cornell Remsen and Ed Bell have now passed away.

During the early years, one of the main problems was that of translation. The Americans could not speak or understand Japanese, and many of the Japanese members could not speak or understand English. It was sometimes difficult to obtain qualified simultaneous translators, and it was difficult for the Americans and Japanese to communicate with each other during the social events. However, by the early 1980's, substantially all of the Japanese group could speak or understand English, and almost all of the papers of the Japanese group were delivered in English. This was greatly appreciated by the American Group, and considerably improved the level of communication between the two groups. We certainly could not have delivered our papers in Japanese.

The honorary chairmen of each Congress have been prominent leaders of industry in US and Japan including, for example, the chairman of the Board of Fuji Film, Carrier Corp. Hitachi and Union Carbide. It is also noteworthy that PIPA has been addressed by every US Commissioner of Patents and every Director General of the Japanese Patent Office that has been appointed during the 20 years of PIPA's existence.

In 1981 a PIPA Distinguished Service Award was instituted for outstanding contributions in the field of intellectual property, and Saotome-San was the first awardee. The succeeding awardees have been Donald Banner, Edgar Adams, Matsui-San, Myself, Hirano-San, Pauline Newman, and Aoki-San.

The locations of the Congresses alternated between US and Japan in cities of great commercial or historical interest, including New York, Washington, San Francisco, Boston, Williamsburg, Philadelphia, Chicago, and Baltimore in the United States, and Tokyo, Kyoto, Hakone, Nagoya, Kobe, Sendai, Kanazawa, and Toba in Japan. The variety of locations in Japan gave the Americans an appreciation of the diversity and beauty of the different regions of Japan, including both its large cities and its countryside. For the Americans, the meetings in Kobe, Sendai, Kanazawa and Toba were particularly fascinating and appreciated since these were cities that had many interesting attractions that the Americans would not otherwise be likely to ever visit or see. During the various Japanese Congresses, the Americans also greatly enjoyed the tours to Hakone, the Nagoya Castle, the Himeji Castle, Matsushima, the Kenrokuen Gardens, the Eiheiji Monastery, the Kanazawa Castle, and the Ise Jingu

Shrines. We hope the Japanese members equally enjoyed the tours we arranged to San Francisco Bay and the California Wine County and Lake Geneva in Wisconsin as well as to old historic points of interest in Boston, NY, Williamsburg, Mount Vernon and Annapolis in the U.S.A.

Turning now to the professional aspect of the PIPA Congresses, the papers and activities of PIPA related not only to the intellectual property systems of the US and Japan, but also to other emerging Pacific countries as well as to international patent treaties.

With respect to such patent treaties, during the early years, PIPA was greatly concerned with the adoption and implementation of the PCT and the EPC. Observers were sent to the PCT diplomatic conference and position papers issued. Several reports were presented at PIPA meetings concerning the procedures and effect of these treaties. During these early years, there was also considerable controversy with developing countries concerning revision of article 5A of the Paris Convention relating to compulsory licensing as a remedy for non-working of patents. A common position against some of the proposed changes was reached between the Japanese and American groups and delegates were sent by PIPA to WIPO's meetings of experts on this subject.

There have also been discussions and papers delivered by both the US and Japanese groups relating to the proposed Trade Mark Registration Treaty as well as to the Treaty on the Deposit of Microorganisms.

More recently, there have been discussions and papers delivered concerning the activities of GATT to improve the scope of the protection afforded by certain developing countries to intellectual property rights.

With respect to countries outside of US and Japan, the Americans were particularly interested in Korea and Taiwan and the newly emerging countries of Southeast Asia. Several excellent and comprehensive papers were delivered by the Japanese Group Committees on the law and practice of these countries which were greatly appreciated by the American members. There were also important discussions and papers on the new patent law of China. In fact, several members of PIPA, both from US and Japan were invited by the Chinese authorities and went to China to help in the formulation of this new China Patent Law.

However, the most important professional activities of PIPA, from the American viewpoint, were the discussions and papers by the Japanese members relating to Japanese national law and practice. These papers covered many subjects of great interest and importance to the Americans including, The Utility Model System, Deferred Prosecution, Oppositions and Appeals, and article 29 Bis of the Japanese Patent Law. Over the years these Japanese Group papers kept the American members informed of all major changes in Japanese law and practice including, for example, the change from single to multiple claim practice and the revisions in the copyright law.

I'd like now to take a moment to note the general importance and influence which PIPA has achieved during the past 20 years relative to the activities of the US and Japanese Patent Offices and of WIPO.

As you know, many of the individual members of PIPA represent the major corporations in US and Japan and have great influence in their own countries on developments in the intellectual property field. In the US group, for example, Don Banner was a US Commissioner of Patents, and Polly Newman is now a Judge of the US Court of Appeals for the Federal Circuit. The PIPA deliberations have also given the US and Japanese members great knowledge and insight about each others viewpoints on any proposed changes in intellectual property law and practice. These facts are fully appreciated by the officials of the US and Japanese Patent Offices and of WIPO, and the opinions and advice of PIPA and its members is constantly being sought by these officials. In fact, in 1984, the cooperation of the Japanese and American groups of PIPA was sought by the JPO in arranging a meeting between the JPO and patent representatives of US industry in Tokyo in order that the JPO could better explain to US industry the details of JPO practice. The theme of this meeting was the need for greater communication and harmonization of international patent law and practice. This theme was communicated to WIPO, and partially on the basis thereof, WIPO decided to launch its present effort to develop a Patent Harmonization Treaty. As you know, PIPA is now studying this proposed Patent Harmonization Treaty, and the opinions of PIPA will also be given great weight by WIPO.

Following up on this meeting, Japanese members of PIPA have also been invited to similar explanatory meetings by the USPTO in Washington, and the American members have been invited to further meetings at the JPO. At these meetings, the Americans were able to directly explain to the JPO officials the problems they were having with the Japanese prosecution, and the Japanese members were able to explain to the USPTO officials the problems they were having with US patent prosecution. In fact, some of the changes in US and Japanese patent practice are believed to have resulted in part from these meetings. The American group of PIPA has also been host to study teams visiting the USPTO from the Japan Patent Association.

Finally, I believe that from the viewpoint of the US group the greatest value of PIPA has been the opportunity over the years to meet with and get to know the leaders of the Japanese Patent profession such as PIPA's Distinguished Service Award recipients, Saotome-San, Matsui-San, Hirano-San, and Aoki-San, and such as the other presidents of the Japanese group, Toki-San, Ozu-San, Mifune-San, and Murayama-San. As you may know, some of these men have also received awards from the Japanese government for their contributions. PIPA has also given the US members of the Board of Governors and the US Chairmen of the various committees an opportunity to meet with and get to know their Japanese counterparts. From these PIPA meetings, close personal relationships and lasting friendships have evolved between American and Japanese members which have often extended to the patent staffs of their respective companies. In my own case, within the General Electric Company, the PIPA relationship led to Patent Management Information Exchange meetings between the patent management staffs of GE and Toshiba, as well as between the patent management staffs of GE and Hitachi, and I am happy to consider several of these Toshiba and Hitachi patent managers as my friends along with my many other Japanese PIPA friends. I know that many of the other American PIPA members have also had similar additional contacts and have developed similar friendships with the Japanese PIPA members in their respective fields of industry.

Both the American and Japanese members have also had an opportunity at the Congresses to relax and enjoy each others company. From the very first meeting when Director General Aratama decided, at the reception in Tokyo, to sing a folk song rather than give a speech, we have been singing together at receptions, and walking together at outings. Our wives have also enjoyed wonderful tours together with Japanese wives and have developed friendships with them.

Thus, PIPA has grown over the years into a healthy and thriving organization of great national and international importance on the basis of direct informal personal relationships between the members of the two groups. I hope and expect it will similarly continue to grow and flourish during the next twenty years. Thank you.

Koichi Ono
Director of Patent and
Licensing
Kyowa Hakko Kogyo Co., Ltd.
Tokyo

October 1989

History of PIPA - Japanese Perspective

Honorable guests, ladies and gentlemen!

It is a great honor and a pleasure for me to participate in this PIPA Congress celebrating its 20th anniversary and to address you at this ceremony.

PIPA is of my dear memory, and also PIPA is always fresh. I joined PIPA at the 3rd congress in 1972 for the first time. Since then, I participated in most of the congresses.

Looking back with nostalgia, PIPA's activities, at the very initial stage, were mainly or mostly directed to the exchange of information about the intellectual property right systems in the U.S. and Japan.

Of course, this is a very important role of PIPA, and such activities have earnestly been continued, and should be continued in future.

Presentations made at each congress have been very valuable and informative. Efforts by the persons who prepared such presentations are highly appreciated. Honestly, I learned very much not only about the U.S. system but also about Japanese system at PIPA congresses.

I still remember many presentations and discussions very well. For example, many questions and opinions were raised when the elimination of exclusion from patent protection chemical substances, foods and pharmaceuticals was being legislated in Japan.

Sometimes, the differences in philosophies and social backgrounds between the U.S. and Japan were a subject, e.g. differences in the attitude of Americans and Japanese in concluding and interpreting an agreement or contract. Japanese are emotional or not?

Further, it is to be noted that great efforts were made to

establish PIPA concilliation system.

Furthermore, harmonization of patent systems was proposed at PIPA congress many years ago.

Another important object of PIPA at its establishment was to send representatives to WIPO meetings as observers in order to present or submit opinion and position of industries in the U.S. and Japan.

The revision of Paris Convention came to us at first. It is basically negotiations between north and south, i.e. developed countries and developing countries. Efforts were made by PIPA to establish the position of industrial sectors in the two countries. We have been sharing the same position on almost all issues, including the indication of origin of product as Pacific area countries.

As you know, there has been almost no progress in the important issues in the revision of Paris Convention, although there was a certain movement last year regarding the non-voluntary license. However, we should always keep it in mind as an important pending subject.

Once, we experienced a time of anti-patent, particularly, in the U.S. In the meantime, the activities of some developing countries have been growing. There is a flood of counterfeiting and pyrating goods. Now, it has been recognized that the intellectual property right system affects to a great deal the commerce and trade in the world. Commerce and trade are the basis of industris. Research and development, and investment very much rely upon intellectual property right systems. Greatest question before us is to establish a new pro-patent order and circumstances in the world to provide effective, appropriate and reasonable protection of intellectual properties.

Everybody recognizes that we have been faced with very difficult questions, i.e. GATT TRIP negotiations, harmonization negotiations and the U.S. and Japan bilateral negotiations. Obviously, such negotiations include not only those between developed and developing countries but also those among or between developed countries.

Current activities of PIPA on these subjects are highly evaluated. Specifically, efforts made by the American group regarding the patent conflicts between the U.S. and Japan are greatly appreciated.

This is really a big problem. However, it may be recommended to solve the problem not by bilateral negotiations but in the frame-work of multilateral negotiations, at least by negotiation among the U.S., Japan and Europe.

There is a different type of problem. There have been many discussions on the protection of so-called high technologies. High-technology is often represented by computer-related technology and biotechnology.

Protection of computer software has drawn our attention to copyright, whcih was formerly not a subject of PIPA. This subject has been extensively discussed at PIPA.

On the other hand, as to the protection of biotechnology, protection of plants and animals has little been discussed. Now, many industrial companies are carrying out R & D on the creation of new plant varieties and animal varieties by highly advanced biotechnology. Innovations of novel plant and animal varieties relate to agriculture. Industrial sector and agricultural sector may have a different position on this issue even in the same country.

One example is so-called farmer's exemption. This kind of exemption seems to take away unreasonably substantial portion of the right of innovators.

As to the protection of plant, there is UPOV Convention. There have been movements to revise the Convention. It is required to monitor the movement and establish the position of industries. This is basically a dispute between different business sectors, i.e. industrial sector and agricultural sector.

We should always consider what PIPA should do, and how PIPA should play its role.

It is the time when the real evaluation of PIPA is to be determined. All of us are responsible for that.

I have talked much about problems. Problems encourage us. However, that's not all of PIPA.

What is good and enjoyable with PIPA is to meet people and to get friends. At every congress, participants enjoy tours and parties, which are good opportunity to get friends and to get in touch with different cultures. This is most helpful for mutual understanding. Sometimes, we became speachless with glorious nature. Sometimes, we reviewed histories. Sometimes, we enjoyed human arts.

It is no question that this Congress also will be enjoyable and successful. Selection of place and preparation of entire program are marvelous.

We will renew old friendship and also establish new friedship. We will remember the past congresses. We will be encouraged for future. We must celebrate this Congress. It's the 20th anniversary.

PACIFIC INDUSTRIAL PROPERTY ASSOCIATION

Twentieth International Congress

Tuscon, Arizona

October 4-6, 1989

PIPA Award

Acceptance Speech

Minasama, Konban-wa!

Good evening, ladies and gentlemen!

Thanks a million, Paul and Norichika-san, for your most gracious introductions. Needless to say, I'm immensely pleased to accept your award. In fact, I'm deeply honored and humbled to be this year's PIPA award winner and to join the distinguished group of prior awardees, Don Banner, Ed Adams, Marty Kalikow and Pauline Newman, on the U.S. side, and Saotome-san, Matsui-san, Hirano-san and Aoki-san, on the Japanese side. All of these award winners are titans and luminaries in our profession and my hat is off to them for their many accomplishments.

I am also highly gratified for being chosen as this year's award winner because this is the 20th Congress, a milestone in PIPA history, and also because I am but a Johnny-come-lately joining PIPA in 1976 when it was already well-established and influential while all of the prior awardees were founding fathers and charter members of PIPA.

Being a member of the PIPA family, serving PIPA as a member, a committee chairman, an officer and an ex-officio has truly been a distinct privilege and a great pleasure for me. Over the years I have belonged to many an organization but none quite so special and so unique as PIPA which, in the words of the former JPO Director General, Wakasugi-san, stands as "a bridge between our two nations," I like that phrase a lot.

The insights into Japan and the Japanese Intellectual Property System which I and the whole U.S. group gained through PIPA membership are invaluable. But what's even more valuable are the warm friendships with Japanese and American PIPA members which PIPA nurtures and nourishes. I shall always cherish these friendships as symbolized now for me by this coveted PIPA award.

Paul mentioned the several visits since 1984 to the JPO by an American PIPA delegation and to the USPTO by a JPA delegation. These meetings are conducted in a spirit of professionalism and good will and there is no doubt in my mind that they contribute to the improvement and harmonization of the U.S. and Japanese patent systems and to mutual understanding between industry and government in both countries.

Consequently, it is clearly in everybody's interest that these back and forth visits or as I call them Follow-up Meetings and Return Visits by the very users of the respective patent systems be continued. Dialog is always beneficial and there is no substitute for dialog. And this kind of quiet diplomacy has a definite place in the present harmonization movement in addition to the WIPO, Club of 15 and "Trilateral" initiatives.

For these reasons I'm very happy that another Return Visit to Washington by a JPA delegation will take place next week following this Congress. In addition to sessions at the USPTO and with the AIPLA and IPO, they will also make a courtesy visit to Congress. This is a first for them. They do this with a goodly dose of trepidation in light of Senator Rockefeller's activities but I have assured them that they need not fear. They will get a friendly reception. Besides, according to Business Week's 1989 Hip Parade Japan-bashing has been replaced by Euro-bashing in this country.

Incidentally and in a lighter vein, you'll be interested to know that according to this Hip Parade of what's "in" and what's "out" in the fields of social trends, finance, management, politics and economics Program-trading in Chicago is "out" but Program-trading in Tokyo is "in," Lite Beer is "out" and Dry Beer is "in". Aoki-san mentioned "dry beer" in Toba last year, so it's obviously "in" in Japan, too. It is a long and interesting list but let me mention just two more items. Cory Aquino is "out" and Benazir Bhutto is "in" but Vice President Dan Quayle is "in" as well as "out".

A few words now on harmonization or rather a plea or prayer for harmonization. Harmonization was not mentioned in the Hip Parade but it definitely is "in". It's an idea whose time has come. It can't come soon enough.

A world-wide harmonized patent system or a unified international approach to the protection of intellectual property would be a boon to innovation, technology transfer and technological progress.

The so-called "Little Man from Little Rock," it is maintained by some, does not do any foreign filing and does not care about harmonization. I submit that the reason he does not file abroad is that it's too complicated and too costly as matters stand now. As our Commissioner Don Quigg recently stated in his ABA address: "Our estimate of the increase in filings of patent applications over the next 10 years is frightening. If the increases continue, filings in the U.S. alone could reach an annual rate of 500,000 by the turn of the country." This equals the present rate of filings in Japan, as is well-known.

Harmonization is the manifest answer: harmonization of the laws, harmonization of the examination process and harmonization in enforcement. One application filed in any participating country. One patent enforceable in any participating country. Just imagine the potential savings to applicants as well as to Patent Offices.

I have attended many a meeting on harmonization here and abroad and sometimes I can't believe my ears. Even when the cause of harmonization is the very purpose of the meeting, speakers invariably extoll and urge adoption of their countries' laws and decisions saying, in effect, we are in favor of harmonization as long as our system is adopted or as long as we don't have to change our system. That is not very constructive, nor very statesmanlike.

But harmonization is coming. It's intrinsically logical and intrinsic logic always previous in the end.

I submit that the matter of a country's patent system is entirely different from that of its culture where national diversity ought to be preserved, indeed.

In the world on intellectual property, we live in exciting times. We see favorable tendencies and developments all around us. Let's be sure we help them along. PIPA has made a difference and I'm confident that PIPA will continue to play a significant role and make a difference. This morning it was good to hear Paul talk about new initiatives and challenges for PIPA.

Recently, I attended meetings in Brazil and Venezuela, and I came away with the distinct impression that a new wind is blowing even in developing countries. There was talk one would expect to hear only in developed countries. And it was government officials talking and not just patent agents.

Incidentally, in Venezuela I gave a talk at a Conference held under the title "La Formula Asiatica" and the topic of my talk was "Japon - Un Maravilloso Ejemplo Para Imitar" (Japan - What a Great Example to Emulate!). Japan is a very interesting and excellent example indeed to talk about.

This year's PIPA award of which I am now the proud recipient presents a wonderful opportunity for me to stay on among friends as a kind of ex-officio member of PIPA which is an association that has a special place in my heart and that I would otherwise truly miss.

Many, many thanks for the honor you have bestowed upon me. This is the happiest day of my professional life. No Oscar winner could be any happier.

Thank you and good night!

Goseicho arigato gozaimashita!

KARL F. JORDA

KFJ/Ruh
10/9/89

BIOGRAPHICAL SKETCH

KARL F. JORDA

I. Immigrated to the U.S. on a scholarship in 1951 after graduating from a German "Real Gymnasium" in 1950 with honors and after attending the University of Frankfurt, Germany for three semesters.

II. Degrees

Bachelor of Arts (B.A.) Liberal Arts and Sciences, College of Great Falls, Montana, 1953 (Summa cum Laude).

Master of Arts (M.A.) Chemistry, University of Notre Dame, Indiana, 1954.

Juris Doctor (J.D.)
University of Notre Dame, Indiana, 1957.
(Senior Class Representative, Law Review Articles Editor, Moot Court Semi-Finalist)

III. Positions

Law Clerk, Illinois Appellate Court (Judge Kiley), Chicago, 1957-1958.

Patent and Trademark Attorney, Miles Laboratories, Elkhart, Indiana, 1958-1960.

Patent Attorney, 1960-1963 and Corporate Patent Counsel, 1963-1989, Geigy Chemical Corporation/Ciba-Geigy Corporation, Ardsley, New York.

David Rines Professor of Intellectual Property Law and Industrial Innovation and Director, Kenneth J. Germeshausen Center for the Law of Innovation and Entrepreneurship, 1989-, Franklin Pierce Law Center, Concord, New Hampshire.

IV. Bars

Admitted to Bars of Illinois, Indiana and New York; U.S. and Canadian Patent Offices; CAFC and U.S. Supreme Court.

V. Professional Activity

Pacific Industrial Property Association (PIPA)
(Chairman of Committee I - Patent and Trademark Law and Practice, 1977-1980; Second Governor, 1980-1981; First Governor, 1981-1983; International President, 1983-1984; President of U.S. Group, 1984-1985);

New York Patent, Trademark and Copyright Law Association (NYPTC) (Member, Board of Directors, 1980-1983; Second Vice-President, 1983-1985; President-Elect, 1985-1986; President, 1986-1987);

American Intellectual Property Law Association (AIPLA) (Chairman of Chemical Practice Committee, 1977-1979; Guest Editor, APLA Quarterly Journal, 1979; Member, Board of Directors, 1979-1982);

American Bar Association - Patent, Trademark and Copyright Section (Chairman of Committee 106 - Inventors, 1973-1975; Chairman of Committee 409 - Restrictive Trade Practices Abroad, 1978-1980; Chairman of Committee 206 - Trade Secrets, 1980-1981; Member, Council, 1981-1985; Chairman of Long-Range Planning Committee, 1985-1987; Chairman of Relations with Other Bar Groups, 1987-1988);

Association of Corporate Patent Counsel (ACPC) (Member, Executive Committee, 1974-1975);

Intellectual Property Owners (IPO) (Member, Board of Directors, 1985-1989);

United States Trademark Association (USTA) (Member, Board of Directors, 1989-1992);

International Association for the Protection of Industrial Property (AIPPI) (Chairman of Committee on Question 53-Know-how, 1982-1985); Member, Executive Committee of American Group, 1983-1992);

Licensing Executives Society (LES) (Chairman of Latin American Committee, 1981-1984);

Inter-American Bar Association (IABA) (Chairman of Industrial Property Committee, 1986-Present);

Canadian Patent and Trademark Institute (PTIC); Inter-American Industrial Property Association (ASIPI)

VI. Lectures and Publications

Lectured on Intellectual Property and Transfer of Technology subjects in the U.S., Austria, Argentina, Canada, Colombia, England, Germany, Hungary, Japan, Mexico, Peru and Spain in English, German and Spanish.

Published articles in such Intellectual Property journals and publications as JPOS, PLI Handbooks, APLA Quarterly Journal, LES Nouvelles, CIPA (British), PTIC (Canadian), GRUR (German).

REV 9/21/89

CLOSING ADDRESS

Mamoru Takada
First Governor,
PIPA Japanese Group

Ladies and Gentlemen,

First, I would like to share my happiness with all of you at the great success that we achieved at this 20th Anniversary Congress. The three day meeting here in this extraordinary, even for America, place called Arizona has gone by in a flash as if in a dream.

I must give my sincere thanks to the American Group who selected this wonderful place and strived so hard to make this 20th Congress one to be remembered and celebrated.

Mr. Kalikow and Mr. Ono reviewed the twenty year history of PIPA for this 20th Congress and spoke about the progress in those twenty years. I think it was truly significant to have our founding fathers speak about the initial labors of establishing PIPA, making us recollect the devotion and many efforts spent by such pioneers in order to develop PIPA. The great task that we have been assigned from this point on is to make this bridge built across the Pacific even bigger and stronger. I think we are all ready and willing to expend such efforts.

One of the events to be remembered from this 20th Congress is the participation of the ladies and gentlemen from Canada and Taiwan as observers. This can be seen as one of the truly memorable events in the history of PIPA. There has been a great deal of dedication in achieving this development of PIPA and we are all very happy to have the added luster imparted to this congress by the participation of many earlier chairmen and recipients of the PIPA Prize who played such a central role in that development. I would like to offer our sincere gratitude to them.

The papers presented at this congress were all highly rated for being truly valuable, as they were backed up by penetrating research and actual experience. I would like to express our deepest thanks and praise for the labor of all those who presented papers as well as those connected with their preparation.

Well, the set-up of the convention hall and the planning of the functions this year were all excellent, yesterday's tour being especially noteworthy. After visiting Old Tucson and the Desert Museum filled with things new and interesting to we Japanese, we were treated along about dusk to the gunfights of Arizona in front of the Opera House. Although there were many of us who went to the promised land because we weren't quick enough in drawing unfamiliar guns, it's nice to see that they have come back to life and joined us here again today. The western music

in the Opera House and the cancan were both a truly pleasant experience, but the excellent music of the time honored Japanese American partnership also welled up, leaving deep impressions of the friendship and bonds between us, songs that are still ringing in my ears, while that friendship is warmly growing in my heart.

I would like to offer sincere thanks to all those of the American Group for planning such a splendid congress. We were all warmly satisfied with the poetry of Arizona, a truly fitting plan for the 20th Congress, deepening the gratification stemming from being participants in PIPA. To all the members of the American Group, our profound thanks.

PIPA, smoothly completing this 20th Congress, now heads on towards the 30th Congress. Calm does not always prevail in the Pacific Ocean between the U.S. and Japan, rough seas sometimes making their appearance, but our friendship and trust rather than weakening will be strengthened by the very washing of those waves. This twenty years of cooperation and collaboration assure us that our steps together will be supported no matter what new difficult situation there may be.

We are studying the prospect of holding the 21st Congress next year in Niigata, a city facing the Sea of Japan. This is the place where the Shinano River, the longest in Japan washes out into the Sea of Japan and also where "Sasanishiki", said to be the most delicious rice in Japan is harvested. Lying out to sea is Sadogashima, an island filled with secret historical episodes.

Ladies and Gentlemen, let's meet again in Japan next year. Sayonara. For now.

COMMITTEE NO.1

* Examination Practice and Problems in Cases Involving Invention of Compositions and Products Defined by its Physical Properties
--- Second Subcommittee of 1st Com., Japanese Group 35

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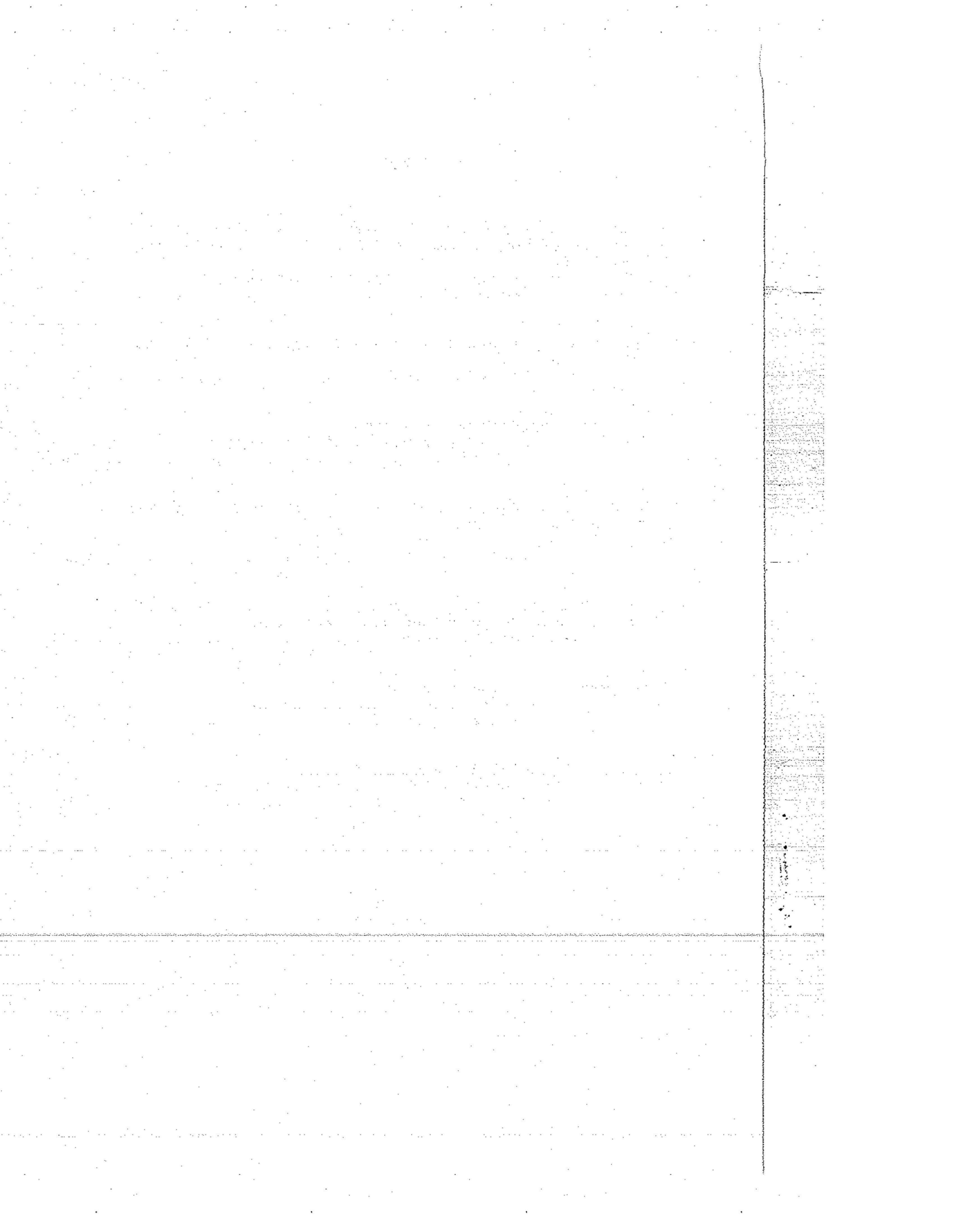
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Examination Practice and Problems in Cases Involving Invention of Compositions and Products Defined by its Physical Properties

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[Abstract]

It is usual for an applicant for patent to define an invention as a composition, since in that way, he can expect a patent covering the broadest scope of protection. A chemical substance must, as a rule, be identified by a formula showing its chemical structure when it is claimed as the invention. Although it is considered that a related invention (e.g. a composition consisting mainly of an organic high molecular compound, or a film, fiber, or other product formed therefrom) must also be identified by a feature describing its structure, it is often the case that its physical properties (or characteristics, or special parameters) are employed for identifying the invention, for a number of reasons, e.g. since the applicant wants to file the application as early as possible, or finds it difficult to analyze the structure of the product, or since it cannot be identified only by a formula showing its chemical structure. **"A molded product of a melamine resin having a surface hardness of at least X"** is one example of such limitation. This style of limitation, however, presents a number of questions, e.g.:

(1) Is the scope of a claim including such a limitation not broader than that of the disclosure?
(2) Is there no possibility that known subject matter may be patented, because its unpatentability is difficult to show?
(3) Are the physical properties of any compound or composition not primarily the mere "results of the invention"* which is claimed?

We have reviewed the practice of examination and points at issue in cases involving inventions of compositions and chemical products defined by its physical properties, in light of the provisions of the Patent Law and Standards of Examination.

*The Japanese Patent Law requires that the detailed description part of the specification

set forth the object, construction and results of the invention in such a way as to enable one of ordinary skill in the art to carry it out easily. The "results of the invention" do not however, necessarily coincide with "its advantageous effect over the prior art". In accordance with the Japanese practice, the "results" are interpreted within the context of the "technical problems which the invention is intended to solve, and means employed by the invention for solving them".

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[1] Introduction

1. The manner of defining an invention in an application for patent is left to the inventor, or applicant. It is, however, understood that a patent for an invention of "composition of matter" (or "product") covers the broadest scope of protection (Articles 2 and 68 of the Patent Law). As a natural consequence, any applicant for patent desires to define his invention as a composition of matter as far as it is at all possible.

A chemical substance must, as a rule, be identified by its compound name, or a formula showing its chemical structure when it is claimed as the invention, and a high molecular substance must be described by a feature or features describing its structure. It is considered that when the invention relates to any other chemical composition or product (which hereinafter mean a composition consisting mainly of an organic high molecular weight compound; molded products such as a film, fiber, or other product formed therefrom; or any other substance, material or product belonging to the chemical or related field of industry, unless otherwise noted), it is also necessary to analyze the structural feature or features to which its properties are due, and to rely upon such structural feature or features for identifying it. The desire of many applicants to define an invention as a composition of matter, if at all possible, has, however, given rise to the tendency to rely solely upon its characteristics (physical properties, or special parameters) for identifying it. This is apparently due to the fact that the Japanese patent system is based on the first-to-file system. The applicant is required to file the application as early as possible, or is not allowed to spend a long time in analyzing the structure of the composition of matter which he considers as his invention. It is also possible that some compositions cannot be identified only by a formula showing their chemical structure.

2. A number of questions, however, arise if composition of matter invention is defined by its characteristics

(physical properties, or special parameters), instead of by a feature or features describing its structure:

(1) Does a claim including such a limitation cover a scope which is unduly broader than that of the disclosure in the detailed description of the specification?

(i) Is there a possibility of allowance of a claim of unlimited scope defined by such a phrase as "not more than", "not less than" or "at least", i.e., extending too far beyond the limits defined by the physical properties which are obtained by the specific technical means disclosed in the specification?

(ii) Is there a possibility that a claim covering a product of a specifically disclosed process may also extend to a product made by another process not disclosed, but having the same physical properties as those of the claimed product, even after the two products have been found different in structure?

(2) Is it likely that known subject matter may be patented e.g. for the following reasons?

(i) The Examiner finds no reason for rejection, failing to locate any prior art literature showing the physical properties under consideration.

(ii) As is usual in the majority of cases, it is difficult to conduct a test repeating the disclosure of the prior art literature, in order to show in opposition proceedings that the claimed matter was known from, or anticipated by, the prior art literature.

(3) Are the "physical properties" of a composition claimed as an invention properly considered to be primarily nothing but the results of the invention (technical problems solved by the invention)?

(i) Should the physical properties be considered to

be the "results" of the invention, though they may also appear to form the "constituent features" thereof?

(ii) Whatever kind of composition of matter may be claimed, is it necessary to identify it by a feature describing its structure to which it owes its physical properties, as is the case with any claim defining a chemical substance?

3. The minimum requirements for an allowable patent application are that the claimed invention be novel and unobvious (Sections 1 and 2 of Article 29, and Article 29 bis, of the Patent Law), and that the specification describing the invention satisfy the requirements of Article 36 of the Patent Law. These requirements are, of course, equally applicable to any case involving composition of matter invention.

The applications involving the "composition of matter invention as defined by its physical properties" have greatly increased since the new system for chemical substances patents was introduced in 1975. Due to these applications it is considered that disputes between the applicants and the Patent Office, as well as those with opponents (third parties), have been increasing. We therefore believe it is significant to review how those applications are examined, and to consider how they should be examined.

[2] Actual Situation

1. Standards of Examination:

The following is a summary of the standards upon which the Patent Office relies when handling the cases under discussion:

(1) Section 3 of Article 36 of the Patent Law:

The Detailed Description of the Invention pursuant to Item 3 of the preceding Section shall set forth the object, construction and results of the invention to such an extent as to enable any person having ordinary skill in the art to which it pertains, to carry it out easily.

(2) Paragraphs 1 and 2 of Section 4 of Article 36 of the

Patent Law:

The statement of the Scope of Demand for Patent pursuant to Item 4 of Section 2 shall conform to the following requirements:

(i) The invention sought to be patented shall be disclosed in the Detailed Description of the Invention; and

(ii) It shall be set forth as a separate item or items stating only the features which shall be essential for the construction of the invention sought to be patented (hereinafter referred to as "claim or claims").

(3) General Standards of Examination, "Specification":

(i) 4.4. Section 5 of Article 36 of the Patent Law (now Section 4):

Section 5 of Article 36 of the Patent Law calls for the examination of the claim to see if it states "only the features which are essential for the construction of the invention" disclosed in the Detailed Description of the Invention.

(ii) 4.4.1. Features which are essential for the construction of the invention:

The "features which are essential for the construction of the invention" are the technical means that are essentially required for attaining the object of the invention (or for solving the technical problems which the invention is intended for solving). The essential technical means can be recognized from the statements of the object, construction and results of the invention which appear in the Detailed Description of the Invention. (The rest is omitted.)

(iii) 6.2. ii) Paragraph stating essential features:

No paragraph for stating essential features is permitted to include any matter not considered as any of the essential features for the construction

of the invention, even if it may be disclosed in the Detailed Description of the Invention.

[Comments]

Section 5 of Article 36 of the Patent Law, which provides that only the features which are essential for the construction of the invention shall be set forth in the claim, can be interpreted as requiring the claim to state those matters which are essential for the construction of the invention, and prohibiting the inclusion of any other matter in the claim. (The rest is omitted.)

(iv) 6.4. Typical cases (I) and (II) of failure to satisfy Section 5 of Article 36 of the Patent Law:

Typical cases in which a claim is considered as being inadequate and failing to satisfy the provisions of Section 5 of Article 36 of the Patent Law, are:

(I) (4) A claim stating only the object, operation or results of the invention;

(9) A claim in which the paragraph for stating essential features fails to state any of the technical means which are considered essential for attaining the object and results of the invention;

(II) (11) A claim including a phrase meaning the lower or upper limit, i.e. a claim which contains a numerical limitation defined only by a phrase meaning the lower or upper limit, such as "not less than" or "not more than", and thereby renders the inventive technical means indefinite;

(15) A claim expressed by results (object, operation or effects), i.e. a claim which sets forth only the results produced by the inventive technical means, and from which the technical means are unclear.

(4) Standards of Examination Classified by Industry, "Organic High Molecular Molding Materials":

3.36. Molding materials and molded products as limited by physical properties:

No molding material or molded product having physical properties which have already been regarded as desirable is considered as being unobvious, if the claim setting it forth relies solely upon those physical properties for distinguishing the invention.

It would be obvious for anybody of ordinary skill in the art to specify the desirable physical properties of any known molding material or molded product.

[Example 1] A molded product of polystyrene which is not broken when dropped.

[Example 2] A molded product of a melamine resin having a surface hardness of at least X.

[Example 3] A molded product of chlorinated polyethylene having a Vicat softening point not lower than 90°C, a modulus in torsion of at least 1000 kg/cm^2 at 80°C, and a notch impact strength of at least 3 $cm \cdot kg/cm^2$.

[Example 4] A transparent shrinkable polyethylene film having a tensile break strength of at least 5000 psi in all directions along the film plane, and an area shrinkage ratio of at least 30%.

(Reference)

(1) "Standards for the Implementation of the System for Composition Patents (and the Multiple Claiming System)" (October, 1975) -Implementation Concerning an Invention of a Chemical Substance (Extract from "Claims" in the Guidelines for the Preparation of a Specification):

(i) Chemical substance:

A chemical substance must be set forth in a specifically identified form. A chemical substance must, as a rule, be identified by its name as a compound or a formula showing its chemical structure. A chemical substance which

cannot be identified by its name as a compound or a formula showing its chemical structure may be identified by its physical or chemical properties, if it is at all possible. If it is impossible to identify a particular substance satisfactorily by its name as a compound, a formula showing its chemical structure, or its properties, a process for manufacturing it may also be recited, if its recitation assists the full identification of the substance. No identification by the process alone is permitted.

(ii) Rules applicable specially to an invention of a high molecular substance:

A high molecular substance must be set forth in a specifically identified form. A high molecular substance must, as a rule, be identified by a feature or features describing its structure.

The following features can be employed:

(a) Recurring units, (b) molecular weight, (c) arrangement of units (homo, block, graft, head-to-tail bonding, etc.), (d) partial characteristics (degree of branching, substituent, double bond, degree of crosslinking, end group, etc.), and (e) stereospecificity (stereoregularity).

If it is impossible to identify the substance satisfactorily by its structural features alone, the following characteristics may be added to the claim, if such addition enables the full identification of the substance, provided, however, that these characteristics must be expressed quantitatively:

(a) Crystallinity, viscosity, second-order transition point, density;

(b) Tensile strength, elongation, modulus, hardness, impact strength;

(c) Transparency, refractive index.

If the combination of the structural features and

the above characteristics is still insufficient for the full identification of the substance, a process for manufacturing it may also be recited, if its recitation enables the full identification of the substance. No identification by the process alone is, however, permitted.

(2) Standards of Examination Classified by Industry - "Alloys":

3. The patentability of an invention of an alloy is judged by taking into consideration (1) its composition, and its structure, too, if required, and (2) its inherent properties and/or use.

[Comments]

The elements composing an alloy and their properties are known. No unknown element is used to make an alloy. Every alloy is no more than a combination of elements selected from among a limited number of elements. Therefore, no alloy obtained by the mere selection and combination of elements can be considered as a complete invention. An alloy can be considered as a complete invention only when its specific composition has been ascertained as providing new and improved properties and/or use, i.e. unexpected utility. (The rest is omitted.)

(3) Standards of Examination Classified by Industry - "Catalysts":

3.2. Judgment on identity:

3.21. Two inventions relating to catalysts (extract):

When there are two inventions of catalysts which are defined by the proportions or physical properties of their constituents, differing from each other only in those features, that do not overlap each other in any of those features, they are not considered as being identical to each other, if the definition of the features of each invention can be objectively admitted as being based on definite grounds, even if they may

attain the same object.

[Comments]

The specifically limited proportions of the constituents of a catalyst or the specifically selected physical properties thereof, such as crystal form, surface area, grain size and density, may be considered features which are easy to choose by the mere repetition of a limited number of experiments, as opposed to the other features thereof. No two inventions of catalysts are, however, considered as substantially identical to each other, if they do not overlap each other in any of the constituent features, and if the definition of those features of each invention are objectively admitted as being based on definite intention or grounds. They are regarded as differing definitely from each other, even if they may attain the same object.

2. Trial Decisions

In the following tables, each wavy underline is used to mark a controversial point, and both wavy and straight underline to show a feature recited to distinguish the claimed invention from the prior art.

(1) Case 1 (a case not conforming to the Standards of Examination for "Organic High Molecular Molding Materials"):

Case	Patent Application No. 36588/1978 Patent Publication No. 14774/1985 "Polyvinylidene Fluoride Film of High Dielectric Strength and a Process for Manufacturing the Same"
Claims	
	1. A polyvinylidene fluoride film of high dielectric strength having a dielectric strength

not lower than 10 MV/cm at room temperature, and not lower than 8 MV/cm at 100°C. 2. Process claim (omitted).
History of Examination Proceedings (i) The application was published for opposition purposes without any Office Action being issued rejecting it. (ii) An opposition was lodged. Ground of opposition to claim 1: Claim 1 is nothing but an expression of the desired physical properties of PVDF used for making electrical materials. It does not show any means for achieving them. Therefore, the invention as claimed is not a creation of a technical concept which is obtained by utilizing a law of nature. Moreover, the invention as claimed would have been obvious to those skilled in the art, since claim 1 recites no more than what may easily occur to them as the target levels of physical properties of PVDF of high quality. Answer (not accompanied by any amendment): Claim 1 is directed to the invention of a "film" itself and is, therefore, not required to set forth any means for achieving it. It is not a mere expression of desire, but means for achieving it are clearly set forth in claim 2 and the specification. (iii) The following decision was given on the opposition: Claim 1 is considered to provide a novel material having a specific level of dielectric strength, and is not considered to fail to define a creation of a technical concept which is obtained by utilizing a law of nature.
Outcome: The application was finally allowed.

(2) Case 2 (conforming to the Standards of Examination for "Organic High Molecular Molding Materials"):

Case	Patent Application No. 29204/1976 Patent Publication No. 42288/1983 Trial No. 20616/1982 "High Strength Carbon Fiber and a Process for Manufacturing the Same"

Claims

1. High strength carbon fiber having a skin containing about 0.3 to 2.5% by weight of a transition metal selected from the group consisting of manganese, iron and chromium, and/or a compound thereof, in terms of the weight of the metal atom, and having strand composite strength of at least 340 kgmm^2 and a strand composite elongation of at least about 1.4%.
2. Process claim (omitted).

History of Examination and Trial Proceedings

(i) After a trial had been demanded from final rejection, the application was reexamined by the Examiner who had rejected it, and was allowed for publication. An opposition was lodged to the published application.

(ii) Summary of the trial decision (decision on the opposition):

(a) The opposition is not convincing enough;

(b) The demand for the trial is denied.

High strength and elongation had already been recognized as desired physical properties of carbon fiber before the application was filed, as is obvious from the cited reference. It would have been obvious for anybody of ordinary skill in the art to define numerically the physical properties which were already recognized as being desirable,

	irrespective of any supporting disclosure of a manufacturing process, or the unobviousness of the process to anybody of ordinary skill in the art. Therefore, the invention is unpatentable pursuant to the provisions of Section 2 of Article 29 of the Patent Law.
Outcome	The rejection was made final.

(3) Case 3 (a case in which the product claimed was concluded to be identical to the product of a manufacturing process disclosed in a prior application, since the process for manufacturing the claimed product could be considered as being substantially identical to the process disclosed in the prior application):

Case	Patent Application No. 51733/1973 Patent Publication No. 19262/1981 Trial No. 14259/1982 "Biaxially Oriented Polyester Film for Magnetic Tape"
Claim	1. A biaxially oriented polyester film for a magnetic tape obtained by laminating a polyester base film having a smooth surface on a polyester film containing a finely divided inert compound dispersed therein, stretching the resulting laminate biaxially, and coating the surface of said polyester base film with a magnetic layer, said polyester film containing 0.01 to 2% by weight of said inert compound having a particle diameter of 0.1 to 10 microns, said polyester film having a coefficient of static friction not exceeding 0.60 when it has a thickness of 2.1 microns.

History of Examination and Trial Proceedings
(i) The difference between the invention of this application and the invention disclosed in the specification of the prior application is that the claim of this application employs the underlined language for defining the surface characteristics of the polyester film, while the prior application specifies a surface roughness index of 1.2 to 7.0. (ii) This difference is, however, nothing but one of expression, since the polyester film as claimed does not particularly differ in composition from that described in the prior application, and is manufactured under conditions which do not particularly differ from those described in the prior application. (iii) Therefore, the present invention is identical to the invention disclosed in the prior application (Article 29 bis). (iv) The original rejection was based on the same grounds as those relied upon by the trial decision.

Outcome	The rejection was made final.

(4) Case 4 (a case in which the Examiner denied the constituent features of an invention in an Office Action):

Case	Patent Application No. 66015/1980 Laid-Open No. 156052/1980 Trial No. 3798/1985 "Moldable Laminate of the Metal-Plastic-Metal Construction"

Claim

1. A laminate metal-plastic-metal construction comprising two metal skins and a resinous polymer core secured therebetween, each of said skins having a thickness of 2 to 20 mils, said core and skin having a thickness ratio of less than 9 to 1, said laminate having a total thickness of 5 to 65 mils, said laminate:

(i) Having a bending strength, as measured by subjecting a specimen having a width of one inch and a span of four inches to load at three points in accordance with the ASTM D790 method, which is equal to at least 40% of that of a specimen prepared from a solid metal forming a skin of lower modulus, and having the same thickness as that of said laminate;

(ii) Having a density which is equal to from 25 to 90% of the average density of said two solid metal skins;

(iii) Having as a measure of stretchability a critical dome height which is equal to at least 60% of that of a specimen prepared from a solid forming a skin of lower ultimate elongation, and having the same thickness as that of said laminate;

(iv) Being capable of withstanding at least 30 minutes of a no-load oven test at 190°F (87.8°C) without causing any separation; and

(v) Being bendable at room temperature to an angle of 90° to reach a critical radius (which means the distance between the pivot and the outer surface of the inner skin of the laminate, and is substantially equal to the total thickness of the laminate) without causing any metal fracture.

History of Examination Proceedings
The case is still pending (in the proceedings of a trial from final rejection). In the first Office Action, the Examiner cited two references, applied Section 2 of Article 29 of the Patent Law, and said: "The features (i) to (v) as set forth in claim 1 are nothing but a listing of the physical properties which are required of a metal-plastic-metal laminate having good bendability."

Outcome	The application is still pending.

(5) Case 5 (a referential case chosen for information from applications pertaining to alloys):

Case	Patent Application No. 145146/1975 Patent Publication No. 9324/1985 Trial No. 19183/1983 "Magnetic Head"

Claim
1. A magnetic head for a magnetic recording and reproducing system comprising a core formed from a material containing 80.5 to 82.0% by weight of nickel, 3.0 to 5.0% by weight of molybdenum and not more than 0.6% by weight of manganese, the balance consisting substantially of iron, said material having a magneto-striction not exceeding 1×10^{-6} and a saturation magnetic flux density not lower than $0.75\ Wb/m^2$

History of Examination and Trial Proceedings
(i) The features other than the underlined ones, i.e. the composition of the alloy, fall within the range of composition which is

	disclosed in Japanese Patent Application laid open No. 93999/1973, entitled "Material of High Permeability", and the magnetic head made of such material is also clearly shown therein.
(ii)	The underlined features were known from other printed publications (Japanese Patent Applications laid open Nos. 3916/1975 and 62121/1975). Neither of these publications, however, discloses the composition as recited.
(iii)	The trial decision concluded the invention is patentable, on the ground that the cited reference (No. 93999/1973) did not contain any disclosure concerning the underlined features, though the composition of the alloy which it disclosed overlapped that set forth in the claim, as a result of consideration in the light of the provisions of Section 2 of Article 29 of the Patent Law.
(iv)	The original Examiner's decision had been the rejection of the application for the reason that the underlined features were described in the other publications mentioned above (ii).
Outcome	The application was finally allowed.

3. Case Study and Points at Issue

The following is a summary of the results of our study of the cases which we have summarized above. Each passage enclosed in a frame contains a point or points which we believe will call for further consideration or clarification.

(1) There have been cases in which a claim defined substantially by physical properties alone was allowed (Case 1).

A claim which sets forth some physical properties of a particular matter (or material, composition, or product) as the constituent features of an invention, is, as a rule, interpreted as covering any and all similar kinds of matter having the same physical properties, though the physical properties of any composition of matter claimed as an invention may have to be considered as nothing but its results (or object). Therefore, it follows that, even if the specification may disclose the claimed composition merely as a product of a particular process, the claim extends broadly to any product of any other process having the same physical properties, even if the latter product may subsequently prove to have a different structure.

A claim containing a phrase meaning only one of the two limits of a particular range, such as "not less than" or "not more than", may be considered as covering an indefinitely broad range which is not supported by any specific example. There is every likelihood that the allowance of any such claim may run counter to the spirit of the Japanese Patent System which resides in the grant of an exclusive right in compensation for the disclosure of an invention to the public, since it usually has a scope which is broader by far than that of the disclosure in the specification.

(2) It appears that when a claim defining an invention by physical properties is examined, it is usual practice to consider those properties as the "constituent features of the invention", instead of its "results", and to base judgment of its novelty and unobviousness upon those properties. In other words, it was Article 29 or 29 bis of the Patent Law

that was applied to the judgment on patentability in any of the relevant cases which we have reviewed. Our search has not located any case in which Paragragh 2 of Section 4 of Article 36 of the Patent Law was applied for rejecting a claim of the nature under discussion.

According to a different point of view, the physical properties of any composition claimed as an invention should be regarded as its results, and Section 3 or 4 of Article 36 of the Patent Law should be applied to any application of the nature under discussion, as is taught in General Standards of Examination:"Specification", etc.

(3) There have been cases in which a claim was allowed, since the (values of) physical properties as recited in the claim were not specifically disclosed in any prior art literature (Cases 1 and 5). There have also been cases in which the Examiner required the applicant to furnish evidence showing that the physical properties as recited in a claim had not been achieved before (Case 4), though only a few cases of this nature appear to exist.

Insofar as an exclusive right is granted on a patented invention, it is necessary for the Examiner to impose a stringent requirement upon the applicant to distinguish the claimed invention from the prior art.

In the opposition proceedings following the publication of an application, it is usual for the opponent to consider conducting a test repeating the disclosure of prior art literature to show that the "matter as claimed" was known. As a matter of fact, however, there is hardly any prior art literature containing a complete statement of the conditions which are required for conducting such a

test, and in many cases, it is necessary for the opponent as a person of ordinary skill in the art to establish at least some of the conditions. For example, if the prior art literature which the opponent has been able to locate does not state the name of the manufacturer, or the grade, of the raw materials which were used by the author of the literature for making a resin, it is very difficult for the opponent to conduct any test enabling him to obtain all of the physical properties stated in the literature (e.g. the molecular weight, density, melt flow rate (MFR), molecular weight distribution, and degree of crystallization of the resin). In many of the cases, an affidavit furnished by the opponent to argue that the "matter as claimed" was known, is not accepted, if it can only show the test results which differ from those shown by the applicant. The opponent, then, has no alternative but to proceed with a demand for a trial for the invalidation of a patent, or even a suit for the revocation of a trial decision. This appears to be an outcome which is extremely unfair to the opponent. The following remedies are, therefore, proposed:

(i) If the author of the prior art literature which has been cited by a person contesting a particular application is the applicant of that application, the applicant should have the obligation to show that the physical properties as set forth in the contested claim can be patentably distinguished from the results of the tests conducted to repeat the disclosure of the examples described in the literature; and

(ii) In the event that its author is a third party, it should be necessary to prepare a standard for objective judgment defining the

ranges of variation which are admissible for the conditions of a test regarded as properly repeating the disclosure of the prior art literature.

(4) There have been cases in which the evidence produced (by the opponent, or Examiner) to show that the physical properties as set forth in a claim had been known to be "desirable" (see Standards of Examination for "Organic High Molecular Molding Materials") affected the judgment on the unobviousness (Section 2 of Article 29 of the Patent Law) of the claimed invention (Case 2; cf. Case 1 in which the judgment was not affected even by the admission by the applicant of the fact that the physical properties as set forth in the claim had been known to be desirable).

There may be a case in which it is impossible to locate any literature showing that the physical properties as set forth in a claim have been recognized as being "desirable", and it is therefore, difficult to produce evidence of the fact that they have been "desirable".

No claim alleged to be directed to an improvement of any known or similar physical properties, but defining a substantially "indefinite range" lacking the upper or lower limit, should be allowed, since such a claim itself is proof of the fact that those physical properties have been known as being "desirable", even if there may be no other proof of that fact. Any and all such claims should be rejected as failing to satisfy the requirements of Section 2 of Article 29, or Section 3 or 4 of Article 36, of the Patent Law.

If it is obvious that the physical properties as set forth in a claim have been known to be

"desirable", or if it is difficult to show that the physical properties which are expressed by special parameters have been known to be desirable, the Examiner should reject the claim by relying upon some publication which he considers relevant, and require the applicant to show that the claim does not cover any known matter (or defines only novel subject matter).

(5) It has not been required that a claim directed to the "composition of matter invention as defined by its physical properties" set forth specific means for attaining the invention. The Patent Office agrees that the "specific means for achieving the specified physical properties are clearly shown", if a process for manufacturing the composition claimed is described in the Detailed Description part of the specification, or if a manufacturing process is also claimed.

There has been a case in which the object or results of the "composition of matter invention as defined by its physical properties" were regarded as residing in the actual realizability of the "matter" (Case 1).

According to a different point of view, however, the "composition of matter" should be identified by a feature or features showing its structure, as is required of a chemical substance, if the conclusion of Case 1 is correct.

If a claim sets forth a specific range for each of a plurality of "physical properties", it would be necessary to see if the specific means which are required for achieving all of the physical properties within the ranges as set forth in the claim are clearly shown by examples, or otherwise (to the extent which enables anybody of ordinary

skill in the art to carry out the invention easily). If there is no satisfactory showing, we would consider that the application should be rejected as failing to satisfy the requirements of Section 3 or 4 of Article 36 of the Patent Law.

(6) The Standards of Examination Classified by Industry: "Organic High Molecular Molding Materials" clearly show the guidelines for the examination of a composition of matter invention defined by its physical properties. Some cases have been found to conform exactly to those Standards of Examination (Cases 2 and 4), but there have also been cases in which the examination cannot necessarily be considered as having been made in conformity to the Standards (Case 1).

Strict conformity to the Standards of Examination is essential to ensure that all the Examiners examine all cases of the same nature in an equal way and reach conclusions of the same nature. Insofar as only a very small proportion of patents are actually invalidated by trial proceedings, there is every likelihood that the issuance of patents through an a relaxed standard of examination may result in the protection of inventions lacking novelty and unobviousness, and it also impedes the progress of technology, which is contrary to the object and spirit of the Patent Law. Therefore, any patent should be issued after a claim or claims have been carefully examined in view of the disclosure of the specification, and the originality of the invention.

It is true that an inventor (or the applicant as his assignee) is allowed to express his own invention as he likes. It is, however, desirable that complete standards of examination be made

available for the inventions pertaining to each different field of technology having a different level of development in order to provide a basis for judgment on the allowability of any of differently worded claims. There are some fields of technology for which no satisfactory standards of examination are available as yet. Moreover, it is important to revise any existing standard of examination to update it by incorporating any progress in the relevant technology.

[3] Proposal

1. A claim defining a composition of matter invention by its physical properties should be allowed only with a scope which is as broad as that of the disclosure in the specification, if the inventor relies upon those properties as a shortcut without ascertaining if there is any other feature that can more properly be relied upon to identify the invention. An allowable claim should be limited to one defining only the specific range of physical properties within which it has been found possible to solve a specific problem, insofar as the solution of a specific problem is the object of any invention; or one including the use of an invention as one of its constituent features; or one defining a product by a process for manufacturing it; or even one directed to a manufacturing process.

2. Particularly strict examination should be made in allowing any claim defining a composition by its physical properties, if the invention is considered to be novel only for the reason that the physical properties as set forth in the claim differ to some extent from their counterparts disclosed in prior art literature. No claim considered to cover an indefinitely broad scope should be allowed. Even a claim defining an adequately limited range of values should be allowed only after careful examination has been made to ascertain that the range recited is properly supported by specific examples, or other specific description in the

specification.

3. The strict adherence by all the Examiners to the Standards of Examination, the preparation of complete standards of examination for the inventions pertaining to each of various fields of technology, and the up-dating of any such standards to incorporate any progress of technology are considered essential.

MANAGEMENT OF TRADEMARKS IN A U.S. COMPANY

AND

SERVICE MARKS IN THE U.S.

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MANAGEMENT OF TRADEMARKS IN A U.S. COMPANY

In most large U.S. companies, the trademark group is responsible for all the worldwide legal aspects of trademarks and trade names of the corporation and its subsidiaries. The trademark group at Monsanto also handles copyrights worldwide, and this is not an uncommon situation in a U.S. company.

Specifically as to trademarks, an in-house trademark group is responsible for the registration, maintenance, proper use, enforcement, licensing, acquisition and divestiture of trademarks. The group also develops and implements companywide policies and procedures relating to trademarks, and establishes an accurate record system to assure that no trademark rights are inadvertently lost.

In my experience, a hard working, competent attorney and secretary can handle a trademark estate of about 3,000 registrations. That includes everything attendant to that estate; such as searching, filing and prosecuting U.S. applications, instructing foreign associates to file applications and oppositions, renewals, licenses, reviewing publications, advising and counseling the business groups, and control and overview of litigation. However, such a small staff may result in a backlog of work in the event the attorney takes a long holiday or becomes ill. If more help is needed, consideration should be given to employing a

paralegal to handle such things as renewals, filing instructions to foreign associates, etc.

The trademark attorney should take great care in selecting his foreign associates. To a large measure, the strength of the company's international trademark estate is dependent upon the manner in which each foreign associate prosecutes the applications and enforces the trademark rights of the company. A poor choice of an associate by the trademark attorney can result in unnecessarily weak marks; while the choice of a good, capable associate can provide strong marks and a good marketing position. In any event, the trademark attorney should constantly review the quality of the work done by each associate, and be ready with either praise for work well done or constructive criticism, or even termination, for work of unacceptable quality. The attorney should also make sure that the associates receive prompt payment of their debit notes.

Although it may seem odd to view a trademark attorney as a teacher, much of his time is spent in educating members of the business groups. This process of education can take the form of conversation, memos, formal speeches and presentations, and the writing and implementation of company policies and procedures. This is an ongoing task because of the turnover of personnel within each business group.

However, the attorney should not view education as a repetitious chore, but rather as an opportunity to inform the business people, thus making his job easier while furthering the successful marketing of the company's products. This is particularly true of the corporate trademark policy and procedure. It must have the full support of top executives and should set forth the company's basic posture toward trademarks and provide guidelines on the identity of the company that will own the marks, selection of marks, proper use, proper type style and colors, labeling and licensing. Wide distribution of this material throughout the company and compliance with it will be most helpful to the attorney in doing his job and in keeping his client happy.

In addition to relying upon others to handle the company's trademarks in foreign countries, the attorney must also rely upon others to watch for conflicting marks in other countries. He must check the U.S. trademark gazette when it is issued each week, but it is not practical for him to check the gazette for all the countries where the company does business. Most U.S. companies subscribe to an international watching service which, for a reasonable sum, will review all trademark gazettes and advise the attorney of any conflicting marks published for opposition anywhere in the world. The attorney need only review the notices received from the watching service and, if he perceives a conflict, either enter into direct negotiations with the applicant or instruct his foreign associate to negotiate and/or oppose.

In a large U.S. company, a trademark group works closely with business people in advertising, public relations and marketing and with patent attorneys and general lawyers, all on a worldwide basis. The attorney must also work closely with the accountants. At Monsanto and at most other U.S. companies, the attorney must compute the annual budget for all trademark work. The budget is based upon the marketing plans of each business group, but it is the accountants who watch the expenditures with an eagle eye. In the U.S., the trademark function is sometimes positioned in the Patent Department and sometimes in the Law Department. In a technology-based company, the trademark group is usually a part of the Patent Department, otherwise it is part of the general law function. In a highly consumer-oriented company where trademarks are of great importance, the trademark function is sometimes a free-standing group reporting to the president or a high-level vice president.

The attorney's basic task is to obtain and maintain trademark rights. With regard to registration, the attorney should be aware at an early stage whenever a business group is considering the selection of a new trademark. At this time, the attorney provides advice on the selection of an appropriate trademark and on the legal requirements for filing and prosecuting an application. The attorney should also assist the business group in making an informed decision as to the countries where registrations should be sought. The attorney should then eliminate any proposed mark that is inherently unregistrable for legal reasons, such as the word being

generic or merely descriptive. After the obviously unregistrable proposals have been eliminated, the attorney should make, or arrange to have made, a trademark search in each of the countries where applications are to be filed. Upon receipt of the search results, he renders a legal opinion to the business group as to the availability of each mark in each country. After obtaining the final authorization of the business group to go forward, he arranges for the filing of applications. It then becomes the responsibility of the attorney and the foreign associate in each country to prosecute each application through to registration. In the process, it may become necessary to amend some portion of the application, usually the description of goods, to overcome objections by the Trademark Office or to negotiate settlement agreements with the owners of prior rights. All of this must be done while retaining the ability to use the trademark in effectively marketing the product in each country.

After a registration issues, care must be taken to accurately enter all the necessary data into the records. The record must be complete and accurate to assure that consideration is given to renewing the registration at the appropriate time. Poor records can result in the inadvertent loss of trademark rights by failure to renew. The business group should be contacted at least six months prior to the renewal date to determine whether they wish to renew and whether they can supply any evidence of use of the mark that may be required. When a decision to renew has been obtained

from the business group, it is the duty of the attorney to file the renewal application in the U.S. and give renewal instructions and the appropriate documentation to the foreign associates. As is the case with almost everything concerning trademarks, an accurate record must be kept of all facets of the renewal application and the issuance of it.

A computer and software designed specifically for trademark record purposes are essential to the maintenance of records. Manual records are subject to errors or loss and cannot be relied upon for maintaining critical dates. The attorney should periodically review a copy of the computer printout to catch any obvious mistakes and a copy of the printout should be given to the business group so they can be aware of the exact status and extent of their trademark estate.

One of the continuing tasks of an attorney is the review of advertising, labels, promotional material and technical papers to make sure that all the company's trademarks are properly used. This is especially important in common law countries like the U.S. where rights can be lost as a result of poor use of the mark by the owner. This kind of review involves a substantial amount of time and often must be done on short notice. However, it must be done to maintain the integrity of the marks and to help them remain strong for enforcement purposes.

If a mark is moderately well-known, it is surprisingly easy to obtain at least preliminary information on an infringement. In my own experience, my best sources of information have been the company's sales people in the field, distributors, customers and domestic and foreign associates. The official gazette of the trademark office is also a source of conflicting marks.

In many instances in the U.S., a mark is infringed because the infringer knows nothing about trademarks and is unaware that he is infringing. This usually happens at the retail level. In simple cases of this nature, the trademark attorney can quickly verify the facts and obtain the consent of the business group to send a cease and desist letter. The business group should always be contacted because the sending of a cease and desist letter might lead to litigation even in the most innocuous cases, and it is the business group that will pay the litigation costs. Upon receiving the consent of the business group, a relatively soft cease and desist letter should be sent to the infringer. The letter usually causes the innocent infringer to stop infringing and offer a commitment not to infringe in the future. If the first letter is unsuccessful, a second letter threatening litigation usually achieves the desired results.

There are some instances where the facts indicate that an infringer is fully aware that he is infringing and is doing so in order to make as much money as he can as quickly

as he can. In these instances, the attorney must act quickly and decisively. Of course, the facts must be confirmed and the business group consulted, but both these things should be done very quickly. The attorney should then arrange for the immediate filing of a trademark infringement/unfair competition suit or, if the situation is particularly bad and the infringer is likely to flee, a court order can be sought to raid the infringer and seize the infringing goods and the records relating to them. This latter action is sometimes taken in counterfeiting cases. After the filing of the suit or the conducting of the raid, the litigation goes forward until the parties reach a settlement or the court hands down a decision. Although the trademark attorney is in overall control of the case, a trial attorney associated with an outside legal firm is almost always selected to make court appearances and handle the day-to-day aspects of the litigation. Thus, there must be good communication between the trademark attorney and the litigating attorney. The trademark attorney must also keep the business group advised and seek their comments and input as the litigation progresses. They are, after all, his client and the people who pay the bills.

There are times when there is an honest difference of opinion between two reputable companies and their respective trademark counsel as to whether an infringement exists. The attorney for the aggrieved party, the plaintiff, must be certain of his legal position and, with the consent of the

business group, make preparations as though litigation is inevitable. He must thoroughly investigate the alleged infringement and try to obtain information on the number or volume of infringing sales, as well as his opponents reaction to any prior trademark controversies. Credit reports, private investigators, interrogatories and depositions should be used to build a solid foundation for litigation.

During this time, the attorney or the litigation attorney or a ranking member of the business group should be trying to negotiate an acceptable settlement with the infringer. The negotiations should be directed towards preserving the company's trademark rights while avoiding the expense of litigation. If a settlement is reached, the agreement will likely be drafted by the trial attorney and the trademark attorney on each side of the case. If an agreement cannot be reached, both sides and their respective counsel must prepare for a long, expensive court battle.

In regard to agreements, the largest volume of agreements prepared by a U.S. trademark attorney are in the area of licensing. A U.S. company with a substantial trademark estate may have hundreds or even thousands of trademark licenses. It is the duty of the trademark attorney to draft each license to the satisfaction of both the business group and the other party to the license. He must also preserve and possibly enhance the company's trademarks and comply with the laws of the country in question. The trademark attorney

is also called upon to draft the many consents and undertakings entered into with the owners of possibly conflicting marks encountered during the prosecuting of trademark applications. As is the case with the applications, registrations and renewals, all of the licenses and consents must be made of record so the trademark attorney and the business group can remain aware of them. This is another job for the computer.

A trademark is the focal point of goodwill and it might be said that the attorney has little direct connection with the goodwill attached to a trademark. Yet, in a sense, everything he does affects goodwill. The attorney's input on the selection of a good mark, his prosecution of the application, his review of publications to ensure proper use of the mark, his education of the business group, his implementation of trademark policies and procedures, the licenses he drafts, all have a bearing on how the public perceives the mark and thus, have bearing upon goodwill.

A good U.S. trademark attorney is part lawyer, part teacher and part marketing expert. His counterpart in other countries may handle some of the details differently, but I am sure that a U.S. corporate trademark attorney and a corporate trademark attorney in some other country both have the same goal of maximizing their company's trademark estate in a cost-effective, ethical and legal manner.

LOUIS M. GIBSON

PROTECTION OF SERVICE MARKS IN THE U.S.A.

U. S. Law defines a service mark as follows:

> "The term 'service mark' means a mark used in the sale or advertising of services to identify the services of one person and distinguish them from the services of others."

Service marks resemble trademarks in many ways, and under the U.S. trademark law, the Lanham Act, they are accorded equivalent protection. Although service marks are frequently referred to, incorrectly, as trademarks, no legal consequences turn on the use of the correct terminology. In fact, the identical mark may be used as both a trademark and a service mark by the same business, such as a company selling food and also providing restaurant services under the same mark.

Thus, while a trademark acts to identify and distinguish the source and quality of a tangible product, a service mark functions to identify and distinguish the source and quality of an intangible service. Like a trademark, a service mark must identify and distinguish; and to meet this requirement, it cannot merely describe the service. In order to clearly identify the services, for the purposes of both obtaining and maintaining the registration, the owner of the mark must show a direct association in its advertising between the mark and the service rendered.

As I have mentioned, a service mark must be used in connection with a going business enterprise. It cannot exist in gross. The basis of protectable rights in a service mark is actual use in trade. Thus, use of mark prior to the beginning of actual services does not qualify. In one case, use of a restaurant service mark on an office door, a letterhead, and on architectural drawings prior to the opening of the first restaurant did not establish service mark rights.

In order to constitute "use", the mark must be used or displayed in the sale or advertising of services and the services rendered in commerce. The required use can be made in many different ways. For example, use of the mark on a sign outside a restaurant is service mark use in connection with restaurant services, use on a moving van is proper for moving services, use on aircraft for air transportation services and use on insurance application forms for insurance services. Use in advertisements can also qualify.

A problem may arise if an applicant seeks protection for a service that is merely normal and ancillary to the sale of goods. Thus, registration will be refused on the ground that there is no separate "service" being rendered. In other words, services which are commonly incidental to the production or sale of goods do not constitute "services" sufficient to justify the registration of a mark as a service mark. Under this approach, extension of credit by a retail

merchant was held a service sufficient to support a service mark, while a publisher's quotation of its rates for advertising space was held merely incidental to publishing and not sufficient to support a service mark. Promotional services consisting of conducting demonstrations solely to demonstrate use of the goods is not a "service", but if the demonstrations do more than merely promote the sale of goods, and also generally instruct buyers in how to use the kind of product in general, then this qualifies as a "service". Thus, even though the same term may function both as a trademark and a service mark, the service must constitute more then mere promotion and advertising of one's own goods.

Under present law, a non-U.S. service mark owner can apply to register its mark in the U.S. based on (1) a foreign registration of the mark; or (2) a foreign application to register the mark if the U.S. application is filed within six months of the foreign application; or (3) use of the mark in the U.S. For applications in (1) and (2), the foreign service mark owner need not allege any use of the mark anywhere.

However, on November 16, 1989, a new trademark law will take effect in the U.S. and provide an additional basis for the filing of a U.S. application by a service mark owner. Under the Trademark Revision Act, a domestic or foreign applicant may apply to register a mark based upon a bona fide intent to use the mark in the U.S. The application

must state the intention to use; the services for which the mark will be used; and the manner in which the mark will be used. An "intent-to-use" application need not be accompanied by specimens showing the mark, but it must include a drawing showing the proposed use of the mark. The application will then be reviewed by an examining attorney, and, if approved, published for opposition. In the absence of an opposition, the applicant will have six months to prove actual use of the mark; after which the registration will issue. Extensions of the six month period will be made available. Once the service mark registration has been obtained, the basic requirements of maintenance and enforcement are the same as those for a trademark.

One of the more important aspects of a service mark is to make sure that the mark is properly used. The mark must always be used in direct association with the service rendered and identify the source of that service. Failure to do so may result in the mark losing its status as a service mark.

LOUIS M. GIBSON

INTERVIEWS BY EXAMINERS IN JAPAN

PIPA
Japanese Group, Committee No. 1
Subcommittee No. 3
Consisting of:

Kiyoshi Kusama, SHIMADZU CORPORATION
Yoshinori Ohtsuka, TOYOTA MOTOR CORPORATION
Shin-ichi Suzuki, FUJI HEAVY INDUSTRIES LTD.
Toshio Funahara, Teijin Limited
Yoji Fukushima, EBARA CORPORATION
Makoto Takashima, Oki Electric Industry Co.,Ltd.
Koji Ebata, Ricoh Company, Ltd.
Speaker: Futoshi Hayakawa, AISIN SEIKI CO., LTD

ABSTRACT

As the result of harmonization efforts between Japan, U.S.A. and Europe on the operation phase of their patent system, a consensus was reached at the meeting held in Tokyo, on October 31 and November 1, 1988, on "harmonization of practice of interviews by examiners." The Japanese practice has been revised and was put in effect effective May 1, 1989. This paper will report the practice of interviews by examiners so revised, in comparison with that in the U.S.A.

I. INTRODUCTION

Since October 1985, the three patent offices consisting of JPO, USPTO, and EPO have been working on harmonization of patent system and practice between Japan, U.S.A. and Europe. A consensus was reached at the meeting held on October 31 and November 1, 1988 on practice of "interviews by examiners with applicants" as the result of harmonization efforts on practice phase of the respective patent systems. It was then mutually agreed to put in effect the practice as soon as practicable.

The points of the consensus were as follows:

(1) Interview defined as a supplementary means of examination.

(2) Participation in interview, with the opportunity of at least one interview during the period of examination.

(3) A format of record, which will be incorporated into documents to be the public for inspection.

(4) Commitment of the examiner to perform. The examiner will respect the result of an interview.

The practice of interview in Japan has been changed in line with the above, effective May 1, 1989.

This paper will introduce the practice of interview in Japan so revised, in comparison with that in the United States.

II. COMPARISON OF INTERVIEW SYSTEM IN JAPAN WITH THAT IN U.S.A.

1. Purpose of interview

JAPAN	U.S.A.
Examination of patent applications: On a documentary basis(Rule 1 of Patent Law).	Examination of patent applications: Based on the written record (37 CFR 1.2).
An Interview is a means to supplement the documentary examination so as to establish mutual understanding between the examiner and the applicant, to contribute to the prompt and appropriate examination of the application.	Similar to the one shown left

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2.Methods of Interview

JAPAN	U.S.A.
Restricted always to face-to-face interview on personal appearance of the applicant.	In addition to face-to-face interview, telephone interview may be available.

