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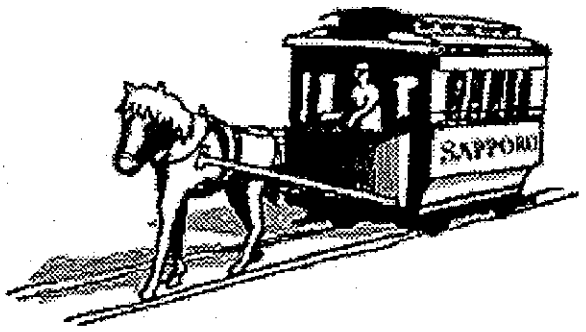
太平洋知的財産協会

The Twenty-Ninth International Congress

Keio Plaza Hotel

SAPPORO

October 7 - 9, 1998



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Program

TUESDAY, October 6, 1998

17:00 - 20:00 **REGISTRATION** at the lobby in front of *"Miyabinoma"*

18:30 - 21:30 **GRAND RECEPTION**
at *Miyabinoma*, 3F Keio Plaza Hotel, Sapporo

WEDNESDAY, October 7, 1998

8:50 - 9:10 **REGISTRATION** at the lobby in front of *"Miyabinoma"*

9:00 - 11:00 **OPENING CEREMONIES**

9:00 Welcome - Takashi Sawai
Report of 1997 Activities - Ben Cadenhead

9:20 Keynote Address
Fumiya Iwasaki, Honorary Chairperson
Executive Managing Director, Sapporo Breweires Limited

9:40 Guest Address
The Honorable Nobuo Sasaki, Deputy Commisioner, Japanese Patent Office
Katsuo Ogawa, President, Japan Intellectual Property Association

10:20 Presentation of 1998 PIPA Award to Kensuke Norichika

10:40 - 11:00 **COFFEE BREAK**

11:00 - 12:00 **PAPER PRESENTATIONS**

11:00 (Comm.#3) Intellectual Property System in China
W.R.Bovee

11:20 (Comm.#3) Examiners and Patent Attorneys in Asian Countries
N.Jinno

11:40 (Comm.#4) Intellectual Property Rights Enformcement in Asia
D.Fifield

12:00 - 13:00 **LUNCH** at *"Ohginoma"*, 3rd Fl

13:00 - 13:45 **PAPER PRESENTATIONS**

13:00 (Comm.#1) Trilateral Patent System for the U.S.,Japan and Europe
H.E.Cole

13:15 (Comm.#1) Prior Art Search and Patentability Examination under Global Patent System
A.Kobayashi

13:30 (Comm.#1) The Global Patent System - With Focus on Issues Relating to Translation
K.Sunami

13:45 - 16:45 **JOINT PANEL DISCUSSIONS** (Committee #1 and #3)

13:45 Global Patent System (Committee #1)
Kiyoshi Kusama and Harold E.Cole, Chairpersons
M.Kuwagaki,T.Tanaka,S.Moriyama,H.Ogura
H.E.Cole,J.Hawley,J.Moore,Ap Veldhuizen

14:55 - 15:15 **COFFEE BREAK**

15:15 Practical Use of PCT (Committee #3)
Masayashi Urayama and Warren Bovee, Chairpersons
K.Kamata,H.Tamada,T.Shimizu,T.Umehara
J.Hawley,D.Reed,L.Welch

16:45 - 17:25 **PAPER PRESENTATIONS**

16:45 (Comm.#1) Patent Term Restoration for Pharmaceutical Products in Europe "The Supplementary Protection Certificate"
J.Moore

17:05 (Comm.#2) Several Issues Accompanied by Trust of Research & Development and Using Results
T.Kawazu

THURSDAY, October 8, 1998

9:00 - 9:20 **PAPER PRESENTATION**

9:00 (Comm.#4) Retention Rules on In-House Documents
T. Strobaugh

9:20 -10:50 **PANEL DISCUSSION** (Committee #4)

9:20 Document Retention Policy
Naoko Nanao and Terrence P.Strobaugh Chairpersons
J. Hawley,D.Fifield,Y.Okumura,T.Oda,M.Torii,K.Nagano, Y.Kikuchi
including: In-House Documents Retention Program

10:50 -11:10 **COFFEE BREAK**

11:10 -12:00 **POSTER PRESENTATION SESSION**

(Comm.#1) Global Patent System
S.Sonobe, M.Kuwagaki

(Comm.#4) Implications of the Japanese Supreme Court on the Doctrine of Equivlents - Endlessly Sliding Ball Spline Shaft Bearing Case (Feb.'98) Report -
Y.Okumura

(Japanese Board) Report on Reduction of Patent Costs
T.Sawai, T.Tetsuka

12:30 - 22:30 **SOCIAL OUTING**

Visits to Hokkaido Frontier Museum, Hokkaido Frontier Village,
Cocktail and dinner at the Sapporo Beer Garden, and as a final touch,
a drive up Moiwa-Yama hills for a Million Dollar night view of the city
(weather permitting)

Buses will leave from the front of the Keio Plaza Hotel. Participants are requested to pick up a lunch box and get on the bus directly.

FRIDAY, October 9, 1998

9:00 - 9:20 **PAPER PRESENTATION**

9:00 Package Licensing
J.Haken

9:20 - 10:50	**PANEL DISCUSSION** (Committee #2)
9:20	Patent Pool and License
	Ken'ichi Katoh and Edward Blocker, Chairpersons
	S.Kitano,M.Igarashi,H.Kawashima,H.Kitajima,E.Nagaishi
	J.Haken,B.Cadenhead,T.Strobaugh
10:50 - 11:10	**COFFEE BREAK**
11:10 - 12:10	**PAPER PRESENTATIONS**
11:10	(Comm.#1) The Utilization of Patent Information in Corporate Activities
	J.Kawamoto
11:30	(Comm.#3) A Study on Global Patent Portfolio for Patent Application Strategies
	Y.Suzuki
11:50	(Comm.#4) Damages Provision in the Amended Japanese Patent Law
	T.Monma
12:20 -13:30	**LUNCHEON and CLOSING CEREMONY** at *"Ohginoma"*
13:00	Closing Remarks - Jack Haken, Toshihiro Tetsuka

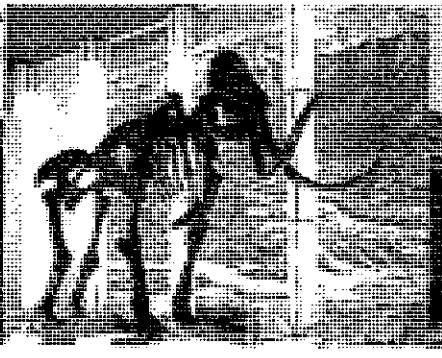
GUEST PROGURAM/WEDNESDAY, OCTOBER 7, 1998

9:00 -16:30 Bus/walking tour of the port city of Otaru, featuring a visit to the Herring Palace (A rich herring fisherman's villa), on-hand experience of making your own original music box, visit to a glassware shop/gallery and to a thriving local fish market. Tour includes lunch at a loft-resaurant near the famous Otaru Canal Promenade.

Sapporo City Hall



Mommoths roamed Hokkaido



Municipal Museum, Otaru

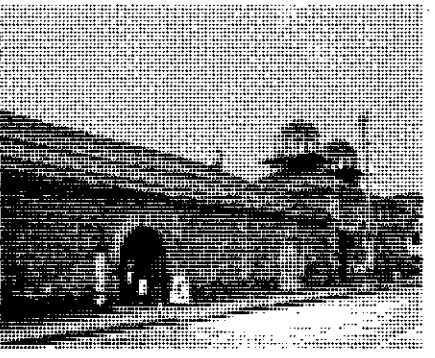


Photo / Design: Ryosuke Kami

9:30 - 10:30	PANEL DISCUSSION (Continue #2)
9:30	Prison Pool and Leisure
	Kenneth Kwok and Edward Bleeker, Chairpersons
	S.K.Kwok,M.Ippaso,H.K.Kwok,Ms.K.K.Ng,Ms.L.N.Ngabi
	J.Elton,R.Cedonna,T.Strobug
10:30 - 11:10	COFFEE BREAK
11:10 - 12:10	PLANNER PRESENTATIONS
11:10	(Comm.#1) The Utilization of Penal Information in Corporate Activities
	E.Kawanobo
11:30	(Comm.#5) A Study on Global Prison Portfolio for Penal Application Strategies
	V.Sasaki
11:50	(Comm.#6) Delinquent Provision in the Amended Japanese Prison Law
	T.Mouna
12:30 - 13:30	LUNCHEON and CLOSING CEREMONY at "Olympic"
13:30	Closing Ceremony - Jack Nelson, Toshihiro Tsuda

FINAL PROGRAM/WEDNESDAY, OCTOBER 1, 2003

9:00 - 16:30 Tours: Hong Kong Island of the new city of Glory. Journey a visit to the Hong Kong Palace (A 1½ hr. tram ride to the peak, on-land exploration of Hong Kong's own original music bar, visit to a glassware factory and to a big fish market.
Those including lunch is a self-assumed non the Jurong Clam Canal Promenade.

Title: The Global Patent System
/ With Focus on Issues Relating to Translation

Date: October 1998 (29th International Conference in Sapporo)

Committee: (1) Section: PIPA Japan Section
(2) Committee: No. 1 Committee

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Keywords: Global Patent, Language, Cost, Translation, English, Paris Convention, EPC, PCT, Abstract

Provision: Patent Law Application Rule, Article 12
US Patent Law, Article 111
PCT, Articles 3, 22, and 39
EPC, Article 14

Abstract: Except those applied under the EPC, patent applications have to be filed in each country in order to obtain patents in a multiple number of countries. Therefore, translation costs incurs due to the multiplicity of languages, for translating documents, such as specifications, into the languages of the countries. This paper discusses the advantages and disadvantages of the current systems such as the PCT, EPC and the like, and proposes the Global Patent System, focusing especially on the issues pertinent to translation.

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1. Introduction
2. Translation Fee
3. Comparison on the Different Systems in Terms of the Timing of Submitting Translation
   (1) Application Using Convention Right of the Paris Convention
   (2) PCT
   (3) EPC
   (4) Community Patent Convention (CPC)
4. A Consideration on the Timing of Submitting Translation
   (1) "For Whom" and "For What" is the Translation Provided?"
   (2) Timing for Submitting Translations
   (3) One Speculation
5. Conclusion

1. Introduction

With the globalization of product/service markets, the transnational circulation of products had become very common today. On the other hand, inventors who attempt the global deployment of their products and services are still obliged to file their patent applications in individual countries following each system in each nation, and the fact has been a heavy burden for inventors. Responding to this situation, there has been a movement through the TRIP efforts and the activities of the WIPO and the trilateral joint meetings to establish a new patent system which allows easier and quicker issue of patents by providing a unitary patent procedure.

While the movement uprises for the establishment of the new system predicated on the international harmonization, the cost problems, especially those for translation, are the inevitable issues that have to be addressed. Even if a globally harmonized and well balanced patent system is established in the future, if the system still demands the bearing of high costs, it is not difficult to imagine that not many applicants will use the system. To be able to obtain rights "less costly" is very attractive to an applicant.

For example, the 20% reduction on filing fee and the deferred payment of designation fee by the EPO, passed in the end of 1996 and came into effect on July 1, 1997, were extremely favorable for the users of the system. They were received well as the measures that opened the door to potential EPO users who had been unable to use the system due to financial reasons. This reduction had made the EPO applications more attractive. On the other hand the PCT, in its 24th General Assembly held in Geneva from September 16 to October 1, 1997, decided, with effect from January 1, 1998, the reduction of 15% on its basic fee and 19% on designation fee(These reductions are presently in effect).

The purpose of a series of the cost reductions is the promotion of the system use. This fact clearly indicates that cost issues cannot be neglected, or even they are the essence, in promoting the use of a system.

The most important matter among the cost issues is the "language" cost including that of translation. Therefore, we would like to focus only on "language" issues in the rest of this paper and leave the discussions on the issues pertinent to the unification of patent requirements and examination processes, to others.

Also, we cannot deny the possibility that the cost problem is solved in the future, where a fully automated mechanical translation is realized through the progress of the hardware and by changing the format of claims. However, it is assumed that the level of the

mechanical translation capability available today is far insufficient for patent specifications (and claims) where accuracy is demanded, thus, automated mechanical translation is excluded from the discussions in this paper.

2. Translation Fee

Applicants who filed international patent applications are always obliged to bear translation fees.

Ever since God has imposed different languages upon mankind as a result of his anger provoked by construction of the Tower of Babel (Genesis), translation is an inevitable labor or a heavy burden for patent applicants.

In the case of an application in the US by a Japanese applicant, a translation cost from Japanese to English is said to be approximately 5,500 yen per 100 words. Though a total translation fee related to each application depends on the volume of each specification, it is true that a translation cost often accounts for more than 50% of a total filing cost.

According to an estimation of an average filing cost (Designated States: 8, Period of Duration: 10 years) worked out by the EPO, the total translation fee is 22,500DM which accounts for 38% of the total patent application cost of 59,100DM. The total cost includes: EPO stamp fee of 11,000DM (15%), attorney fee of 11,000DM (19%) and annuity fee of 16,700DM (28%). That means the translation fee accounts for the largest portion of the total application cost. (Fig. 1)

3. Comparison on Timing for Translation Submitting in Different Patent Systems

In the following, we discuss about patent prosecution procedures in four different patent systems. We suppose two cases in each discussion. First, a patent application is filed in one country except Japan claiming a priority based on an application filed in Japan (Fig. 2 (a)). Second, a patent application is filed in one country except the US claiming a priority based on an application filed in the US (Fig. 2 (b)).

(1) Applications Under the Paris Convention

In the first case mentioned above, an application was first filed in Japan, then filed

in another country claiming a priority under the Paris Convention. It is necessary for the applicant to submit translation of the specification in an official language of the country at the filing time. A prosecution (including official actions) is proceeded thereafter in this language. (fig. 2 (a)①)

In the second case, an application was first filed in the US, the same procedure is needed as in the first case (Fig. 2 (b)①).

(2) PCT Application

In comparison with the Paris Convention which patent applications have to be filed in individual countries under, the PCT can be regarded as a breakthrough because it provides new international systems such as the international search system and the international publication system.

Since it unitarily handles many languages, various regulations related to languages including principles and exceptions are provided. It should be noted that unitary formats are provided for processes before the national phase, and the PCT system is actually functioning in spite of the multiplicity of languages.

Under the PCT, the submission of translated documents is due in 20 months after a priority date. This period of priority is longer than that of the Paris Convention which allows a period of 12 months from a priority date. Furthermore, if an international preliminary examination is demanded, the period of priority is extended to 30 months after a priority date. This is a great advantage for applicants as it allows them to make adequate decisions whether or not to maintain their applications, before translation costs occur. Japanese applicants, for example, can use Japanese specifications for the PCT applications in the international phase(some corrections might be required)(Fig. 2 (a)②).

However, as mentioned above, the submission of translated specifications and the like are required before the entry into the national phase in which the examinations are carried out by individual national patent offices. Also, the processes thereafter are proceeded in the corresponding countries' languages. Furthermore, the PCT system is not different from the conventional systems in terms that patent rights arise independently in each country, thus, entering into the national phase, the submission of translated papers are uniformly required.

Therefore, in terms of translation cost (as long as rights are maintained), there is no

significant advantage for applicants in comparison with the other existing routs that applications are directly filed in individual countries.

This also is true for filing those patent applications originated in US through the PCT (Fig. 2 (b)②).

(3) EPC Application

With regard to the unification of systems of different nations, Europe is going ahead of the rest of the world. This system can be a good reference in considering a global unitary patent system. Following discusses the details of the system including the prehistory of the conclusion of the EPC.

① Establishment of the EPC

The idea of the EPC was conceived upon the presentation of an opinion for the unification of patent, trademark and copyright systems during the sessions of the Treaty of Rome where the establishment of the common market was discussed. The first session to discuss the establishment of the EPC began in 1958 by six states consisting Germany, Italy, France, Netherlands, Belgium, and Luxembourg. As for the patent system, the then director of Germany patent office, Mr. Haertel had drawn up a draft in two years, covering from patent application procedure to the enforcement of rights, and the draft was presented in 1962 (in this draft, German and French languages only are used). Italy and Netherlands did not claim for the use of their languages as they were the advocates of the common market establishment. English language is added later on in consideration of applications from non-member nations especially those from US, which made the number of the working languages three, German, French and English (at this point, England had not been a member nation). The fundamental structure had been established by a small number of starting members, then new member nations had joined. By evolving this way, the controversy over the languages had not occurred later on.

② Languages in the EPC

Under the European patent system, citizens of member nations are able to file their patent applications and oppositions in their own languages. When a patent application is filed, documents translated into either one of the working

languages (English, German or French) have to be submitted within 13 months from the priority date, and prosecution thereafter is handled in either one of the working languages. For those applicants who filed applications in languages other than the working languages, a special privilege of 20% reduction on the filing fee is given.

According to the statistics in 1995 and 1996, the proportions of application languages are: English 63%, German 22%, French 7% and other languages 8%. 98.5% of those applications in other languages had been translated into English, and the number of applications translated into German or French is as small as 30 to 40 per a year (that means 70% of the total applications were in English). The proportion of oppositions made in the working languages is 99.5%, and the number of those in other languages is only 15 per a year.

Applications have to be in one of these EPC official languages (for those from Japan, English is extremely common). And the prosecution is carried out also in English (Fig. 2 (a)③).

Those applications originated in US have a big advantage as they can be processed in English. That is, no translation of specifications is required until patents are granted (Fig. 2 (b)③).

(4) Community Patent System (Community Patent Convention = CPC)
- Discussions in the EU Green Paper -

Community Patent Convention (CPC), although adopted in 19759 and partially amended and ratified by several of the member nations in 1989, has not yet been officially established. The Green Paper (July, 1997) written by EU regarding the European patent system, keynotes the materialization of revised version of CPC which is conformable to the existing EPC system, and pursues opinions from parties concerned. In the Green Paper, following issues are mentioned as the problems disturbing the realization of CPC:

- An application under the CPC requires high translation cost (estimated total cost: DM25,000) since translations of whole specifications have to be submitted to the national patent offices of the member nations (15 countries) at the time of regional patent granting.
- Furthermore, annuities occurred in those nations result in high total costs.
- At the time of enforcement, actions have to be brought into the courts of the corresponding countries. Gaps in the interpretations of rights are anticipated

due to the differences in the comprehension of different countries.

- Furthermore, where a trial for invalidation of a patent is brought up in one of the member nations, the regional patent may be invalidated when the jurisdiction of the country decided so by its own discretion, and the proceedings of all the infringement suits under pendency stop. Thus, the system is not necessarily attractive to its users in terms of legal stability.

There had been several proposals (following) for solving the problems pertinent to the submission of translated papers, including the idea of so-called "Package Solution" of the EPO (only claims have to be translated at the time of grant, and the translation of whole specification is required before the enforcement of a right).

- Translation is required only on claims in principle (further conditioning at the time of the enforcement).
- Translation of specifications into all the languages of the member nations is not required (patent rights will not come into effect in those nations to which translations were not submitted).
- So-called "Package Solution" of EPO
- All translations are not required.
- Establishment of an institution providing translation services by request from third parties.
- Provision and translation of the abstracts of inventions consisting of necessary information for understanding the inventions and construing claims.

The hearing with regard to the Green Paper was held in November 1997, and opinions from the representatives from various circles were presented. Among those opinions, a proposal by UNICE (Union of Industrial and Employer's Confederations of Europe) presented an extremely radical idea of a system which, while allowing the initial filing of an application in an applicant's language, requires the submission of English translation within a certain period of time, and allows only the use of English in the prosecution thereafter, including patent application procedures, and eliminates the requirement for submission of translations of not only claims but those of any sort, at the time of granting the right. Moreover, it also suggests the establishment of a single court which may be regarded as the European community patent court.

The hearing on the Green Paper completed, and the EU Directive will be issued by the end of this year or sometime in the next year.

4. Consideration on the Submission of Translated Papers

(1) "For Whom" and "For What" is the Translation Provided?

There are many characters in the "play" called "Patent". Therefore, it is necessary to make out "For Whom the System is Provided?" from the standpoints of three characters, namely, Applicant, Patent Office and Third Party (Public) in order to consider a model pattern. During each stage of patent prosecution, namely Laying-Open of Patent Information, Examination, Publication, Opposition and Enforcement, there need "Communication" among the characters. It is ideal if the communication can be conducted in the mother tongue of the each character. However, if each of them uses his own, the circulation of information and mutual relationship based on their rights would not come into being. Thus, it is necessary to weigh the importance of each character in the each stage based on the consideration of "For Whom" and "For What" in order to discuss which language to be used. In consideration of the purposes of a patent system; achieving public benefit through the industrial progress and use of new technologies; paying respect for individuals through the protection of inventions; and realizing efficient processing by patent offices; the relationship between the characters assumed in this paper is given by:

Public > Privy > Applicant > Patent Office

According to the above, an ideal language in the each stage would be:

Stage	Weight	Language	Reason
Application	Applicant > Patent Office	Native Language of Applicant	Applicant's benefit shall be prioritized since this is the transaction between two parties (Applicant & Patent Office)
Examination	Applicant > Patent Office	Native Language of Applicant	Applicant's benefit shall be prioritized since this is the transaction between two parties (Applicant & Patent Office)
Publication	Public > Applicant	Most Frequently Used Language in the Field of Patent	The language most frequently used in the field of patent shall be used for the global active utilization of the information.
Opposition	Public > Applicant	Native Language of Whom Patent Right is Possibly Enforced	The language most frequently used in the field of patent shall be used for granting any third parties in the world the chances to file oppositions.
Enforcement	Privy > Applicant	Native Language of the Country where the Patent was Obtained	The understanding (contents of the patent) by the party being enforced (citizen of the country where the right was obtained) is required, and at the same time, the domestic law of the country where the right was obtained is applied to the actual enforcement.

In consideration of the proportions of the working languages used in the EPC system and the opinion by the UNICE presented during the discussion of the CPC, those were mentioned in the prior sections, the use of English as a common language can probably be regarded reasonable for European countries.

In the each stage, the required information is different in terms of what and to what extent. The table below summarizes what are required in the each stage in order to fulfill its purpose.

	Application	Publication	Examination	Registration	Opposition	Enforcement
Native Language	○ Entire		○		(○)	
Common Language		○ Abstract		○ Entire	○	
Each National Language						○ Entire

(2) Timing of Submitting Translation

If an application was not registered, the translation fees would be just a waste of money (Even in the application under the EPC, Japanese applicants are required to file their applications in one of the official languages, so that papers have to be practically translated into English by the time of filing). As mentioned in the prior sections, translation cost accounts for a large portion of the overall application cost. Thus, it is desirable for an applicant to be able to contain translation cost as low as possible, and it is even more desirable, to be able to foresee the probability of his application being registered, in other words, the probability of his application being rejected, before the submission of translation, so that he can withdraw the application and avoid wasting money.

As mentioned before, the 10-month carry-over of the transition procedure to national level (submission of translated paper to designated states) in the PCT applications, is a measurement which exactly serves the above mentioned applicants' demand. This is the reason why the use of the PCT is recommended for the strategic patent application attempting to reduce filing costs (translation cost).

Under a system which requires translation, allows a certain period of grace. This is one cause of the delay in the time required for the issue of patents, and this problem shall be addressed along with the cost of translation.

(3) One Speculation

In consideration of translation with high cost performance and the best timing of its submission under the existing systems without drastic changes, we have developed one speculation, taking into account the viability that at least Japan, the United States and Europe would be materialized as below.

- Give the substantiality to the international preliminary examination of the PCT, and have the international receiving office to handle the processes from registration to opposition.
- Designate English as a common language
- As for enforcement, it shall be contested in the courts of individual countries as presently done. Entire specifications in the language of the countries where patent rights are enforced shall be submitted only to such countries.

An example of the Global Patent System which is assumed to satisfy the above is indicated in the flowcharts (Fig. 2 ④ and Fig. 3).

First of all, upon the submission of an application (international application), an examination in the language of applicant's country is carried out. If the application was rejected, it can be appealed, and if the application passed through the examination or appeal, English translation is submitted and the application is registered with the translation. Where the applicant's native language was English, the submission of translated papers is unnecessary.

After the registration, oppositions can be filed in English (or including applicant's native languages). Where an opposition was filed, and a cause was found, the application itself is invalidated. Where no opposition was filed or no cause was found in the opposition, the patented right is deemed enforceable upon the submission of translation in the language of the country where patent right is intended to be enforced.

Also, since it is necessary to publish inclusive of those not yet patented, the submission of abstracts written at least in English shall be mandatory. Translation cost will incur due to this obligation, however, the volume of translation will be considerably smaller than the translation of an entire specification thus, it shouldn't be much of a load for applicants.

Under a system as above explained, the expenses pertinent to translation can be carried over, and it is beneficial for applicants (Fig. 4). For example, supposing that patent applications, one in Japanese and another in English, are filed in Japan, US, England, Germany, France and Netherlands, under PCT or EPC, the fees obliged to bear would be; stamp fees, attorney fees, annuity payments, translation fees on the specifications, and translation fees on the documents required during prosecution. The application originated in English is less costly than that originated in Japanese as application prosecution can be carried out in English under the EPC.

There is a large difference in the translation cost in a case where an application from a country (Japan) using Japanese language (or from a country using English language) is filed in six countries, Japan, US, England, Germany, France and Netherlands, from the translation cost in a case where the same is filed in only one country (Fig. 5).

As it is clear from the figure, in case a patent right is enforced in the six countries, the translation cost on the documents required during prosecution is unnecessary. Also, in case a patent right is enforced in one country, where the application is filed from Japan, the cost for translating the specification into English is inevitable, but where the application is filed in English, depending on the country the application is filed, it is possible that the translation is not required at all. Therefore, in the light of translation cost, the effect is significant.

5. Conclusion

The purpose of the discussion in this paper is to lighten the obligation of applicants pertinent to translation, and reduce translation fees in patent applications by focusing on language concerns. Of course, it is necessary, in order to realize the Global Patent System, also to discuss the aspect of unification in the examination and prior art searching systems that were not addressed in this paper. For example, the section of "One Speculation" developed a discussion on the handling of oppositions in a common language of English, and this also requires the realization of harmonized "patent requirements". Moreover, the influences of those oppositions where causes are found, over the rights held in the other countries shall have to be sufficiently discussed.

As explained above, the establishment of the Global Patent System is still a long way off. The realization of the Global Patent System is only possible on the foundation of "mutual understanding", "mutual recognition" and "fusion (sharing of common sense)". In order to do so, communication is an essential factor, and communication always comes with "Language Barrier".

By solving the language problems, the obligation of applicants is lightened and prompt patent prosecution can be realized. That is, there is a possibility for us to be able to "more cheaply", "more easily", and "more quickly" obtain patents.

There still are many problems to be solved in the future, including the unification of

patent requirements, specifically, "how to absorb the differences among the patent requirements in different countries", issues with attorneys as to "who are going to be the attorneys in the Global Patent System", "how, materialistically, the examination and search processes can be unified" and so on.

This paper proposes the use of English which is being widely used as a native language and as the first foreign language, in the "abstracts" for the circulation of technical information upon the laying-open of applications. However, the abstracts still require translation. Thus we have discussed an "abstract" which is inherently comprehensible to anyone in anywhere on the earth, which is presented by the poster session of our group, titled "The World Common Language: Number, Symbol and Cartoon".

Fig. 1

	Total Amount	59,100	%
1	Tranlation Fee	22,500	38%
2	Stamp Fee	8,900	15%
3	Attorney Fee	11,000	19%
4	Annuity Payment	16,700	28%

Unit : DM

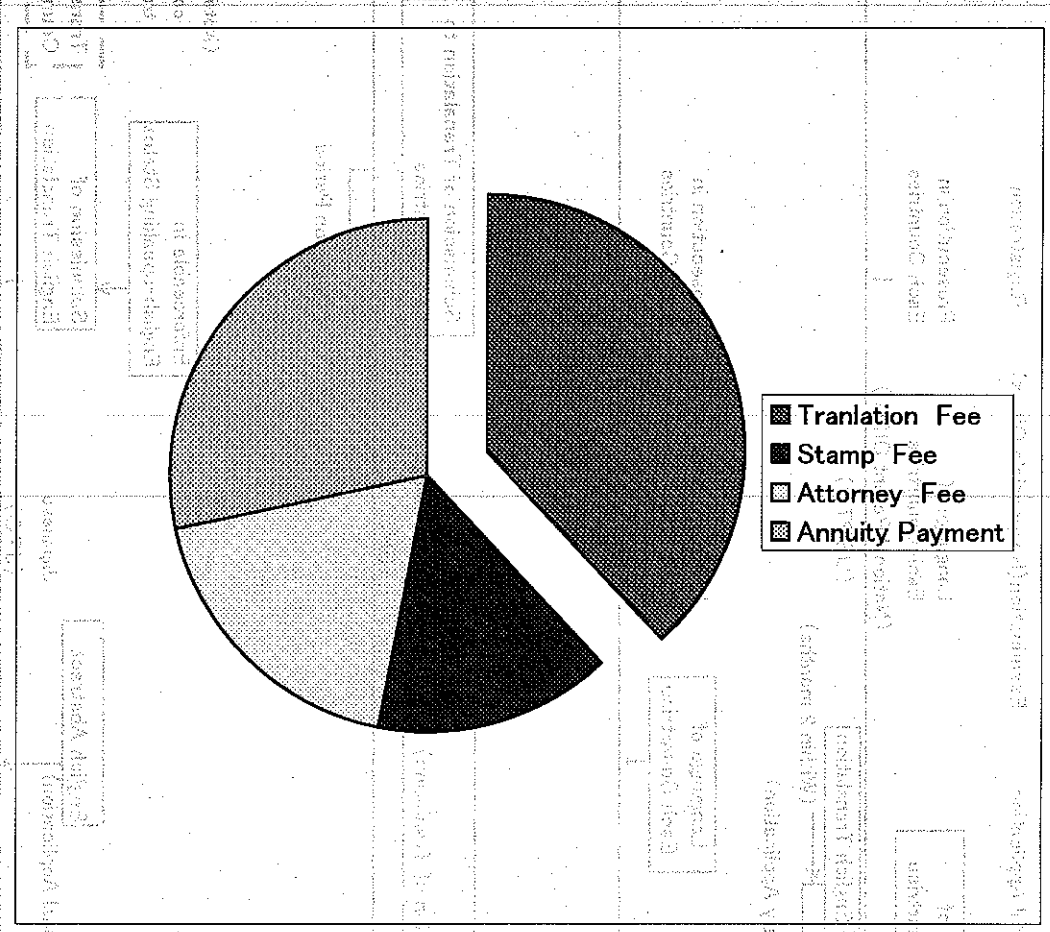


Fig.2(a) Japan→International Application

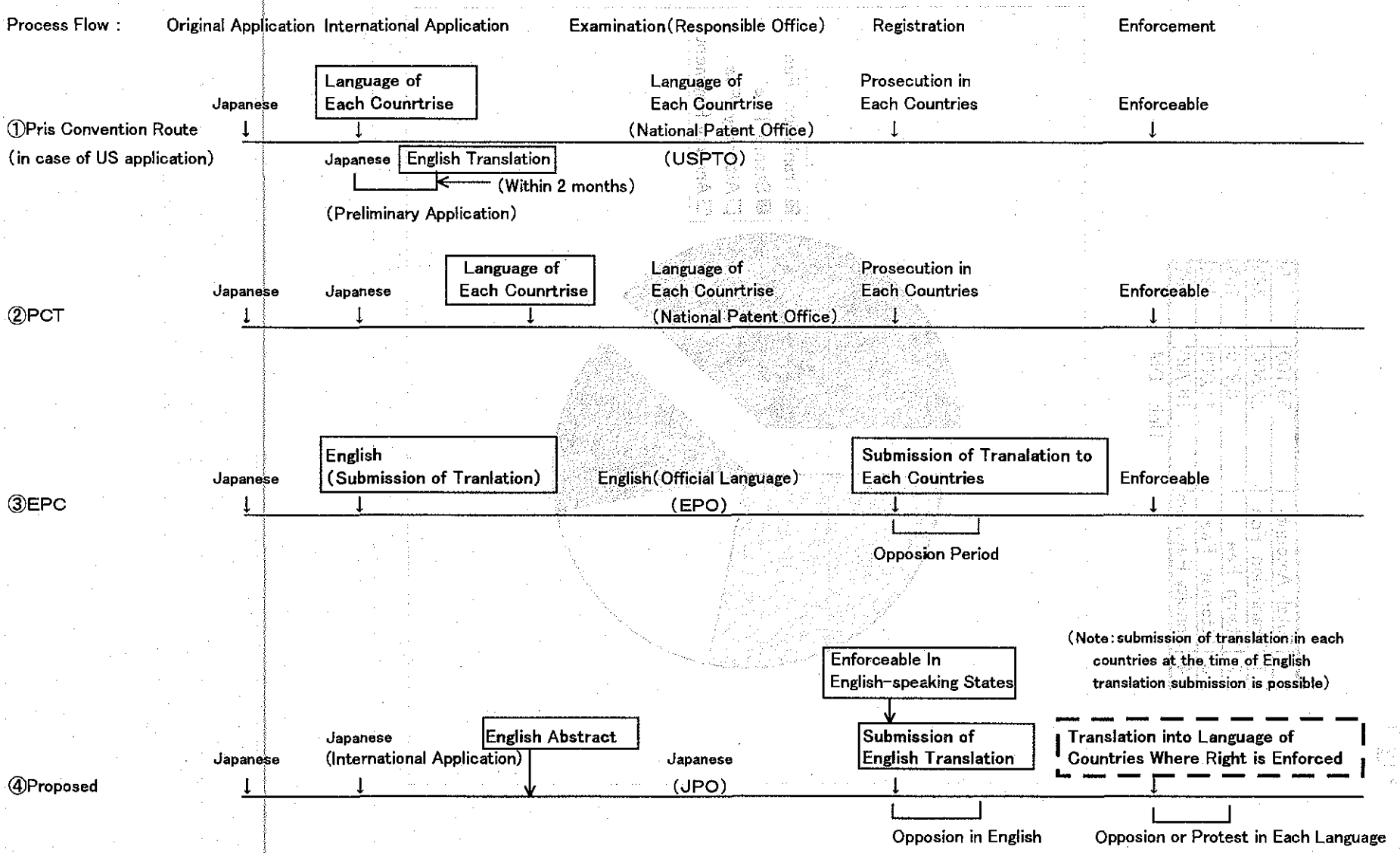


Fig.2(b) US→International Application

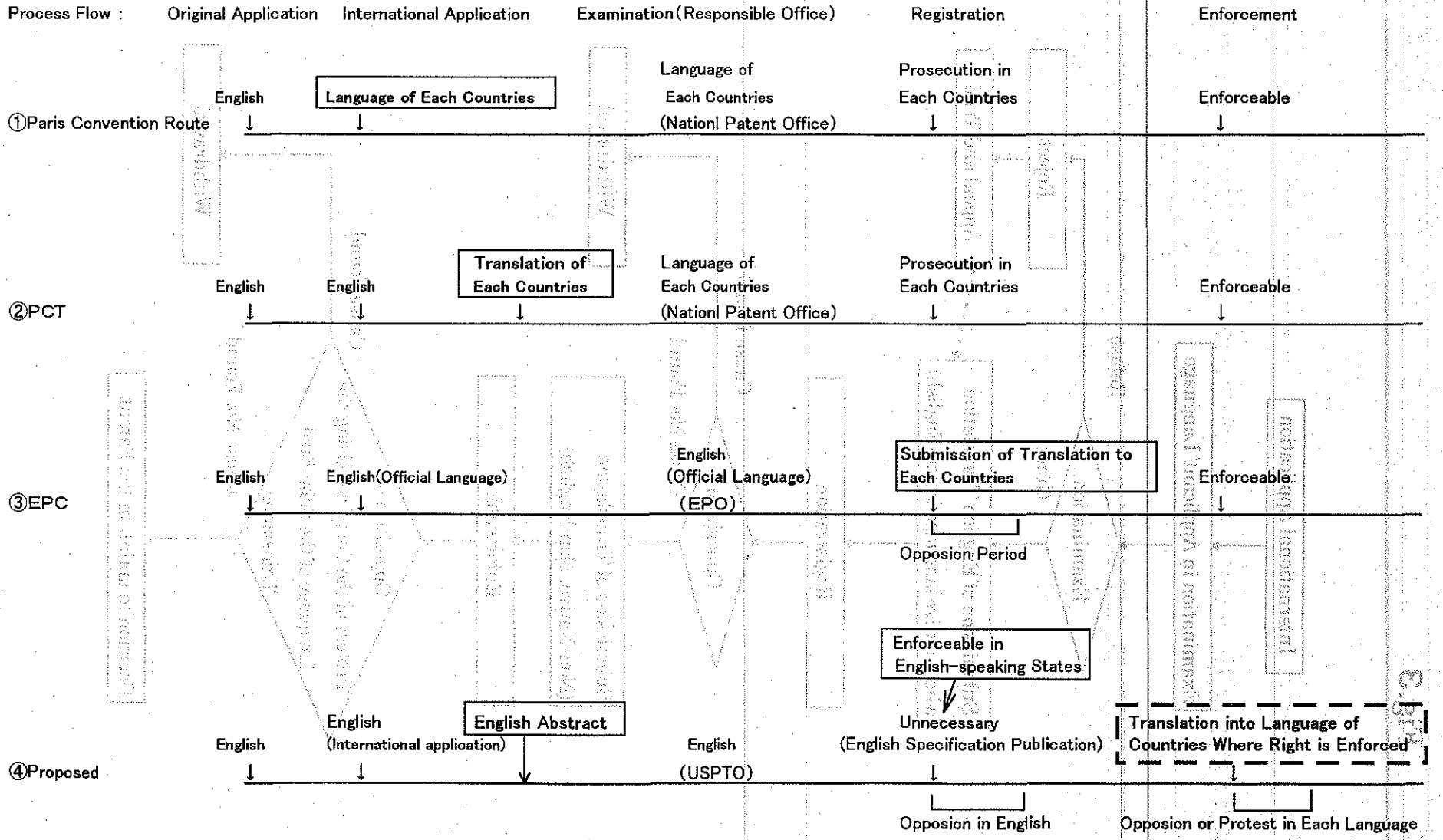


Fig.3

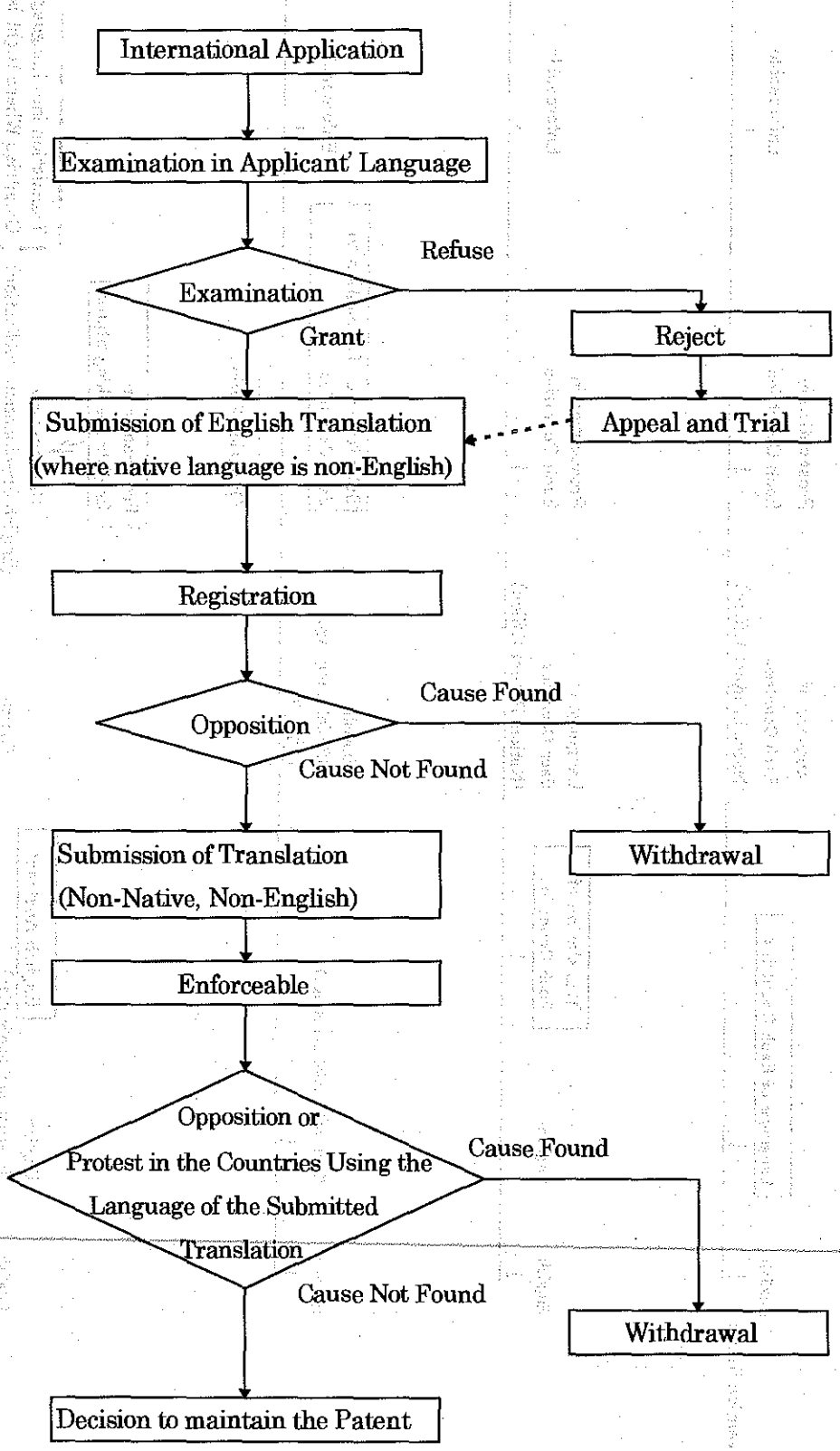
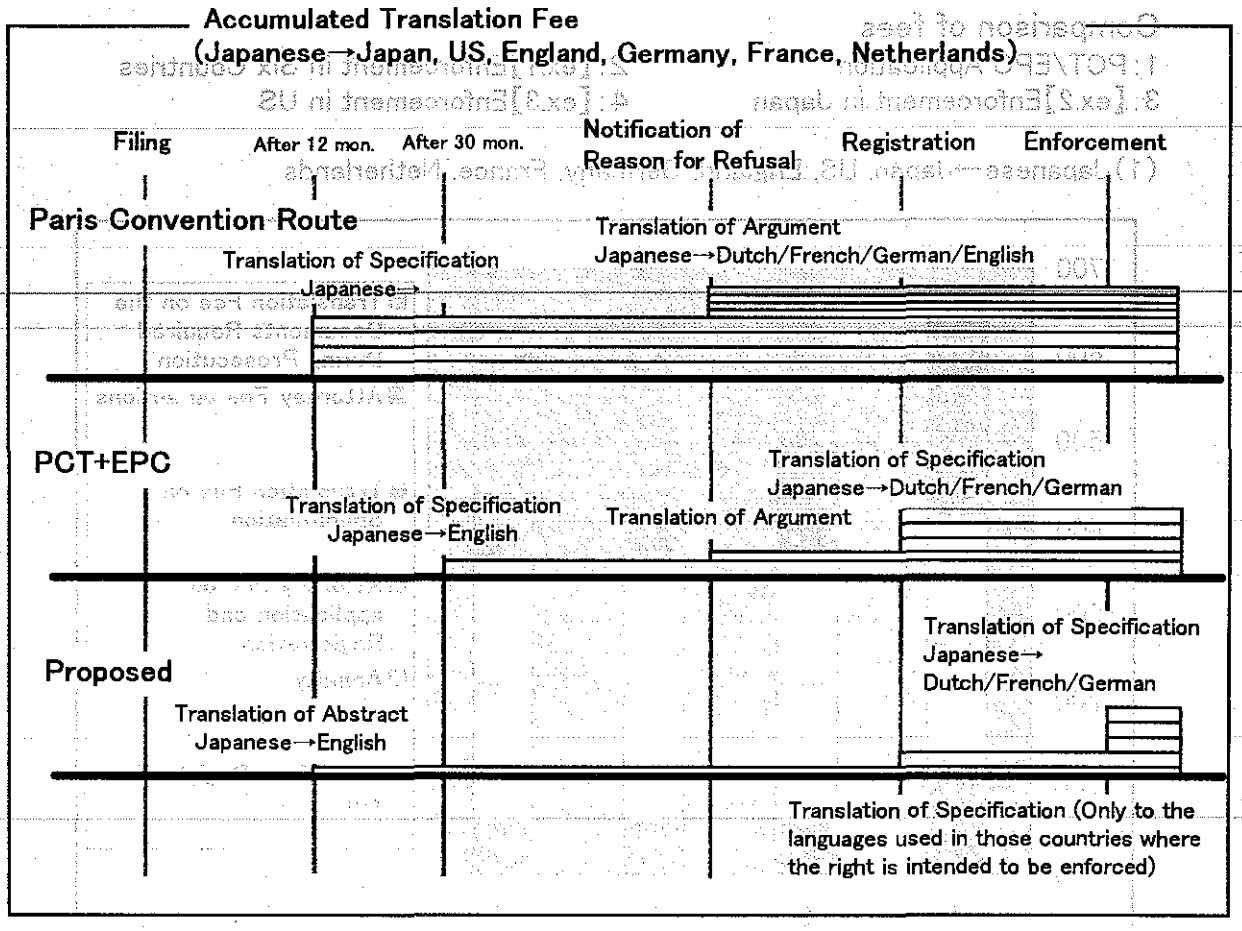

International Application
Examination in Applicant' Language
Refuse
Examination
Grant
Reject
Appeal and Trial
Submission of English Translation
(where native language is non-English)
Registration
Cause Found
Opposition
Cause Not Found
Withdrawal
Submission of Translation
(Non-Native, Non-English)
Enforceable
Opposition or
Protest in the Countries Using the
Language of the Submitted
Translation
Cause Found
Cause Not Found
Withdrawal
Decision to maintain the Patent

Fig.4


Accumulated Translation Fee
(Japanese→Japan, US, England, Germany, France, Netherlands)
Filing
After 12 mon.
After 30 mon.
Notification of Reason for Refusal
Registration
Enforcement
Paris Convention Route
Translation of Specification Japanese→
Translation of Argument Japanese→Dutch/French/German/English
PCT+EPC
Translation of Specification Japanese→English
Translation of Argument
Translation of Specification Japanese→Dutch/French/German
Proposed
Translation of Abstract Japanese→English
Translation of Specification Japanese→ Dutch/French/German
Translation of Specification (Only to the languages used in those countries where the right is intended to be enforced)