3.How Interview is conducted

JAPAN	U.S.A.
(1)Interviews at the initiative of the examiner: The examiner may have an interview with the applicant, the opponent or their representatives, based on mutual consent: (a) During examination of an application, if the invention is difficult to understand and examiner considers that an interview would contribute to prompt and appropriate examination of the application; or (b) During an opposition procedure, if the examiner considers that an interview with both parties to hear their allegations or to have evidential means sorted out by them would contribute to prompt and appropriate examination of the opposition.	An interview should be had only when the nature of the case is such that the interview could serve to develop and clarify specific issues and lead to a mutual understanding between the examiner and the applicant, and thereby advance the prosecution of the application (MPEP 713.01)

(2)Interviews at the request of the applicant: (a) The examiner holds an interview at least once throughout the period of examination, except for: -An application for which a request for examination has not been filed; -An application which has not reached the time for initiating the examination; -An application for which a decision of publication has been drafted and approved within the Patent Office (exclusive of an application on which an opposition has been filed).	Interview for discussion of patentability of pending applications will not be had before the first official action thereon (37 CFR 1.133, MPEP 713.02). In the case of continuation or substitution applications, however, it may be had prior to issuance of the first office action. It may also be permissible restriction or classification order.
An interview for merely making inquiries about patentability is not accept.	Interview for the purpose of "sounding out" the examiner should not be permitted (MPEP 713.03). The USPTO can not as an expounder of the patent law, nor as a counsellor for individuals.
(b) The examiner may decline a second interview: -If it is not considered useful for acceleration of the examination; or -If it is requested in the final stage of the procedure.	

	One interview after final rejection is permitted. Such an interview may be granted if the examiner is convinced that disposal or clarification for appeal may be accomplished with only nominal further consideration (MPEP 713.09).
(3)When an interview is requested by one of the parties with respect to a case of opposition to the grant of patent, the examiner holds an interview only in the case where there is no possibility of endangering impartiality of the examination.	The examiner may not deiscuss inter partes questions ex parte with any of the interested parties (MPEP 713.06).

4.Procedure for Interview

JAPAN	U.S.A.
When an interview is to be conducted, arrangements are to be made in advance by telephone, in writing, etc. as to the following: -Items to be raised; -Date and time for the interview; -Name of the interviewers; -Length of time necessary for the interview (not to exceed 30 minutes per case).	An interview should normally be arranged for in advance, as by letter, telegram or telephone call. Interview must be had in the examiners' rooms at such times, within office hours, as the respective examiners may designate(37 CFR 1.133). It is the responsibility of both parties to see that it is not extended beyond a 30 minute period (MPEP 713.01).

5.Contents of Interview

JAPAN	U.S.A.
Contents of an interview must relate directly to the subject application: (a)Hearing of explanation as to the description and technical contents of the specification or drawings. (b)Hearing of explanation as to the subject invention of the application as compared with the prior art. (c)Hearing of explanation as to the arguments and/or the amendment and explanation as to a sample and/or a model. (d)Handing over of a notice of reasons for rejection. (e)Explanation as to the reasons for rejection and/or the cited references, and guidance as to a response (for example, suggestion of further limitation to overcome the reasons for rejection). (f)Hearing of explanation as to matters raised in the opposition procedures and guidance to both parties of the opposition on measures to be taken for sorting out the items in	

dispute.	

6.Scope of Interview

JAPAN	U.S.A.
Interviewees shall be as follows: (1)Applicant (or, if the applicant is a juridical person, an authorized representative thereof); (2)Representatives: -A representative of whom notification shall have been filed; -A patent attorney who brings a document certifying a power of attorney from the applicant; -A patent attorney who brings a document certifying a power of attorney from a representative which authorizes appointment of a subagent; or -A person who brings a document certifying a power of attorney from the applicant or representative which authorizes appointment of a subagent; and (3)Any opponent. It will be in order, however, for any interested individuals, such as company	Interviewees shall be as follows (MPEP 713.05) (1)Applicant; (2)Attorney of record in the form of a paper on file; and (3)Registered individuals who are known to be the local representatives of the attorney in the case (even though a power of attorney to them is not of record in the particular application).

employees, inventor or patent attorney office employees, who do not carry with them the power of attorney, to be present together at the interview.	

7.Making of Interview Records

JAPAN	U.S.A.
(1)After an interview, the examiner makes out an interview record in duplicate, on which both the examiner and the attendee affix their seals, with a copy delivered to the applicant or representative thereof and the other copy retained in the file wrapper for future inspection by the public.	In the case of an application interview, examiners complete a 2-sheet carbon interleaf Interview Summary Form,duplicate copy of which is given to the applicant (or attorney or agent) at the conclusion of the interview. In the case of a telephone interview, the copy is mailed to the applicant either with or prior to the next official communication. Discussions regarding pointing out typographical errors are excluded from the interview recordation.
(2)Any proposal of amendment is presented in duplicate to the examiner, with a copy attached to each of the two sheets of the interview record.	Any amendments discussed must be included in the recordation (may be by attachment of a copy thereof as being allowable).
(3)The examiner respects the results stated in the	

interview record. The examiner should respect the application unless a new fact or new evidence by which the application is to be rejected, despite the amendment, is found later.	
Upon finding such new fact or new evidence, after mutual agreement, the examiner adds a statement in a notice of reasons for rejection to the effect that the previous mutual agreement is to be disregarded.	If, as the result of an interview an agreement will has been reached, notice will be given, advising that an amendment should promptly be filed as agreed upon. If there is a prearranged interview, with agreement to file a prompt supplemental amendment putting the case as nearly as may be in condition for concluding action, examiners will give the case special status and bring it up for immediate special action.

8.Others

JAPAN	U.S.A.
(1)Hand Delivery of Notice of Reasons for Rejection: If an agreement is reached as to an amendment to correct defective descriptions in the specification, the examiner may hand over a notice of reasons for rejection, requesting presentation of the amendment at that time.	(1)Viewing of Video Tapes During Interviews: Video tapes are available for inspection where it is shown that the content of the video tape has a bearing on an outstanding issue in the application and its viewing will advance the prosecution of the application (MPEP 713.01).
(2)Presence of Interpreter: The examiner requests an interpreter be present at the interview, if necessary.	(2)Demonstration, Exhibits, Models: The invention in question may be exhibited or demonstrated during the interview by a model thereof. Demonstrations of apparatus or exhibits too large to be brought into the Office may be viewed by the examiner outside of the Office (in the Washington area), with the approval of the supervisory primary examiner (MPEP 713.08).
(3)With respect to the case for which an assistant examiner is assisting the examiner in charge of the case, the examiner conducts the interview in company with the assistant examiner.	

III. IMPROVEMENTS TO BE MADE IN CONNECTION WITH USE OF INTERVIEW SYSTEM IN JAPAN

The purpose of the interview is to help examiners and applicants or their representatives understand each other, and facilitate prompt and appropriate examination of applications, so as to expedite disposition thereof, as a subsidiary means of documentary examination. In order that the interview system in Japan may be more effeciently operated, improvements will have to be sought, as it relates to the one in the United States, in respect to the following:

1. Improvements on Interview Method

Under the interview system in Japan, it is not authorized to have an interview itself over the telephone, as under the one in the United States, it being restricted to verbal examination before an examiner. Use of the telephone is permitted only for arranging an appointment of an interview date and time. For this reason, applicants in remote areas or inconveniently located find it difficult to make use of the interview system and are subjected to excessive financial burden. Depending on the nature, it might be well to permit occasions in which interviews over the telephone may be allowed.

Also, in the case of interviews in Japan purpose of which is to hear explanation of samples or models, sizes of which do not permit bringing them into the Office, the interview should be allowed outside the Office. Under the interview system in the United States demonstrations may be viewed by the examiner outside the Office, but only in the Washington area (MPEP 713.08).

Under the interview system in the United States, in addition, video equipment is available for viewing video tapes during interviews with patent examiners (MPEP 713.01). It would be desirable that equipment for video tapes and OHP's be also provided in the future under the interview system in Japan to improve the content of interviews.

2. Information on Timing of Commencing Examination of Applications

An interview may be had only with respect to an application examination of which has commenced or is to commence shortly. An interview may not be had with respect to an application which has not reached the stage at which examination could commenced.

While such procedure is understandable from the viewpoint of the purpose of the interview system, an applicant desiring an interview must be assured of availability of information on the timing of commencement of examination, in order to maximize the use of that system.

At present, the Patent Office makes open, by its official gazette, "Public announcement of examiners in charge by classification of applications for patents and utility model registrations," the months and years in which the leading applications currently examined by respective examiners were filed for examination. Such information would not be sufficient enough and announcement, on a more timely basis, of the latest information on the timing of commencement of examinations is desired.

3. Interview about Application for which Decision of Rejection has been Drafted and Approved (except for Amendment to Application made following Appeal therefor)

In not a few cases, those of the applicants dissatisfied with decision of rejection who want to appeal desire an interview for guidance as to measures available (Ref. 5(e)). An applicant dissatisfied with the decision of rejection who has appealed may have an interview with the examiner who has made the decision, to make an amendment to that application at this stage, within a prescribed period, to negotiate restrictions that would permit the application to escape from the reasons of rejection (pursuant to Section 161-2 and thereafter of Ptent Law), so as to finalize the case at the earliest convenience. This should serve the purport of the interview system.

Under the U.S. interview system, an interview may be granted if the examiner is convinced that disposal or clarification for appeal may be accomplished with only nominal further consideration (MPEP 713.09).

4. Others

(1)In an interview dealing with guidance on such measures available, as presentation of restrictions to escape from reasons of rejection, it should be permitted to make an amendment in a draft form. If an applicant drafts the amendment, it is usual that, in order that as broader scope of right may be secured as possible, the proposed amendment does not contain full restrictions at the initial stage to prepare for cases in which, as the result of the interview, the initially drafted amendment can not escape fully from the reasons of rejection.

(2)An applicant asks for an interview mostly when the applicant has received notice of reasons of rejection. If the notice sets forth the reasons of rejection in a precise and accurate manner, it will make issues clear to the applicant and be helpful when conducting an intensive interview within a shortperiod of time. It is desirable, therefore, that the notice of reasons of rejection contains full description of why the application is rejected.

IV. CONCLUSION

Both of the interview systems in Japan and the United States are a subsidary means of documentary examination of patent applications and have been harmonized with respect to the following matters, as the result of mutual concessions:

1. At least one interview will be granted during examination of a patent.
2. Examiners will complete records, summarizing the substance of the interview, and incorporate them into documents made avairable for inspection by the public.
3. Examiners will respect the results of inetrview and, particularly with respect to a consensus reached as to

amendments to the application during an interview, will promise performance of his commitments.

With the above, the interview system will serve to facilitate mutual understanding between examiners and applicants or their agents so as to realize efficient and exact examination. We believe, therefore, that it must be used positively for acquisition of useful patents efficiently.

In the above, we have introduced the interview system in Japan, as it relates to the same in the United States. We hope that member companies of Japanese and American Groups of PIPA will make use of the interview system more positively in both countries. We shall be more than pleased if this paper can be of any assistance to it.

-End-

Encls: Recordation Forms:

(1) Interview record relating to patent application (Japan)

(2) Examiner Interview Summary Record (U.S.A.)

APPENDIX

INTERVIEW RECORD RELATING TO PATENT APPLICATION

Patent Application No.

Patent Office Examiner :

Interview Attendee:

Applicant or

Representative Accompanied by:

Date and time of Interview:

Interview items (attach ○ mark to the number of relevant items)

(a) Contents

1. Technical explanation of the subject application.
2. Explanation of the subject invention in comparison with the prior art.
3. Explanation of the specification, argument, amendment. or proposal of amendment.
4. Handing over of a notice of reasons for rejection.
5. Others.

(b) Results

1. Defective description can be eliminated by the presented proposal of amendment.
2. Previous reasons for rejection can be overcome by the presented proposal of amendment.
3. Previous reasons for rejection can be overcome by the amendment (dated).
4. It has become clear that the subject invention has novelty and inventive step in comparison with the citation.
5. Further consideration or comparative explanation is to be made.

6. Examiner is to further examine the proposed amendment.

7. Notice of reasons for rejection is to be issued.

8. Notice of reasons for rejection is to be handed over later.

9. Applicant is to make a further search for prior art and report the result.

10. Applicant is to give once more technical explanation and comparative explanation.

11. Applicant is to present a new proposal of amendment.

12. Applicant presents no argument and no amendment against the reasons stated in the notice of reasons for rejection dated _____.

13. Applicant withdraws or abandons the application.

14. No conclusion has been reached.

15. Others.

Remarks

If a new fact or new evidence by which the application is to be rejected is found later, new reasons for rejection will be notified regardless of the above reasons.

Appended papers: Continued sheet

Yes Proposal of Amendment Yes
Other No
No

Examiner's seal	Attendee's seal

UNITED STATES DEPARTMENT OF COMMERCE
Patent and Trademark Office
Address: COMMISSIONER OF PATENTS AND TRADEMARKS
Washington, D.C. 20231

SERIAL NUMBER	FILING DATE	FIRST NAMED APPLICANT	ATTORNEY DOCKET NO.

EXAMINER	
ART UNIT	PAPER NUMBER

DATE MAILED:

EXAMINER INTERVIEW SUMMARY RECORD

All participants (applicant, applicant's representative, PTO personnel):

(1)_____ (3)_____

(2)_____ (4)_____

Date of interview_____

Type: ☐ Telephonic ☐ Personal (copy is given to ☐ applicant ☐ applicant's representative).

Exhibit shown or demonstration conducted: ☐ Yes ☐ No. If yes, brief description:_____

Agreement ☐ was reached with respect to some or all of the claims in question. ☐ was not reached.

Claims discussed:_____

Identification of prior art discussed:_____

Description of the general nature of what was agreed to if an agreement was reached, or any other comments:_____

(A fuller description, if necessary, and a copy of the amendments, if available, which the examiner agreed would render the claims allowable must be attached. Also, where no copy of the amendments which would render the claims allowable is available, a summary thereof must be attached.)

Unless the paragraphs below have been checked to indicate to the contrary, A FORMAL WRITTEN RESPONSE TO THE LAST OFFICE ACTION IS NOT WAIVED AND MUST INCLUDE THE SUBSTANCE OF THE INTERVIEW (e.g., items 1 – 7 on the reverse side of this form). If a response to the last Office action has already been filed, then applicant is given one month from this interview date to provide a statement of the substance of the interview.

☐ It is not necessary for applicant to provide a separate record of the substance of the interview.

☐ Since the examiner's interview summary above (including any attachments) reflects a complete response to each of the objections, rejections and requirements that may be present in the last Office action, and since the claims are now allowable, this completed form is considered to fulfill the response requirements of the last Office action.

_____
Examiner's Signature

PTOL-413 (REV. 1-84)

ORIGINAL FOR INSERTION IN RIGHT HAND FLAP OF FILE WRAPPER

THE STATUS OF PARAMETER CLAIMS IN THE COURT OF APPEALS FOR THE FEDERAL CIRCUIT

Prepared For
Pacific Industrial Property Association Meeting
Tucson, Arizona
October 3-5, 1989

By

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Introduction

On October 1, 1982, the United States Court of Appeals for the Federal Circuit (C.A.F.C.) began its role as the singular appellate level court with subject matter jurisdiction in patent cases,[1] replacing the various federal appellate courts and the Court of Customs and Patent Appeals (C.C.P.A.). It was hoped that one benefit of the concentration of patent appeals in the new court would be the elimination of forum shopping amongst the various federal circuits.[2] It was also hoped that the formation of The C.A.F.C. would allow the growth of a body of patent law which would provide a positive setting for the needed technological growth as the nation faced a period of reindustrialization.[3] The changes in the new court's interpretation on various areas of the law of patents has been the subject of other articles.[4] How the change from the C.C.P.A. to The C.A.F.C. has affected the role of the "parameter" claim in patent law is the focus of this paper.

The Parameter Claim

A "parameter" claim as the term is used herein is a claim that uses chemical or physical characteristics to particularly point out the subject matter of the invention for which patent protection is sought. These claims appear most commonly in the chemical and biological practice where a product or process cannot be described through the use of either descriptive text or through the use of recognized symbolic language, such as a chemical formula, with any certainty. While the use of such analytical information as infrared spectra and molecular weight distribution may be recognized as valid methods

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1 28 U.S.C. §§ 1295 (1982).

2 Sobel, "The Court of Appeals for the Federal Circuit: A FIfth Anniversary Look at Its Impact on Patent Law and Litigation", 37 Am.U.L. Rev. 1087, 1090 (1988); Blumenfeld, "The Impact of the Federal Circuit on Delaware" Delaware Lawyer, Vol. 7, No. 3, at 10 (1989).

3 Markey, C.J., Comments Before the Subcommittee on the Courts, Civil Liberties and the Administration of Justice, House Committee on the Judiciary, 97th Cong., 1st Sess. 7 (1981).

4 Sobel, supra note 2 at 1089.

for differentiating one substance from others by those in a particular field of study, the use of such information in a patent claim may sometimes be viewed as an inadequate or indefinite description of the invention.

The "parameter" claim, like any other claim, must satisfy the requirements for disclosure set forth in § 112.[5] The description of how to make and use the invention must satisfy the requirements of the first paragraph of § 112, and the definiteness of the claim must satisfy the requirements of the second paragraph of § 112. Both paragraphs must be separately satisfied.[6] To satisfy the requirements of the first paragraph of § 112, the invention should be disclosed in such a way to enable those "skilled in the art" to practice the invention.[7] The specification should also disclose the "best mode" by which to practice the invention as envisioned by the inventor at the time the patent application is filed.[8]

However, an analysis of the requirements of § 112 as it relates to claim terms containing property characteristics should begin with the second paragraph since this paragraph is the one that requires an applicant to present claims in a manner in which the applicant believes defines the metes and bounds of his invention with a "reasonable degree of precision and particularity."[9] Thus, the inquiry with regard to "parameter" claims under the second paragraph of § 112 is an inquiry into whether the characteristics used reasonably describe and delineate the invention with enough precision to put the public on notice of the extent of the claim boundaries.[10]

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5 35 U.S.C. §§ 112.

6 In re Barker, 559 F.2d 588, 194 U.S.P.Q. 470, 472 (C.C.P.A. 1977); Waltershield, 62 J. Pat. Off. Soc'y. No. 5, p.284 (1980).

7 In re Gay, 309 F.2d 769, 772, 135 U.S.P.Q. 311, 315 (C.C.P.A. 1962).

8 Id.

9 In re Moore, 169 U.S.P.Q. 236 (C.C.P.A. 1971).

10 Lipscomb's Walker on Patents, § 11:10 (3rd ed. 1985).

The Board of Appeals Views on Parameter Claims

The Board of Appeals has not had much difficulty in permitting the use of physical and chemical property characteristics to define claimed subject matter. For example, in Ex parte Brian, Radley, Curtis, and Elson,[11] the board acknowledged that the use of empirical formulas along with the known chemical and physical characteristics such as an infrared absorption spectra could be used to properly define a chemical product.[12] In arriving at its determination, the board looked to the allowance of such claims in other patent applications with the same subject matter as well as the practice of the use of this type of claim in the particular art.[13] The board pointed out that, in general, there are two ways of claiming a chemical product: a structurally complete formula or a detailed preparatory description if the structure was unknown.[14] However, the board recognized that the use of "parameter" type information in claims had long been established in that particular art.[15]

The next year the Board of Appeals in Ex parte Brockman and Bohne[16] followed its decision in Ex parte Brian. The board accepted the defining of products by certain physical and chemical characteristics where the characteristics are "significant."[17] The board did not further elaborate which indicates that it did not see any issue in the matter.

The ready acceptance by The Board of Appeals of claiming in terms of physical and chemical properties is perhaps epitimized by Ex parte Sobin, Celmer and Koe.[18] In this case claim 5 was about as "pure" a "parameter" type claim as could be envisaged. The claim read:

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11 Ex parte Brian, Radley, Curtis, and Elson, 118 U.S.P.Q. 242, (P.T.O. Bd. App. 1958).

12 Id. at 244.

13 Id. at 245.

14 Id.

15 Id.

16 Ex parte Brockmann and Bohne, 127 U.S.P.Q. 57 (1959).

17 Id. at 60.

18 Ex parte Sobin, et al., 139 U.S.P.Q. 528.

"5. A substance effective in inhibiting the growth of fungi, selected from the group consisting of a white, acidic substance moderately soluble in water, very soluble in methanol, ethanol, acetone, butanol and carbon tetrachloride, insoluble in hexane, having the optical rotation $X \frac{25}{D} = -161°$ (C1% methanol) and capable of forming salts with organic bases; which contains the elements carbon, hydrogen and oxygen in substantially the following proportions by weight:

Carbon	64.67
Hydrogen	6.29
Oxygen (by difference)	29.04

which displays in methanol a single peak at around 218.5 mu, $E \frac{1\%}{1cm} = 358$ in the ultraviolet region of the spectrum and when dissolved in carbontetrachloride exhibits characteristic absorption in the infrared region at the following frequencies expressed in reciprocal centimeters: 2857, 1764, 1684, 1629, 1484, 1445, 1397, 1316, 1263, 1176, 1143, 1119, 1079, 1034, 952, 930, 921, 834, 737, 673; and the amine salts of said acidic substance."

The Board held that the claim was "definite" and properly pointed out the invention, saying that it sufficiently identifies the claimed antibiotic.

The C.C.P.A. Views of Parameter Claims

The decision of In re Miller, 169 U.S.P.Q. 597 (1971), sums up very well the attitude of The C.A.F.C.'s predecessor court. In Miller the claim involved was directed to an ultrafine polytetrafluoroethylene powder defined by the physical characteristics of particle size, distribution function, sub-sieve size, and wet-sieve/sub-sieve size ratios. But the only property characteristic limitation in issue was one reciting an unsintered flex strength value. The issue was whether it was proper to recite a property value of an altered form, namely the compacted form, of the claimed powder. The court found for the applicant on this point, saying that:

11 "The first sentence of the second paragraph of 35 U.S.C. 112 requires only that claims "set out and circumscribe a particular area with a reasonable degree of precision and particularity." In re Moore, 58 CCPA _____ F.2d _____, 169 USPQ 236, 238 (Mar. 31, 1971). In the absence of evidence to the contrary, we will assume, as we said in Moore, that what the claims define is what the applicant regards as his invention. If those skilled in the art can tell whether any particular PTFE powder is or is not within the scope of a claim, the claim fulfills its purpose as a definition. As we remarked recently in reversing a section 112 rejection made on the ground that particular language was "functional" and thus "indefinite," "we are unable to see merit in any proposition which would require the denial of the claim solely because of the type of language used to define the subject matter for which patent protection is sought."

Be that as it may, a trio of C.C.P.A. In re Fisher cases illustrates the difficulties that can arise in an analysis of "parameter" claims in any given factual situation. In the first Fisher case,[19] a claim was directed to an ACTH preparation "having a potency at least equal to the International Standard" and a posterior pituitary contamination at least as low as 0.08 units of vasopressin activity. A majority of the C.C.P.A. found that the claims did not define the invention with the particularity required by 35 U.S.C. 112 because the claims used "conveniently functional language at the exact point of novelty." In this first decision, Judge Rich sided with the majority; but Judge Smith in a forceful dissent argued that section 112 leaves it to the applicant to decide how his invention should be claimed and that claim terms should not be limited to structural formula or to product by process terms. Judge Smith would require only that product characteristic limitations be "full, clear, concise and exact." He did not consider recitation of chemical or physical properties to be functional recitations.

The applicant petitioned for rehearing.[20] While the petition was denied, Judge Rich joined Judge Smith in dissenting from the denial. Judge Rich quoting from G.E. v. Wabash Appliance, 304 U.S. 364, said that "claim terms of effect or result which accurately define the essential qualities of a product, may in some instances be permissible and even desirable, but a characteristic essential to novelty may not be distinguished from the old art solely by its tendency to remedy the problems of that art." Rich concluded that the characteristics of strength of the claimed ACTH preparation were definite.

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19 In re Fisher, 135 U.S.P.Q. 22 (C.C.P.A. 1982)

20 In re Fisher, 137 U.S.P.Q. 150.

Finally, after subsequent proceedings before the Examiner, the Fisher application returned to the C.C.P.A. a third time.[21] This time the court unanimously reversed The Board and The Examiner's rejection under 35 U.S.C. 112, second paragraph, on the ground of indefiniteness for not "setting forth with particularity the chemical structure or adequate physical characteristics to identify the composition." The court distinguished the claim language presently before it from the claim language in the first Fisher case by pointing out that the offending and allegedly vague word "potency" present in the claims of the first case was not present in the claims before it. It is significant that the court distinguished the different sets of claims on that basis and did not go into a detailed discussion of claiming by product characteristics. In that respect the court simply said "We fail to see anything indefinite in such a recitation." Thus, after a false start and some confusion over "functionality at the exact point of novelty" the C.C.P.A. ultimately straightened out its reasoning and followed In re Miller, supra.

The C.C.P.A.'s view of the second paragraph of section 112 at its demise was one of allowing considerable lattitude in permitting an applicant to describe and claim his invention so long as the terms used were considered clear and distinct. Such was true regardless of whether or not the terms involved were product characteristic terms. In other words, "parameter" claims were not treated any differently than any other type of claims.

The C.A.F.C. Views on Parameter Claims

Since its inception in October 1982, The C.A.F.C. has had several occasions to address the use of claim terms that recite product characteristics, and has left no doubt that it is following its predecessor court.

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21 In re Fisher, 166 U.S.P.Q. 18 (C.C.P.A. 1970).

In the first case to come before the court[22] in which the definiteness of a claim term describing a product characteristic was involved, the court held a term reciting a minimum matrix tensile strength was not indefinite, without further elaboration or discussion. The lack of comment by the court seemed to indicate it felt the law had been well settled by its predecessor court.

In Seattle Box Co., Inc. v. Industrial Crating & Packing, Inc., 221 U.S.P.Q. 568 (1984) the court addressed broadly the issue of indefiniteness under the second paragraph of section 112. While the point in issue did not involve terms reciting product characteristics,[23] the court simply said that the issue is "whether one of ordinary skill in the art would understand what is claimed when read in light of the specification." It is significant that the only case cited by the court was its own earlier Gore v. Garlock decision, a decision that did involve a product characteristic. This indicates the court makes no distinction as to the type of claim terms involved in an analysis under section 112.

Further indication that The C.A.F.C. readily accepts defining products by their chemical or physical characteristics is found in two additional decisions which address the second paragraph of 35 U.S.C. 112. While the cases do not directly involve the claiming of a product by its characteristics they do provide insight into how the court views such claims. Thus, in Hybritech Inc. v. Monoclonal Antibodies, Inc., 231 U.S.P.Q. 81, a Jepson type claim was involved which covered a test for carrying out an immunometric assay in which the improvement was using "monoclonal antibodies having an affinity for the antigenic substance of at least 10^8 liters/mole for each of said labelled antibodies and said antibody bound to a solid carrier." Thus, while the claim involved was a process claim, the improvement in the art involved use of a composition defined solely by a product charactertistic. In finding

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22 W. L. Gore & Associates, Inc. v. Garlock 220 U.S.P.Q. 303 (1983).

23 In Seattle Box, the claim term "a height substantially equal to..." was at issue.

the term definite the court said "if the claims, read in light of the specification, reasonably apprise those skilled in the art both of the utilization and the scope of the invention, and if the language is as precise as the subject matter permits, the courts can demand no more," citing Shatterproof Glass Corp. v. Libby-Owens Ford Co.[24]

It is significant that the court cited the Shatterproof decision because in Shatterproof the issue was not whether a claim parameter reciting a product characteristic was definite; but rather, the issue was whether lack of reciting the size of glass sheeting and lack of reciting the quantity and quality of a coating rendered a claim vague and indefinite so as to be in non-compliance with the second paragraph of section 112. In other words, the citation of Shatterproof in a decision involving claiming by product characteristics is one more indication that the court does not make any distinction as to the type of claim terms involved when issues arise relating to the second paragraph of section 112.

The most recent decision involving the use of claim terms reciting product characteristics is Du Pont v. Phillips Petroleum.[25] In Du Pont, the court stated that "on occasion...structure alone may be inadequate to define the invention, making it appropriate to define the invention in part by property limitations" and cited Hybritech with approval. The case is particularly enlightening because The C.A.F.C. remanded the case to determine whether two property value recitations recited in Claims 1 and 12 were sufficient to overcome anticipation by prior art products when the patentee had conceded that all the other limitations of the claims were met by the prior art products. The C.A.F.A. said "to find anticipation of Claims 1 and 12, the District Court must determine that Phillips met its burden of proving by clear and convincing evidence that the copolymers it made prior to DuPont's invention possessed those properties."

Thus, the issue of the propriety of property limitations has become so well settled that they are relied upon to provide patentability to otherwise unpatentable subject matter.

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24 225 U.S.P.Q. 634 (1985).

25 7 U.S.P.Q. 2d 1129, C.A.F.C. (1988).

Conclusion

The C.A.F.C. has followed C.C.P.A. precedent in allowing the use of property characteristics in the claims. The role of the court when faced with a property limitation is to determine whether the limitation is definite and not to dictate what form claim language should take.

In those areas of technology, mainly the chemical and biological arts, where description solely by conventional means proves impossible, the use of "parameter" information accepted by those skilled in the particular art will be accepted by the courts. The availability of this type of information for use in patent claims is of great utility to inventors in areas where the technology is still in its infancy, such as biotechnology, by allowing inventors to claim their inventions in the language of their emerging fields. Society also benefits from the use of "parameter" type information because it fosters the disclosure of the latest technologies as soon as they can be described reasonably to those skilled in the particular art. This fosters the rapid growth of technology by providing patent protection to these new areas.

The continued availability of claiming in terms of property characteristics in The C.A.F.C., along with other changes that have occurred with the new court, has had the effect of strengthening the patent system and encouraging much needed growth in technical innovation.

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RECENT CHANGES IN U.S. PATENT, COPYRIGHT AND TRDEMARK LAW WITH SOME SPECULATIONS ABOUT THE FUTURE

Because major changes have occurred in United States copyright and trademark law since the Congress in Toba, Japan, last October, it seems appropriate to add at least a few comments about these changes to this Congress' review of the past year's changes in United States patent law. My predecessor Chairman of United States Committee No. 1, Monte Witte, Esq., also suggested that the Twentieth Congress provides a natural forum in which to attempt to forecast the direction that United States patent practice will take, in view of the legislative trends that we have observed during the past few years. And so, with your understanding that "Prophecy is the most gratuitous form of error,"[1] a few guesses about the shape of things to come in United States patent, copyright and trademark practice are advanced in this paper.

Thus, United States practice has undergone in the past year, changes with respect to:

1. New patent legislation;
2. New Rules of Patent Practice;
3. Entering the Berne "Convention for the Protection of Literary and Artistic Works";
4. New copyright legislation; and
5. New trademark legislation.

NEW PATENT LEGISLATION:

Quite a bit of new patent legislation was added to the Patent Act since October, 1988. The following material merely touches upon some of the more significant features of these new amendments.

On November 16, 1988, the right to patent term restoration was extended to animal drugs, or veterinary medicines. Up to five years of patent term extension now are possible for some veterinary medicines to compensate for the time taken to satisfy United States requirements for premarket clearance. The operation of this new term extension provision, however, does not extend to products that are primarily manufactured "...using recombinant DNA, recombinant RNA, hybridoma technology, or other processes involving site specific genetic manipulation techniques, including any salt or ester of the active ingredient, as a single entity or in combination with another active ingredient."[2]

Also, in November of 1988, the financial authorization bill for the United States Patent and Trademark Office passed into law. This statute not only permits the Patent and Trademark Office to impose charges for the use of the Office's automated searching equipment, but also changed the Patent Act with respect to the doctrine of "misuse."

Among the new fee provisions, the Office now is permitted to charge (but has not yet imposed charges) for the use of its public search rooms and libraries. With respect to patent "misuse," the patent owner now is exempt from "misuse" liability in five situations. Among these five situations, the patent owner now may refuse to license or use any of the rights to the patent or to the sale of the patented product. Also, tying a patent license, or the sale of patented product, to a license in another patent, or the purchase of a separate product is not a "misuse" of the patent grant. This "tied sale exemption," however, is subject to an exception. Thus, "misuse" nevertheless can be found in spite of the "tied sale" exemption if the patent owner has market power in the relevant market on which the license or sale is conditioned.[3]

The other three exceptions from the "misuse" doctrine now no longer make it a potential patent "misuse" to:

1. Derive revenue from acts which, if performed by another without the patent owner's consent would constitute contributory infringement;

2. License or authorize another to perform acts which, if performed without the patent owner's consent would constitute contributory infringement; or

3. Try to enforce the patent owner's rights against infringement or contributory infringement.

Also in November of 1988 a five year program to promote superconductivity research and development passed into law. Of particular interest is the fact that this law, among other matters, requires the President of the United States to develop a program of international cooperation in superconductivity research.[4]

The patent application foreign filing license requirements imposed on United States applicants prosecuting cases abroad also were eased through this recent legislation.[5] Largely for defense security purposes, a United States patent applicant must obtain a license from the Patent and Trademark Office before corresponding applications for patent can be filed in countries and regional patent granting organizations foreign to the United States. Difficulties may arise during the prosecutions of these foreign cases if material is disclosed abroad that was not within the scope of the parent United States application at the time the license was granted. The amendment to 35 USC 184 solves this problem, to a great extent, by permitting the parallel foreign applications to be modified or supplemented with additional subject matter. The supplemental material, however, must not be the kind of information that would require disclosure under the secrecy provisions of 35 USC 181.[6]

Choosing a different month (October 18, 1988) the President of the United States signed into law an amendment to the Bankruptcy Act that has a direct bearing on patent license matters.[7] This amendment may be of particular interest to our Japanese colleagues in view of not only the large number of licenses entered between Japanese firms and United States business concerns, but also the large investment Japan is making in United States industry and the current trend in posting patents and trademarks as collateral

for commercial loans. Before this amendment entered force, a bankrupt technology licensor could rescind technology agreements and resell the technology to the highest bidder, thus preventing the former licensee from enjoying further use of the licensed technology. The amendment changed Section 365 of the Bankruptcy Act to protect the licensee's right to use of the intellectual property as it existed at the time the petition in bankruptcy is filed. The amendment, moreover, defines intellectual property in very broad terms.

RULES OF PATENT PRACTICE CHANGES:

Rules of Patent Practice, adopted by the United States Patent and Trademark Office since last October, apply to a wide range of subjects. For example, the Office has amended its rules to establish an "inactive" status for registered patent attorneys and agents, employed by the United States Government, who do not undertake the preparation and prosecution of patent applications.[8] Further with regard to Federal employees, 37 CFR 100, the section that related to the power of the Commissioner of Patents and Trademarks to administer the Executive Orders which determined the rights of Government employees in their inventions, was deleted and 37 CFR 501 was amended. This change in the Rules was made to reflect the transfer in responsibility for these Executive Orders from the Commissioner to the Department of Commerce Under Secretary for Economic Affairs.[9]

Other changes in the Rules of Practice include amendments to the rules that control requests under the Freedom of Information Act for Patent and Trademark Office records that ordinarily are not disclosed to the public.[10]

New parts 15 and 15a of 37 CFR also were amended to establish procedures that are to be followed when judicial process is served on the Patent and Trademark Office, the Commissioner and Office employees in order to seek testimony about official matters and the production of documents in legal proceedings.[11] With respect to disciplinary proceedings, 37 CFR 10.155 through 10.157 were amended to establish the date on which decision from the Commissioner is a "final agency action" for the purpose of judicial review.[12] Naturally, the Patent and Trademark Office fee schedule also was revised as a consequence of the statutory amendment mentioned above.[13]

More recently, (August 1, 1989) the Rules of Patent Practice, as they relate to practice before the Board of Appeals and Interferences, were amended. Briefly, an applicant now can appeal a Board decision directly to the Court of Appeals for the Federal Circuit without first requesting the Board's reconsideration, even when the Board has advanced a new ground for rejection. Other changes in practice before the Board introduced through the amended rules relate to requests for reconsideration and extensions of time in proceedings after a Board decision.[14] Finally, the patent term extension rules were revised to accommodate the recent amendment to the Patent Act that granted term extension rights to some types of veterinary medicines, as mentioned above with respect to recent statutory changes.[15]

NEW COPYRIGHT LEGISLATION:

On October 31, 1988, the United States Copyright Act was amended to conform the terms of that Act to Berne Convention requirements.[16] The Copyright Act changes are believed to be the minimum departure from established United States copyright law needed to permit the United States to enjoy Berne Convention membership.

Of particular interest to our Japanese colleagues, apart from the fact that the United States now also is a party to the Berne Convention, are the curious differences in the amended Copyright Act as it applies to domestic United States copyright owners and those copyright owners foreign to the United States who assert the Berne Convention. Thus, in order to bring a copyright infringement suit in the United States for a foreign work, it is not necessary to first register that copyright with the Copyright Registrar in the Library of Congress. But with respect to domestic United States works, however, quite the opposite is true. Thus, to file a suit alleging the infringement of a United States copyright for a domestic work, it is necessary first to register that copyright.

It is, moreover, no longer necessary to place the usual © notice on copyrighted materials in order to establish ownership of the copyright.[17] Thus, those materials that ordinarily would have been in the public domain within the United States because of the absence of the usual © notice, if first published since the effective date of these most recent amendments, (March 1, 1989), now are subject to copyright ownership.

NEW TRADEMARK LEGISLATION:

On November 16, 1988, the most recent amendment to the Trademark Act became law.[18] The provisions of this amendment, however, do not enter force until November 16, 1989.

Among these amendments, one of the most important is, perhaps, the right that will begin within the next few months to apply to register a United States trademark based only on a bona fide intent to use the mark.[19] Please note that at this writing (August, 1989), there is no reliable guidance on the legal interpretation of the phrase "bona fide intent to use" a mark. This right, moreover, is available to domestic and foreign applicants, equally. The older requirement for a Common Law use of a trademark as a condition precedent to lodging a United States trademark registration application will continue as an alternative choice.

Other notable changes include a reduction in the term for those registrations granted after November 16, 1989 from twenty years to ten years. Renewals also will be granted for ten years.

This amendment also has broadened the scope of the Trademark Act's Section 43(a). Through this amendment, an action can be maintained under Section 43(a) (after November 16, 1989) against anyone using in commerce a false or misleading mark or a misleading representation of fact that is likely to cause confusion about the commercial activities of another; or in commercial advertising, to misrepresent the goods, services or commercial activities of another. This, in effect, appears to be a Federal unfair competition law. It remains to be seen if this new Federal legislation will supplant existing Common Law unfair competition rights within each of the fifty states through the doctrine of Federal preemption.

PREDICTIONS:

The noted British historian, Arnold J. Toynbee, in analyzing the relationship between legal systems and mankind's development noted:

> One of the most remarkable episodes in the history of the dissemination of the Code Napoleon was the role that it was called upon to play in Japan during the Meiji Era. In embarking on a general programme of Westernization the authors of the Meiji Revolution showed their wisdom in the field of law by hastening slowly.
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> ***
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> Nevertheless, in the Japanese civil code that was eventually brought into force in 1899, it was a German, not a Japanese influence that replaced the French; and this eventual adoption, in Japan, of a German instead of a French model might be read as the opening of a new chapter in the history of the dissemination of Western Law.[20]

With respect to intellectual property law, moreover, the Continental Civil Code is continuing to grow, casting its influence over United Stats jurisprudence and legislation to a point at which the United States appears poised to discard its Common Law intellectual property system in favor of Civil Code legal principles.

Illustratively, by entering the Berne Convention, even on an alleged "minimalist" basis, the United States at one fell swoop has embraced an entire body of Continental Civil Code law. In retrospect, the indications that a complete conversion of United States copyright law to a Civil Code system was underway were quite clear through the past few years. Thus, the statutory termination of the Common Law copyright (which by its very terms is sufficient notice of the change), and the adoption of criminal penalties for copyright infringement a few years ago,[21] should have sent clear signals to the intellectual property community that the Common Law, at least with respect to copyright, was on its way to "the dust bin of history."

Consequently, it is not unrealistic to predict that eventually artist's "moral rights" will be drawn into United States intellectual property law. These "moral rights," that is, the right of an artist to protect the integrity and prevent mutilation of his work in spite of ownership by some other person is a Civil Code concept. It is a concept, moreover, that completely contradicts the classic Common Law

principle of the free alienability of personal property. In a contest between these two contradictory legal principles, who would dare to believe that some archaic Common Law rule about the unencumbered right to transfer personal property could possibly prevail over our rush to adopt Civil Code copyright law?

Thus, for a first guess about the future, it seems that the present legislative proposals to add artist's moral rights to United States copyright law[22] are quite in step with the times, and artist's moral rights will eventually enter United States practice.

A parallel development in United States trademark legislation, the Trademark Counterfeiting Act of 1984, which imposes criminal penalties for traffic in counterfeit goods[23] also sent us a distinct notice that the Common Law is passing out of our practice, to be supplanted by Civil Code principles. Just five years later, in November of 1989, a basic Civil Code concept in trademark law, application to register a mark without a Common law use in commerce, will take its place in United States trademark practice. It is suggested that the requirement in this most recent amendment, that the application to register a mark must be based on the as yet undefined "bona fide intent to use" is nothing more than a terminal struggle of the Common Law to stay in the trademark system.

This leads to the second speculation about the future:

Eventually, the legal interpretation of "bona fide intent to use" a mark will erode to a point at which the mere filing of a trademark registration application will be, of itself, either prima facie evidence or a presumption of bona fide intent.

Consider now United States patent law, and what the future might hold for that field of practice. There is, of course, the World Intellectual Property Organization draft patent harmonization treaty activity. This draft treaty, if adopted, should establish uniform principles of substantive patent law for those nations that accede to or ratify the treaty.

There are, unquestionably, major differences between the Common Law and the Civil Code with respect to patent rights.[24] Relative novelty, for example, appears to

be a basic Common Law principle that can be traced back at least as far as 1615 to its expression in the judicial decision captioned The Clothworkers of Ipswich.[25] Absolute novelty, in contrast, appears to be the standard for novelty among the Civil Code states.[26] Several other major points of difference can be identified that separate the two systems. For example, execution of the patent application by the applicant is favored among Common Law countries. Civil Code states, in contrast, usually do not require signature by the applicant. Employed inventor laws, which compel a patent assignee to provide special compensation to an employee-inventor for the patent right, also characterize Civil Code states and are not popular among Common Law nations.[27]

Points of difference between the two patent systems could be the subject of exhaustive study, but the issue that major substantive distinctions exist is adequately established. In this circumstance, and if the self-evident groundswell in the United States towards Civil Code copyright and trademark systems is a reliable indication of the overall intellectual property law trend in the United States, then it is reasonably safe to guess that many substantive principles of United States patent law that conflict with Civil Code concepts are soon to change. For example, relative novelty, interference practice, secrecy of pending applications, the applicant's signature on the application and similar United States patent practice characteristics soon may disappear from the United States system.

And now, for a somewhat extreme guess about the future. Criminal penalties for infringement are an unmistakable feature of Civil Code intellectual property law, and especially patent law.[28] The United States adopted, about five years ago, the Civil Code concept of criminal action for trademark and copyright infringement, as noted above. Considered from that viewpoint, it is not unreasonable to expect that patent infringement may become a crime in the United States, too, within the foreseable future.

The author extends his apology - in advance - to the reader of this paper for the inaccuracies that time will surely expose in the foregoing speculations about the future for intellectual property practice in the United States.

FOOTNOTES

1. Middlemarch, Chapter 10, George Eliot.

2. United States Patent Act, 35 USC 156, World Patent Law And Practice, Vol. 2B, J. P. Sinnott, Matthew Bender, New York, 1989, p. U.S.A.-28.2(9) et seq. (hereafter cited as Sinnott, followed by the volume and page numbers).

3. Sinnott, Vol. 2B, p. U.S.A.-39 et seq.

4. PL 100-697.

5. Sinnott, Vol. 2B p. 32-U.S.A. et seq.

6. Sinnott, Vol. 2B p. 28.4-U.S.A. et seq.

7. PL 100-506

8. 1095 Official Gazette p. 45 et seq., October 25, 1988.

9. 1096 Official Gazette p. 15 et seq., November 8, 1988.

10. 1097 Official Gazette p. 15 et seq., December 13,1988.

11. 1099 Official Gazette p. 36 et seq., February 28, 1989 and 1104 Official Gazette p. 20 et seq., July 11, 1989.

12. 1100 Official Gazette p. 5 et seq., March 7, 1989.

13. 1100 Official Gazette p. 7 et seq., March 7, 1989.

14. 1105 Official Gazette p. 5 et seq., August 1, 1989.

15. 1105 Official Gazette p. 21 et seq., August 8, 1989.

16. "BNA'S Patent, Trademark & Copyright Journal," Vol. 37, No. 904, November 3, 1988, p.3 (hereafter cited as BNA, followed by Volume and number, date of publication and page number.)

17. 17 USC 401

18. BNA Vol. 37, No. 907, November 24, 1988, p.87.

19. PL 100-667.

20. A Study of History, Arnold J. Toynbee, Vol. VII, Oxford University Press, London, 1954, pp.277 and 278. Because some of Mr. Toynbee's reflections on the application of the Continental Civil Code to modern Japanese law may be of interest both to American and to Japanese readers of this paper, the entire passage from which the foregoing material was quoted is reproduced in an appendix.

21. 17 USC 506. Note that criminal penalties for infringement (in addition to the usual civil remedies) are a characteristic feature of Civil Code intellectual property law. cf World Patent Law And Practice, Vol. 2, J. W. Baxter and John P. Sinnott, Matthew Bender, New York, 1989, p.13-10 et seq.

22. BNA Vol. 38, No. 936, June 22, 1989, pp.205 and 206.

23. 18 USC 2320 and 18 USC 3623.

24. "Surveying The World Scene, An Exercise In Harmony Of Patent Laws" by John P. Sinnott, "Patent World," Issue 10, July 1988 pp. 12 to 17.

25. Godbolt 252.

26. World Patent Law And Practice, Vol. 2, J. W. Baxter and John P. Sinnott, Matthew Bender, New York, 1989, pp.4-2 to 4-6.

27. World Patent Law And Practice, Vol. 2, J. W. Baxter and John P. Sinnott, Matthew Bender, New York, 1989, pp.2-32 to 2-35.

28. World Patent Law And Practice, Vol. 2, J. W. Baxter and John P. Sinnott, Matthew Bender, New York, 1989, pp. 13-10 to 13-13.

One of the most remarkable episodes in the history of the dissemination of the *Code Napoléon* was the role that it was called upon to play in Japan during the Meiji Era. In embarking on a general programme of Westernization the authors of the Meiji Revolution showed their wisdom in the field of law by hastening slowly. Their first step, taken in A.D. 1870, was to have the French Codes translated into Japanese. Law schools for French, English, and German Law were successively established in A.D. 1872, 1874, and 1887. In A.D. 1875 a commission was appointed to compile a civil code, and, after its draft, which followed the Napoleonic Civil Code very closely, had been submitted to the Japanese Government in A.D. 1878 and had been rejected, a member of the commission, the French jurist Boissonade, was asked in 1880 to prepare a new draft. His draft was published on the 27th March, 1890, and a complementary draft by Japanese jurists, covering the province of 'personal statute', on the 16th October of the same year, and the whole code was to come into force on the 1st January, 1893.

This apparent acceptance, in Japan, of a Napoleonic *Code Boissonade* was the high-water mark in the flow of the *Code Napoléon*'s influence over the face of the globe; and a turn in the tide was not slow to follow. Before the arrival of the date fixed for bringing the *Code Boissonade* into operation, the newly created Japanese Imperial Diet voted, on the 16th May, 1892, for postponing the date till the 31st December, 1896. Thereupon, a third draft was commissioned, and this draft, which was published in instalments in 1896 and 1898 and was brought into force in July 1899, was inspired, not by the *Code Napoléon*, but by the second draft of a German Civil Code, which had been published in 1895.[2]

The controversy in Japan which resulted in this victory of German

[2] In the German Empire this draft was subsequently adopted on the 16th August, 1896, and was brought into force on the 1st January, 1900.

over French law had not arisen over the respective merits of two variant Western schools of jurisprudence, but had been

> 'a deep-seated conflict between two fundamental ideas of law. The immediate enforcement party contended for the juristic idea embodied in the theory of the school of Natural Law, namely that Law was based upon Human Nature, that it is of a universal character, and that, inasmuch as the codification of a civilised country like France was a refined expression of Human Nature or of the universal character of Law, it could be adopted by Japan. The postponement party stood for the juristic idea of the historical school, that Law, like Language, was an expression of national character and a product of History, and that the introduction of a foreign code into Japanese Society was absurd and preposterous.'[1]

On the 16th May, 1892, the majority in the Japanese Diet showed their impartial hostility towards exotic law of all varieties by voting for the postponement of the coming into force, not only of a French-inspired civil code, but of a German-inspired commercial code, which they had already condemned to a first period of postponement in a previous vote on the 16th December, 1890. Nevertheless, in the Japanese civil code that was eventually brought into force in 1898, as well as in the commercial code brought into force in 1899, it was a German, not a Japanese, influence that replaced the French; and this eventual adoption, in Japan, of a German instead of a French model might be read as the opening of a new chapter in the history of the dissemination of Western Law. For the German Civil Code was likewise taken as the basis for the Swiss Civil Code adopted on the 10th December, 1907, and brought into force on the 1st January, 1912; and the Turkish Civil Code, adopted on the 17th February, 1926, was, in its turn, virtually a translation of the Swiss.

The German Civil Code was, indeed, a more scientifically executed piece of work than its famous French forerunner; yet, even if the outlook for German cultural influence abroad had not been blighted by the sinister military and political events of A.D. 1914–45, the ghosts of Napoleon's draftsmen might, not unjustly, have booked the German Civil Code's successes to the credit of their French account. The workmanlike instrument that saw the light in Germany in A.D. 1895 could never have emerged out of the 'hybrid miscellany' of German customary law if the *Code Napoléon* had not pegged out a drove-road for ruminant German jurists to follow; and it would have been surprising, after all, if this German cud had not been well digested when it had been chewed for more than ninety years.

[1] Takayanagi, Kenzo: *Reception and Influence of Occidental Legal Ideas in Japan* (Tokyo 1929, The Japanese Council, Institute of Pacific Relations), p. 11.

AMENDMENT AND A CHANGE OF GIST

-Judgement on a Change of Gist-

June 30, 1989
PIPA, Japanese Group,
Committee No. 1, Subcommittee No. 1

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Abstract

It is often the case that the applicant of a patent application finds it necessary to make various kinds of corrections and additions to the application documents (claims, specification, drawings, etc.). The Japanese Patent Law refers to any such correction and addition collectively as "amendment" and permits the applicant to make any amendment, subject to certain restrictions, for the purpose of encouraging any person to make an invention and protecting it. It is, however, evident that the admission of an amendment including any matter not disclosed in the specification or drawings as originally filed is contrary to the first-applicant principle of the Law and creates a situation lacking legal stability, since the amendment is deemed to have been made when the application was originally filed. Therefore, the Law rejects any amendment covering matter not disclosed in the original application as changing its gist. However, judgment as to whether a particular amendment amounts to a change of the gist of a particular application, or not, is often a very delicate issue which does not allow for any easy conclusion.

We have, therefore, studied the ways of thinking and the criteria for judgment which the Japanese Patent Office and Court are considered to have adopted when concluding a particular amendment as leading to a change of the gist. We have also studied the judgments of the Patent Office and Court which were rendered in two specific cases of Trial and Court Decisions in each of the chemical, mechanical and electrical fields of patent applications.

In some of the cases which we have reviewed, the Patent Office and the Court agreed with each other with respect to the obviousness of the amendment under consideration, which is the largest point at issue when a particular amendment is

concluded as leading to a change of the gist, while they did not in the other cases. This is an issue for which a proper conclusion calls for an essential understanding of the invention under consideration and a high level of judgment.

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1. Introduction:

The best way to file a patent application is to start with a complete specification (and drawings, if any) which will not require any alteration at a later date.

However, under the patent system based on the first-applicant principle, which entitles only the applicant of the earliest application to a patent if there are a plurality of applications claiming the same invention, there is every likelihood that anybody who wants to file his application as soon as possible may fail to prepare a complete specification, claims or drawings, or conduct a complete search for the relevant prior art. Moreover, it is often the case that even if a specification may be considered as being complete when an application is filed, it will become imperative to reduce the scope of a claim or claims or alter a part or parts of the specification or drawings in order to correct any inadequacy or distinguish the invention sought to be patented from any cited prior art during the course of examination or trial proceedings.

A change of the gist of the specification is an issue arising from an amendment made in the specification or drawings.

The applicant of a patent application can amend his specification and drawings, as long as his application is pending before the Patent Office (Section 1 of Article 17 of the Patent Law), provided, however, that after the transmittal of the ruling that the application is to be published has been made to the applicant, he cannot make any amendment except one which is intended for reducing the scope of the claims, correcting a clerical error or clarifying an unclear statement in response to an Office Action giving a notice of the reason for rejection, or an opposition (Section 1 of Article 64 of the Patent Law).

An amendment made before the transmittal of the ruling

that the application is to be published is dismissed if it is considered as changing the gist of the specification (Section 1 of Article 53 of the Patent Law). An amendment made after the transmittal of such ruling is dismissed if it is considered as substantively expanding or altering the claims because of the provisions of Section 2 of Article 64 of the Patent Law (Section 1 of Article 54 of the Patent Law).

The applicant can demand a trial if he is dissatisfied with the dismissal of his amendment made before the transmittal of any such ruling (Section 1 of Article 122 of the Patent Law), but if his amendment made thereafter is dismissed, he cannot demand any such trial (Section 3 of Article 54 of the Patent Law). In the latter case, there is no alternative but to demand a trial from final rejection when the application itself has eventually been rejected.

In either event, if an amendment is lawful and satisfies the restrictions as hereinabove stated, it is deemed to have been made when the application was filed, and the specification as amended is deemed to have been originally filed with the application (interpretation of Articles 53 and 54 of the Patent Law).

The following is a summary of the limited opportunities given by the law to the applicant for filing an amendment (Articles 17, 17 bis, 17 ter and 64 of the Patent Law):

(i) Within one year and three months from the date of filing of the application, or if the application claims priority from a previously filed foreign application or applications, within one year and three months from the date of filing of the foreign application or the earliest one of the foreign applications;

(ii) Simultaneously with a request for examination;

(iii) Within three months from the date of receipt by

the applicant of a notice of a request for examination made by a third party;

(iv) Within a period of time as specified for a response to an Office Action giving a notice of the reason for rejection (normally three months, plus another three months if the applicant is a resident in a foreign country);

(v) Within 30 days from the date of a trial demanded from the final rejection of the application (plus 60 days if the applicant is a resident in a foreign country); and

(vi) Within a period of time as specified for a response to an opposition (normally three months, plus another three months if the applicant is a resident in a foreign country).

2. What is a change of the gist?:

What is a change of the gist? Discussion will now be made of the judgments rendered in connection with this issue by the Patent Office and the court.

(1) Standards of examination by the Patent Office:

Although the Patent Law does not contain any definition of the term "gist" of a specification, it is apparent that a claim or claims set forth technical matter which is essential for realizing a technical concept, since the "invention is a creation of a technical concept" (Section 1 of Article 2 of the Patent Law), and since the "claim or claims shall set forth only the matter which is essential for the construction of an invention" (Section 4 of Article 36 of the Patent Law).

Therefore, it is usual practice to understand that the "technical matter set forth in the claims" is the gist of the specification, and take the disclosure of the specification and the drawings into account for the

interpretation of the technical matter.

The Patent Law also provides that "an amendment enlarging, restricting or changing the patent claim or claims within the scope of the features disclosed in the specification or drawings originally attached to the request, made prior to the transmittal of the ruling that the application is to be published, shall be deemed not to change the gist of the specification." (Article 41 providing for exceptions to cases considered as constituting a change of the gist). The provisions of this Article can be interpreted as meaning that an increase, decrease or alteration of the claims basically amounts to a change of the gist of the specification.

In view of these three provisions of the Patent Law, the Patent Office says in its Standards for Examination that "an amendment made in the specification or drawings is considered as changing the gist of the specification if it results in the departure of the subject matter of the claims from the scope of disclosure of the specification or drawings as originally filed". The scope of disclosure is interpreted as including any matter that would have been obvious to anybody with ordinary skill in the art from the disclosure of the original specification as of the time of filing of the application.

In short, the "departure from the scope of disclosure" is a "change of the gist". More particularly, an amendment is concluded as constituting a change of the gist if it satisfies both next conditions:

(1) Not disclosed in the specification or drawings as originally filed, and

(2) Not obvious to anybody with ordinary skill in the art as of the time of filing of the application.

(2) Standards of judgment by the Court:

What does, then, the court consider about a change of the gist? The following is a citation from the decision of the court passed on the "Case of an Automobile Wiper" (Tokyo High Court's "Collection of Court Decisions Revoking the Trial Decisions" dated August 25, 1966):

"The question as to whether an amendment results in a change of the gist or not should be settled by considering whether it results in an invention which differs essentially or substantively from the disclosure of the drawings and specification as originally filed, or not. It is understood that consideration should be given to whether the amendment can be considered as introducing only an obvious matter which is regarded by anybody with ordinary skill in the art as a matter of common scientific or technical knowledge in the light of the object and results of the invention, or what bearing it has on the subject matter of the claims in the light of the object and results of the invention."

The Court apparently considers that the scope of disclosure of the specification and drawings as originally filed includes not only the matter which is explicitly disclosed, but also any obvious matter, i.e. any matter that can be considered as being disclosed if an objective judgement is made by anybody with ordinary skill in the art of the explicit disclosure in view of the object and results of the invention and the state of art which existed as of the time of filing of the application. In this connection, the court appears to consider substantially in the same way as the Patent Office does.

In another decision, the Court concludes that an amendment introducing an obvious matter is permissible if it falls within the scope of common technical knowledge, as is apparent from the following statement:

"The specification is only required to set forth the object, construction and results of the invention to such an

extent as enables anybody with ordinary skill in the art to carry it out easily, and is not necessarily required to describe even any matter that would have been obvious to anybody with ordinary skill in the art as of the time of filing of the application. Therefore, the specification can be read as if it stated any such matter, even if it may not be set forth explicitly (Tokyo High Court's "Collection of Court Decisions Revoking the Trial Decisions" dated May 28, 1980)".

(3) Basic principle concerning a change of gist and exceptional cases:

As a basic principle, an increase, decrease or alteration of the subject matter of the claims as originally filed is considered as constituting a change of the gist, as hereinabove stated. In other words, the departure of the claims from the scope of disclosure of the specification amounts to a change of the gist, and an amendment adding any matter that "is not disclosed in the specification", and that "would not have been obvious to anybody with of ordinary skill in the art as of the time of filing of the application", is concluded as leading to a change of the gist, as hereinabove stated.

Attention is, however, drawn to certain exceptional cases that have hitherto been established by trial and court decisions and the Patent Office practice, as will hereunder be set forth:

(1) An increase, decrease or alteration of the claims is regarded as not constituting a change of the gist, if it is made within the scope of disclosure of the specification or drawings as originally filed;

(2) Even if the claims per se remain unchanged, any amendment in the specification or drawings that amounts to a substantive alteration of the subject matter of the claims constitutes a change of the gist, as it causes the subject

matter of the claims to depart from the scope of disclosure;

(3) Even an amendment adding any matter that is not obvious to anybody with ordinary skill in the art does not constitute a change of the gist, if it is added for the mere sake of reference or information, and does not lead to any substantive alteration of the subject matter of the claims; and

(4) An amendment adding a new feature to the claims is not considered as constituting a change of the gist if the function of the new subject matter is nothing but that of the original subject matter plus the function of the new feature, while it is considered as constituting a change of the gist if the new subject matter exhibits a different function from that of the original subject matter.

It, however, appears that these are also cases conforming to the basic principle, rather than exceptional ones, since they are all in harmony with the common positions of the Patent Office and the Court which agree that it is important to consider whether an amendment results in a substantive or essential change of the invention as originally claimed, or not.

3. Typical cases of a change of gist - Arising from an amendment made prior to the transmittal of the ruling that the application is to be published:

The following is a summary of the cases which are considered as constituting a change of the gist, and those which are not:

An amendment made in the claims is considered as constituting a change of the gist in the following three cases:

(1) The addition of a new feature which is not disclosed in the original specification or drawings, and would not have been obvious as of

the time of filing of the application, though it may appear to reduce the scope;

(2) The deletion of a part of the features defining the invention which results in the subject matter producing a different technical effect; and

(3) The alteration of a part of the features to a feature or features which are not disclosed in the specification or drawings, and would not have been obvious.

On the other hand, no amendment made in the claims is considered as constituting a change of the gist in the following cases (i.e. the opposite cases of (1) to (3), respectively):

(4) The addition of a feature which is disclosed in the specification or drawings, or would have been obvious;

(5) The deletion of a part of the features which does not bring about any change in the results of the invention, but maintains the invention within the scope of disclosure of the original specification and drawings; and

(6) The alteration of a part of the features to a feature or features which are disclosed in the specification or drawings, or would have been obvious as of the time of filing of the application.

Referring now to an amendment not introducing any change to the wording of the claims, it is considered as amounting to a change of the gist in the following cases:

(7) An amendment in the specification or drawings which results in an expansion in substance of the scope of the claims to the extent that it departs from the scope of disclosure of the original specification and drawings, when the disclosure of

the specification or drawings as amended is taken into account for the interpretation of the claims; and

(8) An amendment adding technical matter which was not obvious as of the time of filing of the application, for making up the incompleteness of an incomplete invention (which was incomplete, i.e. lacking in any concrete technical support, as of the time of filing of the application), as such addition leads to a change in substance of the scope of the claims, even if no change is made in the wording thereof.

No amendment is, however, considered as constituting a change of the gist in either of the following cases:

(9) An amendment in the specification or drawings which does not introduce any change to the wording of the claims, and which does not bring about any change in substance of the subject matter of the claims, as the subject matter of the claims remains within the scope of disclosure of the specification and drawings as originally filed; and

(10) An amendment correcting an unclear statement or a simply clerical error in the specification or drawings.

4. Comparison of United States, European and Japanese laws and practices concerning an amendment:

In the United States, the Examiner who has examined an application and found it unallowable for some reason or other issues an Office Action notifying the applicant of:

(a) Rejection (if the invention lacks novelty or unobviousness);

(b) Objection (if the application has any fault in

formality, such as an inadequacy in the way in which the claims are put); or

(c) Requirement (calling for a division or any other specific action).

In response to the Office Action, the applicant is permitted to file an amendment. The amendment may be made by filing, for example:

(a) An amendment in the claims (correction, addition or cancelation);

(b) An amendment in the specification or drawings;

(c) Remarks arguing that the Examiner's Action is illegal;

(d) A Rule 131 affidavit of prior invention; or

(e) A Rule 132 affidavit traversing grounds of rejection.

It is usual to file (a) or (b), or both. The amendment is usually admitted only for making the original disclosure clearer or rectifying any nonconformity between the original claims, specification and drawings. "No amendment shall introduce new matter into the disclosure of the invention." This provision in the Patent Act imposes a very strict restriction upon any amendment involving an addition or change to the disclosure.

In the United States, therefore, an amendment is accepted only for correcting the defects of the application and can be said to be restricted by far more stringently than in Europe and Japan.

Referring now to the practice for examination of a European patent application, there are certain limitations to the timing and nature of an amendment to secure a balance of benefits between the applicant and any third party, as in Japan, since the specification as amended is considered as being effective retroactively to the time of filing of the application. The European Patent Convention (EPC) and the

Rules of Practice thereof, however, do not contain any provisions concerning the amendments that are so detailed as those which the Japanese law and rules of practice contain.

The following are all of the relevant provisions found in the European Patent Convention and the Rules of Practice thereof:

(1) A spontaneous amendment other than one for correcting simple typographical errors may be made either after the receipt by the applicant of a search report and before his receipt of a first Office Action from the examination department, or in response to the Office Action from the examination department (as a rule, only once) (Section 1 of Article 123 of EPC; Rule 86);

(2) No amendment may involve any departure from the disclosure of the original application (Section 2 of Article 123 of EPC); and

(3) No broadening of the given scope of protection as defined by the claims may be made during opposition proceedings (Section 3 of Article 123 of EPC).

The Manual of Examination Procedures of the European Patent Office (EPO) provides only general guidelines to judgment on the admissibility of an amendment and fails to show sufficient examples of specific cases. Therefore, there will be no alternative but to judge the propriety of a particular amendment from the accumulated results of judgments which will be given on a case to case basis in the examination of applications.

Both of the U.S. Patent Act and the EPC, including the rules of practice, can be understood as being basically identical to the Japanese Patent Law, insofar as no amendment involving a change in substance of the invention leading to a different invention is permitted in the United

States, Europe or Japan, though the specific term "change of gist" is not found in the U.S. or European law or rules. The practice for examination in the United States, however, includes by far more stringent restrictions on any amendment than in Europe and Japan. This is particularly the case with the addition of matter to the specification or drawings, which is restricted even more strictly than any amendment to the claims. The "departure from the disclosure of the original application" which is not admitted in an amendment of a European patent application can be considered as being equal to the "departure from the scope of disclosure of the specification or drawings as originally filed" which is not admitted in Japan, and can be interpreted as meaning "the addition of matter that is not disclosed in the original application, and was not obvious at the time of filing thereof". This way of thinking has been adopted in the judgments given by the trial division of the EPO, too. It can, therefore, be concluded that any amendment of the nature which is admitted in Japan is basically admitted in Europe, too.

While in Japan, the addition of an example or examples is not necessarily considered as constituting a change of the gist, almost no such addition is admissible in the United States as introducing new matter. This difference is apparently due to the fact that the U.S. patent system is based on the first-invention principle, while the Japanese system is based on the first-application principle, and that the U.S. law imposes strict requirements upon the contents of a specification (i.e. the description requirement, the enablement requirement and the best mode requirement), and offers the possibility of a CIP application as a remedy for any failure to comply with such requirements.

5. Statistical figures (August, 1986 to September, 1988):

Court	Number of cases decided upon	Conclusion	
Tokyo High Court	14 (5)	Revocation (or reversal) of decision of the Patent Office	3 cases
		Revocation (or reversal) of trial decision cases	4 (2)
		Dismissal of appeal (in support of the conclusion of the Patent Office)	7 (3) cases
Supreme Court	1	Dismissal of final appeal	1 case

(Each parenthesized number is the repetition of the number of only the cases contested between the parties not including the Commissioner of Patents.)

As is obvious from the above table, the Patent Office decisions for the dismissal of amendments, and trial decisions were reversed by the court in as many as a half of the cases contested during the period under consideration (in 7 out of 14 cases). It was in as many as six cases out of 12 that the court revoked the trial decisions affirming a change of gist and the decisions for the dismissal of amendment. Therefore, it may be said that one of every two cases involving the Patent Office's conclusion affirming a change of gist has a good chance of being reversed by the court.

On the other hand, there were only three cases involving the trial decisions denying a change of gist and only one of them was revoked by the court. Although no definite conclusion may be derived from the outcome of only three cases, it appears comparatively difficult to have this

kind of case reversed by the court.

6. Case study:

As a result of our study for the classification and summarization of the basic principles and guidelines upon which the Japanese Patent Office and Court relied when concluding an amendment as constituting a change of gist, we have found that the obviousness of an amendment was the most controversial point of issue. Therefore, each of our Subcommittees handling chemical, mechanical and electrical cases, respectively, have studied two cases involving that point of issue, i.e. a case in which the Court passed a different judgment from the Trial Decision of the Patent Office (i.e. reversed it), and a case in which the Court passed the same judgment as the Trial Decision (i.e. supported it). The following is a summary of our case study:

(1) Court Decision revoking a Trial Decision (Chemical Case)

1) Case:

Administrative lawsuit No. 346/1980 for the revocation of Trial Decision

"Process for Producing Vinyl Chloride Resins"

2) Gist of the Invention:

An invention concerning a suspension to be used for the suspension polymerization of vinyl chloride in an aqueous dispersion medium. In this invention, a polyvinyl alcohol having certain properties is used as a suspension.

3) Contents of Amendment:

After the publication, an opposition was filed, and the claim was amended with regard to the saponification degree (from "70 to 80%" to "70.0 to 78.0%") and the Hoeppler viscosity (from "5 to 30 cps" to "5.0 to 27.0 cps") of the polyvinyl alcohol to be used as a suspension, and examples supporting the amendments were added.

The claim of invention, before and after the amendment, is as follows:

(before Amendment)

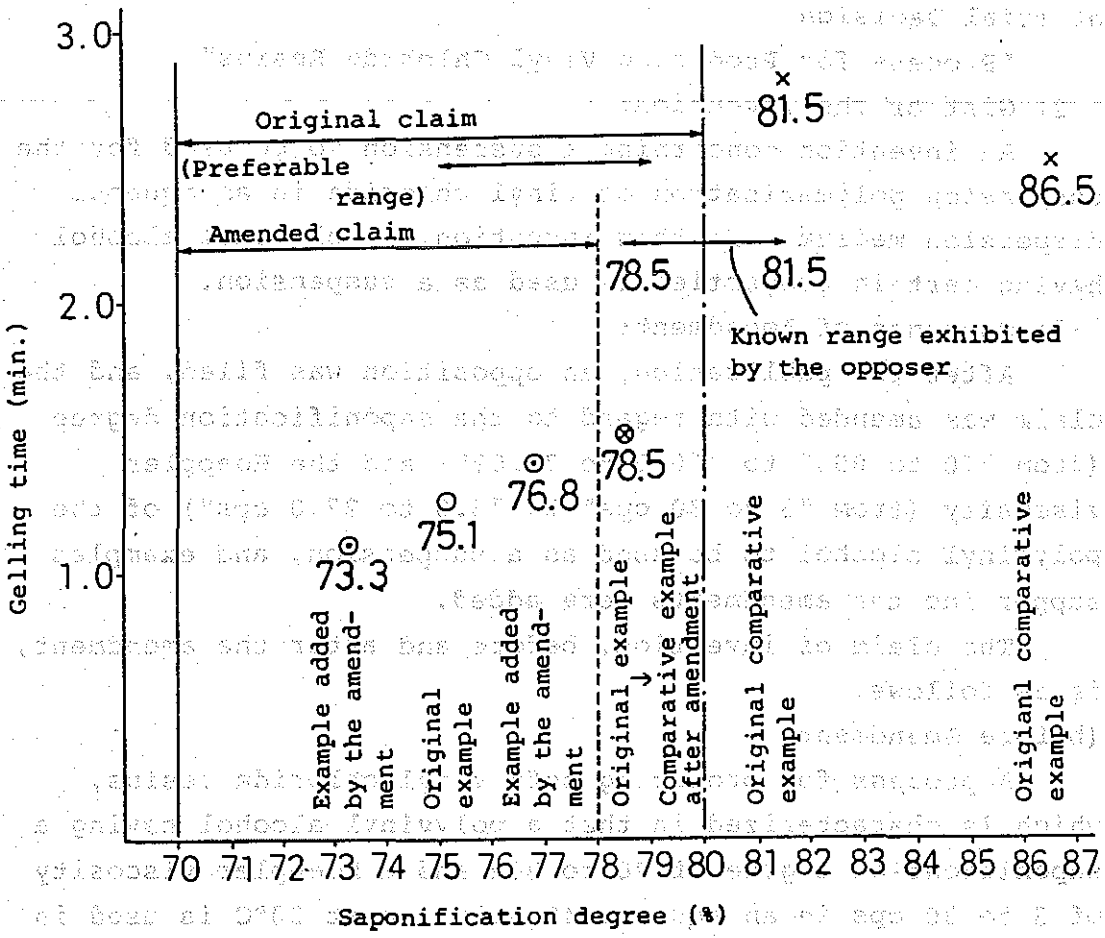
A process for producing soft vinyl chloride resins, which is characterized in that a polyvinyl alcohol having a saponification degree of 70 to 80% and a Hoeppler viscosity of 5 to 30 cps in an aqueous 4% solution at 20°C is used in an amount of 0.01 - 10% by weight based on vinyl chloride as a suspension upon suspension polymerization of vinyl chloride in an aqueous dispersion medium.

(after Amendment)

..... 70.0 to 78.0% .....

..... 5.0 to 27.0 cps .....

The relation ship between the saponification degree (%) of polyvinyl alcohol and the merit of the invention [gelling time (min.)] is shown in Figure 1.


3.0
2.0
1.0
Gelling time (min.)
Original claim
(Preferable range)
Amended claim
81.5
86.5
78.5
81.5
Known range exhibited by the opposer
78.5
76.8
75.1
73.3
Example added by the amend-ment
Original example
Example added by the amend-ment
Original example
Comparative example after amendment
Original comparative example
Origianl comparative example
70 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85 86 87
Saponification degree (%)

4) Point argued:

Is the selection of, as a numerical restriction "saponification degree of 78.0%":

(i) an addition of a new technical thought which is not described in the specification before the amendment and is not self-evident; or

(ii) a mere reduction of claim within the description in the original specification.

5) Content of the Trial Decision:

The amendment substantially changes the claim.

(Outline of the decision)

In the examples described in the specification originally filed and published are given only two saponification degrees: 75.1% and 78.5%, whereas the amendment intends to reduce the definition of saponification degree in the claim to the range of "70.0 to 78.0%" and to endorse the amended claim by supplementing examples exemplifying the saponification degrees of 73.3% and 76.8% and by rendering the example of saponification degree of 78.5% into a comparative example. It is therefore not possible to construe that the amendment remains within the description of the specification as published.

6) Content of the Court Decision:

The amendment does not substantially change the claim.

(Outline of the ruling)

The objects of the invention after the amendment are strictly the same as those before the amendment, and no new technical objects and effects are added by the amendment. The numerical restriction on the saponification degree and the viscosity of the PVA, which are characteristic of the present invention, is to be regarded as an amendment which makes the effects of the invention clearer by further restricting the ranges within the numerical restrictions. Accordingly, the amendment can be considered to be a

reduction in claim and does not substantially change the technical thought. The examples added by the amendment merely served to make the effects of the invention clearer.

7) Comments:

(i) Comparing the amended invention and the prior art, one can say that the basic technical thought of the present invention resets upon setting up of the two numerical ranges with respect to "saponification degree" and "Hoepller viscosity." At the same time, the meaning of "saponification degree of 78.0%" seems to be particularly stressed since an amendment was made to render a polyvinyl alcohol having a saponification degree of 78.5% (which is slightly out of the range defined in the amended claim) and a Hoepller viscosity of 25 cps (which is within the range defined in the amended claim) into a comparative example.

(ii) In the specification originally filed, there is only described to the effect that "saponification degree is 70 to 80%, preferably 75 to 79%," and nothing is described about the upper limit, i.e., "saponification degree of 78.0%" The original example relating to the "saponification degree of 78.5%" was rendered into a comparative example and, at the same time, an example of "saponification degree of 76.8%" was added. It is therefore presumed that the new upper limit (i.e., "saponification degree of 78.0%") was selected just as an intermediate point between the two saponification degrees. If the presumption is correct, the upper limit was arbitrarily changed in accordance with an example added later. Such an upper limit could hardly be said to be self-evident from the technical

contents described in the original specification. It should rather be said to be an after-thought.

(iii) To sum up, the amendment adopted a numerical value which is neither written in the specification initially filed nor self-evident from the description of the specification, as an upper limit of a numerically restricted claim of an invention of which basic technical thought rests upon setting up of numerical ranges. From such a view point, it can be considered that the decision of the Board of Appeal, which concluded the amendment as a substantial change of the gist of the invention, is in line with the Examination Standard and hence reasonable.

(iv) On the other hand, the court revoked the decision of the Board of Appeal on the ground that the objects and effects of the invention have not been changed by the amendment, and the numerical restrictions can be considered to have restricted the claim within its original scope and have made the objects and the effects of the invention clearer. The amendment could not be said to have substantially changed its technical thought. As pointed out by the court ruling, the numerical ranges remaining after the amendment are surely within the ranges before the amendment. However, the court ruling seems to be a little short of consideration in this particular case of which basic technical thought rests upon setting up of numerical ranges per se, and this short consideration lead to a conclusion which is generous to the applicant.

A different conclusion may have been obtained if further considerations had been given on (a)

grounds of the setting up of the numerical restrictions, (b) obviousness of the setting up of the numerical restrictions, (c) critical meanings of the figures, etc., instead of simply concluding that the newly set up numerical ranges is a mere reduction in claim.

(v) However, the court ruling will have a greater appropriateness if one stands on the theory that there is no need to take prior arts into account upon consideration of "amendment and change of gist of invention" or "recognition of gist of invention." That is to say, comparison of an invention with prior arts is required upon judgement of novelty or inventive step and has nothing to do with recognition of gist of invention. The amendment in this case does not change the objects and effects of the invention and is merely a restriction within its claim, and hence it does not change the gist of the invention. Change of gist of the invention and the patentability of the amended patent should be judged separately.

(vi) Since this is a case the court ruled that the amendment after the publication does not change the gist of the invention, the ruling would naturally apply to similar amendments filed before publication.

The decision of the Board of Appeal was revoked by the court ruling on the ground that it erroneously recognized the gist of the invention. As a result, the application will be granted a patent with the amended claim. Although there are arguments for and against the decision of the

Board of Appeal and the ruling of the Court, many questions remain with regard to the fact that the application, after all those developments, is finally granted a patent with the amended claim. The application should have been rejected for the lack of inventive step based on the recognition of the gist of the invention according to the court decision? If not so, the invention should have been rejected on the basis of the reasoning of the revoked Board of Appeal's decision? It should be pointed out that, in view of the first-to-file system and the disclosure requirements, it would be too generous for the applicant to grant a patent with such a claim amended with an after-thought. In addition, there will be a danger of misuse.

(vii) How will such a case be judged in the United States?

There are following opinions.

(a) The amendment of the claim will be dismissed as a new matter since the specification originally filed does not contain any ground for the amendment;

(b) It will be required to file a CIP application with the additional data and the amended claim; or

(c) The amendment for the claim will be accepted if the additional data are submitted in the form of declaration, instead of adding the data to the specification.

(2) Court Decision revoking a Trial Decision (Mechanical Case)

1) Case:

Case No. 91 (1985): Revoking the Trial Decision on dismissal of amendment of the patent application entitled "Method of mounting a can-opening pull chip"

2) Summary of the Invention:

The invention in issue relates to a method of mounting a can-opening pull chip firmly and easily on the cover of a can. A pull chip 2 has its mounting hole 3 fitted on a hollow projection 4 of a can cover 1, and a hollow member 5 is fitted in the projection 4. Then, the hollow projection 4 and the hollow member 5 are clamped and pressed by a top part 11 and a bottom part 9 so that they are flattened to fix the pull chip 2 to the can cover 1.

3) Contents of Amendment:

Before the present patent application was laid open, Claim 2 (directed to a mode of embodiment) was corrected, as follows, and accordingly there was added a description (including additional drawings) of an embodiment directed to the case in which the topped cylindrical member is tubular:

The scope of the claim is specified in the following: (before Amendment)

1. A method of mounting a can-opening pull chip, characterized: in that a pull chip 2 has its mounting hole 3 fitted on a hollow projection 4 of a can cover 1 whereas a hollow member 5 is fitted in said projection 4; and in that said hollow projection 4 and said hollow member 5 are flattened to fix the pull chip 2 and the can cover 1 together.

2. A can-opening pull chip mounting method as set forth in Claim 1, characterized in that said hollow member 5 is a topped cylindrical member made of a synthetic resin or

a metal and having its lower edge curled outward or inward, as indicated at 8.

(after Amendment)

1. the same as the first claims before amendment

2. A can-opening pull chip mounting method as set forth in Claim 1, characterized in that said hollow member 5 is a topped cylindrical member or a tubular member made of a synthetic resin or a metal and having its edge curled outward or inward.

4) Point argued:

(i) Whether or not the addition of the embodiment, in which the hollow member is tubular, was an incorporation of a new technical concept (new matter) which was not disclosed in the original specification before amendment; and

(ii) Whether or not that addition was obvious from the original disclosure of the specification before amendment.

5) Content of Trial Decision:

The amendment is not obvious from the original disclosure of the specification before amendment but changes the gist of the invention.

(Points of reasoning)

(i) It is reasonable to interpret that the description of "the hollow member 5 may be not only the topped cylindrical member but also a hollow sphere or another hollow shape" means that the hollow sphere is also topped. It follows that all the 'topped cylindrical member', 'hollow sphere' and 'another hollow shape' are an enumeration of the topped shapes to conceive the hollow member. There is found no ground for denying the above-specified interpretation because no description is found in the original description as to what operation and

effect the hollow member has in the present invention.

(ii) Since the operation and effect of the hollow member are not clarified, nor are clear the operation and effect in case the hollow member is changed from the topped cylindrical member to the tubular member. In case the can cover is made of a film of synthetic resin, as exemplified, the the hollow member will presumably have its edge damage the synthetic resin film if it is merely tubular, when it is caulked together with the hollow projection. If so, the damage could be avoided by curling the edge of the hollow member outward or inward. This outward or inward curling of the edge is ingenious and could not be said obvious.

6) Content of Court Decision:

The amendment is obvious from the disclosure of the original specification before amendment and is not a change of the gist.

(Points of reasoning)

(i) Since the detailed description of the invention of the original specification has the description of "the hollow member may be not only the topped cylindrical member but also a hollow sphere or another hollow shape", it is apparent not only that the "hollow sphere" is not usually included in the concept of the "topped" but also that "another hollow shape" includes a tube or tubular member having a hollow portion having its two ends opened.

(ii) It is also apparent that a tubular member having its two ends opened and its edges curled has its upper and lower ends crushed and deformed as in the case of the topped cylindrical member, if it

is vertically pressed. Moreover, what is disclosed as the operation and effect of the hollow member in the present invention, as disclosed in the original specification, is to vertically press and fix the pull chip by the deformation. It is not accepted that the operation and effect are intrinsic to the topped cylinder but not different in the tubular member including the topped cylindrical member, hollow sphere and another hollow shape.

(iii) Therefore, in view of the aforementioned operation and effect of the hollow member disclosed in the original specification, there is no reason for eliminating the tubular member.

7) Comments:

(i) The point of the present case examines whether or not the technical matter added by the amendment is obvious from the disclosure of the original specification in the two aspects of the construction and the operation and effect, and judges that both the construction and the operation and effect are obvious. In the prior art, according to the practice of Japanese Patent Office, admittance of the addition of an embodiment (especially that accompanied by the addition of drawings) is very rare. However, the Court stands on the point that even the addition of an embodiment could be admitted if it could be judged as has been disclosed in the original specification, as filed.

(ii) It should remember that the admittance of the addition of the technical matter (i.e,. the hollow member interpreted to include the topped cylindrical body and the tubular member) in the

present case of amendment by the Court is backed up by the presence of the aforementioned proviso of "the hollow member may be not only the topped cylindrical member but also a hollow sphere or another hollow shape" in the original specification. Without this proviso, the Court would probably judge the present amendment as the addition of a new matter.

(iii) In short, it seems that the Patent Office is rather nervous about the addition of a new technical matter and takes an attitude not to admit it but that the Court is not always at the same standpoint but takes a gentle attitude for an amendment which is not accompanied by any extension of the scope of patent right.

(iv) How would the present case be judged in U.S.A. ? The case would be dismissed as the "New Matter" in view of the U.S. practice exerting severer restrictions upon the amendment than Japan. The U.S. practice would require a CIP application incorporating the content of amendment.

Fig. 1

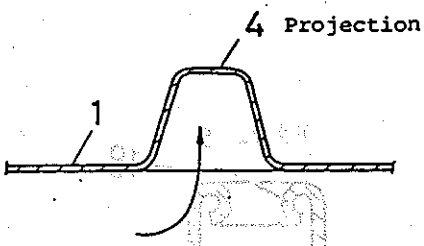


Fig. 2

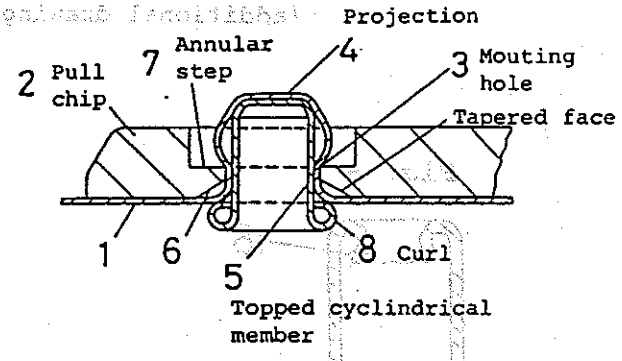


Fig. 3

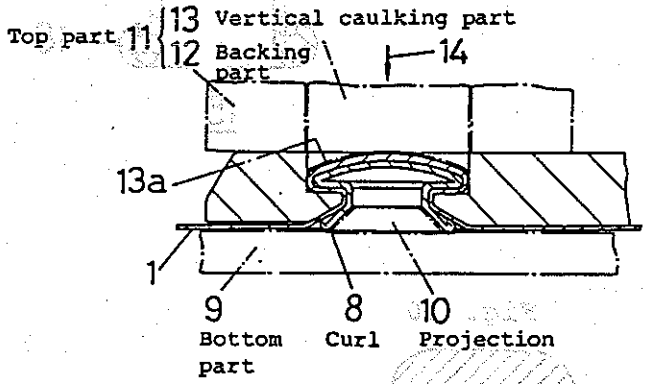


Fig. 4

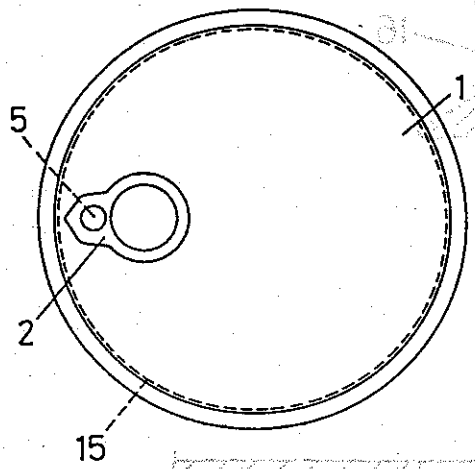


Fig. 5

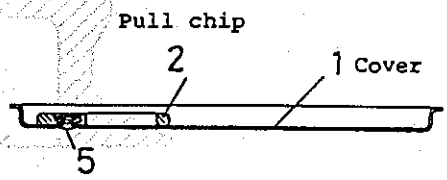


Fig. 6

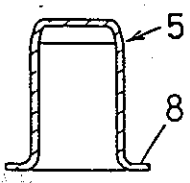
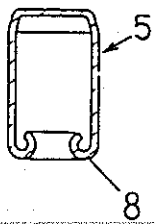


Fig. 7



(additional drawings)

Fig. 8

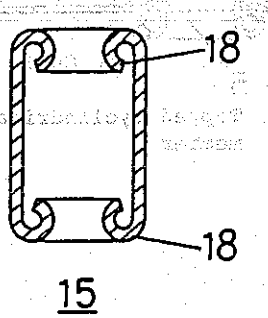


Fig. 9

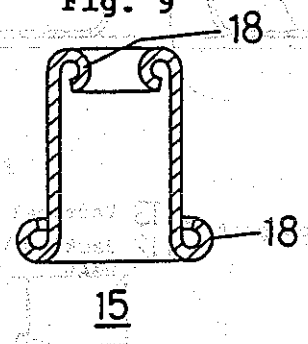


Fig. 10

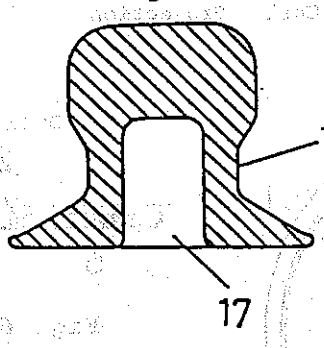
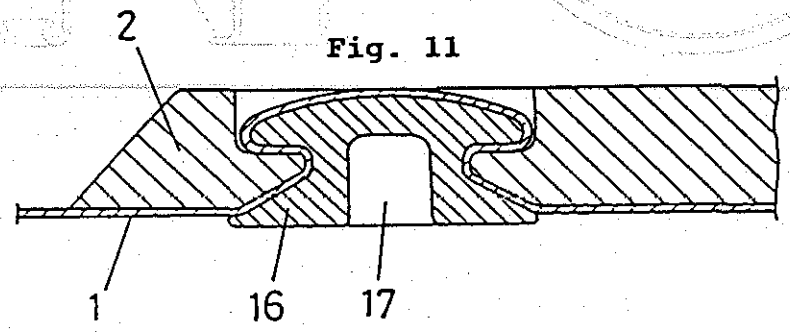


Fig. 11



(3) Court Decision revoking a Trial Decision (Electrical Case)

1) Case:

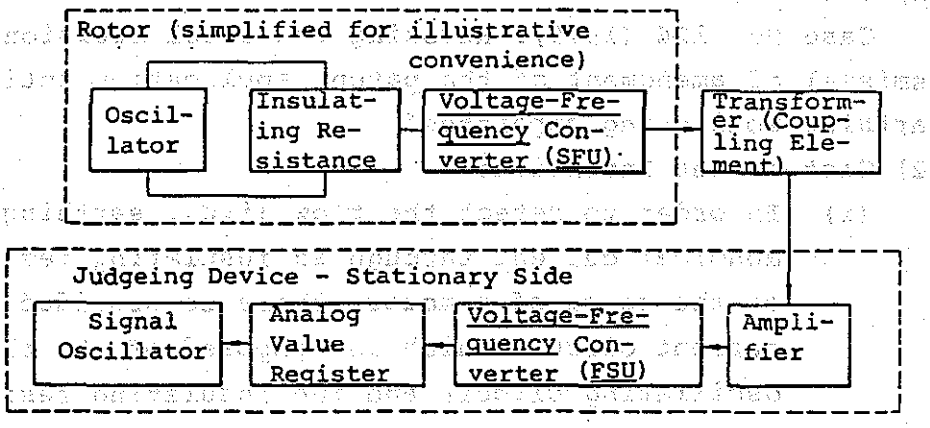
Case No. 126 (1979): Revoking the Trial Decision on dismissal of amendment of the patent application entitled "Earthing monitoring apparatus"

2) Gist of the Invention:

(i) In order to detect the flow (i.e,. earthing) of an abnormal current through an insulating resistance of the rotor of a motor, there is provided a current circuit which is composed of the rotor, an oscillating circuit and the insulating resistance. In normal operations, the current flow through the resistance is so low as to establish a small voltage drop. If the earthing occurs, on the contrary, a high current flows to cause a large voltage drop. This voltage is converted into a frequency by a voltage-frequency converter (SFU). This frequency shows a corresponding value to the insulating resistance. The frequency is further transmitted to a judging device which is disposed at a stationary side.

(ii) Explanation of the judging circuit:

The judging circuit is composed of the blocks (the insides of which are not explained) of the following diagram so that the insulating resistance may be continuously detected as an analog value at a signal oscillator.



Clerical Error: (Frequency-Voltage Converter in the Application providing a basis for priority)

3) Contents of Amendment:

(i) Scope of the Claim:

(before Amendment)

An earthing monitoring apparatus for monitoring the earthing of the rotor of an electric machine such as a brushless synchronous motor equipped with an external magnetic pole type magnetizer, characterized in that an oscillator for low-frequency alternating current to be supplied with a power from an auxiliary voltage source of the rotor is disposed at a rotating machine portion so that the output voltage of the oscillator is supplied to a current circuit including the insulating resistance of the machine; and whereupon the effective or ineffective current flow through the insulating resistance is transmitted as a measure for the insulating resistance from the rotating machine portion through an electric coupling element to a stationary judging circuit.

(after Amendment)

An earthing monitoring apparatus for monitoring the earthing of the rotor of an electric machine such as a brushless synchronous motor equipped with an external magnetic pole type magnetizer, comprising:

an oscillator disposed at a rotating machine portion and for low-frequency alternating current to be supplied with a power from an auxiliary voltage source of the rotor;

detecting means for detecting the effective or ineffective current flow through the insulating resistance, which is obtained by supplying the output voltage of the oscillator to a current circuit including the insulating resistance of the machine, as a measure for the insulating resistance to generate an output voltage corresponding to said current flow;

a voltage-frequency converter adapted to be fed with the output voltage of the detecting means;

an electric coupling element adapted to be fed with the output signal of said voltage-frequency converter for effecting the signal transmission from the rotating machine portion to the stationary machine portion; and

a judging device disposed at the stationary machine portion for judging the earthing on the basis of the frequency of the signal transmitted through said electric coupling element.

(ii) Additional Comments on the Effect:

"Since the judgement of an earthing is thus accomplished in terms of the frequency, according to the present invention, it is less influenced by the coupling state of the electric coupling element or the noises, and the voltage of the signal to be transmitted can be raised to an

arbitrary level. Without the earthing, moreover, if the sensitivity is so set that a voltage having a predetermined frequency may be generated from the voltage-frequency converter SFU, a malfunction such as the defective connection of the portion at the rotating machine portion of the earthing monitoring apparatus can be detected in terms of the change in the frequency."

4) Point argued:

Regarding the function of the apparatus defined in the claim amended on the ground of the additional comments relating to the effects of the invention,

(i) Whether or not the function is only a judgement for the earthing, which is obvious function by the construction disclosed in the original specification; and

(ii) Whether or not the function does include a measurement of the electrical value at a circuit which was neither disclosed nor implied in the original specification and the function further judges the corresponding troubled portion?

5) Content of Trial Decision:

The supplementation of the "judging device" to the scope of the claim by the amendment is decided to change the gist of the invention (new matter).

(Points of reasoning)

The judging device is depicted only in the block form so that its specific structure is left unknown. Even if the FSU is the voltage-frequency converter, as originally described, it is not accepted that the judging device cannot perform the judging function (i.e., that the error was clerical). The added effect is based on the fact that the FSU was amended to the frequency-voltage converter, and is neither disclosed

at first nor is obvious.

6) Content of Court Decision:

The supplementation of the "judging device" to the scope of the claim by the amendment will not alter the gist of the specification (In short, it was not a new matter.).

(Points of reasoning)

(Re: Construction)

From the description of the original specification, it is accepted that the judging device has its input fed with a signal which is characterized to have its frequency varying with the level of the insulating resistance.

Since, moreover, the judging device is fed with the frequency and since the analog value register connected downstream of the FSU is generally a register for storing a voltage value, it is reasonable to admit that the original description of the FSU as the voltage-frequency converter for voltage-frequency conversion is a clerical error of the frequency-voltage converter for frequency-voltage conversion.

It can be concluded that the construction is contained in the original specification.

(Re: Effect)

It is literally interpreted that the operational effect means not so far as the judgement of the specific troubled portion of a circuit but merely that the defective connection caused somewhere in the circuit portion upstream of the judging device can be detected in terms of the change in the frequency signal coming to the judging device. This means what is described is the effect which will naturally come from the structure described in the original specification.

7) Comments:

(i) Although the drawing depicts the whole structure

in the block diagram, the original specification has its description stressed upon the point that the rotor is constructed by the current circuit connecting the oscillation circuit and the insulating resistance to be measured, so that the voltage drop at the insulating resistance may be used as a measure of generation of the earthing. However, the original specification has an omission in describing how the voltage drop is detected.

(ii) It has not been clearly described that the voltage drop is converted into the frequency, which is transmitted to the stationary side until it is converted again to the voltage to be observed. The clerical error was in the circuit block at the stationary side.

(iii) In the amendment, the above-underlined effect is newly added, and the concept of "judging the earthing on the basis of the frequency" is added as a new component to the scope of the claim. The Court has judged that the component was in the original specification, and that the effect was obvious when the frequency was used.

(iv) The judgements of Patent Office are based on that (1) the supplemented effect should be at a higher grade than the allegation of the Applicant, and that (2) the allegation of the clerical error should not be admitted. It can be said that the two points (1) and (2) are too severe judgements.

(4) Court Decision supporting a Trial Decision (Chemical case)

1) Case:

Administrative lawsuit No. 222/1980 against the dismissal of amendment made by the Board of Appeal

"Removal of Nitrogen Oxides from Flue Gas"

2) Gist of the Invention:

An invention concerning a process for decomposing nitrogen oxides through addition of ammonia to nitrogen oxide-containing flue gas. The point of the invention lies in the use of non-noble transition metal catalysts, including copper oxides (1st claim).

3) Contents of amendments:

Addition of an example using iron sulfate supported on alumina, and amendment of the claim based on the addition of the example.

The claim of the invention, before and after the amendment is as follows:

(before amendment)

(1) A process for treating flue gas so as to reduce the content of nitrogen oxides contained therein, which comprises:

(a) adding ammonia to said flue gas; and

(b) allowing said flue gas to contact with a catalyst comprising copper oxide supported on a fire-resistant carrier having a surface area of at least ca. $40m^2/g$ under oxidative conditions at an inlet temperature of said gas of ca. 600°F to ca. 950°F.

(after amendment)

A process for treating a gas mixture containing nitrogen oxides, sulfur dioxide and oxygen so as to reduce the content of nitrogen oxides contained therein, which comprises allowing said gas mixture to contact with a

catalyst which is supported on a fire-resistant carrier and comprises at least one catalyst component selected from non-noble transition metals of Groups V-B, VI-B, VII-B and VIII, iron and copper, and oxides and other compounds thereof, under oxidative conditions in the presence of ammonia at an elevated inlet temperature of said gas of up to ca. 950°F.

4) Point Argued:

Whether or not it is described in the initially filed specification that iron sulfate is usable as a catalyst component in the catalytic reaction according to the invention.

5) Content of the Trial Decision:

The examiner's decision which dismissed the amendment is appropriate.

(Outline of the decision)

In the initial specification are contained descriptions that a catalyst comprising iron oxide supported on alumina can be preferable and that catalyst metals must be active even when they are in the form of a sulfate.

It is however known that essential functions of catalysts are to change reaction rates and to control reaction conditions and that it is difficult to predict precisely, based on theoretical or empirical rules, such catalytic effect as selectivity of reactions, influences on reaction rates, duration of catalytic activities, etc.

It is therefore not self-evident that iron sulfate supported on alumina functions as a catalyst.

Accordingly, the technical matter described in the claim amended by the amendment is out of the technical scope described in the initial specification.

6) Content of the Court Decision:

The Trial Decision of the Board of Appeal which

dismissed the amendment is not erroneous.

(Outline of the ruling)

It is a fact obvious to this Court that basic functions of catalysts are to participate in chemical reactions by changing reaction rates and to control reaction conditions. It is a matter of common knowledge that it was extremely difficult even at the time of filing of the application to predict precisely, based on theoretical or empirical rules, such effects as selectivity of reactions shown by catalysts, influences on reaction rates, duration of catalytic activities, etc.

Even if the initial specification contains general statements that ion oxide is usable as a catalyst and that catalysts must be capable of maintaining catalystic activity after being sulfonated with SO_2 contained in flue gas, it is not possible to construe that there was described in the initial specification that iron sulfate (which differes in chemical structure from CuO) supported on Al_2O_3 is usable as a catalyst for the treatment of flue gas. The dismissal of the amendment is therefore not erroneous.

7) Comments:

(i) This is a case the court supported the Trial Decision of the Board Appeal concerning dismissal of amendment.

In chemical inventions, addition of examples can be highly difficult. This is a typical case of such an invention.

Chemistry is an empirical science where prediction of results is quite difficult. Accordingly, in the case where there are only general statements or wishful descriptions and no examples (or descriptions which can be regarded as examples)

are not contained in the initial specification, any amendment which intends to add an example is often judged to be a change of gist.

(ii) In chemical inventions, in particualr those involving catalysts, much importance has been attached to examples (or descriptions which can be regarded as examples), and a practice which can be referred to as example-first-principle has been established, as seen in the present case.

(iii) In the initial specification of the application (Unexamined Patent Publication No. 75,464/1974), catalyst is expressed as "oxides of copper" (in claims 1 to 11) or "non-noble transition metals" (in claims 12 and 13), and there is only one example in which copper oxide is utilized. The present case was disputed over whether or not an addition of an example utilizing iron sulfate is a change of the gist of the invention. However, in the final stage the claim of the application was restricted to a process in which iron oxide is employed as a catalyst and a patent was granted therefor (Japanese Patent Publication No. 59,004/1985). Although iron oxide, different from iron sulfate, was described in the initial specification as a preferable catalyst, it is quite surprising that the only example of copper oxide was deleted, and an example of iron oxide was added and a patent was acquired only for iron oxide.

(5) Court Decision supporting a Trial Decision (Mechanical Case)

1) Case:

Case No. 227 (1986): Revoking the Trial Decision on invalidation (the demand for which has been dismissed) of utility model registration, as entitled "Extendible and rockable gate door"

2) Gist of the Device:

The device contemplates to provide an extendible and rockable gate door which is to be disposed at the gate of a motor pool or the like. The gate door does not require any facility for laying a rail for guiding the movement of the gate door but can be opened or closed and turned inward remarkably lightly and smoothly.

3) Contents of Amendment:

(i) The scope of the claim for utility model registration was amended, as follows:

A vertically long member 2 at one end of the transverse side of the gate door is hingedly connected to a stationary portion such as a post 7 through hinges 6 such that it can turn on a vertical axis

Amendment
(before Publication)

A vertically long member 2 is so hingedly connected through pivot pins 19 such as headed pins, which are <u>removably</u> fitted in both hinges 6 fixed at the long member 2 and pivot brackets 8, so that it can turn on the common axis of said pivot pins 19."

(ii) To the detailed description of the device of the specification, there is also added the operational effect that "Even in case the caster wheels are disabled to roll on the flat floor having no rail by

either the running traces of the caster wheels or the pebbles, the vertical vibrations of the caster wheels riding on such undulations can be absorbed or damped by the whole gate door to smooth the rolling motions of the caster wheels."

4) Point Argued:

Whether or not the addition of the structure that the pivot pins 19 are removably fitted in the hinges 6 and the pivot brackets 8 could be said obvious in view of the disclosure of the original specification and drawings.

5) Content of Trial Decision:

The amendment is not obvious from the disclosure of the original specification and drawings but alters the gist of the device.

(Points of reasoning)

The amendment in issue is made to have the structure that "the pivot pins are removably fitted" so as "to provide the gate door which is enabled to accomplish smooth turns by the vertical vibrations of the caster wheels with respect to the undulating floor", although not disclosed in the specification and drawings originally attached to the application for utility model registration. Even if the structure that "A vertically long member is so hingedly connected through pivot pins such as headed pins, which are removably fitted in both hinges fixed at the long member and pivot brackets, so that it can turn on the common axis of said pivot pins" is obvious from the disclosure of the specification and drawings originally attached to the application, as has been alleged by the demandee, it can never be said that the structure that the pivot pins are "removably" fitted in is disclosed in the original specification and drawings or is obvious to those skilled in the art.

6) Content of Court Decision:

The Trial Decision is supported, because the point that the pivot pins are "removably fitted in" could not be accepted as obvious in view of the disclosure of the original specification and drawings even if that point belongs to the well-known technique, as alleged by the demandant.

(Points of reasoning)

(i) It is not disclosed in the original specification that the grounding casters can freely move up and down.

(ii) What is disclosed by the original specification is: that the pivot pins are hingedly connected to the hinges 6 and the pivot brackets 8 so that they can turn on the vertical axis, but not that the pivot pins can be freely removed.

(iii) The original specification has failed to have the object relating to the adoption of the structure that the pivot pins of the hinged portion of the gate door are removably fitted in the pivot brackets and the hinges.

(iv) Comparing the objects and so on before and after the amendment of the present device and viewing the above points, it could not be said that the amendment in issue is obvious from the original specification (even if the technical concept itself added by the present amendment were well known in the art).

7) Comments:

(i) Even if the content of an amendment such as the amendment in issue is an addition of the prima facie technical concept which is known before the filing of the present case, the addition will change the gist of the device if an alteration is

found before and after the amendment in view of the object, operation and effect of the device.

(ii) It can be said that the judgement for the present case is reasonable.

(iii) The present case is satisfactory for presenting that all the well-known concepts are not always obvious.

(iv) How will this case be judged in U.S.A. ? The amendment of this case would be dismissed as inviting a New Matter, because an amendment is more strictly restricted in U.S.A. than in Japan. The probable dismissal will make it necessary to file a new CIP application incorporating the content of amendment.

Fig. 2

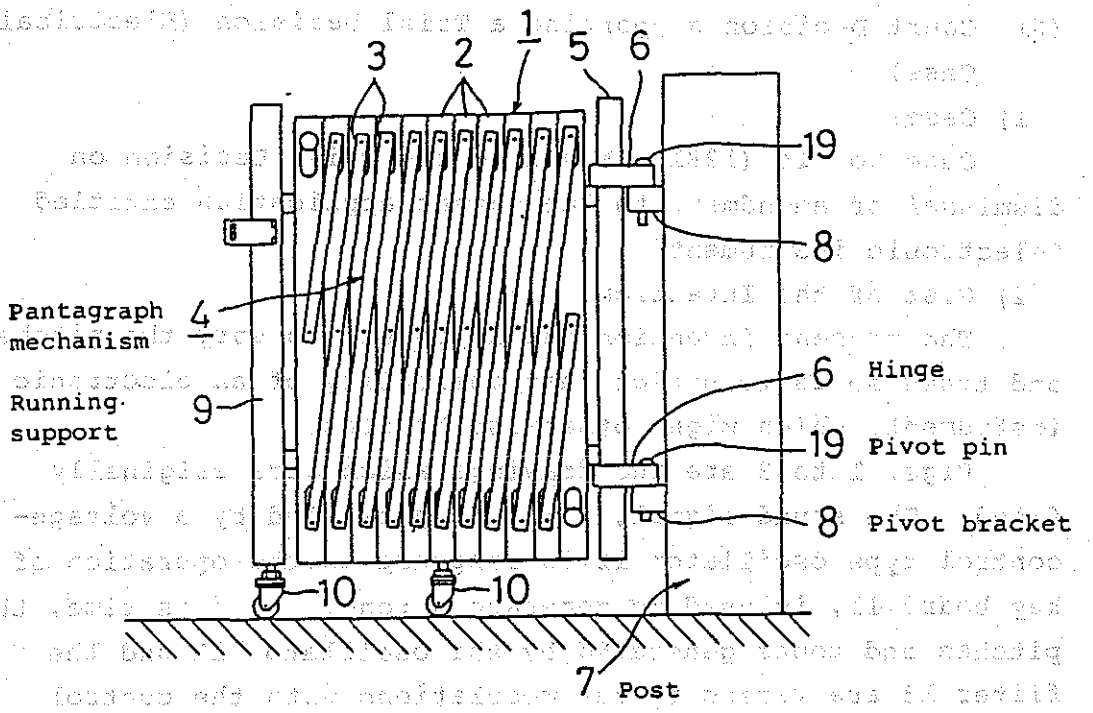


Fig. 3

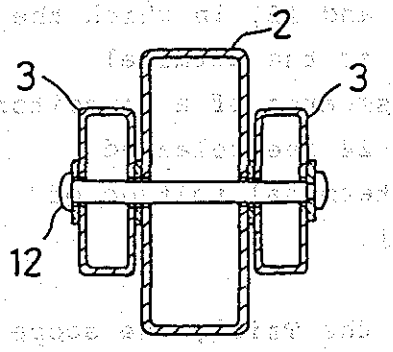


Fig. 4

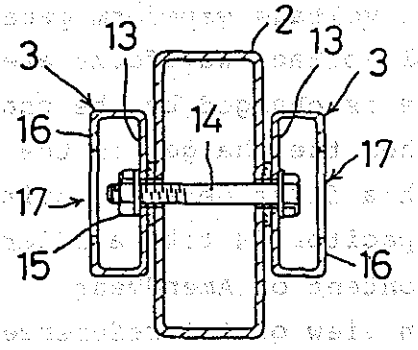
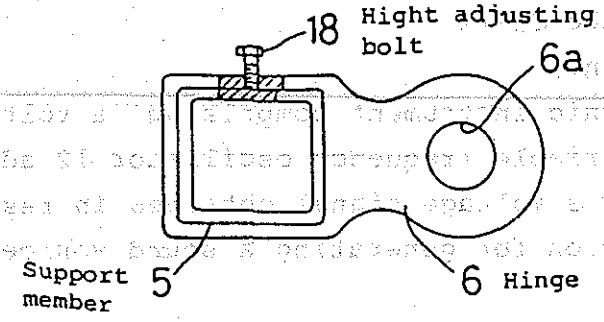


Fig. 5



(6) Court Decision supporting a Trial Decision (Electrical Case)

1) Case:

Case No. 14 (1981): Revoking the Trial Decision on dismissal of amendment to the patent application entitled "electronic instrument"

2) Gist of the Invention:

The present invention has an object to vary the pitches and tones so as to enrich that musicality of an electronic instrument, which might otherwise be flat.

Figs. 1 to 3 are the drawings which were originally filed. The sound signal, which is generated by a voltage-control type oscillator 12 in response to the operation of a key board 11, is used to generate a tone. At this time, the pitches and tones generated by the oscillator 12 and the filter 13 are varied by the modulations with the control voltage waveform of Fig. 2 so that musically rich sounds may be played. Fig. 3 shows the specific structures of the control voltage waveform generators 17 and 18, in which the control voltage waveforms are obtained as the terminal voltage is changed by the charge or discharge of a capacitor 24. When the charges of the capacitor 24 are released through a first decay circuit 27, the terminal voltage of the capacitor 24 take a reference level.

3) Content of Amendment:

In view of the reference cited in the Trial, the scope of the claim was amended, and the effect coming from the amendment was additionally described.

(i) Scope of the Claim

(before Amendment)

An electronic instrument comprising: a voltage-control type variable frequency oscillator 12 adapted to be driven by a voltage signal obtained in response to a key operation for generating a sound source

signal; and a voltage-control type variable filter for toning the power source signal coming from said oscillator 12, wherein both said oscillator and said variable filter are modulated and controlled by the control voltage waveforms which are varied from initial to attack levels set at the two sides of a reference level for an attack period in response to a key push and subsequently held at the reference level until they are varied to the initial level in response to a key release.

(after Amendment)

An electronic instrument comprising: a voltage-control type variable frequency oscillator 12 adapted to be driven by a voltage signal obtained in response to a key operation for generating a sound source signal; a voltage-control type variable filter for toning the power source signal coming from said oscillator 12, control waveform generators 17 and 18 for generating the control voltage waveforms which are varied from initial to attack levels set at the two sides of a ground level in response to a key push and subsequently held at the reference level until they are varied from the ground to initial levels in response to a key release; an inverter 28 for inverting the polarities of the control voltage waveforms which are generated from said control wave form generators; and means for feeding either the control voltage waveforms generated from said control waveform generators or the inverted control voltage waveforms outputted from said inverter as a control signal to said oscillator or a filter, wherein the characteristics of said oscillator or filter are modulated and controlled with said control voltage waveforms or said inverted control voltage waveforms.

(ii) Additional description of the effect

Upon the modulation and control of the sound pitches and tones, the continuous level of the control waveforms is specified by the reference level at the ground potential, as is apparent from Fig. 3. As a result, it is possible to control the musical sounds with the stable pitches and tones, i.e., to vary and control the control voltage waveforms so that a stable control of played sounds can be executed sufficiently effectively. The waveforms are suitably inverted with reference to the reference level at the ground potential so that the characteristics at the rise and decay of the played sounds can be switched and set more effectively to convert and set the characteristics of the musical sound expression more effectively.

4) Point argued:

Whether or not it is obvious from the block diagram of Fig. 3 that the continuous part of the control voltage waveforms, i.e, the reference level is at the ground potential.

(i) A first decay circuit 27 of Fig. 3 has its one terminal earthed to the ground, and a current discharge passage from the upper electrode of the capacitor 24 through the first decay circuit 27 to the earthing point is indicated by an arrow, as indicated by circled 2. Whether or not it is apparent that the level of the capacitor 24 comes to the ground potential after the discharge if the discharge current of the capacitor 24 flows to the earthing point.

(ii) If the reference level fails to reside at the ground potential, it is fluctuated if the polarities of the control voltage waveforms are inverted. This makes it necessary to provide

means for correcting the level after inversion thereby to complicate the circuit. Fig. 3 shows the inverter but not the accompanying correcting means. Therefore, whether or not Fig. 3 has succeeded in showing that the reference level is the ground potential.

5) Content of Trial Decision:

The specification and drawings as amended incorporate it into part of the gist of the invention that the reference level is at the ground potential. In the original specification and drawings, as filed, however, there is no disclosure implying that the reference is at the ground level. Moreover, this concept could not be said obvious, because it has an outstanding effect that no correction is required even if the control voltage waveforms are inverted around the ground level. It is judged that the amendment in issue is a new matter.

6) Content of Court Decision:

The Court has supported the Trial Decision (i.e., the dismissal of amendment) by the following reasons:

1) The first decay circuit 27 of Fig. 3 is merely shown in a block form having its one terminal earthed to the ground, but its internal circuit structure is not apparent. Irrespective of this internal circuit structure, the one terminal earthed to the ground is indispensable for establishing a return path to the lower electrode of the capacitor 24. Therefore, what is disclosed by the drawing is that the first decay circuit has its one terminal at the ground potential, but could not be said to imply that the capacitor 24 has its terminal voltage at the ground potential when it is discharged.

2) Since Fig. 3 presents the block diagram and since

it is not always definite what circuit is expressed by one block, the correcting means could sufficiently be incorporated into the block of the inverter. The fact that the correcting means is not shows in a block different from the inverter could not provide a basis for indicating that the reference level is at the ground potential.

3) The original specification, as filed, has failed to describe the special effect (e.g., the effect for generating the stable sound or the effect for facilitating the inversion of the control voltage waveforms without the correcting means) which can be attained by setting the reference level at the special potential such as the ground potential. Hence, it is reasonable that the technical concept attained by the amendment is an invention different from that disclosed in the original specification and drawings, as filed.

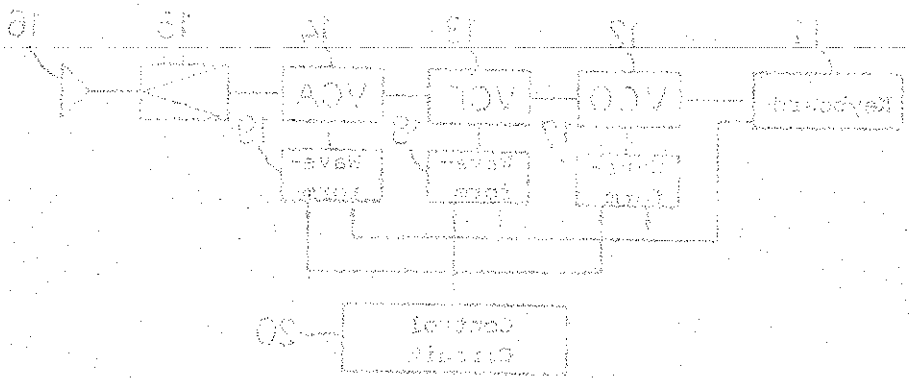
7) Comments:

The Court Decision is helpful for judging the range of disclosure by a block diagram.

The reasoning of the Court Decision that "it could not be obvious to make a discharge to the ground potential because the lst decay circuit is shown in the block form so that what voltage level is set in the decay circuit is unknown" is agreeable.

The present case is one which has forced the applicant to use the structure and effect, which could not be clarified by the block diagram, as the gist and effect of the invention so as to make a difference from the disclosure of the citation. Without this citation, the present application would have been patented with the block diagrams of Figs. 1 to 3. Considering that the applicant has not alleged that the first decay circuit is well known, this

circuit seems to be a novel one prepared for the present invention. Although late at this stage, such new circuit important for achieving the effect of the invention should have been supplemented by its internal detailed diagram.



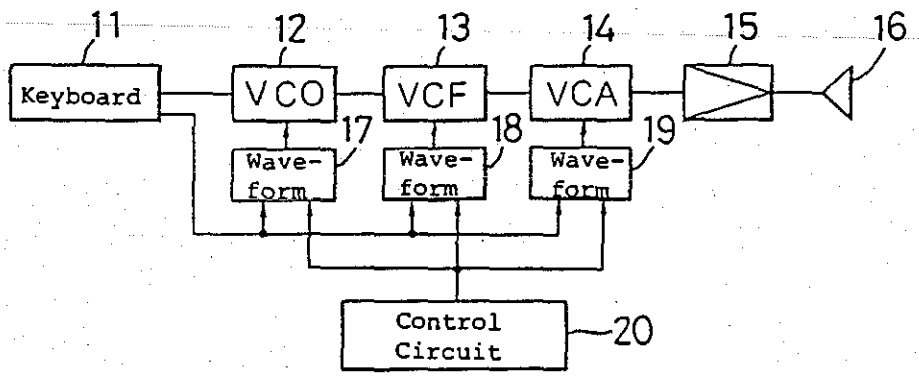

11
12
13
14
15
16
Keyboard
VCO
VCF
VCA
17
18
19
Wave-form
Wave-form
Wave-form
Control Circuit
20

Fig. 2

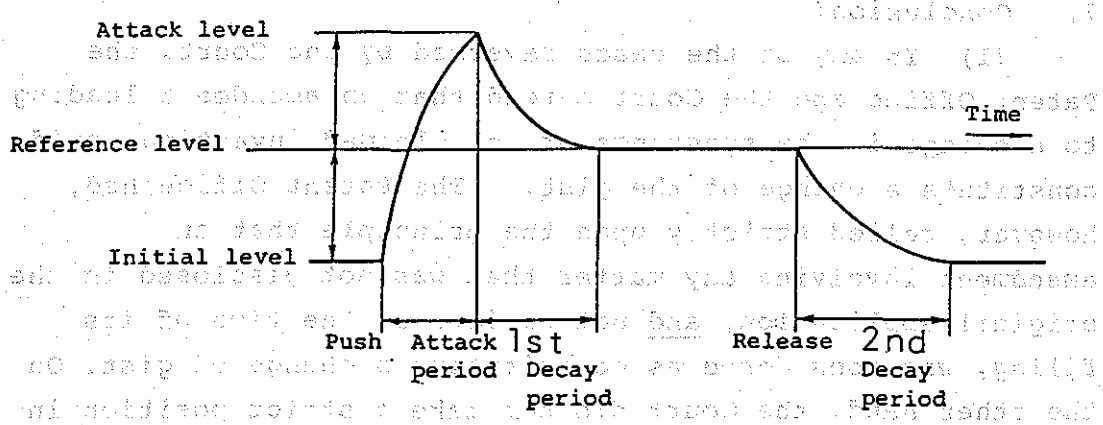
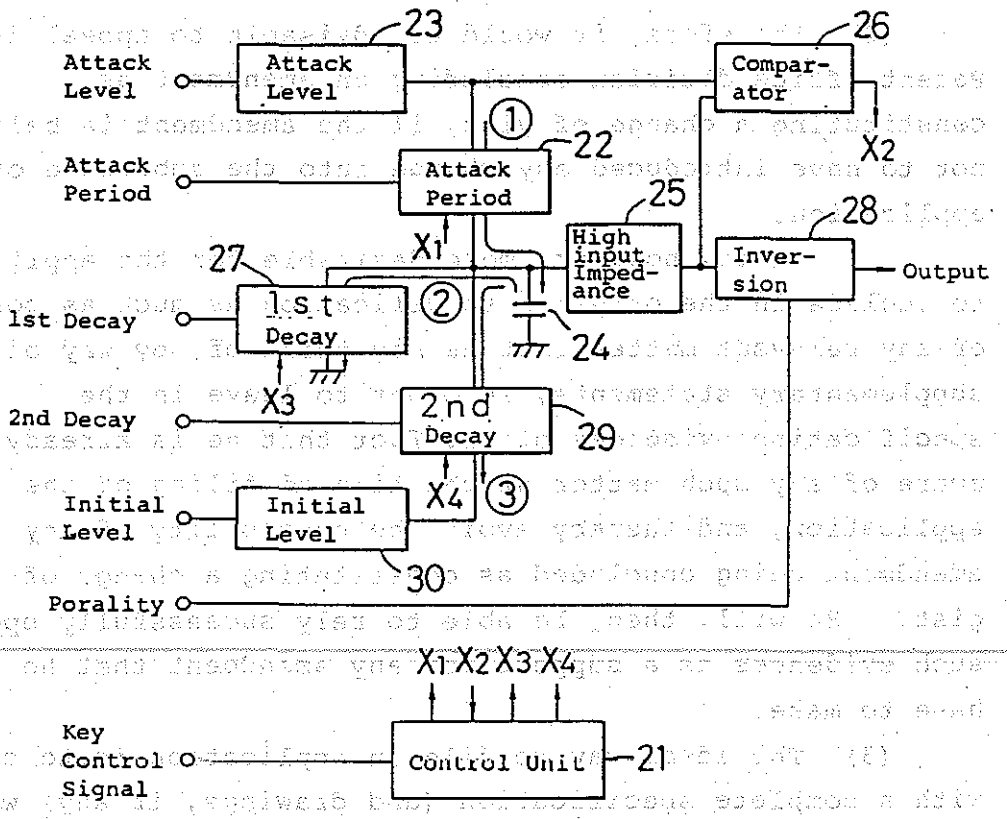

Attack level
Reference level
Initial level
Time
Push
Attack period
1st Decay period
Release
2nd Decay period

Fig. 3


Attack Level
Attack Period
1st Decay
2nd Decay
Initial Level
Porality
Attack Level
Attack Period
1st Decay
2nd Decay
Initial Level
High input Impedance
Comparator
Inversion
Output
23
22
25
26
27
28
29
30
24
X1
X2
X3
X4
①
②
③

X1 X2 X3 X4
Key Control Signal
Control Unit
21

7. Conclusion:

(1) In any of the cases reversed by the Court, the Patent Office and the Court agreed that an amendment leading to a change in the substance of the claimed invention would constitute a change of the gist. The Patent Office had, however, relied strictly upon the principle that an amendment involving any matter that was not disclosed in the original application, and not obvious at the time of its filing, was considered as constituting a change of gist. On the other hand, the Court did not take a strict position in that connection, but passed a judgment rather in favor of the applicant, saying that no amendment was considered as constituting a change of gist if, after the amendment, the claimed invention can still be considered as remaining substantially the same in the light of its object and results as set forth in the specification.

(2) Therefore, it would be advisable to appeal from a Patent Office decision concluding an amendment as constituting a change of gist, if the amendment is believed not to have introduced any change into the substance of the application.

It is, however, more desirable for the applicant to include in the original specification as much as possible of any relevant matter that he may think of, by way of e.g. supplementary statements, in order to leave in the specification evidences of the fact that he is already well aware of any such matter at the time of filing of the application, and thereby avoid the possibility of any future amendment being concluded as constituting a change of the gist. He will, then, be able to rely suceessfully upon such evidences as a support for any amendment that he will have to make.

(3) The ideal way to file an application is to start with a complete specification (and drawings, if any) which

will not require any change at a later date. As a matter of fact, however, it is absolutely necessary to make some amendment or other. Everybody is believed to agree that the allowance of an amendment under certain conditions is necessary for the achievement of the objects of the patent system. The problem is that the scope of an allowable amendment differs from one case to another. That is a cause of dispute which leads to a delay in examination.

(4) This problem is mainly due to the difference which arises from the interpretation of the "matter which is obvious from the original disclosure of the specification". Judgement of the issue as to whether a particular matter is obvious, or not, should be based on the scope of disclosure which can objectively be considered to appear in the original specification, and the state of art which can be considered to have existed at the time of filing of the application, but mainly on what those skilled in the art can be considered to have been aware of at the time of filing of the application, irrespective of the subjective intention of the applicant.

Therefore, it can be said that the state of art which can be considered to have existed at the time of filing of a particular application is a factor of prime importance to be considered in the evaluation of the invention for novelty or unobviousness, but has also an important bearing on the consideration of an amendment thereof.

(5) Any amendment involving a change of gist is dismissed. If any such amendment is entered by oversight, the application will eventually be treated as having filed at the time of submission of the amendment, when the amendment has been concluded as constituting a change of gist. The conclusion of any amendment as constituting a change of gist places the applicant at an unexpected disadvantage, insofar as nobody is supposed to make any

amendment that he knows constitutes a change of gist. It would be important to bear it in mind that the system which used to permit the filing of a new application based on a dismissed amendment was abolished. In this connection, it would be better for the applicant to rely upon the domestic priority system for refiling the application when he has found it necessary to make any amendment that is likely to result in a change of gist. The applicant is, however, required to review the application promptly after filing it, since such refiling is possible only within one year after the original application.

(6) The United States patent system has a CIP application as a measure corresponding to the domestic priority system in Japan. The CIP application makes a great difference from the Japanese application based on the domestic priority system, insofar as it can be filed at ant time during the pendency of the original application.

(7) Finally, reference is made to the paper presented at the 8th General Meeting of PIPA in 1977 and entitled "A Change of the Gist of an Invention Arising from an Amendment of the Specification" which talks about some cases of decisions on trials for correction, and the relevant court decisions. It discusses matter having a close relation to the subject of our paper.

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Japanese Associated Trademark System

Japan Group, Committee No. 1

Trademark Subcommittee

Yuji Suzuki	Mitsubishi Rayon Co., Ltd.
Shigeru Miyayama	Asahi Chemical Industry Co., Ltd.
Satoshi Sato	Teijin Ltd.
Sumiko Matsuda	Mitsubishi Kasei Corp.
Katsumi Fujitani	Ricoh Co., Ltd.
Kazumasa Yajima	Tosoh Corp.

Speaker: Yuji Suzuki Mitsubishi Rayon Co., Ltd.

Abstract

The Japanese associated trademark system is one of the characteristics of the Trademark Law of Japan and has continued to exist about 80 years. There is no such system in the United States. Applications under the system almost account for 20% of the total of trademark applications and it may be said the system is popularly used in Japan. On the other hand, it involves several problems. This paper is written to explain the Japanese associated trademark system as plain as possible, to clarify the characters of the system, to point out existing problems in relation to the system and further to try to consider possible measures to solve the problems. In addition, the paper refers to the points to be noticed in filing trademark applications in Japan from the United States.

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5) Changes in standards for similarity

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1) Points to be noticed in filing applications

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1. Preface

The Trademark Law of Japan adopts a principle of registration (Trademark Law, Section 18) which means to secure rights to use not only trademarks now in use but also trademarks with respect to which applicants have an intention to use in future, through registration in advance of such prospective trademarks. To the contrary, the U.S. Trademark Act adopts a principle of use under which trademarks in use be protected.

The Japanese associated trademark system under the said principle of registration was established under the ex-former Trademark Law (of 1909) and has continued to exist about 80 years.

This associated trademark system means a system under which one same person is able to register trademarks within a

scope similar to that of his own registered trademark under certain fixed conditions (Section 7).

This system is one of the characteristics of the Trademark Law of Japan, not found in the United States. Applications taking advantage of the system have accounted for nearly 20% of all the applications filed in these years in Japan though there was some dispersion when viewed from an annual basis.

This paper considers the particulars, characteristics and problems of the Japanese associated trademark system popularly used as stated above and also refers to the points to be noticed in filing trademark applications in Japan from the United States.

2. Japanese Associated Trademark System

1) Outline of the system

The purpose of institution of the Japanese associated trademark system and the requirements and procedures for registration of associated trademarks are as follows:

(1) Purport of the system:

The trademark owner is granted a right to use his registered trademark on an exclusive basis for designated goods (Section 25, Same Scope for Registered Trademark). Meanwhile, any other person is prohibited from using the registered trademark as well as a trademark within the scope similar to that of the registered trademark because confusion of origin of goods may possibly occur (Section 37, Item 1).

Thus, if any other person files an applcation in connection with such scope, the other person will not be permitted registration on the ground of the exclusion of duplicative rights and the prevention of confusion of origin (Section 4, Para. 1, Item 11).

On the other hand, the trademark owner can exclude other persons from using a trademark within the similar scope for the registered trademark but has no right to positively use it. The trademark owner may only use it in actuality unless it does not conflict with any other rights. Therefore there is such case that the trademark

owner wants to register with respect to a trademark within the similar scope when he has an intention to positively use it. In such case, if the trademark owner files an application for registration for the similar scope of his own registered trademark, the registration may be permitted because no confusion of origin would occur.

However, as the position of trademark rights as property rights became strong, the existing Law was enacted to permit free transfer of trademark rights (Sec. 24). Thus, if any trademark within such similar scope is isolated and transferred after being registered, it will create plural proprietors, which will then cause confusion of origin. This is against the purpose of the Law which is to prevent confusion of origin and to maintain the order of distribution of goods.

Accordingly, in order to adjust this relation, we may have two approaches. Firstly, at the time of trademark registration, it has no restrictions but at the time of transfer, no trademark right related to the registered trademark having similarity relationship can be permitted to be isolated or transferred. Secondly, from the time of an application for trademark registration, connection is set up in advance between trademarks having similarity relationship and neither isolation nor transfer can be permitted.

The Trademark Law of Japan adopts the latter approach. A pair of trademarks having such relationship are called associated trademarks and the system of registering these trademarks is called the associated trademark system.

(2) Requirements for registration of associated trademarks:

In order to obtain the registration of associated trademarks, it is necessary to satisfy the following registration requirements:

① To be within the scope similar to that of one's own registered trademark:

If the associated trademark is within the similar scope for one's own registered trademark, no confusion of origin

will occur. This system is for such occasion that the trademark owner wants to positively use the similar scope.

Similar scope to that of the registered trademark is classified into three groups as follows:

Fig. 1

Goods / Trademarks	Same	Similar
Same		B
Similar	A	C

Same scope for registered trademark (exclusive right to use)

Similar scope for registered trademark (right to prohibit)

- In case where designated goods for the associated trademark are the same as those covered by the registered trademark and the trademarks are similar (A in Fig. 1);
- In case where the associated trademark is the same as the registered trademark and designated goods are similar to those covered by the registered trademark (B in Fig. 1);
- In case where the associated trademark and designated goods are similar to the registered trademark and designated goods covered by the registered trademark, respectively (C in Fig. 1).

As to the same scope as that of the registered trademark, no registration is allowed for preventing duplication of rights.

Similar goods mean such goods as may cause confusion of origin when they are attached a same or similar trademark(s). Whether goods are similar or not is decided totally taking into consideration some standards such as the same producer of the goods. However, these standards are not sufficient and similarity of goods is judged on the basis of the standard (as revised) for examination of similar goods compiled by the Patent Office.

Similar trademarks mean such trademarks as may cause confusion of origin when they are attached to same or similar goods. Similarity is divided into three types, that is, similarity of appearance, similarity of sound and similarity of meaning. In Japan, emphasis is placed on

similarity of sound. When there exists even one similarity of the three, trademarks are deemed similar. Similarity of trademarks is judged on the basis of the standards for examination of trademarks compiled by the Patent Office.

② To satisfy general registration requirements:

As associated trademarks have the same effect as that of ordinary trademarks, it is necessary to satisfy such general registration requirements as having ability to discriminate own goods from other ones (Sec. 3), having registration requirements (Sec. 4), etc.

For example, an associated trademark similar to one's own registered trademark may not be registered if it has no ability to discriminate own goods from other ones or if it is similar to a registered trademark of any other person.

(2) Procedures:

In order to obtain associated trademark registration, it is necessary to file application for registration of an associated trademark.

In such case, the applicant's own registered trademark or trademark application under pending which has similarity relationship must be clarified in the application form.

If the registration of a solitary trademark is rejected through the examination process by reason of its having similarity relationship with one's own registered trademark (Violation of Sec. 7, Para. 1 ; Sec. 15), the application may be changed to application for registration of an associated trademark.

The application fee for registration of associated trademark is twice (¥34,000) the fee for registration of solitary trademark (¥17,000). This is presumably owing to much time and trouble required for the examination of associated trademarks.

2) Comparison with associated trademark systems in neighboring countries

Associated trademark system is in force in the U.K., Japan

and other countries having either of the legal systems of these two countries. Here, the Japanese associated trademark system and those of neighboring countries are shown in Table 1 below.

Table 1

	Japan	South Korea	Taiwan	Singapore	Australia
Scope of goods	Same or similar goods (7 ①)	Goods within same category (12)	Goods within same class (22)	Goods of same kind (26)	Goods of same kind (36)
Creation or dissolution of association	—	—	—	May be created or dissolved by registrar's recognition (26)	May be created or dissolved by registrar's recognition (36)
Isolation and transfer	Impermissible (24 ②)	Impermissible (27)	Impermissible (28)	Impermissible (29)	Impermissible (37)
Use	Recognized if other associated trademark is used (19 ② 2)	Recognized if other associated trademark is used (20)	Recognized if other associated trademark is used (31)	Recognized if other associated trademark is used (29)	Recognized if other associated trademark is used (38)
Association relationship	Equal (7 ②)	Equal (12)	Trademark, subordinate trademark (22; Enforcement Regs. 3)	Equal (26)	Equal (36)

(Note) Figures in parentheses represent Section numbers in respective trademark laws.

As known from the foregoing table, there exist differences in terms of requirements of associated trademarks, etc. among the countries. In two countries (Singapore and Australia), associated trademarks may be created or dissolved by registrar's recognition. On the other hand, it is common in all the countries as to the point that isolation and transfer of associated trademarks are prohibited and that use of any other associated trademark is deemed as use of the trademark in question.

3. Merits of the Japanese Associated Trademark System (Principally from the Side of Applicants)

As the Trademark Law aims at the protection of consumers by avoiding confusion of origin, trademarks mutually associated cannot be isolated nor transferred (Sec. 24, Para. 2).

Though the Japanese associated trademark system is restricted in this point, it has merits as follows:

1) Expansion of right to use and right to prohibit

By virtue of creation of the trademark right, the trademark owner is granted a right to use the registered associated trademark on an exclusive basis (Sec. 25). This is advantageous to the trademark owner because he can secure a right to use by registering in advance as to a scope similar to that of the registered trademark in order to meet the necessity to modify his own registered trademark according to changes in fashion, etc.

In addition, in Japan there are a variety of characters, that is, hiragana (the cursive form of kana), katakana (the square form of kana), kanji (chinese characters) and romaji (method of writing Japanese in Roman characters). In this point, this system is useful to the trademark owner to secure a right to use by registering in advance the trademarks shown in characters of different kinds but having the same sound.

Meanwhile, as to trademarks similar to the registered associated trademark, the trademark owner is entitled to prohibit other persons from using them (Sec. 37, Item 1). This serves to expand the scope of right to prohibit and to further prevent confusion of origin among the trademark owner's goods and other person's goods. It is advantageous to the trademark owner.

2) Easy maintenance of rights

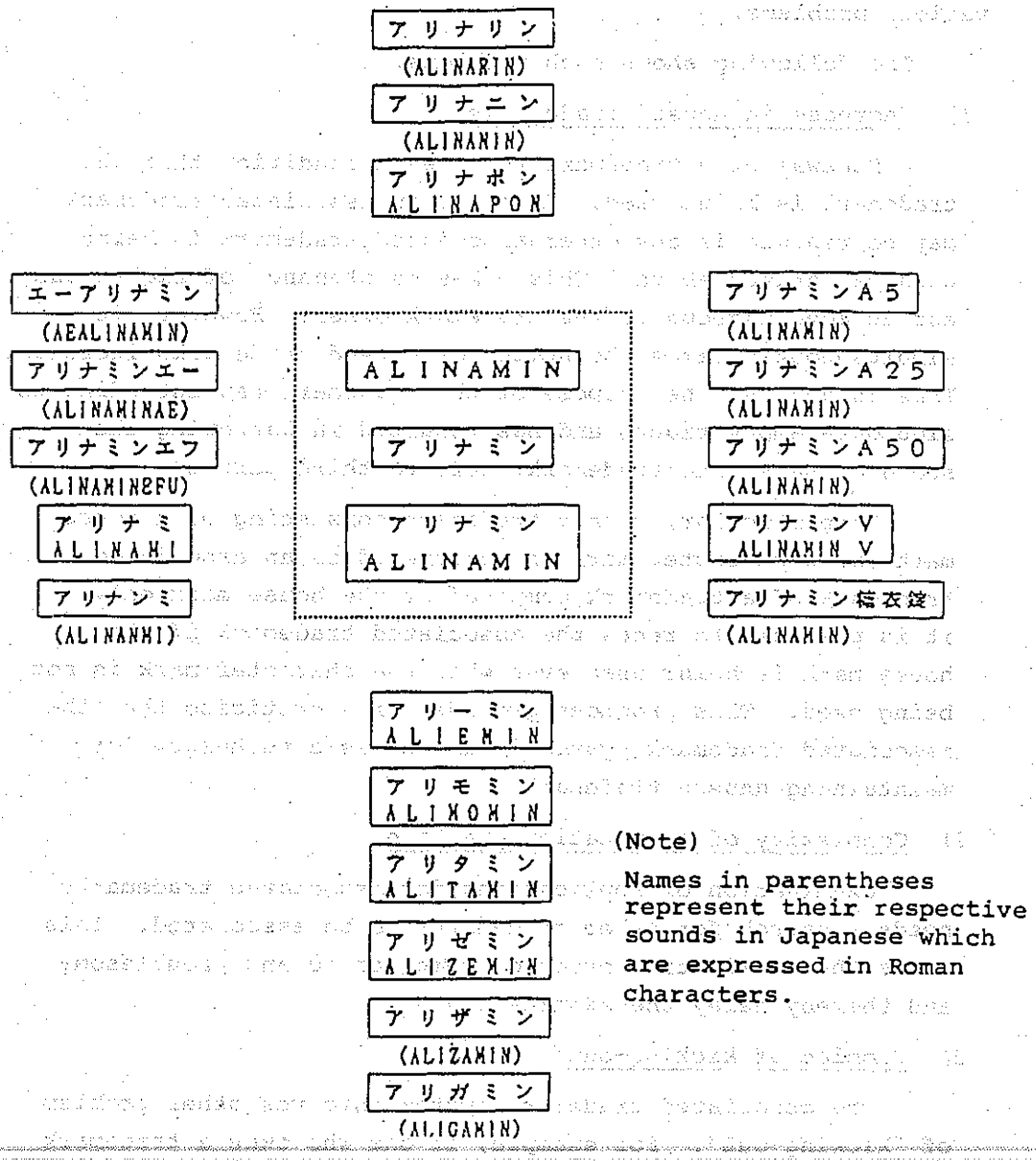
If one of the registered mutually trademarks associated is being used, any other trademark may be renewed even if it is not in use (Sec. 19, Para. 2, Proviso Item 2). Moreover, in such use, any other trademark which is not actually used will not be revocated even if the revocation is demanded on the ground of non-use (Sec. 50). This is based

on the defensive function of associated trademarks and makes it easy for the trademark owner to maintain his right.

However, there is one point to be noticed, namely, renewal of every trademark related to the associated trademark is not always permitted even when one of trademarks related to the associated trademark is being used. This is similar to trial for revocation of trademarks not in use, which is explained in detail herein below. (See 6.2)

Figure 2 shows an example of a famous trademark owned by one of the leading pharmaceutical manufacturers in Japan which uses effectively the above-mentioned merits of the associated trademark system.

Fig. 2 Classification of goods
Class 1 "Chemical products, pharmaceuticals and medical subsidiary products"



(Note)

Names in parentheses represent their respective sounds in Japanese which are expressed in Roman characters.

4. Problems in the Japanese Associated Trademark System

The Japanese associated trademark system has many merits as stated in Paragraph 3 above, but the system also involves various problems.

The following shows such problems.

1) Increase in unused trademarks

Renewal of a trademark requires a condition that the trademark is being used. However, an associated trademark may be renewed if any other associated trademark is being used, as stated above. This makes maintenance of rights easy and is advantageous to the trademark owner. However, it simultaneously makes the number of unused trademarks increase. This is against the purpose of the Trademark Law intending to liquidate empty rights and has resulted in narrowing the scope of selecting trademarks left to third parties.

In particular, when a trademark consisting of a house mark and a character mark is registered as an associated trademark of a trademark composed of the house mark only, it is possible to renew the associated trademark if the house mark is being used even when the character mark is not being used. This produces grounds for a criticism that the associated trademark system is abused as a technique for maintaining unused trademarks.

2) Complexity of examination practice

Examination of applications for associated trademarks needs a search for other trademarks to be associated. This makes the examination practice complicated and troublesome and thereby delay the examination.

3) Problem of kicking-out

The associated trademark system involves other problem of "kicking-out". For example, if one who owns a trademark "LON" files application for a new trademark "SUPERLON", such new "SUPERLON" will be registered as an associated trademark of "LON" because both are considered similar trademarks (as the word "SUPER" represents quality of goods, the distinctive part of "SUPERLON" is considered to be "LON"). However, in

this case if any other person owns a registered trademark "SUPERLON", the new "SUPERLON" will be rejected by reason of similarity with "SUPERLON". This is because such associated trademark may be registered only in the case that it will not conflict with any rights of other persons.

On the other hand, the other person who owns the registered trademark "SUPERLON" will be rejected if he files application for a new trademark "SUPERLON" by reason of its similarity with "LON".

Thus, both the parties cannot obtain registration of the trademark "SUPERLON" within the scope of similarity of their respective own registered trademarks.

5. Consideration on the Japanese Associated Trademark System

As stated above, the Japanese associated trademark system has problems as well as merits. Therefore we consider it important to make the best use of the merits and to improve the system to the possible extent on the basis of our proper recognition of the problems.

From this point of view, we consider the points to be improved with respect to the system, as follows:

1) Increase in unused trademarks

It is said the associated trademark system has caused a problem of increase in unused trademarks. But such a trademark as an enterprise files an application for associated trademarks is an important trademark to the enterprise, so it is natural that the enterprise wants to secure a right to use the trademarks similar to its own registered trademark and intends to exclude other persons from using not only the registered trademark but also similar trademarks. Thus, we consider it somewhat unavoidable that unused trademarks increase.

However, in case of renewal of a trademark containing both of a house mark and a character mark, it is highly probable that the associated trademark system would be used as a technique for maintaining unused trademarks. In addition, as there exists no connection between the house

mark and the character mark, unused trademarks could increase particularly. It will presumably result in narrowing the scope of selecting trademarks left to third parties. To solve this problem, in case of renewal of such trademark containing both the house mark and the character mark, actual use of the trademark containing both the marks should be made a requisite for renewing irrespective of existence of any other associated trademarks.

2) Associated trademark applications

There are many trademarks which have several tens to more than one hundred trademarks having association relationship with the trademarks in question. These trademarks having such association relationship are broadly classified into the following seven groups:

① Sounds are similar;
② Appearances are similar;
③ Trademarks are the same and designated goods are similar;
④ Sounds are the same but characters are different in kind;
⑤ To the characters with the same sounds other factor (device or unregisterable characters) be added;
⑥ Trademarks containing the same house mark; and
⑦ Others.

Among the foregoing, what is originally intended to be covered by the associated trademark system is considered ①, ② and ③. ④ is attributable to the special circumstance in Japan that we have four kinds of characters to express one same sound, that is, hiragana, katakana, kanji and romaji as explained above, and in addition, under the present practice, use of the different characters from the registered trademark cannot be recognized as use of the registered trademark even if the sound is the same. ⑤ and ⑥ are considered to be derived from the examination standards for associated trademark applications in Japan.

Accordingly, as for associated trademarks belonging to ④ to ⑥, the actual state of registration should be analyzed and studied. On the basis of such analysis and study, the examination standards should be reviewed. We consider this

approach may greatly rationalize the number of associated trademark applications. Concretely, for example, the scope of right to use a trademark could be expanded to the characters expressing the same sound (in hiragana, katakana, kanji and romaji). The proposed expansion would bring no disadvantage to third parties because their sounds are the same and could resolve the below-mentioned problem of kicking-out.

It is considered the review of the examination standards will improve complexity of examination and thereby weaken the problem of delay of examination.

3) The problem of kicking-out

The problem of kicking-out has different aspects depending on the standpoints of two sides of people who are involved in the problem, i.e. the side of applicants for associated trademarks and the side of trademark owners who kick out such applications. In other words owners would consider it favorable that associated trademark applications be rejected, on the other hand, applicants consider such rejection unfavorable. However, to begin with, the Trademark Law excludes other persons from using and registering trademarks falling within the scope of the owner's (Sec. 25; Sec. 37, Item 1), and thus the problem of kicking-out is considered unavoidable.

However, it is considered that registration of any associated trademark of which the sound and the meaning are the same with those of his own registered trademark but is expressed in characters of different kinds should be allowed, even if the problem of kicking-out may occur. Since such case would not infringe upon other person's rights, rejection of registration will be too severe to the trademark owner.

4) Disputes about continuation of the Japanese associated trademark system

There is an opinion that the associated trademark system should be discontinued on the grounds that ① the system protects trademark rights more excessively than necessary and deprives other persons of freedom of selecting trademarks and

that ② it uselessly makes examination and registration practice troublesome and complicated, as stated above.

However, the associated trademark system is popularly used and the discontinuance would probably give rise to disorder in the industrial world. Thus, we consider it should not be discontinued.

It is, in our opinion, necessary to revise the Law and review the examination standards from the aforesaid point of view to solve the problems.

5) Changes in standards for similarity

Standards for examination of similarity of trademarks and goods are not fixed ones, but vary with the times. Then, associated trademarks judged similar to a certain trademark several years ago may thereafter be judged not similar.

However, under the Japanese Trademark Law, once a trademark is registered as an associated trademark, the association relationship is not dissolved even when the trademark is thereafter judged not similar according to the change of standards, and thus, though the association relationship becomes inconsistent, as time goes by the trademark rights in associated trademarks is continuously prohibited to be transferred separately. To cope with this situation, changes should be made in the old association relationships according to the new standards for similarity.

Incidentally, in Singapore and Australia, association relationship may be created or dissolved by registrars as explained above.

6. Points to be noticed in Filing Trademark Applications In Japan from the United States

The foregoing has explained the Japanese associated trademark system. Now, the paper shows a few points to be noticed in practically filing applications for associated trademarks in Japan from the United States.

1) Points to be noticed in filing application

In Japan, there are four kinds of characters as mentioned above. In filing a trademark application for

registration in Japan from the United States, it is necessary to confirm as to which kind of characters the applicant will possibly use in Japan.

It is recommendable to file an associated trademark of Japanese transliteration of a foreign-language word. Because the trademark owner will not be entitled to use exclusively the trademark consisting of other characters than those for the registered trademark even their sounds are the same, under the present system. The applicant must separately file another application for an associated trademark consisting of said characters to be used actually.

2) Points to be noticed in renewal or trial for cancellation

As stated above, easiness of maintaining associated trademark rights is counted as one of the merits of the Japanese associated trademark system. However, effective use of the merit is limited to renewal of a registered trademark only in the case that the associated trademarks with respect to the registered trademark to be renewed are used on the same designated goods as those of the registered trademark. For example, in case of renewal of a registered trademark "ABCD" (designated goods : TV) which is not used actually but the owner wants to renew, when there exists another registered trademark "ABCT" (designated goods : radio and TV) which is associated with "ABCD", "ABCD" may be renewed only when use of "ABCT" for TV in designated goods can be proved. In other words, "ABCD" may not be renewed by the proof that "ABCT" is used only for radio.

Thus, if the applicant wants registration of the renewal by means of proving the use of the associated trademark, it is necessary to confirm whethere the goods for which the associated trademark is actually used are included in the designated goods of the registered trademark to be renewed.

This is similar in case of proving use of registered trademarks by the actual use of associated trademarks thereof when a trial for cancellation due to non-use of the registered trademark is requested.

7. Conclusion

As stated herein above, since the Japanese associated trademark system has various merits, it is possible to develop trademark strategy effectively by making the best use of the system. On the other hand, as the system has some problems, it is necessary to properly use the system upon recognition of the problems.