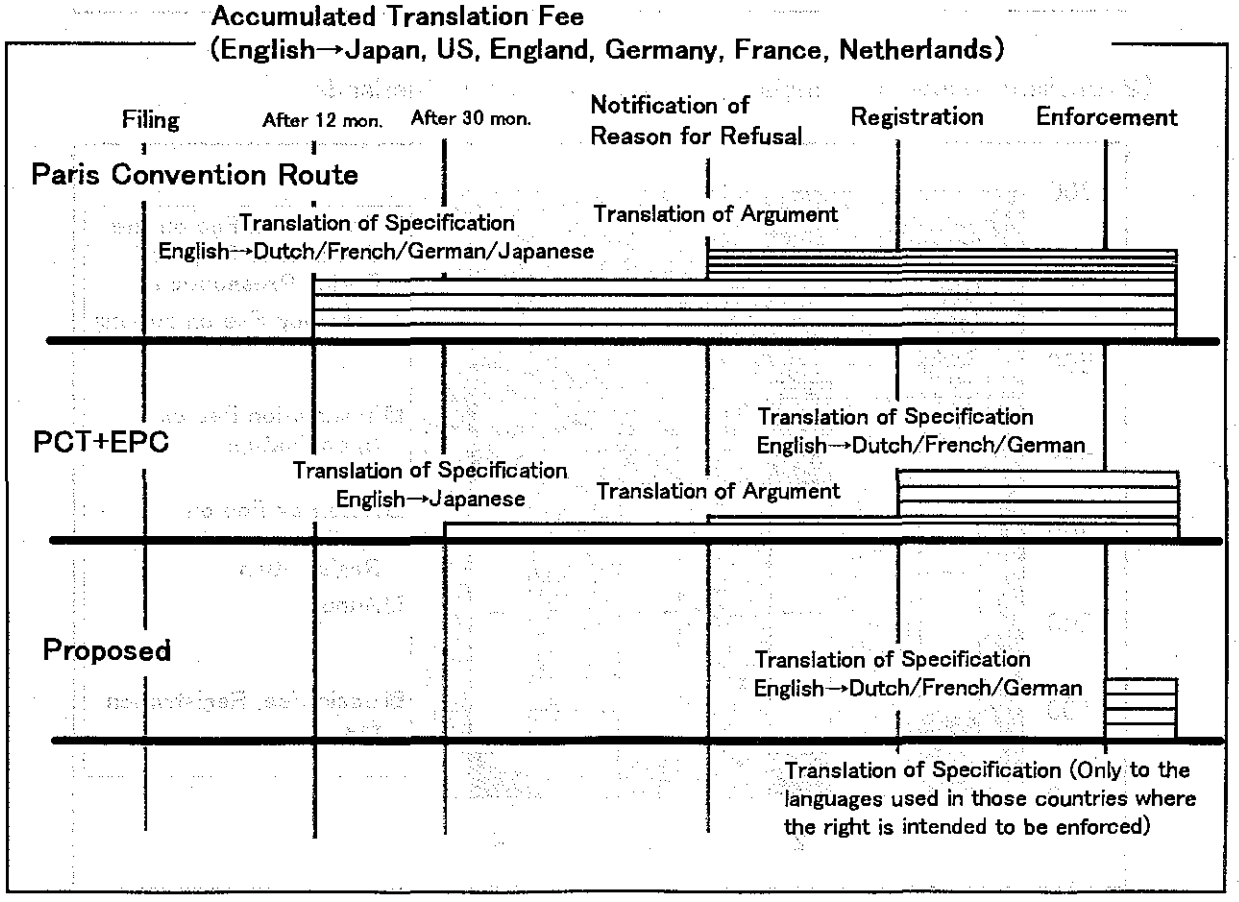
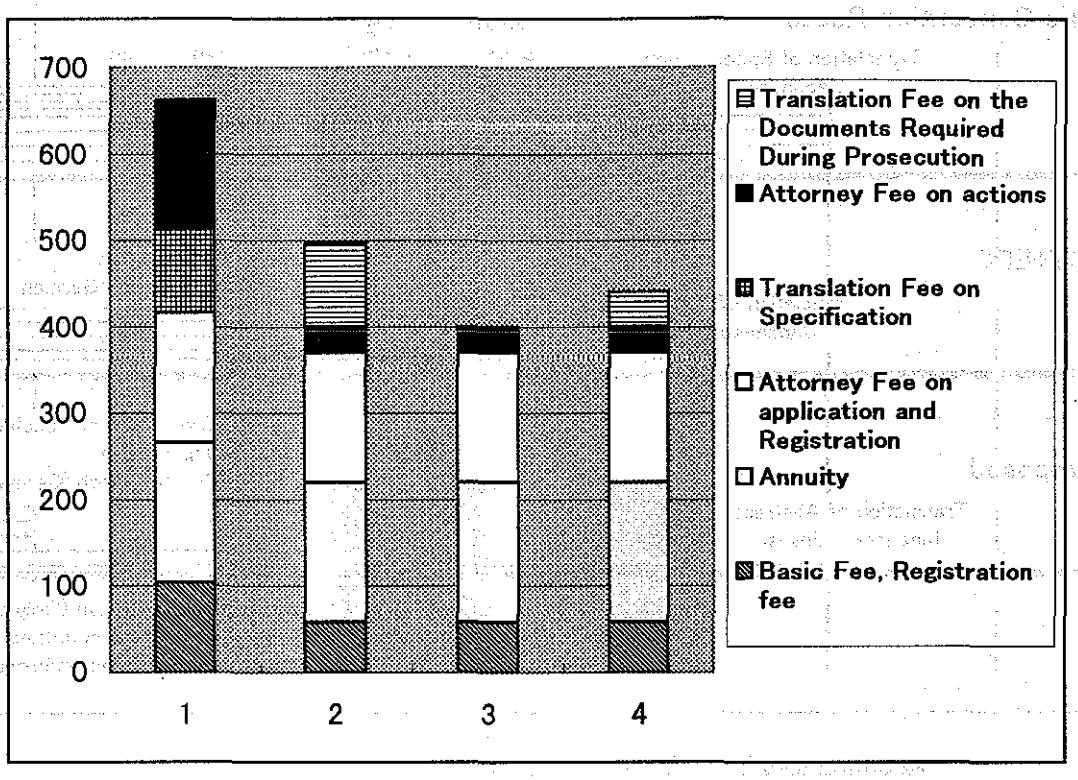

Accumulated Translation Fee
(English→Japan, US, England, Germany, France, Netherlands)
Filing
After 12 mon.
After 30 mon.
Notification of Reason for Refusal
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Paris Convention Route
Translation of Specification English→Dutch/French/German/Japanese
Translation of Argument
PCT+EPC
Translation of Specification English→Japanese
Translation of Argument
Translation of Specification English→Dutch/French/German
Proposed
Translation of Specification English→Dutch/French/German
Translation of Specification (Only to the languages used in those countries where the right is intended to be enforced)

Fig.5

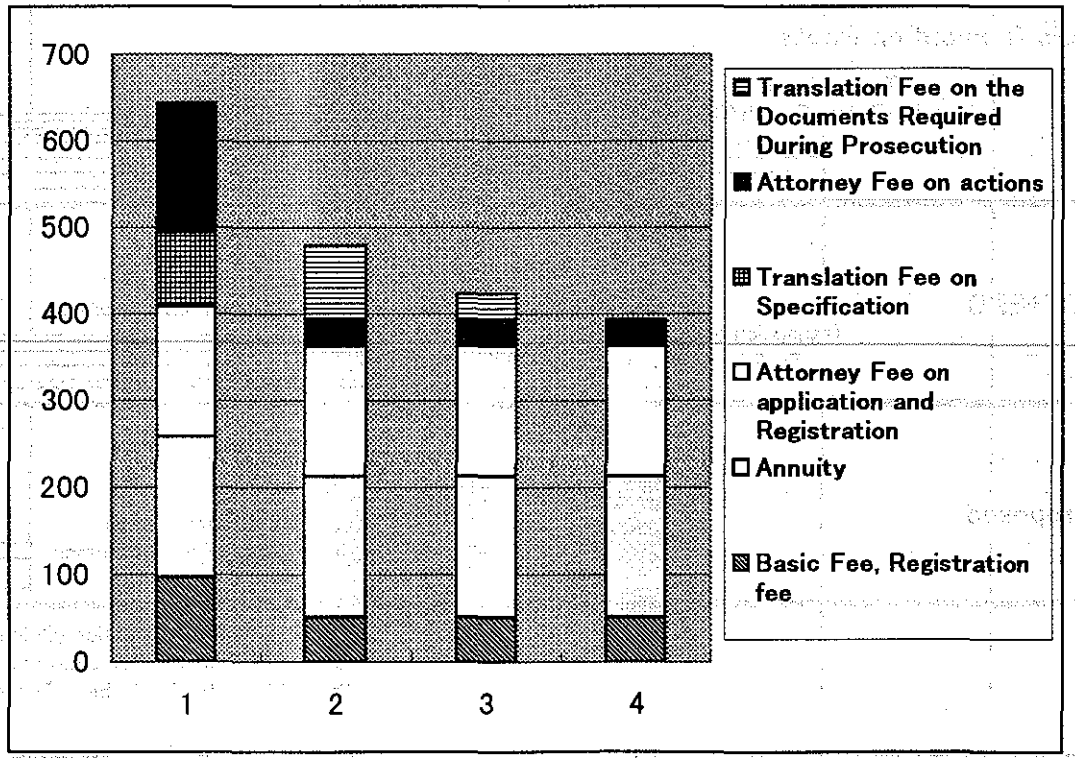
Comparison of fees

1: PCT/EPC Application
2: 【ex.1】Enforcement in Six Countries
3: 【ex.2】Enforcement in Japan
4: 【ex.3】Enforcement in US

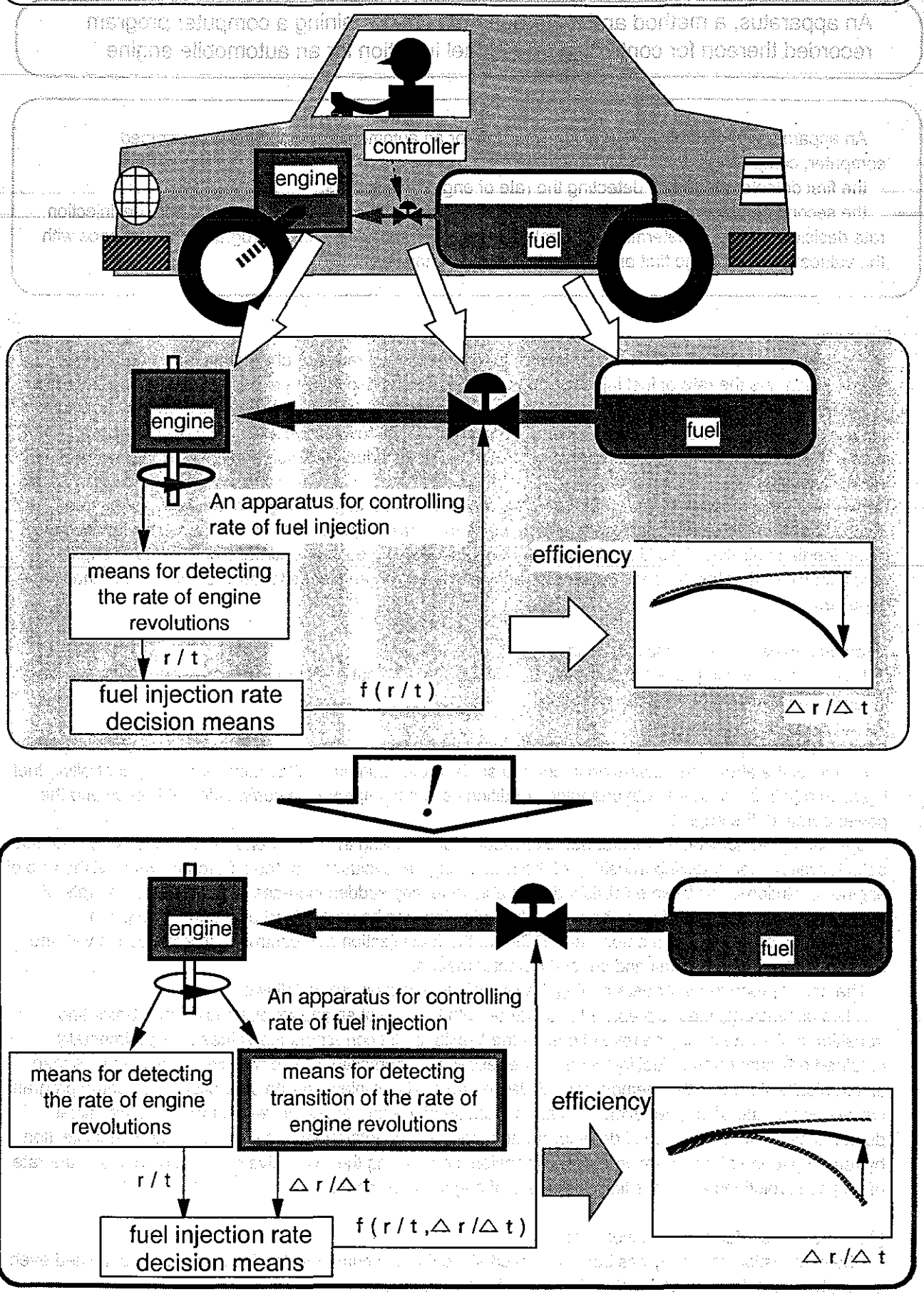
(1) Japanese→Japan, US, England, Germany, France, Netherlands



(2) English→Japan, US, England, Germany, France, Netherlands



An apparatus, a method and a storage medium containing a computer program recorded thereon for controlling rate of fuel injection for an automobile engine



An apparatus, a method and a storage medium containing a computer program recorded thereon for controlling rate of fuel injection for an automobile engine

An apparatus for controlling rate of fuel injection for an automobile engine by a programmed computer, comprising:
the first detector means for detecting the rate of engine revolutions;
the second detector means for detecting transition of the rate of engine revolutions; and fuel injection rate decision means for determining the rate of fuel injection by said control program in accordance with the values detected in the first and second detector means.

[Prior art]
The existing models of electronic controllers for controlling the rate of fuel injection for an automobile engine determine the rate of fuel injection on the basis of the detected rate of engine revolutions. This type of fuel injection controller is prone to supply a leaner fuel/air mixture than the theoretical ratio of optimum mixture at the transient stage during sudden increase of rate of revolutions as in the case of hard acceleration since the intake of air cannot be increased as fast due to friction against the inner walls of intake manifolds.
Conversely, richer fuel/air mixture often prevails at the transient stage during sudden decrease of rate of revolutions as in the case of hard deceleration since the intake of air cannot be decreased as fast because of the inertia of air-flow. This kind of behavior during sudden increase or decrease of the rate of engine revolutions deteriorates the combustion efficiency of the engine and leads to lower engine output than expected.

[Problems to be solved by the invention]
This invention will improve the combustion efficiency and output power of the engine during the transient stages of hard acceleration or deceleration.

[Means for solving the problem]
In view of the above, this invention intends to achieve the optimum fuel/air mixture ratio by controlling fuel injection rate in accordance with changing conditions so as to improve the combustion efficiency and the power output of the engine.
Specifically, in addition to the first detector means for detecting the rate of engine revolutions, the second detector means for detecting transition of the rate of engine revolutions, or the differential value of the rate of engine revolutions, has been established to enable detecting sudden increase or decrease of the rate of engine revolutions. Furthermore, the rate of fuel injection is to be determined by a control program electronically stored on the memory (eg., ROM) of the fuel injection rate controller, in accordance with the detected values from the first and second detector means.
The actual procedures for determining the rate of fuel injection are as follows:
A two dimensional map is prepared in advance with the rate of engine revolutions on the X-axis and transition of the rate of engine revolutions on the Y-axis to plot corresponding values of experimentally obtained optimum rates of fuel injection on the respective intersections. The two dimensional map is then electronically stored on the memory (eg., ROM) of the said fuel injection rate controller. The control program calculates the rate of engine revolutions and transition of the rate of engine revolutions from the values detected by the first and second detector means, and then, it determines the optimum rate of fuel injection by referring to the above mentioned two dimensional map using the respective calculated values of the rate of engine revolutions and transition of the rate of engine revolutions.

[Advantageous effects of the invention]
The combustion efficiency has been improved since the optimum fuel/air mixture can be maintained even during hard acceleration or deceleration of engine revolutions.

Prior Art Search and Patentability Examination under a Global Patent System

Date: October, 1998 (The 29th General Meeting at Sapporo)

Committee: (1) Chapter: The Japan Chapter of PIPA
(2) Committee: The First Committee

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Keywords: global patent, examination, prior art search, coordination, and mutual approval.

Provisions: Article 33 of PCT, and Sections 64 and 67 of the Regulations under PCT.

Abstract:

We have studied various problems relating to prior art search and patentability examination under a global patent system on the premises that such a system will be established within the framework of the existing patent systems. We have studied the merits and demerits of the search and examination which are carried out by the cooperation of the three Patent Offices involved, and the search and examination carried out by one of the three Patent Offices, while the other two Offices are supposed to accept the results thereof. Based on the results of our study, we will discuss a desirable mode of carrying out search and examination under a global patent system.

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2-2. Coordination as to search
3. Patentability examination
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3-2. Adjustment of standards for evaluation for patentability
3-3. Conclusion
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4. Conclusion

Prior Art Search and Patentability Examination under a Global Patent System

1. Introduction:

The existing patent system is such that one who wants to obtain a patent in a plurality of countries, for example, in Japan, the United States and a European country, is required to file an application in each country, and its examination as to patentability and the necessary prior art search therefor are carried out independently by the Patent Office of each country. As a result, the applicant has to spend a large amount of expenses and the relevant Patent Offices have to do a great deal of overlapping work.

It has, therefore, been a worldwide trend recently to call for the creation of a global patent system enabling anybody to obtain a patent for an invention covering a plurality of countries at a low cost. Under these circumstances, the Japanese Patent Office, the United States Patent and Trademark Office and the European Patent Office (three poles) recognized the necessity of establishing a global patent system and worked out three plans for activities, "Three-Pole Network", "Three-Pole Cooperative Search and Examination" and "Three-Pole Web Site" during the last year's regular meeting of their Directors.

A global patent system in which a single patent office grants worldwide effective patents under a single patent law may be ideal, but is unrealistic.

We have, therefore, studied various problems relating to patentability examination and prior art search therefor as the essential procedures for the granting of any patent on the premises that a global patent system will be established within the framework of the existing patent systems. Although various modes of conducting search and examination may exist, we have limited our study to the mutual approval mode in which the Japanese Patent Office, for example, conducts search and examination, while the other two Offices accept the results thereof, and the coordination mode in which the three Patent Offices cooperate in conducting search and examination, and we have studied various problems including their merits and demerits from standpoints such as the cost and time required for obtaining a patent and the reliability of any patent obtained. Based on the results of our study, we will discuss a

desirable mode of carrying out search and examination under a global patent system.

2. Prior Art Search

2.1. Mutual Approval of Search

2.1.1. Definition

The "mutual approval of search" means the approval of the results of search conducted by one of the three Patent Offices (e.g. the Japanese Patent Office), by the other two (the United States Patent and Trademark Office and the European Patent Office) which do not conduct any search. Search is conducted by the Office in the country or region where the language of the specification to be examined is understood, or where the application has been filed.

2.1.2. Merits and Demerits

The mutual approval of search makes it possible to avoid any overlapping work of the three Offices in conducting search independently of each other and have the cost of search incurred only by one of the Offices according to a rough estimate. A great reduction in the cost to be borne by the applicant for a patent can, therefore, be expected as a merit.

It is, however, likely that search conducted by only one Office may lack perfectness, insofar as the three Offices use different data bases for search, and different official languages. Thus, it is feared that the mutual approval of search may yield a right lacking reliability.

Under the existing patent systems, there have been a great many cases in which the results of search conducted in response to one and the same application differ from one Patent Office to another. Table 1, for example, shows the prior art cited by the three Offices as a result of search in connection with the application for USP 4,626,598 and the corresponding Japanese and European applications. The same prior art is difficult to expect from the data bases of the three Offices, since their data bases have been prepared independently of one another and obviously store a different range of prior art from one another. As the three Offices rely upon different data bases, it is unavoidable that the accuracy of search differs from one Office to another, as is obvious from Table 1. As is also obvious from Table 1, it is rare that each Office cites prior art written in any language other than its

official one. This is partly due to the fact that the three Offices use different official languages. Even if the data base may store a complete range of prior art literature written in foreign languages, it is very difficult for any search examiner to pick up correct prior art written in a particular language unless he is well acquainted with that language.

Active movements are under way for preparing a common data base, as is obvious from the facts that the Three-Pole Web Site concept enabling the three Offices to gain free access to a data base on the Internet was agreed upon during the meeting of the three Offices in November, 1997 [Tokkyo (Patents), No. 304, January, 1998], and that WIPO has started constructing an online information network connecting the Patent Offices of its member countries (The Japan Economic News of April 27, 1998). A common data base appears to provide an improved accuracy of search. It is, however, still likely that the language problem may remain as the largest barrier to any complete search. Thus, it is feared that the mutual approval mode of search may be incomplete with respect to, among others, prior art literature written in foreign languages.

2.1.3. Conclusion

The mutual approval mode of search under a global patent system is likely to yield a right lacking reliability, though it can be expected to lower the cost to be borne by the applicant for a patent, as stated above. Although the applicant may expect to have any and all relevant prior art of any country studied to obtain a right of higher reliability, it still remains difficult to conduct a complete search for the prior art written in foreign languages, as stated above. No right of low reliability resulting from any incomplete search is acceptable to the applicant, even if he may be able to obtain it at a low cost. Therefore, the mutual approval mode of search is difficult to adopt at present, though it may be possible to go ahead in the future if it becomes possible to overcome the language problem and realize a unified data base.

[Table 1]

USP 4,626,598	Japanese Patent No. 2,579,907	Laid-Open EP 206,715
USP 3,546,285	JP Kokai Sho 56-71038	USP 3,584,039
(JP Kokoku Sho 41-16860)	JP Kokai Sho 54-88234	GB 115257 A
USP 3,584,039	(USP 4,263,452)	GB 803366 A
USP 3,639,465	JP Kokai Sho 49-135940	
USP 3,726,915	JP Kokai Sho 54-8176	
USP 4,126,636	(USP 4,234,538)	
(JP Kokai Sho 51-127039)	JP Kokai Sho 58-146839	
USP 4,405,809	(USP 4,690,900)	

Table 1 is a list of the prior art references cited by the three Patent Offices during the examination of the application for USP 4,626,598 and the corresponding applications filed in the other two Offices. The corresponding foreign applications are shown in the parentheses. For example, JP Kokoku Sho 41-16860 is the Japanese application corresponding to USP 3,546,285.

2.2. Coordination as to Search

2.2.1. Definition

The coordination as to search means the mode in which the three Patent Offices cooperate with one another in conducting search. We have considered three more specific modes of coordination as to search:

A. The mode in which the three Offices conduct search by exchanging information and consulting with one another;

B. The mode in which the three Offices set up a searching organization and leave the whole search to it; and

C. The mode in which the three Offices conduct search individually and one of them takes the lead in concluding the results of their search.

2.2.2. Merits and Demerits

(Mode A)

The mode A in which the three Offices conduct search by exchanging information and consulting with one another is the most typical mode of coordination as to search. This mode is realistic, since the three Offices have recently come to have a broader scope of interchange, as is obvious from the Three-Pole Web Site concept

and the WIPO's plan to construct an online information network connecting the three Offices as stated before, and it can be expected to achieve an improved reliability of search if it is properly carried out. At present, however, there still exist a number of problems including the absence of any ideal data base that is accessible to the three Offices, and the presence of differences among the three Offices in the scope of search and language. While Mode A is apparently an ideal way as it can incorporate various proposals made by the three Offices, it is feared that their consultation may require a tremendous amount of labor and time. Accordingly, it is not always a suitable way for any office handling a large number of applications, but we would like to propose a more realistic way which can be employed by any office handling a large number of applications.

(Mode B)

Mode B employing a searching organization is an improved form of Mode A, but as it is still nothing but an imaginary part of an ideal global patent system, it does not agree with the concept of our paper aimed at proposing a more realistic mode, nor do we have a sufficient amount of material for discussing it. The International Searching Organization under PCT cannot be considered as the searching organization in question. The search conducted by the Organization under PCT is in fact conducted by one of the Patent Offices in charge of search, and is rather close to the mutual approval mode of search as discussed before.

(Mode C)

Mode C, in which the three Offices conduct search individually and one of them takes the lead in concluding the results of their search, is more realistic than Modes A and B, and is the most preferable of the three Modes. The following is a specific example of the way in which Mode C will be carried out.

In the event that an application accompanied by a Japanese specification is filed in Japan, a first stage of search is conducted only by the Japanese Patent Office for the Japanese patents (and Japanese-language papers), while no search is conducted by the other two Offices. If the first stage of search has located literature which is highly likely to deny the patentability of the invention in question, the results of the search are reported to the Examiner,

and if his rejection is eventually made final, no supplemental search is conducted by the other two Offices. Thus, it is possible to avoid any supplemental search that may turn out to be useless for the purpose of examination.

If the first stage of search has failed to locate any literature denying the patentability, the Japanese Patent Office requests the other two Offices to conduct supplemental search as a second stage, so that the United States Patent and Trademark Office may search for the U.S. patents, and the European Patent Office for the European patents and the patents in the principal European countries. If the Japanese Patent Office informs the other two Offices of the results of its search beforehand, it is possible to avoid any overlapping efforts if there exists, for example, any corresponding U.S. patent. The Japanese Patent Office receives the results of the supplemental search, concludes the search, and reports the results thereof to the Examiner.

The process as described is efficient, since it enables each Office to search the literature written in the language in which its data base is more complete, and in which it can conduct search more easily, and since it also makes it possible to avoid any overlapping work. This process is close to what the European Patent Office adopts in connection with the applications under PCT for which each of the other two Offices works as the International Searching Organization, insofar as it searches a different scope from the international search under PCT and makes an supplemental search report.

2.2.3. Conclusion

It is not the mutual approval mode, but the coordination mode that is to be adopted for any search under a global patent system, as stated before, since the reliability of a global patent is of the major importance. Although it may be ideal for the three Offices to conduct search by consultation (Mode A), or by establishing a searching organization (Mode B), Mode C, in which one of the Offices takes the initiative, is considered superior as a more realistic way. This mode makes it possible to obtain results of higher reliability, while avoiding substantially any overlapping efforts by the three Offices.

It is hoped that the three Offices will have a still broader

scope of interchange to acquire a still higher level of searching ability, insofar as the coordination mode of search is successful only when they trust one another in their searching ability.

3. Patentability Examination

3.1. Mutual Approval and Coordination as to Examination

3.1.1. Definition

Two modes, coordination and mutual approval, are also considered to exist for patentability examination. The "coordination as to examination" is the mode in which the Examiners of the three Patent Offices are jointly engaged in examination, and the "mutual approval" is the mode in which one of the Offices is engaged in examination, while the other two approve the results thereof.

3.1.2. Merits and Demerits

The coordination mode of examination, in which the three Patent Offices conduct examination separately and join thereafter to combine the results of their examination, or in which they have examination conducted by a sort of joint examining committee, is generally unrealistic from the viewpoints of both cost and time. There will be no alternative but to choose the mutual approval mode if a reduction of cost and time is essential.

The mutual approval mode incurs only about one-third of the cost which has hitherto been incurred, since there is no overlapping work.(This is a great merit for any applicant suffering from an increase of expenses for filing and prosecuting patent applications.) This mode also reduces the burden on the Examiners of the three Offices and allows them to do a job of higher quality. The examination done by one Office alone can be done more smoothly in that the Examiner can follow his familiar practice, and more quickly than any joint work as mentioned.

3.2. Adjustment of Standards for Evaluation for Patentability

The adoption of the mutual approval mode, however, makes it essential to adjust the standards relied upon by the three Patent Offices for the evaluation of inventions for patentability, so that the results of examination may not substantially differ from one Office to another.

3.2.1. Standards for Evaluation as to Novelty

The standards relied upon for evaluation as to novelty differ

in many ways from one Office to another. Their principal differences are: (1) the United States bases the evaluation on the date of invention, (2) Europe calls for absolute novelty and concludes as novel only an invention that has not been publicly known or used, or described in any publication in any country throughout the world, and (3) Europe specifies the date of any publicly unknown application of a particular applicant exceptionally as being citable against any later application of his own (self-collision), while the date which is normally citable is the date of publication of the reference cited. In order to overcome any such difference, it is necessary either to adopt for the examination of a particular application the standards of the Patent Office in which it has been filed, while the other two Offices accept those standards as they are, or to prepare new common or unified standards. This is a matter of choice again between the two alternatives, mutual approval and coordination, as discussed before in connection with search or examination. In other words, it is necessary to discuss the mode of applying the novelty standards to find out a preferred mode of search or examination.

According to the mutual approval mode of evaluation as to novelty, the novelty standards employed by one of the Patent Offices which examines a particular application are approved by the other two. Therefore, the destiny of an application depends on the Patent Office examining it, and in the event that it is rejected pursuant to any legal provisions peculiar to the country or region in which the examining Office is located, it is necessary to provide for some remedy or other, such as the right of the applicant to change his application to an ordinary application. It, however, makes a system which is too complicated to be readily accepted by any applicant.

The other mode of novelty evaluation calls for the unification of the novelty standards which at present differ from one Office to another. The unified standards may include concluding an invention as lacking novelty if it is publicly known or used anywhere in the world, and granting a patent to the first applicant instead of the first inventor. It is, however, feared that a serious conflict of interest may disable the three Patent Offices to agree upon details of unification easily. Under these circumstances, it

may be beneficial to introduce a more basic, or narrower scope of novelty requirements as under PCT [PCT does not question whether an invention is publicly known or used, but questions only whether it is described in a publication (Article 33 of PCT and Section 64 of the Regulations under PCT)]. It is feared that the narrower scope of requirements may result in the existence of many defective patents causing third parties to suffer from unexpected disadvantages. There will, however, not be any big problem, since it is supposed that the majority of the applications which will be rejected for their failure to comply with the requirements as specified under PCT, and not for any other reason, and since it is possible to lodge opposition, or take legal action against any application allowed as complying with those requirements, or any global patent issuing therefrom.

3.2.2. Standards for Evaluation as to Unobviousness

Reference is made to "Cooperative Project 12 by the Three Patent Offices - An Agreement and a Comparative Report on the Harmonized Implementation of the Patent System, March, 1990 (The Japanese Patent Office)" as an interesting paper relating to the standards for evaluation as to unobviousness. This paper teaches that the three Patent Offices have substantially the same standards and ways of thinking for evaluation as to unobviousness. For example, the three Offices agree that any invention is unobvious from the prior art if its object is novel, that no technical superiority of an invention to the prior art is always required as a measure of its patentable advantage, that the results of a test comparing an invention with the prior art are taken into account for its evaluation as to unobviousness, and that an invention is unobvious from the prior art if it produces any result not expected therefrom. They also agree that it is sufficient to see if an invention is not obvious to any expert of ordinary skill in the art to which it belongs, while judging the applicable level of ordinary skill on a case to case basis. They also agree that, if the applicant can, for example, show clearly that his invention solves a problem which has been outstanding for a long time, or if he can show any prior art contrary to his claimed invention, or present any case of failure of other people, his invention may be evaluated positively with respect to unobviousness. They

further agree that, though the mere commercial success of a claimed invention is not considered as indicating its unobviousness, its commercial success may be taken into account for its evaluation as to unobviousness if its success has been derived from its salient technical features. Thus, it may be proper to conclude that the three Patent Offices do not substantially differ in their evaluation of any invention for unobviousness when comparing it with the same prior art reference. It is possible that the three Offices may already have their standards for unobviousness evaluation unified in substantial portions.

3.2.3. Industrial Utility

The standards employed by the three Patent Offices for evaluation as to industrial utility depend on the industrial policy adopted by the relevant country, or region. More specifically, Japan and Europe do not accept any invention defined by including the human body as an essential feature (e.g. a method of preventing a human disease, diagnosing it, or treating it) as lacking industrial utility, while the United States does. This difference can, however, be overcome by employing the relevant PCT standards, since they reject as being unpatentable only an invention including the human body as an essential feature thereof (Section 67 of the Regulations under PCT).

3.3. Conclusion

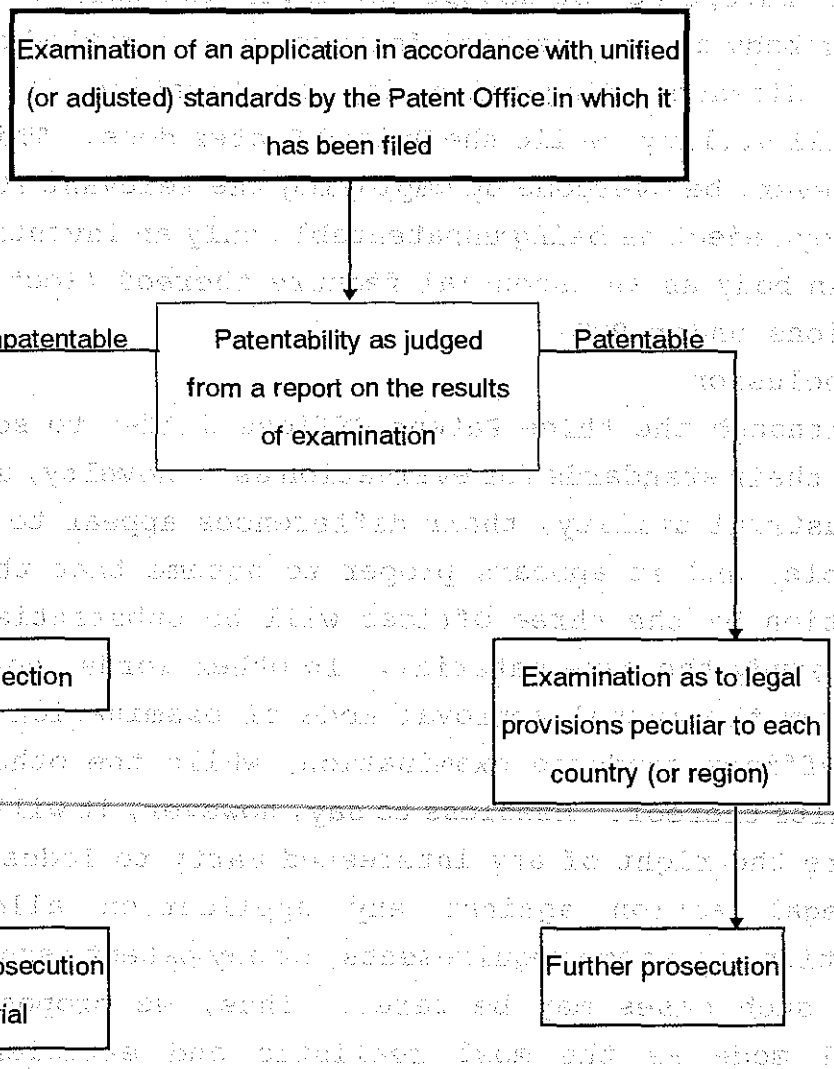
Although the three Patent Offices differ to some extent or other in their standards for evaluation as to novelty, unobviousness and industrial utility, their differences appear to be generally adjustable, and it appears proper to assume that the results of examination by the three Offices will be substantially the same if they study the same material. In other words, no problem will arise from the mutual approval mode of examination in which one of the Offices conducts examination, while the other two accept the results thereof. Needless to say, however, it will be necessary to ensure the right of any interested party to lodge oposition or take legal action against any application allowed without examination as to some requirements, or any patent issuing therefrom (though such cases may be rare). Thus, we propose the mutual approval mode as the most realistic and efficient method of conducting examination under a global patent system. It will be

desirable to try to save labor for examination by having it conducted by one of the Offices, rather than placing too much weight on joint work, since proper results of examination can be derived from the results of prior art search if the latter is correctly done.

3.4. Specific Mode of Examination

Figure 1 is a diagram showing a specific mode of examination which we propose based on the foregoing discussion. It is generally identical to the mode of examination as proposed in Toku-Gi-Kon, 197, pages 38 to 43 (1998), and we would like to recommend it strongly on behalf of applicants asking earnestly for a reduction of the cost incurred for obtaining a patent.

Fig. 1 Mode of examination



4. Conclusion

Table 2 is a summary of the merits and demerits of the mutual approval and coordination modes of prior art search and examination as compared above in respect of the reliability of any patent issued therefrom, and the cost and time as required for obtaining it.

Table 2 Merits and demerits of different modes of search and examination

		Reliability	Cost	Time
Search	Mutual approval mode	×	◎	○
	Coordination mode	◎	△	△
Examination	Mutual approval mode	○	◎	○
	Coordination mode	◎	×	×

The table appears to confirm that, as far as search is concerned, there will be no alternative but to adopt the coordination mode instead of the mutual approval mode in view of the reliability of any right obtainable under a global patent system supposed to be established within the framework of the existing patent systems. We do, however, hope that the coordination mode will be adopted for search, too, in the future if the language problem can be overcome, and if a unified data base can be employed.

As regards examination, we consider that the mutual approval mode will be acceptable, since the standards employed by the three Patent Offices for patentability examination differ only in a generally adjustable way, as stated before. This mode of examination can be expected to bring about a reduction of any overlapping efforts by the three Offices and thereby a great reduction of the cost to be borne by the applicants.

Title: The utilization of patent information in corporate activities
Date: October 1998 (29th International Conference in Sapporo)
Committee: Meeting PIPA Japan Meeting
Committee First Committee

Authors: KAWAMOTO, Junji (Ube Industries. Ltd.)
AOKI, Noriyoshi (Teijin Ltd.)
KUDO, Fumio (Terumo Corp.)
KISHI, Fumio (Ricoh Co., Ltd.)
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Key words: the utilization of patent information, CD-ROM, Database, internal database, external database, Internet, electronic medium, paper-based documents

Provisions: nil

Outline: Patent information has a nature of souses for information on patent rights, technologies, or management information in various day-to-day corporate activities. The means of communication of patent information is shifting from the conventional paper-based documents to the electronic medium along with the spread of the Internet. In this paper, patent information in the electronic medium, mainly Internet databases which are being rapidly upgraded, is to be discussed. In addition, a questionnaire survey was conducted in order to contribute to the utilization of patent information in the electronic medium. Based on the results of the survey, the current situation regarding the utilization of patent information in corporate activities, and issues/problems are discussed.

Table of Contents:
I. Introduction
II. The purpose of the utilization of patent information
III. The sources of patent information
IV. The current situation re the utilization of patent information and related issues
V. Conclusion

I. Introduction

In any company, patent information is used in various day-to-day activities at the patent division, the technical division, sales/marketing division, etc. In the past, the source of patent information was confined to patent gazettes and it meant information from them. However, it has widened to include information on the patent applications (patent rights) of one's own company and also those of other companies, information on related products, information on technical trends/market trends, etc. Patent information now, therefore, includes many aspects relating to technologies, proprietary rights and management, which constitute an essential component not only in the research & development work/patent work, but also in some cases in corporate strategic management.

Meanwhile if we turn our attention to the supply side of information, particularly in recent years, the usefulness of transferring information via the electronic medium is advocated in the face of the enormous flood of information on an international scale. The means of communication of information is shifting from the conventional physical medium to the electronic medium. In addition, the search for patent information has become easy and fast, largely owing to the development of database technology and the spread of the Internet. All these factors contribute to and propagate the utilization of patent information in the electronic medium. In this paper, the most recent "patent information in the electronic medium", mainly the Internet Database which has been rapidly upgraded in recent years, is to be described. In order to make full use of the patent information in the electronic medium for day-to-day work in companies, the following subjects were discussed and reported on, based on a questionnaire survey conducted this time on the First Committee member companies, 19 members, of the Japan Meeting of the PIPA,

1) For what work and for what purposes is patent information used in the company?
2) What is available as a patent information database supplied by the electronic medium? What are the characteristics?
3) The current situation re the utilization of patent information, patent information in the electronic medium in particular, and issues/problems associated with the utilization of patent information.
4) The ideal patent information database which overcomes the problems. Response to the strongly recommended World-wide Common Patent System in terms of the utilization of patent information.

It is hoped that this contributes to the utilization of patent information in day-to-day corporate activities.

II. The Purposes of the utilization of patent information

In any company, patent information is used in various day-to-day activities at the patent division, the technical division, sales/marketing division, etc. Patent information now, therefore, includes technical information, proprietary rights information, and management information, depending on its purpose.

The following is a list of the purposes for using patent information in daily work activities.

1. The utilization of patent information in the Patent Division

In the Patent Division, in the work activities such as;
The novelty search at the time of the patent application based on prior art for the assessment of a patent application and the preparation of specifications with higher patentability in the patent application work, and the speedy examination with the disclosure of conventional art at the Patent Office;

The novelty search at the time of assessment of the request for examination, the response to office action (with reasons for rejection), the submission of information disclosure statement (IDS) for US patent application, and the search and confirmation of prior art in order to respond to published search reports for foreign applications as an interim procedure of examination;

A prior art search to avoid the infringement of the patent rights of other companies;

A so-called monitoring survey on the patents of other companies, in a specific field of technologies for SDI (selective dissemination of information) for the technical divisions (end-users), which is performed to avoid duplicate research, retrogressive research, etc., and to promote effective research/technical development;

Checking the technologies reported on the technical reports for other companies in order to avoid the loss of monopoly right for the developed product or developed technique or to avoid unnecessary infringement dispute with other companies;

A (prior art) search to assess a patent as management information in order to assess the feasibility of the patent right in the patent maintenance/management work;

The preparation of a technical database compiled mainly opend patents (patent not utilized) in patent distribution support work; and

Patent education and patent information service for other divisions,

patent information is used for checking existing patent rights, technologies, and management.

2. The utilization of patent information in the technical division

In the R & D and related technical divisions, patent information is used for the identification of proprietary rights or technologies by conducting prior art searches for patent application work, or for the prevention of infringement with the co-operation of the patent division at the development stage in order to select subjects for new research/technical development, or to review the direction of existing research/technical development, so as preventing duplicate or regressive research, and so as promoting effective research/technical development.

3. The utilization of patent information in the sales/marketing division

Patent information is used in the sales/marketing division by conducting prior art search with the co-operation of the patent division in sales/marketing policy-making work, and in infringement prevention work. The use of patent information in the sales/marketing division is more for management information.

III The sources of patent information

Patent information is increasingly being offered in electronic form, along with the flourishing Internet, the change of a conventional commercial database to a web site, the debut of a free and open patent database, the re-construction of information systems in step with the advance in information devices. In the face of such global trends, as described in Chapter II, the utilization of patent information plays a significant role in various day-to-day corporate activities. In practice, it is essential to deal with document administration issues together with the utilization of a patent information database in electronic form.

The sources of patent information are obvious, namely the conventional paper-based documents, and the electronic medium. In this paper, the latter only is to be discussed. The sources of patent information in electronic form are CD-ROM, magnetic tape, commercial database, etc. Conventionally, a database was accessed mainly through telephone lines. However, more recently the Internet has become the major access vehicle, as the communication cost is lower, and a large volume of information can be transmitted in a shorter time. Furthermore, the Japanese and US Patent Offices, etc. offer free and open patent information on the Internet, and the European Patent Office has announced that they will offer free patent information from mid 1998. (the middle of this year). Four types, namely CD-ROM, commercial on-line databases via telephone lines, paid/ free databases via the Internet, are described below. Which information source is most effective for the various purposes of patent information in day-to-day corporate activities which have been discussed in Chapter II, is also touched upon in this chapter.

1. CD-ROM

One disc of CD-ROM has a memory capacity of some 600 M byte, which is suitable for storing image data. Initially, it contained mostly image data of Tokkyo Koho (patent gazette), merely being used as it had a larger capacity than a microfilm (for number search only). It was not until the Japanese Patent Office made it in a new form which linked text data and image data that it became possible to display filing details (bibliographic items), full text, and image simultaneously, and that search items were upgraded to the same level as or to a higher level than a commercial on-line database, leading to a dramatic spread of the use of CD-ROM.

1.1 Japanese Patents

It covers Kokai Koho (OPI gazettes) from the January 1993. The price was cut this year. The copyright fee for downloading has been done away with. As these two aspects will make it easier to prepare customised CD-ROMs, and to

build the company's own database, a further spread of CD-ROM is anticipated.

1.1.1 Specifications in full text CD-ROM

1) Laid-open patent and utility model applications, Registered patent and utility model (JAPIO)

Needless to say the input follows the Japanese Patent Office format in which text data and image data are linked in numerical order. Unfortunately, free search/printing is not possible without exclusive reading (peruse) software. It is hoped that free peruse software (which allows display, search, editing, printing) be offered to the purchaser of CD-ROM.

2) Customised CD-ROM

It is not possible to buy selected gazettes only, if a CD-ROM is arranged in numerical order. Various companies e.g. NEF (Nippon Hatsumei Shiryo), PES (Chuo Kohgaku Shuppan), other invention communication companies, Office Soken, etc. offer customised CD-ROM(CD-R)s in which the data is extracted according to requirements. Customised CD-ROMs are most suitable to construct the company's own database. A further spread of customised CD-ROM is anticipated.

3) Back number CD-ROM

The earlier data in gazettes prior to the official gazette on CD-ROM is compiled in text form for the specifications and claims, and in image form for gazettes in full text. It is possible to purchase only those required. One drawback is the high cost. The data on the market at present is as follows;

a. Publication of examined patent: January 1986 - end of December 1993

b. Publication of examined utility model: January 1986 - end of December 1993

c. Publication of unexamined utility model: January 1986 - end of December 1992

1.1.2 Index CD-ROM

Various companies, e.g. Japan Patent Information Organization (JAPIO) (Foundation), Japan Technology Trade (Co., Ltd), (NGB), are marketing them. It is easy to take a large number of copies from the specifications in full text CD-ROM. There is a search function (Functions vary between different companies.) which can be used for searching by broad category e.g. the number of cases by company, or by classification.

1.2 US patents

CD-ROM available on the market offers image information only for gazettes in full text. Search keys are few, which make it unsuitable for downloading. At present, the only way to use the CD-ROM is to use filing details in text input (form) in conjunction with specifications in full text input (form) (without drawings) (Literal translation. The meaning of this sentence in Japanese is not clear. - Translator) The cost for purchasing initial data is high, hence it is hard to use. A product similar to the specifications of the Japanese Patent Office CD-ROM containing both filing details/the specifications in full in text format and drawings in image format is awaited.

1.2.1 Specifications in full text CD-ROM

Full Text (Micro Patent): ('75-) numerical order, possible to search by filing details, and full text in text data (without drawings)

1.2.2 Abstract CD-ROM

1) Patent View (Derwent): ('74-) numerical order, possible to search by filing details, and summaries (main claims).

2) Patent Images (Micro Patent): ('76-) numerical order, possible to search by filing details, and summaries ('93 onwards).

3) OG/PLUS (Derwent)('90-) Contains abstract texts and drawings in official gazettes. possible to search by filing details, and summaries.

4) Patent Scan (Derwent): ('75) Recent ones contain filing details, and summaries (main claims). Search is possible. Old ones have no summaries (main claims).

5) Patent Search (Micro Patent): ('75-) possible to search by filing details, and summaries (main claims).

6) CASSIS BIB & CLASS (USPTO): ('69-) contains filing details, and rights situation (status) . Possible to search by most recent patent classification.

1.2.3 Other

The storage of used file wrappers in US patents is a headache. Recently, file wrappers became available in CD-ROM form as well as in print form. As it saves storage space, file wrappers in CD-ROM form will be increasingly used. A sample demonstration CD is available on the Internet. (http://www.woolcott.com/)

1.3 European Patents

The European Patent Office offers two kinds, namely image information of specifications in full text and text information of filing details, as ESPACE series.

1.3.1 EP(A,B) : ('78-) possible to search only by the full text image and filing details of kokai/registered patent gazettes.(The meaning of this phrase in Japanese is not clear.-Translator)

1.3.2 FIRST: ('78-) possible to search only by title pages of EP & PCT OPI (Kokai) gazettes.

1.3.3 ACCESS (A,B.) ('78-) possible to search by filing details and summaries (main claims).

1.3.4 Bulletin : ('78-) contains rights situation, e.g. kokai patent, registered patent, etc. through index.

1.4 Other

The European Patent Office offers the full text image of patent gazettes of the EPC associated countries (PCT, UK, Germany, France, Australia, Switzerland, Denmark, Spain, Italy, etc.).

2. Commercial On-line Databases (fee-charging)

A database is accessed via an existing telephone line by connecting to the host-computer. The details are omitted as the introduction is superfluous.

2.1 Japanese Patent: PATOLIS, JAPIO, WPI, INPADOC
2.2 US Patent: claims, USPM/Questel-Orbit, PATFUL/DIALOG, LEXPAT/LEXIS, CAS, WPI, INPADOC
2.3 European Patent: EPAT/Questel, EPATFUL/DIALOG, EPIDOS, WPI, INPADOC
2.4 Other: WPI, INPADOC, ChinaPat/DIALOG

3. Database via the Internet (fee-charging)

In essence, the commercial on-line databases mentioned above use telephone lines for access, while databases via the Internet use both telephone lines (analogue or digital) and communication lines (digital), which not only increase the amount of information transmitted dramatically, but also decrease the cost of communication as this does not use international telephone lines. In future, the database will be accessed mostly via the Internet. As it is still at the development stage, it contains much information not required for search purposes, which slows down the speed of search, though images are simultaneously available, and it is free from the time constraint, compared with the conventional patent information sources. A further improvement (sophistication) is awaited.

3.1 Japanese Patents:
3.1.1 PATOLIS-WEB (http://www.patolis.japio.or.jp/)
It is essentially the same as the conventional PATOLIS. The new feature shows drawings too as image information.
3.1.2 JAPIO distribution process (http://www.bunsan.japio.or.jp/)
It can be considered as the database of a official gazette on CD-ROM. Provided the ISDN communication environment is in place, this database is available fairly freely. It is worthwhile considering this if a company's own database is to be built.
3.1.3 NRI (http://www.patent.ne.jp/)
This is the database offered by the Nomura Research Institute. It contains the contents in the Japanese Patent Office CD-ROM issue. Recently, the image data in the 1992 Kokai (Publication of unexamined patent application) gazette was included.
3.1.4 NEF-NET (http://www.nefnet.co.jp/)
This is the database offered by Nippon Hatsumei Shiryo Co. Ltd. It contains their original data of the past (bibliography + Claims : text, gazette in full text: image) as well as the Japanese Patent Office CD-ROM issue.
3.1.5 G-NET (http://www.g-net.ne.jp/index.htm)
This is the database offered by Green Net Co. Ltd., offering a service to search data in the Japanese Patent Office CD-ROM.
3.1.6 FENICS Patent Gazette Service (http://www.jaja.co.jp/atms/fenics/)
This is the database offered by Fujitsu Okayama Co., Ltd, offering a service to search data in the Japanese Patent Office CD-ROM. Recently, fees and the speed of search were improved.

3.2 US Patents

3.2.1 DialogWeb (http://www.dialogweb.com/)

The Internet version of DIALOG, which is suffice to say. CLAIMS, USPATFULL can be used. It may be suitable for the beginner, but too slow for the experienced. At present, the conventional on-line is easier to use.

3.2.2 QPAT-US (http://www.qpat.com/)

The web version of the US Patent database offered by Questel-Orbit. It is possible to search full texts from 1974 onwards. The image information of gazettes in full text has been included since May 1998.