COMMITTEE NO.2

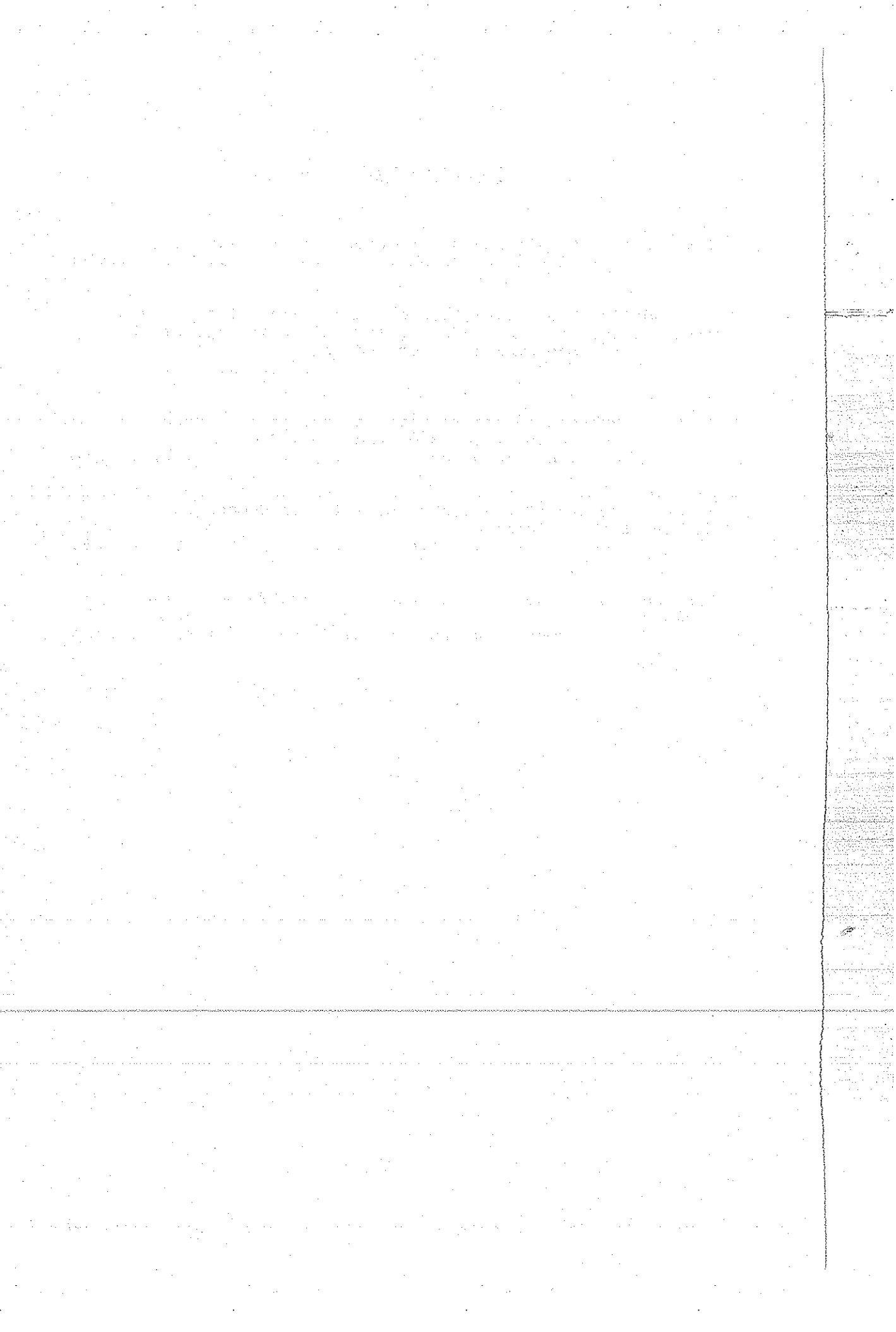
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U.S. ANTITRUST GUIDELINES FOR INTERNATIONAL LICENSING

PIPA Conference, Tucson, Arizona

October 4-6, 1989

Richard E. Brink

The U.S. antitrust laws are the legal embodiment of our nation's commitment to a free market economy. We believe that the competitive process ensures the most efficient allocation of our resources and maximizes consumer welfare. The U.S. Department of Justice ("the Department"), which is responsible for enforcing these laws, focuses its resources on protecting U.S. consumers from anticompetitive conduct. To do so, it is sometimes necessary to reach foreign defendants and conduct that arguably occurs outside the territorial limits of the United States. Considerations of international comity may, of course, require the Department to consider the interests of other nations that may also have jurisdiction over international conduct in determining whether to challenge that conduct.

This paper will present several hypothetical situations that might arise from international licensing programs and discuss how the Department would probably view them. In doing so, heavy reliance has been placed on the November 10, 1988 guidelines published by the U.S. Department of Justice, a copy of which appears in the November 17, 1988 Special Supplement of the Antitrust & Trade Regulation Report (Vol. 55, No. 1391), available

FROM THE BUREAU OF NATIONAL AFFAIRS, INC., WASHINGTON, D.C. 20037. PLEASE REALIZE THAT THE SITUATIONS DISCUSSED ARE ONLY HYPOTHETICAL, AND THAT SPECIFIC SITUATIONS MAY REQUIRE BOTH LEGAL ADVICE AND SOUND BUSINESS JUDGMENT.

BECAUSE THE DEPARTMENT TENDS TO REGARD ITS ANALYSIS OF JOINT VENTURE AGREEMENTS AS THE MODEL FOR ANALYZING ALL INTELLECTUAL PROPERTY AGREEMENTS, THE FIRST CASE CONSIDERED WILL BE A JOINT VENTURE.

1. R&D JOINT VENTURE. THREE OF THE LARGEST PRODUCERS OF X-METAL IN THE UNITED STATES, WHICH COLLECTIVELY SUPPLY 50% OF DOMESTIC CONSUMPTION OF X-METAL, HAVE ENTERED INTO AN AGREEMENT WITH BETA CORPORATION, A BRITISH COMPANY THAT IS ONE OF THE LARGEST PRODUCERS OF X-METAL IN THE EEC. NONE OF THE PARTIES SELLS ANY PRODUCT OTHER THAN X-METAL. BETA CURRENTLY SUPPLIES 10% OF THE X-METAL CONSUMED IN THE UNITED STATES. X-ORE IS CURRENTLY THE ONLY SOURCE OF X-METAL. THE PARTIES PLAN TO ENGAGE IN JOINT R&D TO PRODUCE X-METAL FROM CERTAIN SHALES LOCATED THROUGHOUT THE WORLD. EACH OF THE PARTIES, AS WELL AS SEVERAL OTHER X-METAL PRODUCERS, IS INDEPENDENTLY ENGAGED IN LABORATORY RESEARCH ACTIVITIES.

THE PARTIES WILL FORM A BRITISH COMPANY TO CONDUCT THE R&D, EACH PARTY OWNING 1/4 OF THE SHARES. ALL OF EACH PARTY'S R&D ACTIVITIES DEVOTED TO PRODUCING X-METAL FROM SHALE WILL BE CARRIED OUT BY THE NEW COMPANY. EACH PARTY WILL PROVIDE PAST AND PROJECTED COSTS OF PRODUCING X-METAL FROM X-ORE.

THE NEW BRITISH COMPANY WILL SEEK TO OBTAIN PATENTS ON ANY NEW PROCESS IT DEVELOPS. IT WILL GRANT TO THE U.S. JOINT VENTURE PARTNERS, BUT TO NO ONE ELSE, LICENSES TO ALL PATENT RIGHTS AND KNOW-HOW IN NORTH AMERICA. BETA WILL BE GIVEN SIMILAR RIGHTS IN THE U.K., OTHER EEC COUNTRIES, AND ALL BRITISH COMMONWEALTH COUNTRIES EXCEPT CANADA. BETA ALSO AGREES NOT TO SELL X-METAL PRODUCED BY THIS TECHNOLOGY IN NORTH AMERICA.

IN ANALYZING THE POSSIBLE ANTITRUST CONSEQUENCES OF THIS AGREEMENT, THE DEPARTMENT WOULD UTILIZE A 4-STEP PROCESS, VIZ.,

A. DOES THE JOINT VENTURE OR ANY OF ITS RESTRAINTS RESTRICT THE INDEPENDENT DECISION MAKING OF THE PARTIES WITH RESPECT TO PRICE OR OUTPUT?

B. IS THERE LIKELY TO BE AN ANTICOMPETITIVE EFFECT IN OTHER MARKETS IN WHICH THE JOINT VENTURERS ARE ACTUAL OR POTENTIAL COMPETITORS?

C. ARE THERE VERTICAL NONPRICE RESTRAINTS THAT WOULD LIKELY HAVE ANY ANTICOMPETITIVE EFFECTS?

D. IF THE JOINT VENTURE WOULD PROBABLY HAVE SIGNIFICANT ANTICOMPETITIVE EFFECTS, ARE THESE EFFECTS, WHEN CONSIDERED CUMULATIVELY, OUTWEIGHED BY PROCOMPETITIVE EFFICIENCY BENEFITS?

IN APPLYING THIS SCHEME OF ANALYSIS TO THE SPECIFIC FACT SITUATION, THE DEPARTMENT WOULD FIRST DEFINE THE RELEVANT R&D MARKET AND IDENTIFY THE FIRMS THAT COMPETE IN THAT MARKET. IT IS SIGNIFICANT THAT SUCH FIRMS WOULD NOT HAVE TO BE COMPETITORS IN PRODUCING OR SELLING X-METAL, NOR WOULD THEY NECESSARILY BE ABLE TO SELL THEIR PRODUCTS IN THE UNITED STATES. AS A RULE OF THUMB, THE DEPARTMENT BELIEVES AN ANTICOMPETITIVE EFFECT IN AN R&D MARKET IS UNLIKELY WHERE THERE ARE AT LEAST FOUR OTHER COMPARABLE R&D EFFORTS UNDERWAY OR WHERE THERE IS A SUBSTANTIAL POTENTIAL FOR SUCH EFFORTS. IN APPROPRIATE CIRCUMSTANCES, HOWEVER, A JOINT VENTURE THAT INCLUDED ALL OF THE COMPETITORS IN AN R&D MARKET MIGHT BE NECESSARY.

NEXT THE DEPARTMENT WOULD ANALYZE OTHER MARKETS IN WHICH COMPETITION AMONG THE JOINT VENTURE MEMBERS MIGHT BE RESTRICTED. IN THIS CASE, BETA'S AGREEMENT NOT TO SELL IN THE U.S. X-METAL PRODUCED FROM SHALE AND THE PARTIES' AGREEMENT TO PROVIDE COST DATA WOULD BE CONSIDERED. THE AGREEMENT WOULD BE SCRUTINIZED TO SEE IF IT WERE MERELY A DISGUISE OF A NAKED AGREEMENT TO RESTRICT COMPETITION IN THE SALE OF X-METAL. ASSUMING THAT THE DEPARTMENT WAS SATISFIED THAT THE AGREEMENT WAS NOT A MERE SHAM, IT WOULD SEEK TO DETERMINE THE LIKELY COMPETITIVE EFFECTS OF THE LICENSE RESTRICTIONS IN THE RELEVANT X-METAL MARKET, FOCUSING ON THE ELIMINATION OF THE COMPETITION THAT WOULD HAVE OCCURRED IN THAT MARKET WITHOUT THE JOINT VENTURE AND LICENSING ARRANGEMENT. THE

EFFECT OF BETA'S EXITING THE MARKET WOULD BE CONSIDERED. THE AGREEMENT WOULD BE REVIEWED TO SEE THAT THERE WAS ADEQUATE MEANS TO PREVENT EACH OF THE PARTNERS FROM BECOMING PRIVY TO THE OTHERS' COST DATA, WHICH MIGHT POSE A SIGNIFICANT RISK OF ANTICOMPETITIVE SPILLOVER.

IF, AFTER APPLYING THE FIRST THREE STEPS OF THIS ANALYSIS, IT APPEARED THAT NO ANTICOMPETITIVE EFFECTS WERE LIKELY, THE JOINT VENTURE WOULD NOT BE CHALLENGED. IF, ON THE OTHER HAND, THE POSSIBILITY OF ANTICOMPETITIVE EFFECTS WERE DETECTED, THE DEPARTMENT WOULD STILL NOT AUTOMATICALLY CONDEMN THE JOINT VENTURE IF SUCH ANITCOMPETITIVE EFFECTS WERE OUTWEIGHED BY PROCOMPETITIVE EFFECTS. EXEMPLARY PROCOMPETITVE EFFECTS INCLUDE THE DEVELOPMENT OF NEW TECHNOLOGIES, PRODUCTS AND PROCESSES THAT WOULD OTHERWISE NOT BE AVAILABLE AND THAT COULD SUBSTANTIALLY IMPROVE THE EFFICIENCY OF FIRMS SERVING U.S. CONSUMERS. THE GREATER THE COST OF R&D RELATIVE TO A SINGLE FIRM'S BUDGETARY LIMITS, THE GREATER THE LIKELIHOOD OF SUCH PROCOMPETITIVE BENEFITS.

RESTRICTING THE VENTURERS' ABILITY TO ENGAGE IN COMPETING R&D MAY BE REASONABLY NECESSARY TO AVOID THE THREAT THAT A VENTURE MEMBER WOULD "FREE RIDE" ON THE VENTURERS' EFFORTS. THE LICENSE RESTRICTIONS COULD ALSO INCREASE EFFICIENCY BY MAXIMIZING THE INCENTIVE TO INVEST IN THE JOINT R&D IN THE FIRST PLACE.

2. Vertical Restraints* in a Patent License. AutoGlass Corporation is a leading manufacturer of windshield and other automobile glass, which it sells throughout the world. It has invented a new scratch-resistant transparent coating (AGPLEX) for such glass and patented it throughout the world. AutoGlass has granted Amer-Eye (one of several U.S. safety eyeglass manufacturers) an exclusive field-of-use license under its U.S. patent. The license forbids Amer-Eye from making and selling safety eyeglasses coated with any other material. Amer-Eye may continue to make and sell uncoated eyeglasses anywhere in the world, paying royalty based on its total unit sales of safety eyeglasses, coated and uncoated. AutoGlass grants British Optics an exclusive license to make and sell AGPLEX-coated safety glasses throughout the EEC, royalty provisions being parallel to those in the Amer-Eye license. British Optics, which supplies 5% of the U.S. safety eyeglasses, was denied a license under the U.S. patent.

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*Expressed simply, vertical restraints arise in agreements between a manufacturer and a wholesaler or retailer, e.g., where the latter agrees to sell only in certain geographical areas or only to specific customers. In contrast, horizontal restraints arise when direct competitors agree to divide a market along geographical lines.

In considering this fact situation, the Department would first conclude that the licenses conveyed property of significant value and were not mere shams. The Department would next quickly determine that the licenses did not restrict horizontal competition between AutoGlass and its licensees. Since neither Amer-Eye nor British Optics is uniquely able to develop competitive coating technology, the licenses would not act to discourage them from doing so; other persons would, of course, be free to do so.

With respect to other markets, AutoGlass does not compete with either Amer-Eye or British Optics. The loss of potential competition from AutoGlass in the safety eyeglass market would be considered unimportant, there being no indication that AutoGlass would enter this market in the absence of the licenses.

No vertical restraint problems are seen. There being no substitute for AGPLEX, vertical license restrictions would not facilitate collusion among competing technologies. The grant of the exclusive license to Amer-Eye would neither enable AutoGlass to help police a cartel among Amer-Eye and other safety eyeglass manufacturers nor make it easier for them to reach agrement.

The licenses do not exclude new technologies that would compete with AGPLEX from entering the market, nor do they have any effect on the ability of manufacturers of non-coated eyeglasses to compete.

THE REQUIREMENT THAT THE LICENSEES NOT USE COMPETING TECHNOLOGIES TO COAT SAFETY EYEGLASSES SHOULD GIVE THEM A STRONG INCENTIVE TO DEVELOP THE AUTOGLASS TECHNOLOGY AND MARKET IT AGGRESSIVELY.

THE DEPARTMENT IS USUALLY NOT CONCERNED WITH ROYALTIES OR THE BASIS ON WHICH THEY ARE MEASURED, REASONING THAT LICENSEES WILL PAY FOR LICENSED TECHNOLOGY NO MORE THAN THEY THINK IT IS WORTH. ROYALTY BASED ON BOTH COATED AND UNCOATED EYEGLASSES MAY BE SIMPLER FOR THE LICENSEES TO CALCULATE.

3. EXCLUSIVE PATENT CROSS LICENSES WITH GRANTBACKS. SIGMA CORPORATION, A U.S. FIRM, IS THE SECOND LARGEST SELLER OF PRODUCT X IN THE UNITED STATES. ZETA CORPORATION, A JAPANESE FIRM, IS THE LARGEST SELLER OF X IN JAPAN. SIGMA AND ZETA EACH POSSESS BOTH U.S. AND JAPANESE PROCESS PATENTS COVERING CERTAIN TECHNOLOGIES THEY USE IN MANUFACTURING X. ZETA DOES NOT SELL SIGNIFICANT AMOUNTS OF X IN THE U.S., AND SIGMA DOES NOT CURRENTLY SELL SIGNIFICANT AMOUNTS OF X IN JAPAN. NEITHER COMPANY PRODUCES ANY PRODUCT OTHER THAN X.

SIGMA AGREES TO GRANT TO ZETA THE EXCLUSIVE RIGHT TO PRACTICE SIGMA'S JAPANESE PATENTS, AND ZETA AGREES TO GRANT TO SIGMA THE EXCLUSIVE RIGHT TO PRACTICE ZETA'S U.S. PATENTS. IF ZETA MAKES PATENTED IMPROVEMENTS ON SIGMA'S TECHNOLOGY, IT AGREES TO ASSIGN THE U.S. RIGHTS TO SIGMA; SIMILARLY, IF SIGMA MAKES PATENTED IMPROVEMENTS ON ZETA'S TECHNOLOGY, IT AGREES TO ASSIGN THE JAPANESE RIGHTS TO ZETA. IT IS FURTHER AGREED THAT IF EITHER

MAKES AN IMPROVEMENT ON ITS OWN TECHNOLOGY, IT WILL GRANT AN EXCLUSIVE LICENSE TO THE OTHER PARTY TO PRACTICE THE IMPROVEMENTS IN THAT PARTY'S HOME COUNTRY. FINALLY, THE PARTIES AGREE NOT TO SELL X MADE WITH LICENSED TECHNOLOGY IN THE OTHER'S HOME COUNTRY.

GENERALLY SPEAKING, CROSS LICENSES ARE CONSIDERED PRO- RATHER THAN ANTI-COMPETITIVE. ASSUMING THE PRESENT AGREEMENT IS NOT A SHAM, THE DEPARTMENT WOULD FOLLOW THE LINE OF REASONING USED IN THE PRECEDING CASES.

FIRST, THE DEPARTMENT WOULD DEFINE THE RELEVANT MARKET IN WHICH THE TECHNOLOGIES OF SIGMA AND ZETA COMPETE AND IDENTIFY ALL OTHER TECHNOLOGIES THAT ARE FUNCTIONAL SUBSTITUTES FOR PRODUCING X OR REASONABLE SUBSTITUTES FOR X. MARKET SHARES WOULD THEN BE ASSIGNED TO THESE TECHNOLOGIES. AN ACQUISITION BY SIGMA OF ZETA'S TECHNOLOGY MIGHT BE ANTICOMPETITIVE IF THERE WERE ONLY A VERY FEW CLOSE SUBSTITUTES FOR THAT TECHNOLOGY. IF SO, THE LICENSING SCHEME WOULD BE REVIEWED AS TO WHETHER IT WOULD CREATE, ENHANCE, OR FACILITATE THE EXERCISE OF MARKET POWER. THE POSSIBILITY OF COMPETING TECHNOLOGIES' ARISING WITHIN THE NEXT TWO YEARS WOULD BE CONSIDERED.

NEXT THE DEPARTMENT WOULD CONSIDER WHETHER ELIMINATING ACTUAL OR POTENTIAL COMPETITION BY ZETA IN THE SALE OF X IN THE U.S. WOULD GIVE SIGMA (ALONE OR IN CONJUNCTION WITH OTHER SELLERS OF X IN THE U.S.) THE ABILITY TO REDUCE OUTPUT AND RAISE THE PRICE OF X TO U.S. CONSUMERS. SINCE SIGMA IS THE <u>SECOND</u> LARGEST U.S. MANUFACTURER, THIS SEEMS UNLIKELY.

THE EXISTENCE OF VERTICAL RESTRAINTS (THE FACILITATING OF COLLUSION OR THE EXCLUSION OF COMPETITORS) WOULD HAVE BEEN DETECTED IN ONE OF THE PRECEDING STEPS.

THE GRANTBACK FEATURES HERE APPEAR TO BE PROCOMPETITIVE, ENABLING THE PATENTEE TO AVOID HAVING ITS TECHNOLOGY OBSOLETED AND BEING BARRED FROM USING THE NEW TECHNOLOGY. THE SAME IS TRUE OF THE AGREEMENT BY THE LICENSOR TO CONVEY THE RIGHTS TO FUTURE IMPROVEMENTS.

4. KNOW-HOW TECHNOLOGY TRANSFER AGREEMENT WITH SPECIFIC TERRITORIES. GAMMA CORPORATION IS A SMALL MASSACHUSETTS CORPORATION POSSESSING VALUABLE UNPATENTED KNOW-HOW THAT IT USES TO PRODUCE PRODUCT X. GAMMA PROPOSES TO ENTER INTO A 20-YEAR TECHNOLOGY TRANSFER AGREEMENT WITH DELTA CORPORATION, A WELL-FINANCED MULTINATIONAL GERMAN FIRM, UNDER WHICH GAMMA WILL CONVEY ITS KNOW-HOW TO DELTA. DELTA DOES NOT CURRENTLY PRODUCE X, BUT IT DOES PRODUCE CLOSELY RELATED PRODUCTS AND WOULD LIKE TO SELL X IN THE EEC. DELTA WILL AGREE NOT TO SELL X IN THE U.S., NO MATTER WHAT THE TECHNOLOGY USED TO PRODUCE IT, DURING THE TERM OF THE AGREEMENT.

GAMMA IS NEGOTIATING A SIMILAR AGREEMENT WITH EPSILON CORPORATION, A LARGE JAPANESE CONGLOMERATE THAT CURRENTLY PRODUCES X BUT WHOSE TECHNOLOGY HAS ENABLED IT TO OBTAIN ONLY A SMALL SHARE OF THE JAPANESE MARKET. EPSILON, WHICH BELIEVES THAT GAMMA'S TECHNOLOGY WILL INCREASE ITS EFFICIENCY AND IMPROVE THE QUALITY OF X IT PRODUCES, INSISTS THAT DELTA BE BARRED FROM SELLING X IN

JAPAN, AUSTRALIA, AND EAST ASIA, NO MATTER WHAT THE TECHNOLOGY USED TO PRODUCE IT.

HERE THE DEPARTMENT WOULD FIRST HAVE TO ESTABLISH THAT THE KNOW-HOW IS OF NONTRIVIAL ECONOMIC VALUE; OTHERWISE THE AGREEMENT MIGHT BE MERELY A SHAM INTENDED TO RESTRICT OUTPUT AND RAISE THE PRICE OF X. SINCE EPSILON BELIEVES THE TECHNOLOGY WILL IMPROVE ITS EFFICIENCY, THE NONTRIVIALITY IS APPARENT.

THE EXCLUSION OF EPSILON FROM THE U.S. MARKETPLACE WOULD PROBABLY BE CONSIDERED ANTICOMPETITIVE IF THERE WERE NO MORE THAN ONE OTHER SUPPLIER OF X; IT WOULD PROBABLY NOT BE SO CONSIDERED IF THERE WERE NUMEROUS SUPPLIERS. SINCE EPSILON'S OWN TECHNOLOGY APPEARS TO BE DISTINCTLY INFERIOR, THE EXCLUSION WOULD PRESUMABLY NOT BE ANTICOMPETITIVE. THE TERRITORIAL RESTRICTION ON COMPETITION BETWEEN DELTA AND EPSILON WOULD NOT APPEAR TO HAVE ANY DIRECT, SUBSTANTIAL, OR REASONABLY FORESEEABLE EFFECT ON U.S. COMMERCE AND WOULD THEREFORE NOT BE ANY CONCERN OF THE U.S. ANTITRUST LAWS.

A CONSIDERATION OF VERTICAL RESTRAINTS WOULD APPARENTLY SHOW THAT ANY THREAT OF COLLUSION WOULD HAVE BEEN DETECTED IN PREVIOUS STEPS OF ANALYSIS. PROHIBITING DELTA AND EPSILON FROM SELLING X IN THE U.S. WOULD NOT SEEM TO RESULT IN THE ANTICOMPETITIVE EXCLUSION OF COMPETITORS, OTHER EXISTING CAPACITY APPARENTLY BEING AVAILABLE.

AS BEFORE, OFFSETTING EFFICIENCY WOULD BE CONSIDERED ONLY IF THE PRECEDING STEPS HAD SHOWN AN ANTICOMPETITIVE EFFECT. HERE, RESTRICTING U.S. SALES OF X BY EPSILON WOULD ENCOURAGE GAMMA TO TRANSFER ITS TECHNOLOGY, WHICH IT WAS UNDER NO OBLIGATION TO DO.

5. ANTICOMPETITVE USE OF SECTION 337. KAPPA CORPORATION, A MAJOR U.S. CHEMICAL COMPANY IS THE SOLE U.S. PRODUCER OF PRODUCT X, AN ARTIFICIAL FIBER POSSESSING UNIQUE AND VALUABLE PROPERTIES. KAPPA OWNS A U.S. PROCESS PATENT COVERING ITS TECHNOLOGY FOR PRODUCING X. LAMBDA, A SMALL ITALIAN SPECIALTY CHEMICAL PRODUCER, HAS DEVELOPED A NEW, LESS EXPENSIVE PROCESS OF MAKING X. LAMBDA'S NEW PROCESS WILL PERMIT IT TO SELL X PROFITABLY IN THE U.S., AT A PRICE LOWER THAN KAPPA CAN PROFITABLY OFFER.

WORRIED THAT LAMBDA'S IMPORTS WILL SIGNIFICANTLY THREATEN KAPPA'S U.S. SALES OF X, KAPPA FILES AN ACTION UNDER SECTION 337* OF THE 1930 TARIFF ACT TO PROHIBIT THE IMPORTATION OF LAMBDA'S X INTO THE U.S., ALLEGING THAT LAMBDA'S PROCESS IS COVERED BY KAPPA'S U.S. PROCESS PATENT. KAPPA'S TECHNICAL STAFF HAS ADVISED MANAGEMENT THAT LAMBDA'S PROCESS IS CONSIDERABLY

*19 U.S.C.A. §1337; SEE APPENDIX

DIFFERENT FROM, AND OUTSIDE THE SCOPE OF KAPPA'S PATENT. MANAGEMENT NEVERTHELESS FILES THE ACTION, HOPING THAT IT WILL THEREBY DETER LAMBDA, AND PERHAPS ULTIMATELY OTHERS, FROM ATTEMPTING TO COMPETE.

IF KAPPA HAD A REASONABLE BASIS FOR BELIEVING ITS PROCESS PATENT COVERED LAMBDA'S PROCESS, FILING THE SECTION 337 ACTION WOULD NOT BE ANTICOMPETITIVE. IN CASES SIMILAR TO THIS, HOWEVER, THE ACTION HAS BEEN HELD TO BE "A MERE SHAM TO COVER WHAT IS ACTUALLY NOTHING MORE THAN AN ATTEMOPT TO INTERFERE WITH THE BUSINESS RELATIONS OF A COMPETITOR," AND MIGHT BE HELD TO VIOLATE SECTION 2 OF THE SHERMAN ACT.

SUMMARIZING, THE U.S. DEPARTMENT OF JUSTICE IS CHARGED WITH ENFORCING THE U.S. ANTITRUST LAWS. ALTHOUGH IT IS SOMETIMES NECESSARY TO REACH FOREIGN DEFENDANTS, THE DEPARTMENT IS NOT CONCERNED WITH ANTICOMPETITIVE ACTIONS THAT DO NOT IMPACT U.S. CONSUMERS. IN CONSIDERING WHETHER A GIVEN SITUATION VIOLATES THE U.S. ANTITRUST LAWS, THE DEPARTMENT FOLLOWS AN ORDERLY METHOD OF ANALYSIS.

I.

Appendix --Relevant Antitrust Laws

The Sherman Act (15 U.S.C.A. §§1-7) is the cornerstone of U.S. antitrust law. Section 1 prohibits contracts, combinations, and conspiracies "in restraint of trade or commerce among the several States, or with foreign nations." Section 2 prohibits monopolization, attempts to monopolize, and conspiracies to monopolize. "Unreasonable" violations may be prosecuted as civil or criminal offenses, depending on the nature of the violation.

The Clayton Act (15 U.S.C.A. §§12-27) expands on the Sherman Act. Section 7 prohibits a merger or acquisition of stock or assets "where in any line of commerce or in any activity affecting commerce in any section of the country, the effect of such acquisition may be substantially to lessen competition, or to tend to create a monopoly." Section 3 prohibits leasing or selling products for use, consumption, or resale within the United States, or from in any way fixing the price of such products, on a condition, agreement, or understanding that the lessee or purchaser will not use or deal in the products of any competitor of the lessor or seller if the effect may be "to substantially lessen competition or to tend to create a monopoly."

II.

THE HART-SCOTT-RODINO ANTITRUST IMPROVEMENTS ACT OF 1976 (15 U.S.C.A. §§12, 15c-15g, 16, 18a, 26, 66, 1311-1314; 18 U.S.C.A. §1505; 28 U.S.C.A. §1407) PROVIDES THE DEPARTMENT AND THE FEDERAL TRADES COMMISSION (FTC) WITH SEVERAL PROCEDURAL DEVICES TO FACILITATE ENFORCEMENT OF THE ANTITRUST LAWS WITH RESPECT TO ANTICOMPETITVE MERGERS AND ACQUISITIONS. NOTIFICATION OF THE DEPARTMENT AND THE FTC, AS WELL AS PRESCRIBED WAITING PERIODS ARE PROVIDED FOR.

THE NATIONAL COOPERATIVE RESEARCH ACT OF 1984 (NCRA), (15 U.S.C.A. §4301 ET SEQ) CLARIFIES APPLICATION OF THE U.S. ANTITRUST LAWS TO JOINT RESEARCH AND DEVELOPMENT (R&D) ACTIVITIES.

THE WEBB-POMERENE ACT (15 U.S.C.A. §§61-65) PROVIDES A LIMITED ANTITRUST EXEMPTION FOR THE FORMATION AND OPERATION OF ASOCIATIONS OF OTHERWISE COMPETING BUSINESSES TO ENGAGE IN COLLECTIVE EXPORT SALES.

THE EXPORT TRADING COMPANY ACT OF 1982 (THE "ETC" ACT), (15 U.S.C.A. §§4001-4003) IS DESIGNED TO INCREASE U.S. EXPORTS OF GOODS AND SERVICES BY ENCOURAGING MORE EFFICIENT PROVISION OF EXPORT TRADE SERVICES TO U.S. PRODUCERS AND SUPPLIERS, BY REDUCING RESTRICTIONS ON TRADE FINANCING, AND BY CLARIFYING THE APPLICATION OF THE ANTITRUST LAWS TO U.S. EXPORT TRADE.

III.

THE 1930 TARIFF ACT (19 U.S.C.A. §1337) PROVIDES, AMONG OTHER THINGS, THAT IT IS UNFAIR COMPETITION TO IMPORT INTO THE UNITED STATES ITEMS COVERED BY A VALID U.S. PATENT OR MADE BY A PROCESS COVERED BY SUCH A PATENT. A GREATLY COMPRESSED TIME FRAME IS PROVIDED FOR PROSECUTION OF AN ACTION FOR SUCH UNFAIR COMPETITON.

On Guidlines for Regulation of Unfair Trade Practices with respect to Patent and Know-how Licensing Agreements (#1)

Japanese Group, Committee No. 2

Subcommittee A

Masaharu FUKUMA : Nippon Telegraph and Telephone Corp.
Nobuo SUGIURA : Toyota Motor Co., Ltd.
Yasuyuki KISHI : Nissan Motor Co., Ltd.
Minoru TAHARA : Fuji Heavy Industries, Ltd.
Keiso KONO : Fujitsu, Ltd.
Seikoh NAGANUMA : Mitsui Petrochemical Industries, Ltd.

Abstract

Japan's Fair Trade Commission reviewed its "Guidelines for International Technology Introduction Agreements "(published on May 24, 1968 and hereinafter referred to as "1968 guidelines") for the first time in twenty years in view of the rapid technology innovation and increasing importance of technology in economy. The Commission established "Guidelines for Regulation of Unfair Trade Practices with respect to Patent and Know-how Licensing Agreements (published on February 15, 1989 and hereinafter referred to as "1989 Guidelines"). We report here on the process of formulation and outline the 1989 Guidelines. We wish to acknowledge assistance by Subcommittee No. 1 of License Committee of the Japan Patent Association for making available to us the reference materials, and allowing us to use the annexed table.

1. Process of Establishing 1989 Guidelines

(1) Establishing study group on technology transfer, etc.

Fair Trade Commission established a study group on

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* Tokkyo Kanri, p. 465, No. 4, Vol. 39: "Re Guidelines for Regulation of Unfair Trade Practices with respect to Patent and Know-how Licensing Agreements".

technology transfers, etc** within its Executive Bureau in October, 1986, which has studied the problems involving technolgy transfer under the Anti-Monopoly Act and the policies for fair competition by holding twenty three study meetings.

(2) Publication of "Technology Transfer and Anti-monopoly Act"

In July, 1988, the Study Group published an interim report entitled "Technology Transfer and Anti-monopoly Act" (hereinafter "Interim Report") based on the result of their studies of unfair trade practices, unfair trade restrictions and private monopoly in order to specifically establish the consistent handling of technology transfers in Japan and abroad under patent, know-how and software license agreements by considering procedures at various foreign and international organs.

(3) Guideline proposal

The Executive Bureau of the Fair Trade Commission presented their draft for "1989 Guidelines" to related organizations on September 29, 1988 which was prepared

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**Study Group on Technology Transfer, etc.

Chairman: Akira NEGISHI : Professor, Faculty of Law University of Kobe

Members : Kensuke NORICHIKA: General Manager in Charge of Patents, Toshiba Corporation (President of PIPA Japan Group)

Toshifumi HIENUKI: Professor, Faculty of Law, Kanazawa University

Akira MIFUNE : General Manager and Director of Teijin Corporation, (PIPA Counsel)

Nobuo MONYA : Professor, Faculty of Law, Seikei University

Takashi YOKOKURA : Professor, Faculty of Economics, Musashi University

along the thinking contained in the Interim Report and the Commission asked for opinions of those concerned.

2. Outline of 1989 Guidelines

2-1 Characteristics

(1) Definition of unfair trade practices under know-how license agreements

While the 1968 Guidelines classified the types of unfair trade practices under patents (including utility models) in Paragraph 2, the 1989 Guidelines defined the types of unfair trade practices for know-how licenses in the same detail as for patent cases.

They however excluded software licenses as not being applicable. Know-how was limited to those related to industrial technology and those with confidentiality. New Guidelines are not applicable to client information or trade secret.

(2) Equitable application to Japanese and foreign technolgoy transfers

The 1968 Guidelines concerned only the international technology introduction agreements, but the 1989 Guidelines provide that the regulations are applicable equally to license agreements between Japanese enterprises and those between Japanese and foreign enterprises.

Provided, however, restrictive conditions contained in patent and know-how licensing agreements between Japanese enterpreneurs and foreign enterpreneurs are subject to the examining standards in the 1989 Guidelines as far as these restrictive conditions affect the Japaense market if imposed.

(3) Classifying restrictions contained in patent and know-how licensing agreements into three groups

The 1968 Guidelines identified restrictions likely to be recognized as unfair trade practices under Article 1 and those as exercise of rights under the Patent Law under Article 3. The 1989 Guidelines follow the three group classification by EC; (a) restrictions recognized as not

falling under unfair trade practices as a rule (hereinafter (a) restrictions); (b) restrictions likely to be recognized as unfair trade practices (hereinafter (b) restrictions; to be judged based on overall consideration of the restrictive conditions, licensor's and licensee's statuses in the related markets, situation prevailing in the related markets, and duration of the period during which restrictions are to be imposed, etc.); (c) restrictions which are highly likely to be recognized as unfair trade practices (hereinafter referred to as (c) restrictions).

(4) Examining standards for unreasonable trade restrictions and private monopoly

The 1989 Guidelines are applicable not only to unilateral license agreements between two parties but also to reciprocal licensing agreements or multiple party agreements such as cross license agreements (under which multiple parties mutually license their rights), patent pools (participated by multiple parties who concentrate their rights or license rights to a central body through which they are granted necessary licenses), and multiple licenses (under which one licenser grants identical right to plural licensees). In these cases, the matter will receive consideration under unreasonable trade restrictions or private monopoly (Article 3 of the Anti-monopoly Act), other than unfair trade practices.

(5) Examining standards for hybrid licensing agreements for patent and know-how

Examining standards for an agreement containing both patent and know-how licenses are applicable to either the patent or the know-how license depending on which technology the restrictive conditions are related to.

(6) Establilshment of clearance system

In determining whether or not restrictive conditions constitute unfair trade practices or not, it is necessary to examine concretely and on a case-by-case basis effects of such restrictive conditions on the competition and order in Japanese market, and parties concerned are expected to

consult the Commission for clearance increasedly in future. To meet such demand, the Commission decided to establish a clearance system. This system is intended to obviate imposing burdens on the parties to licensing agreements, as such parties find out that their agreements contain problems under the Anti-monopoly Act only after execution of the agreements. This is because the report relating to international agreements or contracts under Article 6-2 of the Anti-monopoly Act is to be made only after the fact and that the domestic agreements are not subject to this requirement.

2-2 Examining standards for restrictions

(Attached table).

(Attachment) Guidelines for the Regulation of Unfair Trade Practices with respect to Patent and Know-how Licensing Agreements

	1. Patent Licensing Agreement			2. Know-how Licensing Agreement		
	(a)	(b)	(c)	(a)	(b)	(c)
	1. Restrictions which are considered, in principle, not to fall under unfair trade practices	2. Restrictions which may fall under unfair trade practices	3. Restrictions which are highly likely to fall under unfair trade practices	1. Restrictions which are considered, in principle, not to fall under unfair trade practices	2. Restrictions which may fall under unfair trade practices	3. Restrictions which are highly likely to fall under unfair trade practices
Restrictions	Among restrictions contained in licensing agreements on patent or utility model rights (hereinafter referred to as "patent licensing agreements"), which are considered, in principle, not to fall under unfair trade practices (This is defined as those practices designated as unfair trade practices in the FTC Notification No.15 of 1982. The Notification is hereinafter referred to as "General Designation".) since they are thought to be within a proper exercise of patent rights or utility model rights, or have only a negligible effect on competition, the following are outstanding. Hereinafter, when referred to as "patent", "patent rights", "patented goods" (Goods covered by patent rights are referred to as "patented goods". Goods produced by employing patented process are also included; hereinafter the same), they also include "utility model", "utility model rights", "goods covered by the utility model rights" respectively.	Among restrictions which may fall under unfair trade practices in patent licensing agreements, the following are outstanding. The determination whether restrictions fall under unfair trade practices will be made, in addition to the requirements stipulated in each paragraph, after the position of licensor and licensee in a relevant market, the conditions of a relevant market, the duration of restrictions imposed, etc. are examined as a whole.	Among restrictions in patent licensing agreements which are considered to constitute unfair trade practices unless specific justifiable reasons can be presented, the following are outstanding.	Among restrictions contained in licensing agreements on know-how (Only those technological know-how related to industrial use are covered. Non-secret know-how is excluded.. Hereinafter those are referred to as "know-how" and "know-how licensing agreements".) which are considered, in principle, not to fall under unfair trade practices, since they are thought to have only a negligible effect on competition, the following are outstanding.	Among restrictions which may fall under unfair trade practices in know-how licensing agreements, the following are outstanding. The determination whether restrictions fall under unfair trade practices will be made, in addition to the requirements stipulated in each paragraph, after the position of licensor and licensee in a relevant market, the conditions of a relevant market, the duration of restrictions imposed, etc. are examined as a whole.	Among restrictions in know-how licensing agreements which are considered to constitute unfair trade practices unless specific justifiable reasons can be presented, the following are outstanding.
1. Separate licensing for manufacture, use and sale	(1) Separately granting a license to manufacture, use, sell, etc.					
2. Restriction on term	(2) Granting a license for a limited period within the life of patent rights.			(1) Granting a license for a limited period insofar as licensed know-how remains secret.		
3. Restriction on area	(3) Granting a license for a limited area within the whole area covered by patent rights.					
4. Restriction on technical field	(4) Restricting exploitation of patent rights to a specified field of technology.			(2) Restricting exploitation of licensed know-how to a specified field of technology.		
5. Restriction on minimum volume of manufacture and sales, and minimum frequency of use	(5) Requiring minimum production or minimum sales volume of patented goods, or minimum use of patented process.			(3) Requiring minimum production or minimum sales volume of goods manufactured exploiting licensed know-how (Hereinafter referred to as "licensed goods".) or minimum use of licensed know-how.		

6. Export area restriction	(9) Restricting ability of the licensee to export patented goods into an area falling within one of the following paragraphs. a) The licensor has registered his patent rights on patented goods in the area. b) The licensor has been conducting a continuous marketing activity on patented goods in the area. c) The licensor assigns the area as an exclusive sales territory to a third party.	(7) Restricting ability of the licensee to export patented goods. However, such cases are excluded where restricted area falls into within one of the following paragraphs. a) The licensor has registered his patent rights on patented good in the area. b) The licensor has been conducting a continuous marketing activity on patented goods in the area. c) The licensor assigns the area as an exclusive sales territory to a third party. (Possibly falling under Article 13 of the General Designation.)		(8) Restricting ability of the licensee to export licensed goods into an area falling within one of the following paragraphs. a) The licensor has registered his patent rights on licensed goods in the area. b) The licensor has been conducting a continuous marketing activity on licensed goods in the area. c) The licensor assigns the area as an exclusive sales territory to a third party.	(7) Restricting ability of the licensee to export licensed goods. However, such cases are excluded where restricted area falls into within one of the following paragraphs. a) The licensor has registered his patent rights on licensed goods in the area. b) The licensor has been conducting a continuous marketing activity on licensed goods in the area. c) The licensor assigns the area as an exclusive sales territory to a third party. (Possibly falling under Article 13 of the General Designation.)	
7. Restriction on export price and volume, etc.	(10) Restricting the licensee's export price or export volume of patented goods, or making it obligatory for the licensee to export through the licensor or a person designated by the licensor, insofar as the licensor allows to export to the area falling within one of the paragraphs a), b) or c) mentioned in (9) above; Provided that such restriction or obligation is confined to a necessary extent.	(8) Restricting the licensee's export price or export volume of patented goods, or making it obligatory for the licensee to export through the licensor or a person designated by the licensor. However, such cases are excluded where the licensor allows to export to the areas falling within one of the paragraphs a), b) or c) mentioned in (7) above, and such restriction or obligation is confined to a necessary extent. (Possibly falling under Article 13 of the General Designation.)		(9) Restricting the licensee's export price or export volume of licensed goods, or making it obligatory for the licensee to export through the licensor or a person designated by the licensor, insofar as the licensor allows to export to the areas falling within one of the paragraphs a), b) or c) mentioned in (8) above; Provided that such restriction or obligation is confined to a necessary extent.	(8) Restricting the licensee's export price or export volume of licensed goods, or making it obligatory for the licensee to export through the licensor or a person designated by the licensor. However, such cases are excluded where the licensor allows to export to the areas falling within one of the paragraphs a), b) or c) mentioned in (7) above, and such restriction or obligation is confined to a necessary extent. (Possibly falling under Article 13 of the General Designation.)	
8. Restriction on handling, etc. of competing goods or technology during the term of agreement		(1) Making it obligatory for the licensee not to handle substitutable goods or similar goods which are in competition with patented goods (hereinafter referred to as "competing goods"), or not to employ substitutable technology or similar technology which is in competition with licensed patent (hereinafter referred to as "competing technology") during the term of licensing agreements. (Possibly falling under Articles 11 or 13 of the General Designation.)			(1) Making it obligatory for the licensee *not* to handle competing goods, or not to employ competing technology during the term of licensing agreements. (Possibly falling under Articles 11 or 13 of the General Designation.)	

9. Restriction on handling, etc. of competing goods or technology after expiration of agreement			(3) Making it obligatory for the licensee not to handle competing goods, or not to employ competing technology after the expiration or termination of licensing agreements. (Possibly falling under Articles 11 or 13 of the General Designation.)	(4) Making it obligatory for the licensee not to handle substitutable goods or similar goods which are in competition with licensed goods (Hereinafter referred to as "competing goods".), or not to employ substitutable technology or similar technology (Hereinafter referred to as "competing technology".) for a short period after the expiration or termination of licensing agreements, insofar as it is difficult to prevent unauthorized exploitation of licensed know-how by such restrictions as use ban after the expiration or termination of licensing agreements; Provided that such obligation is confined to a necessary extent for preventing unauthorized exploitation of licensed know-how.		(3) Making it obligatory for the licensee not to handle competing goods, or not to employ competing technology after the expiration or termination of licensing agreements. However, such cases are excluded where such obligation covers for a short period after the expiration or termination of licensing agreements, and it is difficult to prevent unauthorized exploitation of licensed know-how by such restrictions as use ban after the expiration or termination of licensing agreements. (Possibly falling under Articles 11 or 13 of the General Designation.)
10. Restriction on raw materials, components, etc.	(8) Making it obligatory for the licensee to procure raw materials, components, etc. from the licensor or a person designated by the licensor, insofar as restrictions on quality of raw materials, components, etc. or any other restriction is insufficient to guarantee the effectiveness of licensed patent, or to maintain the goodwill of trademark, etc.; Provided that such obligation is confined to a necessary extent for guaranteeing the effectiveness of licensed patent, or for maintaining the goodwill of trademark, etc.	(6) Making it obligatory for the licensee to procure raw materials, components, etc. from the licensor or a person designated by the licensor. However, such cases are excluded where restrictions on quality of raw materials, components, etc. or any other restriction is insufficient to guarantee the effectiveness of licensed patent, or to maintain the goodwill of trademark, etc. and such obligation is confined to a necessary extent for guaranteeing the effectiveness of licensed patent, or for maintaining the goodwill of trademark, etc. (Possibly falling under Artile 10 of the General Designation.)		(7) Making it obligatory for the licensee to procure raw materials, components, etc. from the licensor or a person designated by the licensor, insofar as restrictions on quality of raw materials, components, etc. or any other restriction is insufficient to guarantee the effectiveness of licensed know-how, or to maintain the goodwill of trademark, etc., or such obligation is vital for protention of the secracy of licensed know-how; Provided that such obligation is confined to a necessary extent for guaranteeing the effectiveness of licensed know-how, or for maintaining the goodwill of trademark, etc., or for protecting the secracy of licensed know-how.	(6) Making it obligatory for the licensee to procure raw materials, components, etc. from the licensor or a person designated by the licensor. However, such cases are excluded where restrictions on quality of raw materials, components, etc. or any other restriction is insufficient to guarantee the effectiveness of licensed know-how, or to maintain the goodwill of trademark etc., or where such obligation is vital for protection of the secracy of licensed know-how, and such obligation is confined to a necessary extent for guaranteeing the effectiveness of licensed know-how, or for maintaining the goodwill of trademark, etc., or for protecting the secracy of licensed know-how. (Possibly falling under Article 10 of the General Designation.)	
11. Designation of distributors		(2) Making it obligatory for the licensee to sell patentd goods through the licensor or a person designated by the licensor, or not to sell to a person designated by the licensor. (Possibly falling under Article 13 of the General Designation.)			(2) Making it obligatory for the licensee to sell licensed goods through the licensor or a person designated by the licensor, or not to sell to a person designated by the licensor. (Possibly falling under Article 13 of the General Designation.)	

12. Resale price restriction			(1) Restricting resale prices of patented goods by the licensee in Japan. (Possibly falling under Article 13 of the General Designation.)			(1) Restricting resale prices of licensed goods by the licensee in Japan. (Possibly falling under Article 13 of the General Designation.)
13. Obligation to inform improved invention (technology), etc. or to grant non-exclusive license	(6) Making it obligatory for the licensee to inform the licensor of knowledge or experience newly obtained by the licensee regarding licensed patent, or to grant the licensor non-exclusive license with respect to an improved or applied invention, etc. by the licensee, insofar as the licensor bears similar obligations and obligations of both parties with respect to informing the other party or granting non-exclusive license are roughly balanced in substance.	(3) Making it obligatory for the licensee to inform the licensor of knowledge or experience newly obtained by the licensee regarding licensed patent, or to grant the licensor non-exclusive license with respect to an improved or applied invention, etc. by the licensee. However, such cases are excluded where the licensor bears similar obligations and obligations of both parties with respect to informing the other party or granting non-exclusive license are roughly balanced in substance. (Possibly falling under Clause 3 of Article 14 of the General Designation.)		(5) Making it obligatory for the licensee to inform the licensor of knowledge or experience newly obtained by the licensee regarding licensed know-how, or to grant the licensor non-exclusive license with respect to an improved or applied invention by the licensee, insofar as the licensor bears similar obligations and obligations of both parties with respect to informing the other party or granting non-exclusive license are roughly balanced in substance.	(3) Making it obligatory for the licensee to inform the licensor of knowledge or experience newly obtained by the licensee regarding licensed know-how, or to grant the licensor non-exclusive license with respect to an improved or applied invention by the licensee. However, such cases are excluded where the licensor bears similar obligations and obligations of both parties with respect to informing the other party or granting non-exclusive license are roughly balanced in substance. (Possibly falling under Clause 3 of Article 14 of the General Designation.)	
14. Obligation to assign improved invention (technology), etc. or to grant exclusive license			(6) Making it obligatory for the licensee to assign the licensor the right on invention or to grant the licensor exclusive license (such case where licensee grants a license exclusively for the licensor by agreeing not to exploit the invention by himself in the territory is included.) with respect to an improved or applied invention, etc. by the licensee. (Possibly falling under Article 13 or Clause 3 of Article 14 of the General Designation.)			(6) Making it obligatory for the licensee to assign the licensor the right on invention or to grant the licensor exclusive license (meaning such case where the licensee grants a license exclusively for the licensor by agreeing not to exploit the invention by himself in the territory) with respect to an improved or applied invention by the licensee. (Possibly falling under Article 13 or Clause 3 of Article 14 of the General Designation.)

15. Obligation to pay royalty for products, etc. other than patented (subject of licensing agreements) products	(11) Making it obligatory for the licensee to use production or sales volume or price of finished product as a basis for royalty in order to facilitate its calculation, insofar as licensed patent is used for producing finished product or licensed patent relates to its components, and the finished product cannot be produced without using licensed patent or components concerned, or making it obligatory for the licensee to use consumption of raw materials or components, etc., which are necessary for producing patented goods, as a basis for royalty in order to facilitate its calculation.	(9) Making it obligatory for the licensee to pay royalty based on products or service other than patented goods. However, such cases are excluded where restrictions to use production or sales volume or price of finished product as a basis for royalty in order to facilitate its calculation, insofar as licensed patent is used for producing finished product or licensed patent relates to its components, and the finished product cannot be produced without using licensed patent or components concerned, or making it obligatory for the licensee to use consumption of raw materials or components, etc., which are necessary for producing patented goods, as a basis for royalty in order to facilitate its calculation. (Possibly falling under Clause 3 of Article 14 of the General Designation.)		(10) Making it obligatory for the licensee to use production or sales volume or price of finished product as a basis for royalty in order to facilitate its calculation, insofar as licensed know-how is used for producing finished product or licensed know-how relates to its components, and the finished product cannot be produced without using licensed know-how or components concerned, or making it obligatory for the licensee to use consumption of raw materials or components, etc., which are necessary for producing licensed goods, as a basis for royalty in order to facilitate its calculation.	(9) Making it obligatory for the licensee to pay royalty based on product or service other than licensed goods. However, such cases are excluded where restriction to use production or sales volume or price of finished product as a basis for royalty in order to facilitate its calculation, insofar as licensed know-how is used for producing finished product or licensed know-how relates to its components, and the finished product cannot be produced without using licensed know-how or components concerned or making it obligatory for the licensee to use consumption of raw materials or component etc., which are necessary for producing licensed goods, as a basis for royalty in order to facilitate its calculation. (Possibly falling under Clause 3 of Article 14 of the General Designation.)	
16. Restriction on quality of patented (subject of licensing agreements) products, raw materials or components, etc.	(7) Making it obligatory for the licensee to maintain certain standards of quality for patented goods, raw materials, components, etc., insofar as such obligation is confined to a necessary extent for guaranteeing the effectiveness of licensed patent (This condition applies when the licensor guarantees the licensee specifically the effectiveness of licensed patent.), or for maintaining the goodwill of trademark, etc. (This condition applies only when the licensor grants a license on trademark, etc. to the licensee; hereinafter the same)	(5) Restricting quality of patented goods, raw materials, components, etc. However, obligation for the licensee to maintain certain standards of quality for patented goods, raw materials, components, etc. are excluded where such obligation is confined to a necessary extent for guaranteeing the effectiveness of licensed patent, or for maintaining the goodwill of trademark, etc. (Possibly falling under Article 13 of the General Designation.)		(6) Making it obligatory for the licensee to maintain certain standards of quality for licensed goods, raw materials, components, etc., insofar as such obligation is confined to a necessary extent for guaranteeing the effectiveness of licensed know-how (This condition applies when the licensor guarantees the licensee specifically the effectiveness of licensed know-how.), or for maintaining the goodwill of trademark, etc.	(5) Restricting quality of licensed goods, raw materials, components, etc. However, obligations for the licensee to maintain certain standards of quality for licensed goods, raw materials, components, etc. are excluded where such obligation is confined to a necessary extent for guaranteeing the effectiveness of licensed know-how, or for maintaining the goodwill of trademark, etc. (Possibly falling under Article 13 of the General Designation.)	

17. Obligation to use best efforts to exploit licensed patent	(15) Making it obligatory for the licensee to use his best efforts to exploit licensed patent.			(15) Making it obligatory for the licensee to use his best efforts to exploit licensed know-how.		
18. Restriction on use after patent expiration or obligation to pay royalty	(13) Providing that royalty continues to be charged after the expiration of patent rights, insofar as it constitutes installment payment or extended payment of royalty.		(4) Restricting use of licensed technology in spite of the expiration of patent rights, or making it obligatory for the licensee to pay royalty for use after the expiration of patent rights. (Possibly falling under Article 13 or Clause 3 of Article 14 of the General Designation.)	(12) Providing that royalty continues to be charged after licensed know-how has become publicly known due to reasons for which the licensee is not responsible, insofar as it constitutes installment payment or extended payment of royalty, or insofar as royalty is charged for use after licensed know-how has become publicly known for a short period thereafter during the term of licensing agreements.		(4) Restricting use of licensed technology even though licensed know-how has become publicly known due to reasons for which the licensee is not responsible, or making it obligatory for the licensee to pay royalty for use after licensed know-how has become publicly known. However, such cases are excluded where royalty is charged for use after licensed know-how has become publicly known for a short period thereafter during the term of licensing agreements. (Possibly falling under Article 13 or Clause 3 of Article 14 of the General Designation.)
19. Restriction on sales price			(2) Restricting sales price of patented goods by the licensee in Japan. (Possibly falling under Article 13 of the General Designation.)			(2) Restricting sales price of licensed goods by the licensee in Japan. (Possibly falling under Article 13 of the General Designation.)
20. Restriction on R&D			(5) Restricting research and development activities by the licensee himself or joint research and development with a third party regarding licensed patent or its competing technology. (Possibly falling under Article 13 of the General Designation.)			(5) Restricting research and development activities by the licensee himself or joint research and development with a third party regarding licensed know-how or its competing technology. (Possibly falling under Article 13 of the General Designation.)
21. Obligation not to content		(12) Making it obligatory for the licensee not to contest the validity of licensed patent. (Possibly falling under Article 13 or Clause 3 of Article 14 of the General Designation.)			(12) Making it obligatory for the licensee not to contest whether licensed know-how has become publicly known. (Possibly falling under Clause 3 of Article 14 of the General Designation.)	
22. Termination of agreement when validity of patent (public knowledge of how-how) is challenged	(14) Providing that the licensor can terminate licensing agreements if the licensee challenges the validity of licensed patent.			(13) Providing that the licensor can terminate licensing agreements if the licensee challenges whether licensed know-how has become publicly known.		

23. Obligation to use trademark, etc.		(4) Making it obligatory for the licensee to use trademark, etc. designated by the licensor for patented goods. (Possibly falling under Article 13 or Clause 3 of Article 14 of the General Designation.)			(4) Making it obligatory for the licensee to use trademark, etc. designated by the licensor for licensed goods. (Possibly falling under Article 13 or Clause 3 of Article 14 of the General Designation.)	
24. Unilateral termination condition		(11) Imposing unjustly disadvantageous condition for the termination of licensing agreements, such as terminating licensing agreements unilaterally or terminating them immediately without affording an appropriate notice by reasons other than unenforceability of licensing agreements due to insolvency, etc. (Possibly falling under Clause 3 of Article 14 of the General Designation.)			(11) Imposing unjustly disadvantageous condition for the termination of licensing agreements, such as terminating licensing agreements unilaterally or terminating them immediately without affording an appropriate notice by reasons other than unenforceability of licensing agreements due to insolvency, etc. (Possibly falling under Clause 3 of Article 14 of the General Designation.)	
25. Package license	(12) Making it obligatory for the licensee to accept licensing of more than two patents as a package, insofar as such restriction is necessary for guaranteeing the effectiveness of licensed patent.	(10) Making it obligatory for the licensee to accept licensing of more than two patents as a package. However, such cases are excluded where such restriction is confined to a necessary extent for guaranteeing the effectiveness of licensed patent. (Possibly falling under Article 10 or Clause 3 of Article 14 of the General Designation.)		(11) Making it obligatory for the licensee to accept licensing of more than two know-how as a package, insofar as such restriction is necessary for guaranteeing the effectiveness of licensed know-how.	(10) Making it obligatory for the licensee to accept licensing of more than two know-how as a package. However, such cases are excluded where such restriction is confined to a necessary extent for guaranteeing the effectiveness of licensed know-how. (Possibly falling under Article 10 or Clause 3 of Article 14 of the General Designation.)	
26. Confidentiality				(14) Making it obligatory for the licensee not to disclose licensed know-how to a third party insofar as licensed know-how remains secret.		

On Guidelines for Regulation of Unfair Trade Practices with respect to Patent and Know-how Licensing Agreements (#2)

- Comparative Study with US Department of Justice Anti-trust Enforcement Guidelines for International Operations -

Japanese Group, Committee No. 2

Subcommittee A

Masaharu FUKUMA : Nippon Telegraph and Telephone Corp.
Nobuo SUGIURA : Toyota Motor Co., Ltd.
Yasuyuki KISHI : Nissan Motor Co., Ltd.
Minoru TAHARA : Fuji Heavy Industries, Ltd.
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Abstract

Japan's Anti-trust Law attempts to secure free competition in market by excluding private monopolization, unreasonable restraints of trade and unfair trade practices. Our previous paper discussed "Guidelines for Regulation of Unfair Trade Practices with respect to Patent and Know-how Licensing Agreements" published by Japan's Fair Trade Commission (February 15, 1989; hereinafter "JA Guidelines"), which classified various restrictions contained in patent and know-how licensing agreements into three groups from the viewpoint of prohibiting unfair trade practices*. This paper explains under what situation the restrictions mentioned in JA Guidelines are deemed as unfair trade practices, and attempts to compare JA Guideline's classification with Cases 10 to 12** illustrated in US Department of Justice "Anti-trust Enforcement Guidelines for International Operations" (November 11, 1988; hereinafter "US Guidelines") that are related to patent and know-how licensing agreements. We also studied EC Regulations on Patent Licensing and Know-how Licensing, but shall not discuss them as they are quite similar to the JA Guidelines.

I: Clasifications of Restrictions in JA Guidelines under Different Situations***

JA Guidelines classified the restrictons contained

in patent and know-how licensing agreements into three groups: (a) Restriction considered, in principle, not to fall under unfair trade practices (hereinafter (a) Restriction); (b) Restriction which may fall under unfair trade practices (hereinafter (b) Restriction); and (c) Restriction which is highly likely to fall under unfair trade practices (hereinafter (c) Restriction). These restrictions are specifically discussed below.

1. Separately Granting a License to Manufacture, Use, Sell, etc.
(JA Guidelines 1-(a)-(1))
[(a) Restriction]
This is proper exercise of patent right, and is unlikely to restrict competitions.

2,3,4. Restricting the Period, Area and Technical Field
(JA Guidelines 1-(a)-(2), (3) and (4), 2-(a)-(1) and (2))
[(a) Restriction]
They correspond to proper exercise of patent right, and are unlikely to restrict competitions.

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* Definition of "Unfair Trade Practices" as used in Japanese Anti-monopoly Law
"Unfair trade practices shall mean an act falling under any one of the following:
(1) To unjustly discriminate other entrepreneurs;
(2) To deal with undue prices;
(3) To unreasonably induce or coerce customers of a competitor to deal with oneself;
(4) To undertake transaction with another party with conditions which unjustly restrict the business activities of the said party;
(5) To trade with another party by unjustly making use of one's position in the transaction;
(6) To unjustly interfere with the transaction between other entrepreneurs who compete in Japan with oneself or with the company in which he is a stockholder or an officer; or to undully induce, instigate, or coerce an act disadvantageous to the company in case where the said entrepreneur is a company." (Section 2.7 of Anti-monopoly Act)

** See annexed paper

*** Uesugi, A. ed. "Guidelines for Patent and Know-how License Agreements"

5. Restricting Production or Sales Volume of Patented Goods or Frequency of Patented Process Use

(JA Guidelines 1-(a)-(5), 2-(a)-(3))

(1) [(a) Restrictions]

"Requiring minimum production or minimum sales volume of patented goods or minimum use of patented process" and "requiring minimum production or sales volume of goods under the licensed know-how or minimum use of know-how" are considered not to impede fair competition, and therefore pose less threat to fair competition.

When setting a very large portion of a latent market as "minimum" in exceptional cases, "requiring a minimum quantity under the license" is tantamount to "restricting handling of competing goods" and impeding fair competition, and may be regarded as problematic.

(2) Cases not applicable to Guidelines

Conversely speaking, "limiting the maximum quantity, etc." should be determined on a case-by-case basis, and is excluded from the classification under the JA Guidelines. (Japanese 1968 Guidelines classified it as "matters recognized as exercise of right under the Patent Law, etc.".)

In a situation where the product using the licensed technology is dominant in the market, the licensor may conspire with many licensees for controlling the supply and demand by imposing such restrictions on the latter. Such a case is considered likely to threaten fair competition, and therefore problematic.

6. Restricting Export Territories

(JA Guidelines 1-(a)-(9), (b)-(7), 2-(a)-8, (b)-(7))

(1) [(a) Restriction]

Restricting the licensee export of patented products to the territory where the licensor has

registered the patent right, the area where the licensor is engaged in routine sales activities, and the area where the licensor recognizes right of exclusive sales by a third party.

(2) [Basis for determining as (a) Restriction]

A licensor may restrict imports to a country where the licensor has the patent right under the local patent law. To violate the licensor's vested right or contractual obligation obstructs incentives for granting licenses.

(3) [(b) Restriction]

Where alternative products or technology are hardly available; where the export is recognized only for a specified country or a specified product; or where the export is totally banned.

(4) [Basis for determining as (b) Restriction]

Except for cases falling under (1), it may stifle competitions in an oligopolistic market with highly intense product differentiation. If there are only a limited number of big companies in export market, it is possible to divide the international market among themselves.

7. Restrictions on Export Pricing and Quantity

(JA Guidelines 1-(a)-(10), (b)-(8), 2-(a)-(9), (b)-(8))

(1) [(a) Restriction]

To impose a restriction of a reasonable scope under which a licensee is permitted to export to areas where the licensor has obtained a patent, is continuing its sales, and allows a third party an exclusive sale.

(2) [Basis for determining as (a) Restriction]

Importation of patented goods may generally be restricted based on the patent law of the country to which the licensor exports. To deprive the licensor of its vested right will obstruct incentives for licensing.

(3) [(b) Restriction]

Where the licensee's import price and volume are restricted beyond reasonable scope; where an obligation to export through the licensor or an exporter designated by the licensor is imposed.

(4) [Determining point whether (b) Restrictions fall under unfair trade practices]

Determination is made based on whether or not the competition in the export market is mitigated or not.

8. Restrictions on Handling Competitors' Products during the Term of Agreement

(JA Guidelines 1-(b)-(1), 2-(b)-(1))

(1) [(a) Restriction]

① Where the use of licensed technology for purposes other than the manufacture of patented product is restricted; ② where an exclusive license provides conversion to a non-exclusive license if the licensee deals in competing products.

(2) [Basis for determining as (a) Restriction]

① Restriction related to substantially identical products is deemed to be within the range of technical field; ② an exclusive license cannot be deemed as restricting dealing in competing products.

(3) [Basis for determining as (c) Restriction]

① Where manufacture and sale of a product competitive with a patented product are restricted; ② where relations in terms of capital and human resources with companies dealing in competing products are restricted; ③ where a licensor reserves a right to terminate the agreement if a licensee deals in competing products.

(4) [Anti-competitiveness of (c) Restriction]

① Imposing restriction on a product already handled by the licensee leads to exclusion of existing clients.

② If the agreement is to be continued, dealing in competing products becomes impossible.

(5) [Other points of determination]

Overall determination is made in view of the transactions with exclusion conditions; ① whether there is a factor hampering fair trade such as depriving competitors of business opportunities or market participation; ② if alternative technology/products are available. Determination is made on transactions with restrictive conditions based on the fact if ① the licensor is a major company, and ② if a product jointly developed with a third party is deemed as a competing product.

9. Restrictions on Dealing in Competing Products after Termination/Expiration of Agreement

(JA Guidelines 1-(c)-(3), 2-(a)-(4), (c)-(3))

(1) [(a) Restriction]

① Where short term restriction is imposed within the scope necessary to prevent misappropriation of licensed know-how; ② where short term restriction is imposed as a penalty when the license is terminated for a reason attributable to the licensee.

(2) [Basis for determining as (a) Restriction]

① Knowledge acquired by the licensee cannot be erased even by return of documents and references. It is effective to secure prevention of misappropriation and will serve as an incentive for know-how transfer.

② If the licensee causes termination of the exclusive license, etc. by violating mutual confidence, the licensor will have to find another licensee.

(3) [(c) Restriction]

The licensee is restricted in dealing with competing products or adopting competing technology

after expiration or termination of the license.

(4) [Anti-competitiveness of (c) Restriction]

The licensor deviates from the scope of restrictions needed to prevent know-how misappropriation without justifiable reasons for securing profits.

(5) [Other points of judgements]

Restrictions are allowed in certain cases by considering the balance between securing the incentive for know-how transfer and its influence on orderly competition. Unless there is a specially justifiable reason, restrictions after expiration or termination fall subject to unfair trade practices.

10. Restrictions on Suppliers of Raw Materials, Components, etc.

(JA Guidelines 1-(a)-(8), (b)-(6), 2-(a)-(7), (b)-(6))

(1) [(a) Restrictions]

Under patent/know-how agreements, the licensee is imposed an obligation to procure raw materials, components, etc. from the licensor or a source designated by the licensor, ① where guaranteeing the effectiveness of the licensed patent/know-how or maintaining the goodwill of the licensed trademark, etc. cannot be achieved unless the quality, etc. of the raw materials, components, etc. are restricted; ② restriction on sources of supply is essential in order to keep the licensed know-how confidential. These restrictions should be within the scope of above mentioned purposes.

(2) [(b) Restriction]

Under patent/know-how agreements, the licensee is imposed an obligation to procure raw materials, components, etc. from the licensor or a source designated by the licensor without reasonable cause.

(3) [Basis for determining as (b) Restriction]

The basic idea is that a licensee should

preferably have choice of sources of raw materials. Therefore, restrictions on sources of supply for raw materials, etc. are prohibited, as a rule, for the sake of fair competition. They are allowed, however, if there are rational reasons such as preserving quality, goodwill, etc.

11. Restrictions on Sales Outlets

(JA Guidelines 1-(b)-(2), 2-(b)-(2))

(1) [(b) Restriction]

Under patent/know-how agreements, the licensee is imposed restrictions on whom to sell the product.

(2) [Basis for determining as (b) Restriction]

Under patent/know-how agreements, if the licensor imposes an obligation on the licensee to sell the patented product (licensed product) to the licensor or a party designated by the licensor, it amounts to depriving the licensee of the freedom of selection of sales to others or a means of competition. The above applies to imposing an obligation not to sell the product to those designated by the licensor.

It is, however, not reasonable to exclude all these restrictions indiscriminately. If there is a valid reason such as preserving goodwill of the trademark, etc., then these restrictions become allowable.

12. Restricting Re-sale Price

(JA Guidelines 1-(c)-(1), 2-(c)-(1))

(1) [(c) Restriction]

Under the JA Guidelines, restricting re-sale prices under patent/know-how license agreement is deemed as (c) Restriction.

(2) [Anti-competitiveness of (c) Restriction]

Restricting re-sale prices means that the licensor restricts the freedom of price determination by wholesalers and retailers which is the most

important means of competition, and will be highly likely to impede fair trade. Usually, there is found no reason for justifying this restriction on re-sale price.

13,14. Obligation to Report or to License Improvement Invention/Technology

(JA Guidelines 1-(a)-(6), (b)-(3), (c)-(6), 2-(a)-(5), (b)-(3), (c)-(6))

(1) [(a) Restriction]

If the licensor assumes the same degree of obligations as that imposed on the licensee and if there is a good balance between the obligations, the licensee is obligated to report to the licensor knowledge or experience gained under the licensed patent and to grant a non-exclusive license to the licensor on improvements and applied inventions.

(2) [(b) Restriction]

If the licensor does not assume the same degree of obligations and there is an imbalance between the obligations.

(3) [(c) Restriction]

The licensor imposes an obligation on the licensee to attribute to the licensor the right to the licensee's improvements and applied inventions or to grant an exclusive license to the licensor. An exclusive license as mentioned herein means establishing an exclusive right to practice or restricting the patentee from practicing the invention within the licensed territory.

(4) Know-how agreements are likewise classified.

(5) [Anti-competitiveness of (b) and (c) Restrictions]

① These lead to unreasonably maintaining and reinforcing the licensor's market control;

② The fact that the licensor restricts the licensee's freedom to use the licensee's knowledge, experience and improvements and to grant a license

to third parties hampers R&D eagerness and obstructs technology development. This may also impede competition in the product and technology markets.

3) If a licensor does not assume the same degree of obligations and the relation is one-sided, the licensor may end up setting unduly disadvantageous conditions on the licensee.

(6) It is desirable to clearly state whether the licensee can exploit the invention under the exclusive grantback provision.

(7) If the licensor is to be granted an exclusive license in the home country under an international agreement, it may result in market segmentation. If there exist a number of alternative technologies/products for the subject technology or patented product and the competition is actively carried out in the relevant field, then it may be recognized as "a specifically justifiable reason".

(8) When a Japanese licensor imposes restriction on an overseas licensee, it may restrict import of the patented product into Japanese market and may be determined as affecting orderly competition.

15. <u>Obligation to Pay Royalties on Products Other than Patented Product (Licensed Product)</u>

(JA Guidelines 1-(a)-(11), (b)-(9), 2-(a)-(10), (b)-(9))

(1) [(a) Restriction]

The cases where products other than the patented product can be used as the basis for royalty are; 1 when the licensed patent/know-how is used as a part of the manufacturing process, and 2 when it is related to components. The production/sales volume or amount of the final products using said patent, etc. or components may be used without problems as the basis for royalty calculation for convenience' sake.

(2) [(b) Restriction]

Where the licensee is obligated to pay royalty on products other than the patented product, that is where the licensor establishes conditions for transactions which are unduly disadvantageous to the licensee, problems may occur.

(3) [Basis for determining as (b) Restriction]

This may lead to forcing the licensee to pay royalty even though they are not using the licensed technology. Provisions such as "all the products similar to the licensed products shall be deemed as using the licensed technology....." may be problematic since the licensor may be considered as taking advantage of their superior position, if any. The use or non-use of the licensed technology for each product must be clearly determined.

If the license involves the production know-how, determination of whether said know-how is being used for a similar product or not may be difficult, and the manufacture/sales volume or amount of the final products including the similar products may be used as the basis for royalty calculation. (Balance with the allowable restrictions of dealing in competitive products during the term of license.)

16. Restriction on Quality of Patented (Licensed) Products, Raw Materials, Components, etc.

(JA Guidelines 1-(a)-(7), (b)-(5), 2-(a)-(6), (b)-(5))

(1) [(a) Restriction]

① Where the licensor's restriction is for achieving the effect guaranteed by the licensor to be above a certain level under the licensed patent, and ② where the licensor's restriction is to preserve the goodwill of the licensed trademark.

(2) [(b) Restriction]

The quality of patented product, raw materials, components, etc. is restricted.

Raw materials, components, etc. as used herein include machinery and devices required for manufacture of patented products, etc.

(3) [Basis for determining as (b) Restriction]

The restriction on items over which the licensee essentially has free choices may impede competition in the market of the patented product or the market of raw materials and components.

Imposing this restriction may be problematic if the obligation per se to use the trademark is questioned.

(4) This restriction rarely creates problems in an international technical assistance agreement.

17. Obligation to Make Best Efforts

(JA Guidelines 1-(a)-(15), 2-(a)-(15))

(1) [(a) Restriction]

The licensee is required to make best efforts to carry out the licensed patent/know-how.

(2) The provision imposes an obligation to make best efforts, and does not include any other rules (such as restricting dealing in competing products).

(3) Where the licensee assumes a burden of proof for having made the best efforts, and the license is converted to a non-exclusive one or terminated if the licensee fails to do that, this may be determined as falling under (a) Restriction. Provided, however, a license containing a unilaterally disadvantageous condition for the licensee may be considered as problematic as containing a unilateral termination condition.

18. Use Restriction and Royalty Payment Obligation after Expiration of Patent Right or after Know-how Becomes Public Knowledge

(JA Guidelines 1-(a)-(13), (c)-(4), 2-(a)-(12), (c)-(4))

(1) [(a) Restriction]

"Within the scope recognizable as installment or deferred payments of royalty" means that if royalty payment for use before the patent right expires or know-how becomes publicly known is made in installments or deferred, imposing the licensee to pay royalties after the fact is naturally to be expected, and this will not be deemed, as a rule, as unfair practices.

A know-how license providing for continued royalty payment limited to "short period" (such as for 2 years) during the license term after the licensed know-how becomes publicly known for reasons not attributable to the licensee will not be deemed, as a rule, as unfair practice.

(2) [Basis for determining as (a) Restriction]

As for know-how agreements, there are three bases for determining as (a) Restriction: ① Where the licensor's risks of know-how becoming publicly known at any time should be shared by the licensee in order to secure the incentive for know-how transfer; ② the advantage of learning know-how or confidential technical information before competitors is considerable; ③ obligating the licensee to pay royalty after know-how becomes publicly known is not necessarily unduly disadvantageous if within a reasonable period of time. The licensee is required not to be a responsible party for causing know-how to become publicly known. If the licensor is responsible, then the obligation to continue royalty payment will naturally be deemed as illegal.

(3) [(c) Restriction]

Unless the reason (1) above for justifying the restriction exists, anybody should be free to use the subject technology after the patent right expires or know-how becomes publicly known for

reasons not attributable to the licensee. Clearly, the licensor has no authority to restrict the use of said technology or impose an obligation to pay royalty. Since such restriction is highly likely to obstruct fair competition, it may create problems.

(4) Know-how licenses are similarly handled at EC. But there is no limitation on the continued period of royalty payment to a short term during the term of license agreement as in the JA Guidelines.

19. Restriction on Sales Price

(JA Guidelines 1-(c)-(2), 2-(c)-(2))

(1) [(c) Restriction]

The licensor restricts the licensee to keep the maximum or the minimum sales price of patented product within Japan by ① concretely indicating the sales price, ② setting the price zone (such as limiting the discount to up to 10% of the desired retail price) and imposing an obligation to observe it, ③ imposing an obligation to obtain the licensor's advance approval for pricing, etc.

(2) [Anti-competitiveness of (c) Restriction]

This restriction is generally not considered necessary for securing the royalty. To impose this restriction on plural licensees under a multiple license will create problems since it will greatly undermine the competition. Restriction on sales pricing in foreign countries is excluded from the JA Guidelines based on the judgement that they do not affect the Japanese market directly.

20. Restriction on Research & Development

(JA Guidelines 1-(c)-(5), 2-(c)-(5))

(1) [(c) Restriction]

The licensor restricts the licensee to perform R&D on their own or jointly with third parties regarding the licensed technology or competing technology.

(2) [Anti-competitiveness of (c) Restriction]

This restriction is similar in character to that on dealing in competing products, but its impact on the market is prolonged, and will hamper the fair trade practice on a larger scale. Therefore, the restriction is deemed as (c) Restriction whether it is imposed during or after the license agreement. A licensee under a know-how agreement and conducting a joint development with a third party may be imposed restrictions to prevent divulgence of the licensed know-how. In such a case, judgement is made by considering the balance between the incentive for know-how transfer and the effect on orderly competition.

21,22. Obligation not to Dispute Patent Validity and Termination of Agreement when Patent Validity Is Disputed (Know-how Becomes Publicly Known)

(JA Guidelines 1-(b)-(12), 2-(b)-(12), 1-(a)-(14), 2-(a)-(13))

(1) [(b) Restriction]

① Where imposing an obligation not to dispute is likely to impede competition, and ② where unduly disadvantageous conditions are set for the licensee, there may be problems.

(2) [Basis for determining as (b) Restriction]

Imposing an obligation on the licensee not to dispute the patent validity, etc. appears permissible according to fair and equitable principles, but it is likely to hamper the licensee's competitive ability. If, on the other hand, the licensee can freely dispute the validity, etc. of the patent right, the licensor would be discouraged from granting licenses. Thus, by recognizing the licensor a right to terminate the agreement when the licensee disputes the patent in question, the licensor is encouraged to grant licenses. This "termination of license when the

validity, etc. of the patent right is disputed" is considered not to impose unilaterally disadvantageous conditions for the licensee.

(3) Similar thinking is applied to know-how licenses.

23. Obligation to Use Trademark, etc.

(JA Guidelines 1-(b)-(4), 2-(b)-(4))

(1) [(b) Restrictions]

The licensee is imposed an obligation to use the trademark, etc. designated by the licensor on the patented or licensed products.

(2) [Basis for determining as (b) Restriction]

By limiting the freedom of choice by the licensee to use the trademark, etc. which is one means of competition, the licensee's business activities are unduly restricted and the competition may be impeded. After the patent right expires or know-how becomes publicly known, the licensee may be subjected to a disadvantage of compelled use of the trademark as a result of having continuously used said trademark.

(3) If the licensee selects to use the trademark, etc. designated by the licensor as a result of arbitrary negotiation among parties, and the licensee is granted a license to use the trademark, then the licensor may without problems restrict the sale of products to which no trademark is attached.

(4) There is a problem if a patent license is packaged with a license for trademark, etc.

24. Conditions for Unilateral Termination

(JA Gudelines 1-(b)-(11), 2-(b)-(11))

(1) [(b) Restriction]

To provide a condition which is unilaterally disadvantageous to the licensee such as unilaterally and immediately terminating the agreement without appropriate period of advance warning for a reason

other than failure to perform the agreement such as insolvency of a party.

(2) [Basis for determining as (b) Restriction]

Grave default, insolvency of a party by force majeure, bankruptcy, etc. do not necessarily require an advance notice. An agreement between the parties also presents no problems. Generally, the unilateral termination by the licensor will make the licensee's position quite instable. When this kind of provision is included in order to enhance the restraint of other restrictions and when the licensor is at a superior position, it will present problems.

(3) An appropriate period of advance notice means generally more than three months.

(4) If this restriction is used in combination with other provisions which may be regarded problematic under the Anti-monopoly law, such a case may fall subject to this restriction notwithstanding an appropriate advance notice period.

(5) Under international technical transfer agreements, effects of such restriction on the orderly competition in the Japanese market is small and therefore does not present any problems.

25. Package Licensing

(JA Guidelines 1-(a)-(12), (b)-(10), 2-(a)-(11), (b)-(10))

(1) [(a) Restriction]

There is no problem if licenses are granted under a plural number of patents (combination of patent and/or know-how) after an arbitrary negotiation by the parties to an agreement because they are interested in all the related technology or because they wish to avoid disputes. There is also no problem even if the package license is forced by the licensor so long as there is a need to grant the license under a series of patents/know-how in order

to secure or guarantee the effectiveness of technology.

(2) [(b) Restriction]

The problem arises if the licensor forces package licensing even though there is no need to do so to secure or guarantee the effect of technology.

If a license is to expire shortly, a licensor may take another patent with a comparatively long life or still another patent highly likely to be invalidated, and grant a license thereunder with the effective patent, then a problem is highly likely to occur.

26. Confidentiality

(JA Guidelines 2-(a)-(14))

(1) [(a) Restriction]

The licensee is imposed an obligation not to divulge the licensed know-how to third parties while the confidentiality of said know-how is being maintained.

(2) [Basis for determining as (a) Restriction]

Confidentiality is the basic condition for protecting know-how, and imposing this condition is considered essential in know-how license agreements. There are no problems concerning the restriction after expiration/termination. This section, however, discusses the act of imposing confidentiality per se, and does not state that there are no problems concerning various restrictions imposed on the licensee to prevent divulgence of know-how to third parties.

II: Comparison of JA Guidelines with US Guidelines

JA Guidelines provides for examining standards for unfair trade practices as to patent and know-how lisensing agreements (though it does not provide for examining standards for phohibition of private monopolization or

unreasonable restraints of trade, they can be, as a matter of course, applied to such cases where technology licensing agreements are used as a means to effect unreasonable restraint of trade), whereas US Guideilnes provides for examining standards for the Anti-monopoly Law as a whole. It is therefore difficult to simply compare the two, but we attempted a comparative study of judgements rendered in Cases 10 to 12 which are related to patent and know-how license agreements.

1. Similarities of US Guidelines and JA Guidelines

(1) Application of Rule-of-Reason

- The US Guidelines analyzes the restrictions according to a rule-of-reason unless the underlying transfer of technology is a sham. That is, the provisions of the license agreement are evaluated comprehensively in terms of the following: (Step 1) the market for technology licensing; (Step 2) the market other than that for technology licensing; (Step 3) analysis of vertical restraints; (Step 4) advantages of efficiency to offset anti-competitiveness.
- The JA Guidelines teaches that "it is necessary to individually and concretely analyze the effects of a restrictive provision on orderly competition" (Preamble).
- That is, neither makes a determination that "a specific restriction makes it illegal per se".
- This is because neither of the JA Guidelines nor the US Guidelines takes the position that the licensor is necessarily in a superior position.

(2) Handling of Know-how Licenses

- The JA Guidelines separately provides restrictions for know-how license agreements and patent license agreements, although it basically handles the patent license as the US Guidelines does. It takes the position that restrictions are relaxed for the

portions where the peculiar need for know-how is recognized.

- The JA Guidelines shows different thinking for know-how licenses from patent licenses in respect of following points.
  - i) Separate license for manufacture, use and sale
  - ii) Restriction on territory
  - iii) Restriction on dealing in competing products after license expiration
  - iv) Restriction on sources of raw materials, etc.
  - v) Obligation to pay royalty after know-how becomes publicly known
  - vi) Confidentiality

(3) Markets Covered

- The JA Guidelines discusses and analyzes only the areas which affect the domestic market (consumers) as the US Guidelines. As for the overseas market, it considers only the portion affected by the products and technology which are imported to their country.

(4) Nationality of Contracting Parties

- Both the JA Guidelines and the US Guidelines are applicable irrespective of the nationality of the contracting parties.

(5) Cross Licenses

- The JA Guidelines evaluates the cross licenses from the viewpoint of market segmentation as in the case of Anti-trust Guidelines.

2. Differences between US Guidelines and JA Guidelines

Having studied the two guidelines, we found differences related to the following provisions.

(1) Scope of Coverage

The US Guidelines covers general business activities which fall subject to Anti-trust Law, and includes all the intellectural property rights in the field of licensing. The JA Guidelines, on the other hand, is limited to the areas related to patent and

know-how licenses, and in particular excludes software licenses from its applicable scope. Customer information and trade secrets are sometimes called know-how, but they are also outside the scope of application.

(2) Restriction on Use of Competing Technology

The US Guidelines deems that restricting the licensee not to use competing technology or products is procompetitive as discussed in Case 10. This is recognized as arising out of interpretating restrictive conditions with an emphasis on the market. The JA Guidelines deems that such restriction on use of competitive technology is likely to fall subject to unfair trade practices as (b) Restriction.

(3) Vertical Restraints in Non-pricing Matters

The US Guidelines considers in the Rule-of-Reason analysis, Step (3) that reasonableness of vertical non-pricing restraints, particularly the ease of collusion under specific market conditions and the possibility of anti-competitive exclusion of competitors. The JA Guidelines does evaluate reasonableness of these viewpoints in respect of individual provisions, but does not define analytical steps clearly.

(4) Royalty Based on Total Sales

The US Guidelines interprets royalty calculation based on total product sales as procompetitive, irrespective of whether the licensed technology was used or not as discussed in Case 10. However, the JA Guidelines classifies such overall royalty obligation as falling under (b) Restriction which may fall subject to unfair trade practices, and may deem it as the licensor setting unduly disadvantageous conditions on the licensee.

(5) Grantbacks

The US Guidelines deems the grantback provision as

procompetitive. Contrary to this, the JA Guidelines interprets attributing to the licensor the right to licensee's improvement inventions or imposing an obligation on exclusive grantbacks to be (c) Restriction which is highly likely to fall subject to unfair trade practices. On the other hand, if the provision is deemed as (b) Restriction, reasonableness is tested by seeing whether or not the licensor assumes the same degree of obligations if the grantback is provided in a non-exclusive license.

(6) Exclusive Licenses

The US Guidelines generally considers them as pro-competitive. The JA Guidelines does not take such an attitude, but the recent tendency is that restriction combined with an exclusive license is not problematic.

III: Conclusion

When we examine the restrictions on which different determinations are made under these two guidelines as described in Section II,2 of this paper, we get the impression that the US Guidelines attaches an importance to the effect of restriction on procompetitiveness in the market whereas the JA Guidelines attaches an importance to determination of whether or not a restriction falls subject to unfair trade practice. Determinations under the JA Guidelines are made through the approach that examines each restriction individually, provided, however, in judging whether or not each restriction is justified, various related situations are considered in addition to the restriction per se. Further, it should also be noted that anti-competitiveness of an agreement as a whole can be examined from the standpoint of prohibiting private monopolization and unreasonable restraints of trade in addition to prohibition of unfair trade practices even when such an agreement has passed the test under JA Guidelines.

[Annex]

Commentary on US Department of Justice Anti-trust Enforcement Guidelines for International Operations

Case 10: Vertical Restraints in a Patent License

(1) Summary of the Case

- Company O is a leading US manufacturer of windshields and other automobile glass, and invented a new scratch-resistant transparent coating for automobile glass applications (AGPLEX) and obtained US and foreign (including EC countries) patents. This technology is applicable to safety eyeglasses.
- Company A is one of the several US manufacturers of safety eyeglasses, and is a licensee under Company O's US Patent.

  (Conditions)
  - An exclusive, field-of-use license to make and sell safety eyeglasses coated with AGPLEX in the United States
  - The license forbids making and selling safety eyeglasses coated with any other material, but not safety eyeglasses which are not coated.
  - Royalties are based on its total unit sales of safety eyeglasses, regardless of whether they are coated or not.
- Company B which is one of the several British safety eyeglass manufacturers and Company O's licensee under its EC patents.

  (Conditions)
  - An exclusive license to make and sell safety eyeglasses coated with AGPLEX in EC countries.
  - The conditions for manufacture restriction and royalties payment are the same as for Company A.

- Company B supplies 5% of the total consumption of safety eyeglasses in the United States, but cannot sell safety eyeglasses coated with AGPLEX because they have not obtained a license under US Patent.
- The concentration in the safety eyeglass sales market is not so high.

(2) Discussion

(1) Discussion was made limited to the effects of the license on US commerce. The other points are the same as the analysis of domestic context.

(2) Since this license is very valuable to the licensee and is not a sham, the Rule-of-Reason analysis was applied.

(3) Step 1: Both Company A and Company B do not own technology competing with AGPLEX and do not control access to it, there is no restriction on licensor/licensee competition in <u>any relevant technology market</u>.

(4) Step 2: In other market such as sale of safety eyeglasses or other products, Company O is not competing with Company A or Company B, nor would Company O have entered in the safety eyeglass market except for the license. Therefore, there is no restraint on competition.

(5) Step 3: Vertical Restraints Analysis

i) Collusion...The license could be deemed problematic if it "could facilitate <u>collusion in the sale of all kinds of safety eyeglasses or in licensing technology competing with AGPLEX.</u>" The collusion is found ineffective because there is no alternative technology for AGPLEX and because the concentration in the safety eyeglass market is limited.

ii) Exclusion...The license could be deemed problematic if it "could facilitate exclusion of companies anti-competitively from the market related to the sale of safety eyeglasses or the market of related technology." While this license forbids Companies A and B to coat safety eyeglasses with agents other than AGPLEX, there are many other safety eyeglass makers which may be able to sell a competing coating technology, and therefore there is no possibility of exclusion. Collusion or exclusion is not deemed to have been present if the market share of the company imposing restrictions is small (less than 10%).

6 Step 4: Since Steps 1 through 3 made clear that the license arrangements in this case are not anti-competitive, it is irrelevant whether or not the restrictions in these licenses are efficient. The restrictions considered procompetitive in this case are discussed below.

i) Exclusive License...This would maximize the return on the licensor's investments in R&D, and enable the licensee to enter the market efficiently.

ii) Restrictions on use of competing technology... This will be an incentive for developing and positively selling the licensed technology.

iii) Royalty based on total sale...This would save the monitoring costs of production by the licensee and would be useful in diffusion of technology.

Case 11: Exclusive Patent Cross Licenses with Grantbacks

(1) Summary of the Case

- Company A is a US firm and is a dedicated maker and the second largest seller of product X in the United States. Their sale of product X in Japan is minimal. They own process patents (Japan and US) covering certain technologies used in manufacturing product X.
- Company B is a Japanese firm, makes product X and is the largest seller of product X in Japan. Their sale of product X in the United States is minimal. They own process patents (Japan and US) covering certain technologies used in manufacturing product X.
- Companies A and B agree to cross-license one another to practice their relevant foreign patents.

(Conditions)
- Exclusive license with an exclusive grantback clause.
  (ex. B makes improvements on A's technology ⟶ B assigns US rights to such improvements to A)
- If a party makes patentable improvements to its own patented technology, this party will grant the other party an exclusive licence to enable the other party to practice such improvements in the other party's home country.
  (ex. B makes improvements on B's technology ⟶ B assigns US rights to practice such improvements in US to A)
- A and B agree that regardless of which technology was used in making X, X will not be sold in the home country of the other party.

In sum, A is granted an exclusive right to practice both A's and B's technologies and all the improvements made on them in the United States, while B is granted the rights equivalent thereto in Japan.

(2) Discussion

(1) Discussion is limited to the effect of license on the United States commerce. The other points are the same as the analysis in domestic context.

(2) The technical transfer appears not to be a sham, and the Rule-of-Reason analysis is applied.

(3) Step 1: Analysis of technology market

- As there are hardly any alternative technology to the licensed technology for manufacture of X or an alternative product to X, A's acquisition of B's technology may be considered anti-competitive. If such is the case, then the following points should be considered; whether or not the license intends to create or enhance market control, or to facilitate its exercise, whether or not R&D efforts may be expected to bring about the competitive technology within two years, and whether or not the peripheral technology can prevent any attempt at exercising the market control.

(4) Step 2: Analysis of another market (product market)

- Since B has agreed not to sell X manufactured using their own technology within the United States (because of the exclusive license), it could exclude all the competitions between A and B regarding X's sale in the United States which may exist except for this license agreement.

Accordingly, it discussed whether or not A can (singly or jointly with another seller of X in US) reduce the production and raise the price of X.

- It then discussed whether or not the agreement between A and B not to license their own technologies to third parties will create the market control in the relevant market concerning X. Probably, there is no market control. (Since B is the second largest US seller of X, there is at least one competing process technology used in producing X sold within the United States. There are possibly other technologies.)

(5) Step 3: Analysis of vertical restraints

- Cross licensing is equal to the merger of A and B in the technology market and the market relevant to X. If there is a likelihood of collusion, it would have been detected in Steps 1 and 2.
- If there is a likelihood of anti-competitive exclusion by the agreement between A and B by not licensing their technologies to third parties, it would have been detected in Step 2.

(6) Step 4: Competitive benefits to offset anti-competitive harm

- It is examined whether or not the anti-competitive harm may be offset by procompetitive efficiency brought about by this license.
- Restrictions in this case considered procompetitive are listed below.

i) Grantbacks, especially when the license is non-exclusive

ii) Granting rights to future improvements by the licensor.
This will protect investments to the subject technology made by the licensee.

iii) Exclusivity: Maximized return from investments in R&D activities.

Case 12: Know-how Technology Transfer Agreement with Exclusive territories

(1) Summary of the Case

- Company A is a small US company and possesses know-how used in production of product X. It does not export product X.
- Company B is a large scale multi-national company based in West Germany. While it does not currently produce product X, it produces related products and desires to manufacture and sell X within EC.
- Company C is a large Japanese company currently manufacturing X, but its market share in Japan is small. Its market share in the United States is smaller than that.
  Company C believes that Company A's technology will improve their efficiency and quality of X.
- Company A has entered a technical transfer agreement offering know-how to B.
  (Conditions) · Term of agreement, 20 years
  · Company B shall not sell X in US during the term of agreement irrespective of whether or not A's know-how was used.
- Company A is negotiating with Company C regarding a similar agreement.
  Company C asserts that sale of X by Company B should be prohibited in Japan, Australia and East Asia.

(2) Discussion

① The case was studied limited to the effect of the license on US commerce. The other points are similar to analysis in domestic context.

② Since Company C believes that A's know-how would improve the production efficiency of X, this know-how has commercial values. If this license is not a sham to hide cartel among A, B and C, then the Rule-of-Reason analysis is applicable.

③ Step 1: Technical market

- Limiting the sale of X manufactured using C's technology in the United States can have the effect of excluding C's technology from the United States.
- If there is only one technology available besides A's technology, and C's technology is only slightly inferior to the others, then the above assumption may become true.
- However, if there are many other competing technologies or if C's technology is considerably inferior (which is the fact in this case), the license is not anti-competitive.

④ Step 2: Other markets

- Regarding the agreement between A and C, its possible anti-competitive effect on the sale of X in the relevant market was studied in the event that A and C merge before concluding the license agreement. (Conclusion unknown)
- Restriction on territories regarding competition between B and C cannot be expected to affect US commerce directly or substantially. US Anti-Trust Law does not have jurisdiction.

⑤ Step 3: Vertical restraint analysis

- Steps 1 and 2 have already considered whether or not collusion or exclusion of competition by B and C will create or enhance market control or facilitate exercise of unilateral or collusive market control in the United States.
- It was considered whether or not the license in this case results in anti-competitive exclusion of the competitors from the relevant market (by refusing these companies access to US production or distribution facilities required for use of the competing technology) or from the relevant market of X (by "making the competing technology unavailable"). The presence of B and C in the United States is small, and the posssibility of anti-competitive exclusion is extremely small.

⑥ Step 4:

- Benefit of efficiency to offset anti-competitive effect.

If the license was judged to have anti-competitive effect by restricting production in a certain market or by increasing the consumer market in the United States, then it is studied whether or not the benefit of efficiency of this license will offset the anticipated anti-competitive harm it may have.

- Procompetitive restrictions in this case are discussed below.

i) Restricting X's sale by C in the United States

A creator of know-how is allowed to actually refuse its transfer if the proposed transfer is expected to decrease the know-how value. Prohibiting C to sell any X in the United States regardless of

whether or not X was produced by using the licensed know-how is quite useful for monitoring whether the license conditions are being observed or not, and will result in encouraging know-how transfer.

SOFTWARE PROTECTION AND REVERSE ENGINEERING IN JAPAN

Japanese Group, Committee No. 2

Subcommittee B

Katsuhiko SHIMIZU: Ebara Corporation
Hitoshi KAWABATA : Kokusai Denshin Denwa Co., Ltd.
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Abstract

Software license agreements often contain provisions restricting reverse engineering (RE). We studied the reasonableness of these restrictions with a particular emphasis on (i) the objectives of RE in companies, (ii) statutory rules and past decisions related to RE in Japan, (iii) examination of legal issues involving acts in various steps of RE execution, and (iv) problems which may arise when such acts are prohibited, and we discussed the reasonableness of restrictions on RE in Japan from the viewpoint of both the legal principles of software protection and maintaining fair competition.

1. Introduction

Software sale/purchase agreements (such as Shrink-wrap agreements) or software license agreements often contain a provision restricting reverse engineering. From the viewpoint of the legal principles of software protection and maintaining fair competition, we studied the reasonableness of such restrictive provisions under Japanese law.

2. Reverse Engineering Activities in Companies

(A) Reverse Engineering

(1) Reverse engineering (hereinafter RE) generally

comprises analyzing third party programs and abstracting ideas from the programs (reverse analysis; hereinafter RA), and using the abstracted ideas to make up a new program (forward programming).

(2) Programs are usually stored in mediums such as ROMs and floppies in the form of object codes. In carrying out RA, the object code is reverse-assembled and reverse-compiled to obtain a source program which is legible by humans. The source program is then dumped out and analyzed to abstract the ideas in the program. The process up to this stage is generally called RA.

(3) Thus abstracted ideas are usually used for making a new program having equal, better or similar functions (which is called forward programming), but the abstracted ideas are sometimes used for other purposes.

(4) RE in companies is performed in various and versatile manners.

(B) Objectives for RE Activities

RE activities are carried out for the following various objectives in each company. The objectives (1) through (3) are mainly RA, and (4) through (6) are RA and forward programming.

(1) For facilitating use of a purchased program

A purchased object program is often reverse-assembled to a source program in order to use the purchased program on the purchaser's computer. More concretely, RE is performed for the following purposes.

(1) Investigating program functions and performances
(2) Detecting and correcting bugs and errors in a program
(3) Version-up for a program
(4) Modifying a program for use in another type of computer

(2) For market surveys

Based on another company's source program or on ideas abstracted therefrom, the company's product (which

can be the program per se or a product including said program) is evaluated. The market trend may be learned from such evaluation. The material thus obtained may be used as the basis for the planning and development of a new product.

(3) For determining infringement by other company

By studying the object program or a source program obtained by reverse-assembling the object program, one determines whether or not the other company's program infringes the copyright of one's program.

Analysis of the source program can be performed by the analysis of hardware to detect infringement of one's own patent(s).

(4) For distributing programs with equal or better functions, or similar functions

A new program is prepared having equal or better functions than or similar functions to the ideas abstracted by RA or the original program specifications or functions. The new program then is distributed or incorporated in a product with similar functions or in a compatible product for sale.

(5) For use in preparing other programs

Ideas and algorithms which have been abstracted by RA are classified and filed as references for future programs. In writing a program, an idea or algorithm is taken out of the accumulated file. This method achieves efficiency in program preparation.

(6) For distributing related programs

If the original program is an OS (Operating System), RA is performed to acquire interface information and to prepare application programs for distribution. Based on the acquired interface information, a program for another system to be interfaced with a product incorporating the original program may be prepared and distributed.

Irrespective of the objectives of RE, companies aim at

(1) improving their technical level, and

(2) developing products better than the products in the market through these RE activities. As it promotes competition among companies and technology development, RE is considered useful for industry development.

3. Review from the Standpoint of Legal Principle of Software Protection

(A) Computer programs are afforded protection by the operation of the Copyright Law and the Patent Law in Japan as are in U.S. The current status of RE is as follows.

(1) Copyright Law

The 1985 amendment to the Japanese Copyright Law introduced provisions for protecting software programs under the Law in view of the inherent characteristics of the program. However, no provisions on RE were introduced although RE on programs had been practiced since before that time. (This is also true of the U.S. Copyright Law.) Since the amendment is regarded as merely having confirmed that programs are copyrightable as authored works, and since the Japanese Copyright Law had not originally considered technology, such as software program, as an object of protection, a provision on RE was not unreasonably included.

(2) Patent Law

Article 69-1 of the Japanese Patent Law provides that "effect of patent right does not extend to patent inventions carried out for test or research". It is widely understood that the Japanese Patent Law recognizes RE for technology development. (This is also true of the Japanese Utility Model Law.)

(3) Law regarding circuit arrangement of semiconductor integrated circuit

As the Law regarding circuit arrangement of semiconductor ICs provides under Article 12-2 that the

"effect of the right to use circuit arrangement does not extend to the act of manufacturing semiconductor ICs by using registered circuitry for analysis or evaluation", it is widely understood to recognize RE.

(4) Decisions

Although there are several decisions deeming that dead-copying or an act close to dead-copying infringes a copyright, there are no cases where the judgement was directly related to RE.

For instance, the Microsoft v. Shuwa case which considered copyright infringement issues determined that reverse-assembling an object program for personal computer to obtain a source program and distributing the source program as a publication was an act of unauthorized reproduction. This judgement determined the whole process up to distribution of source programs as a copyright infringement, and thus cannot be relied on to determine all the acts of obtaining a source program by reverse assembly constitute unauthorized reproduction.

There are several decisions which held that the sale of dead-copies or of programs close to them for video game softwares was illegal. No decision directly concerns RE.

(B) Examination of Reasonableness of Acts in Each Step of RE

[1] Dumping out, reverse-assembly, and reverse-compiling of object programs

(1) When carrying out RE, a program stored in a ROM or floppy disc with an object code is reverse-assembled or reverse-compiled and dumped out to obtain hard-copies in order to make it legible by humans.

(2) Based on the interpretation that these acts are subject to reproduction, translation or adaptation under the Japanese Copyright Law, there is a view holding such acts as violation of the Japanese Copyright Law.

(a) Reproduction by dumping out, on the other hand,
(i) does not aim at creating and keeping the reproduction of an expressed program as defined in Article 2 of the Copyright Law, but
(ii) is merely an intermediate step which is a part of the process carried out to learn the idea incorporated in the program, and is merely a means to learn the idea.
(iii) The act in itself will not impair the copyright interest of the author of the original program.
Therefore, it cannot be a reproduction as defined by the Copyright Law, and appears not unreasonable to deem it allowable. If such a means were to be prohibited, then it would become impossible to detect a third party infringement as discussed in 2 (B)(3) above. It would therefore be unrealistic to prohibit such an act as dumping out by deeming it as duplication under the Copyright Law.
(b) Conversion by reverse-assembly or reverse-compiling may also be permissible since it is an act of transforming mechanical language, the object code, to a form understandable by humans.

(3) Against the above opinions, a program owner may argue that a program is definitely an authored work because it is defined so under Article 10 of the Japanese Copyright Law despite the fact a program is a mechanical language, that its conversion is therefore illegal, and that such conversion should be performed only with a license from the owner.

On the other hand, however, there is no guarantee that the owner would always grant a license. Therefore, accepting such an argument is considered equivalent to prohibiting RE per se.

(4) A program owner may consider it unnecessary to disclose the content of a program unlike other authored works since the program can be fully utilized without the knowledge of expressions used in the program.

However, as long as programs can be protected under

the Japanese Copyright Law just like other authored works, users should be allowed to know the contents of expression or inherent ideas, and therefore dumping out, reverse-assembly and reverse-compiling made for such purposes should be considered permissible.

[2] Abstraction of ideas

(1) To abstract ideas by reading such a source program as obtained by reverse-assembly or reverse-compilation creates no problems under the Japanese Copyright Law.

(2) Because the copyright is for protecting the expression of a program which is an authored work and not for protecting the ideas, the Japanese Copyright Law is not considered to prohibit abstraction of ideas.

[3] Use of abstracted ideas

(1) In using the abstracted ideas, the above mentioned use of ideas without forward programming does not create a problem under the Japanese Copyright Law.

(2) Ideas are sometimes protected by the Japanese Patent Law or the Japanese Utility Model Law. There are also cases where software is related to hardware to obtain a patent right; i.e. the patent related to Othello Game (Japanese Patent No. 1085441) and the patent related to function of a word processor (Japanese Patent No. 1438043).

(3) Ideas not protected by a patent, etc., i.e. those in the public domain, may be used freely.

(4) There are cases where it is difficult to draw a line between an idea and an expression. Therefore, it is necessary to take sufficient care in using the idea since one may unintentionally end up using the expression.

[4] Writing function specifications based on abstracted ideas

(1) Function specifications based on abstracted ideas do

not create problems under the Japanese Copyright Law.

(2) However, since function specifications per se are documents and thus authored works, if the person writing the specifications had access to specifications related to the original program and wrote function specifications which are similar to the original one, his act may be deemed as a reproduction, and is likely to create problems.

[5] Writing programs

(1) For writing a program based on function specifications, one first prepares a flow chart and then performs coding. If the new program does not resemble the original program, there is no problem. On the other hand, if it is similar to the original program, then it may be questioned whether or not writing the program falls subject to reproduction, translation or adaptation of the original program.

(2) However, writing a program similar to the original program is allowable as far as its objective is to facilitate the owner of the reproduction to use the same for the owner's own computer (Article 47bis of the Japanese Copyright Law) or the owner is licensed by the copyright owner of the original program.

(3) There are cases where choices are limited for some expressions of a program for an idea or algorithm, and a part of a newly written program may resemble a part of the original program. If the similar part does not constitute the principal part of the program as a whole, then such similarity is considered permissible. Naturally, this does not imply that acts of piracy should be allowed.

(C) Examination in View of Conformity with Patent Law, etc.

(1) A program embodies technology or technical thought and RE is essential for its advancement and development.

The Japanese Patent Law or the law concerning circuit arrangements of semiconductor ICs is considered to generally approve RE for technology advancement and development. More concretely, Article 69 of the Japanese Patent Law (Article 26 of the Japanese Utility Model Law) provides that the effect of a patent right (or of a utility model right) does not extend to implementation of a patent (utility model) for tests or research, and Article 12 of the law concerning semiconductor IC circuit arrangements is interpreted as also approving RE.

(2) If RE is not permissible under the Japanese Copyright Law, it would lack conformity with the Patent Law and other laws.

(3) Supposing that an idea contained in a program is protected under the Japanese Patent Law and its expression is protected under the Japanese Copyright Law, an attempt to abstract the idea of the program by RE which is not prohibited under the Japanese Patent Law will succeed only after the process of learning the content of the program by reverse-engineering has been conducted.

(4) If RE with respect to the program is not permitted under the Japanese Copyright Law, it is impossible to abstract the idea since one cannot learn the content of the program, thus leading to the unreasonable result that RE which is not prohibited by the Japanese Patent Law cannot be performed.

(5) Thus, RE should not be prohibited under the Japanese Copyright Law in view of its conformity with the Japanese Patent Law, etc.

(D) Examination in View of the Fact that Expression Is Protected by Copyright

(1) The Japanese Copyright Law affords protection to expressions, not ideas, as stipulated in Article 2 pertaining to authored works. Article 2 provides that

"an authored work is creative expressions of an idea or emotion and belongs to the category of literature, science, art or music". (Section 102 (b) of the US Copyright Law provides that ideas are not subject to copyright protection.)

(2) Therefore, an idea per se contained in an expression is not copyrightable, and abstracting an idea from a program is not illegal. Use of an abstracted idea does not create problems under the Japanese Copyright Law.

(3) If an abstracted idea is patented, its use is subject to restrictions under the Japanese Patent Law. Since the idea is not patented and is in the public domain, it can be used freely.

(4) An algorithm contained in the expression of a program is not subject to protection under the Japanese Copyright Law, and therefore can be used freely (the Japanese Copyright Law, Article 10-3).

(E) Review of Fair Use under the Copyright Law

(1) Articles 30 - 48 of the Japanese Copyright Law provide restrictive rights with respect to private use, etc.

Article 47bis contains a provision similar to Article 117 of the US Copyright Law. It allows reproduction and adaptation by an owner of a duplicate program for his own computer, but it is not directly applicable to other duplications and adaptations including RE. (Section 107 of the US Copyright Law allows fair use, which is considered as a basis to regard a duplication for RE permissible as a fair use.)

(2) As Article 1 of the Japanese Copyright Law provides that "aiming at protection of authored works, etc. while paying attention to fair use of such cultural products, etc.", and as a program embodies technology or technical thought and RE is useful for improving program technology and the Japanese Copyright Law covers programs, acts in RE discussed in (B) above should be allowed.

A proposal has been made to amend the Copyright Law to provide that RE is lawful. (Proposal by AIPPI Japan Chapter, April, 1989.)

(3) Lacking explicit provisions in the Copyright Law or judicial precedents, there should be no need to prohibit RE which is useful for industrial development, and there is a reason to consider RE lawful.

4. Review of Fair Competitions under the Antimonopoly Act

(1) As discussed above, a program embodies technology or technological idea, and fair competition is essential for technology development. While protecting the first developer's interest is necessary, prohibiting RE will result in restricting fair competition, and in arresting technology development. Therefore, prohibiting RE is not desirable from the point of industrial policy.

(2) Although the Guidelines of the Fair Trade Commission published on February 15, 1989 and discussed by the PIPA Committee No. 2 elsewhere do not refer to software licensing directly, the summary of the interim report by the Study Group of Technical Transaction of the Fair Trade Commission dated July 28, 1988 states, inter alia, regarding software license agreement that "some consider reverse engineering to infringe the copyright, and this point should preferably be clarified. But if reverse engineering was to be restricted, it will hamper technology development and seriously affect fair competitions. The scope of copyright infringement should be interpreted restrictively. Even if restriction on reverse engineering assumes the form of proper exercise of the copyright, there still is a possibility that it may deviate from the intent of the system of technology protection and may result in hampering fair competition". Thus, prohibiting RE in license agreements is considered undesirable also from the view point of the Antimonopoly Act.

6. Conclusion

As discussed above, despite various issues concerning RE,

(i) there are no reasons to understand that RE is prohibited by the Japanese Copyright Law or the Japanese Patent Law.

(ii) Providing restrictions on RE in a license agreement for a program, etc. is highly likely to be regarded as an unfair trade practice under the Japanese Antimonopoly Act.

Therefore, we cannot find a reason to permit prohibiting RE in sale/purchase agreements of a program or in license agreements for a program.

This paper is written based on the premise that programs are protected by the Copyright Law, but does not discuss the rights and wrongs of protecting programs by the Copyright Law.

The views given are those of the PIPA Committee No. 2, and it is believed that many Japanese companies will agree with us.

Supplement: On Isolation Booth Method

(1) If a new program which is sufficiently creative is written based on an idea which had been abstracted by RE from an original program, there still remain problems under the Japanese Copyright Law if the new program resembles the original program as discussed above.

(2) Isolation Booth Method was contrived in order to resolve this problem. By isolating the person who abstracts the idea by RA of the original program and the person who writes the new program based on the abstracted idea, an attempt is made to prove that the person who writes the new program created it originally without access to the original program. Thus, the copyright matters are cleared even if the new program ends up as being similar to the original program.

(3) However, even according to this method, there may be problems in the following instances:

① Works made under the name of a legal person

② The original program is famous and widely known

(4) Ask for ①, this may be resolved by completely isolating a group which conducts RA and another group which writes a new program, and separately giving directions as well as supervisions to both groups (incorporating them as two different legal entities, if possible).

(5) Ask for ②, this may be resolved by preparing and archiving data which verifies each step of RE to prove that a new program was originally created by sufficiently original activities based on the idea abstracted by a separate group using RE but not by access to the original program.

ADVERSE EFFECTS OF REVERSE COMPILATION ON COMMERCIAL RIGHTS OF THE ORIGINATOR

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Adverse Effects Of Reverse Compilation On Commercial Rights of the Originator

Recent proposals to legalize reverse compilation have used rationale which attempt to disguise the true commercial reasons for the reverse compilation process. These proposals have no basis in law or equity, yet are attempting to make major revisions to long established copyright principles.

In particular, proposals have been advanced to legalize the verbatim copying and adaptation attendant to the process of reverse compilation. The rationale offered for this legalization is that a competitor is entitled to extract ideas present in the program code, that reverse compilation is a "fair use," that any copying done during reverse compilation is "de minimus," that the proper quid pro quo for copyright protection is full disclosure, and that competitors should have access to protocols and interfaces, particularly for widely used programs.

These arguments veil the ultimate commercial intent of the reverse compilation; namely, to make profits for the reverse compiler by quickly generating a program via copying and adaptation of the original work, which adaptation competes with the original work and is available at a lower cost due to relatively minimal, development costs. Such a proposal tampers with the careful balance of rights set out in the copyright law. This balance provides an incentive to drive the programming industry to create original works by protecting the copying of expression in the original work, while permitting free use of the underlying ideas in the work.

In point of fact, reverse compilation is not (nor should it be) a "fair use" under the law, its effect upon the original programmer is not de minimus, and the ideas underlying the program are readily available from other sources. The quid pro quo argument has no basis in law or in equity. Lastly, the protocol access argument, if accepted, would ensure that those few programs that are highly profitable, will be significantly less so.

Introduction

What motivates a freelance programmer or a private company to expend significant energies and monies to create an original software product that technically can be copied by the flick of a console key? Why do companies spend billions of dollars or yen or marks, on software research and development? What motivates a computer hardware company to compete, not only on the hardware and service levels, but also at the software level?

The risk of not making a fair return on an original software product is higher than the comparable risk for hardware. In this regard, to copy a high level mechanical or electrical apparatus, some form of reverse engineering of

the apparatus is typically performed. Such reverse engineering of the apparatus will almost never be sufficient to manufacture a product of similar quality to the original. Necessary tolerance information, manufacturing processes and know-how cannot be gleaned from the typical reverse engineering analysis. Moreover, even with all of the necessary information to manufacture a quality product, manufacture cannot take place without an installed quality-controlled manufacturing line.

In contrast, a software product can be copied with the flick of a key on a keyboard. This copy is an exact reproduction and will function as well as the original. There is no need for tolerance or manufacturing process information, or an installed production line. The investment needed is minimal. However, this copying implicates the copyright of the program creator.

It is the law of copyright that gives the program creator the legal right to control and to prevent the copying of his work. It is the law of copyright that allows the program creator to profit from his original expression of an idea.

The law of copyright is implicated, in particular, for the act of reverse compilation. Reverse compilation is the process of transforming an object code form of a program into a source code or pseudo-code version. The copier may then use this source code to create a variety of different types of disguised and undisguised adaptations, by extracting programming modules from the source code, by translating the original program into other computer languages, by substituting synonym code, by changing memory addresses and register designations, and/or by reordering the program. But, the reverse compilation process requires the making of at least one, and frequently multiple, copies of the original program. Such copying violates the program creator's right to control copying and adaptation of his work.

Legal Copying: A Compulsory License

It is realistically beyond argument that copying a program code-line by code-line is a violation of copyright under national copyright laws

throughout the world[1]. These laws uniformly give the program creator the right to control the copying of his work. However, certain companies and individuals have proposed modifying the copyright of the original program creator to permit just such line-by-line copying of a program during the process of reverse compilation to facilitate adaption or modification. The proposal is based on the argument that because copyright does not protect the ideas in a work but only the expression, competitors should have a right to extract any ideas that might be contained in the program expression even if this means infringing the original creator's copyright. The argument advanced is that so long as the resulting adapted or modified program has enough changes in the ultimate coding, it is not substantially similar to the original and thus not a violation of copyright.

This proposal would convert a carefully balanced right into a nullity.

Reverse Compilation and U.S. Copyright Law

The basic copyright granted under U.S. law may be summarized as follows:

17 U.S.C. 102(a) provides copyright protection to "original works of authorship fixed in any tangible medium of expression".

17 U.S.C. 106 defines the copyright owner's exclusive rights as (1) the right to reproduce the copyrighted work, (2) the right to prepare derivative works based upon the copyrighted work, and (3) the right to distribute copies to the public by sale or other transfer.

The rationale for providing these exclusive rights to authors is to provide a monetary incentive to create original works of authorship and an incentive to distribute those works for public enjoyment. This comports with the vision expressed in the U.S. Constitution that creators are to be granted exclusive rights for limited periods of time. This is the incentive for the original investment.

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1 See the laws of and court decisions from Australia, Brazil, Canada, Dominican Republic, France, Germany (West), Hungary, India, Indonesia, Japan, Korea (South), Malaysia, Mexico, Philippines, Portugal, Republic of China (Taiwan), Singapore, Spain, United Kingdom, and United States of America. See also the Proposed Council Directive on the Legal Protection of Computer Software from the European Communities.

The copyright provided to authors under the law is finely balanced by the stricture in 17 U.S.C. 102(b) that "In no case does copyright protection...extend to any idea..." A further balancing is provided in that the author's copyright is, in fact, an exclusive right to control copying of his work. Accordingly, a second work cannot infringe the copyright on a first work if the second work is an original creation authored without access to the first work -- i.e., if there is no copying.

A reverse compilation right has been advocated by some since the passage of the Copyright Act in 1976. However, in the only major amendment to the Act to deal with software copying issues, the U.S. Congress authorized in 17 U.S.C. 117 only the making of another copy of a computer program by the legitimate owner of a copy using the following language:

> "...provided that such new copy or adaption is created as an essential step in the utilization of the computer program in conjunction with a machine and that it is used in no other manner..."

This narrowly circumscribed right provided to owners of program copies was premised on the fact that most computers will copy the program into memory as an automatic step in operating the program. The amendment to the law simply allowed legitimate owners of program copies to legally use those copies to operate a computer. The narrowness and precision with which this amendment is drawn, i.e., "that it (the copy made in the utilization of the program) is used in no other manner," highlighted the concern Congress had with upsetting the delicate balance set out in the law between the rights of original programmers and the rights of their competitors and the public. Note that a similar provision is contained in the Japanese Copyright Law at Article 47 bis.

Reverse Compilation Is Not A Fair Use

Various arguments have been advanced to the effect that reverse compilation constitutes a "fair use" under 17 U.S.C. 107. Under this statutory section, reproduction of the work for purposes of criticism, comment, news reporting, teaching, scholarship, or research, may not be an infringement of copyright. The statute requires that four factors be considered in determining whether or not a use is "fair":

(1) the purpose and character of the use, including whether such use is of a commercial nature or is for non-profit educational purposes;

(2) the nature of the copyrighted work;

(3) the amount and substantiality of the portion copied, and

(4) the effect of the use upon the potential market for or value of the copyrighted work.

With respect to the purpose and character of the use, reverse compilation is performed, in almost all cases, to develop a competing program. The commercial nature of this use is viewed by the U.S. Supreme Court as being presumptively unfair. Sony Corp. of America v. Universal City Studios, Inc., 464 U.S. 417, 449 (1984).

Regarding the nature of the copyrighted work, the program work is an original set of statements or instructions used directly or indirectly in a computer in order to bring about a certain result. The program in most cases, does not relate to the news reporting, research or comment.

With respect to the amount and substantiality of the portion taken, the copy made for a reverse compilation will be a complete copy or a substantial part thereof.

Lastly, with respect to the effect on the potential market, if the reverse compilation is successful, the market for the original work will be proportionately diminished.

In sum, reverse compilation to develop a competing or complementary program will not be held to be a "fair use" under U.S. Copyright Law.

Arguments Used to Support Reverse Compilation

A. Reverse Compilation Is Necessary In Order To Glean The Ideas Embodied In The Program.

This argument is patently false. The principle idea of the program resides in what the program does. What type of data it manipulates to yield a result in what format. Such ideas are disclosed, in every instance, in the marketing literature, operating manuals and specifications provided in conjunction with the purchase of a rightful copy of the program. Additional information is available by either running test programs on the target

original program or by doing tracings of the CPU, I/O, or other lines during execution of the target program. Memory and processor utilization and response times could also be used to glean information about the program.

B. Reverse Compilation Is Necessary To Facilitate Clean Room Program Development.

The so-called clean room operation does not change the fact that one author or team of authors has based its works directly on that of another through a process of copying. The results of a direct access to the protected expression of a program to generate a second competing work negates any argument that it is "independent development." There is no justification under the law for the preemption of the original author's rights over copying, adaptation, and translation for the convenience and commercial advantage of competitors.

C. The Copy Or Copies Made During Reverse Compilation Are A De Minimus Infringement.

The use of a single copy to access the creator's expression and thereby short-cut the normal development time and expense to author a competing program is clearly not de minimus in effect. The normal lead time that the creator of an original program has during which to recoup his development costs is cut to almost nothing. The competing program that results from the reverse compilation can be sold at a lower price, since there are significantly fewer development costs to recoup. This is a clear disincentive to create original programs.

17 U.S.C. 504 addresses this potential for inequity by entitling the copyright owner to recover from an infringer those profits "attributable" to the copyright infringement. This would seem to permit recoupment for sales lost to a competing program developed via reverse compilation. An analogy to the above may be found in the architectural floor plan cases, where the construction of a building based on a copied architectural floor plan was held to entitle a rival builder and copyright owner to his lost profits for

this construction. See for example Jones Associates, Inc. v. Nino Homes, (1988 CA6) 858 F.2d 274, 8 U.S.P.Q.2d 1224.

D. The Proper Quid Pro Quo For Copyright Protection Is Full Disclosure of the Program.

There is nothing either in the Constitution or the law that compels full disclosure of computer programs. The benefit or quid pro quo obtained by the public in this equation is in the public distribution and use of a program that, but for the copyright protection, might never have been created, and which after a limited period of time will be placed into the public domain.

Looking to the U.S. Copyright Regulations, there is also no requirement for a full disclosure in order to obtain a registration of copyright. The opposite is the case. The U.S. deposit requirements for program registration (37 C.F.R. 202.20(c)(vii)) are specifically designed to maintain trade secret protection for portions of the program being registered. In essence, Congress simply did not use full disclosure as part of its balancing of rights in this area. For that matter, unpublished works are clearly protected under the U.S. Copyright and the Berne Convention, negating any argument for disclosure as a quid pro quo.

Full disclosure as a quid pro quo for protection is a concept mandated only in the Patent laws for novel and unobvious inventions where protection is much more expansive than it is under the copyright laws for expression and where the economics of duplication for patented items are typically much higher compared to computer programs, as noted at the beginning of the article.

E. Protocols and Interfaces (Including Any Expression Therein) For Widely Used Commercially Successful Programs Should Be Accessible to Competitors.

In reality, the issue here is compatibility, whether, for example, by way of system, machine, computer program, or user. Such compatibility is a commercial issue that is dealt with best by contract between competitors.

From a legal standpoint, there is clearly no basis for compulsory access to interfaces and protocols argued to be necessary to achieve compatibility.

As stated succinctly in Apple Computer, Inc. v. Franklin Computer Corp., 219 U.S.P.Q. 113, 124 (C.A. 3, 1983), compatibility issues have

> "...no pertinence to either the idea/expression dichotomy or merger... If other methods of expressing the idea are not foreclosed as a practical matter, then there is no merger. Franklin may wish to achieve total compatibility... but that is a commercial and competitive objective which does not enter into the somewhat metaphysical issue of whether particular ideas and expressions have merged."

Thus, copyright owners are free to exercise control by license or other agreement over any reproduction or adaptation of their works, including reproductions and adaptions made in the course of reverse compilation.

Summary

In sum, the ultimate purpose of the reverse compiler is to compete at an economic advantage over the original author by selling a lower priced competing product, adapted via illegally copying of the original program. The illegal copying done during the reverse compilation facilitates the low cost adaptation of the protected expression in the original program to allow the quick and cheap generation of the competing program.

Thus, the program creator has had his lead-time erased, and his price undercut, and the market reduced for the very thing that he created.

Accordingly, any legal system which attempts to legalize reverse compilation will eliminate the motivation that drives freelance programmers and private companies to invest time and large sums of money on program development. This is clearly not the way to proceed. Reverse compilation must continue to be rejected and opposed.

LICENSOR TORT LIABILITY IN U.S. LICENSING KNOW-HOW AND PATENTS

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SUMMARY

Under recent developments in the law of torts, licensors of intellectual property may be subject to liability to third parties who are injured as a result of the activities of their licensees. This trend began in the law of trademark licensing under which the mark licensor has a statutory obligation to control the licensee's activities in order to maintain the integrity of its trademark. In more recent years the courts may have extended the theories of recovery covering third party injuries to include licensors of technology, i.e., patents and know-how. Although the courts have sometimes recognized a distinction between the licensing of a product and the licensing of an idea when applying tort liability to trademarks and technology, respectively, this distinction is by no means firmly established and should give the technology licensor little comfort. However, by carefully structuring the licensing arrangement a technology licensor may reduce his exposure to claims made by injured third parties. Careful drafting of the patent documents is helpful to limit statements which may be used against the licensor under a warranty theory. In the licensing arrangement provisions may be used to break the link between the licensor and third parties. Careful review of the qualifications of the licensee and the amount of know-how involved in the

licensing arrangement are factors which can be used to further insulate the licensor from liability.

INTRODUCTION

LICENSORS of intellectual property, that is patent rights and know-how, have been warned that, in the search for financial responsibility, theories of recovery have been proposed expanding the sphere of licensor liability. In particular, licensing activities now expose licensors to liability for damages resulting from the licensed use of technology suffered by third parties outside the licensing arrangement. This trend is part of a general movement within U.S. courts to transform contractual liability into tort liability, and in doing so permit larger recoveries, including punitive damages, by claimants asserting joint and several liability against both the licensee and the licensor.

Under traditional doctrine the liability of a licensor was limited to liabilities which arose out of the contractual relationship with the licensee. Third parties, who were not in privity with the licensor, were generally limited to actions against the licensee with whom there was a direct relationship. Licensors were considered too far removed from the injured third

party. Current doctrine has placed the licensor at risk along with the licensee.

Courts have accepted the view that licensors are part of the enterprise chain, generally one step upstream from the manufacturer. In fact, it has been suggested that if a licensor exerts sufficient control over a licensee it may satisfy the requirements necessary to establish an agency relationship.

These views adopted concurrently with the erosion of the concepts of privity and recovery based on fault have evolved into three theories of recovery available to third parties claiming against a licensor. Licensor liability can be claimed to arise out of (1) negligence, (2) breach of warranty, and (3) strict liability (sometimes mingled with breach of warranty). In recent presentations commentators have reviewed the case law and legal premises of licensor liability under each of these theories. They agree that there is cause for concern and that the concern is growing.

Accordingly, the focus of this discussion is on the question: What activities will expose a licensor of intellectual property to liability to an injured third party and how can such a licensor reduce the risk of liability to third parties for damages caused by the licensed use of the underlying technology? This discussion will focus on the relationships created by

various licensing activities, such as licensing know-how as contrasted to trademarks; and how, given the elements of each theory of recovery, the licensor can structure the relationship to reduce the risk of liability.

ELEMENTS OF LIABILITY
THREE THEORIES OF RECOVERY

As previously mentioned, three theories of recovery by a third party from a licensor have evolved. Although the general elements of each theory are well known, it is useful to review them in terminology emphasizing the nature of a typical licensing arrangement.

To recover in an action against a licensor based on negligence, a third party must establish that the damage was caused by the licensor's breach of a legally recognized duty. Thus, there are four elements in a negligence action: (1) a duty on the part of the licensor, (2) a breach of that duty, (3) damages, and (4) a casual connection between the breach and the damages.

There are only a few cases involving negligence actions by a third party against a licensor. However, these cases hold that the relationship of a licensor to a third party with whom there is no contractual or special relationship is distant enough that a licensor's duty is the general duty owed to the public to use

reasonable care to prevent damages which are foreseeable when the technology is used by the licensee for its intended purpose. Thus, a third party asserting a claim against a licensor based on negligence must show that the licensor failed to exercise reasonable care under the circumstances resulting in damages which were foreseeable and for which the licensor should bear responsibility. On the other hand, to satisfy this duty a licensor need only show that the licensee was either adequately instructed on how to properly use the technology or was adequately warned of any unsafe aspects known to the licensor.

A licensor may also urge that the public's interest is better served by third parties accepting the responsibility for such damages in order to encourage licensors to commercialize technology. This line of reasoning (the traditional proximate cause/public policy balance) suggests that the public's need for protection may limit a licensor's liability to circumstances in which the complexity of the technology or relative level of the licensee's knowledge are such that the licensor's conduct was unreasonable and resulted in damages which the licensor should have foreseen and could have prevented. Further, the licensor may also defend against negligence by asserting available affirmative defenses such as comparative or contributory negligence, assumption of the risk, or intervening and superseding causes.

The breach of warranty theory of recovery has its origin in contract doctrine. It relies upon a statement of fact or promise by the licensor relating to the performance of the technology to establish an express warranty, or it relies on a standard of performance imposed upon the licensor by public policy to establish an implied warranty (in many ways identical to strict liability).

There are, in general, very few occasions where an implied warranty (as distinguished from strict liability) is established from a licensing arrangement for the benefit of a third party. Further, warranties relating to the performance of technology are generally extended only to parties who have a relationship to the licensor which justifies an expectation that the technology is fit for its intended use. Thus, some jurisdictions still require privity of contract or foreseeable reliance as an element to recovery based on breach of warranty. Much of the law of warranty relating to sales contracts is now codified under the Uniform Commercial Code.

The strict liability theory is the most troublesome theory of recovery from a licensor's perspective. Strict liability is founded on the premise that under certain circumstances public policy warrants shifting the financial burden for damages suffered by a third party to the licensor. A strict liability

action does not require fault as an element to recover damages from the licensor. It is presumed that the licensor is in a position to spread the loss and pass it on to its licensees. Although strict liability is an expansion of the implied warranty concept, it does not require privity of contract or foreseeable reliance. In broad terms, to apply strict liability the damaged party must show that the damage was caused by a defect in the licensed technology which rendered the licensed product or activity unreasonably dangerous. For example, it is sufficient to show that the licensee's use of the technology inherently resulted in a defective product which was in a stream of commerce leading to the claimant, and that public policy warrants shifting the burden of the loss.

The stream of commerce requirement recognizes that in many instances it is difficult for a damaged third party to identify the source of the defective technology, track it through the course of a licensing arrangement, and establish and allocate responsibility. Thus, under a strict liability theory all of the parties in the licensing arrangement can be held jointly and severally liable. In the few cases addressing licensor liability based on a strict liability theory the courts have focused on the licensor's participation in profits and the degree of control exercised by the licensor over the licensed activity. However,

there are no cases holding a licensor strictly liable to a third party for damages resulting from the use of licensed technology.

LIABILITY OF TRADEMARK LICENSORS

The liability imposed on trademark licensors to injured third parties not in privity with them can be traced to Sections 5 and 45 of the Lanham Act. These sections require that the trademark owner who wishes to license its trademark to another while retaining ownership of its mark must assure that the integrity of the mark is retained by maintaining some form of actual control over the nature and quality of the product to which the trademark is applied. Two bases for imposing liability on the trademark licensor under either a negligence or strict liability theory have been developed by the courts as a result of the close relationship required by the Lanham Act. The first basis is that a trademark represents the giving of apparent authority to a licensee to act on behalf of the trademark licensor. The second basis, and the more important for the following discussion, is that liability will be imposed upon anyone, including the trademark owner, within the "stream of commerce" in which the product flows.

The first case to apply strict liability in tort upward to a trademark licensor was in Kasel v Remington Company 24 Cal App

3rd 711 (1972). In holding Remington, a United States company, strictly liable for personal injuries caused by a defective shell manufactured by Remington's Mexican trademark licensee, the court stated that there was good reason to impose such liability on everyone who was found to be a link in the marketing enterprise responsible for placing a defective product within the stream of commerce. The broad language of this case and others suggests that third party liability could attach to virtually anyone involved in bringing a defective product into the stream of commerce.

Whether liability can be attached under a breach of warranty theory to a trademark licensor will generally depend on whether the licensing arrangement includes a sale which can be construed to meet the statutory requirements of the Uniform Commercial Code. Given the sweeping scope of the stream of commerce theory, a theory based on warranty seems almost superfluous for the imposition of liability. This may explain the lack of cases which deal directly with this approach. It is enough for this discussion to note that the code has abolished the requirement of privity as an element of liability and creates certain implied warranties in connection with the sale of goods.

LIABILITY UNDER THE TRADEMARK RATIONAL APPLIED TO TECHNOLOGY LICENSING

The position of a licensor of technology is often equated in discussions of licensor liability in tort with the position of a trademark licensor. Both the technology licensor and the trademark licensor provide a "blueprint" from which products are produced. However, there are also significant differences between the licensor of technology and the licensor of a trademark. Although the case law is by no means clear upon the extent to which a technology licensor will be held liable to an injured third party, the courts, in those instances where this question was an issue, have been slower to impose the same rational on the technology licensor as that routinely imposed on the trademark licensor.

A primary difference between the licensor of technology and of a trademark which has found some support in the case law rests in the distinction between the relationship created when a "product" is licensed and the relationship created when an "idea" is licensed. A patent grant is simply the right to use an idea without being sued for infringement. The grant of a license to the use of technology by itself does not require or even imply a relationship in which the licensor controls how the idea is used by the licensee nor does it generally involve a holding out to the public in such a manner to imply a relationship that would

give rise to third party reliance. This general distinction was recognized by the courts in Mechanical Rubber v Caterpillar Tractor, 399 NE 2nd 722 (Ill. App. 1980) in which the designer of a product was found not liable under a theory of strict liability. The court recognized that parties, such as a patent licensor, whose activities are peripheral and not directly related to the distribution of the product are removed from the stream of commerce. While there exists a line of cases which supports the Mechanical Rubber distinction between the relationships when an idea rather than a patent is licensed, other cases weaken the distinction.

Although there are no cases in which a patent licensor was found liable under a theory of strict liability, the distinction between licensing an idea and licensing a product appears to have broken down in the case of Alm v Aluminum Co. of America, 687 S.W. 2d 374 (Tex. App. 1985). This case involved a bottle cap design which was licensed to a bottle cap supplier under two Alcoa patents, in addition to being a licensor, Alcoa designed and manufactured the capping machines which applied the aluminum caps to the bottles, but did not manufacture or sell the caps themselves or the capped bottles.

The plaintiff, injured when a bottle cap blew off the top of a soft drink bottle and struck him in the eye, sued Alcoa, alleging

four separate instances of negligence: (1) negligence in design of the bottle and cap assemblage; (2) negligence design of the cap's seal; (3) negligent recommendation to bottlers of a visual inspection quality control system; and (4) negligent failure to warn the bottler and/or the plaintiff of the danger of an improperly applied cap.

Although Alcoa was ultimately found not to have been negligent, the Alm case is viewed as the high water mark in patent licensor liability. In this case the court adopted the Stream of Commerce rational, previously found solely in trademark-related cases, for extending the legal duty of a patent licensor beyond the manufacturer. Prior to Alm the courts had focused upon the licensor's control over the ultimate product as a means of inputting liability for a product subsequently placed in the marketing chain. In the Alm, the court used the fact that the designer was also a component supplier, and therefore involved in the manufacturing of the product to establish the licensor's responsibility for the product's entry into the stream of commerce. Rather than stating that it is the component supplier who has a duty to warn which is extended to the ultimate consumer, the court instead made the broad and troubling holding that it's the designer who has this duty; regardless of whether or not the designer is involved in the actual manufacturing and exercises control over the final product.

The cases suggest the following:

1. That an idea alone, as expressed in a patent, is not a "product" as contemplated under negligence theories or strict liability. However, under the Alm holding, a designer does have a duty to ensure that its intermediary is properly trained and warned of the potential hazards and properties of the contemplated product, and is capable of passing on this warning, in order to meet its obligation to the ultimate consumer; and

2. An idea may be deemed a "product" by the courts on the basis of who manufactured and distributed it, and on the basis of its intended use. If the licensor's product is not individually tailored for the licensee's needs, and is mass produced and distributed without substantial change, it will be considered a "product". A factor given great weight in distinguishing an idea from a product in this context is whether the idea is unreasonably dangerous if it is used as intended, due to some defect in its design. It may be noted that on one hand its the commercial aspects of how the idea is marketed and distributed which imputes responsibility on the entity which functions as a designer, seller, or manufacturer. While on the other hand its the product itself, and whether a defect in its design will create an unreasonably

dangerous situation if it is used as intended. Whether the absence of the latter factor will negate a finding that a mass product idea is a product is unknown.

PATENTS VERSUS KNOW-HOW

As patent attorneys are so fond of pointing out to their clients, a patent is a negative right. It conveys only the right to exclude others from practicing within the bounds of a defined area of activity. Therefore, a patent license is nothing more than a promise not to sue a party for practicing within the excluded area. It would appear that a patent licensor would be insulated from liability to injured third parties under the theories of liability discussed earlier. Even under the Alm rational a patent by itself would be difficult to characterize as a product sufficient to invoke the stream of commerce rational. An exception may exist if the patent were found to cover an invention which was unreasonably dangerous due to a defect in design. However, as a general rule it can probably be stated that it is unlikely that a licensor of only a paper patent will be found to be liable to a third party injured as a result of the practice of the patented invention by his licensee.

In actual practice the general rule just presented should not give the technology licensor much comfort in the real world. The

general rule is based upon the assumptions that nothing but a bare patent license is granted and that the patent is a paper patent unsupported by research or practical experience which would put the licensor on notice that the invention has a defect which may render its practice dangerous to a third party. The clear implication is that the more the licensor knows about his patented invention the more likely he will be found to have a duty to warn others of any danger of which he is aware or should be aware of from the practice of his invention.

Many, perhaps most, licensing arrangements involve the disclosure of some know-how to the licensee. In addition, the licensing arrangement may provide for continuing services and technical assistance to the licensee during at least part of the life of the license. In other instances the licensor may provide a component for use in the practice of the invention. Each of these activities may be forging a link in the chain of liability from the licensor to an injured third party.

Perhaps just as important is the degree of control that the licensor retains over the activities of the licensee. It must be remembered that the exercise of control by the trademark licensor over the licensed product provided one of the original rationales underlying the imposition of licensor liability in a products liability suit by an injured third party. In most technology

licensing arrangements the licensor retains some control over the activities of the licensee in the practice of the invention. Just what kinds of restrictions on the licensee's activities will give rise to third party liability on the part of the licensor is a question that has not been fully answered by the courts. It would appear that licensor control over the actual design of a licensed product produced by the licensee would be most likely to expose the licensor to third party liability, since it is closest to the situation as it exists between a trademark and his licensee.

HOW TO REDUCE THE RISK

Having considered the theories of recovery which may be asserted by a third party against a licensor as well as the differences between the various licensing activities and the relationships they create with third parties, this paper can turn to a summary of the more practical ways to protect licensors from liability.

The first area of consideration focuses on those activities leading up to the final contractual relationship. There are two activities in particular which need to be considered.

The first activity concerns patent drafting and prosecution. Although the Patent Office does not review the validity of asserted advantages nor is there any case specifically holding that a third party may rely on such assertions, during patent drafting and prosecution before the U.S. Patent Office it is advisable to remember that statements relating to the advantages of the invention may be asserted by a third party as statements of fact or promises to form the basis for an express or an implied warranty.

Patent specifications are by statutory design addressed to the public not just to those in privity with the licensor. Assertions that relate to the public welfare, such as safety or environmental advantages will assist a third party to establish that the licensor intended that the licensed invention benefit third parties who should thus be entitled to rely on those assertions as warranties of fitness. Similarly, general statements in a patent specification or statements made during prosecution may be interpreted to apply to all of the claimed embodiments. This is particularly important whenever the licensee is free to select which embodiment it will commercialize. The licensee may not select the same embodiment which the licensor had in mind when the advantages were stated.

Further, general or unfounded statements made in the patent specification or during prosecution may be viewed as conduct by the patentee which constitutes a failure to exercise reasonable care and thus exposes a patentee licensor to liability under a negligence theory of recovery. Careful drafting can reduce the risk that such assertions will result in liability without diminishing their persuasive value as regards patentability.

Certainly the risk is greater when the licensor includes know-how in the licensing arrangement, and has in its possession information gained during research and development casting doubt on the validity or scope of statements in the patent. A licensor should be prepared to identify possible risks associated with the licensed technology including alternative embodiments, and make a full and complete disclosure to its licensees.

A second activity leading up to the final contractual relationships concerns licensing discussions. At the outset the licensor needs to be familiar with the potential licensee. If left on its own, a financially weak or simply over-eager licensee may look at economic considerations and overlook safety considerations. As previously discussed, the current trend toward licensor liability has as one of its roots, particularly in the case of strict liability, the desire to spread the risk of loss. A financially strong licensor only a step upstream from a weak licensee is an

attractive target, particularly if the licensor has access to safety information which has not been disclosed to its licensee. Certainly negligence and possible strict liability could attach to a licensor who fails to warn.

Some commentators have suggested that research and development should be brought to an end as early as possible if it appears that the technology will be licensed. The point here is to increase the distance between the licensor and the licensee by insuring that the technology is developed at least to some degree by the licensee. However, this also minimizes the opportunity to license since many licensees prefer to license only technology which is at a stage of development suitable for commercial use. In any event, if the licensor is aware of safety concerns and elects to curtail development, the review of qualified licensees should include a thorough look at each licensee's technical capability and the quality of the facility in which the licensed technology will be used.

The last, and most apparent, area of consideration concerns activities related to finalizing the licensing relationship. The guiding principal in this area is to structure the relationship at arms length so that the technology does not become the source of a close-knit business enterprise. The more that a licensor

insists on exercising control over the use of the licensed technology the greater is the risk of liability.

The license agreement itself should distance the licensor from the licensee. It should clearly state that the licensee controls the facility in which the technology is used and is responsible for training and safety, if that is the case.

It is also advantageous to state whether or not the know-how, if any is provided, is at a stage of development suitable for commercial use and in what tangible form the know-how will be provided. If the licensor is to provide information specific to the construction or operation of a facility utilizing the licensed technology, such as manuals or designs, as is often the case, it may be advisable to make them the subject of a separate arrangement with appropriate indemnity and guarantee provisions and a short duration. Isolating know-how serves to emphasize that the licensing relationship is not intended to establish control over or responsibility for the licensee's operations.

Similarly, if the licensor is providing a product, such as a catalyst, for use with the licensed technology, a separate agreement with appropriate disclaimers is advisable. Although express disclaimers of warranties cannot be counted on in all cases, such provisions may discourage joinder of a licensor.

The most common contractual protection are defense and indemnity provisions. These provisions take many forms and are often coupled with an insurance provision. The issue raised by such provisions is liability to third parties, and in most instances, the licensee is in the best position to control the facility and people using the licensed technology and to insure against claims by third parties. Accordingly, broad indemnification by the licensee can frequently be justified. If the licensee has general liability insurance up to a reasonable limit it may already be satisfactory, but the licensor should be named as an additional insured without subrogation. It is also desirable to contractually obligate the licensee to maintain such insurance at some acceptable limit of liability.

Other contractual provisions which are sometimes overlooked in their effect on liability include provisions restricting assignability, nonrecourse or impleading provisions, and provisions which obligate the licensee to warn third parties of potential hazards. The assignment provision should be drafted to give the licensor the right to reject subsequent licensee-assignees if their use of the technology would expose the licensor to an increased risk of liability. As previously discussed, the choice of licensee is important. It may even be desirable to require that any assignment to be valid must provide that the original

licensee-assignor continue to accept full responsibility for the licensed activity and for indemnification of the licensor.

The nonrecourse and nonimpleading provision is important to discourage joinder by third party claimants and to prohibit the licensee from impleading the licensor as a co-defendent. The nonimpleading provision may be superfluous if a strong indemnification is obtained. However, since indemnification may be limited to a fixed sum or the value of insurance the nonimpleading provision may be well worthwhile.

A provision obligating the licensee to warn third parties, including employees, of potential hazards serves as an acknowledgment by the licensee that it has been warned and that it has assumed the risks associated with the use of the licensed technology. On the other hand, such provisions may be an admission that the licensed activity is hazardous. Accordingly, the obligation to warn provision should only be included when the activity truly is or may become hazardous. Further, in many jurisdictions, under workers' compensation statutes for an employer to be held liable for the failure to warn it must expressly accept that liability by contract. Accordingly, it is usually necessary to include an express acceptance of liability along with the obligation to warn.

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APPENDIX

This appendix contains representative provisions which may reduce a licensor's risk of liability to third parties:

CONTROL OVER AND NATURE OF KNOW-HOW

This Article 4-0 shall not include any obligation under this Agreement on LICENSOR to furnish to make available to LICENSEE information or assistance with respect to any unit practicing the licensed process. Any furnishing by LICENSOR or LICENSOR's designee of other information for, or other assistance in connection with a material used in the licensed process, shall be done at LICENSOR's sole discretion pursuant to an agreement or agreements, separate and apart from this Agreement, on terms and conditions, including payment and indemnification, mutually agreeable to LICENSOR and LICENSEE.

It is recognized by the parties that upon delivery on Said Delivery Date of the Catalyst furnished hereunder, LICENSEE shall have actual title to the Catalyst. All Catalyst purchased hereunder shall be used in, and only in, Said Plant and LICENSEE shall not resell or transfer title, possession, or control of any portion of Catalyst purchased hereunder. LICENSEE shall physically control the operations of Said Plant in which the Catalyst is used. LICENSEE shall have the right to use the Catalyst in Said Plant in any manner and for any purpose as it in its sole discretion may determine.

INDEMNIFICATION

LICENSEE shall defend, indemnify, and save harmless LICENSOR and its Affiliates, and employees thereof ("imdemnitees"), from and against any and all loss, damage, injury, liability, and claims thereof for injury to or death of any person (including an employee of LICENSOR or an indemnitee) or for loss of or damage to property resulting from LICENSEE's activities, including, but not limited to, LICENSEE's use of material and information furnished by LICENSOR or others. Such indemnity shall apply whether or not an indemnitee was or is claimed to be passively, concurrently, or actively negligent, and regardless of whether liability without fault is imposed or sought to be imposed on one or more of the indemnitees. This indemnity shall not apply where such loss, damage, injury, liability, or claim is the result of the sole negligence or willful misconduct of an indemnitee and is not contributed to by any act of, or by an omission to perform

some duty imposed by law or contract on, LICENSEE, its subcontractors, or either's agent or employee.

Neither LICENSOR nor any Affiliate of LICENSOR shall be obligated to defend against or be liable for or obligated to pay to LICENSE or to any customer or potential customer of LICENSEE any losses, damages, claims, demands, or attorney fees, including any consequential or indirect damages arising out of the practice of the licensed process. LICENSEE assumes all responsibility and liability for practice of the licensed process by LICENSEE under this Agreement and shall indemnify and save harmless LICENSOR and all LICENSOR Subsidiaries and all LICENSOR Affiliates from and against any and all loss, damage, claims, injury, attorney fees, liability to, or death of any person, or for loss of, or damage to property. The foregoing indemnity and save harmless shall apply whether or not liability is sought to be imposed on theories of negligence or strict or absolute liability.

ASSIGNMENT

This Agreement shall not be assignable by either party without the prior written consent of the other party, except that LICENSOR may assign this Agreement to any corporation which shall acquire all or substantially all of LICENSOR's Technical Information and unexpired patents in the petroleum refining field. No assignment of this Agreement shall be valid until and unless this Agreement shall have been assumed by the assignee. When duly assigned in accordance with the foregoing, this Agreement shall be binding upon and shall inure to the benefit of the assignee. Any assignment of this Agreement shall provide that LICENSEE shall not be relieved of its obligations to defend and indemnify LICENSOR pursuant to Article 5-0, and neither LICENSEE nor LICENSOR shall be relieved of their respective obligations with respect to the use, duplication, or disclosure of data or other information of a confidential nature as provided in Article 4-0.

NONRECOURSE

LICENSEE shall not have any recourse against LICENSOR and shall not implead LICENSOR in any proceeding, for any loss, liability, damages, costs or expenses which may be suffered or incurred at any time by LICENSEE or others by reason of the reliance on or use of any information or advice furnished hereunder by LICENSOR or the failure of LICENSOR to furnish any thereof, or by reason of any claim, action or proceeding against the LICENSEE arising out of or relating to the use by the LICENSEE of any such information or advice, or by reason of the defense of any such claim, action, or proceeding, or by reason of the death or injury

of any person or damage to any property arising out of the practice of the licensed process.

Nothing in this Agreement shall entitle any person other than LICENSOR or LICENSEE or their respective successors and assigns permitted hereby to any claim, cause of action, remedy or right of any kind.

LIMITATION AND LIABILITY AND DISCLAIMER

LICENSOR represents that the work and services performed by it hereunder shall be performed in accordance with accepted engineering standards. However, LICENSOR's only liability, if any, respecting Said Plant to LICENSEE and/or others shall be that set forth in Schedule B, GUARANTEES, attached hereto and made a part hereof.

It is further understood and agreed that LICENSOR's liability with respect to any of the obligations assumed under this Agreement is specifically limited as provided for in this Article V and in no event shall LICENSOR be liable for any indirect, special, incidental, or consequential damages whatsoever including, but not by way of limitation, any loss of profits or expected profits, to LICENSEE. LICENSOR shall have no further liability on theories of fault, negligence, strict liability, or express or implied warranty of merchantability, design, fitness for any particular purpose, or otherwise.

OBLIGATION TO WARN

The practice of licensed process, and handling and use of licensed product, may be or may become hazardous. LICENSEE shall take all appropriate steps to become familiar with the procedures and processes appropriate to using Technical Information furnished by LICENSOR and shall be solely responsible for implementing all procedures and processes in a safe manner. LICENSEE shall become familiar with all of the hazards thereof, and with all of the laws, regulations, and customs relating thereto. LICENSE shall warn and protect its employees and others who may be exposed to such hazards. LICENSEE accepts all liability for and shall take all actions necessary to protect its employees, the community, customers, the environment, and others from injury or damage resulting from practice of the licensed process and handling and use of the licensed product and raw materials therefor.