3.2.3 SPO Shadow Patent Office (http://www.spo.eds.com/patent.html)

The US patent database offered by Electronic Data Systems Co., Ltd. It is possible to search full texts from 1972 onwards. Unfortunately, it does not include drawing information. The use of CD-ROM marketed by the same company adds values.

3.2.4 Micro Patents (http://www.micropat.com/0/patentweb.html)

It contains US patents from 1964 onwards, as well as European Patents (A,B) and PCT.

3.2.5 PatIntelligence (http://www.trademarks.com/)

US patents can be searched from 1971 onwards for the standard version, and from 1945 onwards for options. The quality of resolution of gazettes downloaded is excellent. Exclusive software can be downloaded.

3.2.6 Chemical Patents Plus (http://casweb.cas.org/chempatplus/)

The US patent file offered by CAS. The feature is to be able to search by CAS Registry No.

3.3 European Patents:

3.3.1 DialogWeb (http://www.dialogweb.com/)

The Internet version of DIALOG, which is suffice to say. WPI, EPATFULL can be used. It may be suitable for the beginner, but too slow for the experienced. At present, the conventional on-line is easier to use.

4. Databases via the Internet (free)

Following the US Patent Office, the Japanese Patent Office adopted the free and open policy of patent information this year. It was announced that some 40 million cases of patent information would be opened free next year. It is great news for the user. The following is the data already available.

4.1 Japanese Patents: Japanese Patent Office(http://210.141.236.195/index_j.html)

4.1.1 Gazette journal search (Japanese)

The gazettes in full text from April 1998 onwards are available in the following databases (DB).

1) Kokai patent gazette DB: Kokai patent gazette, Kohyo patent gazette, Sai-kohyo patent gazette

2) OPI (Kokai) Utility Model gazette DB: Laid-open utility model gazette, Registered utility model gazette, Kohyo utility model gazette, Sai-Kohyo utility model gazette
3) Patent gazette DB: Patent gazette
4) Utility model gazette DB: Utility model gazette

4.1.2 Kokai patent gazette title page search (Japanese)
It contains filing details, summaries, representative drawings, legal status information from January 1993.
4.1.3 PAJ search (English for the user overseas)
It contains filing details (bibliographical items), summaries, representative drawings, legal status information from January 1993.

4.2 US Patents:
4.2.1 USPTO (http://patents.uspto.gov/)
The information on the title pages (filing details and abstract only without drawings) of the patents from 1976 onwards is available. There is a file containing Aids related patents. The plan by which full texts will be available from November 1998, and the image information of gazettes in full text will be available from March 1999 has been released. It is the database to watch.
4.2.2 IBM Patent Server (http://www.patents.ibm.com/)
It contains filing details (bibliographical items), abstracts, total claims in text form, and gazettes in full text in image form from 1971 onwards. This is linked to trial cases, making it very useful in searching for material no longer valid. However, there is a response number restriction of 200, making it impossible to use as on-line search. This shortcoming can be covered to a certain extent by the combined use of USPTO. As it is image information, drawings are clear, but the characters of specifications are difficult to read. However, it is free, and it would be demanding to ask for more.
4.2.3 SHADOW PATENT OFFICE (http://www.spo.edscom/patent.html)
The title page information of US patents from 1995 onwards is available free of charge.
4.2.4 QPAT-US (http://www.qpat.com/)
The web version of the US Patent database offered by Questel-Orbit. The title page information of 1974 (sic. from 1974 onwards ?) only is available free of charge. However, it is necessary to register on the screen.
4.2.5 US Patent citation (http://patents.cos.com/)
The title page information of the US Patents from 1971 onwards offered by COMMUNITY OF SCIENCE INC. It works on a membership basis. One has to be a member to use it, but it appears to be a ree service as there is no reference to any charges.
4.2.6 STO (http://sunsite.unc.edu/patents/intropat.html)
The database of the University of North Carolina. It contains filing details (bibliographical items), and summaries. Search is conducted by US Patent classification, and patent numbers.

4.3 European Patents

4.3.1 DIPS (http://www.european-patent-office.org/news/epidosnews/)
The European Patent Office is to establish this database this year. It is yet to open. At least filing details (bibliographical items) and abstracts of the patents in the last 12 months are expected to be available free of charge. Future developments will be of interest.

4.4 Other

4.4.1 International Patent Application
PCTGAZETTE(http://pctgazette.wipo.int/)
Patent information offered by WIPO. It contains abstracts with drawings and specifications in full texts. It is available free of charge. Once a password is registered, the result of a search is recorded in memory, making it suitable for monitoring. In particular, it is relevant for checking PCT applications with Japan as the designated country before the publication of Kokunai (domestic) Kohyo gazette.

4.4.2 Canadian Patents
(http://strategis.ic.gc.ca/sc_innov/patent/engdoc/cover.html)
It contains filing details of kokai (OPI) and registered patents from 1989 onwards.

4.4.3 Patent related information (http://www.bekkoame.or.jp/-y_usui/usuil.htm)
Yuichi Nichii (Sumitomo Denko Intellectual Property Techno Centre)'s home page, offering patent related information on the Internet. It prides itself as patent related information of the highest standard amongst numerous similar home pages. It has been the reference for the contents of this chapter, and we duly acknowledge our debt.

4.4.4 Machine Translation System Scan (http://www.jeida.or.jp/aamt/list-j.html)
This is found in the Asia-Pacific Association for Machine Translation (AAMT)'s home page. It lists 49 translation software applications by 21 companies available on the market in Japan. The details of each piece of software are available on the individual company's home page which is linked with this database.
Recently, translation software exclusively for patents was launched. A lot more software tailored to specific purposes is awaited.

5. Methods for use according to purpose

Various patent information sources can be broadly divided into groups according to purpose as follows; the prior art search at the development stage, the novelty search at the time of application, the monitoring of other companies' patents, the search for infringement prevention, patent assessment in terms of management information. Suitable information sources for each purpose are considered below.

5.1 Prior art search, at the development stage
It is important to gather information from a broad base without a tight limit. It is highly recommended to use the pay database initially. (Files whose merits and shortcomings are familiar are desirable.) Whether or not copies of a

gazette be made from CD-ROM regarding individual contents arising from the initial search would be better decided after referring to the free database on the Internet.

5.2 Novelty search, at the time of application
Re individual application, USPTO is useful, as patents which have referred to a patent listed by the inventor as prior art can be searched for by the patent number free of charge.

5.3 News flashes of new applications and the monitoring of other companies' patents
Services of commercial database are convenient and reliable to monitor patent applications on a particular technical subject at regular intervals. For individual inventors, it is highly recommended to check on the free database on the Internet, as the most recent data including abstracts are available.

5.4 Search for infringement prevention
It requires a thorough check of the claims on every gazette, following the search by classification. The specifications in full text with drawings on CD-ROM or in print (paper) form is desirable. The Japanese patent gazette from 1993 onwards includes drawings and are available on the pay database on the Internet. It is well worth comparing it with CD-ROM in terms of cost and performance.

5.5 Patent assessment in terms of management information
As free databases offering most recent patent information are increasing, patent information are readily accessible. However, it is not so easy to statistically process the resulting data downloaded. For that reason, pay databases equipped with statistical functions have place in the market.

IV The current situation re the utilization of patent information and related issues

Prior to the issue of official gazettes on CD-ROMs, patent information (Patent gazette or information derived from it) was distributed/disseminated in print (paper) form from the patent division to the end-users, e.g. technical division, in varied patent related work in day-to-day corporate activities which were described in Chapter II. It took time and labour to sort and file relevant gazettes, to process it as rights information, technical information, or management information. Today, with the issue of official gazettes on CD-ROMs, the development of database technology, and the spread of the Internet, patent information in electronic form is distributed (circulated) in a company, and the patent division is required to gather the patent information of various types as above from a wide range of sources, to analyse it, to process it to add strategic values required by various end users, instead of merely distributing gazettes in print (paper) form to the end-user divisions. Some companies may assign this work to the end user who is in a position to better grasp the content of R & D technology and the product market situation, and may concentrate on improving the environment for the individual end user to be able to process/analyse freely and innovatively.

The following survey was conducted with the purposes i) to understand the patent information situation in varied patent work in day-to-day corporate activities, ii) to extract issues/problems related to the utilization of patent information, iii) measures to solve the problems with the ideal utilization of patent information in mind. In this paper, the result of the data collected in this survey is reported with tables and figures in the order of items in the questionnaire. (Related tables & figures are shown next to the headings as reference figures.) The current situation re the utilization of patent information and related issues/problems is also discussed. The statistical results of the survey are shown in Appendix 1.

1. Subjects (Ref. Fig. 1-1, 1-2, 1-3, 1-4)

The survey was conducted on the 1st Committee member companies (19 companies) of the Japan Meeting, PIPA, in order to study the current situation re the utilization of patent information.

The details of the subject companies are as follows. Types of industry are varied. Re the scale of the companies, those whose number of employee exceeded 5000 were fourteen, showing that relatively large scale companies accounted for the majority of the subjects. Re the number of patent applications per annum, eleven companies filed more than 1000 applications, nine companies employed more than 50 staff in the patent division alone. These may be in proportion to the number of employees. On the other hand, it is worthy of note that 13 companies employed fewer than 5 staff in patent search, accounting for the majority of the subjects.

As this survey was conducted on just 19 companies, it may not be an accurate description of all Japanese companies. Nonetheless, the result of the survey will be a valuable information from which to extrapolate the whole situation.

2. General use of patent information

The overall situation re the use of patent information in the patent division and in the R & D division is discussed below.

2.1 Purpose and use of patent information. (Ref: Fig. 2-1)

The purposes and uses of patent information are numerous and varied as described in Chapter II. In this survey, the current situation re the use of patent information was studied, paying particular attention to three specific subjects, namely "the novelty search, at the time of application." , "the search for infringement prevention.", and "the search for news flashes of other companies' applications".

Almost all the companies surveyed used patent information for "the novelty search, at the time of application" and for "the search for infringement prevention." It was interesting to note that the patent division used it most frequently for the purpose of "a novelty search, at the time of application" followed by "a search for infringement prevention.", while in the R & D division the frequency order was reversed. This reflects the relative weight of their professional interests. In other words, "the novelty search, at the time of

application" was more important to the patent division, as "the search for infringement prevention." was more important to the R & D division.

2.2 media for obtaining patent information (Ref. Fig. 2-2)

Media for obtaining patent information are the paper-based documents e.g. Patent gazette, the electronic medium e.g. CD-ROM, external databases using communication lines, and internal databases within a company.

Out of all these, the external database ranked No. 1 in the usage rate (the proportion of replies which stated they used) and in the frequency of use rate for the purposes of both "the novelty search at the time of application" and "the search for infringement prevention." That is: the external database was seen to be most important for either case.

The proportion of the companies which stated they used the paper-based documents was second highest following the external database, for either purpose. However, the frequency of use rate for the paper-based documents was lower. Although many companies take information in paper-based documents for historical reasons, there seems to be some barrier against using it in practice for patent information search. Nonetheless, the paper-based documents show the second highest frequency of use rate following external databases, in "the search for news flashes ".

The internal database within a company is least used along with the electronic medium. However, the frequency of use rate of the internal database is higher. This is especially noticeable in "the novelty search, at the time of application" and "the search for infringement prevention."

2.3 Issues/Problems (Ref: Fig. 2-3a, 2-3b, 2-3c)

In all the purposes for patent information described before, a high proportion of companies are satisfied at present. However, 90 % are satisfied in the confirmation of patent worthiness, while only 70 % are satisfied in the confirmation of infringement of other companies' patents. This seems to indicate that there are many problems yet to be solved in electronic search functions, when a high accuracy is required to check for infringement of other companies' patent rights.

While there is a relatively high degree of satisfaction, numerous causes of dissatisfactions and demands are forwarded. Problems concerning patent information search for the purposes of patent worthiness and of checking for infringement of other companies' patent rights are concentrated on fundamental issues of cost (expensive) and accuracy (unreliable). Other problems include insufficient value-added functions e.g. search for foreign counterparts, linking abstracts and specifications in full text.

A proposal to transfer the earlier data in print form prior to the introduction of an electronic application into electronic form has also been made. Some pay services offer this information. Although companies make use of some electronic information, the users themselves have yet to grasp all the information offered now, and there will be more in the future.

3. The current situation re End User Searching

In the previous chapter, the overall picture of the use of patent information in the patent division and the R & D division was given. In this chapter, the current situation re the use of patent information at the researcher level, that is: End User Searching, is to be discussed.

3.1 Who executes patent information search? (Ref: Fig. 3-1)

Those involved in patent information search are divided into two groups, namely the searching specialist group, and the general group. The searching specialist group can be either internal staff or external staff who belong to related companies. Companies in which only one department/division e.g. general staff is involved in searching are a small portion. In the majority of cases, more than one department/division are involved in the search.

3.2 From whom does the End User obtain patent information? (Ref: Fig. 3-2)

Researchers conduct the searches themselves in any company, while the majority of researchers also co-operate with those specialised in searching. However, the ratio of external search specialists at the researcher level is low, when internal and external search specialists are compared against all company staff including researchers.

3.3 Media which researchers use for patent information search (Ref: Fig. 3-3, 3-4)

Most researchers use databases. Data in paper-based documents is still much used. Few companies use internal databases only. Such cases are lower than those which use external databases only. This may reflect the reliability of the respective media.

3.4 External databases which researchers use

Main databases appearing in the replies were PATOLIS, DIALOG, IBM patent search system. PATOLIS and DIALOG are expected as they have a long history, while reasons for quoting IBM may be due to some frustration about the external database, and the cost.

3.5 Problems

Researchers conduct the searches of patent information themselves in any company, while the majority of researchers also co-operate with those specialised in searching. However, the ratio of external search specialists at the researcher level is low, when internal and external search specialists are compared against all company staff including researchers. This is because on the researcher level, there may be some concerns about hiring external specialist in terms of company confidentiality. Many companies actively implement outsourcing of general patent work. The question of how to utilize external search specialists may attract attention in future.

The majority of researchers use patent databases as the medium for patent information searching. Data in the paper-based documents are still in fair use. The data in the paper-based documents are expected to be transferred into the

electronic form in the future, reducing paper-based documents data. The methods of searching by researchers is closely watched.

Re the use of databases, few companies use the internal database only. Such cases are fewer than those which use external databases only. This may reflect the reliability of the respective media.

The main dissatisfactions, and demands re external databases which researchers use are related to three points, namely cost, operability, speed. The communication environment is changing dramatically with the spread of the Internet. The problems associated with the above three points are being addressed. However, the number of researchers who conduct searching by themselves has increased, and thus the overall dissatisfaction and demand seems to be on the increase.

4. The use of official gazettes on CD-ROMs

The official gazette on CD-ROM is expected to be an effective communication medium for patent information. The current situation re the use of the official gazette on CD-ROM is considered below.

4.1 Official gazette on CD-ROM purchase situation (Ref.: Fig. 4-1, 4-2)

Most companies have purchased official gazettes on CD-ROMs, (17 out of 19 companies.) indicating a sufficient spread of official gazettes on CD-ROMs.

14 companies purchased ready made official gazettes on CD-ROMs compiled by the Japanese Patent Office (numerical order), while 3 companies purchased customized products. In contrast to the purchase situation re domestic gazettes, only four companies purchased official gazettes on CD-ROMs on overseas patents.

4.2 Present and Future: The usage pattern of official gazettes on CD-ROMs

At present, 11 companies (majority) operate a network after storing information on the CD-ROM in the server machine. This pattern ranks the highest of all the usage patterns. 9 companies use CD-ROM on a stand-alone basis (using an individual CD-ROM with a personal computer, or an Auto Changer). 5 companies use both a network and a stand-alone basis.

A stand-alone operation is inferior to a network operation in terms of the limitation in the number of departments which can use the information in the CD-ROM, and the operability. Nonetheless, 12 companies use it on a stand-alone basis, 5 out of 12 also use it on a network basis. This suggests that there are still a number of issues, which make it necessary to use a stand-alone operation.

As for the future of the usage pattern of CD-ROM, the number of companies which will use CD-ROM on a network basis will not change from the current situation. However, the number of companies using a stand-alone operation will decrease to 4 (the number of companies using both network and stand-alone operation to 1).

4.3 The usage of official gazettes on CD-ROMs (Ref.: Fig 4-5)

The usage of official gazettes on CD-ROMs can be divided into two; one which takes advantage of being an electronic information medium, and the

other which is not necessarily related to that feature. The usage which belongs to the former is for searching, for building a database, and for supporting the preparation of specifications. At present, 9 companies use it for searching. 7 companies use it for building a database. These figures are not small, but it is not a substantial figure to argue that the feature of the CD-ROM being an electronic information medium is fully utilized, onsidering that 17 companies have purchased official gazettes on CD-ROMs.
12 companies use it for reading, and 9 companies use it for copying. Both usages rate higher than those for searching and for building a database, but these usages do not take advantage of the electronic information medium. Nonetheless, the facts that it saves space, that the copying service can be operated by computer program, that the copying service can be operated via e-mail, etc. are after all the results of it being an electronic information medium, making such effective usage possible.

4.4 The perusal method for official gazettes on CD-ROMs (Ref.: Fig. 4-6, 4-7)
As many as 15 companies print the information for readers. Half of these companies also store the printed information. 10 companies on the other hand allow browsing on the screen of a personal computer.
The result shows that many have not managed to change the reading method of using the gazette in print form yet, while some use official gazettes on CD-ROMs without resorting to print form, depending on the usage and the environment.

4.5 Comparison between the official gazette on CD-ROM and the conventional gazette (Ref.: Fig 4-8)
The reasons for the convenience of the official gazette on CD-ROM are attributed to the merits of it being an electronic medium. That is: 15 companies commented on the convenience of saving storage space. 13 companies commented on the search capability. 9 companies commented on the data processing capability. If the CD-ROM is to be used one by one in the personal computer, a large number of searches, extracting many gazettes, etc. are not easy as it involves inserting/removing a CD-ROM.
11 companies out of 19 wish to use information in the official gazette on CD-ROM, by downloading it to a server to overcome such inconvenience in the future.

Not many companies (5 companies out of 19) say that the official gazette on CD-ROM is more inconvenient than the conventional gazette. The drawbacks of the CD-ROM commented on are: it is costly to set up the necessary equipment, it takes time to access. The merit of the conventional gazette commented on is: It can be read at a glance. In fact, as mentioned before, the official gazette on CD-ROM is read after the information is printed on the paper, indicating that the information is ultimately used in print form.

4.6 Problems
Official gazettes on CD-ROMs are used by almost all companies. The result of the survey on the usage of official gazettes on CD-ROMs reveals some problems. It is not necessarily perfect.

4.6.1 Information prior to the introduction of the electronic form

Firstly, the information prior to the introduction of the electronic form is not available in official gazettes on CD-ROMs. When official gazettes on CD-ROMs are used for searching, or they are used for building a database, the information prior to the introduction of the electronic form cannot be included, making the work incomplete. Missing information is fatal for a search and a database. This aspect reduces the merit of the electronic information medium for searching and for building a database. In fact, 11 companies expressed their needs for official gazettes on CD-ROMs covering the period prior to the introduction of the electronic form, when they were asked about their desire for official gazettes on CD-ROMs in the survey.

4.6.2 Usage pattern

If official gazettes on CD-ROMs are used on a stand-alone basis, they need to be inserted/removed one by one, making the operation very inefficient. Some commented that because of that, it is not suitable for search, or the extraction of a large volume. 11 companies out of 19 stored the information of official gazettes on CD-ROMs in a server, operated via LAN or a network. In this case, it requires a process to store the information in the official gazette on CD-ROM in a server.

5. The use of the Internet

The Internet has developed dramatically in recent years, and the use of the Internet as a communication medium for patent information is expected to expand. The current situation re the use of the Internet is considered/described below.

5.1 The current situation re the use of the Internet (Ref.: Fig. 4 - 9)

7 companies out of 19 use the Internet to obtain patent gazettes.

The number of companies who use the Internet is still smaller than that using official gazettes on CD-ROMs. They obtained the gazettes via G-NET, NRI, IBM, and the Japanese Patent Office.

5.2 Comparison between the Internet and the official gazette on CD-ROM in terms of convenience and merits (Ref.: Fig. 4-10)

6 companies out of 7 who used the Internet replied that the Internet is more convenient, rating highly the convenience of the Internet. The merits of the Internet are: It can be accessed by individual terminals. Equipment and a manager are not required, which is different from the case of the CD-ROM. The drawbacks of the Internet are: It is slow. Depending on the time band, access can be difficult due to heavy internal traffic.

5.3 Information offered by the Japanese Patent Office

Only 60 % of the subjects knew about the patent information service offered by the Japanese Patent Office on the Internet. In addition, the gap between those who knew the details of service, and those who merely knew of the existence of such a service was not insignificant.

5.4 Problems

It was commented on that the merits of the Internet are: It can be accessed by individual terminals. Equipment and a manager are not required, which is different from the case of the CD-ROM. Nonetheless, there are several problems about the Internet.

5.4.1 Processing time

The processing time for searching/downloading a large volume of gazettes in the case of the Internet is very slow, as the communication environment is not well set up. 5 companies out of 7 who used the Internet commented that it was slow. A long processing time means a high running cost. It is therefore not suitable for those/departments who search/download a large volume of gazettes.

5.4.2 Access time band

If communication traffic happens to be heavy, home pages cannot be accessed via the Internet. Day time tends to be busy, so they may not be accessed when required. The Internet is therefore not suitable for urgent work, and for those/departments who search/download as their daily work.

5.4.3 Information offered by the Japanese Patent Office

It was anticipated that about 100 % of the subjects would know about the information service offered by the Japanese Patent Office. However, it was not the case. Some features which attract users, e.g. the extension of the laid-open period, are hoped for.

6. The use of an internal database

It takes much cost and time to build an internal database for patent information. In order to find an effective utilization of an internal database, the current status was studied.

6.1 Construction of an internal database (Ref.: Fig. 4-12 , 4-13)

18 companies out of 19 (almost all the subjects) have built their internal patent databases. The rate was higher than anticipated.

Re the contents of the data, the majority of the data (of 17 companies) contained their own application data, while one company's data contained only other companies' application data. 5 companies out of 17 held only their own company's application data. This indicates that the position and weight of an internal database vary a great deal between companies.

6.2 Information sources of other companies' data (Ref: Fig. 4-14)

13 companies included the data of other companies. 9 companies obtained the information from official gazettes on CD-ROMs. 6 companies obtained it from commercial databases. It was interesting to note that the majority of cases obtained information from only one source, and official gazettes on CD-ROMs rated high.

Many companies which used official gazettes on CD-ROMs as the information source held patent information prior to the introduction of official gazettes on CD-ROMs in either print form or microfilm form.

6.3 Data composition of an internal database (Ref.: Fig. 4-15)

18 companies which built an internal database compiled filing details (bibliographical items) and summaries. It is also interesting to note that a proportion of the companies also included drawings and specifications which enlarge the data.

6.4 The contents of a company's own data (Ref.: Fig. 4-16)
They are mostly data (internal classification, key words, etc.) for data classification.

6.5 Access limits to an internal database (Ref.: Fig. 4-17)
18 companies which built their internal database provided access limits in one form or another. Some companies set a strict control of information management, by limiting access even for the staff in the patent division on pre-application data. Some companies limit access for general staff outside of the patent division even on the laid-open data. This seems excessive.

6.6 Problems
When an internal patent database, especially a database owned by other companies is to be built, the cost/performance for the purchase of data becomes an issue. Even with the official gazette on CD-ROM as the source of data information, there are problems such as i) the copyright fee is expensive. ii) no trial process data. iii) no past information.
These are the reasons for not building an internal database owned by other companies. Some companies use commercial databases instead. Nonetheless, there are still problems such as i) A commercial database is expensive. ii) no drawings.

In addition, even when an internal patent database was built, there was still the issue of access. At present, many companies impose restrictions on the database of Kokai patent gazette, which is designed to be fully utilized. Confidentiality and expansion of the use of a database have two conflicting aspects.

V Conclusion

1. Ideal utilization of patent information in a company

While patenting is advocated, infringement prevention has become increasingly important. Along with this trend, patent search plays an important role in companies. Hence, the range of patent search is expanding, and the volume of searches is increasing. Productivity needs to improve in patent services. It is becoming difficult to seek efficiency maintenance/improvement in search accuracy with information in print form. The development and the spread of electronic information in the utilization of patent information is strongly desired. In concluding, based on the current utilization of patent information, and related issues discussed in the previous chapter IV, the ideal utilization of patent information in companies is to be discussed below.

1.1 The utilization of an internal database
Patent information would be best utilized by storing it in electronic form in a server, etc., and then by means of a network. Information in electronic form makes this form of use possible. With this system, patent information can be

shared within a company, making its effective utilization possible. This system of utilization is particularly effective in a large company.

1.2 The utilization of the Internet

Some take the view that patent information can be obtained from an external databases as required, instead of storing it in the company. This idea attracted attention recently, and was discussed in Chapter III, the use of external databases via the Internet. This method via the Internet can be adequate for a particular usage, department, and the frequency of use. It is highly recommended provided that i) A large volume of searching/downloading is unnecessary. ii) Patent work e.g. searching, is not part of daily work.

However, the Internet has some problems at present such as i) It is slow to process. ii) In certain time bands, it is not accessible.

Patent information should be available through two avenues depending on contents of service and usage, namely the Internet and other media.

The Internet may become the sole source of patent information in future when the above problems are resolved.

1.3 Form of patent information available

Official gazettes on CD-ROMs are widely used at present to obtain patent information. The advantages in the use of official gazettes on CD-ROMs are: i) It allows searching. ii) It can be processed by a personal computer. iii) space-saver. These features are not necessarily because of CD-ROM form, but because the information is electronic. This means that it is not necessary to issue official gazettes on CD-ROMs. Rather, companies will benefit more from receiving patent information in electronic form via the communication network. It is therefore desirable that the Japanese Patent Office gazettes are optionally available as electronic information through the communication network service. This will increase the convenience of electronic patent information.

It is equally desirable to maintain patent information in print form as well as in electronic form. For instance, specialized manufacturers will find it more convenient to use patent information in print form as the field of applications is limited. Small to medium companies will also prefer a print form to an electronic form as it does not require investment in equipment. The fact that even the patent information in official gazette on CD-ROM is still printed on paper when the contents of information is to be considered shows that print form still has the advantage of convenience. Patent information in print form should continue to be available as an option.

1.4 Other

Based on the (questionnaire) survey conducted this time, overall expectations of patent information can be summed up as low cost and multi-functional (searching method, response, etc.) Many companies have high hopes for the spread and development of the services on the Internet, and on the government involvement. Moreover, the up-grading of functions in International searching (domestic, foreign, or tripolar) and the integration of searching tools are awaited.

2. Patent information in the World-wide Common Patent System

There is a strong demand for obtaining the same rights at the same time world-wide. The establishment of a World-wide Common Patent System has been urged recently. Important factors to consider are: Unified examination standards, Literature searches for prior art which are criteria for novelty and inventive steps, the Integration of information sources for the Japanese Patent Office search reports, Searches prior to application by applicants.

If the disclosure of prior art is mandatory as in the US, it is pre-requisite either to open up the existing database or to build a free database for searches to be conducted prior to application by applicants. Especially, at least the gazette data of the tripolar (Japan/US/Europe) patent office will be required for the world-wide common patent system. English will be the common language for the database, and Japanese translation of US/European patents will be required for the database in Japan.

In response to these requirements, it is pleasing to see that Japanese/US/European Patent Offices are gradually releasing patent information free of charge. In addition, the Japanese Patent Office has started to offer free English abstracts. Unfortunately, US/European patent information are available only in English. Translation issues remain to be resolved.

The demand for translation software is increasing along with the spread of the Internet. Translation services recently became available on the Internet. In addition, English/Japanese translation software which allows automatic translation of US patent claims, which has been near impossible so far, was launched. A fairly accurate machine translation may be possible in the near future. With the spread of translation software, world-wide patent information will be available as Japanese information at a low cost. This will facilitate the disclosure of prior art by applicants, and means that many more US/European patents will be referred to in examinations by the Japanese Patent Office before long. With the advance in Japanese/English translation software for patents, Japanese patents in full text as well as abstracts may be offered in English. This will certainly contribute to the further advancement of a world-wide common patent system.

Reference : The Third Sub-Committee, Patent Information Committee "Management of Corporate Patent Information and Patent Databases, Intellectual Property Management, Vol. 48, No.5,1998

Attached information: Appendix 1 "Results of the Survey"

Fig.1-1
The number of domestic applications in your company in 1997 ?

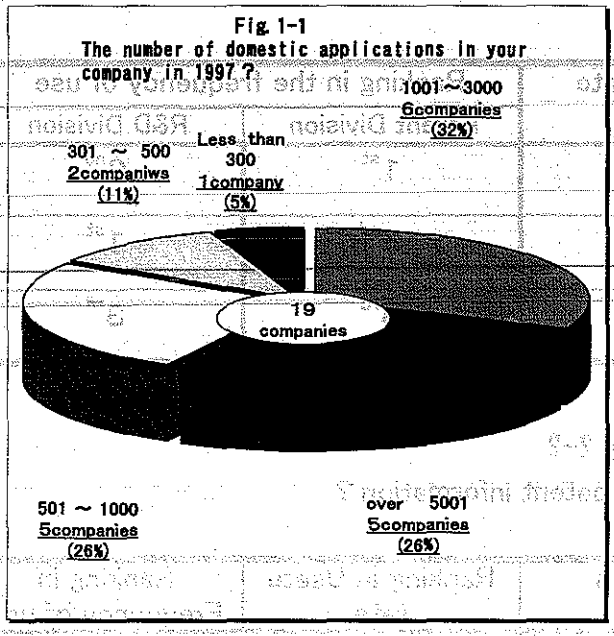


Fig.1-2
The number of staff in the patent division in your company ?

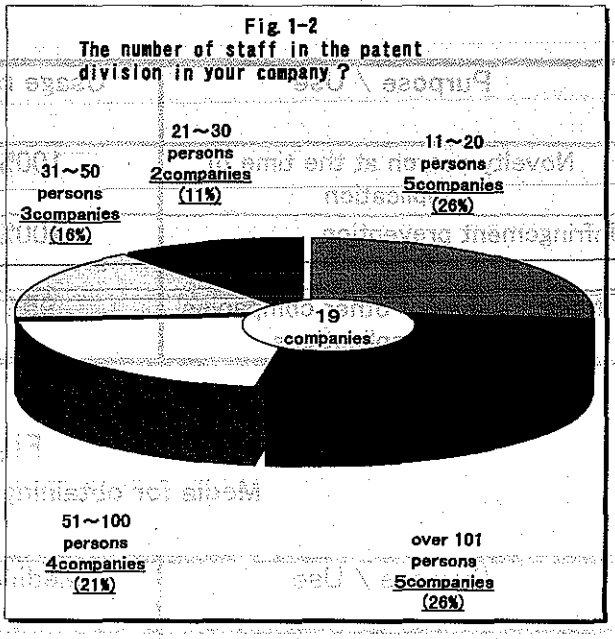


Fig.1-3
The number of staff in patent search in your company ?

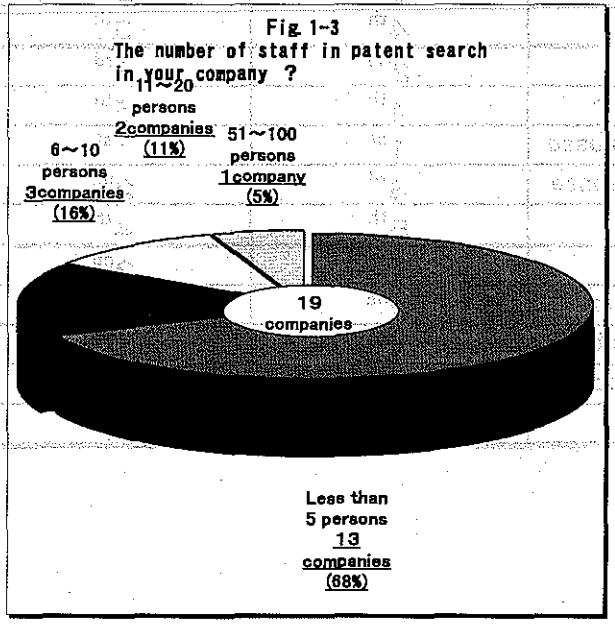


Fig.1-4
The number of employees in your company ?

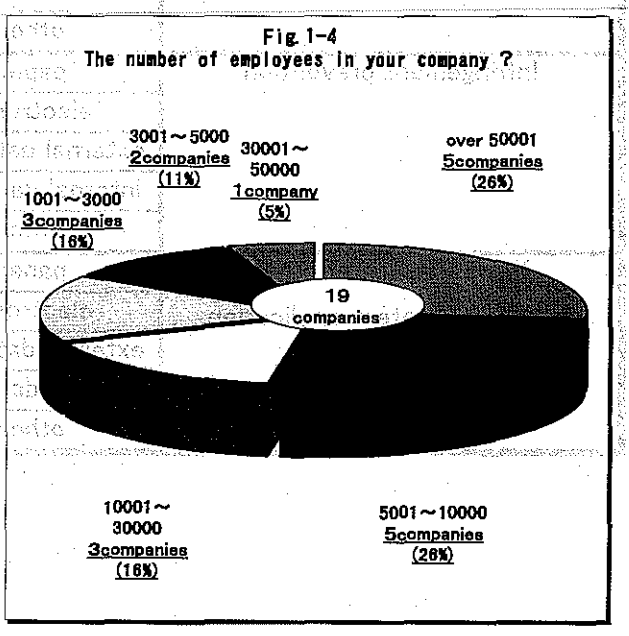


Fig.2-1

Purpose & uses of patent information in your company? The frequency of use ?

Purpose / Use	Usage rate	Ranking in the frequency of use	
		Patent Division	R&D Division
Novelty search at the time of application	100%	1st	2nd
Infringement prevention	100%	2nd	1st
News Flashes of other companies' patent applications	95%	3rd	3rd

Fig. 2-2

Media for obtaining patent information?

Purpose / Use	Medium	Ranking in Usate rate	Ranking in Frequency of use
Novelty search at time of application	paper	2nd	4th
	electronic	3rd	3rd
	external database	1st	1st
	internal database	3rd	2nd
	other	4th	5th
Infringement prevention	paper	2nd	3rd
	electronic	4th	5th
	external database	1st	1st
	internal database	3rd	2nd
	other	5th	4th
News Flashes of other companies' patent applications	paper	1st	2nd
	electronic	2nd	4th
	external database	1st	1st
	internal database	3rd	3rd
	other	4th	5th

Fig. 2-3a
Are you satisfied with the patent information available for the novelty search, at the time of

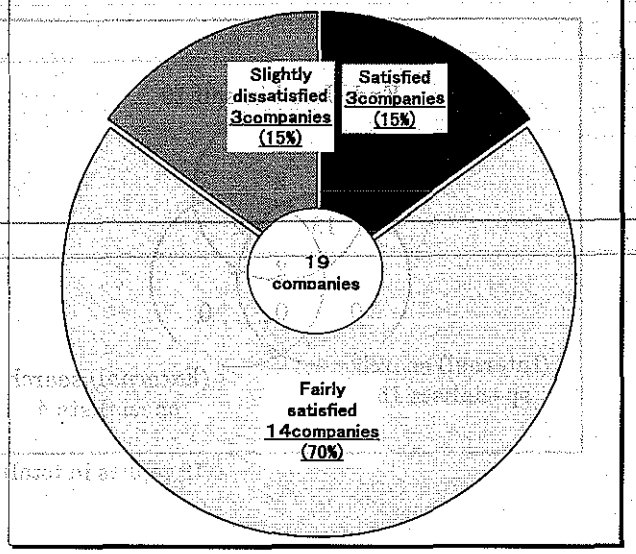


Fig. 2-3b
Are you satisfied with the patent information available for infringement prevension ?

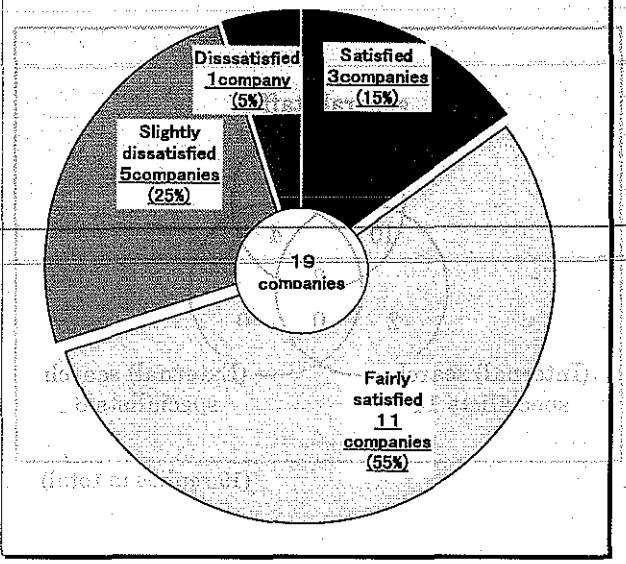


Fig. 2-3c
Are you satisfied with the patent information available giving news flashes of other companies' patent applications ?

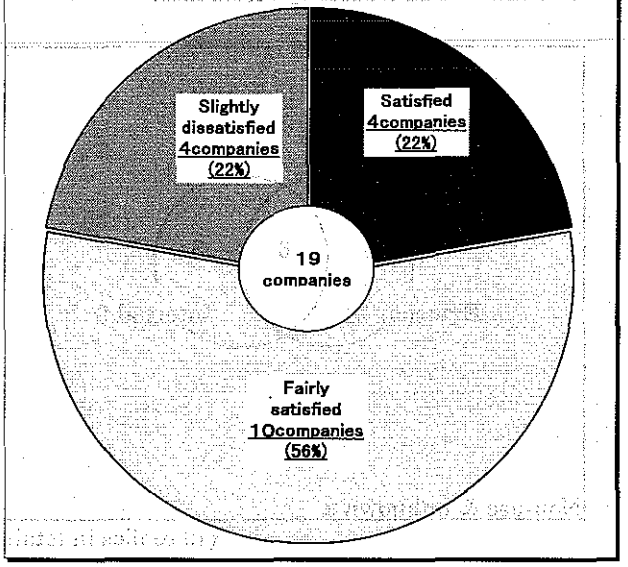
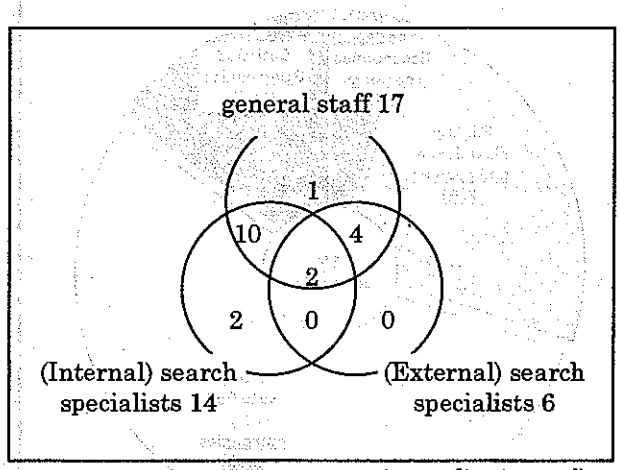


Fig. 3-1

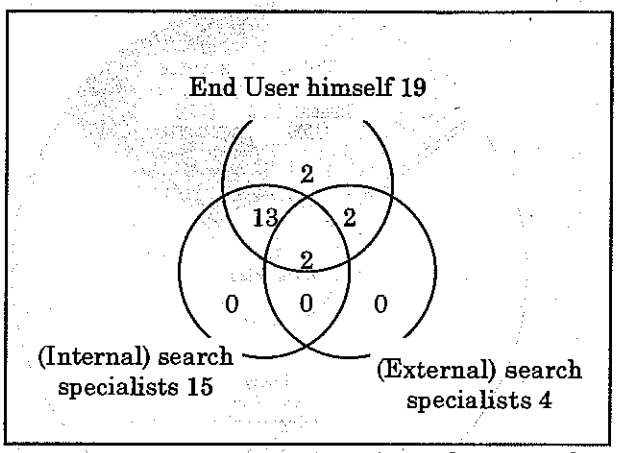
Who executes patent information search?



(19 replies in total)

Fig. 3-2

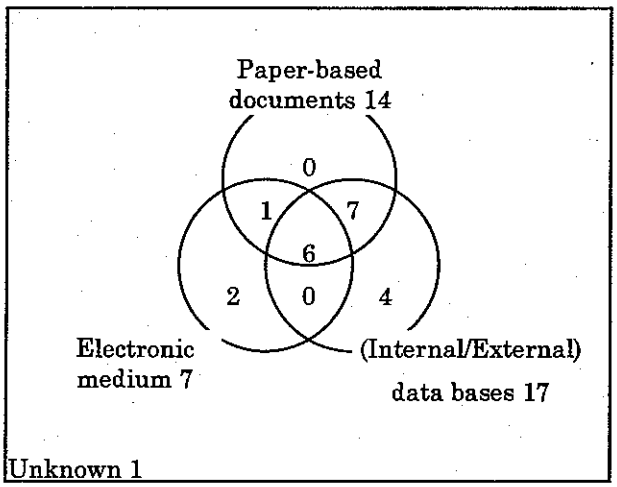
From whom does the End User obtain patent information?



(19 replies in total)

Fig. 3-3

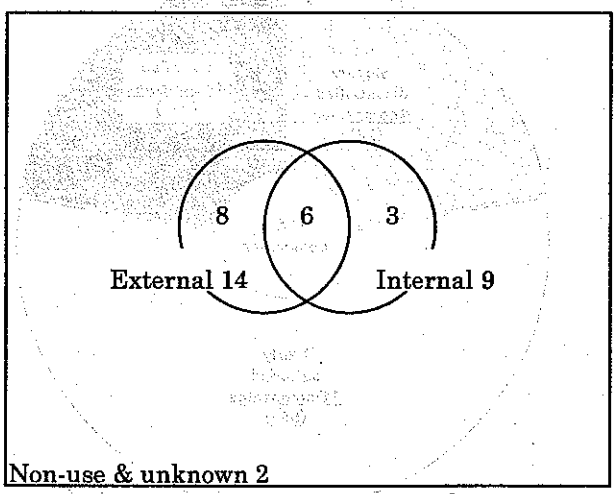
Media which researchers use for patent information search



(19 replies in total)

Fig. 3-4

The choice of data bases by researchers



(19 replies in total)

Fig. 4-1
Do you purchase CD-ROM gazettes ?

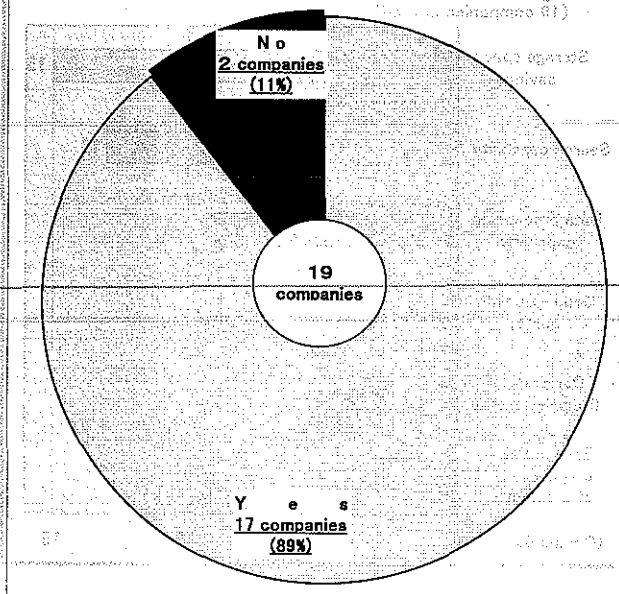


Fig. 4-2
What types of CD-ROM do you purcahse ?
(19 companies in total)

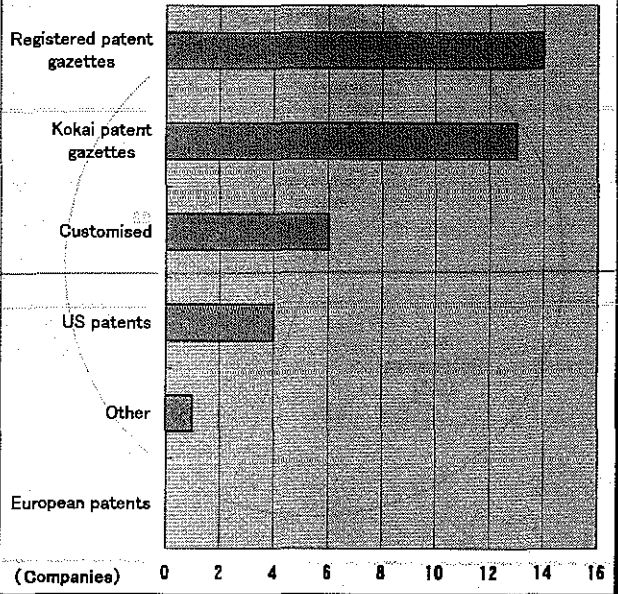


Fig. 4-3
How do you use CD-ROM gazettes
(23 replies in total) ?

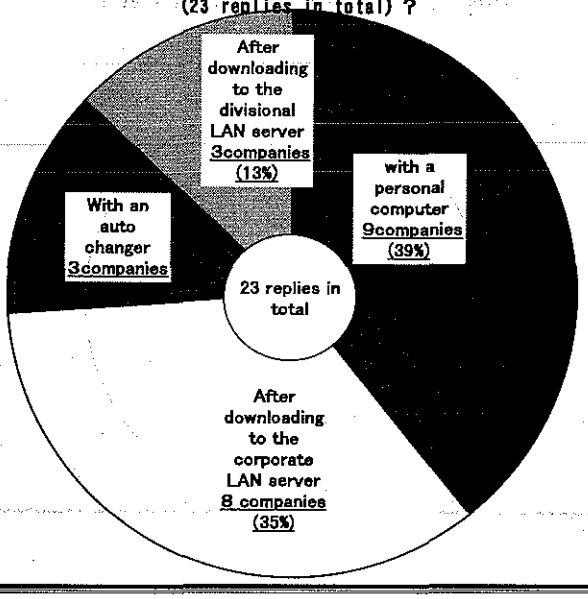


Fig. 4-4
How do you use CD-ROM gazettes in future (18 companies in total) ?

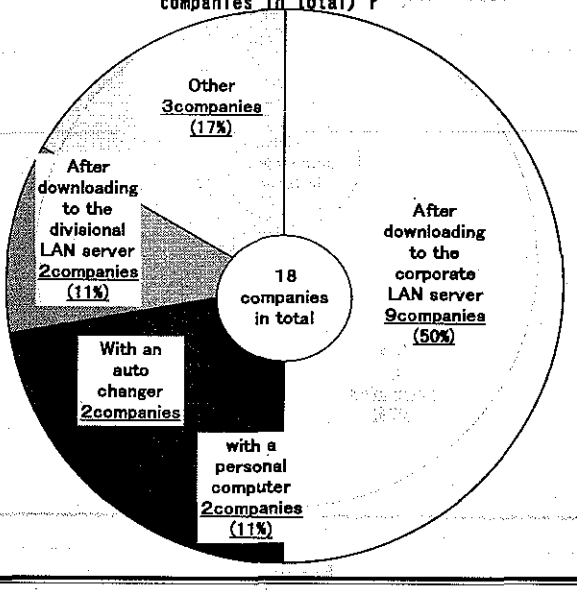


Fig. 4-5
What are the purposes of using CD-ROM gazettes ? (19 companies in

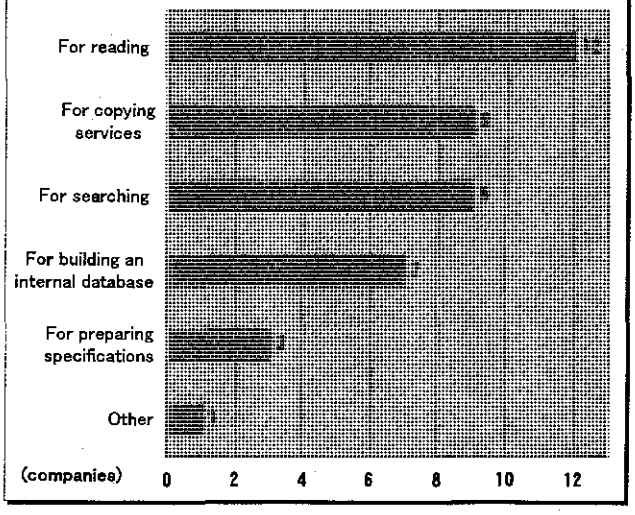


Fig. 4-6
How do you read CD-ROM gazettes ?
(18 companies in total)

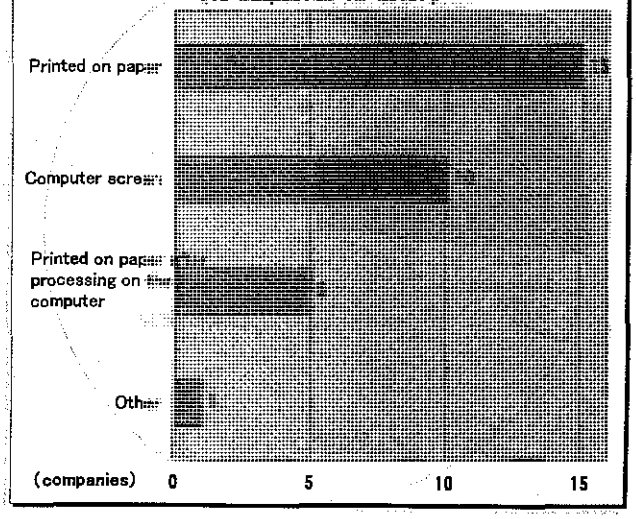


Fig. 4-7
Do you keep printed-out version of CD-ROM ?