LICENSEE shall comply with all local laws, regulations and customers applicable to LICENSEE's operations under this Agreement including without limitation, those dealing with the protection of health, safety and the environment. LICENSEE shall

be solely responsible for handling all civil and penal claims and shall defend, indemnify, and protect LICENSOR and its Affiliates from loss, liability or damage arising, directly or indirectly, out of LICENSEE's activities.

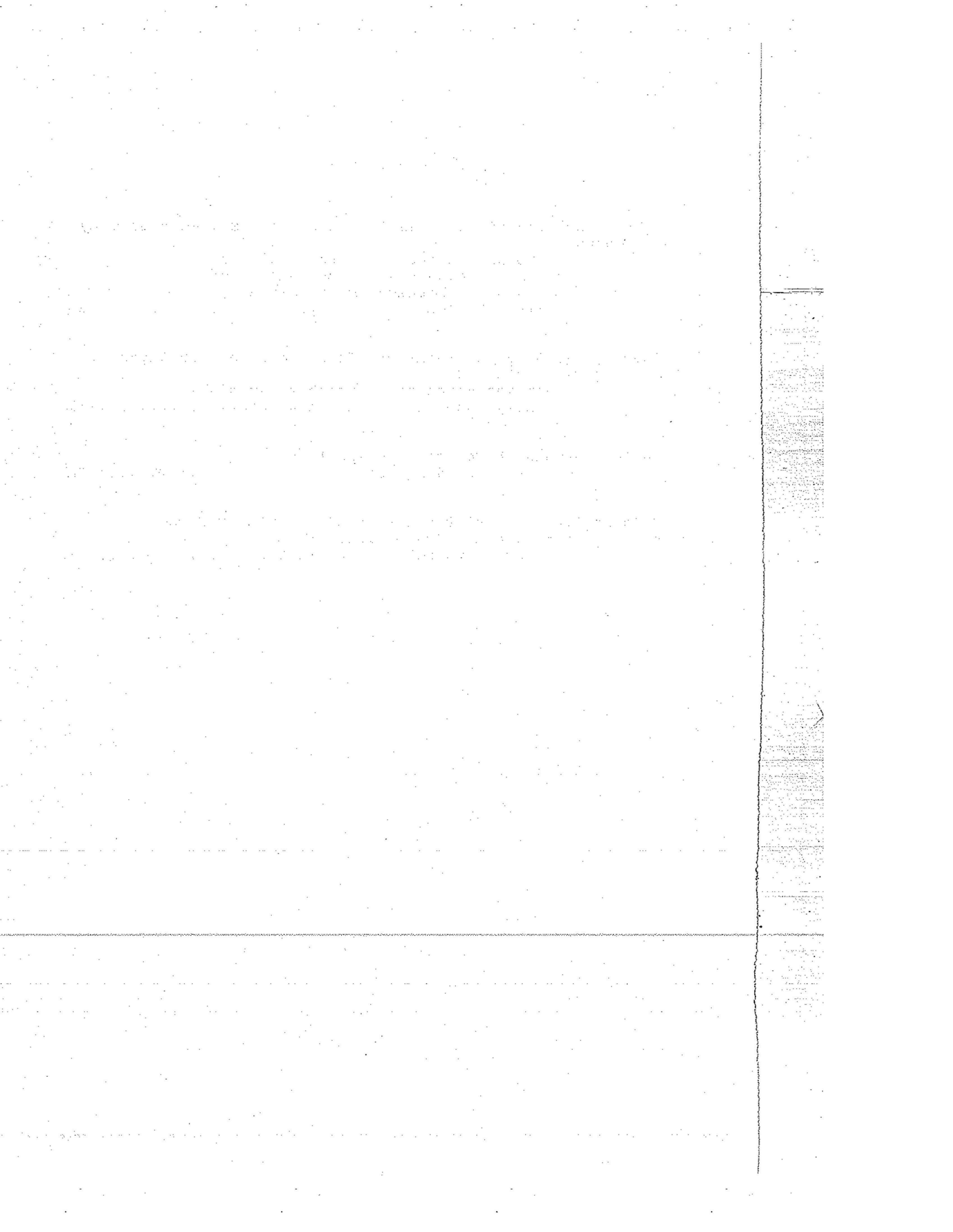
COMMITTEE NO.3

* On the Doctrine of Equivalents among the U.S., West Germany and Japan
--- Yoshihiko Abe, Mitsuo Taniguchi, Shinji Kawamura, Toshiyuki Motoi, Kazutaka Yoshida, Maki Kamiya, Yorozu Noda 305

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On the Doctrine of Equivalents among the U.S., West Germany and Japan

- from the point of view of harmonization -

October 4, 1989

Third Committee of PIPA for the year of 1989

Yoshihiko Abe	Ricoh Co., Ltd.
Mitsuo Taniguchi	Eizai Co., Ltd.
Shinji Kawamura	Nissan Motor Co., Ltd.
Toshiyuki Motoi	Kanebo, Ltd.
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Abstract

There is not any established form for the manner of decision on the scope of protection for patent. This is evident in the fact that work is in progress in WIPO towards embodiment of such rule for the scope of protection. However, we think it is necessary to mention there about a concept to govern such rule, isn't it?

A concept as conceivable may be one found in the Graver Tank decision that "what constitutes equivalency must be determined against the context of the patent, the prior art, and the particular circumstances of the case." It appears to be desirable for the purpose of harmonization to proceed under such concept with the making of such rule as set forth in the draft.

Now, with regard to such rule, there is subtle difference in the comparative concepts and processes of the doctrine of equivalents among the three countries of the U.S., West Germany and Japan.

This paper deals with comparative study on the doctrine of equivalents among the U.S., West Germany and Japan and also various inquiries, as to the rule to be attached to WIPO draft Article 304, into what it should be.

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1. Preface

In our Toba Congress held last year, we introduced decisions in Japan on the doctrine of equivalents, reporting that the doctrine of equivalents was virtually and impliedly recognized by the court of Japan.

Thereafter, we have given more attention to the decisions on the doctrine of equivalents, particularly one in Japan, the U.S. and West Germany and have been engaged in the collection and analysis thereof.

Then, we compared one with another among the concepts and processes in the U.S., West Germany and Japan to identify similarity to or difference from regulations concerning WIPO draft Article 304.

2. Recent significant court decisions

Following are five cases drawing special attention from us.

(I)	Optical waveguide case	(U.S.)[1]
(II)	Modular belt case	(U.S.)[2]
(III)	Tire manufacture case	(Japan)[3]
(IV)	Formstein case	(W.G.)[4]
(V)	Apparatus for chromatographic ion analysis case	(U.S.)[5]

Decision (I) on optical waveguide case was for us truly like a bolt from the blue. Generally, it is necessary for optical waveguide to have such characteristics that the refractive index of the core part is higher than that of sheath. In this case accused product where fluoric compound is added to the cladding part as dopant to obtain a reduction in the refractive index of the same compared to the core part in the optical waveguide composed of quartz is deemed

equivalent to the claim of the accuser's patent where dopant (germanium compound) is added to the core part so that the refractive index of the core is of a value greater than that of the cladding part.

Herein evident is that, while fluoric compound indicates a function to reduce the refractive index at sheath part (negative dopant), the dopant mentioned in the patent at issue particularly increases the refractive index at the core part (positive dopant), quite a contrary to the function of the dopant in the case of the accuser's product. It appeared to us therefore that there is quite a difference between the claimed invention of the accuser's patent and the accused product in terms of the function of dopant and a part receiving addition of dopant. Such appearance to us was because it was in our understanding that necessity for element by element comparison to determine equivalency had been acknowledged by CAFC upon Penwalt case[6] in the U.S.

The module belt case (II), which was related to module belt with link connectable by plastic stick in the manufacture of conveyer belt, took us into endless doubt as to how widely and to what extent the doctrine of equivalents would be in effect in the U.S.

In the accuser's patent and in respect of the dimension of a part there was such limitation attached that ..... slightly greater compared with the dimension of other parts. This was held in the decision to be equivalent to the claim of the accuser's patent though the accused product was 35% greater in respect of the relation of said dimension.

The tire manufacture case (III) in Japan denotes an event where claim under the doctrine of equivalents was rejected because the requisite for conceivability of substitution was deemed absent. Interchangeability and conceivability of substitution (inferability) are two indispensable factors to establish equivalency in Japan.

Detailed explanation will be dealt with later on in respect of the interchangeability and conceivability of substitution. First of all, outline of the case will be shown in the following.

In this case, the process of accuser's patent included such limitation as "to use ethylene propylene terpolymer and low density polyethylene at the same time" as component material. In contrary to this, the accused process used ethylene acetic vinyl copolymer in place of said terpolymer.

The court, while it recognized that copolymer of the accused was identical in function and effect with the terpolymer of the accuser (it has interchangeability) rejected the assertion of the accuser based on the doctrine of equivalents by declaring that the copolymer used by the accused could not be conceived of from the accuser's patent disclosing the terpolymer (absence of conceivability of substitution).

On the other hand, looking into the doctrine of equivalents in West Germany following the effectuation of EPC in Germany, we find cases of (IV) and (V) decisions.

Such decisions are noteworthy in that Supreme Court of Federal Republic of Germany indicated an interpretation based on Article 14, Patent Law of West Germany, 1981 having a provision same as Article 69, European Patent Law and it also indicated its view of the application of the doctrine of equivalents.

Upon application of the doctrine of equivalents, important is "whethere or not those skilled in the art could find out, taking into consideration of the claim of patented invention, detailed description and drawing, and using their knowledge and skill, any means for solving a problem concerning patented invention. Whether or not principle is

similar is not decisive." (decision in formstein case)
(Original sentence is printed on pages 11 - 12 of this paper.)

We understood that any means for solution based on the principle similar to the means for solution of a problem of patented invention is equivalent to the present patented invention under the ex-West German Patent Law. However, it is considered from the said decision that equivalency is approved as long as the same result as from the patented invention is obtained, even though there is any difference in terms of principle for solution.

Among the above-mentioned five decisions, particularly on optical wave guide decision in the U.S. and formstein decision in West Germany, noticeable is common strong attitutde towards protection of invention, despite far-off distance over the Atlantic Ocean between the two places of decisions from a fact that equivalency is approved of though each accused products seen to be different from the patented invention at issue in terms of function and manner.

3. WIPO draft concerning the doctrine of equivalents

At that time, WIPO meeting on harmonization of patent system appeared to be in the last stage from a fact that heated argument was earnestly exchanged in last June as conveyed by the report.

And, according to that report, in connection with interpretation of claim, submitted was a proposal recommending to insert provisions on "Equivalents" in Article 304 of WIPO draft (HL/CE/VII/3) stipulating on the principle for interpretation of claim and the said provisions are well known as follows:

(2) [Equivalents]

(a) Any claim shall be considered to cover not only all the elements as expressed in the wording of that claim but also equivalents of any such elements.

(b) An element shall be considered as being equivalent to an element as expressed in the wording of the claim if, at least in regard to the invention, it functions substantially in the same manner and produces substantially the same result as does the element as expressed in the wording of the claim.

And, we have a feeling as such that the content of such provisions mentioned above conflicts with that of the decisions of optical waveguide and formstein case already introduced. The situation will become still more complexed if Japan interposes among the arguments in WIPO draft treaty, the U.S. and West Germany on the doctrine of equivalents. So, it is understood that ICC views to delete the said Article 304.[7] Though there seems to be very difficult phase of harmonization on the doctrine of equivalents as every one concerned is aware, there must be some way out if each country has mutual understanding about the doctrine of equivalents.

With the background of such circumstances mentioned above, we have attempted comparative investigation of the doctrine of equivalents in the U.S. and West Germany as well as the introduction of the same in Japan from the view point of harmonization based upon mutual understanding on the doctrine of equivalents.

4. Concept of the doctrine of equivalents in Japan

Concept in Japan of the doctrine of equivalents is largely divided into two:[8] one (A) which deals with the doctrine of equivalents from the view point of invention as a whole, giving attention to the technical idea and the other

(B) which deals with the doctrine of equivalents from the point of view of substitution of elements, giving attention to the component elements of invention.

A. A decision concerning patented invention as a whole and dealing with identity of technical idea ..... equivalency in the broad sense.

"Infringement of patent right under the employment of the equivalent process is deemed to be in effect within the limit that composition or process of practice is based on the concrete solution principle (or technical idea) adopted in the patented invention. Form of practice employed by the accused, if variant from the principle or technical idea employed by the process of patent as a whole, is needless to say, not permitted to use the legal theory of equivalency mutually between the principle and technical idea even if identity is evident in the starting substance and object material. (Decision on "sheet of pore-bearing plastics at Osaka District Court, May 30, 1969).

B. Decision concerning substitution of component elements of patented invention ..... equivalency in the narrow sense.

(B-1) Equivalent article having identical effect, in order to be called so, requires that the substitute produces no essentially different result, in other words, the substitute is same as a means to accomplish object and in respect of function and effect performed by the patented invention and that such is what is to be known or would have been known by a person having an ordinally skill in the art. (Spiral spring case at Tokyo High Court, May 23, 1962)

(B-2) Following sentence is quoted from literature15) printed at the end of this paper.

"Equivalent article" and "equivalent process" are concept which lead us to find that the accused article or process is the same as the patented article or process if the accused article or process is very similar to and achieves the same function and effect when substituted for the patented article or process, i.e., is interchangeable with the patented invention and such an interchange would have been easily conceived of by those skilled in the art at the patent filing date.
(Styrene foam case at Osaka district Court, May 4, 1961)

Decision (A) mentioned above deals with equivalency in invention as a whole and is named equivalency in broad sense. On the other hand, decision (B) deals with substitution of component element of invention in part and therefore is called equivalency in narrow sense (equivalency in element). Equivalency in narrow sence is commonly viewed as follows and such is essentially applicable to the decision (A).

"If technique which substituted a part of the component elements of patented invention for other element (technique represented by substance or process) is interchangeable in object and function- effect with patented invention (interchangeability) and if such substitution would have been conceived of by those skilled in the art from the ingredient set forth in the patented invention at the time of filing of patent application (Obviousness of conceivability, easiness of conceivability), such technique is equal to the patented invention."

Conceivability of substitution is given here as a general name for obviousnes of substitution and easiness of conceivability.

Mr. Kohsaku Yoshifuji explained about such common view in a concrete example, which is referred to in the following.[10]

> "The patented invention is concerned with an invention of a certain device and, while the claim of the patent includes rubber member as one of the component elements and further includes, in the detailed description of the invention, a description to such effect that the said rubber member is used to prevent vibration by means of its own elasticity, the subject matter in dispute is similar to the device of the patented invention in terms of the object of invention, and the latter is different in composition only in that board spring is used in place of rubber spring. In such case, if rubber spring and board spring are interchangeable because they are identical with each other in function·effect and it is obvious for those skilled in the art at the time of filing of patent application that the two articles are interchangeable as anti-vibration material (obviousness of substitution), the subject matter in dispute is an infringing article as it is equivalent to the said patented invention."

In this example, if conceivability of substitution is absent, infringement is denied in Japan (i.e. claim for infringement under the doctrine of equivalents is not approved). Tire manufacture case (III) introduced in the beginning of this paper is an example of such case.

As such is the affair, requirements for establishing the doctrine of equivalents in Japan may be summed up into three items which are to be satisfied at the same time.

① Interchangeability .....
identical in function and effect(*)

② Conceivability of substitution .....

interchange was obvious, was known or was easily perceived of (on the basis of description in the patent application.)

③ When conceivable? ..... at the time of filing of patent application.

(*): Even though identical in function and effect, equivalency is not always conceivable if the substitute is too much excellent in such function and effect.

5. Doctrine of equivalents in West Germany (Article 14, Patent Law, 1981)

(1) Decision of formstein case (IV) referred to above and decision of ion analysis device using chromatography (V), both of which were made by Supreme Court of the Federal Republic of Germany, have been reviewed according to what was held in such decisions, resulting in such conclusion as shown in the following.

① Interchangeability ..... identical in object and result

② Conceivability of substitution ..... can be found out (auffinden kann, sufsehen kann) (by a person skilled in the art with his knowledge and skill, on the basis of description in the patent specification.)

③ When conceivable? ..... at the time of filing of patent application.

(2) Listed in the following are the parts of the above-mentioned decisions related to the said conclusion reached by us.

(Decision on the case of formstein)

a. "Kommt es darauf an, ob der Durchschnittsfachmann die bei der angegriffenen Ausführungsform verwendeten gleichwirkenden Mittel aus den Patentansprüchen unter Heranziehung der Patentbeschreibung und der Zeichnungen auf der Grundlage seines Fachwissens suffiden konnte, und nicht auf eine Übereinstimmung in einem "Prinzip""

b. "Zu fragen ist, ob der fachmann Aufgrund der in den Ansprüchen unter Schutz gestellen Erfindung dazu gelangt, das durch die Erfindung gelöste Problem mit gleichwirkenden Mitteln zu lösen, d.h. den angestrebten Erfolg auch mit anderen Mitteln, die zu diesem Erfolg führen, zu erreichen.

Lösungsmittel, die der Durchschnittsfachmann aufgrund von Überlegungen, die sich an der in den Patentansprüchen umschriebene Erfindung orientieren, mit Hilfe seiner Fachkenntnisse als gleichwirkend auffinden kann, sind regelmässig in den Schutzbereich des Patents einbezogen. Das gebietet das Ziel der angemessenen Belohnung des Erfinders unter Beachtung des Gesichtspunkt der Rechtsicherheit."

(Ion analysis device case)

a. Darüberhinaus kann eine Benutzung der unter Schutz gestellen Erfindung vorliegen, wenn der Fachmann aufgrund von Überlegungen, die am Sinngehalt der Ansprüche, d.h. an der darhin beschribenen Erfindung anknuphen, die bei der angegriffenen Ausführungsform eingesetzten abgewandelten Mittel mit Hilfe seiner Fachkenntnisse zur Lösung des der Erfindung zugrundliegenden Problems als gleichwirkend auffinden konnte. Zur Begründung einer Benutzung der im Klagepatent unter Schutz gestellten Erfindung reicht mithin die blosse Feststellung einer Gleichwirkung nicht aus
(This portion is quoted from the decision on formstein case.)

b. "Das reicht zur Begründung einer Patentverletzung nicht aus. Entscheidend ist, ob der Fachmann beim Studium der in den Patentansprüchen umschribenen Erfindung die bei der angegriffenen Vorrichtung eingesetzten abgewandelten Mittel unter Einsatz seines Fachwissens auffinden konnte."

Following is the summary of the portion quoted above.

① As long as the means employed by a person skilled in the art produces the same result as that of the patented invention, that mean is deemed equivalent means by reason of its being same in result even if it is different from one employed by the patented invention.

② Following requirements need to be satisfied in order that equivalency may be established.

②-1 A person skilled in the art ..... substitute means which is identical in effect with the element of the patented invention from description in the patent specification using its own knowledge and skill.

②-2 ..... can find out (auffinden kann).

Needless to say, a portion mentioned in ① describes about general notion of equivalency, and the portion of ②-1 and ②-2 points to interchangeability and conceivability of substitution, respectively.

It is, however, pointed out that merely term "auffinden kann" is mentioned in respect of the level of conceivability and nothing is said in respect of "to what extent".

And, "when conceivable" too could not be read definitely from such decisions and it may only be understood that it will be the same as in the old law, that is, the time of filing of patent application.

In comparison of those mentioned above with the same in Japan, we may conclude, except for the point of "the level of conceivability in the act of interchange "that interchangeability, conceivability of substitution and "when conceivable" are substantially same as those in Japan.

6. Doctrine of equivalents in the U.S.

(1) Requirements in the U.S. for establishing the doctrine of equivalents

Our view on this matter based upon the judicial precedent is as follows:

① Interchangeability .....
first, interchangeability is questioned, then function, manner and result are reviewed. In other words, we perceive that the concept of interchangeability is not inclusive of such elements as function, manner and result.

② Conceivability of substitution .....
described in the decision on Graver Tank case as such ".. would have known of interchangeability" and such is considered substantially same with one in Japan.

③ When conceivable? .....
at the time of infringement.

(2) Reason for which we reached such conclusion

(2)-1 Decision on Graver Tank case[11] which is deemed a leading case of the doctrine of equivalents in the U.S. contains such expressions as indicated under (a) thru (c).

(a) Patentee may invoke this doctrine to proceed against the producer of a device if it performs substantially the same function in substantially the same way to obtain the same result.

(b) Where device is so far changed in principle from patented article that it performs same or similar function in substantially different way, but nevertheless falls within literal word of claim, doctrine may be used to restrict claim and defeat patentee's action for infringement.

(c) An important factor is whether person skilled in the art would have known of the interchangeability of an ingredient not contained in the patent with one that was.

Portion of (a) refers to the necessity of comparison with invention as a whole and portion of (b) suggests that equivalency is not always established when there is quite a difference in the principle (manner) of means for solution of problem (in other word, the reverse doctrine of equivalents applies.) and portion of (c), without reference to function and effect, touches simply general concept of interchangeability (will be described in more details on page 18).

(2)-2 We have such saying in Japan as "taking a leaf out of the wise man's book", meaning looking to the old thing to restudy new thing based thereon. Referring to the book written by Professor W.C. Robinson[12] from such sense, we came across very interesting remarks.

① The term "equivalent" is used in Patent Law in two different senses, and in relation to two different subjects. In one sense it denotes the correspondence between agencies which not only perform the same function, but are in themselves the

same operative means. In this sense it is synonymous with "identical", and can be properly employed only in reference to an invention as a whole. In its second and more technical sense it signifies the interchangeability of agencies which are known in the art to be of serving the same purpose as identical parts of some particular invention. In this sense it is applicable to the elements or ingredients by whose union in one art or instrument the inventor has embodies his idea of means.

In short, years ago in the U.S., there were cases where difference or similarity was put to question in relation to invention as a whole and cases on the other hand where "equivalency" was questioned in respect of substitution of component elements of invention. The former corresponds to the decision (A) in Japan, and the latter corresponds to the decision (B) in Japan.

And, as the explanation about the comparison of invention as a whole, there is such paragraph as:

② "To make one mechanical device the equivalent of another, it must appear not only that it produces the same effect, but that such effect is produced by substantially the same mode of operation."

The term "result" much debated at present is used here as the synonym of "effect", and as to the latter, that is, "interchangeability" which is liable to become the subject of argument in respect of substitution of element, we may point out similarity in the case of Japan in view of such expression quoted as:

③ "serving the same purpose as integral part."

Next, as to the existence of conceivability of substitution, there is an expression such as "without further exercise of inventive skill" in the paragraph quoted in the following.

④ "It must have been known in the arts, at the date of the patent," or "have subsequently become so known <u>without further exercise of inventive skill</u>"

Moreover, as to the level of conceivability of substitution on the substitution of element, there is such paragraph as:

⑤ "In the second sense, equivalents are defined as "<u>obvious and customary</u>" interchange", see Smith v. Downing (1850), 1 Fisher, 64."

This is almost nearly same in content as conceivability of substitution referred to in Japan.

7. Comparison in requirements for establishment of equivalency among the U.S., West Germany and Japan.

Based upon the description mentioned above, the content of interchangeability, conceivability of substitution and "when conceivable?" are related briefly for each country in the following.

(1) Interchangeability

- Japan ..... Interchangeability is established if an element substituted in correspondence to component element of the patented invention is same in function and effect.
- Germany ..... In the quotation (b) from the decision on "formstein case" referred to above,

"... das durch die Erfindung gelöste Problem mit gleichwirkenden Mitteln zu lösen, d.h. den angestrebten Erfolg auch mit anderen Mitteln, die zu diesem Erfolg fuhren, zu erreichen."
"the problem" is referred to the object of patented invention and effect in the reversal form of such object, being therefore the same in content as in the case of Japan.

The U.S. ..... As stated in the decision on Graver Tank case mentioned above to such effect, "An important factor ..... whether person ..... would have known of the interchangeability of an ingredient not contained in the patent with one that was."

Component element of the patent (alkali-metallic silicate) is referred to only on the interchangeability in general and not positively on the identity in function, process or result, according to our understanding.

This is because it can be read from the decision on Perkin-Elmer case (v. Westinghouse case)[13] that identity in function, manner and result is further required after existence of interchangeability is acknowledged.

"That person skilled in the art would have known of the interchangeability of claimed with unclaimed elements is a factor in considering equivalence, yet the accused device must still perform substantially the same function in substantially the same way to obtain the same result."

"Perkin-Elmer evidence that tap-coupling and loop-coupling were known to be interchangeably useful in effecting power transfer in entirely different and unrelated environments cannot serve as a basis for enlarging the subject matter explicitly set forth in the

claim. Moreover, the evidence is nonprobative of equivalence ....."

"Perkin-Elmer points no evidence that tap and loop coupling were known as interchangeable means for performing those functions."

Moreover, the following comment contained in the review of Mr. B. Hamburg on the decision on Graver Tank case[14], if read, leads us to understand that the term interchangeability points to such condition that three factors of function, manner and result are placed outside the frame work.

"Equivalency must be determined on a case-by-case basis against the context of the patnet, the prior art and the particular circumstances of the case. The specification of the patent does not have to expressly disclose the equivalent element. The test of equivalency encompasses any element which one of ordinary skill in the art would perceive as interchangeable with the claimed element, every element developed by post-patent technology."

Concerning such point, Mr. E. Derney reviewed the situation of the doctrine of equivalents in Japan[15], wherein he introduced (in English) decision in Japan (B-2) already referred to. Following is a part related thereto.

""Equivalent article" and "equivalent process" are concept which lead us to find that the accused article or process is the same as the patented article or process if the accused article or process is very similar to and achieves the same function and effect when substituted for the patented article or process, i.e., is interchangeable with the patented invention and such an interchange could have been easily conceived of by those skilled in the art at the patent's filing date.

In a word, it is properly understood that interchangeability meant in Japan and West Germany is the interchangeable means identical in manner, function and effect.

(2) Conceivability of substitution

- Japan ..... was known or would have been easily conceived of.
- West Germany ..... only "auffinden kann" is stated in the decision mentioned above and not clear about the level of conceivability but it is same in concept with one in Japan.
- The U.S. ..... substantially same with one in Japan.

(3) "When conceivable?"

- Japan ..... at the time of patent filing
- West Germany ..... at the time of patent filing (?)
- The U.S. ..... it is held to be admissible that such may be the time of infringement as stated in the decision on Hughes case.[16]

"Partial variation in technique that is embellishment made possible by post-patent technology does not allow the accused device to escape "web" of infringement."

8. Comparison of requirements for establishment of equivalency among Japan, the U.S., Germany and WIPO draft treaty

Comparison made among the said four parties on the basis of the above-mentioned inquiries is summarized in the following.

Comparison of requirements for establishment of equivalence among the U.S., West Germany, WIPO draft and Japan

	WIPO draft	The U.S.	West Germany	Japan		
				Decision (A-1)	Decision (B-1)	Decision (B-2)
General				Identical principle for solution	Essentially identical in means	Identical in technical element
Function	It functions	It performs substantially the same function		The same as WIPO draft and U.S.	Essentially identical in function	Identical in function
(Manner)	in substantially the same manner	in substantially the same manner	Not required	The same as WIPO draft and U.S.		
Result & Effect	Produces substantially the same result	Produces substantially the same result	Produces substantially the same result	The same as WIPO draft and U.S.	Essentially identical in effect	Identical in effect
Interchangeability	Included	Included (Proper substitute)	Included (If result is same)	Included (Identical in function & effect)	Included (Identical in function & effect)	Included (Identical in function & effect)
Conceivability of substitution	No provision	Included	Included	Included	Included	Included

This table may lead us to say as follows:

(1) On established rule (Function, manner and result)

① Words, though somewhat different in expression, point to substantially the same content in Japan and the U.S.

② In comparison with West Germany, Japan and the U.S. are same with West Germany in result or effect alone.

③ Compared with above-mentioned three countries, WIPO draft is same as them only in result (effect).

④ With regard to function, only "functions" in the verbal form is put in the WIPO draft column. However, this seems not to make any difference compared to the U.S. case.

(2) Interchangeability

This exists as general concept in all parties.

(3) Conceivability of substitution

It is WIPO draft alone that has no such provision. It commonly exists in the provisions of the remaining three parties.

Following table gives general idea of all described above.

	WIPO Draft	The U.S.	Japan	West Germany
a. Established rule				
· Function	... Substantially ... common			Different
· (Manner, means or principle)	... Substantially ... common			Different
· Result (effect)	..... Substantially ..... common			
b. Inter-changeability	..... Substantially ..... common			
c. Conceivability of substitution	Dif-ferent	... Substantially ... common		
(Level of conceivability)	?	.. Substanti-ally .. common		?
d. When conceivable?	.. Substanti-ally .. common		.. Substanti-ally .. common	

According to the table, the problems seemed remaining to be adjusted from the point of view of harmonization are: (1) manner and function, (2) whether or not to have any provision for conceivability of substitution and then whether to define on the level of conceivability and (3) the matter of time as to "when conceivable?".

Also, necessary is to affirm whether function, manner and result have been taken in the concept of interchangeability in the U.S.

In the following we propose from the point of view of harmonization as to how such matters should stand.

9. Proposal from the point of view of harmonization

(1) On manner and function

There is no divergence of views as to what to be protected in invention is the means (manner) for solution of problem and also as to what such means produces are "function" and "result". And there is unseparable relationship between these three matters. Thus, content of the present rule is considered reasonable. Only problem may be how these matters are defined or understood by the people concerned.

In the preceding paragraph we ventured to use such expression as "identity of technical idea". This is because court decisions for all ages and in all places indicate that technical idea of patented invention has been given more importance upon the determination of infringement as represented by (A-1) decision in Japan to say nothing of decisions in West Germany. Moreover, in the U.S. too this is reflected realistically in such decision as follows:

"If he confines self rigidly to those element of the specification as they appear on the specification, he derives patent of practical value, because it is always possible to change form of these as they appear." "They resort to the "doctrine of the equivalents" to temper unsparing logic and prevent an infringer from stealing the benefit of the invention."
(Royal typewriter case, Cir. Ct. 1948)

"Patent is infringed by device where they are substantially identical, operating upon the same principle, and accomplishing the same result in substantially the same way, where slight change in form made by defendant is merely colorful departure from the patent." "There is substantially identity, constituting infringement, where a device is a copy of the thing described by the patentee, either without variation, or with such variation as consistent with its being in substance the same thing." "Close copy which seeks to use the substance of the invention, and, although showing some change in form and position, uses substantially the same device, performing precisely the same offices with no change in principle, constitutes an infringement."
(Sanitary Refrigerator case. Sup. Ct. 1929)

"Such limitation would encourage copyist to make unimportant change and insubstantial change and substitution which, though adding nothing, would be enough to take copied matter outside claim."

"The essence of the doctrine is that one may not practice a fraud on a patent." "Equivalency is not the prisoner of a formula and is not absolute to be considered in vacuum." "One who seeks to pirate an invention, like one who seeks to pirate copywrighted book or play, may be expected to introduce minor variation to conceal and shelter the piracy."
(Graver Tank case. Sup. Ct. 1950)

"If two devices do the same work in substantially the same way, and accomplish substantially the same result, they are the same, even though they differ in name, form or shape."
(Machine Co. case. 97 U.S.)

(2) On conceivability of substitution

(2)-1 This matter is commonly adopted in the said three countries as described above. It is therefore considered effective for smoothly helping on harmonization to integrate this element into WIPO draft. Needless to say, the course of determination in itself on the existence of conceivability involves something difficult in the same degree as in the determination on inventive step (according to Japanese practice, there is essential difference between these two matters in that it is the matter with the former whether interchangeability was known or would have been known on the basis of the description in the patent specification and the latter is determined on the basis of known art at the time of patent filing. If by the substitute used in the accused article, "essence" of the patented invention still remains to be used and if such accused article is relieved from accusation of infringement by such reason that the said substitute is not contained in the patent specification, such would be unfair for the patent right owner. Such substitute naturally and obviously derivable should be deemed equivalent as long as the "essence" of patented invention is used.

(2)-2 However, the doctrine of equivalents, if permitted to be endlessly extended, would contradict the purpose of equity aimed at by the doctrine of equivalents. If the substituted means is different in the principle, or the level of conceivability of the substituted means is in an extremely high degree or effect produced thereby is prominently notable, the reverse doctrine of equivalents should be permitted to interpose.

W.C. Robinson, referred to before, quoted following example in his book, page 336, Vol. 1.

"But, gentlemen, there may be equivalents in producing the same results, each of which is an independent matter of invention, and in that sense they are not mechanical equivalents. To illustrate my meaning, suppose, in early days, the problem was to get water from a well to the surface of the earth. One man takes a rope made of grass, and draws up a pail of water; another would see that, as a mechanical equivalent, a rope of hemp would accomplish the same result. But suppose another person comes, and for the first time invents a pump. That is equivalent in the result of bringing the water to the surface of the ground; in that respect it is equivalent in producing that result to hauling it up by a rope, but is not mechanically equivalent; it brings into operation, as you know, very different powers and forces, and would require invention to introduce it."

Such would be more clarified if you read following part quoted from the book written by Professor Robinson mentioned above.

"It must have subsequently become so known without exercise of inventive skill."

(2)-3 It is in such sense that provisions should be made of conceivability of substitution, upon which, it would be better to mention expressly the level of conceivability is in

"such degree as naturally and obviously induced"

from the point of view of equity.

(3) On the time as to "when conceivable?"

This problem is, as alaready explained, a subject of opposition between the part of Japan and West Germany and the

part of the U.S. and WIPO. In recent society, patent will confront endlessly waves of progressive technical inovation during its duration, at least ten years. And, it is not deniable, the higher the value of patent becomes, the more the pith and morrow of the patent is destined to suffer from pirate, use or appropriation. Decisions in the U.S. and those in Japan as introduced so far, truly indicate that substance of invention or technical idea will be the subject of protection in patent.

Pirate, use and appropriation mentioned above tend to be easily perpetrated with the pass of time (= technical advance), in view of which it would be reasonable to insert such phrase as "it does't matter whether a point of time is limited or not" in consideration of fate patent has to go under.

The foregoing has been proposed from the point of view of rule, and we desire to add one more proposal as the final one.

This is based upon concept that <u>where there is a rule, there must be a concept to control it</u>. In other words, as explained in the beginning, as the backbone of such rule, it is deemed reasonable to have a provision to such effect that:

> "Upon the determination of scope of protection for patent, the context of patent, the known art and the particular circumstances of the case should be considered."
> or
> The meaning of the claim shall not be interpreted strictly literally according to the normal meaning of the wording in that language but is to be interpreted more flexibly to cover any element which can rationally be implied by the wording when read in light of the disclosure of the patent specification, the background

art at the time of application and the specific situation of the case in question.

10. Conclusion

While sincere review has been under way by every one concerned towards harmonization, we have made proposals for harmonization on the basis of comparison in the doctrine of equivalents among the U.S., West Germany and Japan though not necessarily satisfactorily, as well as the introduction of the doctrine of equivalents in Japan from the viewpoint of mutual understanding on the doctrine of equivalents.

How difficult it is to set by a single standard a final and rational wall between public and patent right owners is understood by every one. Furthermore, notwithstanding such specification as we have as indicating specific wall, would "such as that an equivalence is what the judge says is an equivalent"[17] be allowed to remain as it is? Though it is true, it is difficult to bridge a gap originating in difference in culture and customs and manners, and still more in judicial system, die has been cast and we are not allowed to turn back. We are convinced firmly that thick wall raised along the boundary of nations could be removed with the wisdom and effort of mankind.

1) BNA's Patent, Trade Mark & Copyright Journal Vol. 37, 3-2-89, P. 421
2) Patent & Licensing, February, 1989
3) Patent News Dec. 9, 1988
4) EPO Journal Dec. 1987 (P. 51)
5) GRUR 1988 Heft 12, p. 896
6) 4 USPQ 2nd 1737
7) AIPPI Annuaire 1989/1 (ICC statement as adopted at the May, 5, 1989 meeting)

8) "Scope of Protection of Patented Invention, written by Shigetoshi Matsumoto, 1st edition (3rd printing) P. 202
9) Outline of Patent Law by Kosaku Yoshifuji, 5th edition p. 358
10) ditto p. 359
11) 85 USPQ 328
12) The Law of Patent for useful inventions Vol. 1 §245 - 248
13) 3 USOQ 2d 1321
14) Patent and Licensing, December, 1986, p.24
15) Patent and Licensing, 1989, p.7
16) 219 USPQ 473
17) JPOS April, 1972, Vol. 54 No. 4 p.249

(Post script)

1. We based chiefly, for our study of the doctrine of equivalents in the U.S., on the Graver Tank decision. However, there is perceived of some severe criticism against this decision (JPTOS August, 1988 p.511).

   Point of such criticism is:

   "The alleged infringing structure was compared for equivalency to the invention disclosed in the specification, not to claims," and ....., "The court took away literal infringement from the patentee and give him back infringement by a bizzare expansive doctrine of equivalents."

   As this comment is by a person working for a certain U.S. enterprise, we shall be pleased if any of you attending today's meeting let us know any view of Graver Tank decision.

2. There exists truly the doctrine of equivalents in Japan but it is never in the front in the court. Comment by Mr. Edward G. Durney on this matter is hereby introduced as it seems reasonable. (See Quotation[15])

   "Although giving only his private views, judge Toshiaki Makino of Tokyo High Court probably expressed the prevailing thinking of the Japanese judiciary as to why the doctrine of equivalents should not be invoked. Judge Makino, although now on the Tokyo High Court, was for many years a presiding judge of the department of the Tokyo District Court which deals with intellecual property cases.

"Therefore, his opinion, while perhaps not the prevailing opinion in the legal community in general, may well be the prevailing opinion among the judges who decide intellectual property cases.

Judge Makino argues that the doctrine of equivalents should not be accepted by the courts. He believes that a patent applicant has ample opportunity, both before and after the filing of his application, to draft claims of proper scope. Therefore, there is no reason not to hold the applicant to the literal wording of his claims.

If the doctrine of equivalents were accepted, however, the public would not be able to rely on the literal language of the claims. The scope of the patent would not be fixed with any legal certainty, and would instead depend on the interpretation of the court which decides the infringing case.

Judge Makino argues that, on balance, policy favors legal certainty and the interest of the public over the interest of the patent holder, particularly since the patent holder can avoid any problems by careful drafting of his claims. This opinion appears to be shared by most of the patent bench, and probably accounts for the fact the doctrine of equivalents is rarely, if ever, invoked."

From the reason mentioned above, it is supposed, court in Japan can not do but deal positively with the doctrine of equivalents once the rule for the doctrine of equivalents is adopted in the meeting of WIPO, and the doctrine of equivalents in Japan which has developed but not openly so far is expected to show great stride forward.

COMPARATIVE STUDY ON IDENTICAL INVENTIONS BETWEEN JAPAN AND EUROPEAN PATENT OFFICE

- Regarding WIPO Proposal for Article 202 -

Japanese Group, Committee No. 3

Takeo HAMAZAKI : Mitsubishi Rayon Co., Ltd.
Nobuhito KUROISHI: Sumitomo Electric Industries, Ltd.
Keiji KOMAKI : Fujisawa Pharmaceutical Co., Ltd.
Masahiko OMORI : Mitsui Petrochemical Industries, Ltd.

Abstract

WIPO proposal for Article 202 provides that an earlier application is used solely to judge the novelty of a later application. On the other hand, the novelty is determined depending on the concept of identical inventions.

We have studied the European Patent Office Guidelines and several appeal decisions related to Article 54 EPC and abstracted the concept of identical inventions to compare the same with that of Japan. Under EPO practices, there could be found no concept such as that envisaged under Japanese practices where two inventions with merely different constituent features, those with merely different uses, or those with or without mere limitation on uses are deemed substantially identical to each other. From these points the concept of identical inventions at EPO is considered narrower than that in Japan, and the effect of an earlier application of taking away novelty of a later application is considered less at EPO than in Japan.

1. Introduction

The Committee of Experts on the Harmonization at WIPO substantially agreed on the effect of an earlier application on the later application to be provided in Article 202 (draft)[1] except for a provision on handling of

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1) Annex 1

cases where applicants or inventors of these applications are the same.

The most significant rule in this article (draft) concerns limiting the effect of an earlier application as a prior art to determining novelty of a later application, and prohibiting its use in determining the inventive step of the latter.

This is considered equal to the provisions of Article 29 bis of the Japanese Patent Law and of Articles 54(3)[2] and 56[2] EPC. Different from the current US practices where the prior art falling subject to 35 USC Section 102(e) can be used to determine non-obviousness under Section 103, the Treaty may weaken the effect of earlier applications in US in the event when it comes into effect.

The invention disclosed in an earlier application takes away novelty of the invention of a later application when the latter invention is judged to be identical to the invention disclosed in the claims, specification and drawings of the earlier application. If the concept of identical inventions differs from country to country when WIPO Article 202 (draft) is eventually operated in these countries, the effect of earlier applications on taking away the novelty of later applications will also differ from country to country.

A previous report[3] discussed the concept of identical inventions in Japan with a focus on Article 29 bis of the Japanese Patent Law with a particular emphasis on substantially identical inventions.

On the other hand, we failed to uncover any reports dealing with the concept of identical inventions at EPO based on case studies. We reviewed the Japanese concept of identical inventions, excerpted EPO's concept of identical

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2) Annex 2
3) "Limits of the Concept of Identical Inventions under Section 29 bis of the Japanese Patent Law": Japanese Group, Committee No. 1, Subcommittee No. 2: Proceedings of the PIPA Toba Congress

inventions by studying EPO Guidelines for Examination and the appeal decisions rendered by EPO Board of Appeals, and further compared both concepts.

2. The Concept of Identical Inventions in Japan

Since the paper mentioned above discussed in detail the concept of identical inventions in Japan, we shall discuss only the essence thereof.

There exists in Japan the concept of substantially identical inventions in addition to the concept of identical inventions of which objectives, constituent features and effects are same or overlapping in part.

According to JPO's examination standards, the concept of substantially identical inventions is roughly classified into four. If two inventions fall subject to any one of the following four categories, they are considered substantially identical to each other.

(i) Two inventions with a mere difference in the wording

(ii) Two inventions with a mere difference in recognition of effects or in objectives

(iii) Two inventions with a mere difference in constituent features

(iv) Two inventions with a mere difference in use or those with or without mere limitation on use.

Among the four categories, (iii) and (iv) are complicated even for Japanese practitioners and require further clarification.

Two inventions with "a mere difference in constituent features" in (iii) above are those inventions of which differences are, for instance,

(a) mere change of customary means,

(b) mere limitation, addition or elimination of customary means, or

(c) mere limitation or difference of a numerical value.

As for "a mere difference in use" in (iv), comparison of the two inventions reveals that the

difference in constituent features comprises only the difference in use, and said difference in use is automatically induced from the constituent features of one of the inventions.

JPO examiners rely on such concept of substantially identical inventions based on the above mentioned categories (iii) and (iv) when they reject later applications by applying Section 29 bis of the Japanese Patent Law despite the existence of the difference in constituent feature of two inventions. The court also supports this concept. If a later application is rejected under Section 29 bis based on the disclosure of an earlier application despite the existence of the difference in constituent feature, the rejection based on the recognition of substantially identical invention can be revoked by asserting the difference in effect resulting from the difference in constituent features.

3. The Concept of Identical Inventions at European Patent Office

Article 54 EPC provides the test for novelty, and Article 54(3) EPC may be interpreted to read that the effect regarding novelty of the earlier application on the later application is the same as that of the documents published prior to filing of the later application. The Guidelines, Part C, Chapter IV, Paragraph 7 (Test for novelty) provide standards for making concrete consideration of the presence/absence of novelty.

3.1 EPO Guidelines on Novelty

The above mentioned "Test for Novelty" contains following passages.

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4) Annex 3

When considering novelty, it is not correct to interpret the teaching of a document as embracing well known equivalents which are not disclosed in the documents; this is a matter of obviousness ... (7.2).

... it should be noted that a chemical compound, the name or formula of which was mentioned in a document, is not considered as known unless the information in the document, together, where appropriate, with knowledge generally available on the effective date of the document, enable it to be prepared and separated ... (7.3).

In considering novelty it should be borne in mind that a generic disclosure does not usually take away the novelty, the novelty of any specific example falling within the terms of that disclosure ... (7.4).

As far as these passages are concerned, prior publications or earlier applications should be applied strictly in considering the novelty or determining whether or not they are identical inventions.

3.2 EPO Appeal Decisions regarding Novelty

We shall discuss the Appeal Board decisions regarding Article 54 EPC on novelty. Reference should be made to Annex 4 for details.

(1) Phenylenediamine Case (T103/86)

The citation discloses platinum, palladium and rhodium but not nickel as catalysts for hydrogenation whereas the present invention uses nickel catalyst. Even though such use does not achieve any remarkable effect, the present invention was considered novel over the citation; i.e. the present invention was held not identical to the cited invention.

The appeal decision is consistent with EPO Guidelines that generic disclosure usually does not take away novelty of any specific examples (Guidelines 7.4), and that it is not correct to interpret the teaching of a document as embracing well-known equivalents which are not disclosed in the documents (Guidelines 7.2).

However, the present patent was invalidated as lacking inventive steps in view of the cited references.

(2) Fuel Injector Valve Case (T167/84)

This case pertains to possible self collision. The earlier application and the present invention are in the name of the same inventors/applicant, and both of the claims are directed to inventions utilizing the same principles and are therefore equivalent to each other. Although there are brief descriptions in the specification of the earlier application concerning a fuel injector valve, there is nothing to disclose the present invention per se.

The Appeal Board taught that "the whole contents" as used in Article 54(3) EPC do not extend to the equivalents and that when considering novelty, it is not correct to interpret the teaching of a document as embracing well-known equivalents which are not disclosed in the document. Assuming that EPO practices rely on these decisions consistently, there may be little danger of "self collision" at EPO.

(3) Herbicides Case (T206/83)

This case disputed whether the cited document regarding novelty of the invention of a chemical compound effectively disclosed said compound or not. The earlier-filed Dow Patent (EP-483) cited in this case described the objective compound of the present invention and the method of manufacture thereof, but lacked concrete discussion for

manufacturing the required starting materials or intermediates. Thus, the issue disputed was whether or not the disclosure of the Dow Patent was an enabling disclosure.

According to the appeal decision; (1) the requirement for an enabling disclosure of the document cited under Articles 54(2) and (3) EPC was the same as that for patent applications as defined by Article 83 EPC; (ii) the principle of the appeal decision (T171/84) was applied to the issue of sufficient disclosure; and (iii) information obtainable only after a comprehensive search is not to be regarded as part of common knowledge. The decision is considered to have shown a strict approach for applying Article 54(3) EPC.

(4) Diastereomer Case (T12/81)

This case is related to diastereomers of a compound having two assymetrical carbon atoms, which are expressed by the same planar structure and are capable of being in forms of threo and erythro. This case disputed whether or not one of the diastereomers (threo) was novel, where a mixture of diastereomers (1:1) and its method of preparation (reduction) are known from a prior document.

The Appeal Board held that "the concept of novelty must not be given such a narrow interpretation that only what has already been described in the same terms prejudicial to it", and yet in discussing selection invention, the Board indicated fundamental criteria for considering novelty that "if two classes of starting substances are required to prepare the end products and examples of individual entities in each class are given in two lists of some length, then a substance resulting from the reaction of a specific pair from the two lists can nevertheless be regarded as a selection and hence as new".

However, the Appeal Board judged that this principle is not applicable to the combination of the starting substances and the method of preparation thereof as in the

present case. Therefore, the appeal against the decision by the Examining Division that the present invention was not novel was dismissed.

In a Japanese case similar to the present case, Tokyo High Court recently recognized novelty for the invention of the antimycotic composition.

(5) Xanthine Case (T7/86)

This case disputed whether or not the pharmaceutical use of a publicly known xanthine compound was the first use in view of the description of other publicly known compounds, which generically include the publicly known xanthine compound and possess different pharmaceutical use therefrom.

The Appeal Board indicated that the criteria of novelty shown in the above mentioned Diastereomer Case, namely, "list principle" is applicable not only for starting substances in chemical reactions but also for polysubstituted chemical substances where the individual substituents have to be selected from two or more. The use invention in the present case was accordingly recognized as novel.

As the list principle is applicable to starting substances, then it appears reasonable to apply it to a chemical substance per se. In this connection, the corresponding patents were issued in Japan and US, and there were no differences among the trilateral concerning novelty.

Among the cases discussed above, (1) Phenylene-diamine Case and (2) Fuel Injection Valve Case appear to be typical cases for considering the concept of identical inventions at EPO.

In Phenylenediamine Case, the invention disclosed in the citation and the invention of the disputed patent have the relationship of the generic (citation) versus the

specific (disputed patent) as well as that of well-known equivalents. Though the citation does not disclose the invention of the disputed patent "in a very strict sense of meaning", under the Japanese practices they may be recognized as identical inventions and their patentability may be denied based on the above discussed concept of substantially identical inventions, unless the invention of the disputed patent achieves an effect arising from the difference in constituent feature of the cited invention and the invention of the disputed patent.

On the other hand, this decision appears to have followed the course of thinking at EPO that the two inventions are not recognized identical unless the citation discloses the invention "in an extremely strict sense of meaning", and no consideration is given to the difference in effect arising from the difference in constituent features between two inventions when determining the identity of the inventions ..... this is a matter of an inventive step.

This thinking is also evident in (2) Fuel Injection Valve Case where the decision judged along the Guidelines (7.2) that "it is not correct to interpret the teaching of a document as embracing well-known equivalents which are not disclosed in the documents".

(4) Diastereomer Case and (5) Xanthine Case are both related to the issue of novelty in the selection invention of chemical compounds and concurrently adopt the so-called "list theory". They concretely embody the relation of generic disclosure versus specific invention of the Guidelines 7.4. We shall not discuss this in detail since we do not have sufficient data concerning the concept of identical inventions in the selection invention in Japan.

In (3) Herbicides Case, the Board judged the novelty of an invention or identity of two inventions along the lines set forth by the Guidelines 7.3 that insufficient disclosure of an invention in a document impairs its value as a citation, and showed the degree of disclosure required

to retain its value as a citation. According to this decision, a citation is not valuable in determining novelty if the information concerning starting materials or a method of preparing intermediates used in the cited invention becomes clear only after a comprehensive search has been conducted. The decision appears to impose a considerably strict requirement on disclosure on the citation, but we shall not discuss the matter further as we do not have sufficient data to compare it to the Japanese practice.

4. Conclusion

We studied the European Patent Office Guidelines and appeal decisions regarding the concept of identical inventions, and found that there is no counterpart at EPO to the Japanese concept of substantially identical inventions with a mere difference in constituent features of inventions, that EPO adopts the thinking of not deeming such inventions as identical, and that differences in effects of inventions do not affect the determination of identical inventions at all.

The effect of earlier inventions on novelty alone is therefore concluded to be less at EPO than in Japan as far as the above mentioned point is concerned.

There would hardly arise the problem of so-called "self-collision" at the European Patent Office in accordance with the practices at EPO. It might be, however, possible to have the later application patented without losing novelty by the earlier application if following applications are assumed.

Earlier application

A and B are reacted to form C, and C is obtained after separation (assuming that the distillation method as a means for separation is not disclosed).

Later application

A and B are reacted to form C, and C is obtained after it is separated by distillation.

We would like to point out that there might be problems of granting plural patents for single invention if the later application above is patented.

Annex 1 WIPO Article 202 (HL/CE/VII/3)

Prior Art Effect of Certain Applications

(1) [Principle of "Whole Contents"] (a) Subject to subparagraph (b), the whole contents of an application ("the former application") as filed in, or with effect for, a Contracting State shall, for the sole purpose of determining the novelty of an invention claimed in another application filed in, or with effect for, that State (and not for determining whether that invention involves an inventive step), be considered as prior art from the filing date of the former application to the extent that the former application for the patent granted thereon is published subsequently by the authority competent for the publication of that application or patent.

(b) Where the former application referred to in subparagraph (a) claims the priority of an earlier application, matter that is contained in both the former application and the earlier application shall be considered as prior art in accordance with subparagraph (a) from the priority date of the former application.

(c) For the purposes of this Article, publication maens any first act of making available to the public by reason of an official act of the authority referred to in subparagraph (a), including any making available, without reproduction, of the application or the patent to the public for purposes of public inspection.

(d) For the purposes of subparagraph (a), "whole contents" of an application consists of the description and any drawings, as well as the claims, but not the abstract.

(2) [Withdrawn Applications] Paragraph (1) shall not apply to applications which were withdrawn prior to their publication but which were nevertheless published.

(3) [International Applications Under the PCT] As regards international applications filed under the Patent Cooperation Treaty, any national law may prescribe that paragraph (1) shall apply only if the acts referred to in Article 22 or, where applicable, Article 39(1) of that Treaty have been performed.

[(4) [Self-Collision] Any Contracting State shall be free not to apply paragraph (1) when the applicant of the former application, or the inventor referred to in the former application, and the applicant of the application under examination, or the inventor referred to in the latter application, is one and the same person, provided that not more than one patent shall be granted for the same invention.]

Annex 2 EPC Provision on Novelty

Article 54 Novelty

(1) An invention shall be considered to be new if it does not form part of the state of the art.

(2) The state of the art shall be held to comprise everything made available to the public by means of a written or oral description, by use, or in any other way, before the date of filing of the European patent application.

(3) Additionally, the content of European patent applications as filed, of which the dates of filing are prior to the date referred to in paragraph 2 and which were published under Article 93 on or after that date, shall be considered as comprised in the state of the art.

(4) Paragraph 3 shall be applied only in so far as a Contracting State designated in respect of the later application, was also designated in respect of the earlier application as published.

(5) The provisions of paragraphs 1 to 4 shall not exclude the patentability of any substance or composition, comprised in the state of the art, for use in a method referred to in Article 52, paragraph 4, provided that its use for any method referred to in that paragraph is not comprised in the state of the art.

Article 56 Inventive Step

An invention shall be considered as involving an inventive step if, having regard to the state of the art, it is not obvious to a person skilled in the art. If the state of the art also includes documents within the meaning of Article 54,

paragraph 3, these documents are not to be considered in deciding whether there has been an inventive step.

Annex 3 EPO Guidelines on Novelty

7. Test for novelty

7.1 It should be noted that in considering novelty (as distinct from inventive step), it is not permissible to combine separate items of prior art together (see IV, 9.7).

7.2 A document takes away the novelty of any claimed subject-matter derivable directly and unambiguously from that document including any features implicit to a person skilled in the art in what is expressly mentioned in the document, e.g. a disclosure of the use of rubber in circumstances where clearly its elastic properties are used even if this is not explicitly stated takes away the novelty of the use of an elastic material. The limitation to subject-matter 'derivable directly and unamibiguously' from the documents is important. Thus, when considering novelty, it is not correct to interpret the teaching of a document as embracing well-known equivalents which are not disclosed in the documents; this is a matter of obviousness.

7.3 In determining novelty a prior document should be read as it would have been read by a person skilled in the art on the effective date of the document. By 'effective' date is meant the publication date in the case of a previously published document and the date of filing (or priority date, where appropriate) in the case of a document according to E 54(3). However, it should be noted that a chemical compound, the name or formula of which was mentioned in a document, is not considered as known unless the information in the document, together, where appropriate, with knowledge generally available on the effective date of the document, enable it to be prepared and separated or, for instance in the case of a product of nature, only to be separated.

7.4 In considering novelty it should be borne in mind that a generic disclosure does not usually take away the novelty of any specific example falling within the terms of that disclosure, but that a specific disclosure does take away the novelty of a generic claim embracing that disclosure, e.g. a disclosure of copper takes away the novelty of metal as a generic concept, but not the novelty of any metal other than copper, and one of rivets takes away the novelty of fastening means as a generic concept, but not the novelty of any fastening other than rivets.

7.5 In the case of a prior document, the lack of novelty may be apparent from what is explicitly stated in the document itself. Alternatively, it may be implicit in the sense that, in carrying out the teaching of the prior document, the skilled person would inevitably arrive at a result falling within the terms of the claim. An objection of lack of novelty of this kind should be raised by the examiner only where there can be no reasonable doubt as to the practical effect of the prior teaching.

7.6 In interpreting claims for determining novelty the examiner should have regard to the guidance given in III, 4. In particular, he should remember that non-distinctive characteristics of a particular intended use should be disregarded (see III, 4.8). For example, a claim to a substance X for use as a catalyst would not be considered to be novel over the same substance known as a dye, unless the use referred to implies a particular form of the substance (e.g. the presence of certain additives) which distinguishes from the known form of the substance. That is to say, characteristics not explicitly stated, but implied by the particular use, should be taken into account; e.g. in deciding the novelty of a hook for a crane over a known fish-hook of similar shape, one should take into account the differences of size and strength implied by these uses.

Annex 4 Appeal Decisions at European Patent Office

Case 1: T103/86
EP-52511
Du Pont/Phenylenediamine (Opposition by Akzo NV)
Article: Articles 54 and 56 EPC

1. Comparison of the Present Invention and the Cited Invention

(1) The claim of the present invention

A method of producing a p-phenylenediamine which method comprises contacting a solution of p-aminoazobenzene in aniline with hydrogen in the presence of a nickel catalyst at a temperature of not more than 139°C, said solution containing dissolved water in an amount up to 6 per cent by weight and anions derived from a strong acid in an amount less than 500 parts per million by weight, and having substantially no free water admixed therewith.

(2) Cited Japanese Patent Laid Open 54-52,035

1. Para-phenylenediamine is produced by hydrogenating p-aminoazobenzene.
2. A solution containing p-aminoazobenzene to be reduced in the example satisfies the conditions called for by the present invention.
3. An example cites the reaction temperature of 100°C.
4. There are disclosed palladium, platinum, and rhodium as hydrogenation catalysts, but not nickel.

2. History

(1) The application was filed on November 17, 1981 at European Patent Office claiming the priorities of US applications filed on November 17, 1980 and November 6, 1981, and issued as a granted patent on March 7, 1984.

(2) Akzo NV filed an opposition claiming that the subject invention lacked novelty and inventive steps. However, the Opposition Division dismissed the opposition as it deemed the invention possessed both novelty and the inventive steps.

(3) Dissatisfied with the decision of the Opposition Division, Akzo filed an appeal with the Board of Appeal.

3. Appeal Decision

(1) Since the cited document does not disclose a nickel catalyst, the present invention is deemed novel over the cited document.

(2) The difference between the cited document and the present invention is the use of a nickel catalyst as a hydrogeneration catalyst. Since the nickel catalyst does not achieve any remarkable effects, substituting a known hydrogenation catalyst with another known catalyst does not contain an inventive steps.

(3) The patent is invalidated.

4. Comment

Since there was no concrete description of nickel as a hydrogenation catalyst, the present invention was deemed different from the cited invention, and its novelty was not denied.

The appeal is deemed to have followed the Guidelines that the generic disclosure (hydrogenation catalyst) does not prejudices the novelty of the specific example (nickel catalyst) (7.4), and that the cited document should not be interpreted as containing well-known equivalents which are not disclosed by the cited reference (7.2).

Case 2: T167/84
EP-7724
NISSAN/Fuel Injector Valve
(Opposition by R. Bosch GmbH)
Article: Articles 54(3), 56 EPC

1. Comparison of the Present Invention and the Cited Invention

(1) The claim for the present invention

1. A fuel injector valve (10) having a fuel chamber (26) to which a fuel is admitted, comprising:

a magnetic spherical valve member (28) disposed and movable within the fuel chamber;

a non-magnetic valve seat member (30) on which said spherical valve member is seatable, the fuel within the fuel chamber being able to pass through a first clearance between said valve seat member and said spherical valve member;

a main magnetic pole member (18c) disposed opposite said valve seat member and in close proximity to said spherical valve member, said spherical valve member being able to be attracted to said main magnetic pole member;

a side magnetic pole member 34 disposed around said spherical valve member, said side magnetic pole member being spaced from and between the extreme end of the said main magnetic pole member and the extreme end of said valve seat member so that magnetic field formed between said main and side magnetic pole members effectively acts on said spherical valve member; and

means (36, 38, 40) through which the fuel which has passed said first clearance is injected out of said fuel injector valve.

FIG. 1

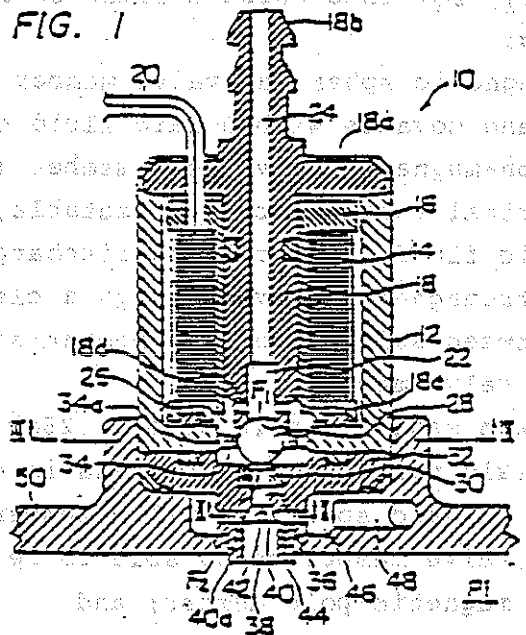
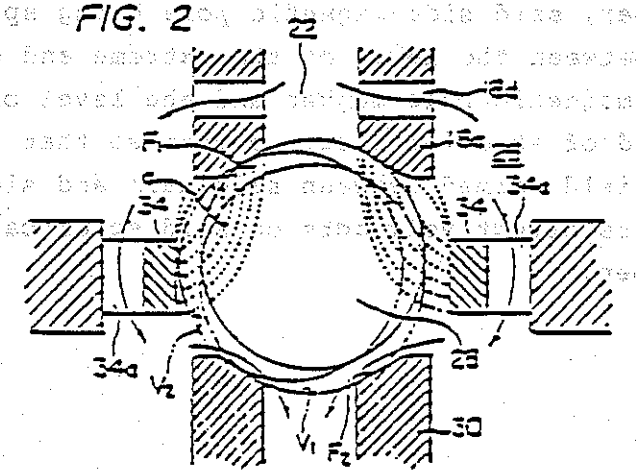

18b
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10
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18a
16
14
18
12
22
18d
25
F1
18c
28
34a
II
II
34
32
50
30
I
I
F2
42
40
36
46
48
F1
40a
38
44

FIG. 2


22
24
F1
26
III
III
34a
34
34
34a
V2
28
30
V1
F2

(2) Cited Reference EP-6769

1. An electromagnetic valve (10), having a fluid chamber (F_1, F_2) into which a fluid is admitted, comprising:

a magnetic spherical valve member (20) disposed and movable within said fluid chamber;

a non-magnetic valve seat member (22) on which said spherical valve member is seatable, the fluid within said fluid chamber being dischargeable out of said electromagnetic valve through a clearance formed between said valve seat member and said spherical valve member;

a main magnetic pole member (28a) disposed opposite said valve seat member and in close proximity to said spherical valve member, said spherical valve member being able to be attracted to said main magnetic pole member; and

a side magnetic pole member (P) disposed around and in close proximity to said spherical valve member, said side magnetic pole being spaced from and between the level of the extreme end of said main magnetic pole member and the level of the extreme end of said valve seat member so that the magnetic field formed between said main and side pole members effectively acts on said spherical valve member.

FIG. 1

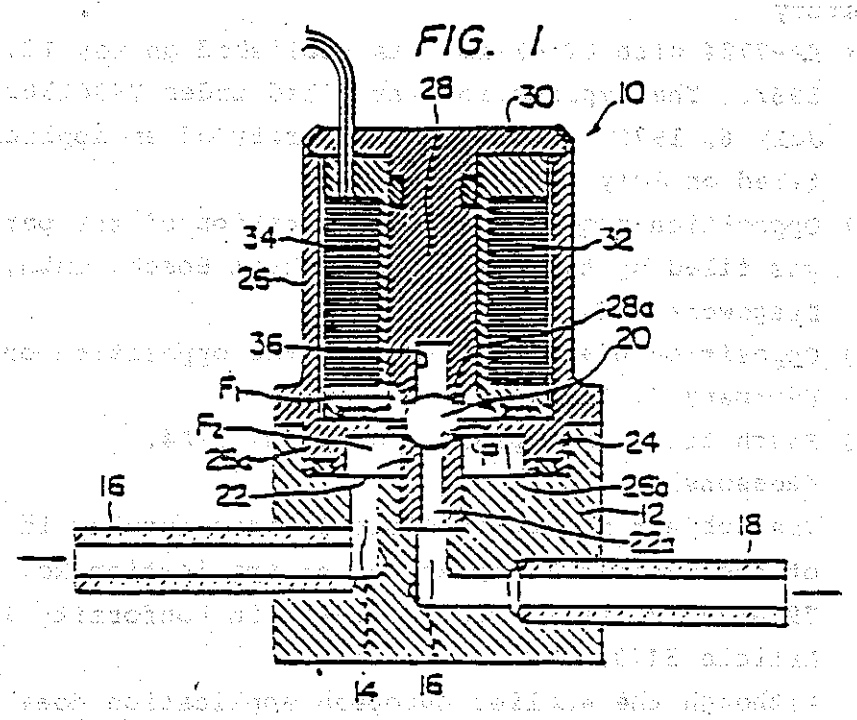
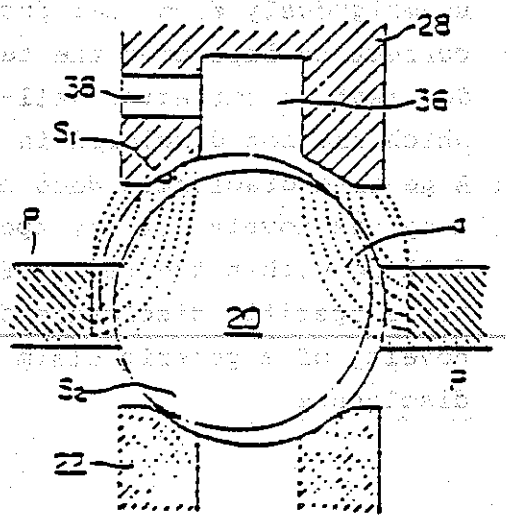

28
30
10
34
32
26
28a
36
20
F1
F2
24
26a
16
22
12
22a
18
14
16

FIG. 2


28
38
36
S1
P
20
S2
22

2. History

(1) EP-7724 with 12 claims was published on May 12, 1982. The application was filed under 79301303.8 on July 6, 1979 claiming the priority of an application filed on July 6, 1978.

(2) Opposition requesting the revocation of the patent was filed by two companies, Robert Bosch, GmbH, and Dragewerk, AG.

(3) Opposition Division dismissed the opposition on February 9, 1984.

(4) Bosch filed an appeal on July 13, 1984.

(Reasons)

The subject matter of Claim 1 lacks novelty in view of the earlier European patent application No. 79301297.2 (Laid Open No. 6769) in conformity with Article 54(3) EPC.

Although the earlier European application does not disclose the present invention per se, it embraces its equivalents. (Against the Appeal Board which relied on the Guidelines Part C IV 7.2, they based their assertions on 7.4)

7.2: A document takes away the novelty of any claimed subject matter derivable directly and unambiguously from that document. It is not correct to interpret the teaching of a document as embracing well-known equivalents which are not disclosed in the document.

7.4: A generic disclosure does not usually take away the novelty of any specific example falling within the terms of that disclosure, but a specific disclosure does take away the novelty of a generic claim embracing that disclosure.

4. Appeal Decision and Its Reasons

The appeal was dismissed.

(1) The citation embracing obviously well-known matters to those skilled in the art does not disclose the content of the claim 1 of the present invention fully, and does not take away the novelty of the present invention.

(2) "The whole contents" of the prior art document within the meaning of Article 54(3) EPC does not also comprise features which are equivalent to the features according to the document. Application of the "whole content approach" is limited to the test of novelty, and the matter is very strictly handled in order to reduce the risk of "self-collision".

(3) This approach has been consistently followed in the practice of EPO.

5. Comment

The present invention and the cited reference are in the name of the same applicant, and their filing dates are different only by one day. The fuel injector valve for the present invention and the prior art magnetic valve for flow control have the same magnetic valve mechanism based on the same principle, and the specification of the earlier application discloses applicability of such magnetic valve mechanism to fuel injection valves, but no concrete construction of the fuel injection valve per se.

The appellant asserted losing of novelty for the present invention by the prior art reference along Article 54(3) EPC Guidelines 7.4 while the Appeal Board taught along the Guidelines 7.2 that "it is not correct to interpret a document to embrace well-known equivalents (fuel jet valve) not disclosed in the document. Assuming that these considerations are adopted consistently under EPO practices, it may be very well to say that there are little risk for "self-collison" at EPO.

6. References

(1) Examination status of the corresponding application

Japan: Patent Application No. 53-81452 (filed on July 6, 1978)
Received the decision of rejection (on July 21, 1987)

USA : Patent application No. 52135 (filed on June 26, 1979)
Registered as No. 4264040 (filed on April 28, 1981)

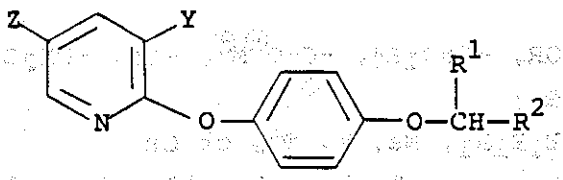
Case 3: T206/83
EP-1473
ICI/Herbicides
(Co-pending EP-483 (Dow))
Article: Articles 54(3), 83 EPC

1. Comparison of the subject invention and the cited invention

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Claims of the subject inventin

"1. A herbicidal pyridine compound of the formula (I):

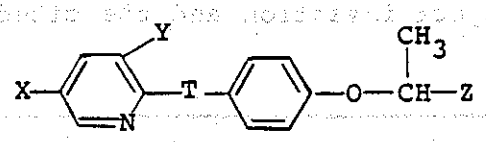


wherein Z is trifluoromethyl; Y is hydrogen;

6. A herbicidal pyridine compound of formula O, wherein ... Y is chlorine ....".

Citation EP-483 (Dow)

A trifluoromethylpyridyl (oxy/thio) phenoxypropionic compound corresponding to the formula



wherein T is oxygen or sulfur;

X is Cl, Br, or CF_3;

Y is H, Cl, Br, or CF_3 provided at least one of X and Y is CF_3;

Z is -C-OR, $-CNR_1R_2$, $-\overset{O}{\overset{\|}{C}}-O^{\ominus}M^{\oplus}$, -CN, $-CH_2OR_3$, $-CH_2OCR_4$, or $-CSR_3$;

M is $^{\oplus}NHR_1R_1R_1$, Na, K, Mg, or Ca;

R is H, C_{1-8} alkyl, benzyl, chlorobenzyl, or C_{3-6} alkoxyalkyl;

R_1 is H, C_{1-4} alkyl, or C_{2-3} hydroxyalkyl

R_2 is R_1 or $-OCH_3$;

R_3 is H or C_{1-4} alkyl;

R_4 is C_{1-7} alkyl; and

R_5 is C_{1-4} alkyl.

Preparation starting from a trichloromethyl substituted Pyridine.

2. History

The subject patent, EP-1473, was filed on July 26, 1978 claiming the prirorities of UK applications filed on August 12 and October 26, 1977 as well as the earlier application of February 9, 1978, was published on April 18, 1979 as EP Laid Open Application No. 78300203.3, and

rejected by the decision of the Examining Division of the EPO on April 12, 1983. The ground for the refusal were as follows.

(1) Insofar as the Contracting States of Belgium, Federal Republic of Germany, France, Great Britain, The Netherlands and Sweden were concerned, the subject matter of Claims 1, 6 and 8 were not novel having regard to the disclosure in EP-483 (Dow) in view of the Article 54(3) EPC.

(2) The senior Dow patent described herbicidal products falling within the claims of the application.

(3) The submission that the appropriate starting materials of the Dow process for preparing the products, namely 2-chloro-5-trichloro-methylpyridine (CCMP) and the 2,3-dichloro analogue thereof (CCCMP), as well as the corresponding intermediates, namely 2-chloro-5-trifluoromethylpyridine (CTF) and its 2,3-dichloro analogue (CCTF) had not been available to those skilled in the art, was rejected.

(4) That is to say, the Examining Division concluded in the decision that CTF was in any case a known compound from Example IIIb of GB-A-1421619 (Merck) (1) and CCTF could also be prepared according to the method described in that document. Substantially, the same methodology was also available from an article by Raasch, M. S., J. Org. Chem. 1962, 27, 1406 (2). Alternatively, CCMP was expressly mentioned in US-3244722 (Johnston) (3) which document also recommended a general approach for the preparation of this compound as well as of CCTF.

(5) Although successful conversion of these into CTF and CCTF might have depended on special conditions, it would have been within the general knowledge of the practitioner to adjust these to obtain desired intermediates.

(6) In view of the above, DOW patent could have been practiced, and its products anticipated the claims in the present application.

3. Appeal Decision and Its Reasons

(1) In the present case, the disputed claim 1 undoubtedly embraces a number of chemical compounds which were individually identified in DOW's earlier patent application.

(2) The need for an enabling disclosure not only applies to documents cited under Articles 54(2) and (3) EPC, but is also in conformity with the principles expressed in Article 83 EPC for patent applications; a patent application must "disclose the invention in a manner sufficiently clear and complete for it to be carried out by a person skilled in the art".

(3) This appeal concerns the question whether or not the disclosure of the DOW patent cited under Article 54(3) EPC enables practical application of the invention. The problem arises in view of the fact that no instructions are given in the DOW patent as to the preparation of the starting materials.

(4) The Board of Appeal concluded that the principle expressed in the cited decision concerning sufficiency of disclosure (Redox Catalyst/Air Products, T171/84) should also be applied to the present case.

(5) It is the view of the Board that a document does not effectively disclose a chemical compound, even though it states the structure of the compound and the steps by which it is produced, if the skilled person is unable to find out from the document or from common general knowledge how to obtain the required starting materials or intermediates.

(6) Information which can only be obtained after a comprehensive search is not to be regarded as part of common general knowledge.

(7) In view of the above the novelty of compounds claimed in the application under appeal, which are specifically disclosed in the DOW patent, is unaffected by such disclosure in view of the apparent insufficiency of the documents cited under Article 54(3) EPC.

(8) The decision under appeal is set aside. The application is remitted to the Examining Division for further examination.