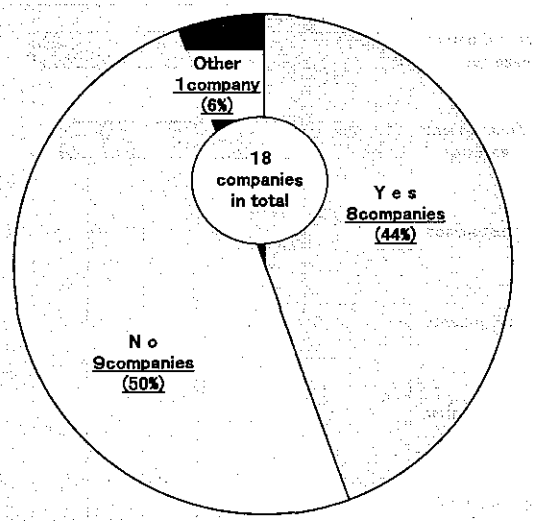


Fig. 4-8
What are the merits of CD-ROM gazettes over gazettes in print form ?
(19 companies in total)

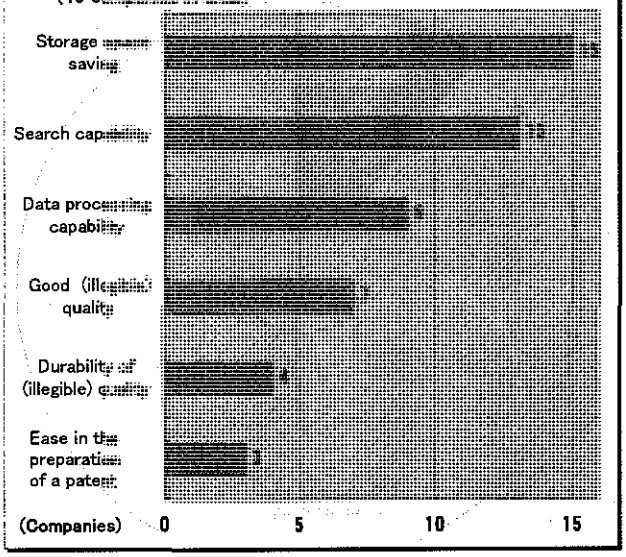


Fig. 4-9
Do you use the Internet for obtaining patent gazettes (19 companies in total) ?

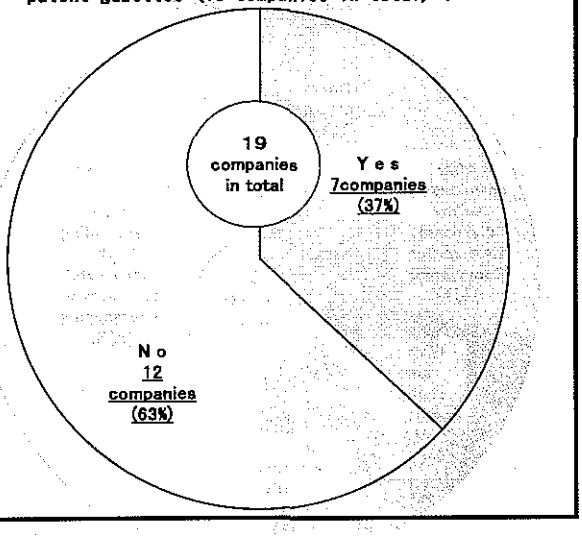


Fig. 4-10
Which is more convenient to obtain patent gazettes, CD-ROM or the Internet ?

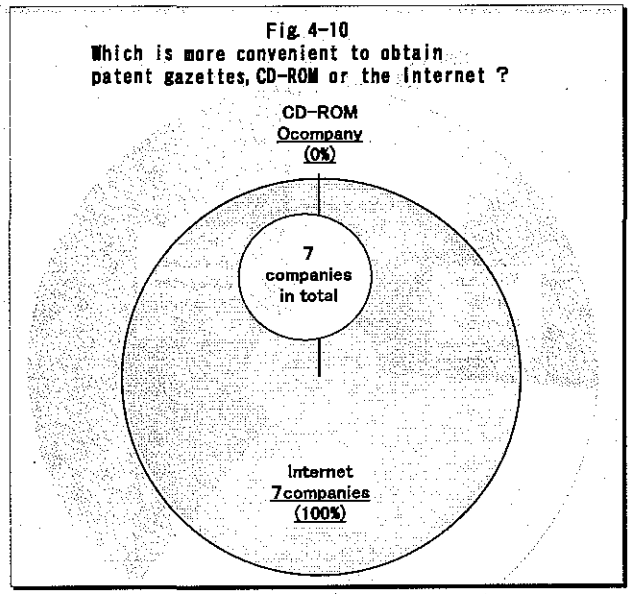


Fig. 4-11
Do you know anything about the information service by the Japanese

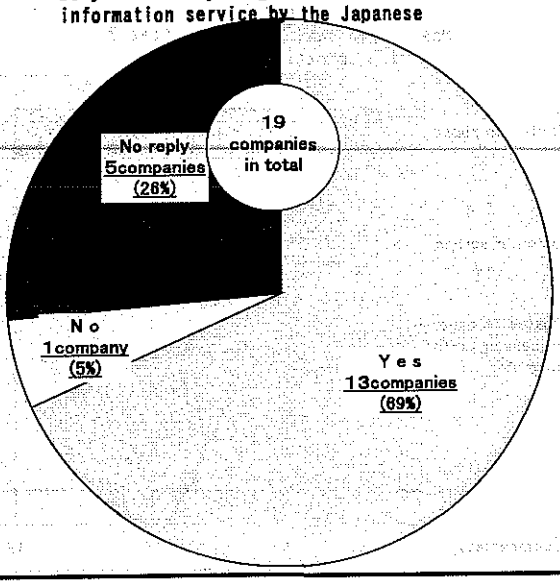


図4－12
Have you built an internal database ?

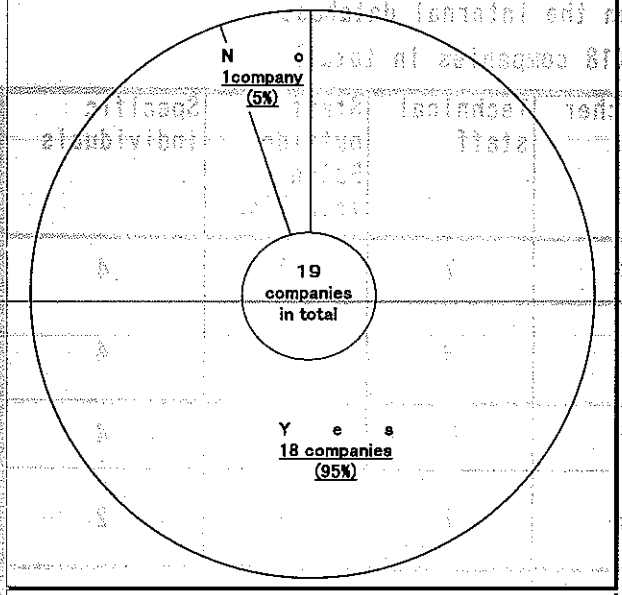


Fig. 4-13
What is the information in the internal database ?

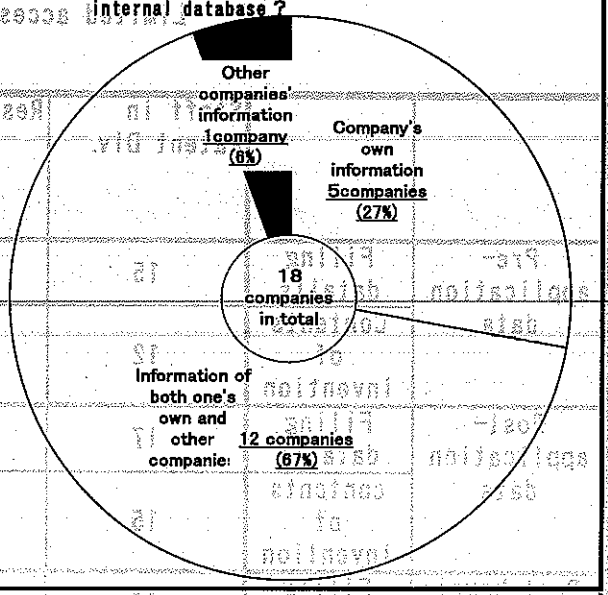


Fig. 4-14
What are the source of information to obtain other companies' applications ?
(13 companies in total)

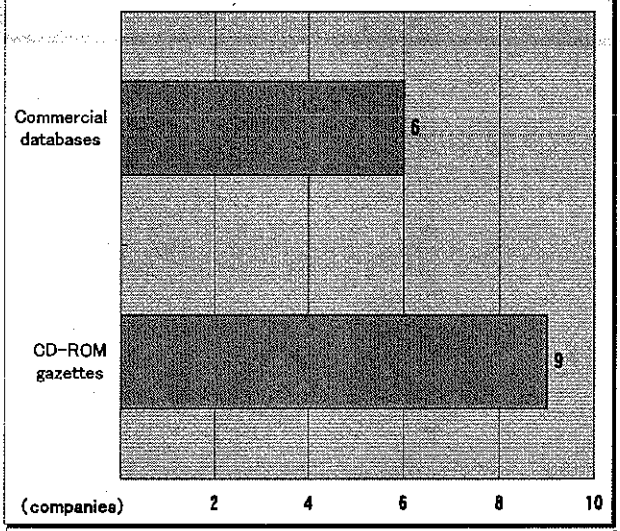


Fig. 4-15
What are the contents of the internaldatabase ? (18 companies in total)

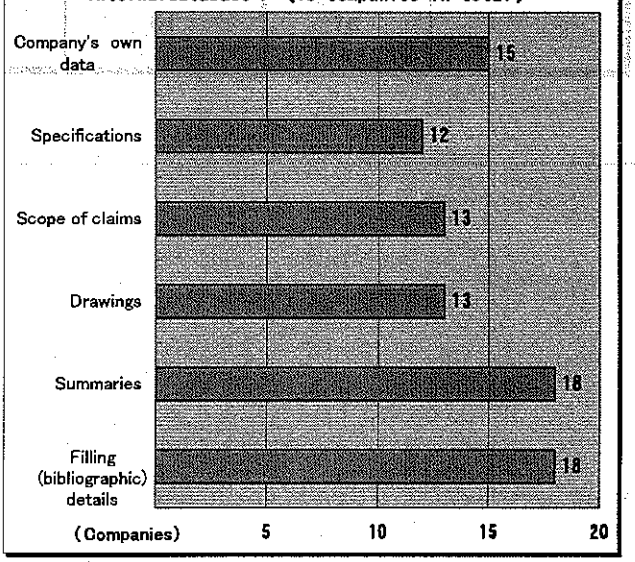


Fig. 4-16
What kinds of information do you add as the company's own data ? (18 companies in total)

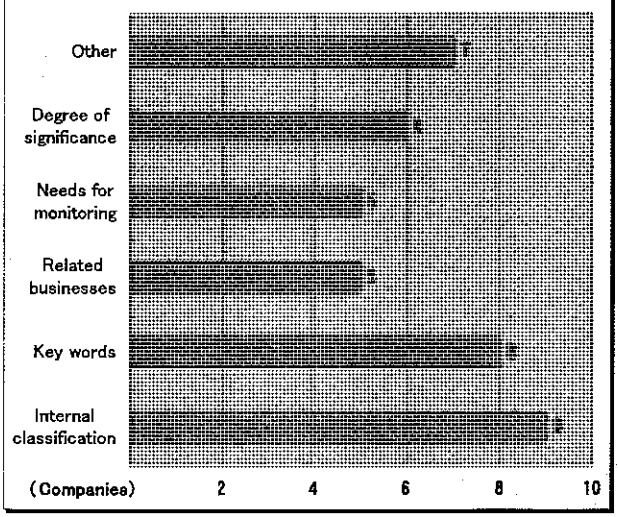


Fig.4-17

Limited access on the internal database

(18 companies in total)

		Staff in Patent Div.	Researcher	Technical staff	Staff outside Patent/ Tech Div.	Specific individuals
Pre-application data	Filing datails	15	4	7	2	4
	Contents of invention	12	2	3	1	4
Post-application data	Filing datails	17	8	11	5	4
	contents of invention	15	7	7	5	2
Post-kokai data	Filing datails	18	14	14	12	1
	contents of invention	18	14	12	12	1

(1) Title: **Trilateral Patent System for the U.S., Japan and Europe**

(2) Date: October 6, 1998

(3) Source: a) Source: PIPA

b) Group: U.S.

c) Committee: No. 1

(4) Author Harold E. Cole, Eastman Kodak Company

(5) Abstract: A trilateral patent system for the U.S, Japan and Europe involves a single prosecution in a domestic country, registration in the other two countries after a Notice of Allowance, followed by an Opposition proceeding in all three countries.

TRILATERAL PATENT SYSTEM FOR THE U.S., JAPAN AND EUROPE

PROBLEMS WITH THE CURRENT PATENT SYSTEM

The existing patent systems in the U.S, Japan and Europe have many problems of which we are all too keenly aware. First and foremost, the patent system is just too expensive. And expensive as it is to obtain a patent domestically, the expense of obtaining counterpart patents in other countries further compounds the shock. While obtaining a patent in one's own domestic country is something which must be endured, the economic value of obtaining counterpart patents in other countries is causing many companies to rethink their foreign filing strategy. Many companies are deciding that it is too costly to obtain foreign counterpart patents and are taking a gamble with that decision.

After filing for a patent in one's own domestic country, obtaining a search, and going through prosecution with a Patent Examiner, why should one have to repeat that same procedure over and over again in order to obtain foreign patents? From an economic viewpoint, this procedure is wasted manpower and assets and there is no justification for it. This duplicative procedure in country after country is repetitive, wasteful and, for the vast majority of patents, is unnecessary.

Another problem with the current patent systems is the length of time required to obtain a patent, especially for patents filed in other countries after the domestic patent filing. In Japan and Europe, it may take many years before examination is even requested.

A third problem with the patent system is the uncertainty concerning validity for a patent when it is issued. One cannot really know if a patent is valid until a court of last resort has had its say. How can one advise management about a patent, either its own or a patent of another, with all the uncertainty attached to patents?

Overview

This proposal will be discussed with reference to only the three "trilateral countries", the U.S, Japan and Europe, and their patent offices at the USPTO, the JPO and the EPO. These three patent offices account for about 85% of all the patents issued in the world. If adopted, this procedure could then be expanded to other countries at a later date in order to obtain a truly global "world" patent.

To begin, an applicant in one of the trilateral countries would file a patent application in his own domestic patent office as is presently done. However, there would be no foreign filing in other countries if counterpart patents are desired.

Once a Notice of Allowance is received in that domestic country, then the patent application (translated if necessary) would be sent to the other two trilateral patent offices and patents would be obtained automatically. There would be no examination or prosecution in these other two patent offices.

An Opposition period would then be started in all three countries after the patent grant (the U.S. would have to change its laws to provide for this procedure). I would submit that in the overwhelming majority of cases, no Opposition would be filed. The vast majority of patents issued do not affect anyone else. Thus, the only time an Opposition will be filed is where the Examiner did not turn up the best references and the patent adversely affects someone else's present or proposed products. It is submitted that there will be a small number of cases where both those factors are present.

If an Opposition is to be filed, it could be filed in any one of the three trilateral countries. If, as the result of an Opposition, a patent is changed or revoked, then the patents in the other two countries must be changed or revoked as well. There must be complete harmony in all three patents. If Oppositions were filed in more than one country, then there would probably have to be some sort of consolidation of actions in the country where an Opposition was filed first.

The final result is that patents would be obtained in the three trilateral countries with only one search and one prosecution. The instances where Oppositions will be filed is expected to be few.

This "fast track" trilateral patent system would exist side-by-side with the current system. One would not be forced to use it.

Benefits Of The New System

- The resulting savings should be quite substantial. The overall cost of obtaining patent coverage in the three trilateral countries should significantly decrease.
- There would be no foreign prosecution fees for most patents since Oppositions should be relatively rare. Fewer Patent Examiners would be needed in view of the decreased workload, and that savings should be passed on by lowering the fees.
- The time for obtaining a patent should decrease. Patent Examiners would have more time to examine applications since they would have a smaller workload made up of only domestic patent applications.
- Once a patent has been obtained, with or without an Opposition, there would be more certainty in its coverage since it will have passed scrutiny in the three largest patent offices in the world.
- If an Opposition is filed, only one proceeding in one country will be necessary.

What Has To Be Changed?

- The U.S. will have to adopt an Opposition Procedure.
- Inventions which can be patented in the trilateral countries must all be the same (they are very close now).
- The Opposition procedures in the trilateral countries must be the same.

Sovereignty Issue

- One might argue that the decision of a foreign tribunal should not have any effect which would result in altering or revoking a domestic patent. However, subjecting a domestic patent to consequences by a foreign tribunal in an opposition proceeding (in which the patentee, after all, is a party and will have his "day in court") could be contracted away in the application papers for a "fast track" foreign patent.

Who Would Be Expected To Be In Favor Of This System

- Companies which file in other countries
- Small businesses
- Universities

Who Would Be Expected To Be Opposed To This System

- Law firms
- Patent Offices

(The loss of patent examiner jobs at the USPTO, the JPO and the EPO could be softened somewhat without layoffs using normal attrition.)

Advantages Of This System Over Other Global Patent Proposals

- Only one search by one Patent Office is needed. There is no need for three examiners from the three trilateral patent offices to cooperate on making three searches.
- Patents would be issued sooner since there would be no need to wait for patent applications to be filed in all countries in order to have examiners start on a cooperative search. Some proposals now under consideration require waiting 18 months for publication before starting the examination process.
- The best references should surface either during prosecution or an Opposition. Companies who may know the art better than an examiner may turn up better references when they are confronted with

a blocking patent of another. Shifting the burden to them should be helpful to the patentee in ultimately obtaining an enforceable patent to which he is entitled.

- The expertise of each trilateral patent office would be continued in examining domestic patents and finding references in their own native language.
- Unlike some proposals now under consideration, no one patent office would be given superiority over another, which is as it should be in my opinion. I don't believe the examiners in any one given patent office will ever be as proficient in searching the prior art in other patent offices as the examiners in those other patent offices are.
- There is no need for an examiner to rely on a "full faith and credit" search done by an examiner in another patent office (which is a major stumbling block in other proposals). Patents in the other trilateral countries will be granted automatically without searching. Whether or not the best art was turned up by an Examiner is irrelevant. An Opposition, if one is necessary, will ferret out the best prior art by those most knowledgeable in that field.

Conclusion

This proposal will enable the Examiners in each of the Trilateral Patent Offices to continue to do what they do best. In the relatively rare instance where a reference has been missed and the patent affects someone else, other inventors and companies with an interest can "supplement" the Examiner's search with references they are aware of by means of an Opposition proceeding.

(1) Title: **PATENT TERM RESTORATION FOR PHARMACEUTICAL PRODUCTS IN EUROPE "THE SUPPLEMENTARY PROTECTION CERTIFICATE"**

(2) Date: October 6, 1998

(3) Source: a) Source: PIPA

b) Group: U.S.

c) Committee: No. 1

(4) Author James W. Moore, Pfizer Ltd.

(5) Abstract: Supplementary protection certificates were introduced in Europe in 1992 and provide for up to five years additional patent protection for pharmaceutical products. The background to this legislation and requirements for obtaining a certificate are explained.

PATENT TERM RESTORATION FOR PHARMACEUTICAL PRODUCTS IN EUROPE "THE SUPPLEMENTARY PROTECTION CERTIFICATE"

The pharmaceutical industry, perhaps more than any other industry, relies for it's very existence upon the legal monopoly provided by the patent system. In no other industry does it take so long and cost so much to develop a new product and yet, within months of patent expiry, the sales of the product can be almost entirely lost to generic competition.

Pharmaceutical research is a highly risky business. Almost all pharmaceutical research and development is funded by industry with no guarantee of any return on investment. It has been estimated that out of 5,000 new compounds discovered and investigated, on average only one reaches the marketplace. The cost of developing one new successful medicine can today be as much as US $500 million.

Moreover several studies undertaken during the 1970's and 1980's showed that with the increasing stringency of clinical studies, which are necessary to prove that a new pharmaceutical product is safe and effective, it was taking longer and longer to get approval to market a new product, and the period of patent term left to recoup the huge investment was becoming shorter and shorter. Thus while in the 1960's the period of patent protection may have been on average some 15 years, by the late 1980's the time taken to get approval could typically take 12 years, leaving just 8 years of effective patent life remaining. This then was the background that led the pharmaceutical industry to press for patent term restoration.

The case for restoration was first recognised in the United States with the introduction of the Waxman-Hatch legislation in 1984. That statute gives up to 5 years additional patent protection. Japan followed with legislation

in 1988, which again provides for an extension of up to 5 years, depending on the extent of regulatory delay.

Against this background the European Commission (EC) was persuaded that if pharmaceutical research were to survive in Europe, the pharmaceutical industry in Europe should also be supported and encouraged and similar provisions for patent term restoration were required in Europe, and these needed to be harmonised at the community level. This rationale was clearly expressed in the preamble to the Supplementary Protection Certificate (SPC) Regulation.

There followed a period of negotiation as the Commission sought to get agreement from the various states that make up the European Union. The initial proposal was for a 16 year effective patent term with a maximum extension of 10 years. This met with opposition, principally from Spain, Greece, and Portugal, but Germany and the United Kingdom also had reservations.

Eventually, France and Italy, tired of the delay, went ahead with the introduction of their own national provisions. This put further pressure on the EC, who did not want to see a fragmented approach, and eventually in 1992 the Commission came up with an agreed common position and the regulation was duly published on 2nd July 1992 and came into effect six months later on 2nd January 1993.

Although the French and Italian national laws have now been superseded, it is interesting to look at their provisions because they did provide a model for the later EU regulation. In France, the legislation provided for 17 years of effective patent life from the date of marketing authorisation, with a maximum extension of 7 years. A quirk of this law was that it was possible to get more than one patent extension based on later approvals for the same product using different patents. In Italy, an even more generous law was passed, which provided that the extension lasts for a period equal to the period elapsed between the filing date of the patent and the date of first marketing in Italy, subject to a maximum extension of 18 years. Both of these national laws were

superseded by the subsequent EU regulation, but of course there are a number of patents that have been extended under the national legislation of France and Italy which will last well into the next century.

Turning back to the EU SPC regulation for pharmaceutical and veterinary products, the solution adopted was to create a completely new title of intellectual property. The SPC takes effect when the basic patent expires and protects only the pharmaceutical or veterinary product for which a marketing authorisation has been granted in accordance with the relevant EC directives.

The certificate must be applied for on a country by country basis, within six months from the date when marketing authorisation is obtained in any particular country, but in each case the term of the SPC dates from the first approval in any Community country. (Following the adoption of the European Economic Area (EEA) agreement in July 1994, the first authorisation in the Community now includes authorisation in Norway, Iceland and Liechtenstein as well as the present EU member states). There are a number of conditions - the product must be protected by a basic patent that is in force, there must be a valid marketing authorisation, the SPC must be based on the first authorisation for the product in that country, and only one SPC is allowed for any particular product.

The duration of the SPC is calculated as being equal to the period that has elapsed between the date on which the application for a basic patent was lodged and the date of the first authorisation to place the product on the market in the EU/EEA, reduced by a period of 5 years, and subject to a maximum of 5 years. The SPC was designed to provide 15 years of exclusivity but it should be remembered that this is the maximum period of protection and in most cases will be shorter, particularly if it takes more than 10 years to get approval for the product.

The transitional provisions that were adopted by the different states when the regulation came into effect varied considerably. Thus, although the majority of states (France, Ireland, Luxembourg, Netherlands, Sweden and the

United Kingdom) allowed applications based on approvals obtained after 1st January 1985; Belgium and Italy were more generous allowing approvals from 1982 while Denmark and Germany only allowed SPC's based on approvals obtained after January 1988.

For states whose law did not provide for the patentability of pharmaceuticals in 1992, the regulation did not come into effect for a further five years from that date. Thus SPC applications have only been possible in Greece, Portugal and Spain from 2nd January 1998. Iceland also made a similar reservation.

From 1st July 1994 those EFTA states party to the European Economic Area agreement (Austria, Sweden and Finland) also adopted the SPC regulation, as did Norway, followed in 1995 by Switzerland. Thus there are now some 18 European states which currently have patent extension legislation in place.

The main problems with the SPC legislation have centred around the definition of "the product"; determining what is the first approval for the "product"; and whether the basic patent covers the product for which the SPC is sought. There is a particular problem with some countries in relation to salts and esters. Most countries grant SPC's that cover all pharmaceutically acceptable salts; Germany is insisting that the SPC be granted restricted to the specific salt form approved.

Recent decisions have clarified that a SPC cannot be obtained for a reformulation of an old compound because it cannot be regarded as a new product; however, a new formulation might be the subject of an SPC if it is covered by a separate patent. An earlier approval for a veterinary product precludes an SPC application for a later human medicinal product. A recent decision in Sweden has clarified that SPC's filed under Sweden's original SPC legislation introduced in January 1994 and based on approval in Sweden are valid; applications filed subsequent to January 1995, however must be based on the first EU/EEA approval.

In February 1997 a further Regulation (No. 1610/96) came into effect, extending the scheme to cover plant protection products. This regulation also contained provisions to clarify earlier regulation.

The pharmaceutical industry in Europe has broadly welcomed this legislation as a positive measure. In the United Kingdom over 400 applications have been filed (168 of these for products covered under the transitional provision of the regulation) and a number of these have now come into effect. However it must be remembered that for most products the full 5 years extension is not obtained, the average being more like 2 to 3 years. Of the top 10 products in the United Kingdom, only four are eligible for SPC's with periods varying from 1 to 5 years.

Moreover, in countries such as Greece, Portugal and Spain, since product patents were only introduced in 1992, it will be 2012 before any SPC protection will take effect on pharmaceutical product patents. Thus it will continue to be some years before the industry sees the full benefit from the SPC legislation in Europe, and it will certainly be many years before the Commission's objective of having harmonised patent expiry dates across Europe is realised.

(1) SUBJECT: Patent Pool and License

(2) DATE: October, 1998 (the 29th General Congress in Sapporo)

(3) COMMITTEE: Japan Group, Second Committee

(4) AUTHORS: Masatoshi Igarashi (LION CORPORATION)
Hironari Kawashima (KOBE STEEL, LTD.)
Hiroshi Kitajima (OMRON CORPORATION)
Shigeru Kitano (FUJITSU LIMITED)
Eisaku Nagaishi (RICOH COMPANY, LTD.)

(5) KEYWORDS: Patent Pool, License, Antimonopoly Act, Industrial Standard, de facto Standard.

(6) LAWS FOR REFERENCE: Patent Law, Antimonopoly Act

(7) SUMMARY: In recent years, technological development is tremendous. As technologies advance, industries and in particular the information, communications and multimedia industries have increased their needs for the standardization of relevant technologies. On the other hand, standard-setting cannot be achieved without screening and dealing with a number of patents applicable to industrial standards. Obtaining a license from an individual patentee tends to compel a licensee unreasonable and excessive royalty payments. This would result in disturbing smooth propagation of industrial standards. Excessive royalties would likely be shifted to end-users' prices. A patent pool is offered for solving that kind of problem. As a topic for the joint panel discussion at the General Congress, we would like to discuss a patent pool as a means of promoting industrial standard. Discussion will also cover practical aspects of licensing and legal issues with respect to the Antimonopoly Act. This paper is prepared as a basis for discussion at the panel.

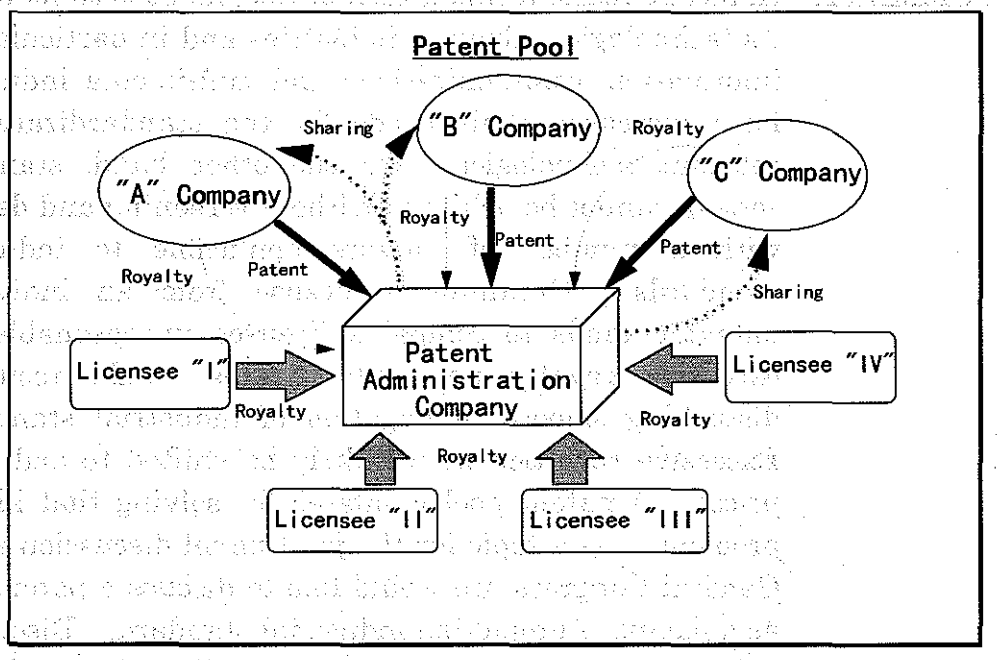
(8) CONTENTS:
1. Outline of a patent pool.
2. Patent Pool and Industrial Standards.
3. Patent Pool and Antimonopoly Act.
4. Formation and Operation of a patent pool.
5. Other Issues involving a patent pool.
6. Conclusion.

1. Outline of a Patent Pool:

(1) Definition:

A patent pool is defined as "a system to grant to third parties a package license under two or more patents necessary for certain technical purposes in the case where these patents are owned by two or more persons" ("Intellectual Property Management" Vol.48, No.3, p.380). Normally, it takes a form of arrangements under which two or more patentees entrust a licensing right to a patent administration company and the patent administration company grants a sublicense to a person desirous of obtaining a license therefrom. The Patent administration company distributes the revenue which is collected from each sublicensee.

An example of such licensing arrangements is illustrated as follows:



(2) Effect and Purpose:

Purposes and effects of a patent pool are as follows:

- Spread and promotion of a subject technology through integration of complementary technologies.
- Elimination of complication of individual licenses causing cost

increases.

- Cost savings due to refrainment of law suits among conflicting patents.
- Expansion of relevant markets due to the formation of de jure standards and de facto standards.
- Enhanced convenience of consumers due to standardized products and resultant market stability.

At present, keen attention is paid to patent pool arrangements in the fields of communications and information processing, among others, in connection with the competition of standardization (industrial standards). Likewise, this issue is emerging in fields of complicated proprietary rights.

(3) Issues:

The patent system is an industrial policy. It aims to develop an industry by encouraging inventions through securing monopoly for an inventor and protection against the free use of the invention. Accordingly, monopoly under a patent is exempted from the application of the Antimonopoly Act which prohibits acts of monopolization. However, negotiations among two or more parties for patent licensing fall within the scope of the Antimonopoly Act. In this respect, guidelines are published both in Japan and in the United States. Relations between the Antimonopoly Act and the Patent Pool arrangement are discussed later. The following actions are subject to limitation:

- Unreasonable restraint of trade (Cartel):
  Hindrance of market competition through communication among competitors to jointly determine their business activities.
- Monopoly/Oligopoly:
  Exclusive control of a market, defined as a 50% market share in the 100 billion yen market or 75% in the case where there are two major players.
- Unfair trade practices (Three types):
  Unfair means of competition and abuse of predominant position including refusal of trade, restriction to free competition by restricting resale prices, and tie-in sale.

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2. Patent Pool and Industrial Standards:

The more technologies advance, the more businesses require standardized technologies. Such a need is keen in industries involving information processing, telecommunications and multimedia devices. International standards setting organizations such as ISO, IEO and ITU[1] and other standards organizations continue to work on standardization. On the other hand, the use of industrial standards often requires technologies covered by patent rights owned by a plurality of patentees. Dealing with these patent rights has been a big problem for enhanced use of industrial standards. A patent pool is considered to offer a solution to these problems.

Many international standards setting organizations have their own rules on the handling of patent rights (Patent Policy). Generally, such rules have provisions that patentees have to be asked either of (1) a royalty-free license, (2) royalty-bearing license on reasonable and non-discriminative conditions, or (3) no license available (in this case, a patented technology will not be adopted as a standard). However, even if a patentee expresses its intent to offer a royalty-bearing license on reasonable and non-discriminative conditions, a licensee using a certain standard needs to enter into separate, individual license agreements with a plurality of patentees, and the criteria of the "reasonable conditions" are not necessarily clear. Each patentee has its own discretion with regard to the detail of the conditions. Even if a royalty for each license is low, it seems likely that the sum of individual royalties would reveal a high figure.

As a solution to those problems, patent pool arrangements offer effective measures for a streamlined procedure to obtain a license under essential patents to be involved in an industrial standard. They offer a license on clear and nondiscriminative conditions, thereby resulting in increased benefit on the part of licensees and more use of the industrial standard.

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[1] ISO: International Organization for Standardization
IEC: International Electro-technical Commission
ITU: International Telecommunication Union

3. Patent Pool and Antimonopoly Act:

(1) Applicability of Antimonopoly Act:

Whether to license its patent or to refuse to license it is basically a discretion of a patentee. However, there are situations where doing business in a certain market is difficult without a patent license through patent pool arrangements. This is due to the accumulation of patent rights in a patent pool. Under these circumstances, competition in a particular field of trade would be substantially restrained by closing the patent pool against competitive outsiders without justifiable reasons due to a conspiracy among licensors as members of the patent pool. It would be likely that such conduct comes under "private monopolization".

It would be likely that an agreement to restrain competition between cross-licensed parties in a patent pool comes under "unreasonable restraint of trade".

It would be likely that restriction of sales prices of a licensee and limitations to research and development accomplished by a licensee come under "unfair trade practices". As in the cases of general license agreements, these restriction and limitations have to be studied in view of "The Guideline for the Regulation of Unfair Trade Practices with respect to Patent and Know-How Licensing Agreement" (Fair Trade Commission, 1989).

(2) Specific Cases:

The Fair Trade Commission of Japan reviewed the following two cases recently.

1) Comments on the MPEG2[2] patent pool under the prior consultation system: Forming a license organization based on the patent pool has justifiable reasons. It would contribute to the market and the promotion of related technologies. The commission expressed its intent not to issue an exclusion order. The Department of Justice in the United States also expressed its view that the arrangement would not raise anti-trust questions.

[2] MPEG2: MPEG2 stands for "Motion Picture Experts Group 2" involving International Standards: ISO/IEC IS13818 used for coding audio-visual information in a digital compressed format.

2) Advisory Comment to the manufacturers of pinball machines (June, 1997):

A patent pool by 10 pinball machine manufacturers was accused of violation of the Antimonopoly Act, because they had a policy to exclude newcomers from the market and license their pooled patents to the members only. Further, it became an issue that a guild of such manufacturers had a concerted approach to prevent cut-rate sales by the members. The Fair Trade Commission issued its advisory comment that they stop such concerted acts of refusing a license to non-members, in order to exclude newcomers from entering into the pinball machine market.

(3) Requirements for Legal Clearance:

Taking the above cases into account, the legality of a patent pool in view of the Antimonopoly Act can be summarized as follows.

First, a mechanism of pooling patents seems legal in general terms for the following reasons:

1) An effect is foreseeable that subject technologies would become popular through the integration of complementary technologies and through the elimination of possible patent disputes.
2) Both licensors and licensees can enjoy benefits because complexity in separate individual licensing and resultant costs are reduced.

The legality of a patent pool requires an analysis of its effect to competition individually and specifically. When and if pooled patents are indispensable for doing business in a certain market, that patent pool should be organized and operated carefully not to violate the Antimonopoly Act. For that purpose, the following would be considered as requirements for legality analysis.

1) The pooled patents are all essential (no unessential patents are tied in).
2) Potential licensees may not be refused a license under the pooled patents without justifiable reasons.
3) In a case where a licensee owns an essential patent, he/she shall not be compelled to have his/her patent pooled and to become a member of the pool.

4) A license is granted to all licensees on the same conditions.

5) Royalty payments under a licensed patent should not be large. (They should be lower than the amount of accumulated royalties. They should not be so high as to cause a barrier to enter into a market. They should not be in the range to prevent the subject technologies from being popular.)

6) There are no restrictive bindings to competition, such as price control or prohibition of employing competitive technology.

4. Formation and Operation of a Patent Pool

Now, we would like to examine patent pool arrangements from the standpoint of licensors:

(1) Identification of Essential Patents:

When a patent pool is contemplated, a first issue to address is the selection and identification of essential patents. As mentioned above, a selection of essential patents is the primary work to secure the exclusion of unessential patents in the pool thereby to avoid a tie-in concern under The Antimonopoly Act.

1) What is an essential patent?

To sum up, it means patents which are unavoidably involved when the relevant standard is used. It often means patents which may be indispensable for standard-applied products in view of technical practicability and costs even if there are alternative technologies .

2) Patent searches and assessment:

Usually, after the framework of standard and relevant technologies is determined, searches are conducted through relevant patents. In these searches, there are some questions as to who searches for relevant patents, who pays for searches, and in what scope and in what way searches should be conducted. There may be a decision not to conduct searches. All patents are not registered. There are opened public patents which might be amended in the future and patent applications before publication (issue in the United States) which cannot be looked through at the time of searches. With regard to a manner of searches, databases are available, and member companies of a patent pool

may volunteer to disclose relevant patents and members or outside experts may be able to select and identify essential patents. In actuality, however, assessment by the parties concerned is not easy because there are conflicts of interest among the parties. In the case of MPEG2, the member companies paid search costs, and independent patent experts reviewed about 8,000 patent abstracts and examined about 800 patent specifications owned by more than a hundred patentees and assignees. Eventually they pinned down 27 patents. This case will be a precedent.

3) Handling third parties' patents:
When patent searches are carried out extensively with regard to a certain standard and when the search reveals indispensable patents owned by non-member third parties, it is necessary to offer the participation of a patent pool to these patentees.

(2) Contacts for Potential Licensees:

There are two types of arrangements in which potential licensees inquire about a license under pooled patents. The first one is an arrangement in which one of the licensors becomes a representative contact (e.g., SONY in the CD license from SONY/PHILIPS). The other is an arrangement in which a patent administration company functions as a contact (e.g., MPEG L.A. in the case of the MPEG2 license).

(3) Contract:

For the clarification of arrangements, various agreements need to be prepared. In the case of establishing a patent administration company, four types of agreements may be supposed:

1) Agreement among licensors:
This agreement provides that a license under any essential patent has to be granted by a patent administration company. It may also provide a method of allocating royalties and a cross license obligation among the parties concerned.

2) Agreement to entrust operation to a patent administration company:

This agreement provides details of operation entrusted to a patent administration company. It may also provide a grant of license to licensee, collection and allocation of royalties, a selection of essential patents, if the case may be, and patent enforcement against a third party who has refused any license under the pooled patents.

3) License agreement between licensors and a patent administration company:
This agreement provides for a license under the pooled patents from a licensor to an patent administration company.

4) Agreement between a patent administration company and licensees:
This agreement is made between a patent administration company and a third party, and is a main vehicle for the patent pool arrangements. Basically, contracts differ from each other because each licensee has different needs. Nevertheless, solely for fairness, a uniform standard agreement should be prepared for execution.

(4) Method of Collecting/Allocating Royalties:

For licensors, allocation of collected royalties is the point where interests would keenly conflict among the licensors. There are several suggested ways for allocation. One method is to determine an allocation ratio based on the number of essential patents regardless of the number of countries where licensees used essential patents. Another method is to determine an allocation ratio based on the number of essential patents per country. Another method is allocation based on the number reported by a licensee for each country. Yet another method is an addition of values to the figures obtained in the methods described above. Values in this context are determined by taking into account whether the patents at issue are basic.

There are a couple of items which should be noted with regard to royalty allocation. Allocation ratios should be reviewed when part of pooled patents have expired. Also, it should be noted that collected royalties would be remitted after the reduction of withholding tax when the royalty-collecting organization resides in a country which is different from

the licensor's country.

(5) Clearance by the Antimonopoly Act Organizations

There is a likelihood that patent pool arrangements would be considered to embrace anti-competition factors. Therefore, it would be safer to seek a prior clearance from the antimonopoly act enforcement authority in each country.

5. Other Issues Involving A Patent Pool:

(1) Enforcement against a third party:

If a third party uses pooled patents without royalty payment and if no measures for enforcement are taken against that party, that would cause reduction in profits which the members expected and cost discrepancies between existing licensees and an infringing third party.

Accordingly, in order to avoid making a patent pool ineffective while leaving an infringing third party, the group of licensors need to enforce their patents. If a third party does not agree to proposed license terms and conditions, the licensors will have no choice except for filing a suit before the court. In the formation of patent pool arrangements, the members of a licensors group should be prepared for such situation. Therefore, they should agree in advance to the enforcement programs against a third party who refuses to take a license. Such programs should specify:

- Patent rights subject to legal action
- A plaintiff company
- Sharing of litigation costs
- Selection of attorneys
- Procedures for settlement

If a third party claims that patent pool arrangements violate the Antimonopoly Act, the members of the pool have to defend against such a claim. Prior clearance by an antimonopoly act enforcement organization would be in favor of the patent group members.

Any decision of patent invalidity or non-infringement would have significant effects on the patent pool. If some of the essential patents are

rendered unenforceable, trust to the patent pool arrangement would be seriously injured. Existing licensees may start thinking of leaving the arrangement. In view of such risk, the question of litigation is hard for the licensors group to decide. The group would face a dilemma, because (1) it cannot allow a non-member party to infringe pooled patents, and at the same time (2) if it files a lawsuit, it must win the lawsuit.

Further, when patent infringement claims are brought to a few major players in the market, it is likely that they would be inclined to form a second patent pool in the joint defense. Existence of two competitive patent pools would make members of both pools reluctant to enforce their patents against each other because they might wish to wait and see strategies of the other side. Having a second pool would be an unexpected result for the licensor's group of the first patent pool. To avoid such situation, it is very important that all players in the market, so far as they own important, relevant patents, should be invited to the membership of the pool in advance.

(2) Dealing with a third party's patent:

Technology is in rapid progress. It is easily expected that many patents will be granted as core patents and peripheral patents of the pool. Searches for and selection of essential patents, however sufficient they might be, would not enable the pool members to control a consequent grant of patents to third parties. Therefore, the operation of the patent pool needs to take a broad view with respect to third parties' patents.

If a licensee holds an essential patent, the licensee should be invited to join the member of the pool. It would be possible to resolve the problem by the arrangement that he is paid a reasonable portion of royalty in proportion to the value of his patent.

To the contrary, it is likely that a person holding essential patents is not a licensee under pooled patents and is refusing to take a license. With such essential patents, he may take a hostile attitude against the pool. An increase of such adversarial third parties enhances the risk of making a patent pool ineffective. Efforts to cover as many essential patents as possible by the patent pool are required.

6. Conclusion:

A patent pool offers an effective solution both for a licensor and a licensee in cases where there are many patentees with respect to certain technology and where that technology is not well spread out due to the complexity of patent rights involved. However, it does not always benefit the licensors and licensees to pool the patents which are normally licensed separately and individually. A good example is the Pinball Industry case in Japan. If a patent pool is wrongly operated, it would be regarded as a joint refusal by parties who are in positions to control the market. There is a likelihood that such refusal would be considered to violate the Antimonopoly Act.

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(6) Statutory Provisions: Antimonopoly Law, Patent Law, Copyright Law

(7) Abstract:

A research and development consignment by a company pursuing more effective research and development practice, to another company who possesses technologies the company does not, can be seen in the cases such as software outsourcing, or basic research consignments to universities. In this instance, how the consignment results can be implemented is the key issue for a consignor, as he intends to apply the consignment results to his products or businesses. This paper, from the standpoint of a consignor, discusses the points to be noted in respect to the terms of a license by which a consignee grants a consignor the use of the results of a research and development consignment, assuming the results of the research and development consignment belong to the consignee. More specifically, this paper discusses (1) the relationship between a consignment fee and a license fee, (2) the scope of rights licensed to a consignor and (3) problems in the use of the results by consignees.

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1. Introduction

(1) The Rising Trend of Research and Development Consignment Practice

In our country, the number of research and development and software development consignment practice is on the increase.

1) The following can be regarded as the causes and background of this increase:

- It has become difficult for a single company to correspond timely within the company itself as the development span becomes shorter.
- Outsourcing is often found more economical and effective in some cases with the increasing demands for the cost reduction after the corruption of the bubble economy.
- Especially, the field of basic research is primarily appropriate as a research theme to be covered by research institutes like universities.
- Adequate, effective and concentric commitment of research resources is demanded.
- An individual company can no longer cover all technical fields by itself as the fragmentation and specialization of the technical fields advance.

Joint research and development is of course one method/form of the research and development outsourcing, however, this topic has already been discussed from various aspects. Therefore, we decided to address the topic of research and development consignments in this paper.

2) Lately, the current form of research consignment agreements between national research institutes and private companies are being reviewed, and also, the Fair Trade Commission published "The Guideline Based on the Antimonopoly Law Relating to the Abuse of Predominant Standing in Inter-Company Service Transactions" (March 17, 1998). Under this circumstance, the interest and needs for research and development consignments in companies are believed to be growing.

As a result of the increase in research and development outsourcing, consignees' standing has been strengthened and at the same time, their consciousness for their rights has also grown. Consequently, there has been a shift in consignees' attitudes that they started desiring to retain the rights of the results.

In the past, there seemed to be a recognition among private companies, that such rights naturally belong to consignors who are the ones obliged to bare consignment fees, however, there have been troubles between consignors and consignees over the belongings of rights. After the recent publication of the official guideline by Fair Trade Commission, it has become necessary to discuss the countermeasure in the cases where such rights belong to consignees.

On the other hand, in research and development consignments between national research institutes and private companies, the proprietary of all

results have gone to the country (official institutes). However, partial assignment of research results to private companies has become accepted lately, for the purposes to enforce the research exchange between official institutes and private companies, and to establish a "Technology Creating Nation" by activating research and development activities in national institutes.

Based on the domestic circumstance explained above, this paper discusses the subject topic, "Problems Relating to Research and Development Consignments and the Use of the Results" from the several aspects in the following sections.

(2) Points of This Paper

1) This paper considers cases where the results [patents, copyrights (especially copyrights of programs)] of research and development consignments belong to consignees.

2) In those cases where the rights belong to consignees, consignors have to have the licenses granted by the consignees to be able to use the rights. This paper, from the standpoint of the consignors, discusses the points the consignors should pay attention to, with regard to the conditions of license agreements.

3) This paper takes up the following three problems stemming from having the rights belong to consignees, as discussion items.
   i. The relationship between consignment fees and license fees
   ii. The contents of rights licensed to consignors
   iii. Problems in the use of the results by consignees
   iv. Problems in the use of the results by consignees

4) Since the points consignors shall pay attention to are different by the pattern/phase of research and development consignments, they are discussed in the following two patterns separately.
   i. Research and development consignments where specific results (things to be submitted to consignors) can be clearly estimated.
      - The consignor has a specific plan for the implementation (commercialization) of the results.
      - i.e. outsourcing of software development
   ii. Research and development consignments where specific results cannot be expected right away.
      - The consignor has no specific plan for the implementation (commercialization) of the results in the near future.

   The discussions on the each of above cases will be proceeded based on the trend of the current regulations, with the reference of sample provisions in research (development) consignment agreements.

2. The Recent Trend in Handling Research and Development Consignment Results

2-1 The Guideline based on Antimonopoly Law in Service Consignment Transactions

(1) The Fair Trade Commission published "The Guideline Based on the Antimonopoly Law Relating to the Abuse of Predominant Standing in Inter-Company Service Transactions" on March 17, 1998, for those service consignment transactions, such as software development consignments where the performance of obligation is completed upon the submission of results obtained from the services offered by consignees in such a consignment, results of the consignment are not fixed when the consignment is made.

(2) In this guideline, "delinquency or delay in the payment of consideration", "demanding the reduction of consideration", "demanding transactions with considerably low consideration", "demanding to redo services" and "demanding to pay participation fee et al. and the purchase of products et al." and "unilateral handling of the rights pertinent to the results of services" are considered as the conducts that fall into the behaviors abusing predominant standings, that are against the Antimonopoly Law.

(3) The table 1 shows the summarized definition of "Unilateral Handling of the Rights Pertinent to the Results of Services" in the guideline which is directly related to this paper.

Table 1: About "Unilateral Handling of the Rights Pertinent to the Results of Services"

<table>
<tr><th></th><th>Conducts Against the Law</th><th>Conducts Not Against the Law</th></tr>
<tr><td>i. Belongings of rights (copyrights patents etc.) pertinent to the results</td><td>Unilaterally having the rights pertinent to results, belong to consignor with the reason;
♦ because the results were obtained during the course of the consignment transaction; or because the results were produced at the consignor's expense.</td><td>a. Separately paying a consideration for the proprietary of rights pertinent to the results, or for limiting the secondary use of the results</td></tr>
<tr><td>ii. Secondary use of the results</td><td>Limiting the secondary use of the results by the consignee with the same reasons as in "i.".</td><td rowspan="2">b. When it is recognized that the terms has been agreed so as the above consideration is included in the consignment fee.</td></tr>
<tr><td>iii. Belongings of rights pertinent to results convertible to other applications, and its secondary use</td><td>Same conducts as in "i." and "ii.".</td></tr>
<tr><td>Note 1)
When a consignee used the technologies and personnel offered by a consignor to produce the results</td><td colspan="2">♦ The handling of the rights pertinent to results shall be determined with the consideration of the relationship with the technologies offered by the consignor, and when it is a patent or know-how, it shall be determined according to "Handling Criteria Relating to the Regulations of Unfair Transactions in Patent/Know-How License Agreements".</td></tr>
<tr><td>Note 2)
When a consignor offered technologies and personnel and jointly produced the results</td><td colspan="2">♦ When the terms relevant to the belonging of the rights or terms relevant to the secondary use and to the services/expenses in producing the results are considerably unfair so that the consignee unduly incurs disadvantages, it is subject to the abuse of predominant standing or "a discriminative handling in joint performances" (General Designation No.5).</td></tr>
</table>

2-2 Researches Consigned to National Research Institutes

Those patents resulted from research consignments between national universities and private companies, are handled based on the invention regulations of each university through the verdict of scientific council, and principally, reverted to the possession of individual inventors. However, those inventions invented from the results of researches where special national research fund were received, or special national research facilities were used, have been inherited by the country as national patents. Where private companies are aware that the results of their consignments might become national patents, no private companies would be willing to consign researches to national universities, thus there would be no communications between national universities and private companies.

In consideration of this circumstance, in 1984, it has become accepted that consignors or any third parties designated by the consignors to be granted licenses of such patents preferentially for the period of seven years at maximum, and furthermore, "Research Exchange Encouragement Act" was constituted on May 20, 1986. This act allows the maximum of 1/2 of a patent resulted from a consigned research to be assigned to a

consignor.

On the other hand, "Science and Technology Fundamental Law" was enacted on November 15, 1995, as a fundamental framework of the science and technology in our country, and it constitutes the backbone of the approach to be a "Science and Technology Creating Nation" toward the 21st Century. In addition, the liaison and cooperation between the industry and academic institutions was stressed in the "Science and Technology Master Plan" approved in the cabinet council in July 1996, as one of the main components of the plan, and various promotional deals were made. Also, the minister of the Board of Education reported the prime minister in January 1996, the Education Reformation program which plots detailed approaches for personnel training and research activities with the cooperative efforts by the industry and academic institutes for promoting the talents to lead the future science and technology and for encouraging scientific researches to meet the demands in the society.

In August 1997, a clause "The measurements for facilitating the patenting processes and the circulation of research results shall be discussed to enable the smooth transfer of research results from national universities to the industry, and any necessary actions shall be taken by FY1998" was added in the revised Education Reformation program. It is important, therefore, to build up a new technology transfer system connecting universities and the industry using patens as the medium, and how various conditions shall be provided is currently being discussed. With the establishment of such systems, the number of research consigned to research facilities such as universities is expected to increase in the future.

3. Extracting and Considering Problems in Licensing Terms Agreed by Consignment Agreements

3-1 The Forms of Research and Development Consignments

When a consignor is a company, the ultimate purpose of a research and development consignment would be to gain profit by using the results of the research and development in its own business. Therefore, the largest interest of the company is in "what can be obtained as a result of the consigned research", but at the same time, "how the results can be utilized" would also be an important issue. Especially when the right belongs to the consignee, it is necessary to specify beforehand, the following (1) to (3) at the time of the consignment agreement since the consignor has to have the license granted under the right to use the results by the consignee who is the licensor.

(1) Relationship between the consignment fee and the license fee
(2) The right to be licensed to the consignor
(3) The use of the result by the consignee

The details of these items from (1) to (3) are assumed to vary by the nature of the consignment results.

For example, in a product development consignment such as software outsourcing, the

"concrete result", i.e. "software", is specified at the time of the consignment agreement, and the purpose of the use of the results is usually clear, i.e. "sales of the software". On the contrary, in a basic research consignment, not only the "concrete result" is unspecified, but also it is possible that results cannot be expected at all. Also, the results are not necessarily used in a product, or it might require a longer period of time before it can be implemented in a product.

Therefore, in this paper, the aforementioned (1) to (3) are discussed assuming that there are following two patterns as the forms of research and development consignments.

1) Technology Development Consignment: a pattern of research and development consignment where concrete results cannot be expected right away
2) Product Development Consignment: the other pattern of research and development consignment where concrete results (items to be submitted to consignors) are clearly specified

The table 2 defines the characteristics of 1) Technology Development Consignment (hereinafter referred to as "Technology Development Consignment") and 2) Product Development Consignment (hereinafter referred to as "Product Development Consignment").

Table 2: Characteristics of the Research and Development Consignment Patterns

	Characteristics	Example of Consignment	Sample Agreement[3]
Technology Development Consignment	♦ Consignment for element technology development for the implementation in a product; or for basic research ♦ Results are mainly patents and know-hows etc. ♦ The consignees' purpose is to gain license income by licensing the results to others besides the consignors.	♦ Consignment of a basic research to an university	"Kyoto University Consignment Agreement"
Product Development Consignment	♦ Results are specified at the time of consignment agreements. ♦ Consigns product development ♦ Consignors intend to use the results in their business such as selling a result in the form of products ♦ Results include patents and know-hows also ♦ There also are cases where consignees sell their development results ♦ There also are cases where consignors offer their kow-hows or information besides consignment fee.	♦ Software outsourcing	"Software Development Model Agreement"[4] (Japan Electronic Industry Development Association)

[3] An agreement referred for the discussion in the present paper

[4] Written based on "major items that should be included in software development contracts" which is the draft of provisions proposed by the Information Industry Section, Industrial Infrastructure Cosultation, Ministry of International Trade and Industry, for the major items that should be included in the contracts in software development transactions

3-2 Extracting and Considering the Problems in Each Individual Form

(1) The Relationship Between Consignment Fee and License Fee

In a case the intellectual proprietary rights of results owned by a consignee, a consignor needs to be licensed by the consignee for the use of the result. In addition to the contents of the license, the terms on the license fee are also important.

In a normal license agreement, a licensee pays a license fee for a licensed right. On the other hand, in the case of a consignment, a consignor who is a licensee, already paid a consignment fee. Therefore, it is important whether or not the consignment fee includes the license fee for the use of the results, in other words, whether or not the licensee has to pay the license fee separately from the consignment fee.

According to the guideline indicated in the table 1, the conduct of having the intellectual property right pertinent to the result belong to the consignor only with the reason because the consignor paid the expense, is a conduct against the Acts. Therefore, it is necessary that either "A: the license fee is specified separately from the consignment fee" or "B: negotiation to include the license fee in the consignment fee has been made".

In the following section, this paper discusses on the most optimal arrangement of the relationship between consignment fees and license fees in each pattern of the Technology Development Consignment and Product Development Consignment, provided that the guideline is also applied to the licensing of consignment results.

1) Technology Development Consignment

Unlike Product Development Consignments, in a Technology Development Consignment, a concrete result is unknown at the time of consignment agreement. It probably is difficult to estimate an adequate license fee beforehand since it is unpredictable whether the result will turn out to be a patent know-how, or nothing.

From the standpoint of a consignor, a consignor probably is reluctant to pay for a license fee as a part of its consignment fee for the results which may not be obtained, or even if obtained, may not be beneficial for the consignor's business.

Also, since this is not a development consignment of a product, it is unlike that the consignor is stranded even if he cannot use the results, which may be a patent or know-how, right away. Therefore, there would be no problem for the consignor to specify a license fee separately from the consignment fee for the license of only the necessary results after the results are determined.

In the sample agreement of "Kyoto University Research Consignment Agreement", indicated in Table 2, the following arrangement has been made between the consignor and consignee (the university).

Kyoto University Research Consignment Agreement

Article 9.
Consignor shall not use, and shall not be assigned the rights such as industrial property rights or the like, which are the results of the research consigned and belong to Consignee, without the payment of the consideration.

Article 12.
Where Consignor or any third parties designated by Consignor attempts to work the patents or the like belonging to Consignee, Consignor shall pay a license fee provided in a separate license agreement.

Article 9 specifies that the consignor "shall not use ...without payment of the consideration", and Article 12 specifies that the consignor "shall pay a license fee provided in a separate license agreement".

Such provisions are based on the Article 9 of the Finance Law, providing that an adequate consideration has to be charged to a consignor when granting the consignor (non-public organization) a license under a national patent (patent belonging to the university). That is the reason why the license fee has to be paid separately from the consignment fee.

However, even the consignor is willing to pay the license fee separately from the consignment fee, if the license is not granted from the consignee, the consignor cannot use the results even tough the consignment costs has been borne by the consignor. When the consignee is the national institute, the license would be granted as it is provided in "Three Laws of National Patents Promotion" that license should be granted without discrimination. However, when the consignee is a private company, it is necessary to provide "the license for the use of the results shall be granted" at the time of the agreement.

In such situation, a clause stating "the license shall be granted without the consideration" is sometimes provided. It means that "the license fee is not going to be paid separately", and also "the consignment fee does not include the license fee", thus such agreement falls into neither of the condition A nor B indicated in Table 1.guideline. Therefore, it is necessary to amend such clause considering the guideline.

2) Product Development Consignment

Unlike Technology Development Consignment, in a case of Product Development Consignment, a consignor usually concludes the consignment agreement with the presupposition to manufacture and sell the result as a product. Therefore, it is necessary that the consignment agreement specifies that the consignor can use the results, and the consignment fee often include the license fee required for the sales by the consignor.

The reason is, when the total amount of consideration (consignment fee and license fee) is not clear beforehand, a consignor would not be able to determine whether or not to enter into a consignment agreement itself because consignor cannot make a business plan of the product without estimated of total cost of such product including the license fee. Also, provided that the license fee for the use of the consignment results has been agreed to be paid separately from the consignment fee, when the licensing negotiation failed, the consignor would not be able to use the results at all while paying the consignment fee. Even if the grant of the license had been promised, when the license fee was not agreed, or when the consignor had no choice but to accept a large amount of the license fee, there would be a large impact on the product's sales price and on the consignor's business. Therefore, it is necessary for a consignor to make sure that the license fee is included in the consignment fee.

According to the guideline, it is necessary that "B: negotiation to include the license fee in the consignment fee has been made". What is important to note here is that whether it is necessary to have the amount of the license fee specified.

It is difficult to determine how to condition the license fee at the stage concluding a consignment agreement. For example, when the value of the right, under which a consignor is granted the license, is dependent on the amount of profit the right would earn for the consignor, it is difficult to estimate beforehand.

Also, it is possible that existing technologies the consignee already possesses are also implemented. In such a case, both the existing technologies and the newly developed technology have to be implemented in a product. Since it is difficult to sum up the license fee of each individual technology in the reality, the consideration probably has to be set inclusive of all the necessary rights. What sort of rights are going to be obtained for the newly developed is unknown, and as for the existing technologies, it is difficult to accurately estimate which rights possessed by the consignee will be infringed by the product not yet developed.

As the above, specifying a license fee on a contract is practically difficult. Therefore, where the specific amount of a license fee is not required on the contract, it is more desirable to provide a clause mentioning as far as "the license fee shall be included in the consignment fee". However, it is not clear whether or not the guideline requires a specific amount of a license fee on a contract.

"Software Development Model Agreement" in the table 2 as a sample contract of the Product Development Consignment, provides the ownership of intellectual properties and license terms in Article 29.

Table 3. Summarizes the article. In this "Model Agreement", the conditions for the ownership of software copyrights and its use, are to be selected from the three patterns as shown in Table 3.

Table 3: Ownership of Copyrights and Licensing Patterns in "Software Development Model Agreement"

	Copyright of Newly Developed		Existing Copyright
	Belonging	Terms for the Use	
Pattern 1	Consignee	♦ Consignee shall grant consignor a right to copy and adapt etc, to the extent required in order for consignor to use the software, free of charge.	♦ Belong to each owner of rights ♦ Consignee shall grant consignor a right to copy and adapt etc, to the extent required in order for consignor to use the software, free of charge.
Pattern 2	Jointly owned by the parties	♦ Both consignor and consignee may use, copy and adapt etc. including grant of licenses to any third parties without restriction.	♦ Belong to each owner of rights ♦ Consignee shall grant consignor a right to copy and adapt etc, to the extent required in order for consignor to use the software, free of charge.
Pattern 3	Copyright of Newly Developed Program ↓ Consignor Transferred from Consignee		Components of Existing Programs (routines, modules) ↓ Belong to each owner of rights
	Components of Newly Developed Program ↓ Jointly owned	♦ Both parties may use, copy and adapt etc. including grant of licenses to any third parties without restriction.	
	Documents of the Newly Developed ↓ Jointly owned	♦ Both consignor and consignee may use, copy and adapt etc. including grant of licenses to any third parties without restriction. However, both are obliged to hold in confidence any confidential information disclosed by the other party.	♦ Consignee shall grant consignor a right to copy and adapt etc, to the extent required in order for consignor to use the software, free of charge.
	Ideas, Know-Hows, and Concepts etc. of the Newly Developed	♦ Both parties may use freely without the obligation to hold them in confidence.	

In the pattern 1 where a copyright belongs to a consignee, "consignee shall grant consignor a right to copy and adapt etc, to the extent required in order for consignor to use the software, free of charge". Also, for both existing rights and the rights

relative to a new invention possessed by a consignee, a license is granted for free to a consignor to the extent required in order for the consignor by itself to use.

As for the provision of a condition "granting for free", as mentioned in the prior section, it is probably necessary to consider in relation with the guideline. Thus, this "Software Development Model Agreement" may be also required to provide a clause to include the license fees for "newly developed and existing rights of Consignee".

Table 4 summarizes the discussions in 1) and 2).

Table 4: Summary of Consignment Fee and License Fee

License Fee	Included in Consignment Fee	Excluded from Consignment Fee
Technology Development Consignment	♦ It is difficult to include license fee in consignment fee since it is hardly estimated whether or not IPR will be developed or whether or not the results will be applicable to consignor's business.	♦ License fee shall be paid separately. ♦ Grant of license shall be promised. ♦ Further discussions are required on the validity of the grant of license for free of charge ♦
Product Development Consignment	♦ Include license fee in consignment fee. ♦ If it is necessary to specify the amount of a license fee, the calculation of license fee will be required, and there will be practical problems. ♦ License fee of a license under any patens used in the results shall be included in consignment fee	♦ When a license fee is attempted to be paid separately, it is possible that the use of results is obstructed.

(2) The License to be granted to the Consignor

When a consignor consigns development with the presupposition that the consignor is going to manufacture and sell the product, a required license shall be the one to cover the rights to manufacture, sell and use the product under the Intellectual property rights such as patents, know-hows and copyrights relative to the subject product. When the product is software, the provision for the rights licensed to a consignor by a consignee would be something like, "... shall grant the right to use, modify, copy and sell the result (software) and the right to distribute the result to any third parties."

Looking at Table 3 "Software Development Model Agreement", the extent of the free use of software by a consignor is practically limited to the consignor's own use in all the patterns. In the pattern 3, when the consignee possesses no existing rights and there are neither existing nor new patents etc. present, a consignor can grant licenses to any third parties, however, such cases are assumed to be rare.

Therefore, the above is insufficient as the provisions for a case where a consignor is

making a consignment agreement for the purpose of selling the software. Also, securing the right to license third parties is important not only for the sales of the product but also for a consignor to be able to cross-license under such rights.

When a patent, resulting from a consignment, belongs to a consignor, this patent can also be a subject for cross licenses, but when it belongs to a consignee, the patent won't be a subject for the consignor's cross licenses. As the number of research and development consignments grows, and patents become less likely to belong to consignors, cross-licensing will possibly become increasingly difficult. In order for consignors to be able to cross-license as necessary, it may be important for consignors to obtain sublicenses under the patents that belong to consignees so as to be able have them cross-licensed.

This is also true for those patents that consignors already have concluded cross license agreements.

For example, in a case where Company A is under a cross license agreement with Company B, and the companies can use the other company's patents without considerations, when A consigns research and development to Company X, as long as the consignment is conditioned so as Patent x which is a result of the development, to belong to the consignor A, Patent x will also be a subject for the cross license, thus B also can use Patent x.

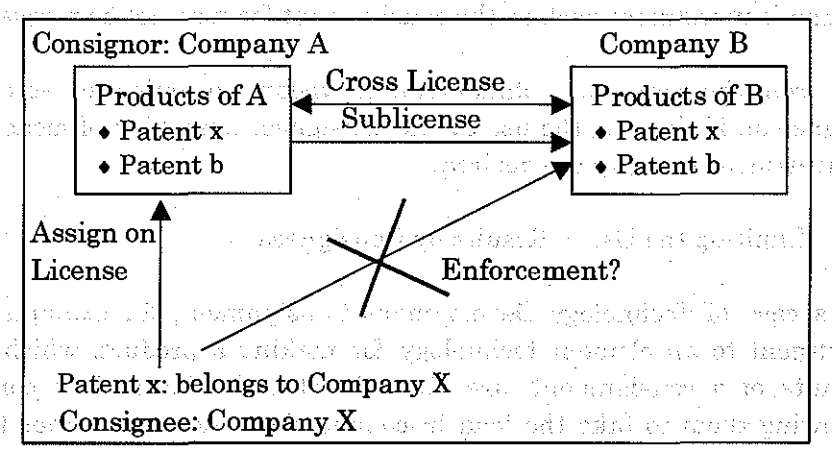


Figure 1

However, as in the case indicated by Fig. 1, when Patent x belongs to Consignee X, and Company A is granted a license under Patent x, Patent x will not be a subject for the cross license, Company B, in order to be able to use the patent, has to be licensed by X. Provided that a product of Company A uses Patent x and Patent b which is a subject for the cross license, and Company B attempts to make a similar product, B has to go through a licensing negotiation with X. If the license is not granted, B cannot make the similar product. Therefore, in such a case, the cross license may be beneficial for A, but not for B, and that results in the lack of balance.

Therefore, it is possible that Company B requests Company A to obtain a sublicense of Patent x which now belongs to Company X, or to have Company X not to enforce its right to Company B.

In any cases, when a consignor allows to have the result belong to a consignee, and obtain a license under necessary rights, he may need to do thorough study on the relationship with cross licenses.

(3) Problem in the Use of Results by Consignees

In addition to the contents of right or license fee issues, having a consignee itself or parties other than consignor use the result of a consignment are matters of great importance for a consignor.

In a case of Technology Development Consignment, a consignee itself is not likely to use the result in its products. Thus the main motivation of the consignee would be to gain license fees by licensing the result also to parties other than the consignor.

In a case of Product Development Consignment, on the other hand, it is possible that a consignee itself sell a result in the competitive standpoint against the consignor. If the consignee sold the result of the consignment to competitors of the consignor with low consideration, the business of the consignor incurs damages or consignor's investment such as the consignment fee may not be recovered.

Thus, from the consignor's standpoint, provisions to limit the use of results by a consignee or, if allowing the use by the consignee, some kind of measures to secure the investment recovery are desired.

1) Limiting the Use of Results by Consignees

In a case of Technology Development Consignment, for example, any patents pertinent to an element technology for making a product, which is one of the results of a consignment, are desired not to be licensed to competitors, not allowing them to take the lead in commercialization. In order to do so, what measurements can be considered?

In "Kyoto University Research Consignment Agreement", the following condition is provided between Consignor and Consignee (the university).

Kyoto University Research Consignment Agreement

Article 10

Consignee shall be able to preferentially grant licenses under the rights authorized to Consignee to patent the inventions resulted from this research consignment or any patents obtained based on the aforementioned, to only Consignor or any third parties designated by Consignor for the period of 7 years after the fulfillment of this research consignment.

If such a "Preferential License", a license term as the above, is provided, the license is granted only to the consignor and the consignor can avoid the risk of having the rights licensed to competitors for a certain period of time. In this sample case, other companies cannot have the license granted to make products similar to that of the consignee's for 7 years. From the consignor's standpoint, the provision of such a condition is probably worth considering.

It is also necessary to provide some kind of measurements to avoid damages to the consignor's rights as it is possible that the consignee assigns the rights pertinent to the results to a third party.

Separately from the provision of the above "Preferential License", there is a method to share the proprietary of results once belonged to a consignee.

In Article 73 Paragraph 1 and 3 of Japanese Patent Law, there provided:

Patent Law

Article 73 Paragraph 1

In a case of a jointly owned patent, each co-right holder shall not transfer its share, or set pledge with the object of its share, without the consent of the other co-right holder.

Article 73 Paragraph 3

In a case of a jointly owned patent, each co-right holder shall not set the exclusive license under the patent rights, or grant non-exclusive licenses to third party without the consent of the other co-right holder.

According the above regulations, in order to be able to grant licenses under jointly owned rights to any third parties, the consensus between the co-owners are required. That means a consignor can restrict a consignee sharing the rights with the consignor, since the consignee needs the consent of the consignor when granting licenses to any third parties. It also restricts the transfer of the rights of the result from the consignee to any third parties.

Therefore, it may be one method to provide a consignment agreement so as to authorize the rights to a consignee at first, but to allow a consignor to share those rights such as patents the consignor desires to have after results are out, by paying consideration separately from the consignment fee according the

guideline.

In the case of Product Development Consignment, since a consignee itself possibly turns out to be a competitor of a consignor, such as a case where the consignee starts selling the results, it is probably difficult to limit the use of the results by consignee. However if the consignment results include know-hows offered to the consignee from the consignor, the use of the results may be limited by providing terms for the consignee's use of the know-hows.

According to Article 29 of "Software Development Model Agreement" indicated in Table 3, a non-exclusive license is granted to a consignor under the patents solely owned by a consignee free of charge. However, there is no provision for the licensing the consignee under those patents solely owned by the consignor. Therefore, where there are patents solely owned by the consignor, unless the consignee has the license granted under such patents, the consignee cannot sell the results.

This is also true for copyrights. There are no provisions for the grant of license under those existing patent rights owned by a consignor in any of the patterns from 1 to 3 in Table 3. Therefore, a consignee has to have a license granted by a consignor when any existing copyrights owned by the consignor are incorporated in the results.

As for know-hows, by the provision of Article 30, where the confidential information of a consignor is included in the result, the grant of a license by the consignor shall be separately required for the use of the information [the use in a form of disclosure (more specifically, the disclosure of source codes etc. to any other parties)].

Software Model Development Agreement

Article 30

Consignor and Consignee, without the written consent of the other party, shall not disclose, or divulge to any third parties during the term of this agreement and for the period of ( ) years thereafter, any of the other party's own technical, sales, or other business confidential information disclosed by the other party pursuant to this agreement and the individual agreements.

As shown in "Software Model Development Agreement", where patent rights of a consignor exist, and where confidential information of the consignor is incorporated in the software, the secondary use by a consignee can be limited.

However, in the guideline, limiting the secondary use of the results by a consignee might be found to be a conduct against the Acts (Table 1. iii.). It is necessary to make sure that limiting the secondary use by limiting the use of know-hows does not conflict with the guideline.

Also, since it is difficult to determine whether or not the consignor's rights such as

know-hows are incorporated in the results, there might be a disagreement between the consignor and consignee. When the case allows, a compromise by providing a clause limiting the sales to any third parties during a certain period of time after the submission of the results to a consignee may be one way to solve the problem.

2) Recovery of Investment

A consignor intends to gain profit by selling the results as a product to recover the consignment expenses that are its development costs. On the other hand, the costs of development incurred at the consignee side are covered by the consignment fee, thus the incomes gained by licensing or by selling of the consignment results would be its profit. Here, the consignor might have a feeling of unfairness since the consignor only gains the recovery where both side similarly use the rights. Therefore, the consignor might desire to have the consignee return a part of the profit the consignee gain as license incomes etc. to consignor.

When the consignment results include know-hows offered by the consignor, it is possible for the consignor to provide a term to have the consignee pay consideration for the use. However, if it falls in the case of limiting the secondary use (Table 1. iii.), it is an important issue in terms of investment recovery, how the consignor can claim a consideration for the incomes consignee, the owner of the rights, gained through enforcement of its rights.

Based on the development of this discussion, it is probably necessary to consider setting the consignment fee lower than that of the case where the proprietary of results goes to a consignor.

4. Conclusion

As discussed heretofore,

(1) Points to Pay Attention to, at the Time of Agreement

It is greatly important to provide the handling of the use of results beforehand as the proprietary of the results not necessarily goes to a consignor, but it may be shared, or may go to a consignee. If failed to do so, a consignor may found itself in a position, where it can't achieve lateral development, the technologies developed through its consignment with its own expense are licensed to competitors for very low considerations, or it has to have a license granted by a third party whom the results were assigned by the consignee in order to use the technology developed by itself. It is possible the things do not turn out as first intended while bearing the consignment fee.

A consignor should go over the terms of agreement keeping in mind the following points with the reference of the guideline etc.

1) Relationship between the consignment fee and the license fee

- In a case of Technology Development Consignment, the license fee shall be separately paid from the consignment fee.
- In a case of Product Development Consignment, the license fee shall be included in the consignment fee.

2) The contents of the right licensed to the consignor

- Obtain the right for a consignor to be able to grant licenses to any third parties.
- Consider the cross licenses with any third parties that a consignor is under the effect of.

3) The problem in the use of the result by the consignee

- In a case of Technology Development Consignment, provide preferential licenses for patents.
- Where the results of a Technical Development Consignment includes a consignor's know-hows, limit the use of the know-hows.

(2) Problems

1)Because there still are many restrictions and obligations on the side of private companies in research consignments with national research institutes, such consignments do not seem to be attractive to private companies. We shall keep our eyes on the future law amendment and constitution.

2)In a case of software development consignment, it is difficult to segregate the considerations pertinent to an assignment or license of intellectual properties, from the consignment fee which covers direct services consigned. The relationships of the rights incorporated in a software (result) are tangled with existing technologies (especially copyrights), and the relationships among those rights are unclear and complicated. It is important to pay attention to this point in development agreements.

(1) Title: Package Licensing

(2) Date: October 1998 (The 29th Congress at Sapporo)

(3) Source:

1. Source: PIPA
2. Group: U.S.
3. Committee: 2

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(5) Key Words: Package License, Blocking Patents, Patent Misuse

(6) Statutory Provisions: 35 U.S.C. 271(d)

(7) Abstract:

Antitrust and patent misuse concerns typically arise when a licensor requires a licensee to take a license for a package of patents which includes not only the patent(s) of interest to the licensee, but also one or more patents which the licensee has no interest in licensing. This paper particularly addresses these antitrust and misuse concerns based on segregating the patents in the portfolio into three categories relative to the licensed product. These categories are defined by: (i) whether the patent is required for the licensed product (blocking patent); (ii) the licensed product is difficult to make without the patent; or (iii) the patent is optional and need not be used for the product.

I. Introduction

Your company owns a number of patents covering an item. Some of these patents are essential for the item, that is, the item cannot be made, used and sold without using each of these "blocking patents". Other patents (" proud patents") cover the item and are difficult but not impossible to avoid. Yet other patents ("optional patents") could be used in the item, but they are not needed. You wish to put together a licensing program for a patent portfolio which includes the blocking, proud and optional patents and which takes into account business considerations such as convenience and efficiency as well as evolving antitrust and patent misuse concepts in the context of package licensing.

This paper will address how such a package licensing program should be structured.

II. Mandatory Package Licensing

In general, a package license may be deemed unlawful if it amounts to a tying arrangement, that is: if the licensing of one "product" is conditioned upon the acceptance of a license of another, separate product.[1] Tying arrangements are generally considered illegal because (a) a seller with market power in a product requires a buyer to purchase from him another product which the buyer does not want and (b) they restrict competition

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[1] *American Securit Co.* v. *Shatterproof Glass Corp.*, 268 F.2d 769 (3rd Cir. 1959), *cert. denied*, 361 U.S. 902 (1959); *Duplan Corp.* v. *Deering Milliken, Inc.*, 444 F. Supp. 648, 696-97 (D.S.C. 1977), ("Where the patent owner refuses to grant a license under less than all of his patents, however, or requires the licensee to accept a license under unwanted or inapplicable patents in order to obtain the use of desired patents, the practice is condemned under the patent laws as mandatory or coercive package licensing. . . . As a matter of patent law the inclusion of tying provisions in a mandatory package patent license constitutes a misuse of patents absent some showing justifying the practice such as business convenience or necessity.").

in the unwanted product. This is one of the issues the United States currently is litigating with Microsoft.

Package licensing generally raises no antitrust or misuse concerns if coercion is lacking, that is, when the licensee is free to choose patents and is not forced to accept the package.[2] Mandatory package licensing occurs when a licensor requires the licensee to take a license under a package of patents, some of which the licensee does not want, in order to receive a license for those patents that the licensee desires. However, package licenses generally are not unlawful where they are based on technical necessity (as in the case of blocking patents) or on legitimate business considerations; for example, when transactional costs can be reduced if all patents are licensed in a single transaction which benefits both licensee and the licensor.[3]

Similarly, mandatory package licensing of patents under the Japanese Fair Trade Commission's 1989 Guidelines is presumptively lawful "to the extent necessary to guarantee the usefulness of the licensed patent."[4] That is, under the Guidelines technical

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2 *McCullough Tool Co.* v. *Will Surveys, Inc.*, 343 F.2d 381, 407 (10th Cir. 1965), *cert. denied*, 383 U.S. 933 (1966) (for package license to be unlawful there must be coercion); *Hensley Equipment Co.* v. *Esco Corp.*, 383 F.2d 252, 265 (5th Cir. 1967) (package license not unlawful where there was no indication that licensee was in any way coerced into unwillingly accepting patents as a condition of being licensed to practice others); *International Manufacturing Co.*, v. *Landon, Inc.*, 336 F.2d 723, 729-30 (9th Cir. 1964), *cert. denied*, 379 U.S. 988 (1965) . . . [arises from] the prospective licensee, in order to accept licenses under patents that were not necessarily needed.").

3 *Id.*

4 Japanese Fair Trade Commission, Guidelines on the Regulation of Unfair Business Practices in Patent and Know-how Licensing Agreements, pt. II, § 1(12) (Feb. 15, 1989), reprinted in translation in CCH *Japan Bus. L. Guide* ¶ 48-120 (it is presumptively lawful for patentee "[t]o require the licensee to accept a license of a plural number of patents *en bloc* to the extent necessary to guarantee the usefulness of the licensed patent").

necessity can justify requiring the licensee to accept a package of patents.[5] In some ways, this Guideline of the Japanese Fair Trade Commission recognizes a licensee's desire to license all necessary patents from the licensor rather than to license essential patents and subsequently be at risk for infringing non-essential patents.

A. Essential Patents

A licensed patent may be regarded as a "product" which is being sold to the licensee by the licensor. A tying arrangement necessarily involves at least two separate "products" [6]. There has been a great deal of litigation and many reported cases involving what constitutes a separate product. It is clear, however, that a package license which includes only includes essential or blocking patents which are necessary for a single item is not unlawful. "A package portfolio which contains only blocking patents may be considered a single, distinct product. By definition, blocking patents disclose interdependent parts of the same item."[7] In such cases, courts have recognized that the licensee is being required to accept only the patents that are necessary to the item in question, and not those relating to another, separate item. Thus, although the portfolio may contain dozens of patents or more, they are deemed not to be separate "products" because a license under all of the patents is necessary to produce a certain item.

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[5] *See Id.*, at pt. III § 1(11) (it is presumptively lawful "[t]o require the licensee to accept a license of a plurality of know-how *en bloc* to the extent necessary to guarantee the usefulness of the licensed know-how").

[6] *International Manufacturing Co.*, 336 F.2d at 729 ("mandatory package licensing of blocking patents does not constitute an unlawful tying arrangement. A tying arrangement involves two separate, distinct products.")

[7] *Id.*

An argument also can be made that there can be no coercion — another element of the tying offense — when the portfolio contains only essential patents. The licensee is not being compelled to take unwanted patents since there can be no unwanted patents in a portfolio which includes only essential patents.

Because a license under an essential patent provides access to a market involving the item covered by the claims in the patent, and because any one essential patent is sufficient to prevent such access, it generally is permissible to charge the same royalty rate for the use of one or more essential patents. The royalty rate may be viewed as the price of entry into the particular item or market. In this way, if a licensee absolutely insists that a particular patent is not essential and demands a license without it, a licensor may consider complying with such a request at the same royalty rate at which the entire portfolio is offered. Thus, the licensee is free to license one essential patent rather than the entire package but the royalty rate can remain the same.[8]

B. Essential Patents In Combination With Optional And/Or Proud Patents

Where the portfolio of patents relating to the particular item includes not only the essential patents, but also optional and/or proud patents, the question of whether a licensor can offer them only as a package is closer and is generally dependent on the prevailing facts and circumstances. A package license of this type is generally permissible as long as the licensing policy reflects sound business judgment and is not designed to

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[8] *Reeford P. Shea and Preco, Inc.* v. *Blaw-Knox Co.*, 388 F.2d 761, 764 (7th Cir. 1968) (charging same royalty rate as package even though only one patent was licensed was not unlawful where there was no economic coercion).

coerce the licensee to accept, and pay for, a separate "product" that the licensee does not want. Depending on the patents that are included, the portfolio of patents may reasonably be considered to constitute parts of a single distinct product and, therefore ,would not be an illegal tie. Even if a manufacturer might, at considerable cost, be able to design around one of the patents in the portfolio, there generally would be no need to delete such a patent from the portfolio if a license under that patent is desired by most, if not all, licensees. On the other hand, if would be far more difficult to justify a package license that includes "competing patents" that are used for separate and distinct items. Competing patents which provide distinct methods to achieve substantially the same goal generally cannot be "forced" upon an unwilling licensee.

It is not unreasonable to offer the licensee a choice to license either a package of essential patents or, for a slightly higher rate, a package of essential patents mixed with optional and/or proud patents. Factors in favor of permitting this pricing include the size of the licensing program, the need for administrative efficiency and the reduction of transaction costs.

In the context of a single licensor, factors that would justify a package license which includes more than just essential patents would include the reduction of transaction costs, the fact that the additional royalties above the rate asked for the essential patents are minimal, that the patents are closely related to one another (and do not read on separate items), that non-essential patents are not being used to extend the life of the license, and that most licensees, as a practical matter, desire a license on the entire portfolio to avoid later infringement issues. While these factors will generally justify a

package license, if the licensee so demands, the safest course would be to also offer a license on some but not all of the non-essential patents. A claim of tying generally can be avoided if the licensee is presented with a choice for exercising one option over another that does not include punitive consequences.

III. Guidelines

1. Where the patent portfolio includes patents relating to a single item, it is generally not unlawful to charge substantially the same royalty even if the licensee only wants to use some of the patents from this portfolio (for example, the essential patents but not the optional ones) as long as the royalty is reasonable and is based on legitimate business considerations, such as convenience and efficiency. The Supreme Court has held, for example, in its Automatic Radio Mfg. decision[9] that it is permissible to have a single license for a number of patents and a fixed royalty based on a percentage of the licensee's sales that does not vary regardless of how many of the patents are used in the licensee's item (as long as at least one patent is used).

2. On the other hand, if it could be shown that the licensor's refusal to negotiate individualized rates was merely a sham that forced the licensee to accept, at significant cost, unwanted patents for distinct items in order for the licensee to secure the desired patents, the package license will be unlawful.[10]

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[9] *Automatic Radio Mfg. Co.* v. *Hazeltine Research, Inc.*, 339 U.S. 827, 834 (1950).

[10] *Hull* v. *Brunswick Corp.*, 704 F.2d 1195, 1199 (10th Cir. 1983).

3. A safe course generally will be to offer the licensee an option of a license under essential patents at a specified royalty rate and a combined license under both essential patents and optional and/or proud patents at a slightly higher rate.

4. It should also be justifiable to offer a combined package license at a single rate if that is what licensees typically request as a form of insurance against subsequent infringement allegations. Licensors still must be vigilant to avoid coercion.

5. Yet another possible option is to set the desired royalty rate based on licensing one or more essential patents and offer to licensees who are paying the royalty required for use of one or more essential patents either (i) a non-assertion with respect to the rest of the licensor's portfolio or (ii) a royalty free license with respect to the rest of the portfolio. This type of structure would be difficult to challenge and would eliminate the cost of individualized negotiations.

6. When a licensee demands negotiation and a license with respect to individual patents, the safest course is to not refuse, but to negotiate an individual license. The total royalty for a custom license which includes at least one essential patent may be very close to, or even be identical with, the package rate. Although the courts are not unanimous, pricing a customized license for fewer patents at virtually the same rate as a package license can be justified because (i) the package license rate is set as a fee to enter the industry and produce the item (the custom license provides the same essential right) and (ii) an individual license increases the transaction costs of the licensor, the license must be negotiated and future potential infringement monitored (because the licensee has

elected not to license the entire portfolio) and these additional costs may be reflected in the royalty rate for the "custom" license.

IV. Conclusion

As long as the licensing options being considered are justified by sound business considerations and there is no evidence that the licensor is attempting improperly to leverage its power over some patents to force the licensee to take less desirable licenses, the licensing practice ought to be deemed lawful.

(1) Title: Practical use of PCT

(2) Date: October of 1998 (the 29th International Congress in Sapporo)

(3) Source: <1> source : PIPA

<2> Group : Japan

<3> Committee : #3

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(5) Key words: Patent Cooperation Treaty, PCT, International applications, International search, Demand for international preliminary examination, Global patent system

(6) Statutory Provisions: Articles 11, 15 and 33 of Patent Cooperation Treaty

(7) Abstract:

Along with the increase of the PCT applications all over the world, the number of international applications in Japan has substantially increased. Nevertheless, the number of PCT applications in Japan is insufficient when compared with that of PCT applications in Europe and America. This article compares the cost between the Paris route and the PCT route based on answers to questionnaire from Japanese and U.S. members of PIPA. The questionnaire inquired about the members general use of PCT applications, reasons for use, and impressions of the international search and international preliminary examination. This article also discusses whether there is any difference in the advantages of PCT applications from the Japanese and U.S. companies' stand points. Further, we propose in this article measures for improvements of international applications for the transfer of current international applications to a global patent system.

I. Introduction

The number of international applications (hereinafter PCT applications) under the Patent Cooperation Treaty (hereinafter PCT) has rapidly increased since 1990, and recently the number of PCT applications in Japan has also increased. However, compared with the number of PCT applications in Europe and America, the number of PCT applications in Japan is insufficient, being only one fourth of that of the U.S.

In Japan, some industries and companies have already started using PCT applications positively, but others merely use internal priority for supplementing the contents. Otherwise their use of PCT applications remains under the emergency situations when time is required to fill English specifications. In Japan, it is believed that a PCT application costs a lot and that its procedure is complicated. These are reasons why there are so few PCT applications in Japan. In this article some of the advantages for companies to use PCT applications are discussed based on the questionnaire results collected from Japan and U.S. members, as well as some of the disadvantages and problems of the current PCT application system. Furthermore this article also purposes measures for improvement to lay a foundation for the transition to a global patent system.

II. PCT system

1. Patent Cooperation Treaty

PCT was executed in 1970 in Washington as a patent treaty for the main purposes of reducing duplicated efforts on the part of the Patent Office of each country and applicants, thereby to assure easier and economic ways of obtaining protection for inventions (see the preamble of PCT).

PCT has two main purposes: promoting cooperation in the field of procedure of patent applications, and cooperation for the dissemination of technical information and the organization of technical assistance.

The first purpose has been effectuated by the establishment of the international application system (Article 11 of PCT). A patent

application which is filed under PCT has the same effect as that of a national application or as a bundle of actual national applications in each designated state, if specific requirements are satisfied. The second purpose has been effectuated by the establishment of the international search system (Article 15 of PCT) and international preliminary examination system (Article 33 of PCT). Results of the above search and examination will be helpful to applicants as data for evaluating applications, and also be helpful to the Patent Offices because they can reduce duplicated efforts of search and examination by effectively using such results. For a state where the examination system is not prepared appropriately, the international search results will serve as an effective technical assistance, thereby encouraging examination stabilizing the rights.

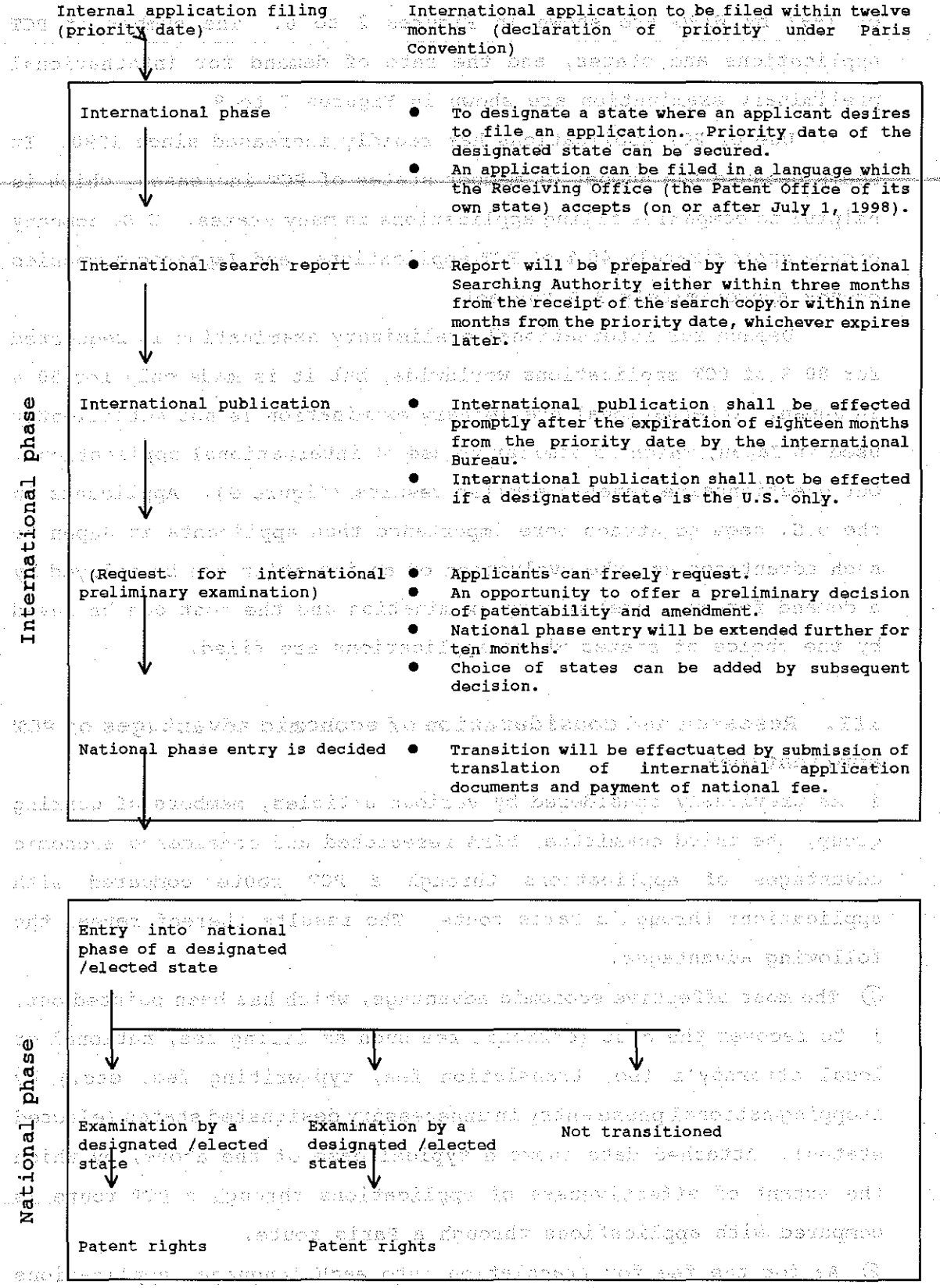
With these objectives, ninety-five states actually had access to the PCT as of March 1, 1998 and fifteen states are thinking of accessing to the PCT.

2. PCT application system

For the aforementioned purposes, one application, in one language, filed with one office, that is, one application procedure can give you the effect of national application procedures in each designated state, including amendment. Furthermore, duplicated efforts can be reduced if the Patent Office of each designated state uses an international search report or an international preliminary examination report.

There are various patterns of PCT applications, and the outline of a flowchart of average application procedures is shown in Figure 1.

Figure 1. Flowchart of PCT application procedure



3. Present situation of PCT applications

Concerning the situation of use of PCT application, statistics of 1997 by WIPO are shown in Figures 2 to 6. The number of PCT applications and states, and the rate of demand for international preliminary examination are shown in Figures 7 to 9.

Use of PCT applications has rapidly increased since 1990. It seems because the number of member states of PCT increased, which is helpful to companies filing applications in many states. U.S. company occupy approximately 40 % of PCT applications, and Japanese companies occupy approximately 9 % thereof.

Demand for international preliminary examination is requested for 80 % of PCT applications worldwide, but it is made only for 50 % in Japan. International preliminary examination is not sufficiently used in Japan, which is similar to use of international applications. Our questionnaire reveals similar results (Figure 9). Applicants in the U.S. seem to attach more importance than applicants in Japan to such advantages as; the evaluation of an invention can be delayed by a demand for open preliminary examination and the cost can be saved by the choice of states where applications are filed.

III. Research and consideration of economic advantages of PCT applications

1. As previously considered by various articles, members of working group, the third committee, PIPA researched and considered economic advantages of applications through a PCT route compared with applications through a Paris route. The results thereof reveal the following advantages.

① The most effective economic advantage, which has been pointed out, is to recover the cost (official fee such as filing fee, national or local attorney's fee, translation fee, typewriting fee, etc.) by stopping national phase entry in unnecessary designated states (elected states). Attached data shows a typical case of the above, by which the extent of effectiveness of applications through a PCT route is compared with applications through a Paris route.

② As for the fee for translation into each language, applications

through a Paris route often need attorney's urgent fee, but applications through a PCT route do not generally need such fee as sufficient period is available for translation.

③ In many national offices (JP, EP, US, CN, etc.), examination fees in the national phase is significantly reduced by international search and/or international preliminary examination by the European Patent Office or the Japanese Patent Office.

④ Only one certified copy of priority documents must be submitted in international phase, therefore, the cost for obtaining such documents, attorney's fee, etc. can be reduced (if the first filing state is Japan, only a request for delivery of priority document must be filed).

⑤ Amendment in international phase (Articles 19 and 34) is effective for all of the designated states. Therefore, the cost and so on (official fee and domestic or local attorney's fee) of amendment either voluntarily or in response to an office action in each state after an application is filed through a Paris route can be saved.

⑥ The concept of unity of invention which has been provided for by PCT is accepted by all of the designated offices. Less restrictive unity of invention requirements permit a reduced number of applications in the U.S. resulting in the reduction of the cost for one or more divisional applications.

⑦ In such states where patent maintenance fee arises when a patent is issued (US, NL, JP, KR), the cost generally occurs later (however, as to JP and KR, the period of request for examination is the same, therefore, occurrence of the cost is the same as that of applications through a Paris route if a request for examination is filed just before the deadline).

2. Comparison and consideration of the cost of an international application through a PCT route and a Paris route

There can be various forms in PCT applications, and the cost is compared by the following conditions.

A case of a typical application (specifications in Japanese-45 pages including descriptions, claims, abstract and drawings, corresponding specifications in English-50 pages, the number of claims;

10, the number of applications on which a priority is based: 2, translation in national phase-from English to each language, request for international preliminary examination-yes), where a PCT application which only designates Japan is not filed.

Fees shall be calculated by a table as of April 1, 1998, and exchange rates shall be 1 Deutsche mark=70 Japanese yen, 1 U.S. dollar=130 Japanese yen.

* Case A-Application through a PCT route or a Paris route which designates eleven states or regions (including JP, EP, US, and others consisting of two English-speaking states and six non-English-speaking states)

* Case B-Application through a PCT route or a Paris route which designates six states or regions (including JP, EP, US and others consisting of one English-speaking state and two non-English-speaking states)

* Case C-Application through a PCT route or a Paris route which designates three states or regions (JP, EP, US)

* Case D-Application to Japan only (application to claim national priority)

Results of the calculation as above are shown in the attached paper.