4. Comment

The present case involves the issue of whether or not a document cited to test the novelty of an invention of a chemical compound sufficiently disclosed said compound. The cited earlier DOW patent (EP-483) described a chemical compound which the present invention aims and its method or production, but not the starting material needed or the method of producing intermediates. Thus, the dispute concerned whether or not the disclosure of DOW patent was one which enabled practical application.

According to the Appeal Court, (i) the need for an enabling disclosure of documents cited under Articles 54(2) and (3) EPC is in conformity with the principle expressed in Article 83 EPC for patent applications, (ii) applied the principle of the appeal decision on the question of sufficiency of disclosure (T171/84); and (iii) information which can only be obtained after a comprehensive search is not to be regarded as part of common general knowledge. The decision adopts a strict approach concerning operation of Article 54(3) EPC.

The present application was rejected on April 12, 1983 after the patent was granted on October 14, 1981, remitted to the Examining Division after the appeal

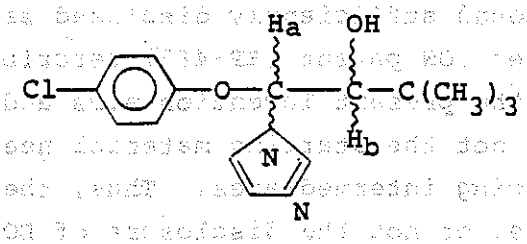
decision was rendered on March 26, 1986, and finally granted a patent on July 27, 1988.

Case 4: T12/81
EP-11191
Bayer/Diastereomers
(Appeal against Examiner's Refusal)
Article: Article 54(1), (2) EPC

1. Comparison of the subject invention and the cited document

(1) Claim of the subject invention

1. A compound having the formula

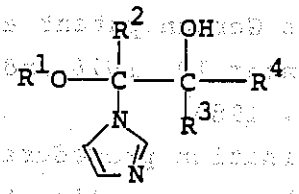


(1)

in the form of the diastereomer whose melting point is 158 - 159°C, and its physiologically tolerated acid addition salts.

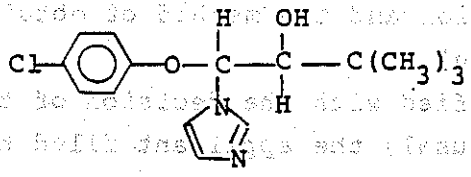
(2) Disclosure of the cited DE-2333354 (Bayer)

Compounds



R^1: optionally substituted aryl
R^2 : hydrogen, etc.
R^3: hydrogen, etc.
R^4 : alkyl, etc.

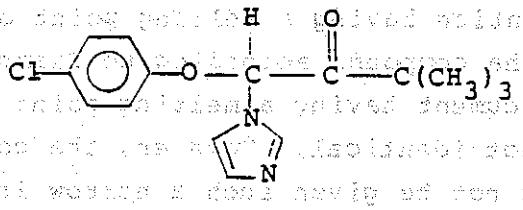
Example 3



mp 145 - 147°C

(mixture of threo and erythro at about 1:1)
Reducing agent: $NaBH_3$, $LiAlH_4$

Starting Compound



Process: Reduction Method
(b) - - alminum isopropylate in a solvent
(No example)

2. History

(1) The present application was filed with European Patent Office on November 2, 1979 claiming the priority of a West German patent application P2850057.4 dated November 18, 1978 and was published as EP-11191 on May 28, 1980.

(2) During the examination procedure, DE-2333354, etc. in the name of the same applicant, which had been known prior to filing, were cited, and the present invention was rejected on December 30, 1980 as lacking novelty in view of the cited documents.

The citation DE-2333354 described in Example 3 a compound having the same planar structure as the compound of the present invention, and also described the starting substance per se of the present invention and the method of obtaining the same (reduction).

(3) Dissatisfied with the decision of the Examiner's refusal, the applicant filed the appeal on February 7, 1981.

3. Appeal Decision and Its Reasons

(1) In the compound having two assymetrical carbon atoms, there are two forms of diastereomers, erythro and threo forms. This steric characteristic would seem to support the view that the compound of the present invention having a melting point of 158 - 159°C and the compound according to Example 3 of the cited document having a melting point of 145 - 147°C are not identical. However, the concept of novelty must not be given such a narrow interpretation that only what has already been described in the same terms is prejudicial to it.

(2) The cited document supplies a person skilled in the art with all the necessary information he needs regarding the starting substances and the reaction conditions for preparing the compound of

the present invention. The appellant asserts that by selecting the b) method from out of five reduction methods and the starting substances disclosed, the suprising result (threo form of the present invention) was yielded. However, the disclosure by description in a cited document of the starting substance as well as the reaction process is always prejudicial to novelty.

(3) If on the other hand, two classes of starting substances are required to prepare the end products and examples of individual entities in each class are given in two lists of some length, then a substance resulting from the reaction of a specific pair from the two lists can nevertheless be regarded as a selection and hence as new. However, this principle is not applicable to the combination of the starting substances and the method of preparation, and therefore the present invention is not novel.

4. Comment

This case not only judged the novelty of the compound of the present invention, but also presented a fundamental and clear principle in generally considering the novelty of a chemical compound, that is, a so-called "list principle". If examples of two classes of starting substances are described in lists of some length, a substance obtained by selection from these lists is considered to be novel. This principle would be extremely important in judging patentability of chemical inventions.

The judgement of the compound of the present invention being not novel may be somewhat arguable, but this may mark the borderline for the presence or absence of novelty.

For the record, the corresponding Japanese application was rejected by the Examining Division because

of insufficient disclosure, and the appeal was dismissed. The corresponding US application, on the other hand, was issued as USP 4,418,072.

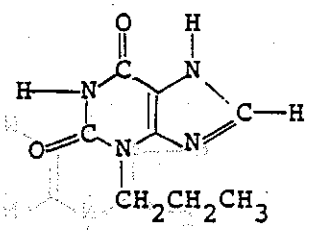
A similar case pending at Tokyo High Court received a judgement recently that the invention of the mycotic composition was novel.

Case 5: T7/86
EP-11609
DRACO/Xanthines
(Appeal by Opponent, Napp Laboratories, Ltd.)
Article: Articles 54(5), 56 EPC

1. Comparison of the present invention and the citation

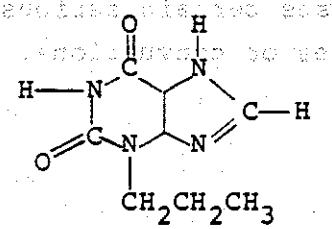
(1) Claims of the present invention

"1. A pharmaceutical preparation for use in the treatment of chronic obstructive airway disease or cardiac disease comprising as active ingredient an effective amount of a compound of the formula



or a therapeutically acceptable salt thereof, in association with a pharmaceutically acceptable carrier.

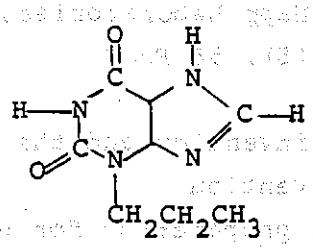
2. A compound of the formula



or a therapeutically acceptable salt thereof, for use in the treatment of chronic obstructive airway disease or cardiac disease.

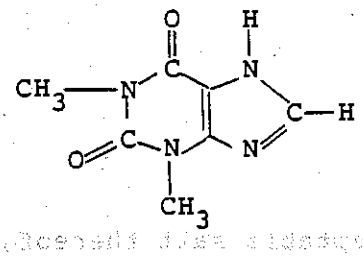
(2) Disclosure of the citation

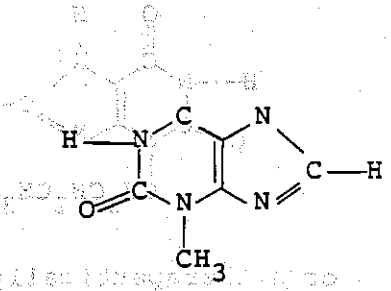
① Bull. Chem. Soc. Japan, Vol. 46, Page 506 (1973)



Use: Not described

② Document 12





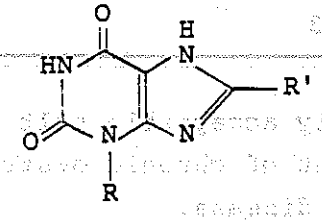
Compound A (Theophylline)

Use: Bronchodilator

③ Document 18

Theophylline causes certain serious side effects such as seizures or convulsions.

④ Document 20



R : Me, Et, Pr, Bu, Lower alkyl

R' : hydrogen, Lower alkyl

2. History

(1) The present application was filed with European Patent Office on September 28, 1979 claiming the priority of a Swedish patent application filed October 20, 1978, and was granted on April 13, 1983 after examination.

(2) Napp Laboratories filed an opposition on January 9, 1984, but the patentee amended the claims and the Opposition Division dismissed the opposition on October 21, 1984 by holding thus amended patent as valid.

(3) Dissatisfied with this opposition, the opponent filed the present appeal on December 17, 1985.

(4) The compound, 3-propylxanthine, of this appeal was described in a document known prior to filing of the present application (Bull. Chem. Soc. Japan, Vol. 46, Page 506). The prior document did not describe pharmacological data or uses of said compound. The appellant submitted Document 20 and asserted that the document describes a use of the compound of the present invention, 3-propylxanthine, as diuretics and therefore the invention is not new.

3. Appeal Decision and Its Reasons

(1) The principle taught by the Diastereomer Case, (list principle, that is, "if two classes of starting substances are required to prepare the end products and examples of individual entities in each class are given in two lists of some length, then a substance resulting from the reaction of a specific pair from the two lists can nevertheless be regarded as novel" is applicable not only for the starting substances in chemical reactions, but also for polysubstituted chemical substances where the individual substituents have to be selected from two or more lists of some length.

(2) Since Document 20 cannot be interpreted either as a specific disclosure of 3-propylxanthine or consequently of a pharmaceutical use, it cannot be regarded as being detrimental to the novelty of the use of the present invention.

4. Comment

In the present case, the "list principle" applied to the starting substance in "Diastereomer Case" was applied to selection of combination of substituents for the chemical substance per se, and the decision is therefore considered noteworthy. If the list principle is to be applied to the starting substance, then it is not unreasonable to be applied to the end product obtained therefrom. Both the Japanese and US applications corresponding to the present European patent were granted, and there were no difference in judgement of novelty among the trilaterals.

WHOLE CONTENTS, A EUROPEAN PERSPECTIVE

Pacific Industrial Property Association

Tucson, Arizona

October 1989

Peter G. Stringer

Eli Lilly and Company

WHOLE CONTENTS, A EUROPEAN PERSPECTIVE

Introduction

Article 202 of the Harmonization Treaty is essentially an amalgamation of Article 29bis of the Japanese Patent Law and Article 54(3) of the European Patent Convention (EPC).

It provides that the whole content of an application, i.e. the specification, drawings and claims, but not the abstract (c.f. Article 85 EPC), having an earlier effective date (i.e. earlier filing date or earlier priority date) can be used to destroy the novelty of a copending application having a later effective date.

In contrast to Section 102(e) of the U.S. Patent Law the content of the earlier application cannot be used as a basis for obviousness (c.f. Article 56 EPC).

Philosophy

Whilst there is widespread acceptance in Europe that one cannot have two patents granted on the same invention, there is also a strong feeling that it is inherently unfair that a later applicant who has carried out research in good faith should lose his rights because of secret, unpublished work.

Self-Collision

Section 29bis of the Japanese Patent Law provides that in a whole contents conflict, an earlier application does not prejudice the novelty of a later case if there is a common assignee.

Regrettably, there is no such safeguard in Article 54(3) of the EPC. It is all too easy in preparing patent cases relating to the same general area to inadvertently include subject matter in an earlier application relating to an invention to be claimed in a later case.

Section 4 of Article 202 of the Draft Treaty provides the possibility that self-collision can be avoided where the inventor or assignee are common. Apparently, there is not much enthusiasm for this amongst the committee of experts. This is rather a pity. The protection of meritorious inventions should not be jeopardized by technicalities.

In this context, U.S. practitioners will appreciate that 35 U.S.C. 102(e) operates only where there are different Applicants, and therefore does not give rise to self-collision problems.

Novelty

Since, in the whole-contents setting, novelty cannot be combined with obviousness to attack a later patent, it is particularly important to define its limits.

There is no appeal from decisions of the Technical and Legal Boards of Appeal of the European Patent Office. Since the Boards follow the Guidelines for European Examination, de facto, these have the force of law within the office.

(a) In Section 7.2, Chapter IV, Part C, of the Guidelines, it is stated:

> "Thus, when considering novelty, it is not correct to interpret the teaching of a document as embracing well-known equivalents which are not disclosed in the documents; this is a matter of obviousness"

This narrow view of novelty is reinforced by the decision in the Nissan/fuel injector valve case (T 167/84) where the Technical Board of Appeal ruled:

> "The 'whole contents' of an earlier application within the meaning of Article 54(3) of the European Patent Convention do not include features which are only equivalent to the features expressly disclosed in the document."

(b) In Section 7.4, Chapter IV, Part C, of the European Guidelines it is stated:

> "In considering novelty it should be borne in mind that a generic disclosure does not usually take away the novelty of any specific example falling within the terms of that disclosure,"

The European Patent Office seems to apply a stricter standard than that provided by the U.S. case In re Petering, 133 USPQ 275, where a prior disclosure of a narrow genus containing some 20 species was held to disclose each of the species, including those not specifically named, and thus to destroy the novelty of a later claim to one of the species.

The writer's view is that the European concept that a genus does not anticipate a non-disclosed species would be applied particularly strictly in a whole contents setting; see the comment made by the Technical Board of Appeal in Decision T 167/84:

> "In order to mitigate the harshness of the 'whole contents' approach, and reduce the risk of 'self-collision', the European Patent Office has consistently adopted a strict approach to lack of novelty objections arising from citations available under Article 54(3) only."

National Treatment

It is believed that the national courts of the various signatories to the European Patent Convention will follow fairly closely the views of the European Patent Office on novelty. However, In Netherlands Patent Office Appeals Decision No. 14633 ([1981] FSR 356) it was held that in judging the novelty of a later application under the Dutch equivalent of Article 54(3), account should be taken not only of the literal text of the earlier application, but also of anything which an average person skilled in the art, interpreting what he had read, would have regarded as part of the earlier case. This would seem to stop short of including equivalents but seems to require a broader view of novelty than that taken so far by the European Patent Office.

Sufficiency

It is very apparent that the Technical Board of Appeal will not apply the whole contents doctrine unless the earlier disclosure is fully enabling. Thus, in the ICI/pyridine herbicides case (T 206/83), the earlier disclosure was eliminated as a reference in view of the fact that the preparation of a starting material was not described, and the material was known only in the sense of being described in a U.K. patent specification. The Appeal Board commented:

> "Patent specifications are normally not part of the common general knowledge and therefore cannot be relied upon to cure apparent insufficiency."

Food for thought when drafting chemical patent specifications destined for Europe, even though some commentators have contended that this high standard for sufficiency would only be applied in a "whole contents" situation.

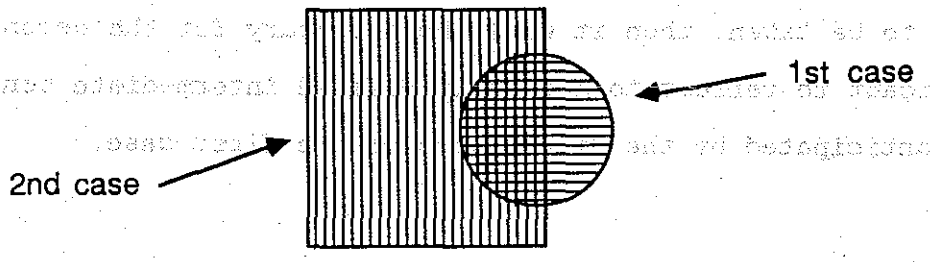
Priority

In contrast to the U.S. position (see In re Hilmer, 165 USPQ 259) in the case of a Convention application, both under the European Patent Convention and under the Draft Harmonization Treaty, the priority date is the relevant date for assessing novelty.

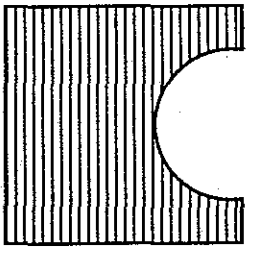
In view of the decision in T 206/83, the disclosure in the priority filing will have to be fully enabling, and if that case is anything to go by, very strict standards will be applied.

Amendment

Let us represent below the scope of a case having an earlier effective date by a circle, and imagine also that there is a later copending application, the scope of which can be represented by a square. Let us consider the situation where the overlap is as depicted below:



If one takes the narrow view of novelty apparently adopted by the European Patent Office in whole contents cases, then, purely from the novelty standpoint, the second Applicant would be entitled to claim:



However, it will frequently be the case that there will not be exact support for this newly created genus in the initial filing.

Thus, in theory, there will often be a question of new matter if the later Applicant wishes to retain everything to which he is entitled from a novelty viewpoint. In practice, the European Patent Office has taken a very liberal attitude, allowing the elimination of the overlapping subject matter by insertion of an appropriate disclaimer.

However, if a more formalistic approach to amendment were to be taken, then it would be necessary for the second Applicant to retreat to a clearly defined intermediate zone not anticipated by the disclosures of the first case.

APPENDIX

I. Extracts from the European Patent Convention

ARTICLE 54

Novelty

(1) An invention shall be considered to be new if it does not form part of the state of the art.

(2) The state of the art shall be held to comprise everything made available to the public by means of a written or oral description, by use, or in any other way, before the date of filing of the European patent application.

(3) Additionally, the content of European patent applications as filed, of which the dates of filing are prior to the date referred to in paragraph 2 and which were published under Article 93 on or after that date, shall be considered as comprised in the state of the art.

ARTICLE 56

Inventive Step

An invention shall be considered as involving an inventive step if, having regard to the state of the art, it is not obvious to a person skilled in the art. If the state of the art also includes documents within the meaning of Article 54, paragraph 3, these documents are not to be considered in deciding whether there has been an inventive step.

ARTICLE 85

The abstract

The abstract shall merely serve for use as technical information; it may not be taken into account for any other purpose, in particular not for the purpose of interpreting the scope of the protection sought nor for the purpose of applying Article 54, paragraph 3.

II. Extracts from a translation of the Japanese Patent Law (translation prepared by the Japanese Patent Office and published by AIPPI-JAPAN)

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

III. Extracts from U.S. Patent Law, 35 U.S.C. 102(e)

§102. Conditions for patentability; novelty and loss of right to patent.

A person shall be entitled to a patent unless --

(e) the invention was described in a patent granted on an application for patent by another filed in the United States before the invention thereof by the applicant for patent...

PRESENT SITUATION OF PROTECTION OF COMPUTER PROGRAMS BY COPYRIGHT LAWS AND ISSUES THEREIN

Japanese Group, Committee No.3
Subcommittee "Protection of Software"

Fumio IWAHASHI, Matsusita Electric Industrial Co., Ltd.
Mamoru UEDA, Mitsubishi Electric Corporation

Abstract:

It is a recent trend worldwide that computer programs are protected by copyright laws.

This article reviews several important judicial antecedents in the United States and Japan of which points at issue are computer programs, and discusses subject matters to be protected and scope of the protection.

Finally, taking up a few of the issues, necessity for establishing definite criterions for subject matters to be protected as well as necessity for international harmonization in the scope of protection are suggested.

1. Introduction:

It is a recent trend worldwide that computer programs are protected by copyright laws. Accordingly, though business circles relative to copyright have been heretofore limited to just a part of publication, music, movie, etc., recently many other business circles including not only computer industry but also machine industry have come to be involved in copyright.

In this article, after briefly looking back the progress of legistration up to today, juridical decisions on computer program cases in Japan and the United States are reviewed, then subject matters to be protected and scope of protection are discussed, and finally present and future issues are suggested.

2. Progress of Legislation:

(1) United States:

In the United States, "the Copyright Act (the United States Code Title 19 - Copyright)" was amended in 1989, by

which it is clearly declared that computer programs are under the protection of the copyright laws (17 U.S.C. §101) and that it is not an infringement to make a copy or a translation of a computer program under certain circumstances (17 U.S.C. §117). Prior to such amendment, the CONTU had discussed how computer program should be protected, and filed a final report with the President of the United States on July 31, 1978. As the result, the United States Copyright Act was amended in accordance with the majority opinion of the CONTU Report. It is to be noted, however, that minority opinion of the Report also made several very significant suggestions furnishing with much information helpeful to discussion about how computer program should be protected.

(2) Japan:

In Japan, the Copyright Law was amended in 1985, by which it is clearly declared that computer programs are under the protection of the Copyright Law. In this amendemnt, computer program is additionally enumerated as one of the subject matters to be protected under the law (Section 10(1)(ix)); a new provision giving definitions to computer program is added (Section 2(1)(x bis)); and several special provisions are newly established taking peculiarity of computer program copyright into account. For example, following provisions were established by the amendement: exclusion of prgramming languages, codes and solutions from the scope of computer program protection (Section 10(3)); relaxation of requirements for a juditial person to be a copyright owner of a copyrighted work which was made by a natural person officially within the scope of the business of the juditial person (Section 15(2)); restriction on the right of maintaining identity among personal rights of an author (Section 20(2)(iii)); authorization of copying or adaptation by any person who possesses a copy of a program under a certain restriction (Section 47 bis).

Prior to the mentioned amendment of the law, two proposals were made by different proponents about the protection policy of computer programs, one was proposed by

the Industrial Property Council and the other by the Copyright Council. However, simply following the worldwide trend, without thoroughly discussing desirable protection policies seeing through the nature of computer program, it was decided that computer programs were under the protection of the Copyright Law, thus amending the Copyright Law as mentioned above.

(3) West Germany:

In West Germany, the Copyright Law was amended in 1985, by which it was clearly established that computer programs were included in Sprachwerke enumerating the works to be protected under the law (Section 2(1)(i)). In this respect, it is generally said that the provision of Section 2(2) of the Copyright Law is strictly applied so that only computer programs higher than a certain level may be protected, which seems to be what is intended by BGH.

3. Judicial Precendents:

(1) Copyrightability (Subject matters to be protected under the copyright laws):

① Microcode:

(a) United States:

Copyrightability of microcode was a point at issue in the judicial antecedent of NEC Corp. v. Intel Corp. 10 USPQ 2d1177 (N.D.Cal. 1989). In this litigation, it was one of main points at issue whether or not Intel's 8086/8088 microcodes were products to be protected under United States Copyright Act. Non-infringement was judged in the decision for reasons that (i) Intel forfeited its copyright covering the microcodes for the 8086/8088 microprocessors because the 2,984,000 microcodes of 28,000,000 were distributed without the copyright notice prescribed by 17 U.S.C. §401, and no reasonable effort was made to add copyright notice to them within the meaning of 17 U.S.C §405, and (ii) the microcodes for NEC's V20, V30, V40 and V50 microprocessors were not copies of Intel's microcodes.

Though it was judged in the dicision that Intel's

microcodes for the 8086/8088 microprocessors were subject matters to be protected under the copyright laws, this opinion seems to be an obiter dictum. In this decision, following three reasons were given to prove that a microcode is a subject matter to be protected as being copyrightable: (i) because the "literary work" within the meaning of 17 U.S.C. §101 includes any work expressed by object codes, the microcodes are to be included in the computer program definitions prescibed in the amended copyright laws of 1980; (ii) originality as a requirement for the copyright protection simply means that a work is independently created, and in this sense Intel's microcodes have their originality; (iii) (in response to the argument that a microcode is a defining element of a computer itself and not in the scope of the definitions prescribed in 17 U.S.C §101), there is nothing in any of the statutory terms which suggest a different result concerning copyrightability for different types of computer programs. Any of the reasons mentioned above cannot be persuasive, and therefore it will be further required to pay our attention to a trend of future judicial decisions.

(b) Japan:

In Japan, there has been no judicial antecedent of which point at issue includes copyrightability of any microcode. Considering that a random logic circuit or a PLA may form a ROM which includes a microcode for microprocessor, it may be said that a micorcode is an element of a computer itself. Accordingly, whether or not a microcode is in the scope of the definitions prescribed in Section 2(1)(x) of Japanese Copy right Law is not always definite. Judging from the context of the definition provisions, however, it will be reasonable to interprete it negatively.

② Object code:

(a) United States:

Copyrightability of a computer program expressed in object code was a point at issue in such judicial antece-

dents as Apple Computer v. Franklin Computer, 714F. 2d 1240 (3rd Cir. 1983), Apple Computer v. Formula International, 725F. 2d521, (9th Cir. 1984), Hubco Data v. Management Assistance, 219USPQ450, (D. Ida. 1983). Among these lawsuits, the court of first instance which conducted the trial of the Apple v. Franklin case denied the copyrightability of a computer program expressed in object code. However, the court of appleal, i.e., the 3rd. Cir. formed a reversed judgement. Since then, other courts have given their decisions based on substantially the same legal principle as the court of appleal. Thus, it has been an established case law that any computer program expressed in object code is copyrightable, and thereafter it seems that there is no litigation of which point at issue is copyrightability of a computer program expressed in object code.

(b) Japan:

Copyrightability of a computer program expressed in object code was a point at issue in such judicial antecedents as "Taito v. Enterprise, Mutaishyu Vol.14, No.3, page 796 (judged by Tokyo District Court on December 6, 1982)", "Konami v. Daiwa, Mutaishyu Vol.16, No.1, page 26 (judged by Osaka District Court on January 26, 1984)".

Both of these cases are instituted before the amendment of the Copyright Law of 1985, and in each of which copyrightability of a computer code expressed in source code was a point at issue.

The courts recognized that a computer program expressed in source code is included in the definitions prescribed in Section 2(1) of the Copyright Law, and judged that because there existed a relation of equivalence between a computer program which was written in assembly language and the one converted to an object code with assembler, the latter was a copy of the former written in assembly language.

The courts further recognized that it was a copying of a computer program expressed in object code for the

defendant to write the copied object code program once stored in a ROM in other ROM with a ROM writer, and judged that the act committed by the defendant is a copying of a computer program expressed in assembly language. Both cases involved dead copy of a game machine, and the defendants did not bring the matter to a court of intermediate appeal, thus the judgments by the district courts being both concluded.

It is to be noted that, in any of the above two cases, because there existed a relation of equivalence between a computer program which was written in assembly language and the one converted to an object code with assembler, the program expressed in object code was judged a copy of the program written in assembly language.

Accordingly, in the event that a program written in High Level Language such as FORTRAN is converted to the one expressed in object code with a compiler, it may not be always considered that there is a relation of equivalence between the program before the conversion and that after the conversion. Thus, according to an opinion, it is not always definite whether or not a program expressed in object code falls within the scope of a copy. Future judicial decisions clarifying this point are expected.

③ Operating System Program:

(a) In terms of functions, computer programs are classified into Application Program and Operating Program (OS Program). There is no room for doubt that Application program is copyrightable. However, it may be said that OS Program, which executes Application Program in combination with hardware, has a nature closely allied to hardware, and therefore there have been a lots of controversies concerning the copyrightability of OS Program. Copyrightability of an OS program was a point at issue in such cases as Apple Computer v. Franklin Computer, 714F. 2d1240 (3rd Cir. 1983), Apple Computer v. Formula International, 725F. 2d521, (9th Cir. 1984), etc. Among these lawsuits, the court of first instance which conducted the trial of the Apple v. Franklin case denied the

copyrightability of the OS program from substantially the same standpoint as the minority opinion of the CONTU Report mentioned above. On the other hand, the court of appeal, i.e., the 3rd. Cir. annulled the judgment of the first instance about the copyrightability of the OS Program principally by reason that there is no distiction between Application Program and OS Program in the definitions of the Copyright Act, and that neither the CONTU nor the Congress make a distinction therebetween. The mentioned reasons in the judgment of the 3rd Cir. seems to be an argument somewhat insisting on formalism omitting an expected argument to persue a real substance of OS Program, and in this sense not persuasive. However, this judgment of the 3rd. Cir. was established as a judicial antecedent, and thereafter it has been recognized that OS Programs are generally copyrightable.

(b) Japan:

Copyrightability of an OS program was a point at issue in the case of Micro Soft Corporation v. Shuwa System Trading, Mutaishyu Vol.19, No.1, page 1 (judged by Tokyo District Court on January 30, 1987). In this litigation, it was a point at issue whether or not an act committed by the defendant was an infringement of copyright, the act being that an object program of a BASIC interpreter for a personal computer stored in a ROM was reversely assembled by the defendant with a reverse assemble program, thereby obtaining a source program of assembly language, to which labels and comments were added. In this litigation, the defendant contended as follows: "The program in question, being one of operating systems (basic software), is prepared just for the purpose of processing data efficiently at high speed, being different from application program, and any concept or emotion of the creator is to be excluded therefrom, and therefore is not copyrightable". On the other hand, the court recognized that the act committed by the defendant was an infringement of the copyright owned by the plaintiff. The reasons for this judgment were as follows:

"Generally speaking, in computer programs, means of solution to accomplish a certain object is not limited to the one and only, but there are various other means to select, which are applicable to an object of preparing BASIC interpreter to be incorporated in a personal computer like this case. The program in question was in fact prepared by the steps of analyzing in detail various problems to be solved for achieving an object, finding a method of solution to each of the problems, and describing combinations of instructions and other informations in assembly language. Thus, every step of completely preparing the program was not the only one but appears different as a result of reflection of character and idea of the creator. A value of program can be rather appreciated in such an individuality. This criterion should be commonly applied to whatever program irrespective of game program, applications program or operating system program like the one in this case. Consequently, there is no justifiable reason in the argument of the defendant that the created work of this case (an operating system program written in assembly language) is out of the scope of protection under the Copyright Law." The court also recognized that the act committed by the defendent was a copying of the program in question because the object program being a copy of the created work was copied by the defendant.

As is explicit from the above, it was recognized by this judicial decision that both application program and operating system program are to be equaly treated, simply by reason that acts by program creator in the course of program preparation are almost the same, without considering difference in terms of function between the application program and operating system program. In addition, this case was appealed to the Tokyo High Court and has not been concluded yet.

④ Screen Display:

(a) United States:

Copyrightability of a screen display (menu display) was

a point at issue in such cases as Digital Communications Associates v. Softklone Distributing Corporation, 2USPQ 2d 1385, (N.D. Ga. 1987), Broderbund Software v. Unison World, 231USPQ 700(N.D. Cal. 1986), etc. In the case of Broderbund, as a result of misunderstanding the Whelan judgment, relationship between a computer program and a display projected on a screen by the computer program was erroneously understood thereby giving rise to a lot of arguments. Thereafter, in the case of Digital Communications, the court clearly denied the judgment of the Broderbund case by the following reason: "Copyright protection of a computer program does not extend to screen displays generated by the program. A computer program is distinguished from a screen display generated thereby becaused of the fact that the same screen display can be created by a variety of separate and independent computer programs." Thus, the court dismissed the plaintiff's contension that copyright of the plaintiff's computer program Crosstalk XVI was infringed by the defendant who copied a status screen. In the meanwhile, the court recognized a copyrightability of a status screen itself, and judged that the plaintiff's copyrightability of the status screen was infringed by the defendant.

(b) Japan:

In Japan, there has been no judicial antecedent of which point at issue was a screen display. It is obvious that protection of a computer program does not extend to a screen display generated by the program under the Japanese Copyright Law.

⑤ Audio-visual works:

(a) United States:

Copyrightability of an audio-visual work electronically generated by a computer program was a point at issue in such cases as Stern Electronics v. Kaufman, 669 F. 2d 852 (2nd Cir. 1982), Williams Electronics v. Article international, 685 F.2d 870(3rd Cir. 1982), etc. All of these litigations related to video games using a computer, and

it was judged that visual images themselves electronically displayed were protected as copyrightable audio-visual works sparately from their computer programs.

(b) Japan:

Also in Japan, there are some judicial antecedents wherein it was judged that display images of a video game using a computer was protected as copyrightable works similar to motion pictures. For example, Namuco v. Suishin Kogyo, Mutaishyu Vol.16 No.3 page 676 (judged by Tokyo District Court on September 28, 1984) and others can be cited. In any of the juditial precendents, the fact was that programs stored in a ROM for a video game machine was dead-copied. The plaintiff, however, brought an action complaining that the act committed by the defendant was an infringement of a copyright of motion pictures rather than a computer program. The infringement of copyright alledged by the plaintaiff was recognized by the court. Copyright of a computer program includes only rights of copying, adaptation and translation. On the other hand, copyright of motion pictures further includes rights of distribution and screening in addition to those of the computer program, and therefore an advantage is such that a plaintiff may request a person who installs a game machine to discontinue or refrain from such installment based on the right of screening.

In this respect, it is defined that the term "motion picture work" includes "any work which is represented by a method for producing a visual or audio-visual effect similar to motion pictures and is fixed in a thing" in addition to "motion pictures" in its original meaning (Section 2 (3)). In accordance with this definition, to fall within the scope of the "motion picture works", a work other than motion pictures in its original meaning is required to satisfy following requirements:

(1) that the work is represented by a method for producing a visual or audio-visual effect similar to motion pictures; (requirement of representing method)

(2) that the work is fixed in a thing; (requirement of existing form); and

(3) that the work is a ceative work within the prescribed meaning (Section 2(1)(i)). (requirement of subject matter)

(2) Boundary between expression and idea (Scope of protection):

A computer program is an instruction given to a machine of computer. Accordingly, being different from other copyrightable works, it has not only an aspect of expression but also an aspect of function. It is certain that an abstract standard has been established wherein "expression" is a sole subject matter to be under the protection of copyright laws and that "idea" is out of the protection. But, in the protection of computer program under copyright laws, a boundary between "expression" and "idea" is not always clear and accurate in actual case.

A standard clearly showing a scope of "expression" and that of "idea" is eargerly desired to be definitely established, particularly for persons being in charge of development such as engineers. If not, daily activities of those persons being engaged in the development of computer program are not stably performed.

As mentioned above, establishment of boundary between "expression" and "idea" is an important problem directly involved in the scope of protection under the copyright laws, and clarification of the boundary therebetween has been tried to be established mainly in the judicial precendents of the United States.

① Statutory Provisions:

Following is a quotation of 17 U.S.C §102(b):

"(b) In no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work."

It is understood from this provision that, under the United States Copyright Act, copyright protection for an

original work of authorship does not extend to any idea, procedure, process, system, method of opertion, concept, principle, or discovery.

On the other hand, Section 2 of the Japanese Copyright Law prescribes that "creative expression of idea or emotion" is under the protection of the Copyright Law. It is interpreted from this provision that any idea or emotion is out of the protection under the Copyright Law.

As mentioned above, in both Japan and the United States, it is expressly prescribed as an abstract standard that there is a boundary between "expression" and "idea" as to the scope of protection under the copyright laws.

② Treatment of expressions essential for working certain idea:

[Baker v. Selden 101 U.S. 99(1879)]

There is a judicial decision wherein it was judged that the "expression" of this kind was out of protection under the Copyright Act. Summary of this decision is as follows:

The plaintiff Selden wrote a book entitled "Selden's Condensed Ledger, or Bookkeeping Simplified", and in which particular formats were included as a part of the work designed for use in carrying out the idea. The defendant Baker issued a book with formats which were copies of the plaintiff's formats, and sold them himself. The palintiff after being aware of it, brought an action complaining that the bookkeeping formats sold by the defendant infringed a copyright of the plaintiff.

The plaintiff contended that the defendant used the specific formats, as they were, which were included as a part of the book entitled "Selden's Condensed Ledger, or Bookkeeping Simplified" issued by the plaintiff.

This case went to the United States Supreme Court, and the Supreme Court gave a decision as follows: "Any idea is out of copyright protection. Where the use of an unprotected idea necessarily requires use of such expression or use of other expression very similar to such expression, no copyright protection was given to the expressions."

The above decision was given more than 100 years ago, and

evoked a sensation because it overthrew the then established principle that every expression was under the protection of the Copyright Act. Since then, the decision is an established criterion of judgment for copyright infringement including that of computer program.

Thus, in accordance with this decision, in any case of copyright infringement of computer program, "if similarlity of an expression of a computer program is necessarily required to achieve a function intended by the computer program", such expression of the computer program was out of the protection under the Copyright Act.

③ Treatment of expressions practically essential or expressions each being a standard for a certain subject:

[Margaret Walker Alexander v. Alex Haley etc., 460F. Supp. 40(1978)]

There is a judicial decision wherein it was judged that the "expression" of this kind was out of protection under the Copyright Act. In this case, the plaintiff Margaret Walker Alexander brought an action alledging an infringement of her copyright because a historical novel entitled "Roots" written by the defendant Alex Haley was similar to a novel entitled "Jubilee". The court judged that similarity alledged by the plaintiff was out of copyright protection under the Copyright Act.

Both novels had points of sameness, which are expressions, characters or backgrounds actually essential or at least serving as standards, respectively.

Where a subject matter must be expressed in the same manner by anyone, then the subject matter is generally called "Scenes a fair" in judicial precendents of the United States, which is recognized to be in one of the categories excluded from copyright protection under the Copyright Act. This priciple is established as a ground to rely upon in the defense that a computer program, being a naturally copyrightable work, does not constitute any inforgement.

④ Treatment of an expression inseparably combined with an idea:

[Synecom Technology Inc. v. University Computing Company,

462 F. Supp, 1003(1978)]

There is a judicial decision wherein it was judged that the "expression" of this kind was out of protection under the Copyright Act.

Outline of this judicial decision was as follows:

The plaintiff Synercom Technology developed a "STRAN Program" by improving a known structural calculation program "FRAM", and distributed input formats and instruction manuals thereof marked with an indication of copyright.

On the other hand, the defendant developed a program SACS II completely compatible with the plaintiff's STRAN Program, and used input formats thereof. The plaintiff, after being aware of it, brought an action complaining that the input formats used by the defendant infringed a copyright of the plaintiff.

The court recognized that the input formats in question did not constitute any infringement. The reasons for judgment were that, in this case, the input formats were used to transmit data array and link in such a manner that their expression and idea were inseparably combined with each other.

Condsidering variety in expression with respect to an idea, if an expression is protected where there is only one expression with respect to one idea, then the protection of the expression leads to protection of the idea, eventually resulting in interference with the principle of the Copyright Act that no idea shall be protected.

Accordingly, on the assumption that any expression is copyrightable, exsistence of a plurality of expressions is an essential premise. Thus, in the foregoing litigation, it was judged that since an idea was inseparably combined with an expression, such expression was not protectable under the copyright law.

⑤ Treatment of structure (S), sequence (S) and organization (O) in computer program under the Copyright Act:

[Whelen Associate v. Jaslow Detal Lab. 797F. 2d 1222 and Plains Cotton Cooperative Association v. Goodpasture Computer Service, 807F. 2d 1256]

The above SSO of a computer program are important matters because if treating them erroneously, idea itself is judged to be protected under the copyright law.

From this point of view, described hereinafter are famous two judicial decisions inconsistent with each other. Followings are reviews of the two judicial decisions:

(a) [Whelen Associate v. Jaslow Dental Lab.]

Outline of the background in this case are as follows:

The defendant Jaslow, an owner of a corporation in the business of manufacturing dental prothetics and devices, attempted to process his business operations by compter believing that the business operations could be made more efficient if they were computerized. However, he was not successful in preparing a computer program by himself, and therefore hired a corporation to take care of it.

The hired corporation, i.e., the plaintiff Whelan, after studying how the laboratory worked and what its needs were, wrote a program called Dentalab and delivered it to the defendant. Thereafter, the plaintiff formed her own business corporation, which acquired the entire copyright of the Dentalab.

In the meantime, the defendant Whelan prepared a program Dentcom written in BASIC language and performing the same function as the plaintiff's Dentalb, and began to sell the Dentcom program.

In view of the competitive relationship therebetween, the plaintiff filed suit alledging that the defendant Jaslow infringed plaintiff's copyright. The district court gave a decision in favor of the plaintiff Whelan, from which the defendent brought an appeal to the intermediate appeal court.

There were following two points at issue in the appeal court.

(i) Whether or not there is a substantial similarity between the defendant's program Dentcom written in BASIC language and the plaintiff's program Dentalab in EDL language; and

(ii) Whether the copyright protection of computer programs

is limited to literal codes of the program or extends to the structure thereof.

Judgment of the appeal court on these points was as follows:

"The larger portion of the expense and difficulty in creating computer programs is attributable to the development of the structure and logic of the program. Therefore, copyright protection is required to extend to the larger portion. The structure of the program in this case is not an essential requirement for the work. There are other programs commercially available which are competitive with the defendent's Dentalab and the defendent's Dentcom and perform the same function as them. Accordingly, the structure of Dentalab is an expression and not an idea.

Further, when comparing the file structure, the screen output and the five subroutines of the plaintiff's progam with those of defendant's program, it is found that they are substantially similar."

In conclusion, the appeal court held that copyright protection of computer programs might extend beyond the program's literal code to their structure, sequence, and organization, and the district court's finding of substantial similarity between the two programs was not clearly erroneous.

(b) [Plains Cotton Cooperative Association v. Goodpasture Computer Service]

The appellant Plains developed a computer software system, Telcot, designed to provide its members with information regarding cotton prices, etc. The appellant's Telcot system was used by cotton fermers, ginners, and buyers through terminals connected to the appellant's large central computer by telephone lines.

The computer program developed by the appellee Goodpasture Computer Service was designed for a personal-computer version of the appellant's Telcot system, and was very similar to the appellant's Telcot system on the functional specification, programming, and documentation

levels.

The point at issue in this action was whether or not the appellee's program infringed the copyright of the appellant's Telcot system.

The appellant alleged that the appellant's Telcot system was infringed by the appellee's program by reason that the appellee's program was a copy of the appellant's Telcot system, citing the judicial antecedent of "Whelan v. Jaslow". The court, however, did not agree to the cited judicial precendent by reason that the appellee presented evidence that many of the similarities between the appellant's program and the appellee's program were dictated by the externalities of the cotton market.

(c) Comparison between the two judicial precentents:

The foregoing two judicial precendents are both involed in use of SSO of a computer program without authorization, and their judgments are opposite to each other.

This is because, in the foremer judgment, variety in expression of SSO was recognized by reason that there were various other programs commercially available which are different but perform the same function as the programs in question, while, in the latter judgment, it was recognized that similarities of programs were dictated by the externalities of the cotton market, and SSO thereof were obliged to be similar to each other, whereby uniform expressions of SSO are necessarily defined.

In conclusion, it is understood from above that the court came to stand on a judgment that:

(i) SSO of computer programs have their own individual characters to be separately recognized, and therefore it is understood that SSO are protectable expressions of which preparation needs intellectual efforts and originality;

(ii) provided that SSO of computer programs are out of protection, if it is probable that the SSO are essential to achieve desired objects and functions and therefore are uniformly defined.

(3) Lawful reproduction:

The owner of copyright has the exclusive right to reproduce by himself or to authorize to reproduce the copyrighted work. (17 U.S.C §106)

Not withstanding the mentioned provision, under certain circumstances, it is not always appropriate to execute this right from the viewpoint of fairness, particularly in the copyright of computer program due to its peculiarity.

To meet this, there are several provisions in the United States Copyright Act such as 17 U.S.C §107 (Limitations on exclusive rights: Fair use), §117 (Limitations on exclusive rights: Computer programs), etc. Application of such provisions of lawful reproduction may directly affect whether there is an infringement of copyright or not, and therefore is a fatally important problem.

Followings are reviews of judicial antecedents of which points at issue are whether the mentioned 17 U.S.C. §107 and §117 are applicable or not:

① 17 U.S.C §107:

[Telerate Systems, Inc. v. Marshall Caro and Programit, Inc., 689F. Supp. 221)]

(i) Outline:

Outline of this case are as follows:

The plaintiff Telerate Systems, Inc. had their own data base representing various news, market prices, etc., and provided their clients with access means so that any third person may access to the data base at a certain charge.

The defendant Programit, Inc. developed a program capable of receiving the palintiff's data by a personal computer without utilizing the mentioned access means to the data base, and produced such programs and sold them to third person.

The plaintiff, after being aware of the fact, brought a suit complaining that the defendant infringed the copyright of the plaintiff by providing purchasers with means of reproducing the plaintiff's data base.

The defendant argued as one of the defenses that reproduction conducted by the person who purchased the

defendant's program was within the scope of fair use in conformity with 17 U.S.C. §107, and therefore the defendent did not commit any contributory infringement.

The court, prior to application of 17 U.S.C §107, considered following four requirements:

1. Object and character of use including whether the use is of commercial nature or of noncommertial educational nature;
2. Character of the copyrighted work used;
3. Amount and substantiality of the portion used of all the copyrighted work; and
4. Influence on the potential market or value of the copyrighted work as a result of the use in question.

The court recognized that, concerning the first requirement, an object of the reproduction by the defendent's clients was to achieve commercial profits; that, concerning the third requirement, qualitative reproductions of the data base were effected in a large amount; and that, concerning the fourth requirement, business activities of the plaintiff was impaired as a result of the reproductions by the clients. Thus, the court judged that 17 U.S.C §107 was not applicable to the case.

(ii) Provisions of the Japanese Copyright Law:

Following provisions of the Japanese Copyright Law seem to correspond to 17 U.S.C. §107:

Section 30 (reproduction for private use)
Section 31 (Reproduction in library, etc.)
Section 32 (Citation)
Section 33 (Transcription on school textbooks, etc.)
Section 34 (Broadcasting, etc. of school educational programs)
Section 35 (Reproduction in school and other educational institutes)
Section 36 (Reproduction in preparation of questions for examination)
Section 37 (Reproduction in braille type, etc.)
Section 38 (Noncommercial dramatic presentation, etc.)
Sections 39 to 47.

② 17 U.S.C. §117:

[Vault Corporation v. Quaid Software Limited, 7 USPQ 2d 1281]

(i) Outline of this juditial precendent is as follows:

The plaintiff Vault Corporation had been engaged in production and sales of computer diskettes under the registered trademark "PROLOK", which were designed to prevent the unauthorized duplication of programs placed on them by softrware computer companies.

The defendant Quaid Software Limited had been engaged in production and sales of diskette called Copy Write. This Quaid's products contained a feature called "RAMKEY", which unlocked the plaintiff's PROLOK protective device and facilitated the creation of a fully functional copy of a program placed on a PROLOK diskette.

The plaintiff brought a suit complaining that the defendant infringed the copyright of the plaintiff.

The points at issue in this litigation were (a) whether or not the acts committed by the defendant was permitted under 17 U.S.C. §117, and (b) whether or not the acts committed by the defendant were fell within the scope of contributory infringement. Concerning the point (a), the court recognized that the placing of plaintiff's program on the storage device of computer was indispensable to use the plaintiff's program, and that any person who possessed a program can reproduce the program within the scope of specified restrictions under 17 U.S.C. §117(1). Thus, the court judged that the mentioned acts by the defendant did not infringe the exclusive rights of the plaintiff under 17 U.S.C. §106.

Concerning the point (b), the court, referring to the judicial antecedent "Sony v. Universal City Studio" case in which the Supreme Court recognized that a contributory infringement was occurrable in the case of copyright in the same manner as a patent right, judged that the sales of a product constitute no infringement even though it was a copyrighted product which can be reproduced, so far as the reproduced products were lawfully used.

The 17 U.S.C. §117(2) gives a right of reproducing a program for preservation to any person who possesses the program. Accordingly, the defendant's RAMKEY had its own use which did not consititute an infrigement. Thus, the court judged that sales of the Copy Write diskettes with RAMKEY did not constitute any contributory infringement.

As described above, in this case, the defendant could effectively defend against the plaintiff's alledged infringement on the ground of 17 U.S.C. §117.

(ii) Comparison with Japan:

In Japan, there has been no lawsuit involving computer program of which point at issue is whether a provision assuring the lawful reproduction is applicable or not.

However, Section 47 bis of the Japanese Copyright Law is a provision corresponding to 17 U.S.C. §117 substantially on the same spirit as the this U.S. provision. In this sense, also in Japan, it may be an effective defense on the part of a defendant to argue lawful reproduction of computer program in the same manner as in the United States.

4. Issues:

(1) Copyrightability:

As mentioned above, as a result of the legislation for protection of computer programs under the copyright laws without sufficient study and diuscussion, varieties of problems occur actualy. One of the problems is an opinion that everything is protected under the copyright laws so far as it is designated as a "computer program". According to this opinion, such subject matters as object code, OS program which are no more than mechanical components are under the copyright protection as a matter of course. Moreover, there appears a further opinion that PLA which is nothing but a logic circuit is copyrightable because of its designation to "programmable". Such expanded interpretations should be subjected to any restriction. It may be useful to establish a restriction upon which any computer program used merely as a mechanical component or as a control system of a computer is not copyrightable. Because what is expected in programs of

such kind is simply a function which is obviously different from the concept of traditional copyrightable work and exhibits their usefulness only when they are used being incorporated in machines.

(2) Boundary between expression and idea:

As described above, we have reviewed so far the trend of judicial precendents with regard to the scope of copyright protection, in particular the criterion on which boudary between expression and idea is judged.

The above-discussed judicial precendents, however, are almost the ones formed in the United States, and therefore it is expected that criterions of judgment adapted to Japanese legislation are established also in Japan through the accumulation of future judicial decisions in this field.

In addition, it is to be noted that, in the United States, not a few persons have an opinion that protection of SSO of any computer program eventually results in protection of idea as is judged in the case of "Whelan Associate v. Jaslow Dental". In this sense, it will be essential to thoroughly discuss the problems in every country including whether or not there is a true necessity of protecting computer programs having a functional aspect under the copyright laws, and to harmonize opinions of each country.

In conclusion, under the present situation, criterions required by computer engineers to determine prior to development of a computer program whether or not the computer program constitutes an infringement, are not always clearly and accurately established, and, in view of sound progress of the computer industry in every country, it is essential for the computer industry to have definite statutory criterions of judgment to be established through consensus of every related country, by which computer engineers can preliminarily determine whether or not a computer program to be developed falls within the scope of infringement. i.e, copyright.

(3) Lawful reproduction:

Application of the provisions of lawful reproduction may

directly affect whether or not there is an infringement of copyright, and therefore such provisions should be applied considering a harmony between copyright owner and third party. Under the present situation, however, criterions in each country is not always harmonized due to difference in requirements for application of such provisions in each country. In consequence, it will be essential to clearly establish definete criterions and harmonize them internationally through every country.

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Warnings of Infringements and Unfair Competition Law

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Abstract

A warning made to any domestic manufacturer or import agent suspected of an infringement ("the other party") by the rightful person who has become aware of that infringement of his patent or other industrial property rights would be viewed as the necessary exercise of his lawful right.

The first issue usually arising in the court in connection with warnings of infringement and unfair competition practices is whether acts of a suspected infringer would fall within the technical scope of rights of the lawful person. Whether any such warning made by the rightful person as may subsequently be found to have been a statement or circulation of falsehood would fall under an act of unfair competition is the second issue.

In Japan, where an act of an infringer, the other party, is finally found not to constitute the alleged infringement, it has generally been held that any warnings previously given to customers of the other party (the "customers") should be taken as statement or circulation of falsehood and have unlawfully inflicted injury to business reputations or creditability ("business reputations" or "reputations") of the other party, and would constitute an act of unfair competition (usually called an "act of business slander").

The Unfair Competition Prevention Law provides, as remedies against acts of unlawful competition, the petition for injunction (Article 1 Paragraph 1), claim for damages (Article 1-2 Paragraph 1) and claim for restoration measures of reputations (Article 1-2 Paragraph 3).

In this text we will discuss each of the infringement warning and Unfair Competition Prevention Law and introduce some of judgements relating to these two subjects.

1. Infringement and Warning:

The patent and other industrial property rights are not simply finished with when applied for and granted. It is important as well to think how to make use of them effectively. The effective use of the industrial property rights is supposed to commence at the moment the application is filed. Legally, however, in the case of a patents for example, there are rights available, such as the claim for compensation accruing on and after the date the application is made available for public inspection and the right of provisional protection on and after the date the public notice of the application was made.

Examples of concrete utilization of the rights would include, among other things, (1) practicing the invention by and for the rightful person, (2) provision of licenses to third parties, and (3) exclusion of third parties from practicing the invention. In the event of practicing the invention by and for the rightful person, particularly on an exclusive basis, it will be up to him to monitor the market to see if any person is infringing his right. Whenever he does find any infringement, he must take appropriate actions on a timely basis.

The saying, "The best defense is attack," in cases like this should refer to a number of warning actions taken by the rightful person against the other party, when he has become aware of any infringement activities. If and when the other party does not stop the infringement, what is available to him will be to bring a lawsuit against the other party. These actions of the rightful person should be the exercise of his lawful rights to protect his own interests.

A warning against an infringer will have the following effects:

(1) Proof of Wilful Infringement:

Any infringement activities continued by the other party until after receipt of the warning will make it easier for the rightful person to prove the presence of malicious intent on the part of the infringer in respect of his activities after receipt of it.

(2) Voluntary Cessation of Infringement Activities by the Other Party:

Voluntary cessation of the infringement activities by the other party as the result of the warning will at least achieve the purpose for which an injunction would otherwise be required.

(3) Preliminary Notice to the Other Party of Legal Consequences:

The warning will serve to caution the other party to think it over once again, with notice of a lawsuit to follow unless he responds to it properly.

(4) Starting Point of Licensing Negotiations:

The warning could well be a starting point for conducting negotiations with the infringer for conclusion of a license agreement in favor of the rightful person. A licensing agreement, if successfully reached, will do away with proceedings.

(5) Prima Facie Evidence for Determining the Necessity of Provisional Disposition or Preservation of Evidence:

The warning may be used as one of the prima facie evidence in connection with an application for provisional disposition or preservation of evidence which may follow, so the judge could reasonably establish given facts as alleged by the rightful person, in the same manner as official gazette relevant to the right to be protected, presence of the subject matter, and writings evidencing the fact that certain products are being manufactured and sold.

(6) Interruption of Prescription:

A written warning sent in connection with cases of claim for damages will bring about the effect of interruption of prescription. This effect will lapse unless demanded by way of judicial proceedings within six months, however.

The warning must contain necessary and full descriptions, including as the minimum requirements:

(1) Identification of rights or interests involved;

(2) Relation between the interests involved and the sender of the warning;

(3) Facts supporting the alleged infringement;

(4) Demand for cessation of the alleged infringement; and

(5) Date by which response must be received.

In addition, it may include among other things, (a) claim for damages, (b) demand for information on sales achievements in the past, (c) demand for return of money had and received or unjust enrichment, (d) notice of legal actions to follow, and (e) any intention of entering into a license agreement.

The warning may be given through mass media such as newspapers and magazines, directly to the other party in writing or verbally, or to the customers in writing or verbally.

The warning is delivered to the other party and/or his customers by the rightful person personally or in the name of the rightful person or experts in patent, etc. or of attorneys or patent attorneys. It is generally considered advisable that, for the purpose of authenticity and definiteness, the warning be sent to the other party and/or his customers by certified mail, return receipt requested.

Expression, contents and means of delivery would vary, depending on whether the warning is for exclusion of infringements or else.

2. Warning against Infringements and Acts of Unfair Competition:

As discussed previously, the rightful person sends the warning to the other party who, in the eyes of the rightful person, was infringing his rights when the rightful person knew of it. Occasionally the warning is sent to customers of the other party.

If, while the warning was sent to customers of the other party, rather than directly to the other party, in such expression and manner and with such contents as would interfere with business activities of the other party, it is subsequently confirmed that activities of the other party in question did not constitute infringement of the rights, the warning given by the rightful person turns out to be an unfair competition, unlawfully injuring the business reputations of the other party.

The unfair competition practices as outlined above are generally called "acts of business slander," and provided for in Article 1 Paragraph 1 Item 6 of the Unfair Competition Prevention Law.

Article 1 Paragraph 1 Item 6 of the Unfair Competition Prevention Law says:

> "Statement or circulation of falsehood which would injure business reputations of others in competition with him (whose business interests are likely to be injured)"

The acts of business slander as an act of unfair competition could lead unfairly to reduction in number of customers of the other party because of circulation of the untrue information on business reputation of the other party in competition with the rightful person. Requisites for an act of business slander are as follows:

(1) Presence of competitive relationship.

(2) Slander directed to a specified other person.

(3) Injury to business reputations of the other party:

The term "acts injurious to business reputations" is held to include (i) negative evaluation of the way in which the other party conducts business (e.g. goods, services and advertising), (ii) negative evaluation of the other party as going concern (e.g. business capacity, financial condition and management), and (iii) notice to his customers of infringements of industrial property right or violation of pertinent laws or regulations.

(4) Falsehood:

Warnings against alleged infringements were held groundless (i) when products or processes of the other party were not found falling within the technical scope of the invention or device, (ii) when the warning so given did not have valid grounds, (iii) when the application under which the warning was alleged to have been made was filed but pending public notice, (iv) when the right under which the warning was given had run out, and (v) when the right under which the warning was alleged to have been given was determined invalid and extinguished.

(5) Statement or Circulation of Falsehood:

Different from those given to customers of the other party, warnings against infringements given directly to the other party in competition with the rightful person would not in any way affect reputations of the alleged infringer which basically is an objective evaluation. Thus, they do not come under the statement or circulation of falsehood under the said Item 6. It still comes under the statement or circulation of falsehood under the said Item 6 to give warnings or, during a sales talk, mention the infringement by the other party, to his customers.

3. Remedial Measures against an Act of Unfair Competition as Act of Business Slander:

Remedial measures provided for in the Unfair Competition Prevention Law consist of (i) petition for injunction (Article 1 Paragraph 1), (ii) claim for damages (Article 1-2 Paragraph 1), and (iii) claim for measures for restoration of reputations (Article 1-2 Paragraph 3).

Acts of business slander may fall concurrently under torts provided for in Article 709 of the Japanese Civil Code. Under the Japanese Civil Code, the torts require malicious intent or negligence as a requisite of a valid claim therefor, thus basically preventing injunction against an act of unfair competition from being petitioned therefor. Under the Unfair Competition Prevention Law, on the other hand, neither allegation nor proof of intention of the unfair competition as a requisite thereof is necessary, and it is permitted to apply for injunction against acts of business slander.

In the following, we will discuss requisites for the respective remedial measures:

(1) Petition for Injunction:

Article 1 Paragraph 1 of the Unfair Competition Prevention Law sets forth, "Any person who is likely to have its business interests injured by any other person who performs an act falling under an act of the business slander may petition for cessation of that act."

The above will mean that a petition for injunction requires as requisites therefor, (i) possibilities of business interests being injured by an act falling under an act of business slander as an act of unfair competition, (ii) possibilities of the said act falling under an act of business slander being continued or repeated, and (iii) illegality of the said act falling under an act of business slander.

A "petition for injunction" of acts of business slander applies to prohibition or circulation of falsehood. In that the proceedings require the prohibition to be of concrete practices, the prohibition is restricted to such concrete practices as are recognized as being actually or likely to be conducted.

(2) Claim for Damages:

Article 1-2 Paragraph 1 of the Unfair Competition Prevention Law provides, "Any person who has intentionally or negligently conducted any act falling under the acts of business slander shall be liable for damages to the person any of whose business interests has been so injured."

Thus, a claim for damages requires that presence of four requisites be proven: (i) malicious intent or negligence on the part of the wrongdoer; (iii) occurrence of loss resulting from injury to business interests, and (iv) causal relations between a given act of unfair competition and the occurrence of loss.

The words "liable for damages" refer to that liability for damages covering all losses causal relations of which with a given act of unfair competition is reasonably recognized. The losses recoverable would include, among other things, (i) loss of profit attributable to the given act of unfair competition that could have otherwise been earned, (ii) cost of investigations, appraisals and the like of the act of unfair competition, (iii) fees for lawyers incurred for any injunction and the claim proceedings for damages, (iv) cost of advertisements and announcements incurred for restoration of reputations, and (v) intangible loss resulting from loss of reputations so sustained.

(3) Claim for Restoration Measures of Reputations:

Article 1-2 Paragraph 3 of the Unfair Competition Prevention Law provides, "The court may, upon request of the injured, order the person who has conducted any act of business slander to take such measures, with or in lieu of payment of damages, as shall be necessary for restoration of business reputations of the injured."

A claim for restoration measures of reputations requires presence of (i) an act of business slander as an act of unfair competition, (ii) reasonable causal relations between the given injury to the reputations occasioned by the act of unfair competition and the proposed restoration measures of reputations, and (iii) malicious intent or negligence in the act of unfair competition. Incidentally, although the text of the law provision does not specifically refer to "malicious intent or negligence," item (iii) is held to be necessary on the grounds that the restoration measures of reputations is a kind of claim for damages under torts.

The "restoration measures of reputations" include (i) insertion of remedial advertisements in newspapers, (ii) dispatch of written apologies to firms dealing with the alleged injuring party, and (iii) posting of written apologies on notice boards of industrial organizations, of which item (i) is conventional in Japan.

4. Precedent Cases of Warnings against Infringements and Acts of Unfair Competition as Acts of Business Slander:

It has been since the middle of the 1970's that more of the notice given by rightful persons to the other parties whom they alleged to be wrongdoers and/or to customers of such other parties became to be taken up by the other parties in lawsuits as being an act of business slander.

Precedents in Japan include claims for confirmation of non-existence of the right of injunction, as filed by the party to whom the injunction orders were directed as infringer of industrial property rights, and petitions for injunction and claim cases for damages or for restoration measures of

reputations, based on the grounds that warnings given by the rightful person constituted an act of business slander.

We will now proceed toward discussion of warnings against infringements and of acts of unfair competition as acts of business slander:

4.1 Test of Infringements and Acts of Unfair Competition:

The first issue in the court involving a warning against an infringement and an act of unfair competition will pertain to whether manufacture or sale or other acts of the other party whom the rightful person alleged to be an infringer of his right would fall within the technical scope of rights held by the rightful person. The test of whether this infringement was present will determine whether the warning against infringement would constitute an act of unfair competition as statement or circulation of falsehood.

If the manufacture, sale or other act of the other party whom the rightful person alleged to be an infringer is found to fall within the technical scope of the right held by the rightful person, the infringement so alleged by the rightful person will be held not to fall under the statement or circulation of falsehood and, as a result, found not to constitute an act of unfair competition:

> "A study on components of the product in question and whose of the device in question reveals that the product satisfies all requirements of the device. In that the product, only if provided with all required components thereof, can perform such functions and produce such effects as are contemplated in the device, the product should be found to fall within its technical scope. While it is recognized that the plaintiff and his non-exclusive licensees of the utility model in question have sent notice to customers of the defendant, stating that the product infringed the utility model in question, the product in fact infringes the utility model, the said notice should not be held to be." (Handle of vanity bag case)

If, on the other hand, manufacture, sale or other act is found not to fall within the technical scope of the right held by the rightful person, the warning given by the rightful person is found to be statement of circulation of falsehood.

4.2 Statement or Circulation of Falsehood and Acts of Unfair Competition:

If a warning against an infringement given by the rightful person is found to be statement or circulation of falsehood, whether it constitutes an act of unfair competition will be the second issue. The problem here will be whether it was sent directly to the other party or to his customers.

If it is sent directly to the other party, he can elect at its own discretion whether to continue the manufacture, sale, etc. Hence, even when it is statement or circulation of falsehood, the warning given by the rightful person against an infringement has been found by courts not to come under an act of unfair:

> "With respect to Article 1 Paragraph 1 Item 6 of the Unfair Competition Prevention Law which refers to statement or circulation of falsehood which would be injurious to business reputations of others in competition (with the doer thereof), an act of warning against others in competition with him, being different from the case where the said statement or circulation is directed to third parties, cannot be held injurious to reputations which are an objective evaluation. Thus, it evidently does not fall under the said provision of Item 6." (Case of magnetic pencil case)

Any warnings given to customers of the other party could well end up with injury to his business reputations as the result of, for example, reduction of sales of the other party's products and stoppage of business transactions. Thus, warnings against infringements are statement or circulation of falsehood and held to constitute an act of unfair competition.

> "The manufacture or sale of Clover Chako Paper by the plaintiff in this case does not constitute an infringement of a patent of the defendant hereunder, ... The statement in the advertisement of the defendant, referring to the

goods in question as counterfeit, inferior product and patent infringing commodity, should be considered to be false pertaining to the plaintiff who is in competition with the defendant and, thus, may be called an act of unfair competition." (Chalk paper case)

"There is no argument between the parties as to the fact that the plaintiff and the defendant are in competition each other, the utility model in question has a cause by which it may be invalidated, and the pencil case in question does not fall within the scope of the interests covered hereunder. It will be in order, therefore, to assume that, although the defendant did not specifically cite the name of the specific manufacturer or commodity, the defendant company has stated and circulated falsehood injurious to the business reputations of the plaintiff who was in competition with him." (Case of magnetic pencil case)

"Manufacture or sale of the album mount by the plaintiff does not fall within the technical scope of the device in question. The description appearing in the warning sent by certified mail by the defendant to ten customers of the plaintiff, stating 'some of the albums manufactured and sold by the plaintiff include those mounts falling within the technical scope of the device under reference, must be, therefore, taken as falsehood pertaining to the plaintiff who is in competition with the defendant in this lawsuit." (Album case)

If a warning against infringement is given in writing, whether or not that warning so given by the rightful person states or circulates any falsehood and falls under an act of unfair competition may explicitly be produced as evidence thereafter, and easily tested. In the case of warnings against infringement given verbally, it is difficult to produce and prove the evidence in examination of witnesses during hearing, and it sometimes happens that presence of an act of unfair competition is negated as being not supported by sufficient evidence.

"The plaintiff and his witnesses testify to the presence of act of unfair competition by the defendant, as stated

before. ... Their statement that what the plaintiff and his witnesses had said could hardly be realistic and in fact did not exist may not be relied upon without reservation. ... There is no explicit evidence supporting use of words by the defendant to slander products of the plaintiff. In the circumstances, the court is not to prepared to affirm presence of any such act of unfair competition by the defendant, as alleged by the plaintiff." (Metal plate cleaning and polishing brush case)

4.3 Petition for Injunction Forbidding Acts of Unfair Competition:

A petition for injunction forbidding acts of unfair competition requires neither malicious intent nor negligence for warnings against infringements as an act of business slander. It appears, therefore, that courts keep a basic stance for granting injunction forbidding acts of unfair competition:

"If the plaintiffs are likely to have their business interests injured by statement or circulation of falsehood, as an act of unfair competition, by the defendants, the plaintiffs should be granted an injunction forbidding the said act to preclude any injury." (Chalk paper case)

"Contents of the warning made by the defendant are untrue and constitute an act of unfair competition. The petition made by the plaintiff has reasonable grounds and, therefore, an injection is hereby granted." (Process of adding moisture to grains of rice case)

An injunction may not be granted if there is any particular grounds prohibiting doing so:

"In view of the fact that ingredients of the product of the plaintiff were appraised after the insertion of the advertisement in newspapers by the defendants, and that the patent owned by the defendant expired immediately after March 26, 1973, and of all contents of the oral pleadings involved, it would be reasonable to assume that the defendants are not likely to injure business interests of the plaintiff in the future by stating or circulating falsehood as aforesaid. The petition by the plaintiffs

for the injunction do not have reasonable grounds to support it." (Chalk paper case)

4.4 Claim for Damages:

Claims for damages based on an act of unfair competition require malicious intent or negligence as a requisite of warnings against infringements alleged to be an act of business slander.

Before making a judgment that he has had an infringement of his interests, and prior to making a warning against infringements, the rightful person normally consults attorneys and patent attorneys and asks them for an appraisal. Not a few judgments reveal that the warnings made according to their subjective evaluation are likely to be found to have been based on malicious intent or negligence on the part of the rightful person:

"It is found at least based on negligence on the part of the defendant that he sent the said certified mail. It has been verified that the certified mail was sent out in the name of a patent attorney for the defendant, and the defendant then consulted the attorney (an appraisal was also made by the patent attorney at the request of the defendant that 'the product manufactured and sold by the plaintiff would fall within the technical scope of the utility model in question.'). These facts will have nothing to do with the said conclusion of this court, however. The defendant is liable for indemnifying the plaintiff for loss he has sustained." (Album case)

"Neither the appraisal made by a patent attorney nor the verbal opinion of an attorney, both secured at the request of the defendant, does not serve to negate the said negligence. Hence, the defendant is liable for indemnification of loss sustained by the plaintiff." (Fishing tackle case)

In addition, there are judgments dealing with the duty to exercise due care when consulting, or asking for an appraisal of, attorneys or patent attorneys as well as with requirements of barring the formation of the negligence.

"With respect to the illegal act of the defendant, involving warnings he sent to customers of the plaintiff,

stating that products of the plaintiff infringed the utility model owned by the defendant, the defendant believed incorrectly that he was entitled to make that assertion based on his right. Even though the defendant did base his judgment on opinions of the attorney and patent attorney, and even when it is arbitrarily assumed that the defendant had provided the same ability to exercise the care as the said professional practioners, the misunderstanding of the defendant as above-mentioned still leaves rooms to make reasonable what he has done in the given situation. The court hesitates to criticize the defendant by simply ruling that the act of the defendant was based on a one-sided judgment without considering the situation of others, and that, when making the said misjudgment, the defendant was negligent and failed to exercise due care." (Sash rail case)

"Sending of a warning by the rightful person of a utility model to the manufacturer of a commodity which he thinks infringes that model should specifically be distinguished in nature from notifying third parties, including customers of the said manufacturer, by the rightful person, that the commodity in question infringes the utility model. It is evident that the latter case requires more care, or duty to exercise more care, than the former would for the purpose of judgment of whether the commodity would infringe that utility model. When giving the notice to wholesalers and retailers of the plaintiff, the defendant company should have done it with due consideration for the possibilities of the pencil case in question being not infringing the utility model in question under a subsequent judgment possibly made by public authorities, because of the nature of the utility model (this device provides the pencil case of of common knowledge with an additional composing element, extent of which is judged to be merely a question of extent). In this particular case where such circumstances were not present as would permit a judgment to be made that the defendant company had judgment by public authorities (as when a temporary disposition for prohibition of manufacture and sale of the pencil case in question had been effected

under the utility model involved, or when the decision had been made at the first instance in favor of the defendant), or where the plaintiff who is the manufacturer of the pencil case in question has admitted the infringement of the utility model, whereby the pencil case would subsequently be considered most probably to have infringed the utility model in question, there would be no alternatives but concluding that the defendant company was negligent in not recognizing that in no case could the pencil case in question infringe the utility model." (Case of magnetic pencil case)

If extraordinary circumstances were present prior to a warning against an infringement, negligence may be considered not to have existed.

"During examination of the patent application for the product of the plaintiff, he unexpectedly received from the Patent Office a notice of rejection which referred to a device of the defendant as set forth in the Utility Model gazette. It should rather be reasonable that the defendant assumed that the product of the plaintiff fell within the technical scope of the utility model in question. Thus, no negligence is considered to have existed in the warning addressed by the defendant to customers of the plaintiff." (Driving Pin case)

"It was right in a way that the plaintiff assumed that the product manufactured and sold by the defendant infringed the patent in question, based on the statement made at the examination of the defendant in the course of proceedings for preservation of evidence as well as on the result of analysis of the product of the defendant. Thus, it will not be in order to hold that the assumption made by the plaintiff as mentioned above constitutes negligence." (Artificial diamond case)

mount of damages, if awarded, could include attorneys' fees nd intangible loss from injury to reputations.

"With respect to the attorneys' fee incurred for the litigation hereunder, it will be in order to estimate, at the smm of ¥300,000, loss reasonably attributable to the act of unfair competition of the defendant company. In

view of the fact that the plaintiff recovered products from customers of the defendant, as disclosed by the defendant, and of all circumstances revealed in this particular case, it will be reasonable to estimate at ¥2,000,000 the loss sustained by the plaintiff because of injury to business reputations." (Case of magnetic pencil case)

"Loss of reputation sustained by the plaintiff because of certified mail sent by the defendant is immeasurable and, when evaluated in terms of money, would amount to not less than ¥5,000,000." (Album case) (By the way, the amount of damages claimed by the plaintiff was ¥5,000,000.)

In addition, the attorneys' fee and cost of appraisal were awarded in the case of gloves for horse racers, and intangible loss was awarded in the stairway non-slip design case and the packed bean curd case.

4.5 Claim for Restoration Measures of Reputations Consequent upon Acts of Unfair Competition:

Claims for restoration measures of reputations consequent upon acts of unfair competition usually have nothing to do with whether the said acts were intentional or negligent. Restoration measures of reputations are awarded as long as an act of unfair competition was present and the rightful person has not taken any restoration measures of reputations of the other party. In Japan, insertion of a remedial advertisement in the newspapers is awarded in either case:

"In view of the fact that the defendant has caused immeasurable loss of reputations of the plaintiff and has not even taken any appropriate measures for restoration of reputations of the plaintiff, the court finds it appropriate to award a remedial advertisement." (Album case)

"In that defendant K has negligently conducted an act falling under Article 1 Paragraph 1 Item 6 of the Unfair Competition Law, defendant F is entitled to a claim against defendant K for an order imposing appropriate measures to restore business reputations of defendant F." (Fishing tackle case)

5. Conclusion:

As you have seen in the above, courts of Japan decides whether a given act of alleged infringement comes under statement or circulation of falsehood, according to whether manufacture, sale or incidental act of the other party alleged to be an infringer would come under the technical scope of the interests held by the rightful person. And, a test is subsequently applied to determine whether the given warning by the rightful person against infringement, thus found to be a statement or circulation of falsehood, falls under an act of unfair competition.

A warning, if given directly to the other party, is held not to constitute an act of unfair competition, even when it is subsequently found to be a statement or circulation of falsehood. If addressed to customers of the other party, a warning of infringement is held to be a statement or circulation of falsehood and to constitute an act of unfair competition, because it could injure business reputations of the other party. Whether an infringement is present or not is finally determined by the court. Although any warning by the rightful person against customers of the other party was based on an appraisal of an attorney or patent attorney or on an award granted by the Patent Office under Article 71 of the Patent Law, the court issued that an act of the other party was not found to be the alleged infringement and then held that negligence was found in a warning and damage was also awarded based on such issue. Wouldn't it discourage lawful holders of the industrial property right from exercising their rights? If that is the case, wouldn't it destroy what the industrial property rights themselves are maintained for.

In fact, the court decision of the "Sash rail case" refers to this particular question:

> "Generally, it is a difficult job to judge whether a given thing or process of production of a given thing falls within the qualified scope of application for registration of a particular industrial property right. In fact it is comparable to application of laws and regulations to a given subject matter, requiring highly sophisticated construction.