3. Consideration

Although a result is substantially variable depending on exchange rate and domestic and local attorney's fees, an application through a PCT route costs more than an application through a Paris route on condition that national phase entry occurs to the same extent of that of international phase, which was anticipated from the beginning. However, if there are at least some states where there is no national phase entry, the cost can be reduced. Especially, if it is a PCT application in Japanese for which there is no national phase entry in foreign states, translation fee is not necessary at all, and the cost advantage is extremely large. Results of questionnaire to U.S. members show that many of them think PCT applications reduce cost. Those who do not think PCT applications reduce cost even think that cost can be saved by withholding national phase entry. Therefore, recovery of the

cost by means of withholding national phase entry in unnecessary designated states (elected states) seem large for both Japan and the U.S.

However, even in the case of national phase entry which happens to the same extent of that of international phase, taking into consideration an economic advantage mentioned in the above ②, ⑤, ⑥, and ⑦, which are rather not visible and which have not been considered in the present calculation, there seems to be a greater overall economic advantage in applications through a PCT route than applications through a Paris route.

Although many Japanese companies know that there will be a cost advantage if national phase entries are canceled, they do not have internal procedures to decide states where applications are filed and to change states. Therefore, they cannot get a cost advantage because they carry out national phase entry in all designated/elected states. Therefore, such companies need to change internal procedure for deciding foreign applications to gain a sufficient cost advantage.

Taking into consideration the fact that there is an invention whose technical value or states where application should be filed cannot be correctly decided at the time of filing an application, PCT applications, whose determination period can be extended up to thirty months, can be regarded as a sufficiently advantageous method if a cost advantage is examined not for the sole application but for the whole of foreign applications.

IV. Research and consideration of practical advantages in PCT applications

PCT is an international treaty relating to patents, which intends to promote procedural cooperation by unifying filing procedure, to disseminate technical information and to promote technical assistance. In order to effectuate the above main purposes, such systems as the international application system, international search system and international preliminary examination system have been established.

From another point of view, more choice to file foreign

applications is available to applicants, who have to make efforts to select a filing route.

As mentioned below, PCT applications and Paris priority applications respectively have their own characteristics. Mere increase of PCT applications does not bring in any economic or practical advantage for applicants. If applicants want to obtain patent rights all over the world, they should realize characteristics and advantages of PCT applications to utilize them.

The following are the results of research and consideration as to procedural and practical advantages of PCT applications on the basis of answers to the questionnaire distributed to member companies of the third committee of PIPA.

1. Criterion of a decision as to whether an application is filed through a PCT route or a Paris route?

Some member companies have a firm policy, that is "all foreign applications shall be filed through a PCT route". However, many other member companies both in Japan and the U.S. do not have such strict internal rules. The fact is that the person in charge of the said application selects at his/her discretion whether the application should be filed through a PCT route or not.

The reasons why they select a PCT route are <1> applications should be filed in many states, <2> the economic value of an invention is unknown, <3> the remaining of priority period is short at the time when foreign applications are decided, etc.

Especially, the reason of <2> as above can be justified: if the time of actual market entry is not yet decided, the invention relates to leading-edge research and development, or if the patent should be obtained all over the world in pharmaceutical industry; because it is difficult to sufficiently evaluate patentability before filing an application. That's why an advantage of PCT applications would be large since the number of designated states can be appropriately reduced subsequently after an application is filed. In this case the period before national phase entry is helpful for realizing economic and technical value of the applications.

Not to mention the reason of <3> as above has a meaning of last minute urgency. Especially, if an application is filed in Japanese, a foreign application necessarily involves translation, and there is an advantage that the deadline for submitting translation can be extended by filing the application through a PCT route. Moreover, there is another advantage that a longer period for translation can make quality of the translation better.

2. Administrative advantages and disadvantages of PCT applications

Overlooking of the outline of the PCT application system gives you nothing but a good impression as to patent administration. Do PCT applications bring an administrative advantage to member companies in strict accordance with the purposes? Or can the current system be regarded firmly for promoting use of PCT?

2.1. Administrative advantages

Many member companies both in Japan and the U.S. seem to realize the advantages with regard to a bundle of national applications and the extension of the national procedure. As for the first advantage, it is very significant for Japanese companies to secure a filing date worldwide merely by filing an application in Japanese.

As for the second advantage, it is advantageous because Japanese companies can secure a period for evaluating an invention and determining patentability by delaying substantial examination, withdrawing the application and deleting designated states, and extending the period for submitting translation.

2.2. Administrative disadvantages

The first disadvantage is in the consistency with the existing internal routine works. Many Japanese member companies suffer from inconsistency between internal routine works established by conventional application procedure through a Paris route and PCT application routine works. In such companies, routine works for foreign applications and patent administration systems have been already made up on the basis of applications through a Paris route.

Moreover, many of them often decide whether to file foreign applications or not customarily after the expiration of Paris priority period. Under these circumstances, promoting use of PCT applications results in additional filing routine works.

Establishment of two different filing routine works in one company and preparation of patent administration system for supporting the two filing routine works would cost a lot. In addition, the parson in charge of patent administration would suffer from a complicated business practice to maintain two filing routes simultaneously.

On the other hand, PCT has an effect like a bundle of national applications, however, if it enters into national phase, filing documents which meet each state's procedure should be prepared, which is the same as the procedure of a Paris route. Some even deny effectiveness of PCT applications by saying that they need to make efforts to prepare international filing documents. Some also say the procedure itself of international applications by means of PCT is complicated.

Management of deadlines is difficult since PCT has its own deadline and schedule, and adopts a principle of delivery date as well. Japanese companies point out that a PCT application has an advantage but the procedure thereof is complicated. On the other hand, U.S. companies do not think the complicated procedure is a problem, which is different from Japanese companies' view. Such difference in opinion may be the cause of the disparity in the number of PCT applications used by Japan and the U.S.

3. Possible simplification of the procedure of PCT applications

The first administrative disadvantage of PCT applications was about internal routine works. "Is it possible to simplify the procedure of PCT applications under these circumstances?" This question was put to member companies.

Member companies who answer that it is possible to simplify the procedure commonly say that it depends on "how to use PCT applications". One of the companies answered like this, "if most of foreign applications are filed through a PCT route, it is possible to simplify

internal routine works." This shows the fact that the coexistence of two different filing routes in one company is not preferred.

PCT system intends to reduce applicants' duplicated efforts, but some of member companies stubbornly insist that "PCT applications have their unique complicated procedure".

If the number of states where national phase entry happens is not large at the end of the procedure, two procedures of international phase and national phase are necessary, which is more complicated as compared with a Paris route and which needs more practical business efforts.

Some even point out that the procedure of international phase is complicated. Such opinions as "a form of filing documents is complicated" and "management of deadlines and clerical works, such as an instruction of amendment under Article 19 of PCT, request for translation, request for procedure in each state seem more than those of a Paris route" clearly express the above actual circumstances.

4. Practical advantages and disadvantages of PCT applications

Procedural advantages and disadvantages of PCT applications have been discussed as the above. Practical side of PCT applications will be reviewed as follows.

Member companies' answers to a question about the practical side of PCT applications anticipate an effect as "a bundle of national applications" which can cover many states only by one application.

Also, many of them are in favor of international search and international preliminary examination. It seems because they expect the examination quality of less experienced states will be improved by positively utilizing a search report and a preliminary examination report. Some Japanese member companies obtain the international search report from the European Patent Office by filing a PCT application in English.

According to the PCT, there is no limitation as to the number of claims when an application is filed, and as to the fee pursuant to a form or the number of claims. Two or more categories in one PCT

application are accepted to the extent that unity of invention is complied with. Some of member companies expect to obtain global patent by using this advantage of the PCT.

On the other hand, some Japanese member companies realize a practical disadvantage, that is, it is disadvantageous over obtaining patent rights in an early stage, but U.S. companies do not think they are disadvantageous at all. However, it is possible to avoid this disadvantage by entering early national phase.

Apart from an effect in the delaying of national examination, it seems wise to avoid the PCT route if an application relates to an important technology which will not be used for a long time. Thus, some member companies, if desiring to obtain the patent right promptly in the U.S., adopt such tactics as eliminating the U.S. from designated states and filing an application in the U.S. through the Paris route.

5. International search

Most of member companies both in Japan and the U.S. consider the fact that they can confirm prior arts before national phase entry as an advantage of international search. Many companies conduct a search of prior art internally before filing a foreign application, nevertheless, the advantage of international search report is considered to be significant by applicants. However, some say that the quality of international search is sometimes not satisfactory, depending on technical fields or the International Searching Authorities. In addition, it is pointed out that the quality of search results sometimes vary depending on the International Searching Authorities. It is also unknown how great effect a search report will give to other countries' Patent Offices depending on the International Searching Authorities. The provision of PCT (Article 16, (2) of PCT) defines unification of the International Searching Authorities as the final target. We would like to expect that objectivity of search is secured by unifying search data of the Japanese, the U.S., and European Patent Offices.

In this point, we can appoint the European Patent Office as the International Searching Authority and the International Preliminary

Examining Authorities by filing a PCT application in English, since the European Patent Office is accepted as credible worldwide, and applicants can receive an international search report and an international preliminary examination report in English.

We can also expect to reduce the number of office actions received on each national phase by correcting or deleting claims pursuant to an international search report (Article 19 of PCT), and as the result thereof, internal employees' efforts and local attorney's fee can be saved as well. An international search report also serves as an important data to decide whether to enter into national phase or not. Economic cost advantages can be further raised by strictly selecting designated states.

Many point out handling of unity of invention in international search as unclear, even if there are Article 3,(4) and Article 27,(1) of PCT. Some do not know what to do because unity of invention in international phase is different from that of national phase practically. If a requirement of unity is strict in national phase, the possibility of global patent would be smaller to that extent. In addition, handling of unity as to equipment, methods, media claims with respect to inventions relating to software, which is getting more and more complicated recently, is totally unknown.

Meanwhile, in China applicants are obliged to submit an examination result of the corresponding foreign application, and an international search report can be used as the above examination result.

6. International preliminary examination

6.1. How often international preliminary examination is used

As already explained, it is necessary for an applicant to request for international preliminary examination if he/she desires to (Article 31, (3) of PCT). As compared with the U.S., not only the number of PCT applications is small but also the number and rate of requests for international preliminary examination of Japanese companies is smaller than that of the U.S. companies. (figures 2, 4, 5 and 6 of attached paper)

Figure 8 shows answers of member companies to a question as to

how often international preliminary examination is requested. A few Japanese member companies answer that they always request for an international preliminary examination, or they basically do not request for an international preliminary examination. 60 % of Japanese companies answer that they sometimes request for preliminary examination. However, many of U.S. companies answer that they request for preliminary examination for 70 % of applications or more. Approximately 50 % of both Japanese and U.S. companies answer "no" to a question as to whether there is an internal rule for deciding whether international preliminary examination should be requested or not. However, many of U.S. companies which answer "no" to the above question have requested for international preliminary examination for 75 % of PCT applications or more, notwithstanding their answers.

On the other hand, the reason why Japanese companies do or do not request the international preliminary examination is almost the same as the reason why U.S. companies do or do not file it.

The reason why they do demand for the international preliminary examination is to save time up to national phase entry, or to obtain new data for determination whether they should go into the national phase. Preliminary examination is sometimes requested because an applicant hopes to prolong the deadline for submitting translation.

On the other hand, the reason why they do not use a request for the international preliminary examination is because it is unknown how effectively the report of the international preliminary examination has in each designated countries. Conversely, handling and effects of an international preliminary examination report in each state is desired to be expressly stipulated.

Companies often abstain from demanding for the international preliminary examination if they hope to obtain the patent right promptly. Some of them answer that evaluation of an application can be sufficiently performed only by an international search report.

6.2. Advantages and disadvantages of the international preliminary examination

A basic advantage in requesting for international preliminary examination is that they can obtain a preliminary and non-binding opinion as to patentability in international phase and that they can save time up to national phase entry.

As in the case of international search, few member companies consider international preliminary examination system itself as a disadvantage. The value of this system is generally accepted and approved by applicants.

Having said so, there are some concerns, that is, it is uncertain how a result of preliminary examination affects examination in each state, or it is desirable to clarify the above uncertain circumstance, determination criteria of a preliminary examination report depending on the International Preliminary Examining Authorities.

In particular, a preliminary examination report which is prepared by the Japanese Patent Office as the International Preliminary Examining Authority might not be easily referred to because of language difference. One of member companies says that they never request preliminary examination because such preliminary examination is not often used in other states' national examination. In order to increase the use of preliminary examination in Japan up to the same degree of the U.S. or over, it would be necessary that Japanese Patent Office declares the international preliminary examination in English.

Meanwhile, international preliminary examination can give data for determining patentability in a designated state where examination system is not prepared appropriately, which is an advantage. For example, a patent law of Singapore provides that "patent shall be granted to a PCT application which receives international preliminary examination irrespective of a result of such preliminary examination." By such provision, international preliminary examination has been actively used by national examination. Preparation of a protocol has already been started by such states as respecting an international preliminary examination report to the effect that a result of international preliminary examination affects national examination.

Filing a PCT application in English makes the European Patent Office the International Searching Authorities and the International

Preliminary Examining Authorities. Once a favorable international preliminary examination report can be obtained, the European Patent Office basically grant a patent promptly, therefore, the right can be obtained in an early stage. China tends to respect international preliminary examination prepared by the European Patent Office, therefore, office action in China can be reduced.

7. Conclusion

Recently the number of PCT member states has increased, and global patent can be obtained worldwide through a PCT route more and more easily.

PCT is a treaty which intends to unify the procedure, to disseminate technical information and to promote technical assistance. The main purposes of the PCT are sufficiently accepted and approved by each company as an applicant. Also, filing a PCT application pursuant to certain tactics bring in certain interests, which fact has been already demonstrated by companies as applicants utilizing PCT applications positively.

However, it is revealed that a company as an applicant which intends to start using PCT applications from now might find some obstacles or problems, because PCT applications are complicated, and so on. It is also revealed that a problem exists in PCT application system itself (at least a matter which an applicant thinks as a problem) if an applicant hopes to enjoy the benefit of PCT applications in a true sense. Advantages and disadvantages revealed in questionnaire are described in the attached paper.

In order to promote further use of PCT applications, applicants must resolve quite a lot of problems, such as establishment of internal routine works and accumulation of know-how. As to PCT system, preparation of a system which is convenient to applicants should be considered, such as simplification of filing form and filing procedure. Japanese companies which file an application in Japanese have problems relating to translating works and the time thereof, handling of a search report and an examination report prepared in Japanese.

Concentration of non-PCT member states in Asian area including

Taiwan cannot be ignored by companies as applicants which place development and manufacture sections in Asian area.

Although there remain several problems, Japanese member companies of this Committee answer that they intend to increase PCT applications further, while U.S. member companies answer that they intend to maintain the present status. These answers reflect the circumstances of Japan and the U.S.

In other words, the current system and internal routine works contain quite a few problems, but advantages of PCT applications in filing applications in many states, and the meaning of international search system and international preliminary examination system have been accepted and approved by applicants.

We would like to give an eye to the trend of use of PCT applications in Japan.

V. From PCT to global patent system

Recently there has been much discussion about global patent system, however, the most practical method seems an improved and extended PCT application system, because there will be no need to establish a new system. Having said so, currently PCT application system is the closest to global patent system, but in fact there exist several obstacles to overcome. Thus, on condition that every state accesses to PCT, we would like to offer a proposal in this article to approach global patent system by taking into account advantages and disadvantages of international search and international preliminary examination which have been discussed above.

1. International search

In spite of PCT's purpose to avoid duplicated efforts of each state's Patent Office, it is not clear how an international search report has been used by the Patent Office of each designated state. To be honest, if the search was carried out by a search authority in another state, the Patent Office would conduct search again after national phase entry. One of the reason of the above is that the contents of data are varied depending on search authorities. That's

why search will be carried out again despite search was conducted by the International Searching Authorities. In order to solve such problem, it is necessary for each the International Searching Authorities to be able to use the same data. Such movement has been brought by Japan, the U.S. and Europe in accordance with the above demand.

Another problem of international search would be that of language in citations. For example, if there is a corresponding patent application of the citation, it will be mentioned in an international search report. However, if the citation is a Japanese patent, it often does not have any corresponding patent application. In such case a result of search conducted by a search authority might not be sufficiently utilized in examination of a designated state.

Our proposal is that, if filing language is English, or if a translation has been submitted before international search, the U.S. Patent and Trademark Office, the Japanese Patent Office, and the European Patent Office should respectively prepare a search report because currently their data are most complete. The International Bureau collects the three search reports and further prepares a new international search report. Furthermore, the International Bureau should prepare an international search report in English only, or in seven open languages. If language of the citation is different, the search authority is responsible for preparing necessary translation upon request of the Patent Office of a designated state. According to this proposal, a search report will be more credible, and each designated state will be able to use such search report without anxiety.

2. Demand for international preliminary examination

Secondly, in international preliminary examination system, examination is carried out preliminarily and without binding force in international phase. It is necessary to enhance binding force of international preliminary examination in order to improve PCT application system up to global patent system. The reason why international preliminary examination is fully utilized is that the effect of international preliminary examination differs or is

unknown upon entry into national phase, depending on examination authorities.

It would be difficult to register a patent in a designated state on the basis of a result of examination conducted in international phase. On condition that international search is improved, we would like to offer a proposal that PCT application system will move to global patent through the following two steps.

The first step is that the decision of international preliminary examination should be accepted and approved in national phase with respect to novelty, if accuracy of international search is improved. The International Preliminary Examining Authorities must secure unification of decision standard as to novelty, inventive step and unity.

The second step is that the decision as to inventive step by international preliminary examination should be used for examination in national phase, and simultaneously rules should be revised to the effect that an opportunity of amendment should be given after international preliminary examination and before national phase entry. A result of international preliminary examination and amendment should be reviewed in examination in national phase, and an office action called a reason of refusal should be issued after supplemental prior art search, if necessary. Practically only inventive step should be decided in national phase. If it is realized that the effect of international preliminary examination clearly affects examination of elected states, applicants can easily decide as to patentability before national phase entry. Moreover, if it is more likely that the right of identical patent can be easily obtained in each state, use of PCT applications will be further promoted. Promotion of an application to the second state by means of a PCT application and replacement of the number of applications through a Paris Convention route by the number of PCT applications would automatically lead us to global patent.

The opinion and proposal with respect to global patent is based on mere personal opinions of our working group, and there is no trend like this at all. However, they say unification of data of

international search seems to be started toward realization at least among the Patent Offices of Japan, U.S. and Europe, and in the near future, our proposal will not be totally off the point, but will be something to be realized.

3rd COMMITTEE PIPA

QUESTIONNAIRES

Concerning Patent Cooperation Treaty

Please identify an area of technology for which your company files foreign patent application.

☐ Electrical ☐ Mechanical ☐ Chemical ☐ Other _____

Company Name : _____

* Please leave your company name blank if necessary

1. General Questions

Q1-1. How many PCT application does your company file in a year?

a) less than 10 ☐

b) 10 - 99 ☐

c) more than 100 ☐

Q1-2. How many countries does your company designate in average?

a) 3 - 4 ☐

b) 5 - 6 ☐

c) 7 - 8 ☐

d) 9 - 11 ☐

e) more than 11 ☐ _____ countries

Q1-3. Does your company have specific standard to decide PCT route or Paris route?

Yes ..... ☐ , No ..... ☐

Q1-4. Your company uses PCT application as:

a) First application ... ☐

(Designating the United States and other foreign countries)

b) Second application ... ☐

(Claiming priority based on US national application)

Q1-5. Administration system for PCT application

- Do you feel any problem to have both PCT route and Paris route applications in your IP department ?

(ex. Patent staffs or inventors have to evaluate inventions more than one occasion, namely 12-month, 20-month, 30-month from priority date, in order to decide if such invention should be filed in foreign country or should go into the national phase of designated countries. Somebody have to watch these dead line.)

[comment:]

Q1-6. Does PCT reduce prosecution work (paper work etc.)?

Yes ..... ☐ , No ..... ☐

[comment:]

Q1-7. Do you feel economical merit for using PCT ?

PCT saves cost ☐ ... ☐

PCT increase cost than Paris route ☐ ... ☐

[comment:]

Q1-8. Do you feel any problem on drafting claims of PCT application due to the national requirement of each designated country?

(such as Unity of invention, software claim, method claim Jepson type claim etc.)

Yes ..... ☐ , No ..... ☐

[comment:]

Q1-9. Are there any merit or demerit in national phase of designated countries?

- South East Countries ... ☐
- China ... ☐
- Japan ... ☐
- EPC ... ☐
- East European Countries ... ☐
- United States ... ☐

[comment:]

Q1-10. Does your company have a plan to increase use of PCT route?

Yes ..... ☐ , No ..... ☐

[comment:]

2. International Search Report (ISR)

Q2-1. Do you think ISR is useful?

Yes ..... ☐ , No ..... ☐

- If yes, how does your company utilize ISR ?

[comment:]

- If no, why not?

[comment:]

Q2-2. Which ISR authority does your company select?

a) USPTO ... ☐
b) EPO ... ☐
c) Other ... ☐

· If you check b) or c), any particular reason?

[comment:]

Q2-3. PCT delays examination in designated countries for 20 month. Is it a merit or demerit for your company?

Merit ..... ☐ , Demerit ..... ☐

[comment:]

3. International Preliminary Examination Report (IPER)

Q3-1. How many percent of total PCT applications does your company request IPER ?

a) 0 % ☐
b) ~25 % ☐
c) 25~50 % ☐
d) 50~75 % ☐
e) 75~99 % ☐
f) 100 % ☐

Q3-2. Does your company have specific standard to decide to request IPER ?

Yes ..... ☐ , No ..... ☐

[comment:]

Q3-3. Do you think IPER is useful ?

Yes ..... ☐ , No ..... ☐

· If Yes, how does your company utilize IPER ?

[comment:]

· If No, why not?

[comment:]

Q3-4 Are there any merit or demerit for requesting IPER in the national phase of elected countries ?

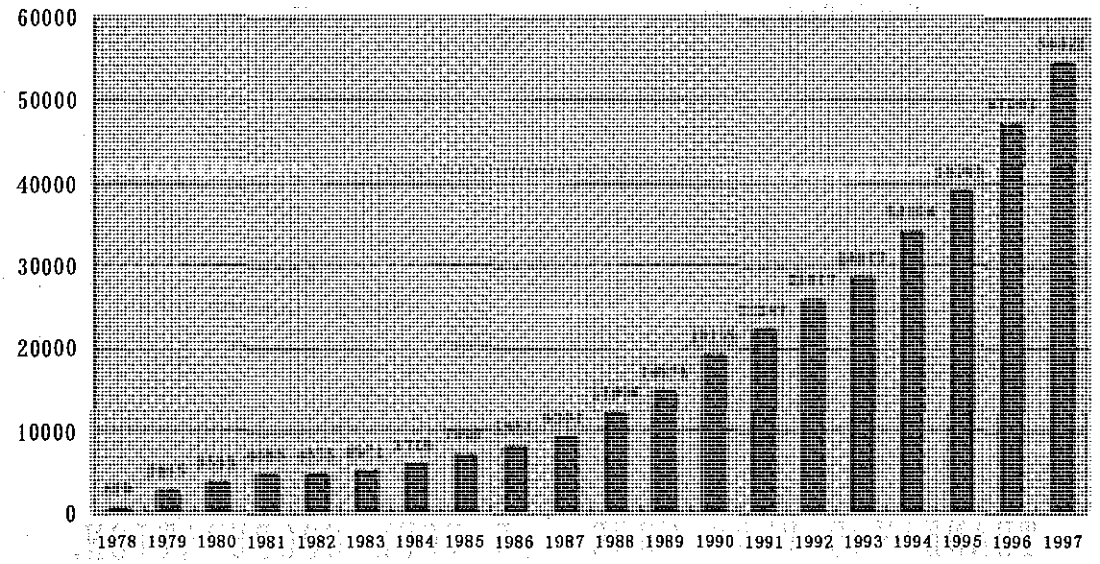
- South East Countries ... ☐
- China ... ☐
- Japan ... ☐
- EPC ... ☐
- East European Countries ... ☐
- United States ... ☐

[comment for specific country:]

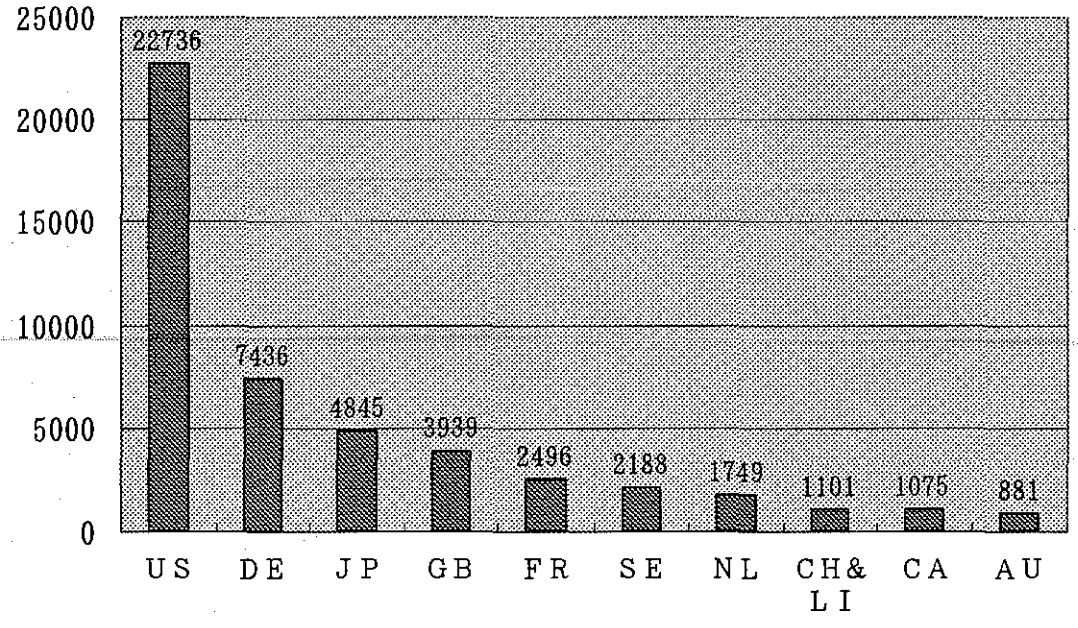
THANK YOU VERY MUCH FOR YOUR COOPERATION.

1998 , 3rd committee, PIPA

Figure 2 Number of Intenational Applications Filed Worldwide

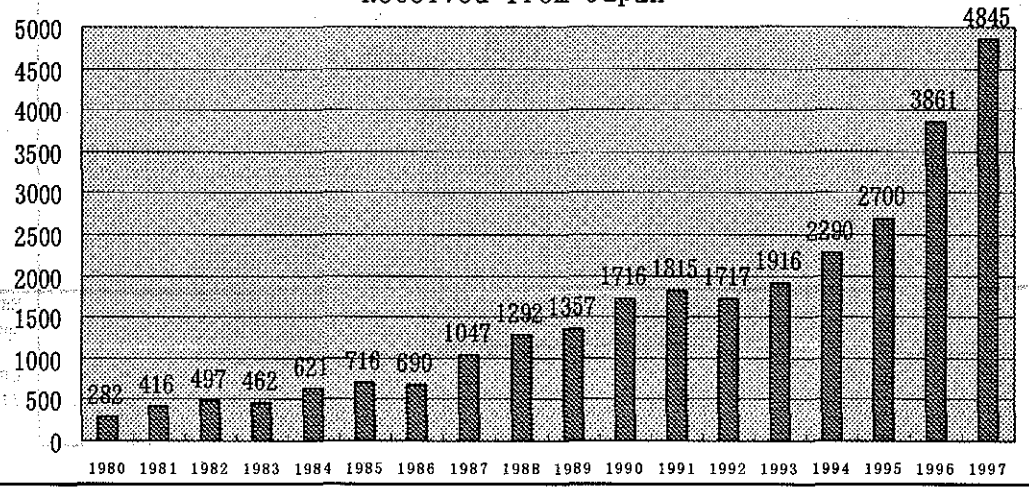


Figuer 3 Number of International Applications by Conutry of Origin in 1997

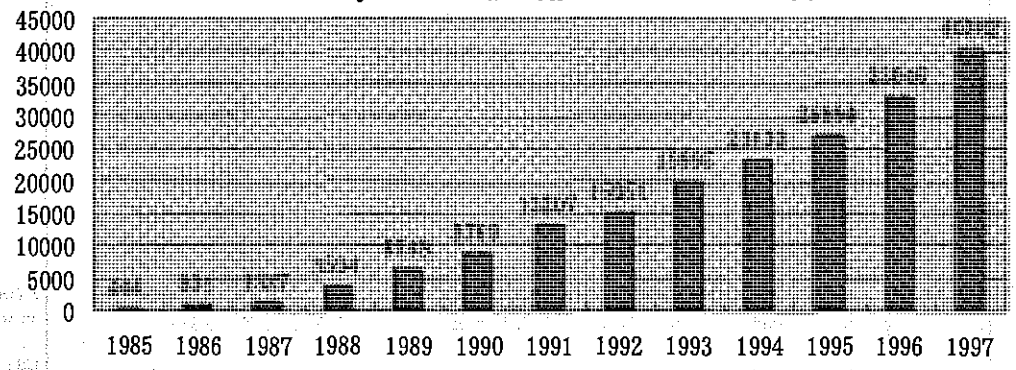


Source; WIPO PCT/SEM/373

Figuer 4 Number of International Aprications Received from Japan



Figuer 5 Number of Demands for International Preliminary Examination Filed Worldwide



Figuer 6 Number of Demands for International Preliminary Examination received from Japan

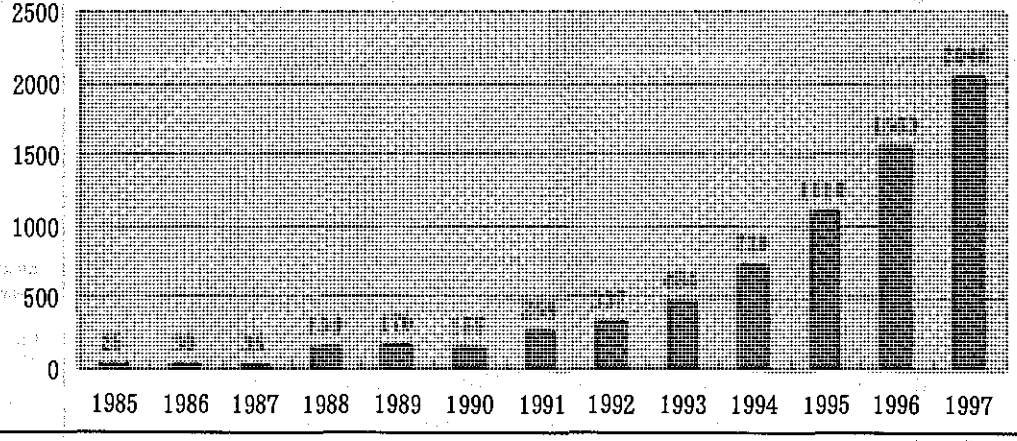
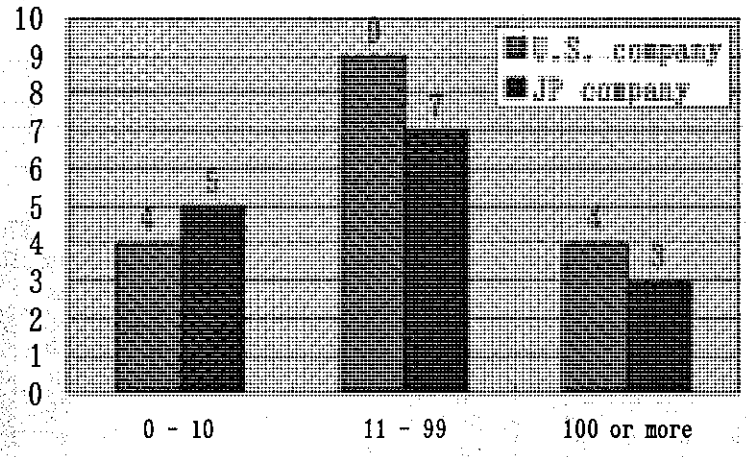
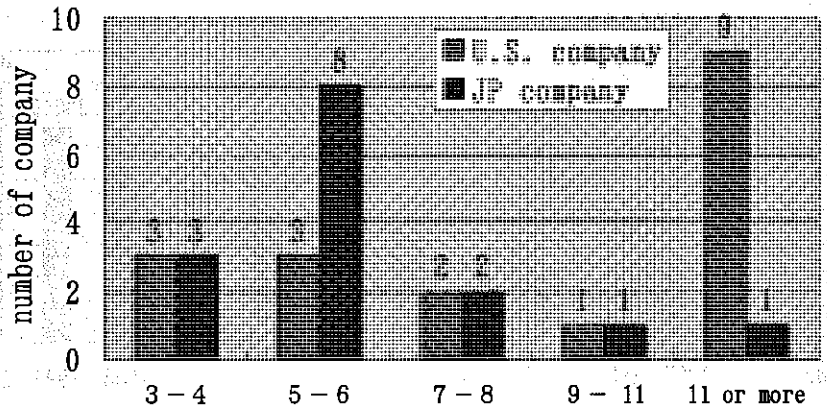


Figure 7 Number of PCT applications in a year



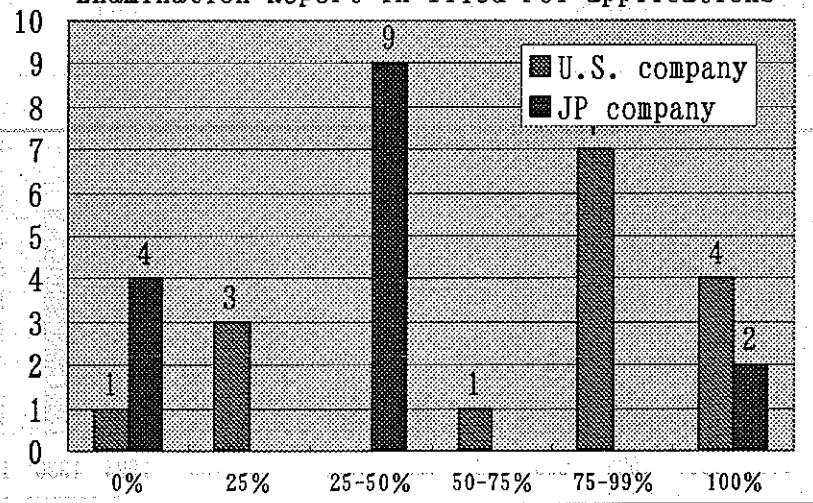
Effective answers
US; 17
JP; 15

Figure 8 Number of designeted countries in average



Effective answers
US; 18
JP; 15

Figure 9 Rate of requested International Pririminaly Examination Report in filed PCT applications



Effective answers
US; 16
JP; 15

Source; questionners

Data on cost advantage

Application through a PCT route

<1> First Application filed Japan->PCT application filed in English->National phase entry into each state or region

* International phase (converted to Japanese yen)

		Case A	Case B	Case C
The International Searching Authorities and the International Preliminary Examining Authorities		EPO	EPO	EPO
	Transmittal fee	18,000	18,000	18,000
	Basic fee	87,500	87,500	87,500
	Designation fees	139,700	76,200	38,100
	Search fee	152,000	152,000	152,000
	Fee for request for delivery of priority documents	3,000	3,000	3,000
	(domestic attorney's fee)	(250,000)	(250,000)	(250,000)
subtotal		400,200 (650,200)	336,700 (586,700)	298,600 (548,600)
At the time of demanding for international preliminary examination	Preliminary examination fee	210,000	210,000	210,000
	Handling fee	19,950	19,950	19,950
	European attorney's fee	11,550	11,550	11,550
	(domestic attorney's fee)	(12,000)		
subtotal		241,500 (253,500)	241,500 (253,500)	241,500 (253,500)
Total		641,700 903,500)	578,200 (840,200)	540,100 (802,100)
Other costs; Preparation of specifications in English (translation fee from Japanese to English, typewriting fee)		350,000	350,000	350,000
Grand total		991,700 (1,253,500)	928,200 (1,190,200)	890,100 (1,152,100)

* At the time of national phase entry (converted to Japanese yen)

State or region	Item of cost	Case A	Case B	Case C	Case D
JP	Translation fee from Japanese to English, typewriting fee	100,000	100,000	100,000	100,000
	Patent stamp fee for national documents	21,000	21,000	21,000	21,000
	Fee for request for examination	89,400	89,400	89,400	89,400
EP	Official fee and local attorney's fee	474,600	474,600	474,600	0
US	Official fee and local attorney's fee	266,500	266,500	0	0
Other English speaking state	Official fee and local attorney's fee	328,500	164,300	0	0
Other non-English speaking state	Translation fee, typewriting fee, official fee and local attorney's fee	2,453,000	817,000	0	0
(Domestic attorney's fee)		(1,650,000)	(900,000)	(450,000)	(150,000)
Total		3,733,000 (5,383,000)	1,932,800 (2,832,800)	951,500 (1,401,500)	210,400 (360,400)

<2> First Application filed Japan->PCT application filed state in Japanese

->National phase entry into each state or region

* International phase

		Case A	Case B	Case C
the International Searching Authorities and the International Preliminary Examining Authorities		JPO	JPO	JPO
At the time of filing an international application	Transmittal fee	18,000	18,000	18,000
	Basic fee/	81,000	81,000	81,000
	Designation fee	139,700	76,200	38,100
	Search fee	77,000	77,000	77,000
	Fee for request for delivery of priority documents	3,000	3,000	3,000
	(domestic attorney's fee)	(250,000)	(250,000)	(250,000)
Subtotal		318,700 (568,700)	255,200 (505,200)	217,100 (467,100)
At the time of demanding for international preliminary examination	Preliminary examination fee	28,000	28,000	28,000
	Handling fee	19,700	19,700	19,700
	(domestic attorney's fee)	(12,000)	(12,000)	(12,000)
Subtotal		47,700 (59,700)	47,700 (59,700)	47,700 (59,700)
Total		366,400 (628,400)	302,900 (564,900)	264,800 (526,800)

* At the time of national phase entry (converted to Japanese yen)

State or region	Item of cost	Case A	Case B	Case C	Case D
JP	Patent stamp fee for national documents	21,000	21,000	21,000	21,000
	Fee for request for examination	21,900	21,900	21,900	21,900
EP	Official fee and local attorney's fee	667,800	667,800	667,800	0
US	Official fee and local attorney's fee	266,500	266,500	266,500	0
Other English speaking state	Official fee and local attorney's fee	328,500	164,300	0	0
Other non-English speaking state	Translation fee, typewriting fee, official fee and local attorney's fee	2,453,000	817,000	0	0
Subtotal		3,926,200	2,126,000	1,144,700	42,900
Other costs	Preparation of specifications in English (translation fee from Japanese to English, typewriting fee)	350,000	350,000	350,000	0
(domestic attorney's fee)		(1,650,000)	(900,000)	(450,000)	(150,000)
Total		4,276,200 (5,926,200)	2,476,000 (3,376,000)	1,494,700 (1,944,700)	42,900 (192,900)

* Application through a Paris route

First Application filed Japan-> Second Application filed in the second states or regions (converted to Japanese yen)

State or region	Item of cost	Case A	Case B	Case C
JP	Patent stamp fee	21,000	21,000	21,000
	Fee for requesting for examination	111,300	111,300	111,300
EP	Official fee and local attorney's fee	691,600	691,600	691,600
US	Official fee and local attorney's fee	283,400	283,400	283,400
Other English-speaking state	Official fee and local attorney's fee	328,500	164,300	0
Other non-English-speaking state	Translation fee, typewriting fee, official fee and local attorney's fee	2,453,000	817,000	0
Subtotal		3,888,800	2,088,600	1,107,300
Other cost	Preparation of specifications in English (translation fee from Japanese to English, typewriting fee)	350,000	350,000	350,000
	Fee for obtaining Japanese priority certificate	30,000	15,000	6,000
	Local attorney's fee for late filing of priority certificate	200,000	100,000	40,000
Subtotal		580,000	465,000	396,000
(domestic attorney's fee)		(1,650,000)	(900,000)	(600,000)
Total		4,468,800 (6,118,800)	2,553,600 (3,453,600)	1,503,300 (1,953,300)

2. Results

<1> First Application filed Japan->Second Application filed through a PCT route (in English) or through a Paris route

Designated states and/or regions through a PCT route or application state and/or regions through a Paris route	National phase entry through a PCT route	PCT route (yen)	Paris route (yen)	PCT route divided by Paris route (%)
A	A	4,724,700 (6,636,500)	4,468,800 (6,118,800)	105.7 (108.5)
	B	2,924,500 (4,086,300)		65.4 (66.8)
	C	1,943,200 (2,655,000)		43.5 (43.4)
	D	1,202,100 (1,613,900)		27.0 (26.4)
B	B	2,861,000 (4,023,000)	2,553,600 (3,453,600)	112.0 (116.5)
	C	1,879,700 (2,591,700)		73.6 (75.0)
	D	1,138,600 (1,550,600)		44.6 (44.9)
C	C	1,841,600 (2,553,600)	1,503,300 (1,953,300)	122.5 (130.7)
	D	1,100,500 (1,512,500)		73.2 (77.4)

<2> First Application filed Japan-> PCT Application filed (in Japanese) or through a Paris route

Designated states and/or regions through a PCT route or application state and/or regions through a Paris route	National phase entry through a PCT route	PCT route (yen)	Paris route (yen)	PCT route divided by Paris route (%)
A	A	4,642,600 (6,554,600)	4,468,800 (6,118,800)	103.9 (107.1)
	B	2,842,400 (4,304,400)		63.6 (70.3)
	C	1,861,100 (2,573,100)		41.6 (42.0)
	D	409,300 (821,300)		9.2 (13.4)
B	B	2,778,900 (3,940,900)	2,553,600 (3,453,600)	108.8 (114.1)
	C	1,797,600 (2,509,600)		70.4 (72.7)
	D	345,800 (767,800)		13.5 (21.9)
C	C	1,759,500 (2,471,500)	1,503,300 (1,953,300)	117.0 (126.5)
	D	307,700 (719,700)		20.5 (36.8)

* Brackets indicate a case where national attorney is used

Table Practical advantages and disadvantages

Item	Advantage	Disadvantage/opinion
International application procedure	● Effect as a bundle of national applications ● Extension of national procedure ● Only a part of priority document is necessary	● Management of deadline is difficult owing to principle of delivery date ● Simplification of a form of documents and clerical works is necessary ● Complicated because of coexistence of management for Paris route
International search	● Patentability can be judged as prior art is available before examination ● Unity at the stage of international application is accepted in national phase	● Credibility of international search is not secured
International preliminary examination	● Result of preliminary examination is respected in some states, where a right can be obtained in early stage ● National procedure can be extended	● Effect in a state is not clear

(1) Title: Examiners and Patent Attorneys in Asian Countries

(2) Date: 7 - 9 October 1998 (29th International Conference in Sapporo)

(3) Committee: 1) Meeting PIPA Japan Meeting

2) Committee Third Committee

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(5) Key words: examiner, patent (assignee's) agent, patent attorney,

6) Summary

An outline is given of the examination departments of the Patent Office in China, Korea, and Taiwan. Their scale and their examination capacity have been studied and considered. Furthermore, the recruitment conditions, the qualifications of examiners, and the program of education/training of examiners have also been studied. Similarly, the qualifications, the number, and experience of patent attorneys in China, Korea, and Taiwan as well as the scale, structure, and business of patent agent firms have been studied. The examination department, examiners, and attorneys in Indonesia, Thailand, and Singapore have also been studied and the findings are reported

Examiners and Patent Attorneys in Asian Countries

1. Introduction

Though many Asian countries are, at present, facing a serious economic crisis, it is anticipated that they will nonetheless develop into a significant economic zone over the medium and long term in the future. The utilization of intellectual property rights cannot be ignored in business development in this Asian economic zone. It is also vital to truly understand the intellectual property rights situation.

Many Asian countries whose future appears promising have improved their respective intellectual property legislation, e.g. Patent Law. There is hardly any difference in the content as far as their articles go. On the other hand, it has been pointed out that the interpretation and implementation of the laws have yet a long way to go to solve many remaining problems. It is useful to know exactly the current situation re the authority who is to execute these laws, e.g. examiner, patent attorney, in order to properly understand these problems concerning the implementation/interpretation of the laws. According to this understanding, a study of the actual situation of examiners and patent attorneys in East Asian/South East Asian Countries including China, Korea, and Taiwan was undertaken and the findings are given below.

2. Examiners

1) China

i) Organizational Chart and Examination Departments of the Patent Office

The organizational chart is shown in Fig. 1. The patent invention examination departments, the utility model examination department, the design examination department, and the re-examination department (the Board of Appeals) are all under separate deputy commissioners. The invention (patent) examination departments in all technical fields come under one deputy commissioner. The Chinese Patent Office administers patents, utility models, and designs. Trademarks are administered by a separate organization, the Trademark Bureau. Copyrights are administered by the National Copyright Bureau. Substantive examinations are conducted only on inventions, not on utility models, nor on designs.

The number of staff in the Patent Office is about 1500 in 1998. The number of examiners is about 600. The breakdown of approx. 600 staff is: Patent related staff

of approx. 530, (Mechanics Examination Dept.:60, Chemistry Examination Dept.: 160, Electricity Examination Dept.: 210) Utility model related staff of 50, Design related staff of 20. The number of patent related examiners includes approx. 100 system examiners, the balance of 430 conduct substantive examinations.

The number of patent applications was approx. 29,000 in 1996. The rate of filing of requests for the examination of patent applications is approx. 70-80 %. If a similar rate is assumed to continue, there will be over 20,000 requests for the examination if the 1996 patent applications requests for the examination of patent applications. The number of patent registrations was approx. 3000 in 1996. Approx. 200 cases were refused. This means the number of examinations processed was about 3,200, which is extremely low compared with the number to be examined. The increase in the number of patent applications was marked. (2.75 times, and 31.8 % times compared with 1990, and 1995 respectively) This trend is anticipated to continue. There is a serious concern that an increase in the backlog of the number of applications required for examination, the delay in examination and so on will become more noticeable unless the examination capacity is improved by increasing the number of examiners, and by improving the quality of examiners. (At present the average examination process period is four years for chemistry related applications, and two years for other applications.)

With regard to examiners, the number has been increased over the years, 200 per annum being recruited in recent years. The number is expected to double by the year 2000. This is designed to strengthen the examination capacity in the future.

ii) Academic career, recruitment methods, education/training of examiners

The examiners are all university graduates at least. The Patent Office recruits examiners from those who have passed the national public service examination. The examination comprises technical subjects, and English. Following the recruitment, they are trained together for a period of 6 months, followed by another 6 months of on the job training under senior examiners. Legal knowledge required for examinations is acquired during these training periods.

At the time of its establishment, the Chinese Patent Office trained the examiners and improved their abilities under the auspices of the German Patent Office. The trained examiners in turn trained their juniors. Even now, examiners are educated under the auspices of the Patent Offices of other countries including Germany.

Some 100 examiners per annum are sent overseas for study and training. In addition some 10 examiners are studying overseas for lengthy periods.

2) Korea

i) Organizational Chart and Examination Departments of the Patent Office

The organizational chart is shown in Fig. 2. The number of staff in the Patent Office is 521 in March 1998. The number of design/trademark related examiners is about 110 (one examination bureau). Patent and utility model related staff number is approx. 410 (2-4 examination bureaus).

The number of patent and utility model applications was approx. 140,000 in 1997. The number of applications processed (grants, and refusals) was approx. 60,000. The rate of filing of requests for the examination of patent applications is approx. 70-80 %. Therefore, some 110,000 out of the 1997 applications are expected to file requests for the examination in the future. This number is definitely far greater than the 60,000 in 1997. If the increase in patent applications is to continue, it is essential to increase the examination capacity by recruiting more examiners. At present some 500 examiners are to be recruited by the year 2001 in order to make the examination process period (patent) approx. 2 years, and the number of examinations processed per annum per examiner 170. (At present, the time required to carry out the design/trademark related examination is about 1 year, and that for a patent is about 2 years and 6 months.)

ii) Recruitment methods and Employment Conditions for examiners

Many examiners are recruited from those who have passed the national examination grade 5 (examination set for senior executives of the national public service.) Some are recruited from those who have passed other public servant examinations (examination set for middle management executives or general public servants), and have Patent Office experience (about 4 years), and have passed technical examinations to be promoted to the position of examiners. In addition, examiners in highly technical fields e.g. semi-conductor, bio-technology may be recruited from those who hold a doctorate degree, or from those qualified as patent attorneys by advertising for an interview. This is a special measure to secure personnel able to meet the demands of the technical examinations, which may be difficult for those who have passed the public servant examination alone.

iii) Academic career and experience of examiners

The examiners are all university graduates at least. Out of all in March 1998, those with a Master's degree were 110 (21.1%), and those with a doctorate degree were 114 (21.9 %), making them a highly educated professional group.