In not a few cases, it is very difficult to make a really correct, reasonable judgment. It will be important, therefore, to exercise extreme care where, depending on the outcome of his judgment, the case could well develop into a situation involving infringement on rights of others. Depending on the nature of the case in question, however, the rightful holders of the industrial property right could be discouraged from exercising their right, unless a thoughtful study be made to see what has made the alleged infringer do so and careful consideration be given to any circumstances warranting it. Otherwise, many fringements will be looked over and left to take their own course, resulting in destruction of what the industrial property rights are intended to serve."

We urge that, in cases where, before making a judgment that an infringement is present prior to making the warning against it, the rightful person has performed a certain level of care, such as obtaining an appraisal from an attorney or patent attorney, due consideration must be given to the care so exercised, by the court when determining presence of any malicious intent or negligence in a lawsuit involving a claim for damages as remedy for an act of unfair competition.

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(Chalk Paper Case)
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Case # Showa 46 (Wa) 4803 : Main action case applying for confirmation of non-existence of right of claim for injunction of patent.

Case # Showa 47 (Wa) 2171 : Cross-action case on injunction against act of unfair competition

(Fishing Tackle Case)
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Case # Showa 47 (Wa) 7332 : Claim for injunction against infringement of utility model

Case # Showa 48 (Wa) 7442

(Driving Pin Case)
Decided by Osaka District Court, on Dec. 15, 1978
Case # Showa 52 (Wa) 7504 : Claim for confirmation of non-existence of right of injunction against infringement of utility model

(Sash Rail Case)
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Case # Showa 43 (Wa) 3079 : Claim for damages

(Stairway Non-Slip Device Case)
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Case # Showa 52 (Wa) 4683 : Claim for damages

(Case of Magnetic Pencil Case)
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Case # Showa 55 (Wa) 558 : Claim for damages

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(Artificial Diamond Case)
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Case No. Showa 45 (Wa) 428 : Claim for prohibition of infringement of patent
Case # Showa 48 (Wa) 1538
Case # Showa 48 (Wa) 6965

(Handle of Vanity Bag Case)
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Case # Showa 58 (Wa) 722 : Claim for prohibition under utility model

(Album Case)
Decided by Osaka District Court on May 29, 1985
Case # Showa 58 (Wa) 7338 : Main action case applying for confirmation of non-existence of right of injunction under utility model
Case # Showa 58 (Wa) 8570 : Cross-action case on prohibition of infringement of utility model

(Packed Bean Curd Case)
Decided by Osaka District on April 25, 1986
Case # Showa 55 (Wa) 6390 : Claim for damages

(Process of Adding moisture to Grains of Rice Case)
Decided by Tokyo District Court on Aug. 29, 1986
Case # Showa 54 (Wa) 11139 : Main action case applying for confirmation of non-existence of right of injunction under patent
Case # Showa 55 (Wa) 2799 : Cross-action case on injunction of infringement of patent

(Metal Plate Cleaning and Polishing Brush Case)
Decided by Osaka District Court on July 6, 1987
Case # Showa 58 (Wa) 104 : Claim for confirmation of non-existence of right of injunction under utility model

PIPA PRESENTATION

THE RIGHT TO USE CONFIDENTIAL INFORMATION ON EXPIRATION OF CONFIDENTIALITY OBLIGATIONS

William R. Norris
Dow Chemical Co.

INTRODUCTION

It's daily routine for many of us to oversee the negotiating, drafting and performance of "secrecy agreements". The need for such agreements to protect patentable inventions and proprietary information is taken for granted. Such agreements, often address in elaborate detail the metes and bounds of proprietary information, the manner of its delivery, obligations of non use and sometimes the terms under which use is permitted (license). More often than not, they also prescribe the term of the agreement. However, it is common practice in such agreements to leave open the question of supplier's and the recipient's rights in the information upon expiration of the secrecy undertaking. To examine this question, I have arbitrarily taken the perspective of the information supplier and thus implicitly, I am addressing whether and to what extent an information recipient's "right to use confidential information on the expiration of confidentiality obligations" might be qualified by duties still owed to the information supplier.

The past 20 years or so encompasses a virtual explosion in the rate of technology transfer and licensing. As markets for technology globalize and proprietary information becomes a commodity in itself, so does this question, which sleeps at the root of many existing contractual relationships, potentiate profound developments in the law of property rights in information.

As a starting point in analysis, there is little international authority for guidance. The Paris Convention states:

"The countries of the Union are bound to assure to nationals of such countries effective protection against unfair competition". Article 10 bis.

The consensus view for GATT discussions of the Intellectual Property Committee (USA), Keidanren (Japan) and JNICE (Europe), entitled the Explanation of Fundamental Principles for Proprietary Information Protection, builds upon this premise in its conclusion:

"Thus purely accidental acquisition of information is not under consideration here but wrongfully taking commercial advantage of confidential information is regarded as a fault which gives rise to a cause of legal action on the part of the owner. Such wrongful behavior leading to commercial benefit and unfair consequences for the owner should be deemed a fault and an injury and therefore unlawful. In order to secure compatibility with existing legal systems, the legal mechanism to deal with such an abuse of confidential information is, however, a matter for the signatory country, since it will be clearly different in the countries where law is based on civil law in the continental legal tradition from those based on the common law."

"It is not intended in these Fundamental Principles to prejudice the principle of good faith between parties and any existing principle of avoidance of misuse by the owner of a private right or claim."[1]

The Paris Union and GATT statement contain little suggestion, however, as to how and in what legal manner the question of this paper may be answered. In the following discussion I will look at this question under the tenets of US law.

The analysis presupposes that information was transferred and that it was protected by the traditional written covenants of secrecy and non use and that it qualifies as proprietary information. The secrecy undertaking may have constituted the entire agreement, or, it may have been a part of a license agreement permitting use of the information in some part or all of the world. Fundamentally, the question is whether the expiration of a secrecy and non use obligation leaves the recipient free of, and thus the original supplier of that information without, any further legal recourse under U.S. law?

As will be seen in the following review of case law, the proposition so broadly stated is to be answered in the negative. Depending upon the relationship between the information supplier and the recipient, there are a variety of relational interests from which duties, and thereby limits, arise to curtail complete freedom of the information recipient upon expiration of his written contractual undertakings. Examples of such relationships which may bear on this result include those between employee/employer; licensor/licensee; prospective licensor/prospective licensee; manufacturer/sales representative; manufacturer/independent contractor; vendor/vendee and principal/agent.

While there are many state and federal cases that address confidentiality relations through the "operation of law"[2], it is surprising that there is so little case law specifically pertaining to legal relations in transferred information after the expiration of secrecy covenants.

A partial explanation may be found in the fact that throughout the sixties until the mid-nineteen seventies there was uncertainty under U.S. law as to the power of the states to provide "monopoly subsidy", as some courts have termed property

rights accorded information suppliers. In particular, the interval between the Sears[3] and Compco[4] cases in 1964 until the 1974 Supreme Court decision in Kewanee Oil Company v. Bicron Corporation[5] was a dark period for legal rights in information.

Another aspect has been the often questioned status of proprietary information as "property". While the affirmative of this question underlays many state and federal court decisions, the issue apparently still requires briefing.

Finally, as mentioned at the outset, it is only within the last twenty years or so that globalization of markets and technologies has become a dominant consideration in technology development and transfer. Today, national boundaries seldom constitute adequate markets for the recovery of technology costs. Current GATT deliberations on minimum standards for the protection of intellectual property are a reflection of this economic fact.

At this point I will make a simplifying assumption in terminology. Much American law on this topic is found in case law under the heading of "Trade Secrets". Trade secrets, in turn, are simply a major subcategory of proprietary information. In most states there is no or very little difference in legal effects of proprietary information, secret technical information, confidential information or trade secrets. To afford legal protection most states require some element of novelty, value, and confidentiality. Thus for present purposes, proprietary information and trade secrets refer to the same legal right.

Roger Milgrim devotes the first chapter of his treatise "Milgrim on Trade Secrets", exploring the solid and diverse foundations for treating trade secrets as property. The topic would not have required such prominent treatment had not the eminent

Justice Holmes in E.I. Dupont v. Masland[6] been reluctant to acknowledge that trade secrets were property when he stated:

> "The word 'property' as applied to trademarks and trade secrets is an unanalyzed expression of certain secondary consequences of the primary fact that the law makes some rudimentary requirements of good faith. Whether the plaintiffs have any valuable secret or not, the defendant knows the facts, whatever they are, through a special confidence that he accepted. The property may be denied, but the confidence cannot be, therefore the starting point for the present matter is not property or due process of law, but that the defendant stood in confidential relations with the plaintiffs...."

In spite of the many decisions examining whether trade secrets are property for the purposes of taxation, inheritance, bankruptcy, criminal proceedings or property subject to trespass and misappropriation under tort laws, the question continues to arise in litigation.

In a recent supreme court case Ruckelhaus v. Monsanto[7], the Court held that data supporting a pesticide product registration constituted a trade secret under Missouri state law and as such, was protected under the Federal constitution by the 5th Amendment, which requires compensation for the taking of private property.

To refocus on the central question, I assume there has been a transfer of trade secret (information) from one party to another. It is assumed the trade secret meets all the legal criteria to establish the existence of a trade secret under the particular state law governing the transfer. I assume further the transfer is voluntary and that the recipient agreed to keep the trade secret confidential and not to disclose it to others.

or to use it for a finite period of time. I assume further that that time period has now expired.

The foregoing facts may be within a context of an employer/employee relationship, a prospective licensor/licensee, or perhaps at the expiration of a licensing relationship which was silent on any residual rights as between the parties. As a variation on the latter situation, the license agreement may have stipulated a paid up license for the territory of the original grant but been silent on post expiration rights outside the defined territory.

In these situations, it is taken for granted that the simple expiration or evaporation of contractual strings between the trade secret supplier and recipient does not result in the trade secret entering the public domain. While the recipient is contractually free, subject to limitations that may arise from the operation of tort rules, to publish the trade secret, thereby putting it in the public domain, the trade secret does not enter the public domain without the recipient taking some positive action to put it there. This may occur naturally, for example, as a result of the recipient filing patent applications on further developments in the trade secret technology. But unless the recipient publishes or some other event unrelated to the recipient's actions occurs to impair the property right in the trade secret, it remains a confidential and proprietary trade secret. It is thus property legitimately possessed by both the trade secret supplier and recipient. The latter's rights may have been determined by contract (but the hypothesis here is that the contract did not dispose of this question). Accordingly, it remains to examine residual relations under tort law.

When we begin to look for relations created by "operation of law", most of the case law has been generated by events that are contemporaneous with the transfer of the trade secret e.g.,

confidential relationships implied in fact or in law (quasi contract) (confidential relationships and unfair competition). There are not many cases that address post termination or expiration obligations between the parties.

Painton v. Bourns[8] addresses post termination rights, although not in exactly the context of my hypothesis. Here the supplier of the trade secret (Bourns), had sought to terminate a license and thus the licensee's right (Painton) to use certain technical information. For present purposes, it is interesting that the Court's holding, which is a landmark decision in the clarification and ultimate overturn of the Sears and Compco federal patent preemption doctrine, fully recognized proprietary rights in information, in a post termination setting even though some patents had published. Ultimately, the Court approached the problem as a matter of contract construction on a record showing considerable controversy about the facts and sent the matter back to the district court for full trial.

The Pitney Bowes case[9] addressed the post termination rights of a technology recipient. Pitney had sought a declaration that it might continue to manufacture and sell machines incorporating the trade secret after expiration of a hybrid patent and know-how license agreement, without paying further royalties. The supplier of the trade secret meanwhile argued that the property rights in trade secrets reverted to the supplier on expiration of the agreement. Interestingly, the Court used "trade secrets" and "know how" terminology interchangeably as it found any distinction in these terms of little moment. The court concluded that since the agreement was basically a trade secret license, the determination of the term was a question of state contract law and that the royalty obligation might extend for any period freely undertaken by the parties citing Aronson v. Quick Point.[10]

Applying New York case law, the court stated:

> "Whereas here, a licensee such as Pitney-Bowes acquires trade secrets through a confidential disclosure, there is ample New York case law supporting the proposition that the licensee may not use or misappropriate that information after expiration of the license without making some form of compensation to the licenser e.g., Ewen v. Gerofsky, 86 Misc. 2d 913, 918, 382 NY Supp. 2d 651, 655 (1976) affirmed 72 AD 2d 976. Compensation may be compelled under one of two theories, a contractual obligation will be "implied in fact" when the evidence shows that the parties clearly intended payment to the extent of use of the licensor's trade secrets, even though they did not set forth that intention in express language. Although this theory may be eventually found to be applicable, there is a material factual dispute here concerning the parties mutual intentions with respect to Pitney-Bowes obligations...
>
> Alternatively, an obligation may be "implied in law" when there is no express obligation but the circumstances make it inequitable for the licensee to profit from the continuing use of the licensor's trade secrets. Here again the court is compelled to conclude that, based upon the record now before us, there are material factual questions concerning whether Pitney-Bowes will be unjustly enriched..."[11]

Although they are not post termination cases, International News Service v. Associated Press[12] and Dupont v. Christopher[13] illustrate how far courts may go in protecting property rights in information absent any existing, and in these cases, even a preexisting contractual relationship under the principles of unfair competition.

In International News, a Supreme Court, which included the eminent Justices Holmes and Brandeis separately dissenting, protected a property interest in news until its commercial value as news had passed away. International News and Associated Press were each engaged in the business of collecting and distributing news to their respective members. Newspapers, in some instances, were members of both Associations. Associated Press complained that International News copied news from bulletin boards and from early editions of its member's papers and sometimes bodily or, after rewriting, supplied it to its customers, in remote parts of the United States, whose publication deadlines followed the early press in New York. The court stated:

> "The underlying principle is much the same as that which lies at the base of the equitable theory of consideration in the law of trusts - that he who has fairly paid the price should have the beneficial use of the property. Pom.Eq.Jur. § 981. It is no answer to say that complainant spends its money for that which is too fugitive or evanescent to be the subject of property. That might, and for the purposes of the discussion we are assuming that it would furnish an answer in a common-law controversy. But in a court of equity, where the question is one of unfair competition, if that which complainant has acquired fairly at substantial cost may be sold fairly at substantial profit, a competitor who is misappropriating it for the purpose of disposing of it to his own profit and to the disadvantage of complainant cannot be heard to say that it is too fugitive or evanescent to be regarded as property. It has all the attribute of property necessary for determining that a misappropriation of it by a competitor is unfair competition because contrary to good conscience."[14]

In the Christopher case, Dupont was successful in enjoining the distribution of aerial photographs of one of its plants under construction. The photographers had argued that their

appropriation of trade secrets was not wrongful, as required by the rule in the Restatement of Torts[15]. This reads:

> "One who discloses or uses another's trade secret, without privilege due so, is liable to the other if:
>
> a. He discovers the secret by improper means, or
>
> b. His disclosure or use constitutes a breech of confidence reposed on him by the other in disclosing the secret to him.

In taking the pictures from public air space, the photographers argued that they had not violated any governmental aviation standard, breached any confidential relation, nor engaged in any fraudulent or illegal conduct.

They argued that for the appropriation of trade secrets to be wrongful, there must be a trespass or other illegal conduct or a breech of confidential relationship. The court disagreed, and following the lead of the Texas Supreme Court, held:

> "To obtain knowledge of a process without spending the time and money to discover it independently is, improper, when the supplier of the information is taking reasonable precautions to maintain its secrecy."

The earlier Texas decision relied upon is Hyde v. Huffines.[16] This case involved post termination rights of the technology recipient after its early termination of a license agreement. A hybrid license had been originally granted under a pending patent application and any patents that might issue therefrom. Subsequent to the execution of the agreement, but before the patent was granted, the recipient received scale models, blueprints, and other knowledge pertaining to the construction of the device. After two years the recipient repudiated the licensing agreement and continued to manufacture the equipment using the trade secret. A patent was issued during the course

of the trial but the case proceeded on a trade secret misappropriation theory relying on the restatement of Torts, Section 757. The court held that there existed between the supplier and recipient a confidential relationship as a matter of law:

> "In the area of confidential relationships between partners, employers and employees, licensors and licensees and the like, the injured party is not required to rely upon an express agreement to hold the trade secret in confidence... nor should he be deprived of all relief because the offending person may have originally entered into the particular relationship unaffected by a then existing ulterior or improper motive".

It may be noted the court extensively reviewed authorities pertaining to the issue as to whether the confidential relationship was abrogated by the issuance of the patent and held it was not, relying on an off-quoted authority for this point, Shellmar v. Allen.[17]

Huffines again illustrates how substantial relational interests between a supplier and recipient of information may limit post termination rights of the recipient.

Unfortunately, decisional law does not yet fully address expiration rights of information suppliers and recipients in all situations. This sleeping question is increasingly in the public eye, as position papers on GATT standards for intellectual property receive global attention. Thus as parties to information agreements leave the realm of written contracts, there is a foggy forest of quasi contract, implied in fact contract, confidential relations, agency, and unfair competition principles which may be relevant. From one perspective, such non contractual theories offer hope to information suppliers and from the opposite perspective, reason to pause for information

recipients. Good order and public interest require in future decisional law a careful balancing of the incentive to invest in the development of proprietary information with the efficient rules for its dissemination. To those who do not wish to plow this fertile ground for litigation, it would be prudent to address the topic comprehensively in negotiated written contracts.

1. Basic Framework of GATT Provisions on Intellectual Property. Statement of Views of the European, Japanese and United States Business Communities, 1988.

2. Milgrim, R. M., 1 Milgrim on Trade Secrets, New York: Matthew Bender & Co., 1967, Chapter 4.

3. Sears & Roebuck v. Stiffel Co., 376 U.S. 225 (1964).

4. Compco Corp. v. Day-Brite Lighting Inc., 376 U.S. 234 (1964).

5. Kewanee Oil Co. v. Bicron Corp., 94 Sup. Ct. 1879 (1974).

6. Dupont v. Masland, 37 Sup. Ct. 575 (1917).

7. Ruckelhaus v. Monsanto Co., 467 U.S. 986 (1984).

8. Painton and Co. v. Bourns Inc., 169 U.S.P.Q. 528 CA 2d (1971).

9. Pitney Bowes Inc. v. Mestre, 211 U.S.P.Q. 681 D.C., S.D. Florida (1981).

10. Aronson v. Quick Point Pencil Co., 44 U.S. 257 U.S. Sup. Ct. (1979).

11. Pitney Bowes Inc. v. Mestre, 211 U.S.P.Q. 681 D.C., S.D. Florida (1981).

12. International News Service v. Associated Press, 248 U.S. 215 Sup. Ct. (1918).

13. E. I. Dupont Denemours and Co. v. Christopher et. al 166 U.S.P.Q. 421 C.A. 5 (1970).

14. Oppenheim, S. C., Unfair Trade Practices, Cases, Comments and Materials, West Publishing Co., 1950, pg. 457.

15. Restatement of Tort Section 757 (1939).

16. Hyde Corp. v. Huffines, 117 U.S.P.Q. 44 Texas Sup. Ct. (1958).

17. Shellmar Products Co. v. Allen-Qualley, 32 U.S.P.Q. 24 (1936).

Assessment of Damages where Part of a Product Constitutes Patent Infringement

Japanese Group, Committee No. 4 for 1989

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Abstract

Damages for patent infringements may be assessed according to one of three different ways; as general tort damages provided under Article 709 of the Japanese Civil Code, or as damages specifically provided under Article 102 Par. 1 or 2 of the Patent Law.

An issue discussed here is how the damages should properly be assessed if a patent infringement relates to part of a product. In addition, we will discuss representative precedent cases, as classified into the three different groups, and will also give our comments.

1 Preface

Article 709 of the Civil Code stipulates a general rule for formation and effects of a tort, setting forth that, if a person is illegally injured with respect to his right or interest by another, the infringing party shall be obligated to pay to the injured for loss sustained by him.

If a patent or utility model is infringed, therefore, the injured party is entitled under Article 709 of the Civil Code to make a claim for damages sustained.

In order for the injured party to make a valid claim for damages under Article 709 of the Civil Code, fundamental requirements of that Civil Code provision are that the injured party prove all of (i) existence of an act of the infringing party, (ii) existence of malicious intent or negligence on the part of the infringing party, (iii) illegal infringement of right or interest of the injured party, and (iv) loss sustained by the injured party.

Under a law suit seeking damages from patent infringement, the Patent Law specifically provides for reduced burden of proof on the injured with respect to (ii) existence of malicious intent or negligence and (iv) loss sustained, while (i) existence of an act and (iii) illegal infringement of right or interest remain to be established.

In other words, with respect to (ii) existence of malicious intent or negligence, presumption of negligence is provided under Article 103 of the Patent Law (or Article 30 of the Utility Model Law), thus eliminating the necessity of establishing it on the part of the injured party unless the infringing party asserts otherwise. In regard to (iv) loss sustained by the injured party, the injured party may prove the amount of loss sustained because of (i) the act under the general provision of Article 709 of the Civil Code.

Under the Patent Law, however, in order to reduce the burden of proof on the injured party, Article 102 (or Article 29 of the Utility Model Law) is provided, allowing the injured party to prove the amount of damages he has sustained, by way of establishing the amount of profit which the infringing party would have made or an amount equivalent to a license fee which otherwise would have been paid to the injured party.

Article 102 Par. 1 of the Patent Law states, "... If the infringing party has profited from the infringement, the amount of the profit so made shall be presumed to be the amount of loss sustained." Article 102 Par. 2 of the Law sets forth, "(The insured party) ... may claim, as the amount of his loss sustained, payment of money equivalent to such amount of money as would normally be paid for practicing of the patented invention."

On the basis of the law provisions under which damages may be assessed, as quoted above, patent infringement cases may be classified into the following three categories:

A Cases in which the amount of loss sustained by the

injured party is assessed pursuant to the general provision of Article 709 of the Civil Code.

B Cases in which the amount of profit the infringing party would have made is assessed pursuant to Article 102 Par. 1 of the Patent Law.

C Cases in which the amount equivalent to the license fee that would normally be paid is assessed pursuant to Article 102 Par. 2 of the Patent Law.

Incidentally, according to an analysis of precedent cases (*1), out of about 80 cases, type A represented 25%, B 25% and C 50%.

Now, a question will arise as to how assessment of the amount of loss would be affected if an infringed patent involved relates to part of a product. In this report, we will discuss typical precedent cases as classified into the three groups as above.

2 A Brief Study on Precedent Cases:

(A) Cases Ruled Pursuant to General Tort Provision Set Forth in Article 709 of the Civil Code:

There were no precedent cases in which, in connection with assessment of damages, whether part of a product could constitute an infringement of a patent became an issue.

(B) Cases Ruled under Article 102 Par. 1 of the Patent Law:

(1) Soldering Composition Case (Tokyo District Court, 1969 (Wa) 1434, decided March 30, 1977):

The plaintiff claimed payment of damages against the defendant who manufactured and sold

greased solder in which, in violation of Patent No. 516871) covering a soldering composition, a composition (a soldering composition in which M.N. dimethylaniline nitrate was contained in resin) was sealed in soldering.

The issue raised related to whether, if only part of a product infringes a patent, whole or part of profit earned from sale of the product containing the infringed portion should be presumed to be the amount of loss sustained.

The court decision ruled that, in that the defendant was found not to have sold, separately and independently from the solder, the composition which represented the interest directly infringed a patent, the amount of profit derived from selling the product which included the infringed part (greased solder) was presumed to be the amount of loss sustained.

(2) Nokogiriyo Segane Case (Osaka High Court, 1982 (Ne) 43, Decided August 16, 1982):

The plaintiff who was the design right holder and an exclusive licensee for Nokogiriyo Segane sought injunction of, and payment of damages against, the defendant who manufactured and sold the Nokogiriyo Segane similar to the said design and saws as completed products.

In this case, the court decision again ruled that the profit derived by the infringing party from sale of the saw should be presumed to be the amount of loss sustained by the plaintiff, in that because "the defendant sold goods per Evidence C as completed product, resulting in loss of sale of products of the plaintiff, the

goods with the infringed design which constitute simply part of the goods sold by the defendant will have nothing to do with assessment of loss of the plaintiff."

(B) Cases Ruled Under Article 102 Par. 2 of the Patent Law:

(1) Exposure Meter Circuit Case (Tokyo District Court, 1969 (Wa) 8219, decided on May 22, 1972):

This case sought payment of damages, alleging that an exposure meter circuit incorporated into cameras of the defendant infringed a patent on exposure meters (Patent No. 501501) held by the plaintiff.

The court decision ruled that, for assessing a license fee, a base rate applicable should be 4% in accordance with the government-owned patent method, rate of use value at which the covered invention (exposure meter) bore to the camera as a complete set should be 40%, and the license fee should therefore be 1.6% of after-tax wholesale price of the camera.

(2) Golf Bag Conveying Device (Osaka District Court, 1977 (Wa) 5686, Decided May 27, 1983):

(i) Outline of Case:

In respect of design of a monorail golf bag conveying device, the plaintiff (Hankoh Kohsan/Hiroshi Yokoyama) sought injunction of, compensation for, and provisional preservation of manufacture and sale of monorail golf bag conveying device of open type and U-ditch mixed type

by the defendant (Monorail Kohgyo). Again in this case, the decision ruled that there was no evidence of having paid any license fee on the device in question or any conventional license fee in the golf bag conveyance device industry, and thereupon held that, after the government-owned patents, the base rate applicable will be 3%, the rate of use value at which the invention in question (conveying device) bore to the total golf bag conveyance system will be 80%, and the license fee applicable for this particular device will therefore be 2.4% of sales price of the golf bag conveying device produced by the defendant.

(3) Automatic Marjongg-Table Case (Osaka District Court, 1982 (Wa) 8989):

The plaintiff sought payment of damages against the defendant who manufactured and sold automatic mahjongg tables with a Mahjongg piece alignment device in violation of a patent owned by the plaintiff and publicly announced.

The decision held that it will be in order to assess the license fee after government-owned patents and that the base rate applicable should be 3%, the rate of use value at which the invention in question (mahjongg piece alignment device) bore to the total automatic mahjongg table set of the defendant should be 50%, and the rate of license fee applicable should be 1.5% of sales price of infringing products (automatic mahjongg tables) of the defendant.

Name of Laws and Provisions Applicable for Assessment of Damages	Precedent Cases	Basis of Assessment of Damages
Article 709 of Civil Code	None applicable	
Article 102 Par. 1 of Patent Law	(1) Soldering composition case	Amount of loss was presumed to be amount of profit derived by infringer from sale of products as a complete set (inclusive of infringing part).
	(2) Nokogiri yo segane	Same as above.
Article 102 Par. 2 of Patent Law	(1) Exposure meter circuit case	Government-owned patent method: Rate of license fee being 1.6% of after-tax wholesale price of complete camera sets (Base rate 4%; rate of use value 40%)
	(2) Golf-bag conveying device case	Government-owned patent method: Rate of license fee being 2.4% of sales price of infringing products (golf-bag conveying device) (Base rate 3%; rate of use value 80%)
	(3) Automatic mahgongg table case	Government-owned patent method: Rate of license fee being 1.5% of sales price of infringing products (automatic mahjongg table)(Base rate 3%; rate of use value 50%)

1 Results of Study and Comments:

(1) Out of precedent cases seeking payment of damages under Article 709 of the Civil Code, cases with an issue of whether part of a product constituted an infringement of a patent or not were not found.

Reasons for the above are seemingly to include the following:

(i) Assessment of loss of sales and/or reduction in sales price on the part of the plaintiff focuses on his products, thus possibly making it out of problem whether it was whole or part of the defendant's products that infringed the patent.

(ii) The plaintiff had already granted a license to a third party. Thus, loss of license fee sustained by the plaintiff meant loss of sales sustained by that licensee, and it may possibly be that whether it was whole or part of the defendant's products that infringed the patent was not taken into consideration.

(2) In the two cases under Article 102 Par. 1 of the Patent Law (i.e. soldering composition case and Nokogiriyo segane case), courts held that, even when the plaintiff's interest related to part of an infringing product, loss of profit from sale of products (as complete products) represented loss due to infringement.

It is widely held by scholars (*2)~~(未訳)~~, however, that in the case of infringement of part of a product the amount of loss sustained by the injured party should properly be presumed to be part of profit from sale of products, with the rate of use value of the patented invention taken into

consideration.

We are of the opinion that, in the event of patent infringement with respect to part of a product, assessment of the amount of damages under Article 102 Par. 1 of the Patent Law, if applied indiscriminately in the same manner as if for infringement with respect to whole of a product, will end up with excess protection of the rightful person and, therefore, that the rate at which "that part of the product" contributed to the complete product should be taken into account.

For determining a more reasonable rate of contribution, we would further propose that, not only the rate at which a particular infringing part of a product bears to the whole product in terms of quantity or price, the rate of contribution of that particular part in question to the value of the finished product, e.g. contribution in terms of improvement in sales or profit achieved because of it, or in alluring of customers or cost saving, if any improving upon the finished product, likewise be taken into consideration.

As a very extreme example, let's assume that the price of the infringing part is negligible in relation to that of the finished product incorporating it, and further that the product would not have been accepted in the market without that part or invention of that part, being pioneer, significantly increased the value of the product as a whole. Wouldn't it be reasonable to assume that the value of the infringing part as it related to the whole product represented 100% of the price of the product and therefore that the profit from sale of the product was attributable 100% to that part?

Let's look at the above-mentioned greased solder case from viewpoint of the rate of contribution. The product involved was a solder, in which cost of the composition, being a patented invention, represented only 3% of that of all materials employed in it. It would mean that the invention in question contributed very significantly to value, particularly sales, of the product.

In addition, we note the fact that the soldering composition sealed in the product has not been used separately from the solder. From the above points of view, we believe it would be reasonable to assume that the rate of contribution of this invention to the product was 100% and sales profit from the product (greased solder as a whole), in its entirety, represented the amount of loss sustained by the injured party.

With respect to damages under Article 102 Par. 2 of the Patent Law, there is no established method of assessment of the license fee. It is, however, reported that courts are making the following approaches:

(1) Take into account license fees under any existing license agreements under the particular patent involved.

(2) Take into account license fees generally in effect in the market, covering similar arts.

(3) Follow assessment criteria applicable under the government-owned patents.

In assessing the amount of loss under Article 102 Par. 2 of the Patent Law for infringement of a patent by part of a product, all of the precedent cases cited above (exposure case circuit case, golf-bag conveying device case and automatic mahjongg table case) employed the government-owned patent method (see Note), taking into account the rate of use value (at which the patented portion bore to the product incorporating it) to determine a license fee applicable.

When part of a product infringed a patent, the precedent cases adopted the government-owned patent method in determining the amount of loss, seemingly because it took into consideration the "rate of use value," with which the court could easily adjust the rate of license fee applicable. In determining the rate of license fee applicable, therefore, this government-owned patent method is expected to continue to be adopted in

many cases, as the method for assessing the amount of loss under the Article 102 Par. 2 where particular part of a product infringes a patent.

Under the above method as applied under the Article 102 Par. 2, the rate of license fee applicable is subject to a maximum of 6% (subject further to not more than 150% loading or discount). When the rate of use value is further taken into account, the government-owned patent method if applied as it is, could well end up with a very low rate of license fee, making it unreasonably low as a remedy for the injured rightful person.

When seeking payment of damages because of a patent infringement, it would be better for the injured rightful person to base his claim on either Article 709 of the Civil Code or Article 102 Par. 1 of the Patent Law, despite of difficulty of the burden of proof imposed on him.

4. Conclusion:

As discussed in the above, in claiming payment of damages in the event where particular part of a product infringes a patent, it must be fully understood that, despite the soldering composition case decided favorably for the injured party, the rate of contribution or the rate of use value under the government-owned patent method, as the case may be, could well be taken into consideration. In that the multiplicity of claims was improved, with unity of invention being expanded, under the revised Patent Law, as put in effect in 1988, it will be advisable for the injured rightful person to study the possibilities of making a claim more advantageously for the product as a whole, that incorporates that part infringing the patent, rather than for just that particular part.

References:

*1 "Assessment of Damages in Patent and Utility Model Infringement Cases (1)," by Harumi Kojo, "Hatsumei,"

January 1989.

*2 "Precedent Cases of Patent Infringements," page 741 onwards. (Construction of technical scope of soldering composition and the amount of loss in the case where part of a product infringed a patent)

Note: Government-Owned Patent Method

The term "Government-owned Patent Method" refers to the method of license fee assessment specified in license agreements made under government-owned patents. Under this method, first, a base amount is selected, then a license fee rate is applied to it to obtain the amount of license fee. The license fee rate is determined as follows:

License fee rate = Base rate X Rate of use value X Increment/decrement factor X Development decrement factor.

The base rate is classified into three, consisting of 4% for the "first grade," 3% for "second grade," and 2% for "third grade."

The rate of use value represents the proportion of relative values at which a given invention or device bears to a product incorporating it. If an invention represents a product in its entirety, then the rate of use value is 100%. If a method or formula applied is made part of a product but the product in its entirety is creative and found worth a patent as device or product, then the rate of use value is 100%.

If the rate of use value for either an improvement invention or invention of part could reasonably be based on the price of the product incorporating it, then the rate of use value will be the rate at which the price of the applied portion of the invention bears to the price of the product incorporating it.

The base rate to which any qualified increment/decrement factor applies is 100%. It is subject to an increment or decrement factor of not more than 50%, if it is particularly necessary for public interest, the working price set is particularly high or low, any invention already reduced to practice and put in use to a fairly high extent is further licensed to others, or certain other particular circumstances warrant it.

The base rate to which any qualified development decrement factor applies is 100%. It is subject to a decrement factor of not more than 50%, if it costs a substantial amount of money for industrialization researches or diffusion or advertisement.

CONFLICT OF ITC PROCEDURES AND THE GATT

Pacific Industrial Property Association

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PIPA COMMITTEE No. 4

CONFLICT OF ITC PROCEDURES AND THE GATT

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I. Introduction

In April 1987 the European Economic Community (EEC) initiated a dispute settlement proceeding against the United States under GATT Article XXIII to decide whether Section 337 of the United States Tariff Act of 1930, as amended, was in conflict with GATT provisions. The GATT Council, in January 1988, appointed a three-member dispute resolution panel including a former judge of the European Court of Justice and a New York University law school professor. The GATT panel report, presented to the GATT contracting parties in December 1988, concluded that the following aspects of Section 337 actions were inconsistent

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with the GATT Article III "national treatment requirement" and could not be justified under the "necessary to secure compliance" exceptions in GATT Article XX(d):

(i) Respondents cannot raise counterclaims;

(ii) The tight and fixed time limits;

(iii) Complainants can challenge imported products by a Section 337 action or federal district court action but no similar forum choice is available to challenge U.S. origin products; and

(iv) the possibility that imported products can be challenged in the ITC and in federal district court whereas no dual exposure possibility exists for U.S. origin products.

II. Background

Section 337 of the United States Tariff Act of 1930, as amended[2], empowers the International Trade Commission

(2) 19 U.S.C. §1337

(ITC) to investigate complaints of unfair methods of competition and unfair acts in importation of articles into the United States. Such unfair methods of competition and unfair acts include importation of articles that infringe United States patents. International Trade Commission investigations are conducted in a manner similar to court proceedings. All legal and equitable defenses that would be relevant to patent infringement actions in federal district court can be asserted by respondents in ITC investigations. The ITC has authority to award temporary or permanent cease and desist orders and specific or general exclusion orders. Final ITC decisions can be reversed by the President of the United States and can be appealed to the United States Court of Appeals for the Federal Circuit, the court to which federal district court patent litigation decisions are appealed.

The General Agreement on Tariffs and Trade (GATT) is the basic international agreement concerning trading in goods and has been in place since the mid 1940s. The United States is a charter GATT contracting party and many of the United States' major trading partners, including Japan, the EEC, Canada, and South Korea also are contracting parties. Articles III and XX are the two

articles of GATT most relevant to patents and other intellectual property.

Article III:4 states:

> The products of the territory of any contracting party imported into the territory of any other contracting party shall be accorded treatment no less favorable than that accorded to like products of national origin in respect of all laws, regulations, and requirements affecting their internal sale, offering for sale, purchase, transportation, distribution or use.

This provision is supplemented by an interpretive note which reads:

> [A]ny law, regulation or requirement . . . which applies to an imported product and to the like domestic product and is . . . enforced in the case of the imported product at the time or point of importation, is . . . subject to the provisions of Article III.

Article III:4 often is referred to as the "national treatment requirement" and generally is interpreted to mean that imported products are to be treated no less favorably under the laws and procedures of a country than similar products of domestic origin.

Article XX(d) of GATT states:

> Subject to the requirement that such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade, nothing in this Agreement shall be construed to prevent the adoption or enforcement by any contracting party of measures: . . . . (d) necessary to secure compliance with laws or regulations which are not inconsistent with the provisions of this Agreement, including those relating to . . . the protection of patents, trademarks and copyrights . . ..

Article XX thus provides an exception to the Article III "national treatment requirement" for national laws which are necessary to protect intellectual property.

GATT Articles III and XX were considered in a 1983 GATT panel decision resulting from a complaint against the United States brought by Canada regarding certain automotive "Spring Assemblies."(3) The "Spring Assemblies" panel concluded that application of Section 337 was not inconsistent with U.S. obligations under the GATT because Article XX(d) applied in the circumstances of that case and never reached the issue of whether "national treatment" was accorded under Section 337. Essentially, the panel found

(3) GATT 30th Supp. BISD 107 (1984)

Article XX(d) applicable because of potential problems with jurisdiction over respondents under U.S. law and the number of parties that might have to be pursued to protect the particular intellectual property at issue. There were, however, strong objections in the GATT Council to this panel decision with only the United States and Australia supporting it; Japan, the EEC, and many other countries opposed it. The panel's report was adopted by the contracting parties only on the condition that it would not serve as precedent with respect to Section 337 in future decisions.

III. The Recent GATT Panel Decision

The EEC's Section 337 complaint to the GATT Council was prompted by Akzo N.V. (Akzo) as a result of Akzo having to defend a Section 337 investigation initiated by E.I. du Pont de Nemours and Company (DuPont) alleging that Akzo was importing into and selling in the United States certain aramid fibers produced in the Netherlands by a process for which DuPont had a United States patent. The ITC held that DuPont's process patent was not invalid and infringed and issued for the remaining patent term a limited exclusion order prohibiting importation of aramid fibers made using the patented process outside the United States by Akzo or

any related business entities. The President did not disapprove of the ITC's decision and the decision and exclusion order were affirmed by the Court of Appeals for the Federal Circuit[4]. A federal district court patent infringement suit filed by Akzo against DuPont for infringement of an Akzo patent claiming a process for making aramid fibers also was pending while the ITC investigation was ongoing. In this lawsuit, the district court subsequently held, and the Court of Appeals for the Federal Circuit affirmed,[5] that Akzo's patent claims were invalid as obvious over prior art.

While the GATT panel was in the process of making its decision DuPont and Akzo reached a settlement agreement which included a license to Akzo to import limited quantities of aramid fibers into the United States. As a result of this settlement agreement the EEC withdrew its request that the GATT panel make specific findings regarding the aramid fiber case but maintained its request

(4) Akzo N.V. v. USITC, 808 F.2d 1471 (Fed. Cir. 1986).

(5) Akzo, N.V. Aramide Maatschappij v.o.f. v. E. I. du Pont de Nemours, 1 U.S.P.Q.2d 1704 (Fed. Cir. 1987).

that the panel find Section 337 in conflict with the GATT provisions. Therefore, the GATT panel continued its consideration of the matter and received written submissions and oral argument from the United States and the EEC. Japan supported the EEC's position by filing a written submission stating that Section 337 went beyond what was "necessary" because the time limits were too short and favored the complainant, the respondent received no compensation if temporary exclusion orders later proved unfounded, and general exclusion orders were broader than justified thus rendering Section 337 an Article XX(d) impermissible "disguised restriction" on international trade. Submissions supporting the EEC's position also were filed by South Korea, Canada, and Switzerland.

In its decision[6], the GATT panel first addressed whether Section 337 proceedings met the "no less favorable treatment" standard of Article III:4. In the panel's opinion, "treatment no less favorable" required, as a minimum permissible standard, "effective equality of

(6) The GATT panel evaluated Section 337 as it was prior to the amendments made in the Omnibus Trade and Competitiveness Act of 1988. Thus, there was no ruling regarding whether Section 337 in its present form is consistent with the GATT.

opportunities for imported products in respect of the application of laws, regulations, and requirements affecting the internal sale, offering for sale, purchase, transportation, distribution, or use of products." Contracting parties were free to apply different formal legal requirements to imported products if so doing would accord imported products equal or more favorable treatment. Also, the panel stated that the mere fact that an imported product were subject to different legal provisions did not conclusively establish that such provisions were inconsistent with Article III:4. Different legal provisions for imported products would be inconsistent with GATT only if less favorable treatment resulted.

The panel found that Section 337 was inconsistent with GATT Article III:4 because imported products alleged to infringe United States patents received treatment less favorable than that accorded domestic products as a result of six specified factors. The panel then considered whether the six identified Article III:4 Section 337 inconsistencies could be justified under Article XX(d). In the panel's opinion, to justify measures otherwise inconsistent with GATT, Article XX(d) requires: (i) that the measures are "necessary to secure compliance" with laws or regulations which are not inconsistent with the GATT;

and (ii) that the measures must not be applied in a manner which would constitute arbitrary or unjustifiable discrimination or a disguised restriction on international trade. It was clear to the panel that a contracting party could not justify a measure inconsistent with another GATT provision as "necessary" in terms of Article XX(d) if an alternative measure which it could reasonably be expected to employ and which was not inconsistent with other GATT provisions were available to it. Further, where measures consistent with other GATT provisions were not reasonably available a contracting party was required to use the measure which entailed the least degree of inconsistency with other GATT provisions. Additionally, after rejecting the United States' view that the determination of "necessary" should be based upon Section 337 taken as a whole, the panel held that each of the inconsistencies with the GATT had to be analyzed separately and justified as "necessary" for Section 337 to be within the Article XX(d) exception.

Applying its Article XX(d) interpretation, the panel found in rem exclusion orders, one of the six Section 337 GATT Article III:4 inconsistencies, to be a provision "necessary to secure compliance" under Article XX(d). The finding that such orders were necessary was based upon

recognition that taking action against infringing products at their source, that is the point of their production, generally would be more difficult for imported products and that in personam actions against importers often would not be practicable. Nevertheless the panel felt compelled to suggest that the United States could bring the general exclusion order provision of Section 337 into compliance with Article III:4 by making such orders applicable to products produced in the United States. Automatic enforcement of exclusion orders by the United States Customs Service was the second Article III:4 inconcistency that the panel held was necessary under Article XX(d). Such enforcement was necessary because the serious penalties that would be imposed upon a domestic infringer who failed to comply with an injunction prohibiting infringement would be difficult or impossible to use against a foreign infringer.

Consequently, the panel ruled the following Section 337 procedures inconsistent with GATT Article III:4 and not within the exception provided for by Article XX(d):

(i) respondents' inability to raise counterclaims;

(ii) the tight and inflexible time constraints;

(iii) two forums, the ITC and the federal district courts, are available to challenge imported products but U.S. origin products can be challenged only in federal district court; and

(iv) unlike U.S. origin products, imported products can be challenged, either concurrently or sequentially, in the ITC and federal district courts.

IV. The United States Reply

Thus far the United States, most recently in July, has rejected adoption of the GATT panel report. Under the GATT provisions such reports can be adopted only upon unanimous agreement of all contracting parties and the reports are not binding until adopted. In July, however, the United States stated that it was still studying the GATT panel's ruling but hoped to make a decision regarding adoption of the panel's report by autumn 1989. It is not certain whether the United States will announce its decision regarding adoption of the panel report at the next GATT Council meeting scheduled for October 11, 1989. Adoption of the panel's report would require the United States to correct the inconsistencies within a reasonable time or face the possibility of GATT-santioned retaliatory action, such as imposition of tariffs, by the GATT contracting parties against U.S. origin products.

Given the strong support outside the United States for acceptance of the GATT panel report, I predict that the United States eventually will agree to its adoption by the GATT Council. I suspect, however, that the United States will condition its acceptance of the panel report on agreement by the GATT Council to include in the multilateral trade negotiations on intellectual property discussions regarding Section 337-like procedures which could be adopted by each of the contracting parties. This seems to be the position favored by the current U.S. administration and likely would be acceptable to some of Section 337's critics who are themselves creating border enforcement mechanisms to protect intellectual property. The procedures which might be adopted are difficult to predict but probably would continue to treat imported products somewhat differently from domestic products. Thus, such procedures would be inconsistent with GATT Article III:4 but could be agreed to by all to fall within Article XX(d) exceptions.

If, however, the United States chooses to unilaterally modify Section 337, the following changes to Section 337 procedures would seem, based on the GATT panel report, to bring Section 337 into GATT compliance. Section 337 could be amended to allow non-U.S. owners of United States

patents to bring counterclaims for infringement of these patents by importation into or manufacture, sale, or use in the United States of infringing articles. The remedies available, however, could remain the same, that is the ITC could award cease and desist orders or general exclusion orders leaving for the district courts claims and counterclaims for legal damages. The Section 337 time limits could be relaxed for a specific period of time or the ITC could be given discretion to relax the time periods on a case-by-case basis. Any such adjustment of current time limits, however, should consider that although district court actions on average take longer, additional issues such as damages are involved. Also, the Omnibus Trade and Competitiveness Act of 1988 ended the need to prove that the domestic industry was "efficiently and economically operated", thereby eliminating one of the more time consuming and expensive ITC issues.

The forum selection option currently available to ITC complainants could be balanced by also allowing non-U.S. holders of U.S. patents who are selling products in the United States to use Section 337 actions to obtain cease and desist orders and temporary and permanent exclusion orders to remedy manufacture, use, sale, or importation of infringing articles in the United States. Similar to the

Section 337 amendments which would be necessary to allow patent infringement counterclaims by non-U.S. holders of U.S. patents, allowing such actions would require amending Section 337 to expand ITC jurisdiction to include activities within the United States. Since domestic ITC complainants must seek a district court order for award of damages for past infringement, non-U.S. holders of U.S. patents could still be required to file district court actions to obtain damages without violating the GATT "national treatment" requirement.

The possibility that producers or importers of foreign origin products may face proceedings in the ITC and federal district court can be ameliorated by requiring that ITC investigations be suspended if a federal district court suit is filed. The suspension could be made effective after the ITC has determined whether to grant a temporary exclusion order or the federal district court could be given power to grant temporary exclusion orders in such cases. In either situation, exclusion orders should be made available only if the complainant posts a bond payable to respondent and in an amount sufficient to cover respondent's losses if the temporary exclusion order proves unwarranted. Upon district court judgment and any appeals the ITC action could be resumed but the court

determination of patent infringement and patent validity would be binding.

There are other possible responses to the GATT panel's report that I believe are not likely to be adopted. One such response is to shift Section 337 actions, either initially or by removal at the respondent's option, from the ITC to federal district courts. Significant changes required in the current federal court powers would include granting in rem jurisdiction to enable awards of temporary and permanent exclusion orders and creation of a mechanism whereby the customs service would enforce such orders. A further problem is that the U.S. constitution, as interpreted by the Supreme Court, precludes district courts from issuing advisory opinions regarding whether a particular product is covered by an existing exclusion order as are currently issued by the ITC. This limitation could be overcome by allowing the ITC to continue to issue such advisory opinions but the ITC would be doing so based on the facts as stated in district court records rather than its own evaluation of the facts.

Another suggestion is to create a specialized intellectual property court to decide patent disputes relating to domestic and imported products. This court

could have all the remedial powers of federal district courts and the ITC. There seems, however, little support in the United States for creation of such a court. Long standing legal tradition in the United States provides that defendants in civil actions have a right to a trial in a location convenient to them and, if it is to be a jury trial, by a jury selected from local citizens. Thus a specialized intellectual property court, which probably would have one central location, likely would be less convenient for defendants, and juries selected for this court most likely would be drawn from a community in which the defendant had little or no presence. Further, I suspect that many importers would not want general exclusion order decisions to be subject to the uncertainties and likely delays associated with jury trials.

Lastly, the GATT panel report could be dealt with by simply repealing Section 337. Given the amount of effort involved in recent legislative actions to strengthen Section 337 and continuing concern in the United States regarding substantial trade deficits it is most unlikely that this option would be adopted. In fact, Senator Rockefeller currently is considering introducing legislation that further would strengthen Section 337

actions if the infringing imported products were coming from countries "which because of unreasonable delays in granting or enforcing patents or unnecessarily narrow interpretations of patent claims by the authorities which determine patent validity and infringement, effectively deny adequate and effective protection for the intellectual property of the United States nationals." Japan is the only country specifically mentioned in the proposed legislation as falling within this definition. This legislation may never be introduced and I believe there is little support for or likelihood that such legislation would be enacted, but it suggests that attempts to relax or eliminate Section 337 actions would be vigorously opposed.

V. Conclusion

The United States has been and remains a strong supporter of the GATT. Thus, I believe the United States eventually will support adoption of the recent GATT panel report. The United States support for adoption of the report, however, likely will be in the context of multilateral negotiations to create vigorous border enforcement procedures that all contracting parties could adopt to protect domestic and foreign intellectual property owners. In view of very recent legislation to strengthen

intellectual property protection in the United States and continuing concern over historically large trade deficits, it is most unlikely that the United States unilaterally will take steps that significantly weaken the protection for intellectual property currently provided by Section 337. Because any measures sufficient to eliminate the Section 337 GATT inconsistencies cited in the panel report will require new legislation and also may entail multilateral negotiations, final resolution of this matter is expected to require several years.

On Amendments to Section 337 of 1930 United States Tariff Act and Current Problems

Japanese Group, Committee No. 3

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Abstract

Requirements for filing complaints before US International Trade Commission (ITC) were mitigated by the amendments to Section 337 of 1930 US Tariff Act in August, 1988. The amendments mainly consisted of lifting the burden of proof of damages from US companies and shortening the time before adjudication by ITC. Thus, complainants can file complaints more easily than before while respondents are forced to defend themselves with much more difficulties. A GATT (General Agreement on Tariffs and Trade) panel concluded last January that the Section 337 procedure of ITC were inconsistent with GATT Article III-4. So long as Section 337 of US Tariff Act remains in existence, a system to fully address the provision must be built. We should carefully watch the United States as to how it receives, responds and reacts against the conclusion of GATT Panel.

[1] Introduction

Countermeasure regarding Section 337 of US Tariff Act and ITC are the most critical challenge for Japanese companies. We studied the amendments to Section 337 of said Act made in August last year by comparing the provisions before and after the amendments, and we discuss here their relation with the GATT panel, the current situation of bringing proceedings before ITC after the amendments, problems under the amended Section 337 and before ITC, and countermeasures by Japanese companies.

[2] Companies of Section 337 Before and After Amendments

Most significant changes brought about by the amendments to Section 337 are 1) mitigation of the proof requirements on the part of complainants, and 2) changes in ITC procedures concerning temporary relief. Major changes are listed below.

Old Section 337	New Section 337
(1) Change in requirements of proof Facts to be proven by the complainant:	
① That US industry is injured.	① Injury requirement is deleted. (§337(a)(1)) (*Limited, however, only to the cases involving patent, copyright, trade mark, mask work)
② That US industry is being <u>efficiently</u> and <u>economically</u> operated.	② Requirement concerning efficient and economical operation is deleted. (§337(a)(1))
③ That there exists an industry within US. (No clear definition)	③ A broad definition of a US industry is introduced. (§337(a)(3)) If any of the following is met, the presence of an industry in US is proven, even if there is no manufacturing activity in (a) Significant investment in plants and equipment; (b) Significant employment of labor or capital; (c) Substantial investment in exploitations of patent rights including licensing or R&D.
(2) Changes in procedure ① Limitation on time for issuance of temporary relief order, although there was no definition. For operation, a decision was rendered within 8 months after the date of notice.	① When a petition is filed for a temporary relief order, ITC makes a determination by no later than 90 days after the date of publication of ITC's notice of investigation (S337(3)(2),(3)) (Not later than 150 days for complex cases)

In addition to the above, the amendments involved the judgement given when the respondent fails to appear, the posting of a bond by complainants for issuance of a temporary relief, an increase of fine for violation of a cease and desist order, etc. The above mentioned two major changes are expected to work as disadvantageous to respondents and to gravely affect companies outside the United States including Japanese companies. Problems expected to occur by the amendments are discussed in detail hereinafter.

[3] Trend in Patent Litigations Before and After Amendments to Section 337 of US Tariff Act of 1930

1. The number of litigations of Section 337 consistently reduced from 49 cases in 1983 to 12 in 1988, nearing one digit figure as shown in the Table 1. Although it showed a tendency to increase at 20 cases in about 11 months after the amendments of August 23, 1988 to the end of this July, the increase is not as explosive as was predicted in Japan at the time of the amendments. The number of litigations filed against Japanese companies after the amendments was five showing an increase compared to those of recent years, but investigations were not commenced for two cases out of the five. The increase cannot be described as dramatic or explosive.

Up to this July there were filed three petitions for temporary relief of which time period for investigation was shortened to 90 days from 7 months including a case where a Japanese company is one of the respondents. The number again does not appear particularly large. When considering the fact that the Act provides that a complainant should post a bond in order to prevent filing of petitions for temporary relief too easily and to prevent increasing of burdens on the part of respondents, the purpose of the amendments appears to have been achieved. However, the amendment to limit the time of investigation to 90 days imposes very harsh conditions timewise on the respondent,

and this appears unfair to foreign companies compared to the complainant who has an ample time for preparing the case.

Out of the 20 cases filed during the period after August 23, 1988 to July of this year, one fifth or 4 cases were not investigated. The rate is more or less higher than that before the amendments. Among them, there was a case where the investigation was not commenced on the ground that the complainant was judged not to have an industry existing within the United States. This implies that even though the burden of proof of the injury and damages in the US may have been lifted, the need to establish the existence of a domestic industry has not been made nominal.

2. The number of petitions filed in the first 7 months this year is 15 including 4 by Japanese companies, showing a remarkable increase compared to recent years. The effect of the GATT Panel conclusion rendered last January that the ITC regulations were inconsistent with the GATT Article III-4 may have been reflected in the decrease tendency from 4 in January and 3 in February to 2 in March, 2 in April, 2 in May and one each in June and July. We would like to keep a close watch on the fluctuation of filings in future.

3. The number of infringement litigations brought before the US federal district courts in relation to patent, design, and trademark increased with time; 1,531 in 1985, 1,514 in 1986, 1,627 in 1987, and 1,780 in 1988. The number of litigations related to patent infringements alone remarkably increased during the last few years; 628 in 1985, 620 in 1986, 648 in 1987, and 749 in 1988. This is inconsistent with the decreasing tendency observed in the number of ITC complaints, and cannot be considered attributable exclusively to the increase of litigations among US companies (persons). It may by partly because requirements for filing a complaint to ITC were made more

stringent, increasing the litigations filed with district courts to compensate for it. It is most interesting to watch the eventual changes in the number of litigations after requirements on the part of complainants are mitigated and depending on the movement of GATT in future.

Table 1

Number of ITC Complaints

Year	Case No. 337-TA-	No. of complaints	No. of investigations commenced	No. of complaints for which no investigation was commenced	No. of complaints involving Japanese companies	Note
1983	137 - 180	49	44	5	9	
1984	181 - 215	40	35	5	8	
1985	216 - 239	27	24	3	7	
1986	240 - 262	27	23	4	8	
1987	263 - 280	21	18	3	3	
1988	281 - 289	12	9	3	2	
1989(1-7)	290 -	15*	11	2	4	* Includes 2 cases being suspended

(Source: Nippon Gijutsu-Boeki Co., Ltd.)

[4] Problems under Section 337 of 1930 US Tariff Act as Viewed by Japanese Industry and Countermeasure

(1) As described above, Section 337 of 1930 US Tariff Act was amended as a part of Omnibus Trade Act of August, 1988. The following two factors are of particular concern for Japanese industry.

① The burden of proof on Respondent related to "an industry, efficiently and economically operated in the United States" was eliminated [Section 337(a)(1)].

In the cases related to intellectual property rights (patents, trademarks, copyrights, semiconductor maskworks), the burden on the complainant to prove domestic injury was eliminated [Section 337(a)(1)], and was redefined so that "an industry in US" would mean "significant investments including significant investments in plants and equipments, significant employment of labor or capital, enginnering, R&D or licensing" [Section 337(a)(3)].

② The period to determine the temporary relief was reduced to "90 days (150 days in a more complicated case)" and it was explicitly provided that the Commission may require "the complainant to post a bond as a prerequisite to the issuance of an order" [Section 337(e)(2)].

(2) As stated in ① above, the requirements related to proof imposed on the complainant were remarkably mitigated. As a result, conditions for filing a complaint with ITC became substantially similar to those for bringing suits to federal district courts. As ITC makes determinations more quickly than the courts, the number of cases brought before ITC is expected to increase in future, although no such trend is currently observed. (Refer to the preceding section). It is apprehended that a party may file a complaint with ITC in order to put pressure upon

negotiation and gain monetary compensation even though he has no objective of preventing importation of products from abroad. To many Japanese companies who have traditionally believed to negotiate first with the party concerned and regarded legal proceeding as the last resort, use of ITC without prior negotiation between parties may appear as robbing them a place to negotiate and solve an issue in faith and on equitable stands.

As an example of the above mentioned fact, there is a case related to a process patent on directional silicon steel filed with ITC by a US company. ITC determined not to commence investigation on the ground that there was not an industry existing within US as the US company only presented a license to a third party.

Unlike the patent infringement cases at federal district courts, the respondent cannot file such counterclaims at ITC as to invalidate the patent. Filing complaints before ITC seems unfair because it is unilaterally advantageous to the complainants on this point.

(3) If a complaint is filed with ITC abruptly without prior negotiations between the parties under the amendment ②, the respondent will be greatly handicapped as he is not given time enough to prepare counterargument. ITC may render a temporary relief order even before sufficient investigation is made (at least for the respondent).

Although a provision for posting a bond by the complainant was added in order to prevent improper filings for temporary relief, it is solely up to the discretion of ITC whether or not to require posting of bond. As the time period and amount of the bond are not specified, effectivenes of this provision is questioned. Moreover, this bond is not to be used for compensation of damages suffered by the respondent if and when ITC ultimately determines there is no infringement despite its temporary order. This obviously lacks fairness between the complainant and the respondent.

In the course of research and development of products, we conducted patent searches and reviews before commercialization of products, obtain expert opinions from patent attorneys, and where necessary, modify the design to avoid infringement. So long as the amendments to Section 337 continue to exist, we must intensify such efforts to deal with them.

More particularly, it appears urgent for us to control manufacture consistently from development, design, obtaining intellectual property, enhancing document management and training/educating staff with expertise in the laws related to intellectual property rights in US.

There will be more cases where we should defend ourselves more thoroughly than before if we are not satisfied with ITC complaints. Conversely, it is increasingly necessary for us to probe possibilities of ITC utilization as countermeasures.

[5] Section 337 of 1930 US Tariff Act and Issue of Inconsistencies with GATT Agreement

(1) Development

A GATT Panel reported in January, 1989 that the practices under Section 337 of 1930 US Tariff Act violates the General Agreement on Tariffs and Trade. The GATT Council set up a panel to solve disputes under GATT Article 23 upon a demand by EC Commission in October of 1987, and reached the above conclusion after deliberation.

(2) EC's Argument

The practice under Section 337 of US Tariff Act is less favorable than the procedures of federal district courts which are applied to the products manufactured inside US and therefore violates GATT Article 3-4. The inconsistency does not fall subject to exceptions of GATT Article 20(d).

More particularly, GATT Article 3-4 provides that "a product imported to a country is treated equally to a

product originating in that country" and GATT Article 20(d) provides that "a contracting state can take measures necessary to secure compliance with laws or regulations (including intellectual property and others) which are not inconsistent with the General Agreement on the condition that the measures are applied not in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail or a disguised restriction on international trade" EC raised following points as the grounds of their complaints that US Tariff Act Section 337 was inconsistent with GATT Article 3-4.

1) In Section 337 proceedings, the opportunity to raise counterclaims is not accorded while it is possible in the proceedings at a federal district court.
2) The Section 337 proceedings impose severer restrictions by the Protection Order on confidential information than the proceedings at a federal district court, which deprives respondents of their opportunity to defend themselves.
3) Respondents are forced to stand on less favorable position under the Section 337 proceedings which strictly fix time limits. In the federal district court proceedings time limits are determined by considering time for preparation by the plaintiff and the defendant, etc.
4) The determination is made by the Commissioner at ITC, but the Commissioner has a shorter term and is less independent than federal court judges. He/she does not have to be qualified by scientific, technological nor patent related education/training. While the patentee of the product is granted a choice of forum at either ITC or federal district court for their advantages, the respondent is not granted such a choice. The patentee of the product may bring the matter to a federal district court after a disadvantageous adjudication at ITC, but the respondent does not have such a choice.

5) In the case of a patent infringement by an imported product, ITC and the federal district court proceedings may be taken simultaneously by the same complaint, but such would not occur in the case of products domestically produced.

6) According to Section 337 procedures, in rem (general) exclusion orders can be rendered to imported products which is effective on those other than the respondent. But in the federal district court proceedings, no such orders are rendered. While in rem (general) exclusion orders are executed by the government, injunctive orders by the federal district court are executed only at the cost of the plaintiff. Therefore, imported products are treated less favorably than the similar products of US origin.

7) The proceedings under Section 337 are applied only to the case when importation of a product allegedly causes damage to an industry within US. This means that Section 337 is relied on in order to protect products of US origin but not imported products. The imported products are therefore treated less favorably than the domestic products. Moreover, US companies can meet the requirements of a domestic industry more easily than the foreign owners of US patent.

(3) Determination of the GATT Panel

(A) Findings in relation to GATT Article 3-4

Based on the argument raised by EC, the Panel deliberated and concluded that Section 337 was inconsistent with Article 3-4 in respect of the following six aspects.

1) Availability for the complainant of a choice of forum in which to challenge imported products either at ITC or federal district courts.

2) There are time limits in Section 337 proceedings.

3) Counterclaims cannot be raised in Section 337 proceedings.

4) In rem (general) exclusion orders are given in Section 337 proceedings.

5) Exclusion orders under Section 337 are automatically enforced by the US Customs Service without requiring separate proceedings by the complainant.

6) Imported product may be challenged both at ITC and a federal district court.

(B) Findings in relation to GATT Article 20(d)

The panel reviewed whether or not the proceedings under Section 337 come under the category of exceptions covered by GATT Article 20(d) in respect of the above six aspects, and determined that the aspects 2) and 3) are not justifiable by the "necessity" term in the provision.

(4) Conclusion of the Panel

1) Section 337 of 1930 United States Tariff Act is inconsistent on several points with GATT Article 3-4 and those inconsistensies cannot be justified in all respects under GATT Article 20(d).

2) The Panel recommends that the contracting states request the Unites States to bring its procedures applied in patent infringement cases on imported products into conformity with its obligations under the General Agreement.

(5) Subsequent developments

The determination of the Panel comes into effect when it is unanimously adopted by the GATT Council. The Council met to review this issue, but the United States, one of the concerned parties, suspended its decision on the ground that they were still studying the content of the Panel determination.

The United States, however, had introduced the issue of intellectual property rights to GATT and strongly argued for application of GATT's function to solve disputes. As the United States has just completed working on amendments to Section 337 of Tariff Act as a part of 1988 Omunibus Trade Act, it is quite conceivable that it may not be easy for them to accept the GATT Panel decision. We urge the United States to face the fact and take courageous actions of amending what must be amended at an early date.

[6] Japanese Legal System Related to the Customs Duties

The Customs Tariff Law provisions cover the importation of articles which infringe intellectual property rights in Japan. The Law was legislated on April 15, 1910 and enforced on July 17 of the following year. It has since undergone many amendments. Article 21-1-4 provides that the products which infringe intellectual property rights such as patents are prohibited from importation. As the penalty for violation of the provision, Article 109-1 of the Customs Tariff Law (enacted on April 2, 1954 and enforced on July 1 of the same year) provides imprisonment with or without forced labor for not more than 5 years and the fine of not more than ¥500,000.

Taking measures to prevent importation of products which infringe intellectual property rights such as patents at the border is extremely effective, and so far as it is concerned with this point, the Japanese system is similar to the US Tariff Act and related regulations (CFR 133, etc.). However, there is a significant difference between the two as US Tariff Act Section 337 intends to enhance protection of patentees and functions to thoroughly exclude infringers while under the Japanese laws only the importers are subject to penalty.

[7] Conclusion

The burden of proof which had been imposed on the complainant in the intellectual property right infringement

was lifted by the amendments to Section 337 of 1930 US Tariff Act.

This would result in explosion of the number of complaints filed with ITC, and extreme difficulties imposed on the respondents.

Revising laws and acts or enacting a new law as a safeguard to protect legitimate interests of their people from unlawful infringers may not be problematic, but if a government it too prepossessed with their interests alone and goes beyond the existing legal practices and common sense, it would be criticized. In this context we expect the US government to review and take proper measures at the earlist possible time for the issue of inconsistencies of US Tariff Law Section 337 and GATT which has been the focus of international controversy.

On the part of Japanese private enterprises, they are expected to take strategies focusing on the following points as their basic attitude in order to avoid disputes of this type including increased complaints filed with ITC.

(1) Establishing self-developed technology (unique technology) which does not infringe third party rights
(2) Cultivation of business climate which respects third party rights
(3) Cultivation of business climate to learn legal systems of foreign countries well and comply with them

LETTERS AND MESSAGE
(from PIPA Seniors who were unable to attend the Congress)

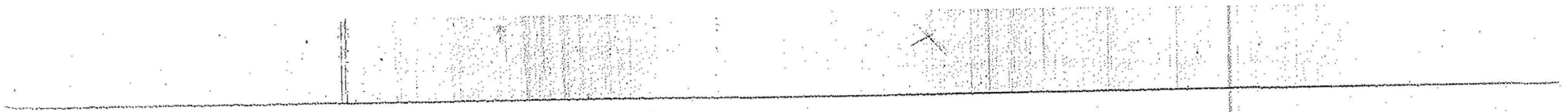
Mr. Shozo Saotome,
Japanese Group President in 1970 and 1971 497

Mr. Takashi Aoki,
Japanese Group President in 1975 and 1976 500

Judge Pauline D. Newman,
American Group President in 1979 and 1980 501

Mr. Thomas I. O'Brien
American Group President in 1981 and 1982 502

(The editor sincerely excuses himself that, due to limitation of space, some letters were regrettably omitted.)



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Shozo SAOTOME
BOARD DIRECTOR AND
EXECUTIVE ADVISOR
(FORMER PRESIDENT)

September 12, 1989

Mr. Paul D. Carmichael
President
PACIFIC INDUSTRIAL PROPERTY ASSOCIATION
P.O. Box 3477
Grand Central Station
New York, New York 10163
U. S. A.

Dear Mr. Carmichael:

I have been delighted so much with the courteous letter of invitation to PIPA's 20th Anniversary and annual International Congress which you have kindly written to me by yourself as President of U.S. Group of Pacific Industrial Property Association. I am deeply impressed with your letter.

I surely wish to participate in the celebration of the 20th anniversary of the PIPA and the 20th annual International Congress of PIPA.

In fact, in order to make myself to meet with the dates of these special events, I have been tried to rearrange all my schedule in my company and also my private conveniences involved in members of my family. Really, it almost pains me to say that I will not be able to participate in these big events this year.

However, I know that this was caused mainly by myself because I just could not break appointments of the conferences already scheduled with the people in my business and my other duties which have already been fixed on the dates which are almost overlapping with the dates of the 20th Annual International Congress.

Since the Pacific Industrial Property Association has been founded, it has already past 20 years. During these 20 years PIPA has been greatly contributing to the field of Intellectual Property for the United State of America and Japan by performing significant and fruitful work steadily year by year.

This is quite attributable to the integrity, volunteer's spirits and spontaneous efforts of the Board of Governors, Chairman of Committees and all Members of the PIPA who are willing to work faithfully and diligently on a non-commercial profit basis.

I sincerely congratulate all of you for the coming prosperous 20th Congress in autumn this year.

In those days when I and my friend in the U.S.A. finally decided to establish this association, the recognition about the Intellectual Property was limited to a certain extent in the Japanese industrial field and it was not an adequate degree.

That is why I persistently insisted on the need of the establishment of PIPA in order to broaden the awareness of the Intellectual Property among the top executive class people in the economic and business worlds in Japan.

As a result of that, I have fortunately found a cooperator who also enthusiastically considers the necessity of making a bridge between the United State of America and Japan to share the idea of the Intellectual Property. Fortunately enough, the PIPA could start functioning.

In the past 20 years since then, Pacific Industrial Property Association has grown to an indispensable entity necessary for these two countries. Furthermore, PIPA has now become to put forth its own comprehensive knowledge and its skillful function to harmonize the problems of various issues on the strength of the invariable and fundamental common awareness of the Intellectual Property although signs of changing situations in these countries are seen in the transition of the two decades.

I believe, we may expect mutual understanding and smooth resolutions for the problems, which are deeply associated with awareness of the Intellectual Property, presently existing between these two countries if the capable function of PIPA is best used.

Varying science and technology and changing political and economic situations will raise various new problems. However, I believe, the PIPA undoubtedly will play a very important role in solving these problems and will be known as a key entity solving these problems.

The U.S.A. and Japan should know that we are in the same boat and are sailing together. Therefore, I believe, that the attitude of reciprocity and a sense of interdependence are most required for these two countries.

By taking this opportunity, I would like to express my sincere appreciation to you, President of PIPA, and each Member of this Association for the efforts you have made for the development of this Association. I would like to yell for the new generation, hoping that they will find a hopeful and successful voyage.

In conclusion, I apologize to you for not being able to participate in the International Congress and I would like to ask you to convey my best wishes to all Members of the Association.

With best regards,

Sincerely,

S. Saotome

Shozo SAOTOME
Board Director and
Executive Advisor

Fujisawa Pharmaceutical Co.,Ltd.

Takashi Aoki

October, 1989

Message, PIPA Annual Meeting

Dear friends,

I wish to congratulate all of you on the 20th anniversary of our PIPA organization. Its historical achievements are entirely attributable to the hard-working and long lasting contribution of both the American and Japanese members of PIPA.

Apparently industrial property right is now broadly recognized as one of the most important international issues for adequate protection of human beings' intellectual creations worldwidely and you, specialists have many things to do for realization of this recognition.

I am very sorry and regretful that I was not able to join you for the discussion and to congratulate personally the PIPA Award winner, Mr. Karl Jorda, this week. I sincerely wish a successful conference to all.

Takashi Aoki



United States Court of Appeals
for the Federal Circuit

September 29, 1989

Chambers of
Pauline Newman
United States Circuit Judge

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Washington, D.C. 20439
(202) 633-5841

Paul D. Carmichael, Esq.
President, Pacific Industrial
Property Association
c/o IBM Corporation
2000 Purchase Street
Purchase, New York 10577

Dear Paul:

Ten years ago we celebrated the Tenth Anniversary of PIPA, during my term as President, at a meeting in Philadelphia. Events before and since then confirmed the value to all of us, American and Japanese, of this excellent organization.

I had planned to attend this Twentieth Anniversary meeting, but it coincides exactly with the October court session. (We hear each month's cases the first week of the month, so had I missed it, I'd have missed the argument of 32 appeals).

I entrust to you the conveyance of my greetings to all, and my warm wishes for another score of years in congenial and productive fellowship.

Cordially,

Polly

PN/CEL

UNION CARBIDE CORPORATION
LAW DEPARTMENT

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REPLY TO:

September 27, 1989

Paul D. Carmichael, Esq.
President, U.S. Group
Pacific Industrial Property
Association
c/o IBM Corporation
2000 Purchase Street
Purchase, NY 10577

Dear Paul:

It is with deep and heartfelt regret that I will miss the Twentieth International Congress of PIPA this year at Tucson, Arizona. My absence is totally due to my mandatory attendance at a three day management meeting being held at the same time.

I will sincerely miss seeing my PIPA friends, both Japanese and American, on this auspicious occasion of PIPA's twentieth anniversary. It is with much honor that I accept your kind invitation to write down a few reminiscences and send them to you.

My first thought is a question: Can it be ten years already since John Shipman write the first ten year history of PIPA?

Those twenty years have seen continued growth of PIPA as an organization with much vitality and a long record of achievement. Of course, the primary purpose of PIPA was the development of greater understanding of the laws and systems of each other's country, an objective which has been achieved and that understanding continues to grow. Perhaps even the greater benefit of PIPA is the mutual respect and personal friendships that have grown between the Japanese and American members who share common interests in this very important field of industrial property rights.

How can I reminisce without mentioning some old friends?

Foremost is one of our founders, Shozo Saotome, whom I've known well over twenty years and who was so instrumental in

nurturing PIPA's development and stature. One of the real pleasures and honors I had as President of the American Group was to present Saotome-san with the first PIPA Award for "International Cooperation in the Field of Industrial Property" in New York in 1981.

Working with Polly Newman -- I should say our distinguished Judge Newman but I'm sure Polly will excuse the informality -- over the years in PIPA activities was always a pleasure. The completion of the PIPA Conciliation System in 1975 under Polly's direction was an excellent example of fruitful cooperation between the U.S. and Japanese groups on a project of common interest.

PIPA has flourished because it has been so fortunate in having many dedicated and able leaders, many of whom, in addition to Polly, I had the honor of working closely with, such as, to mention just a few, Takashi Aoki, Koichi Ono, Kojiro Ozu, Toshiya Hiraoka from the Japanese Group and Marty Kalikow, Ed Adams, Karl Jorda, Paul Enlow and Bill Norris. I cannot complete the U.S. list without adding the late, beloved Ed Bell who, as secretary for many years, actually did most of the work needed to keep the U.S. group functioning so well.

And who can participate in PIPA without fondly remembering our singing sessions -- after working hours of course. None of the American group could come close to matching the singing talents of the many Japanese solo performers. And who can forget the marvelous rendition of "South of the Border" by Tei Kawaguchi?

These are but a few of the many cherished recollections of PIPA events. In conclusion, I salute PIPA and congratulate it on its twenty years of achievements. I wish it well for continued success in the years to come in further developing mutual understanding, friendship and respect between the Japanese and the U.S. in the field of industrial property.

Warmest regards to all at the Tucson meeting.

Sincerely,

Tom

TIO:fv