The majority (88.5 %) of the examiners have work experience of less than 5 years in March 1998. Some 40 % of the examiners have work experience of less than 2 years. This is a reflection of an urgent need to increase the number of examiners in recent years. Another reason, many examiners also turn to patent attorneys.

iv) Education/training of examiners

a) The new recruits are trained for 3 months in "the development of the fundamental qualities of an examiner, the interpretation of industrial property rights laws, the fostering the ability to put the learning into practice, and examination methods." (One month out of 3 is spent in the International Patent Institute training camp.)
In addition, a newly trained examiner conducts examinations under the supervision of a senior examiner. He cannot authorize his examination result under his own name.

b) Examiners who have gained approx. 3 years' of experience at the Patent Office attend approx. one week of a training course in order to improve examination efficiency and fairness. Examiners who have gained approx. 5 years' experience attend approx. 4 weeks of a training course (2 weeks out of 4 is spent at the International Patent Institute.) in order to gain a comprehensive understanding of industrial property rights in general.

c) Some 30 examiners per annum are dispatched overseas to study intellectual property rights systems and international trends. Furthermore, overseas specialists are invited to train examiners each year.

d) There is an external consultant system using university professors and engineers in order to improve examination efficiency and quality.

v) Study of Korean examiners

Korean examiners are highly educated. The recruitment standards are fairly strict. There is a good provision of study/training schemes including overseas programs. However, it is still not clear as to how effective OJT is conducted by senior examiners. In comparison to Japan, examiners with a limited years of working experience, and the training period for new recruits is shorter than that in Japan. (3 years for an

assistant examiner in Japan.) These problems are assumed to stem from an increase in the number of applications requiring to be processed in recent years. Once the increase is stabilized, the quality of examiners is expected to improve.

3) Taiwan

i) Organizational Chart and Examination Departments of the National Bureau of Standards(Patent Office)

Patent/trademark examination and registration services in Taiwan are administered by the National bureau of standards, one bureau under the Economic Division (equivalent of the Ministry of International Trade & Industry in Japan) of the Executive Council (Cabinet). The Patent Office and the Trademark Office (The office is equivalent to a department in the Japanese government ministry.) are charged to administer patent and trademark examination and registration services respectively. They are closely related. The organizational chart of the Patent Office is shown in Fig. 3.

Patent examiners are divided into two groups, namely Patent Office internal examiners and external examiners of researchers who belong to other ministries, national universities, and research institutes.

ii) External examiners

The number of external examiners is approx. 700 at present. There are some 50,000 patent applications per annum, and almost all are first examined by external examiners. (The number of cases processed per examiner is 70 - 80. Since external examiners are not full time examiners, the number of applications requiring to be processed seems fairly high.)

[Recruitment]

The Director of the National bureau of standards requests recommendations for suitable candidates from national universities or research institutes. He examines the abilities of those who are recommended, and authorizes them as examiners. Professors of national universities, researchers of national research centers, and the like are often authorized as external examiners.

[Training/seminar of external examiners]

Authorized external examiners are individually given a one day orientation on points of examination based on Patent Law, and its procedures. After this initial training, a training program of approx. one day a year for external examiners continues.

(comprising discussion on examination work, and discussion on examination drafts in various fields.) The leaders of the seminars are veteran examiners of the Patent Office.

[Examination by external examiners]

An external examiner will record his comment in the examiner's report for a case sent to him, and will return the report by a designated date. This report is checked by an internal examiner. If there is any problem, the case is sent back to the external examiner, requiring him to rectify the error. If there is no problem, the examination certificate or other notice based on the report is issued.

iii) Internal examiners

According to the National bureau of standards annual bulletin issued in June 1998, the staff of the National bureau of standards is divided into two groups, namely organized employees who are qualified public servants, and employees contracted to the National bureau of standards. The number of organized employees is 266, and 54 of them are patent examiners. The number of contracted employees is 279, and 200 of them are patent examiners. (Most of them are trademark examiners.) This means 80 % of patent examiners are contracted employees who have not qualified as public servants. In recent years, the number of patent applications in Taiwan is increasing dramatically as in other Asian countries, reaching over 50,000 in 1997. In addition, Taiwan has not adopted a system of requests for the examination. This means that all applications are subject to examination. Considering the number of applications, the burden of processing for each examiner must be fairly heavy. This is one of the reasons why Taiwan has adopted an external examiner system unique to Taiwan.

[Recruitment]

The National bureau of standards invites applications from those who have passed the National Public Servant examination, those who have been teaching as a lecturer or in a higher position in a university for more than 2 years, those who have been working in a research laboratory/institute for more than 5 years, and those who have been engaged in a patent work in a government office for more than 6 years. The recruitment date is irregular. Applications are often invited as a vacancy arises. The Academic career required for application is set at a Master's level, but some are recruited with only a bachelor's degree.

[Training/seminar of internal examiners]

The new recruits are trained for 1-3months or so at the Economic Division training centre. The leaders of the seminars are veteran examiners, university professors, or judges of the courts. Training courses comprise patent law, examination standards, methods, procedures, etc.

Once they have completed the initial training, the beginner examiners are placed under the guidance of veteran examiners to conduct the examination of applications.

Beginner examiners with examination experience of more than 4 years are eligible for a promotion examination to become senior examiners. Those who have passed the examination receive a further 3 week training, then examine applications independently, or can take beginner examiners. The 3 week training program includes Foreign patent systems, International conventions, infringement examination, administrative law, decision cases, civil litigation law, criminal litigation law, administrative litigation law.

In addition, Internal examiners are provided with a 3 - 5 day seminar by foreign guests (intellectual property experts in the US/Japanese Patent Office, or major corporations) on an irregular basis each year. Some examiners are dispatched to attend a training course for examiners held by foreign Patent Offices (US, Japan, etc.)

iv) Study of examiners in Taiwan, and their future direction

This external examiner system is unique to Taiwan. Professors of national universities and researchers of national research centers are not necessarily legal experts, although they are technically competent. Recruiting standards with which the Bureau of Standards recruits external examiners are still not clear. In comparison to internal examiners and examiners in other countries, seminars and training for external examiners following recruitment is limited to short periods and may be insufficient. From a foreigners' point of view, longer period of seminar and training for external examiners are desirable.

As for internal examiners, the seminar program appears to have a good solid content. The examiners are required to have more than four years' experience before they can examine independently. This appears to contribute to ensuring a high quality of

examination. However, the majority of the internal examiners are non-public servant contracted employees, and this is also unique to Taiwan. The recruiting standards are still not clear. From a foreigners' point of view, an increase of public servant examiners with clearer recruiting standards are desirable.

At present, discussion is underway concerning the new legislation on patent examiner appointment which requires public servant qualifications. As the details of the draft legislation are not known, it is difficult to give a report/comment. To bring the current special examiner recruitment system close to that adopted by many countries will ensure the quality of examiners, and contribute to the development of industry in Taiwan.

4) Other Asian countries.

The organizational chart of the Indonesian Patent Office is shown in Fig. 4. The number of patent examiners is approx. 70 in August 1996. The number of patent applications is 1924 between January - May 1996, so that the number for the year would be approx. 4500. The number of patent applications in respect of which requests for examination were made, by 1995, was approx. 4600, but the number of patent applications in respect of which examinations were completed was 672. (Source: "Hatsumei," October 1996, Asian intellectual property news, Yoshie Yamamoto)

The organizational chart of the Thai Patent Office is shown in Fig. 5. The number of patent examiners was approx. 25 in August 1996. The number of patent applications was 4600 in 1996. The number of registrations in the same year was approx. 900.

The organizational chart of the Malaysian Patent Office is shown in Fig. 6. The number of patent examiners was approx. 5600 in 1996. The number of registrations in the same year was approx. 1800, while the number of examiners in 1996 was as few as 12. From the fact that Malaysia does not have the system of request for examination and that all patent applications are subjected to examination, the number of examiners seems to be very low compared with the number of patent applications, and an increase of examiners is desirable.

Foreign Patent Offices including Japan send their staff to the Patent Offices in Indonesia and Thailand to educate examiners. Many examiners are also sent overseas for study. However, it has been pointed out that there are still many

problems. For instance, the backlog of applications to be examined is an issue many countries share. It is also pointed out that examinations are not carried out by the examiners themselves in these countries, that is, examinations in these countries often rely on the examination results of the foreign counterpart application, and the Patent Offices of these countries often commission examinations to foreign Patent Offices, .

As reasons for these problems, following are often mentioned; 1) the patent examination system has not been established for long in Malaysia, Indonesia, etc. (1986 in Malaysia, 1991 in Indonesia) 2) The number of examiners is insufficient as mentioned above. 3) The terms of conditions of employment for examiners are not satisfactory, making many experienced examiners leave for the private sector. (About a half of the examiners in Indonesia have the experience of less than 1 year. Points 2) and 3) may be solved by an increase of examiners and an improvement of the terms of conditions of employment for examiners. However, more than 90 % of patent applications in these countries are applied by foreigners. This fact may discourage the government to feel obliged to persuade the field of patent administration more adamantly.

In the case of Singapore, all substantive examinations are contracted out to foreign countries, e.g. Australia, and so there is no examiner who can conduct substantive examinations.

3 Patent attorney

1) China

i) Academic career of patent attorneys and their number

The person who satisfies the following conditions can act as an attorney who can carry out patent related work including patent applications:

1) Those who have studied science or engineering at universities, or equivalent, and who are competent in English. 2) Those who have more than 2 year's work experience, and 3) Those who have passed the patent attorney examination.

Unless these are satisfied, even a lawyer or an attorney for trademark applications is not eligible to become a patent attorney. (Attorneys for patent applications and attorneys for trademark applications require different qualifications.) The number of patent attorneys is approx. 4000, and the number of patent firms is approx. 500 in May 1998.

The patent attorney examination is held biannually in major cities where many

applicants live, e.g. Beijing, Shanghai. Some 1000 applicants sit for the examination each time. The pass rate is approx. 20 %. The examination is carried out on the technical subjects such as electricity, mechanics, chemistry, and intellectual property law including patent law.

ii) Patent agency

When a foreigner who does not have a habitual office or residence in China applies for a patent, he must entrust the patent application procedure to a patent agency qualified for serving overseas clients designated by the State Council. (the Chinese Patent Law Article 19) At present, there are nine patent agencies.

The patent agencies are qualified based on the conditions, such as i) the number of patent attorneys who are admitted that they have enough ability for foreign languages, is above the number of the set standard, ii) there are sufficient communication facilities, and office space. It is explained that the reasons for these conditions are that work on foreigners' patent applications requires a high degree of ability, for example, to communicate in a foreign language, and that the quality of attorney's work can be ensured by restricting attorneys to those whose abilities have been confirmed.

Among 9 patent agencies, two agencies which became patent agencies in 1984 when the Chinese Patent System was established handle more than 70 % of foreigners' patent applications (approx. 20,000 in 1997). These two are large firms which employ more than 200 staff members. One agency has branch offices which employ some dozens of staff in China.

Another one agency became a patent agency in 1984 when the Chinese Patent system began. Another agency was designated in 1987, the remaining five agencies were approved as patent agencies between 1993-1995. Many of these agencies employ some dozens of staff.

The ratio of patent attorneys and lawyers to other staff in many of these firms (especially those whose head offices are in Beijing) is about 50 - 70 %, showing a high ratio of qualified staff. On the other hand, these firms in Hong Kong have a low ratio (20 - 30 %) of qualified staff, showing regional differences in staff composition.

7 patent agencies out of 9 are also trademark agencies. The main services of all 9 agencies are patent application, litigation services e.g. infringement suits. Firms

which offer trademark attorney services also handle trademark application, trademark related litigation services. They appear not to handle general litigation services except intellectual property related matter.

2) Korea

i) Qualifications of patent attorneys and their number

In Korea, only a qualified patent attorney can offer patent-related services to an applicant. The qualification of patent attorney is attained by i) a person who has passed the patent attorney examination, and completed a more than one-year apprenticeship, ii) a lawyer who is registered as a patent attorney, iii) a person who has conducted examination/decision work for more than 5 years. This is similar to the Japanese system. The differences are: i) A person who has passed the patent attorney examination is required to complete an apprenticeship of more than one-year. ii) Examiner can attain the qualification of patent attorney, through experience of examination in the Patent Office for 5 years.

The examination comprises two parts, namely the first examination, and the second examination. The first examination comprises patent law (the utility model law and treaties are included.), an Introduction to the civil code, an introduction to natural science and one optional foreign language . The second examination comprises patent law, design law, trademark law (including relevant treaties), civil procedure law and two optional subjects from 27 subjects in legal or technical areas.

This system appears to be more advanced than the Japanese system in that the examination subjects include law, natural science, and a foreign language which are the minimum required to become a patent attorney, and that optional subjects are relevant to the current technical areas.

The number of applicants for the patent attorney examination has reached some 3,000 in recent years. 30 passed the examination in 1995. In line with a rapid increase in the number of patent applications, 60 and 70 passed in 1996 and 1997 respectively in order to overcome the shortage of patent attorneys. It is planned to increase to about 100 by the year 2,000. However, such a rapid increase raises concern over the lowering of the standards. Also, as the economic situation was deteriorated since around 1997, which may have an adverse impact on the number of patent applications, there is a likelihood that the planned increase may not eventuate.

In addition, in response to the trend of applying for a patent according to the specific technical area, the attorney law amendment draft is currently underway, which sets the examination in specific subject areas, in order to supply the attorneys specialized in those specific subject areas.

ii) Number/experience/Academic career of attorneys

Some 580 attorneys are registered as of June 8, 1998, of which 530 are practicing patent attorneys. Approx. 500 (More than 90 %) are practicing in Seoul, showing a strong concentration in one location. According to October 1996 data, 225 (about half) of 470 practicing patent attorneys have been practicing less than 5 years. Some 20 % have practiced between 6 and 10 years. A further 20 % have practiced between 11 and 20 years. Considering the number of patent attorneys recruited rapidly in recent years, the ratio of patent attorneys with experience of less than 5 years will be higher. Judging only from the data above, lack of experience of many patent attorneys may raise concern. The main reason for the lack of experience lies in the sudden increase of the patent attorney recruitment. If the pace of recruitment slows, this problem will gradually settle. Many patent attorneys have experience in patent work prior to setting up their own practice.

The ratio of registered (practicing) patent attorneys with science background to those with a background in humanities is about the same, with the former being slightly more than the latter. However, about 80 - 90 % of those who have passed the patent attorney examination in recent years are from science. The number of young patent attorneys from science background will increase in the future.

iii) Structure and Scale of Patent Firms

The number of patent firms in Korea is 282 as of October 1996. 205(70 %) patent firms have one patent attorney in the firm. 43 (approx. 15 %) patent firms have two patent attorneys. Only 3 firms have more than 10 patent attorneys. Since then, the number of patent firms which have more than 10 patent attorneys has increased to 8 patent firms in 1998. There is no great change in the situation that most of patent firms have one or two patent attorneys. Some patent firms which employ more than 10 patent attorneys employ over 200 staff.

The ratio of qualified staff (lawyers and patent attorneys) in a patent firm is usually 5 - 10 %. This ratio may increase as the number of patent attorneys increase.

Most of the patent firms in Korea are specialized patent firms which handle intellectual property related work exclusively. Some handles intellectual property work as part of law firm work. Major firms which employ more than 100 staff are more likely to be in that category. On the other hand, some firms specialize in intellectual property related work despite their large scale. Some small scale firms handle patent application work exclusively, and not infringement cases.

3) Taiwan

i) Qualifications of attorneys

Registered patent attorneys according to the patent attorney law are allowed to apply for a patent.

Those below can be registered as patent attorneys.

1) a person qualified as judicial officer, lawyer, chartered accountant, 2) a person who has a registration certificate as an industrial engineer (mechanics, electricity, civil engineering, architecture, chemistry....many other fields) 3) a person who has served as a patent examiner at the National bureau of standards for more than 2 years.

ii) Number/experience/qualifications of attorneys

Some 5000 are registered as patent attorney at the National bureau of standards. Only about 300 are involved in the patent attorney services, 150 of which subscribe to the APPA (Asia Patent-Attorney Association). According to 1997 March issue of APPA directory, some 70 % were lawyers, some 4 % were chartered accountants, approx. 13 % industrial engineers and approx. 13 % former examiners.

Several thousands sit for the law examination in Taiwan, 200 - 300 of whom pass the exam. The number of successful candidates for the industrial engineer examination in any particular technical field is 5 - 10 per year. In either case, it is very difficult to pass. However, since a lawyer without technical knowledge, or an industrial engineer without legal knowledge can become a patent agent, the current system seems not to ensure a sufficient quality of patent attorneys. Since it is difficult for foreigners to check the quality of patent attorneys, establishment of a system ensuring a sufficient quality of patent attorneys, such as patent attorney examinations in other countries, are desirable, from a foreigners' point of view.

Currently, discussion on patent attorney legislation is underway. According to the draft patent attorney law, one has to pass the national examination (the patent attorney examination) to become a patent attorney. The content of the examination is yet to be finalized. A patent attorney examination system similar to that of other countries is expected to ensure a more sufficient quality of patent attorneys.

According to the draft patent attorneys law, a practicing registered patent attorney must re-sit for and pass the exam to qualify as a patent attorney within 3 years. This raised an issue for discussion.

Many patent attorneys graduated from domestic/foreign universities or equivalent schools accredited by the Ministry of Education. The ratio between science and humanities backgrounds is not clear due to lack of information. Amongst APAA member patent agents, about 70 % are lawyers, and about 4 % are chartered accountants, indicating that the majority has a humanities background which includes law.

iii) Structure and Scale of patent firms

As far as the survey goes, there are four firms which have more than 150 staff. All of these four firms are well equipped in not only the intellectual property department which handles patent applications, but also the investment related department, the civil/criminal litigation department. However, approx. 30 - 80 % of the qualified staff is in the intellectual property department, indicating that the major service of the firm is intellectual property work.

Some 5 - 25 % of the total staff in these major firms are qualified lawyers and patent attorneys.

There are many small to medium patent firms which employ fewer than 100 staff. Some of these firms deal with mainly general legal work including intellectual property services as a part of their business, while the majority of these firms handle intellectual property work as their main business.

4) Patent firms in other Asian countries

In Indonesia, the patent attorney registration system began in 1991. Lawyers who had hitherto practiced intellectual property law (i.e., trademark law) were registered as patent attorneys by the Ministry of Justice.

There are about 40 patent firms in October 1996, only 5 - 7 of which are actively engaged in patent applications. (Two firms handled more than 3000 cases between 1991 and May 1996, one firm handled about 2600 cases, two firms handled between 1000 and 1400 cases, two handled about 800 cases, others handled fewer than 300 cases.)

The two firms surveyed this time employ lawyers as well as many university graduates from technical departments. Their main business is patent/ trademark applications, and hardly any patent related litigation. (It is understandable as there is hardly any patent related litigation in the whole of Indonesia. There were, though, trademark related litigation.) 98 % of patent applications in Indonesia are from overseas. Substantive examinations are rarely conducted in Indonesia. Technical staff mainly prepare specifications and translations of the specifications.

In Thailand, patent attorneys registered at the Patent Office can act as patent attorneys for applications. There are about 500 patent attorneys. Two or three major firms handle about 70 - 80 % of patent applications. The oligopolistic nature of the market is apparent. Some of these major firms are specialized in intellectual property services. Some are comprehensive law firms in which the intellectual property department is only one part.

In Malaysia, patent agents registered at the Patent Office can act patent attorneys for applications. Those who have passed an oral examination held by the Patent Office are registered as patent agents. In October 1996, the preparation for setting the written examination (law including patent law, trademark law, optional technical subjects, and foreign patent systems) was underway.

In Malaysia, there are approx. 60 patent agents. Some 10 firms are actively engaged in the patent agent services. Most of the firms are law firms. Few firms specialize in intellectual property work, though in some firms, their intellectual property department is their main business.

4. Conclusion and assessment

Our study on the situation re examiners and patent (assignee's) agents in Asian countries revealed following conclusions.

1) The number of examiners do not correspond to the increase in patent applications in recent years.

2) Each country tries to increase the number and to improve the quality of examiners. However, in some of South East Asian countries, they still seem to be insufficient. To search for the reasons for this is beyond the scope of this study. It is assumed that from the government perspective of these countries, as their patent applications come from mainly from overseas, there is not much merit in spending money to institute the examination system for the examination and registration of foreign patent applications. However, it is still important to provide the environment for intellectual property even in a country where there are not many domestic applications. A favourable environment for intellectual property will encourage technology transfer and industrial investment, which in turn stimulates progress in the country's own technologies and industries. So-called patent developed countries should gain the understanding of Asian countries on this aspect, when they aid the consolidation of their (Asian countries') examination systems.

3) Regarding patent attorneys (or agents), many countries plan to increase their number, and to ensure their quality, in response to the increase in patent applications. Currently, this is a transition period. A system which sufficiently ensure the quality of patent attorneys has not yet been realized in some countries.

4) It is anticipated that the number of examiners and patent attorneys will increase and their quality will improve in the future. In the meantime during this transition period, it is necessary to select patent attorneys with care.

In some countries, only a few major firms handle the majority of foreign applications. These major firms also handle legal work. This means that there are concerns over any conflicts of interest between foreigners. (e.g. The applicant and the party who files an objection may request the services from the same firm. In patent litigation, the plaintiff and the defendant may try to use the same firm as their attorneys. etc.)

At present, the number of patent applications and patent litigation are not so great, and the oligopolistic attorneys market of the major firms has not yet caused significant problems. However, looking into the future, it may be important to study/consider the oligopolistic nature of the market, and its adverse effect on the user.

Fig. 1: China Patent Office

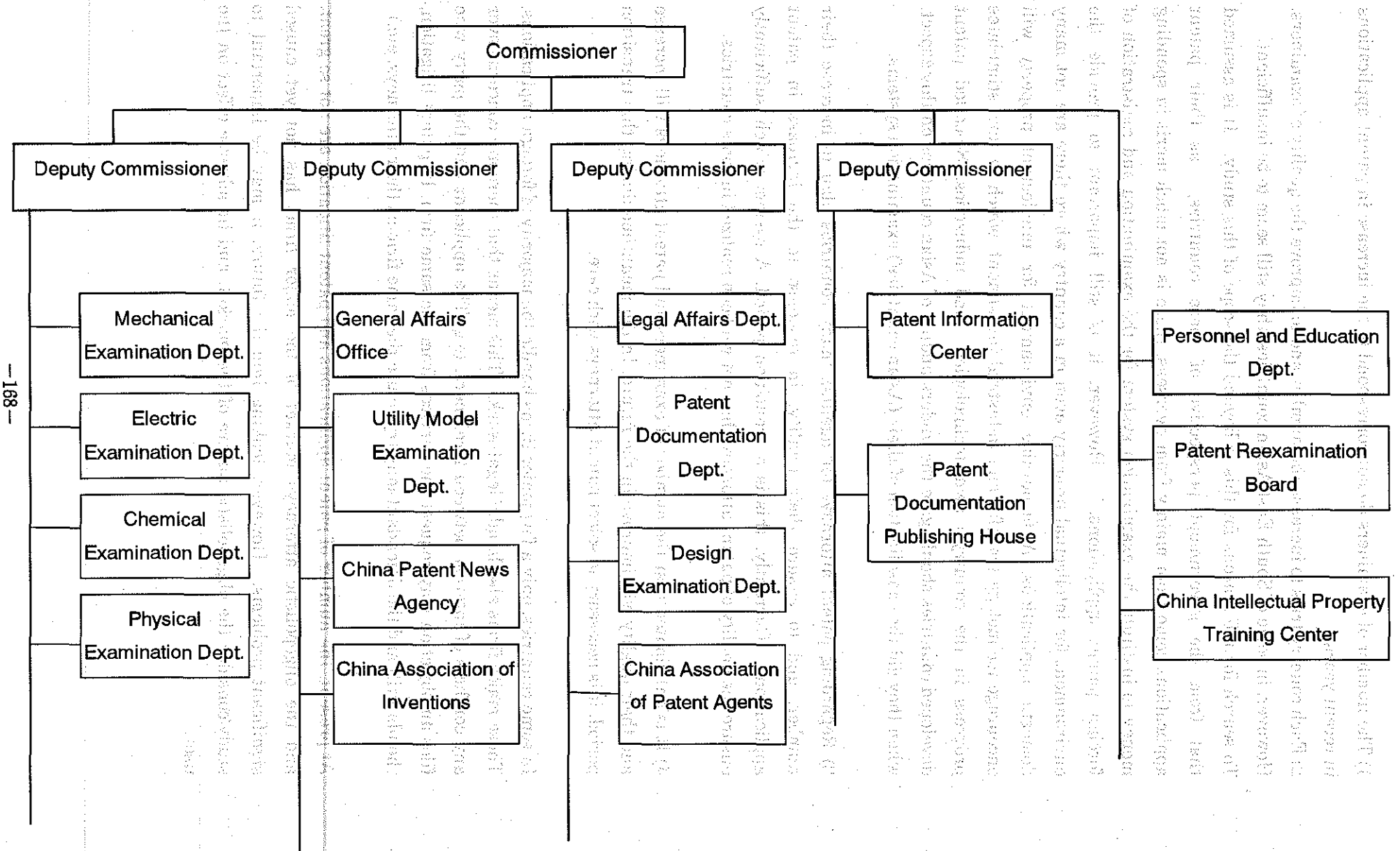


Fig 2: Korean Patent Office

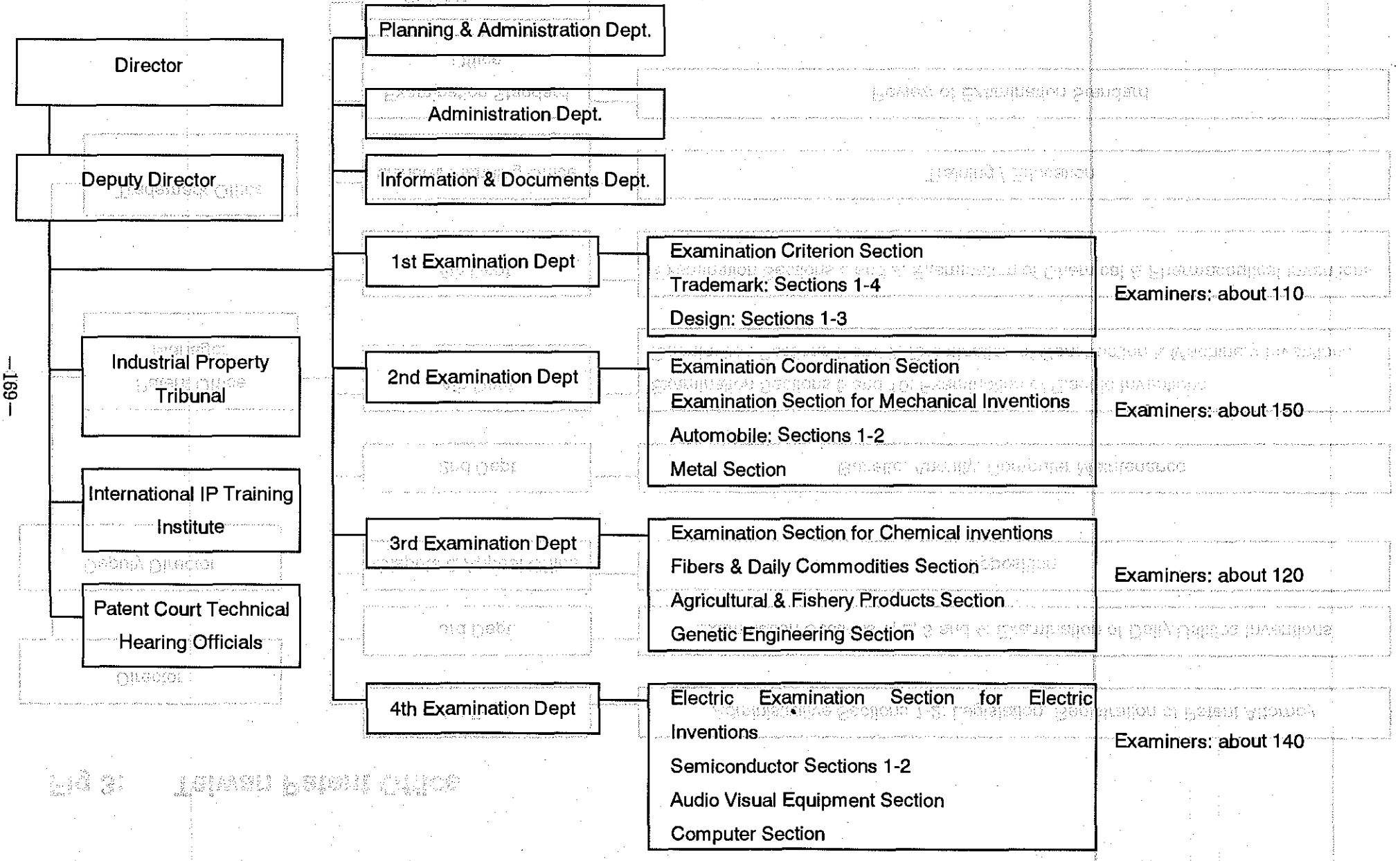


Fig 3: Taiwan Patent Office

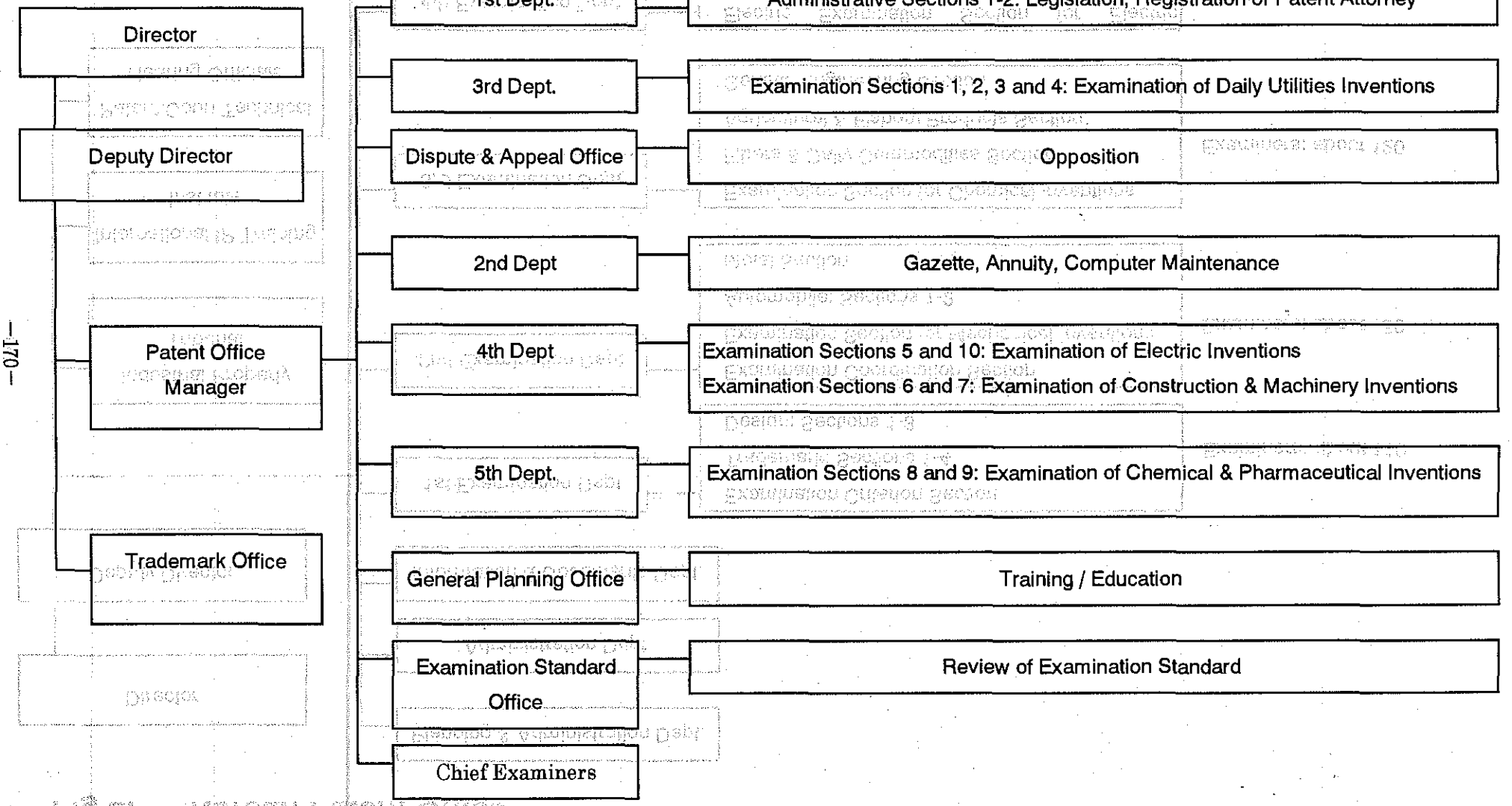


Fig 4: Indonesia Patent Office

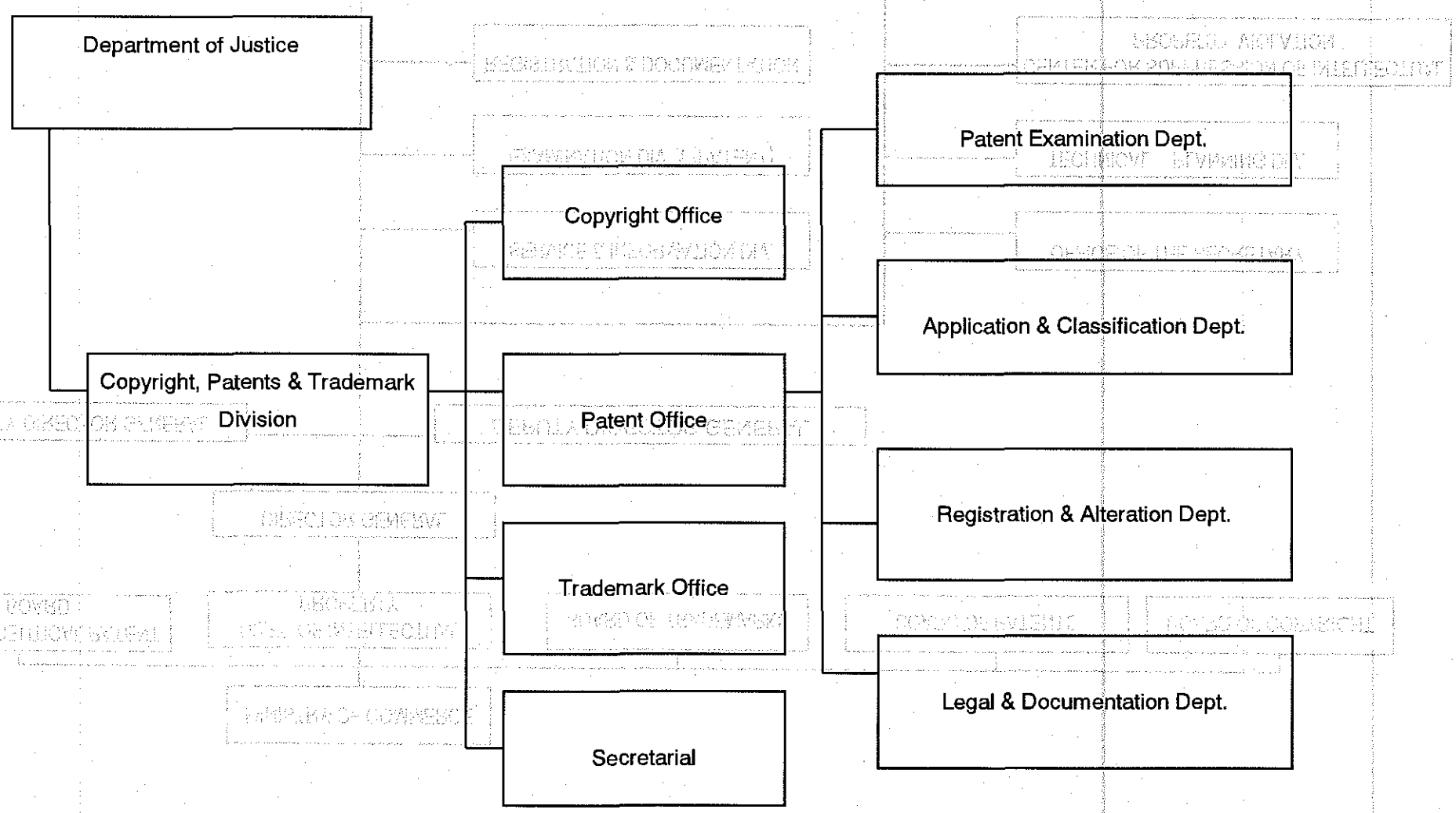


Fig. 5: DEPARTMENT OF INTELLECTUAL PROPERTY MINISTRY OF COMMERCE (Thailand)

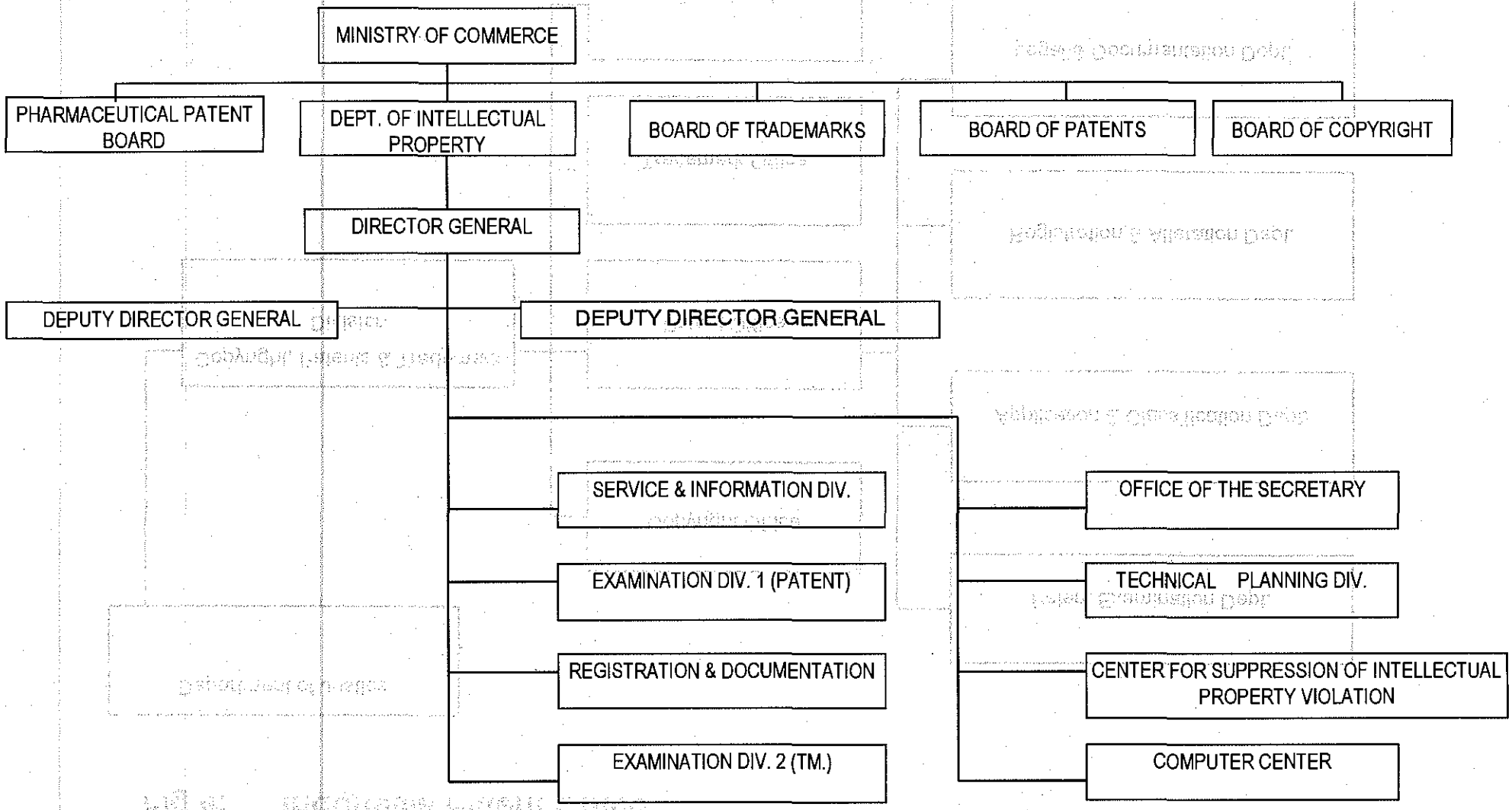
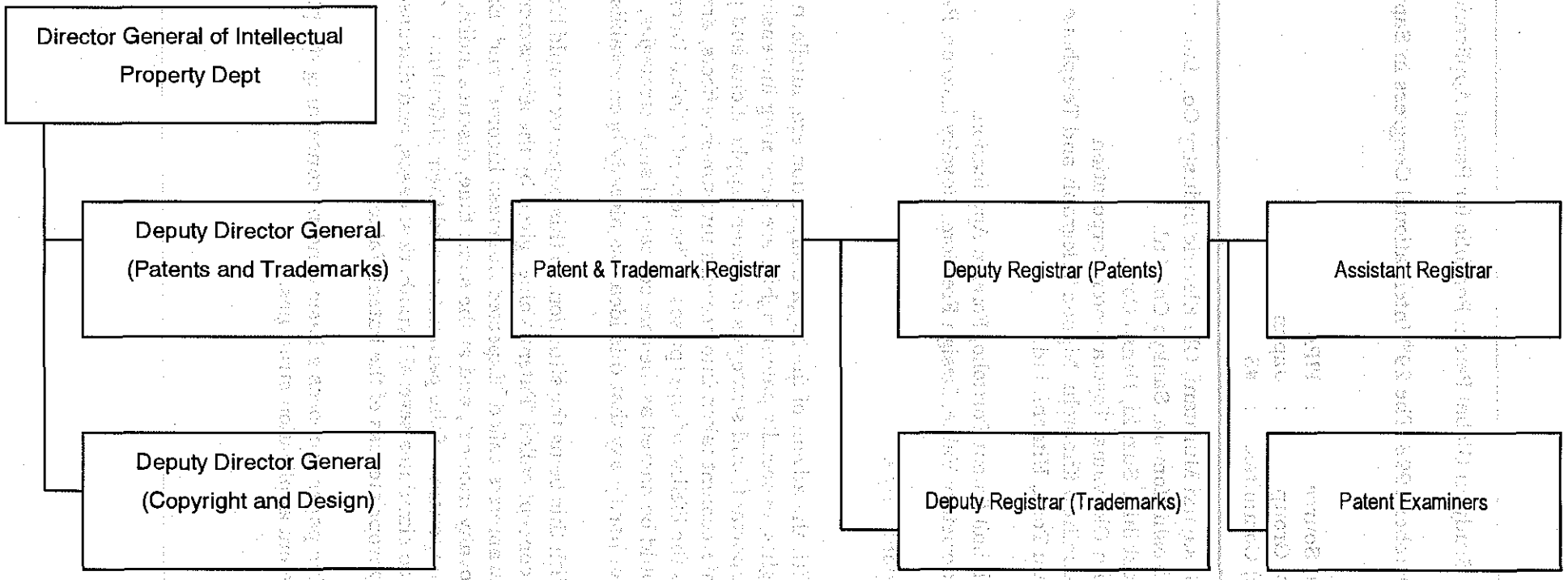


Fig 6: Malaysia Patent Office



(1) Title: A Study on Global Patent Portfolio for Patent Application Strategies

(2) Date: October 1998 (The 29th International Congress in Sapporo)

(3) Source:

(a) Source : PIPA
(b) Group : Japan
(c) Committee : #3

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(5) Keywords: (Global) Patent Portfolio, Foreign Application, Proprietary Value, Design Freedom, Royalty Income, Patent Value

(6)Statutory Provision: N/A

(7) Abstract:

With the advent of the Mega-competition era, intellectual property rights, especially patent rights, are becoming increasingly important, and strategies for patent applications and patent enforcement taken into account investment effects, are considered as the lifeline of enterprises. The idea of "Global Patent Portfolio" could be named as the core concept of such strategies, however, we can hardly say that this idea has already been established.

With this being the situation, in this paper we would like to propose a concept called "Patent Value" given by the assessment parameters called "Expected Business Income" and "Expected Royalty Income", and at the same time, discuss individual components of the parameters and their difficulties. This paper also simulates several hypothetical cases, and discusses the appropriateness of the Patent Value.

This paper proposes a basic concept concerning the planning of patent application strategies.

I. Introduction

With the advent of the Mega-competition era, international competitiveness is what a global company must gain. Intellectual property rights, especially patent rights, are now precious business resources for enterprises, and the importance of the existence of patent rights is increasing as they have become indispensable. However, owing patent rights requires anticipatory investments, and is costly. Therefore, it is important to plot well-balanced strategies for patent applications and patent enforcement, with the consideration of the investment effects. The idea of the Global Patent Portfolio could be named as the core concept of such strategies, however, we can hardly say that this idea has already been established. To date, the following studies and discussions have been reported.

1. Approach from the Cost Aspect

(1) There is a paper written by Mr. Helfgott[1] asserting that major cost problems in patenting are filing costs and maintenance costs, and it is necessary to cut those costs for the effective acquisition of global patents. Mr. Helfgott wrote that, when preparing a specification for a domestic patent application, it is necessary to consider that it may also be applied for by foreign countries, and from that viewpoint, he raised several points to pay attention to when writing specifications. In order to discuss the filing costs in each individual country, he also simulated how much patent application would cost in 32 different countries when an invention pertaining to a certain machine causes each of those countries to apply for a patent. He then made the comparative study[2] of the filing costs.

(2) There is another paper written by Mr. Bednarek[3] asserting that, in foreign patent applications, the bases for judging which countries apply for the patent (prioritizing the countries) should be the filing cost and the value of the patent itself. Mr. Bednarek used population, GDP and patenting costs as parameters, and proposed a new index for assessing patent values. Assuming that an invention is patented in 32 countries, he also calculated which of countries are high in cost performance, and made a ranking a prioritized of those countries.

(3) As for the study on the global patent cost reduction, Mr. Berrier presented a paper titled "Global Patent Costs Must be Reduced" in the 26th PIPA International Congress in San Francisco. Also, in the 27th PIPA International Congress in Hiroshima, this topic had become the common theme, and was actively discussed. With this development, the first international symposium was held in London in March 1997. The official and private representatives from the United States, Europe and Japan (Trilateral) were gathered to discuss this topic. The second symposium was held in Paris in October 1997, and the

[1] J. Pat. & Trademark Off. Soc'y., 26 (1992).
[2] J. Pat. & Trademark Off. Soc'y., 567(1993).
[3] J. Pat. & Trademark Off. Soc'y., 381 (1995).

third symposium was held in San Francisco in June 1998. Through their series of symposiums, the topic "How the international patenting cost can be reduced" has been discussed. Corresponding to public opinion, the European Patent Office has cut down the filing fee, and the Japanese Patent Office has also reduced the maintenance fee for those patents that are ten years old or older.

2. Approach for the Global Patent System

This idea was proposed by Japanese Patent Office in a meeting report titled "Intellectual Property Rights Protection in the 21st Century" issued in April 1997. It consists of the following milestones:

Mutual Recognition of Search Results	(First step)
Mutual Recognition of Patent	(Second step)
Trilateral patent (US, Europe and Japan)	(Third step)
Global patent	(Fourth step)

This proposal had been brought up in the US/Europe/Japan trilateral meeting held in November 1997, and the experimental trilateral joint search has already been implemented based partially on PCT. The ultimate form of this experiment will be "Global Patent" system. More detailed proposals addressing this "Global Patent" system are going to be presented in the coming the PIPA 29th International Congress in Sapporo. The main aspects of the "Global Patent" system are global patent application cost reduction and facilitation of the patenting process.

3. Approach for Assessing Collateral Values of Intellectual Property Rights

This is to assess the values of intellectual property rights, especially patent rights. This approach is based on the idea if securing bank loans by intellectual properties. In Japan, that was first reported[4] by the Institute of Intellectual Property. It lacks the global point of view; however, it will serve as one index to weigh the proprietary values of intellectual properties in order to take advantage of those property rights in business activities, and that will provide good references for structuring the Global Patent Portfolio.

4. Approach Using the Portfolio in Practicing Rights

There are certain movements attracting attention, such as an attempt to assess patents owned by each party in a group as a patent portfolio in cross licensing, or, as in recent examples, package licensing (portfolio licensing) by patent pools provided as a result of the establishment of consortiums, which is also the result of de facto standardization or global standardization efforts. From the viewpoint of

[4] "Report on the Intellectual Property Collateral Value Assessment Method" (June,'96)

the Global Patent Portfolio, these movements can be seen as the efforts addressing the assessment of resultant patent values, rather than the efforts addressing "the purpose of patent application".

5. Miscellaneous

(1) There is a paper pertinent to "Patent Application Portfolio Management"[5]. This paper describes the method of having patents contribute to the business profit, maximizing the profit contribution to the company's products, and attempting to ensure the consistency between investments in patents and the company's business portfolio. As for individual assessment of inventions, it suggests the use of "official notification ratio", "implementation ratio" and "inevitability ratio" as parameters; however, it does not describe the detailed assessing method.

(2) In the reference[6] by the Japan Intellectual Property Association, "Group Assessment" method is described as a method for assessing intellectual property rights. Indicating business/strategic importance (low – high) on the Y-axis, and levels in terms of technology/right (low – high) on the X-axis, this method allows one to see in which region of the graph a group of inventions are distributed and enables one to determine the suitable patenting policy for the group according to the region the group locates. The following are descriptions of the assessment parameters.

(a) Parameters pertinent to business/strategies:
(i) Business aspect [importance (competitiveness), impact to competitors],
(ii) Economic aspect [market size, share et al.]

(b) Parameters pertinent to technology/right:
(i) Technological aspect [feasibility, technological value],
(ii) Legal aspect [patentability, coverage, validity, identification of infringements]

PIPA Japanese Group Committee No.3 first attempted to propose a basic idea focusing on how we can effectively construct a global patent network (Global Patent Portfolio) and relate it to patent practice. However, as mentioned heretofore, the concept of the Global Patent Portfolio has not yet been established, and given that condition, we believe that the items below should be clarified.

(a) When there are a multiple number of product (business) fields, what types of portfolios should we make?

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[5] IP Management Vol.45, No.5, 1995
[6] "Intellectual Property Management in Drastically Changing Business Environment" ref. No.240

(b) What type of portfolio should we make for a subject product field, not as one invention but as a group of patents (also considering the time factor)?

(c) When an invention is invented, in which country should we patent the invention to maximize the effect for this particular technology/product field?

In this paper, we have decided to pursue the above idea (c). This directly relates to international patent strategies and has wide application (a) and (b) can be thought as advanced forms of (c). Details of the Global Patent Portfolio are explained in the following chapters.

II. Basic Concept of the Global Patent Portfolio

The so-called "(Global) Patent Portfolio" is a list of titles of patent applications (or patents), classified by technology fields (or that attached with specifications), or that having additional information such as patent owner (patented) countries. If we could realize a portfolio with value assessments, and, more over, the estimation on how these values will change in time, we would have a good index that can be connected directly to our patent strategies of enterprises. For example, it can be an useful criteria in determining whether it is or is not worth patenting, in which country to patent, or whether to maintain the patent application/patent, for each invention.

Therefore, the Global Patent Portfolio has to be a result of a quantitative assessment (referred to as "Patent Value"), which can be described by plotting patent values on a multi-dimensional space having axes represented by the assessment parameters, "technology (business) field", "country", "time" and "quality of invention".

On the other hand, from a macro viewpoint, accumulated values of such "Patent Value" for individual inventions (or accumulated values of the "business field" axis) will serve as an important index for those companies extending their businesses to multiple fields, in determining their budget distribution for individual business fields and their patent application and patent maintenance policies.

The purpose of this paper is to figure out an index, when the application is submitted (this can be thought as the starting point), to see "which country, in terms of investment effects, is most effective for patenting each invention". In this paper, we attempt to obtain such an index by quantifying not only the aspect of "suitability to own business field (Securement of Design Freedom)", but also "royalty income by licensing to others" (we consider the later to be an important aspect of patent value). We are also adding another assessment parameter of "(patenting) country".

The following describes the detailed Global Patent Portfolio assessment.

As mentioned above, when attempting to evaluate patent value directly, the patent value can principally be divided into "Business (Product) Freedom" aspect and "Royalty Income" aspect. The effects of cross licensing can be seen as a part of the substitute of royalty income since it allows to gain a right to use the other party's right; however, this paper considers direct royalty incomes only.

That is, the Patent Value of each invention is given by;

Patent Value = Expected Business Income + Expected Royalty Income
(Design Freedom)

where;

Expected Business Income = expected business income yielded by the subject patent
Expected Royalty Income = expected royalty income from the subject patent

A typical practical form of Expected Business Income may be a business income increase (increase in sales) which is obtained by eliminating competitors to secure own right through litigation based on the own patent right, and realizing exclusive sales activities. On the other hand, a typical practical form of Expected Royalty Income may be the royalty income gained by licensing the patent to parties infringing the patent right. However, the license policy (open/close) of a company will also be an important factor.

There may be patent applications that are submitted only for defensive purposes or to rein its competitors, without intentions to commercialize the inventions; however, this paper adopts only those that can be directly assessed.

Before going into the detailed discussions of each Expected Business Income and Expected Royalty Income, the relationship between these two ought to be discussed first. Discussing Expected Business Income and Expected Royalty Income on the same stage might seem unnatural because royalty income would not basically be expected, since patents are applied for to allow the company to practice rights related to their businesses (products). This condition may be applied to the chemical related fields where most patents are applied products by product. On the other hand in the electric and engineering fields, it is not unusual for a company to use a patented technology for its own products, while receiving royalties thorough granting a license to others to use the same technology. Also, there are cases where patents are used not only by the company but also by others through cross licensing. When considering such circumstances, we could say that Expected Business Income and Expected Royalty Income are not necessarily reciprocally exclusive. However, when considering patents (application) individually, of course, there should be balancing by each company based on the company's reasons for applying for the patent. In this regard, it is useful to use some sort of factor

representing this balancing. Also, the following discussions can be simplified by using a factor representing the chance of realizing license agreement with others. Then, the chance (probability) that a patent right is practiced in a company's own businesses (products) is expressed by "α", and the chance (probability) of realizing licensing to others is expressed by "β". Since the "implementation to own business" and "granting the license to others" are not necessarily reciprocally exclusive phenomena, "$\alpha + \beta = 1$" is not necessarily always true, but neither exceeds "1".

Separately from the above, the "contributions" of a patent to the product sales (Business Income) and to the Royalty Income is expressed by different factors, provided separately from Design Freedom and Royalty Income. Consequently, the remaining factors would be an estimated value of the profit yielded by the sales of the patented product and an estimated value of the royalty income.

Thereby the following is given:

$$\text{Patent Value} = \underbrace{\alpha \times \gamma \times NP}_{\text{(Expected Business Income)}} + \underbrace{\beta \times \gamma' \times RI}_{\text{(Expected Royalty Income)}}$$

where γ and γ' are the "contribution" factors to NP (Net Profit) and RI (Royalty Income).

The following is the discussion on how these factors (α, β) and (γ, γ') shall be assessed:

As for α and β, since they represent the probabilities that the patent right is practiced by the company itself or by other companies, they may be dependent on the implementation ratio (implementation probability) of the patent right to the applied products. Also affecting the situation is, the states of the sales activities of the company and other companies, (the probabilities that the company will sell the subject products in each country, and how competitors are selling similar products in the subject countries). On the other hand, in view of the company's exclusive practice of patent rights by eliminating its competitors, or of the patent right practice of licensing third parties, the ease of patent right practice in individual countries in terms of the conditions of the local patent law, or the existence of local attorneys that the company has access to, in other words, the "Practicability of Right" in each country would be also an important factor.

However, when the indexes are broken down to this level, how we can reflect each index to the factors α and β is left to the discretion of individuals in each company, as the matter is no longer in the domain of general discussion. Therefore, this paper will give these examples by the detailed cases described in the next chapter.

The factors γ and γ' include the meaning of the contribution of each patent to Business Income and to Royalty Income respectively. If the contribution level is higher, the patent's proportional value to the income can be regarded higher. It can be said that the contribution level of a patent to each income mainly depends on

(1) the degree of difficulty in developing an alternative technology (hereinafter referred to as "Fundamental of Invention", and
(2) the coverage or the percentage which the patented technology accounts for, in a subject product (Compositional Proportion).

Therefore, γ and γ' will be handled as the products of (1) and (2). However, the aspect of "Fundamental of Invention" only is considered for γ', since the percentage of γ' in Royalty Income is dependent on the rate of the license fee, assuming that a licensing contract is agreed.

Table 1: Summarizes the factors α, β, γ and γ'.

Factor	Nature (Meaning)	Typical Assessment Parameter (what the parameter depends on)
α	Probability of practicing in own businesses	Implementation Ratio (Invention), Industrialization Probability (Country), Practicability (Country), Licensing Possibility (Invention), Competitor Activities (Country), Accessible Local Attorney (Country)
β	Probability of licensing	
γ	Contribution of Patent to Business Income	Fundamental of Invention (Invention) Compositional Proportion (Invention)
γ'	Contribution of Patent to Royalty Income	

Here, we would like to describe NP (Net Profit) and RI (Royalty Income) assessments. Since the above factors include implementation ratio and licensing possibilities, the assessment formulas shall be:

NP = (Profit Ratio) x (Company's Share) x (Whole Market)
RI = (Royalty Rate) x (Other Company's Share) x (Whole Market).

III. Discussions by Virtual Cases (Simulation)

This paper illustrates a few virtual cases in the product fields of the companies where authors belong. The following discusses the validity of the formulas above and the points to be noted in structuring The Global Patent Portfolio based on the Patent Value.
(* Refer the cases)

IV. Items to be Noted in Structuring the Strategic Global Patent Portfolio

1. About the Ground of Calculating Expected Business Income based on Net Profit

The essential purpose of an enterprise is to produce profit. Therefore, The Global Patent Portfolio has to be in a form complying with the purpose of enterprise. Based on this viewpoint, the Global Patent Portfolio we propose adopts the net profit of a company's own products for calculating NP, not the net sales of the products. However, there are several problems in using the net profit of the company's own products in terms, as described below:

(1) In the aforementioned simulations, "Net Profit of Own Products" is assessed based on "Expected Sales of Own Products" x "Expected Net Profit". However, in chemically related field and other similar field, the initial investments, including development costs are very large. Therefore, it is often difficult to calculate "Net Profit of Own Products" simply by "Profit". In this case, another method where "Manufacturing Cost" and "Initial Investments (Development Cost)" are subtracted from "Sales of Own Products", should probably be applied.

(2) It is difficult to figure out the accurate portion of the contribution by the patented invention in "Net Profit of Own Products".

(3) The "Costs Required for Patent Application/Maintenance" are not considered in the simulation in this paper since their amounts are expected to be far smaller than the expected "Sales of Own Products". However, to be more precise, it is probably necessary to consider "Costs Required for Patent Application/Maintenance" in "Net Profit of Own Products".

2. The Effects of Cross Licensing

The patent cross licensing offsets the royalty income from the other party for the use of the company's patent in the other party's products, by the royalty payment to the other party for the use of the other party's patent in the company's products, and is widely practiced in the electric and engineering fields.

Unlike the chemically related fields where almost all products are patented individually, in the electric and engineering fields, it is difficult to fully cover the company's products only by the company's patents. This means that companies are often obligated to agree on cross licensing in order to use exchange patents with each other.

Although those patented inventions that have been the subject of cross licensing should also be assessed in the Global Patent Portfolio, the discussion in this proposal is insufficient on the assessment of the Patent Value in the case of a product requiring a multiple number of patented inventions in its production.

3. The Synergistic Effects of Patents in Groups

As mentioned in the section 2., it is difficult to completely cover a product by a single patent in the electric and engineering fields, and it is important to form a patent network pertinent to each product.

Each invention in patent groups that constitute a patent network probably also has to be subject to "the assessment as a component of a patent group", as well as "the assessment as an individual invention". In order to perform "the assessment as a component of a patent group", we need to perform a relative assessment on a multiple number of inventions. At the same time, we also need to assess the relativity among these inventions. Therefore, it is our future task to address how we shall extend the current study on the Global Patent Portfolio for individual inventions.

4. The Effects of Defensive Patent Applications

A defensive patent application (an applicant company has no intention of implementing it in its own product) can be thought as a patent applied for in order to secure the freedom of the company's own business by precluding other companies from the business. When such a patent application is assessed by our proposed Global Patent Portfolio, the factor α will be "0" since the "applicant company has no intention of implementing the patent in its own product", and the Patent Value would be small.

The defensive patent application can be seen as one form of patent application strategies aiming for the "formation of a patent network pertinent to each certain invention" which has been described in the section 3, and the Patent Value assessment of this type of patent application requires further discussions as well as the issue described in the section 3.

5. The Difficulty of Future Forecasting

The factors used in our proposal, α, β, γ, γ', NP and RI are values all estimated at the time of filling an application, and it is very difficult to figure out the accurate estimated values. It also should be noted that such values must be revised in time, corresponding to changes in the local law of the country, the economic development and the business status of the applicant, et al. However, it is deemed possible to minimize the risk of making fatal mistakes by classifying, in order, circumstances. These should include changes in "common factors in each country" and "common factors in each invention", as described in this proposal.

6. The Meaning of Patent Value

As for the Patent Values calculated as a result of the aforementioned simulations, some of the calculated amounts may seem far larger than those in our practical experiences. The reason is assumed to be the insufficient discussions on more detailed factors comprising the Global Patent Portfolio factors α, β, γ and γ'. As mentioned in Section 5, "the Difficulty of Future Forecasting", the accurate Patent Value calculation is difficult. Therefore, when submitting a patent application, the Patent Value of each invention calculated based on our Global Patent Portfolio should be regarded as the relative assessment values of a multiple number of countries. Also, Patent Value can represent the relative assessment values of a multiple number of inventions or a multiple number of invention groups by unifying the criteria of the factors α, β, γ and γ'.

V. Conclusion

Heretofore, this paper presented a more quantitative index for decision making, which is intended to describe the maximum effects for the foreign patent application, based on the idea of plotting filing strategies using the Global Patent Portfolio, more precisely, the paper illustrate the concept of the Patent Value consisting of the factors, "Expected Business Income" and "Expected Royalty Income". We feel that the assessment results obtained in the cases described in this paper, are not far from the judgements we make in selecting countries for foreign patent applications during our daily intellectual property activities. That is probably indicating the feasibility of using the concept expressed as Patent Value as a quantitative index when plotting international patent application strategies.

On the other hand, in these hypothetical cases, the complex factors pertinent to the patent application are simplified as much as possible for the purpose of making this concept of Patent Value more comprehensive; thus, it is also true that there would still be many problems to be addressed before applying this idea to the actual patent application strategies. For example considering the concept expressed as Patent Value in this paper, it is not easy to assess the absolute value of "Expected Business Income" accurately and quantitatively. That is because of the difficulty of the quantitative setting of the item for assessing the contribution degree (affect) of a patent in the "Expected Business Income", and at the same time, as mentioned in "Items to be Noted", because the "Expected Business Income" itself is dependent on the viewpoint of each individual company. That is, it is up to what a company comprehends as its "Expected Business Income". Also, the result of an actual Patent Value assessment would look more complex as more complex factors are added to the both "Expected Business Income" and "Expected Royalty Income" for each invention.

It is very difficult at this stage to do an all-encompassing explanation of these factors as a general discussion, however, if each company would attempt to make each assessment factor more valid, by adding/breaking down assessment factors that the company think it important, performing Patent Value assessments, and studying and accumulating the assessment results, we would have a more accurate Patent Value and could plot more precise patent application strategies. The more comprehensive the results of such efforts are, the more useful the assessment results we obtain.

As mentioned in this paper, by developing the concept of Patent Value into larger frameworks, applying the concept to a multiple number of inventions, and to a multiple number of product (business) fields, we may be able to plot patent application strategies based on the Global Patent Portfolio, which is well balanced in the entire intellectual property activities performing to various enterprises.

The theme of this paper covers so the concept of plotting patent application strategy based on the Global Patent Portfolio; however, we would like a separate opportunity to report the results of further research based on more detailed discussions in the future. We are also delighted to receive any frank opinions regarding this theme.

Hypothetical Case 1. Pharmaceutical Field

1. Model

(1) Business : Pharmaceutical Company

(2) Subject matter: antibiotic drugs

2. The details of the calculation (parameter setting)

(1) Condition:

(a) The value of the factor α, was given from the total point of the rating of each country from 1 to 5 in "Implementation Rate", "Industrialization Policy", "Practicability of Rights" and "Market Prospect 10 years Later". The "Market Prospect 10 years Later" was figured from the population, GNP, percentage of medical costs in the end consumption and IMS (International Medical Statistics).

Country	Implementation Rate	Industrialization Policy	Practicability of Rights	Market Prospect 10 years Later	α
US	5	3	5	5	0.7
JP	5	5	5	3	0.7
DE	5	3	5	4	0.7
FR	5	3	5	4	0.7
IT	4	2	4	4	0.5
GB	4	3	5	4	0.7
ES	4	2	4	3	0.5
CA	4	2	4	3	0.5
NL	3	3	5	2	0.5
BE	3	3	5	2	0.5
BR	2	1	1	4	0.3
AU	2	2	3	2	0.3
AR	2	1	1	2	0.1
CH	2	3	1	3	0.3
TW	2	1	1	2	0.1
CN	2	1	1	5	0.3
SE	2	2	4	2	0.3
AT	2	2	4	1	0.3
DK	2	2	4	1	0.3
RU	1	1	2	4	0.3

Total Point	4~6	7~10	11~14	15~18	19~20
α (%)	0.1	0.3	0.5	0.7	1.0

(b) The value of the factor γ and γ' [Fundamental of Invention (difficulty in developing alternative technologies) and Compositional Proportion] is uniformly set to "1" since "one patent for each product" is basically true in the pharmaceutical field.

(c) The NP here was given by "Market size x Share of the Company x (Profit)". On the other hand, the RI here was given by "Market size x Competitor's share x Royalty rate". The royalty rate was uniformly 10%.

Country	Market size (Mil. Yen)	Share of the Company (%)	NP (Mil. Yen)	RI (Mil. Yen)
US	66000	5	3300	6270
JP	43400	20	8680	3472
DE	14900	10	1490	1341
FR	14100	10	1410	1269
IT	8700	5	435	827
GB	7500	10	750	675
ES	4900	5	245	466
CA	4000	10	400	360
NL	1900	10	190	171
BE	1800	5	90	171
BR	1500	5	75	143
AU	1500	5	75	143
AR	1500	1	15	149
CH	1500	10	150	135
TW	1500	1	15	149
CN	1500	1	15	149
SE	1500	5	75	143
AT	1500	5	75	143
DK	1500	5	75	143
RU	1000	1	10	99

(d) The value of the factor β (Probability of Realizing Licensing to Others) was given from the total point of the rating of each country from 1 to 5 in "Implementation Rate", "Industrialization Policy", "Practicability of Rights", "Market Prospect 10 years Later" and "State of Competitors (existence of technical alliances and existence of companies that have had negotiation with in the past)".

Country	Implementation Rate	Industrialization Policy	Practicability of Rights	Market Prospect 10 years Later	State of Competitors	β
US	5	5	5	5	5	1.0
JP	5	1	5	3	1	0.5
DE	5	5	5	4	5	1.0
FR	5	5	5	4	4	1.0
IT	4	3	4	4	3	0.7
GB	4	5	5	4	5	1.0
ES	4	3	4	3	2	0.5
CA	4	4	4	3	3	0.7
NL	3	5	5	2	5	0.7
BE	3	5	5	2	5	0.7
BR	2	1	1	4	1	0.3
AU	2	4	3	2	4	0.5
AR	2	1	1	2	1	0.1
CH	2	5	1	3	5	0.5
TW	2	2	1	2	1	0.3
CN	2	1	1	5	1	0.3
SE	2	3	4	2	5	0.5
AT	2	4	4	1	3	0.5
DK	2	3	4	1	2	0.3
RU	1	2	2	4	1	0.3

Total Point	5~7	8~12	13~17	18~22	23~25
β (%)	0.1	0.3	0.5	0.7	1.0

The above parameters were applied to the GPP formula to calculate the Patent Value. The result is given on the next page.

(2) GPP : Patent Value = α x 1 x NP + β x 1 x RI

Country	α	NP (Mil. Yen)	Expected Business Income (Mil. Yen)	β	RI (Mil. Yen)	Expected Royalty Income (Mil. Yen)	Patent Value (Mil. Yen)	Priority
US	0.7	3300	2310	1.0	6270	6270	8580	1
JP	0.7	8680	6076	0.5	3472	1736	7812	2
DE	0.7	1490	1043	1.0	1341	1341	2384	3
FR	0.7	1410	987	1.0	1269	1269	2256	4
IT	0.5	435	218	0.7	827	579	797	6
GB	0.7	750	525	1.0	675	675	1200	5
ES	0.5	245	123	0.5	466	233	356	8
CA	0.5	400	200	0.7	360	252	452	7
NL	0.5	190	95	0.7	171	120	215	9
BE	0.5	90	45	0.7	171	120	165	10
BR	0.3	75	23	0.3	143	43	66	15
AU	0.3	75	23	0.5	143	72	95	12
AR	0.1	15	2	0.1	149	15	17	20
CH	0.3	150	45	0.5	135	68	113	11
TW	0.1	15	2	0.3	149	45	47	18
CN	0.3	15	5	0.3	149	45	50	17
SE	0.3	75	23	0.5	143	72	95	12
AT	0.3	75	23	0.5	143	72	95	12
DK	0.3	75	23	0.3	143	43	66	15
RU	0.3	10	3	0.3	99	30	33	19

3. Reference

Country	Population (Mil)	GNP (Mil. $)	GNP per person ($)	Medical Costs in End Consumption (%)
US	260.65	6737367	25860	0.1763
JP	124.96	4321136	34630	10.9
DE	81.41	2075452	25580	6.8
FR	57.75	1355039	23470	4.1
IT	57.19	1101258	19270	-
GB	58.09	1069457	18410	1.6
ES	39.19	525334	13280	4.5
CA	29.25	569949	19570	4.6
NL	15.38	338144	21970	7.1
BE	10.08	231051	22920	-
BR	153.73	536309	3370	-
AU	17.84	320705	17980	7.3
AR	34.18	275657	8060	-
CH	6.99	264974	37180	10.6
TW	21.10	210700	10202	-
CN	1208.84	630202	530	-
SE	8.79	206419	23630	3.1
AT	8.03	197475	24950	2.3
DK	5.21	145384	28110	-
RU	148.30	392496	2650	-

Hypothetical Case 2. Electric field

1. Model

(1) Business : commercial information provider on the Internet (including those also providing the access)

(2) Subject matter : A basic invention (method) used in commercial information servers on the Internet. (i.e. a method allowing a drastic improvement on the speed of display on user side)

2. The details of the calculation (parameter setting)

(1) Consideration in Patent Value calculation

The basic access charge income by the effects of the invention was used as the Expected Business Income by the right. The expected royalty income by the right was based on the licensing of the patented method to others (other commercial information providers).

(1) Condition:

(a) The α, was given from the "Implementation Rate (figured by the in-charge division)", "Industrialization Policy (assumed independent of countries)" and "Practicability".

Country	Implementation Rate	Industrialization Policy	Practicability	α
US	0.5	0.5	0.7	0.17
GB	0.5	0.5	0.3	0.08
JP	0.5	0.5	0.8	0.20
DE	0.5	0.5	0.3	0.08
CA	0.5	0.5	0.3	0.08
AU	0.5	0.5	0.3	0.08
FI	0.5	0.5	0.3	0.08
NL	0.5	0.5	0.3	0.08
FR	0.5	0.5	0.3	0.08
SE	0.5	0.5	0.3	0.08
NO	0.5	0.5	0.3	0.08
IT	0.5	0.5	0.3	0.08
CH	0.5	0.5	0.3	0.08
ES	0.5	0.5	0.3	0.08
DK	0.5	0.5	0.3	0.08
ZA	0.5	0.5	0.1	0.03
AT	0.5	0.5	0.3	0.08
NZ	0.5	0.5	0.3	0.08
BR	0.5	0.5	0.1	0.03
KR	0.5	0.5	0.3	0.08
BE	0.5	0.5	0.3	0.08
PL	0.5	0.5	0.1	0.03
IL	0.5	0.5	0.1	0.03
RU	0.5	0.5	0.1	0.03
SG	0.5	0.5	0.1	0.03

(b) The value of the factor γ (uniformly Fundamental of Invention set to "0.5" and Compositional Proportion set to "0.1") is uniformly set to "0.05".

(c) Market size was given by "Number of Users x Annual Access Charge (12,000 yen/user)". The NP here was given by "Market size x Share of the Company x Profit (10%)". On the other hand, it is assumed that the royalty is set according to the number of the users of the licensees. In this case, Competitor's Share was given by "1 – (the user share of the licensor)", and Royalty Rate is uniformly set to 3%.

Country	Internet Host[7]@96 (K)	Number of Users (K)	Market size (Mil. Yen)	Share of the Company (%)	NP (Mil. Yen)	RI (Mil. Yen)
US	10150	101500	1218000	5	6090	34712
GB	770	7700	92400	3	277.2	2688
JP	740	7400	88800	20	1776	2131
DE	720	7200	86400	4	345.6	2488
CA	600	6000	72000	5	360	2051
AU	520	5200	62400	3	187.2	1815
FI	330	3300	39600	0	0	1188
NL	270	2700	32400	0	0	972
FR	240	2400	28800	0	0	864
SE	230	2300	27600	0	0	828
NO	170	1700	20400	0	0	612
IT	150	1500	18000	0	0	540
CH	120	1200	14400	0	0	432
ES	110	1100	13200	0	0	396
DK	105	1050	12600	0	0	378
ZA	100	1000	12000	0	0	360
AT	90	900	10800	0	0	324
NZ	85	850	10200	0	0	306
BR	80	800	9600	0	0	288
KR	65	650	7800	10	78	210
BE	65	650	7800	0	0	234
PL	55	550	6600	0	0	198
IL	55	550	6600	0	0	198
RU	50	500	6000	0	0	180
SG	50	500	6000	20	120	144

[7] by Network Wizards. URL<http://www.nw.com>

(d) The β was given by "Practicability of Rights", " State of Competitors " and " Local Attorney ". The values in the column of "Existence of Competitors" (software development) are approximate values estimated by 1/number of companies. As for the "Attorney" column, those countries where the company has attorneys it has access to, are given "1", and those countries where the company doesn't are given "0.1".

Country	Practicability of Rights	State of Competitors	Local Attorney	β
US	0.7	0.001	1.00	0.0007
GB	0.3	0.010	1.00	0.003
JP	0.8	0.010	1.00	0.008
DE	0.3	0.010	1.00	0.003
CA	0.3	0.010	0.100	0.0003
AU	0.3	0.050	0.100	0.0015
FI	0.3	0.050	0.100	0.0015
NL	0.3	0.050	0.100	0.0015
FR	0.3	0.050	1.00	0.015
SE	0.3	0.050	0.100	0.0015
NO	0.3	0.050	0.100	0.0015
IT	0.3	0.050	0.100	0.0015
CH	0.3	0.050	0.100	0.0015
ES	0.3	0.050	0.100	0.0015
DK	0.3	0.050	0.100	0.0015
ZA	0.1	0.100	0.100	0.001
AT	0.3	0.100	0.100	0.003
NZ	0.3	0.100	0.100	0.003
BR	0.1	0.100	0.100	0.001
KR	0.3	0.100	1.00	0.03
BE	0.3	0.100	0.100	0.003
PL	0.1	0.100	0.100	0.001
IL	0.1	0.100	0.100	0.001
RU	0.1	0.100	0.100	0.001
SG	0.1	0.100	0.100	0.001

(e) The value of the factor γ ' is uniformly set to "0.5"

The above parameters were applied to the GPP formula to calculate the Patent Value. The result is given on the next page.

(2) GPP : Patent Value = α x 0.05 x NP + β x 0.5 x RI

Country	α	NP (Mil. Yen)	Expected Business Income (Mil. Yen)	β	RI (Mil. Yen)	Expected Royalty Income (Mil. Yen)	Patent Value (Mil. Yen)	Priority
US	0.17	6090	51.77	0.0007	34712	12.15	63.9	1
GB	0.08	277.2	1.11	0.003	2688	4.03	5.1	4
JP	0.20	1776	17.76	0.008	2131	8.52	26	2
DE	0.08	345.6	1.30	0.003	2488	3.73	5.0	5
CA	0.08	360	1.35	0.0003	2051	0.31	1.7	8
AU	0.08	187.2	0.70	0.0015	1815	1.36	2.1	7
FI	0.08	0	0.00	0.0015	1188	0.89	0.89	9
NL	0.08	0	0.00	0.0015	972	0.73	0.73	10
FR	0.08	0	0.00	0.015	864	6.48	6.5	3
SE	0.08	0	0.00	0.0015	828	0.62	0.62	11
NO	0.08	0	0.00	0.0015	612	0.46	0.46	12
IT	0.08	0	0.00	0.0015	540	0.41	0.41	15
CH	0.08	0	0.00	0.0015	432	0.32	0.32	17
ES	0.08	0	0.00	0.0015	396	0.30	0.30	18
DK	0.08	0	0.00	0.0015	378	0.28	0.28	19
ZA	0.03	0	0.00	0.001	360	0.18	0.18	21
AT	0.08	0	0.00	0.003	324	0.49	0.49	12
NZ	0.08	0	0.00	0.003	306	0.46	0.46	13
BR	0.03	0	0.00	0.001	288	0.14	0.14	22
KR	0.08	78	0.29	0.03	210	3.15	3.4	6
BE	0.08	0	0.00	0.003	234	0.35	0.35	16
PL	0.03	0	0.00	0.001	198	0.10	0.099	23
IL	0.03	0	0.00	0.001	198	0.10	0.099	23
RU	0.03	0	0.00	0.001	180	0.09	0.090	25
SG	0.03	120	0.15	0.001	144	0.07	0.22	20

1) Title: THE INTELLECTUAL PROPERTY SYSTEM IN THE PEOPLE'S REPUBLIC OF CHINA (A U.S. PERSPECTIVE)

2) Date: October 1998, Sapporo

3) Source:

1) Source: PIPA
2) Group: USA
3) Committee: #3

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5) Key Words: China, State Intellectual Property Office, Patent Office, Administration of Industry and Commerce, Trademark Office, National Copyright Administration, Copyright Office, People's Courts, MOFTEC, SIPO, NCAC, SPAC, AIC

6) Statutory Provisions: (various)

7) Abstract:

The intellectual property system in China is relatively new, being less than 20 years old in its current form. The system is administered by a variety of Government agencies and by the People's Courts. It includes a system of administrative enforcement that is unique among the major countries of the world. This paper identifies the key organizations administering the IP system in China as well as the basic laws protecting IP rights. Organization charts of the Chinese Government Bureaus and Ministries is provided as well as detailed information about the organization and functions of certain key agencies.

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THE INTELLECTUAL PROPERTY SYSTEM IN THE PEOPLE'S REPUBLIC OF CHINA (A U.S. PERSPECTIVE)

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1.0 INTRODUCTION AND PURPOSE

The purpose of this paper is to provide some practical information about the organization and operation of the IP system in China. It is not intended to be a thorough study of the Chinese IP law, but rather a description of which IP areas are covered by law and what agencies deal with those laws. Much of the discussion will focus on patent matters because the system of filing, examining and enforcing patents tends to be of greatest economic significance due to the nature of protection. In addition, there is generally more material available in English that describes the patent system. It is interesting to note that although the patent granting and enforcement process has probably received more public attention, the enforcement activity in China at present tends to involve more issues relating to infringement of trademarks and copyrights, though there are also many disputes about the ownership of patents. That could be attributed to several factors, including the relative ease of registering those rights and of proving infringement. Certainly the relative ease of duplicating digital information and trademarks leads to more cases of infringement of these IP rights.

The Chinese system is similar to the other systems of the world in that it has various central offices charged with handling applications for IP rights and the examination and granting of such rights. In addition, China has a court system that handles various IP disputes as in other countries. However, China also has a decentralized system for providing administrative remedies which is somewhat unique. This paper will attempt to explain some of the activities of the administrative system and identify the entities responsible for the different types of IP matters.

To many foreigners, the functions of the Government in a centrally governed country and centrally planned economy are not well understood. Because China has fully developed its IP system only recently, it is still relatively unknown to many foreigners. In addition, relatively little information is available in other languages, though that is slowly changing. It is hoped this paper will provide a good overview of the Government agencies involved in IP in China and some detailed information about the key agencies. Because there are many changes in process in China, certain details in this paper may become outdated quickly, but perhaps will serve for a reasonable time as a general explanation for those just coming to learn about the Chinese system.

2.0 CHINESE GOVERNMENT ORGANIZATIONS

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2.1 General

The PRC has historically been administered and controlled by the organs of the State and the Chinese Communist Party in recent history. In societies that accept free enterprise and private ownership as a part of economic life, individuals, firms and institutions are free to act except to the extent that the State regulates and laws forbid. In China, individuals, enterprises and institutions, assume that they are free to act only to the extent that they are specifically licensed to do so. In recent years, such licenses have become wider in scope, more public and more widespread, but they are still necessary

All economic activity is a matter for state concern and regulation unless the State specifically delegates or withdraws. Frequently, the State does not only control, but also negotiates on behalf of institutions or enterprises that formally had a separate existence. Even those corporations, companies and institutions that are set up by the Chinese to deal with foreign economic relations including investment and trade are set up by the State and are responsible to the State and subject to planning supervision.

Foreign trade and economic relations in China have traditionally been centralized and monopolistic, though the State has set up special corporations to handle particular exports and in some cases imports. In China, the institutional framework responsible for formulating and implementing foreign trade policy was copied from the USSR. At the time, China was not interested in direct participation by foreign capitalists in the nation's economy. In the 1950's some foreign investment by overseas Chinese was permitted and China became interested in foreign imports. Foreign trade policy was set by the State Council and by the State Planning Commission and the State Economic Commission. The policy was carried out by the Ministry of Foreign Trade and the China Council for the Promotion of International Trade (CCPIT) a non-governmental organization established in 1952. It's functions were to promote economic and trade relations between China and foreign countries among other things.

In the early to mid 1970's China began to open its doors to the outside world. Since the end of 1978, the People's Republic of China has been in the process of transforming important aspects of its economic and political structures and controls and adopted a more receptive attitude toward the outside world and foreign investment. The new course involved a rejection and criticism of economic self-reliance, and leveling tendencies of the cultural revolution. The new policies do not necessarily involve a repudiation of socialism and state ownership. Control of major sectors of the economy remain fundamental to China's ideology and social structure. The policies still affirm the leading and guiding role of the Chinese Communist Party. They accept in practice, but do not emphasize to foreigners, the need to secure socialism against internal and external forces, against instant democracy and dissident propaganda. The new policies do involve a totally new emphasis on the role of market forces and commodity production for a market within socialism. The goal seems to be a socialist system with Chinese characteristics. This is based on a nationally planned and supervised economy which not only permits, but actively encourages individual, family and enterprise initiative that is effective in producing needed goods for a market and thus improving the life of the people. Individual and joint ventures with foreign participation contribute to China's development by complementing, not replacing, the state-run and collective economy. They are part of the National Plan.

The centralized functions and agencies at the state (national) level generally supervise similar organizations at the levels of province, autonomous region, municipality and other local level. Thus, there is not only a state Administration of Industry and Commerce, but also a provincial and local administration of Industry and Commerce that deals with various trademark matters. Registration of trademarks is centralized at the state level, but administrative enforcement of trademarks is decentralized and may also be handled at either the Provincial or local level. Similar organizations exist in the patent and copyright area and in the court system.

2.2 Organization Chart For Government Agencies (See Appendix 1)

2.3 National People's Congress (NPC)

The NPC is the highest organ of state power in China. The NPC has the power to amend the constitution and enact the laws; elects the President, Vice-President and the Chairman of the Central Military Commission; approves the nomination of the Premier by the President; approves all candidates of the State Council upon the nomination of the Premier; and elects the President of the Supreme People's Court and Procurator-General. It is composed of deputies selected from the provinces, autonomous regions and municipalities directly under the central government and from the armed forces. The NPC's term of service is five years. The current NPC, the Ninth, held its first session between March 5 and 19, 1998. The Standing Committee is the permanent working body of the NPC when the NPC is not in session

2.4 State Council

The State council is the highest organ of state administration. It is composed of the Premier, Vice-Premiers, State Councilor, Ministers in charge of ministries and commission, the Auditor-General, and the Secretary-General. Except for the Premier, who is nominated by the President, Vice-Premiers and the State Councilor are nominated by the Premier. They are all appointed by the President upon the approval of the NPC. The State Council reports directly to the NPC.

2.5 Ministries and State Commissions

Ministries and State Commissions are component units of the State Council. Ministers are appointed by the President upon the nomination of the Premier and the approval of the NPC. The NPC is responsible for approving the decisions of the Premier to establish, amalgamate and dismantle Ministries and State Commissions.

2.6 People's Courts

The people's courts are judicial organs of the state. The Supreme People's Court is established at the state level. High People's Courts, People's Intermediate Courts and the basic People's Courts are established in provinces, autonomous regions and municipalities directly under the Central Government. The Supreme People's Court, the highest state judicial organ, is responsible to the NPC and it's Standing Committee and supervises the administration of justice by the local people's courts, military courts and other special courts. The current President of the Supreme People's Court is Ren Jianxin.

The People's courts try all cases publicly, except cases involving state secrets or individual privacy or those involving minors. The accused has the right of defense. Besides the right to defend himself, he may also be represented by a lawyer or ask his near relatives or guardians to defend him.

2.7 People's Procuratorates

The People's procuratorates in China are state organs for legal supervision and enforcement of the criminal laws of China. The head of the Supreme People's Procuratorate is the Procuratorate-General. The procuratorate brings actions in the courts of China to enforce the criminal laws and prosecute the criminals. There are criminal penalties under various IP laws in China and these prosecutions are handled by the Procuratorate at the appropriate provincial, municipal and local level. The State Supreme Procuratorate supervises the procuratorates at the provincial, municipal and local level. The People's procuratorates have the right to exercise procuratorial authority. They exercise procuratorial authority over crimes of treason, attempts to divide the country and other important criminal cases; examine the cases after investigation by public security organs, and decide on whether a suspect should be arrested or not; decide whether a case should be prosecute or exempt from prosecution; institute and support public prosecution on criminal cases; and oversee activities in public security organs, courts, prisons, lockups and reform-through-labor institutions.

Under the Constitution, the people's procuratorates, as well as the people's courts, exercise their own authorities, independent of interference by any administrative organ, social organization or individual person. Under the Constitution, all citizens are equal regarding the application of the criminal law.

2.8 Organizations Handling IP Matters

There are a number of Bureaus, Ministries and other offices that handle matters that affect IP rights in various ways. This paper will identify a few of the key offices and what role they play in the IP process. Appendix 1 of this paper contains an organization chart that shows in general terms the relationship of the various offices within the Government organization and Appendix 2 provides further detail about the name, location, function and administration of certain key offices. A brief overview of the description of each office and its function is included in the sections that follow.

The intellectual property-related laws and its implementing regulations (including some administrative regulations) and their revisions are drafted by SIPO, Trademark Office and the State Copyright Administration with the authorization of the National People's Congress and its Standing Committee.

2.8.1 State Intellectual Property Office (Patent Office)

The State Intellectual Property Office (SIPO) was established in about 1980 prior to the patent law becoming effective. The original name was the China Patent Office or State Patent Bureau, but on April 1, 1998 the name was changed to the State Intellectual Property Office and the organization was promoted to full Bureau Status under the State Council. The Office handles the filing and examination of Patent Applications under the Patent Law and handles appeals from examiner's decisions of rejection at the Reexamination Board within the Patent Office. The

reexamination Board also exclusively handles revocation and invalidation hearings when the validity of a patent is challenged. Appeals from the Reexamination Board are handled by the courts or certain administrative bodies, such as the Patent Administrative Agency in the case of infringement.

Decisions of the Reexamination Board of the SIPO in the following matters shall be the final decisions:

* Decision rejecting an application for utility model or design,
* Decision maintaining or revoking the patent right of a utility model or design, and
* Dispute over the validity of the patent right of a utility model or design.

Local administrative authorities for patent affairs can handle patent-related disputes upon request by the patentee or any interested party.

The Chinese Patent System is the product of reform and opening up of China. The Chinese patent system has been in operation from the implementation of the Patent Law of the People's Republic of China on April 1st, 1985 to the present time. Since that time the Chinese patent system has been playing an increasing important role in promoting scientific and technological progress and in the development of the national economy. In the period from 1985 through 1997, the number of patent applications filed in China has risen dramatically with the number in 1985 being about 14500 to over 114,000 in 1997, an 8-fold increase. The number of Chinese origin applications has increased during that time nearly 10-fold, from about 9400 to about 90000, though a good share of those cases are utility model applications. The number of foreign origin applications has increase about 5 times from 4961 in 1985 to about 24160 in 1997, most of those being for patents of invention.

The SIPO has established the largest patent documentation library in China. It is known as the National Patent Library (NPL). Up to the end of 1995, the SIPO has collected a volume of about 45 million patent documents. This includes more than 100 PCT search files involving 60 thousand patent documents. SIPO has obtained a number of CD-ROMS, including a collection of full text patent descriptions on CD-ROMs that are from 14 countries and 3 international organizations and the search disks of major countries.

The SIPO has finished the second stage of developing the China Patent Management System(CPMS). The CPMS has stored more than 500 thousand patent applications filed over the past decade. The computer-aided management system for PCT examination flow was set up in 1995 and the China Patent Full Text Database was also put into operation.

China acceded to the World Intellectual Property Organization (WIPO) on June 3, 1980 and to the Paris Convention for the Protection of Industrial Property (the Stockholm Act) on 19 March, 1985. On April 1, 1985, the Patent Law of the People's Republic of China came into force. On January 1, 1994, China formally became a contracting state of the Patent Cooperation Treaty (PCT), the Chinese language became a working language of the PCT, and the SIPO was designated as a Receiving Office, International Searching Authority and International Preliminary Examination Authority of the PCT.

2.8.2 Trademark Office of the State Administration of Industry and Commerce

China enacted the Trademark Law of the People's Republic of China on August 23, 1982, effective March 1, 1983, and amended it on February 22, 1993, effective July 1, 1993. The Trademark Office was expressly given, as an office under the direct supervision of the State Administration of Industry and Commerce (AIC), the responsibility for administering the Trademark Law. It has been suggested that there may be some administrative advantages that flow from this structure. Most notably, the AIC also has administrative responsibilities regarding the issuance of licenses to do business, thereby often quickly getting the attention of parties in an administrative proceeding. The Trademark Office, AIC and the Bureau of Legislative Affairs of the State Council of the People's Republic of China cooperatively drafted the first revision of the Implementing Regulations under the Trademark Law of the People's Republic of China, which became effective on January 3, 1988, and the second revision, which became effective on July 15, 1993.

In practice, the local AIC offices of various provinces, autonomous regions and municipalities are charged with local administrative responsibilities. An example of such provincial offices would include the office in Guangdong province. The main functions of the Trademark Office are set forth in the Trademark Law and Implementing Regulations. These generally include the promulgation and implementation of regulations related to trademark issues; administration of procedures for application, examination of applications and registration of a trademark; investigation and resolution of trademark infringements; establishment and operation of the Trademark Review and Adjudication Board; administration of foreign related matters; maintenance of the Trademark Register and publication of the Trademark Gazette; and supervision of local authorities in the performance of administrative functions. Primary goals of the Trademark Office are to improve the administration of trademarks, protect the exclusive right to use a trademark, and of encourage producers to guarantee the quality of their goods and maintain the reputation of their trademarks, with a view to protecting consumers' interests and to promoting the development of socialist commodity economy.

Decisions by the Trademark Review and Adjudication Board over the following matters are final decisions:

* Dispute over a registered mark,
* Decision of the Trademark Office, rejecting the application for registration of a mark,
* Decision of the Trademark Office, maintaining or canceling a trademark which has been preliminarily approved and published.

Like other Chinese intellectual property systems, the Trademark system is the product of reform and opening up of China. Although the trademark system is one of the older intellectual property systems in China (notably, China did have regulations governing trademarks which were established as far back as April 10, 1963), the modern system is less than twenty years old. Therefore, it should be understood and anticipated that there may be confusion over the enforcement of a trademark, particularly if a cost/benefit analysis is considered. However, many foreign and domestic companies have successfully enforced trademark rights in China. Most often, these companies have taken advantage of administrative proceedings in the local AIC offices. Understandably,

there are issues relating to trademark law in China that remain to be addressed or resolved. However, China has made significant progress in registration and enforcement of trademark rights.

Trademark applications have increased between 1988 and 1997 from about 47,500 in 1988 to nearly 149,000 in 1997. The number of applications filed by Chinese has risen from 41683 in 1988 to a high of 144,610 in 1995 and nearly 119,000 in 1997. Applications from foreigners have increased less dramatically from 5866 in 1988 to a high of 36879 in 1996 and 30178 in 1997.

2.8.3 National Copyright Administration

China enacted the Copyright Law of the People's Republic of China on September 7, 1990. As a result, the National Copyright Administration of China (NCAC) was established under the State Council in 1991. Under the Copyright Law, the Copyright Administration Department of various provinces, autonomous regions and municipalities is charged with local administrative responsibilities. Examples of such provincial departments include those in Guangdong, Jiangsu, Shandong and Liaoning. Further, many cities have set up copyright administrative organizations. The main duties of the National Copyright Administration are set forth in the Regulations for the Implementation of Copyright Law of the PRC and generally include the promulgation and implementation of regulations related to copyright issues; investigation and resolution of major or nationwide copyright infringements; administration of foreign related matters; administration of state owned copyrights; and supervision of local copyright authorities in the performance of administrative functions. A primary goal of the National Copyright Administration is to protect the common interest and the cultural environment of the society.

Like the Chinese patent system, the Chinese copyright system is the product of reform and opening up of China. However, the Chinese copyright system is much newer than the patent system. It is less than ten years old. Therefore, it should be understood and anticipated that there may be confusion over the advisability of registering a particular work, particularly if a cost benefit analysis is considered; the process for obtaining registration; and the enforcement of a copyright. Understandably, there are many issues relating to copyright law in China that need to be addressed or resolved. However, in a very short time China has made achievements in registration and enforcement of the copyright.

On May 30, 1991, China promulgated Regulations for the Implementation of Copyright Law of the People's Republic of China which were approved May 24, 1992, and became effective on June 1, 1991 (an English translation of which is attached in section 1.2 of Appendix 5). On September 25, 1992, China promulgated Provisions on the Implementation of the International Copyright Treaties. These regulations became effective on September 30, 1992 (an English translation of which is attached in section 1.3 of Appendix 5).

Moreover, China acceded to the Berne Convention on October 15, 1992, to the Universal Copyright Convention on October 30, 1992, and to the Geneva Convention for the Protection of Producers of Phonograms against Unauthorized Duplication on April 30, 1993. Additionally, the US and PRC agreed to a Memorandum of Understanding on the Protection of Intellectual Property in January 1992 which became effective on March 17, 1992.

2.8.4 State Pharmaceutical Administration of China (SPAC)

Among broader responsibilities to regulate the pharmaceutical industry, the SPAC receives and processes applications for administrative protection of certain pharmaceutical products in order to discharge its responsibilities to guide the pharmaceutical patent and technology market and take charge of the administrative protection of pharmaceuticals. Under the "Regulations on Administrative Protection of Pharmaceuticals" promulgated on December 19, 1992 certain pharmaceutical products can receive exclusive rights in China (See section 3.2.9)

2.8.5 Ministry of Agriculture

The Ministry is responsible for the protection of plant varieties among the broader responsibilities implied by the Ministry title.

2.8.6 Intellectual Property Executive Conference (IPEC)

The IPEC was established in 1994 as a Committee within the State Council and deals with the study, decision making, domestic legislation and enforcement and international consultations relating to major IP issues. In 1995, IPEC initiated a nationwide action program for IPR enforcement and protection and has established similar subordinate committees in all of the provinces. IPEC provides guidance in the establishment of industrial IPR associations, especially in science and technology industrial parks, and helps advance IPR management and protection in industries, research and higher learning institutions. IPEC also works to establish public awareness by providing IPR education, and promotes the development of famous brands and products.

2.9 Organizations handling Technology Transfer

2.9.1 Ministry of Foreign Trade and Economic Cooperation (MOFTEC)

In 1982, the Ministry of Foreign Trade, the Ministry of Foreign Economic Relations, the Foreign Investment Control Commission and the State Import-Export Commission had been amalgamated as the Ministry of Foreign Economic Relations and Trade (MOFERT). The agency was subsequently designated as MOFTEC.

MOFTEC is responsible for helping to formulate the national foreign trade plans in consultation with the State Planning Commission. It manages the foreign trade system, approves import and export licenses, handles technology transfers, negotiates international trade agreements and participates in relevant international trade organizations. It also supervises the local foreign trade bureaus in each province, major city and autonomous region, and the specialized national foreign trade corporations (FTCs) that are primarily responsible for conducting foreign trade on behalf of China. Further MOFTEC controls several trade-related companies. MOFTEC itself is organized into several administrative and functional or regional departments, including departments for foreign trade, treaties and law, import-export administration and technology transfer.

The national FTCs under MOFTEC are responsible for negotiating and conducting a major portion of China's foreign trade. They act for Chinese foreign trade entities not authorized to trade directly. It is often the FTCs, not the Chinese manufacturer or consumer-user, that signs the final contract and determine the most important contractual terms. The Chinese importers or exporters are usually allowed to participate in trade negotiations without having ultimate say regarding the agreement.

FTC's are independent legal entities. Each FTC handles a separate category of trade commodities or services. The FTC's also implement China's bilateral trade agreements by negotiating and signing individual contracts under those agreements.

3.0. THE CHINESE LEGAL SYSTEM

3.1 Background and History of the Chinese Legal System

China's legal system has existed in various forms for many years, but has undergone significant change in recent years as China has moved from a solely centrally planned economy to incorporate elements of a market driven economy. This has been particularly true in the IP area as China's IP system has undergone enormous change. As currently organized, the Court system and process is similar to the US system in many respects, but of course there are also many differences.

The Chinese legal system is based on the civil law concept rather than a common law concept and there is limited opportunity to use the powers of the courts to discover or compel the production of evidence. There is also limited opportunity to protect evidence submitted to a court. Another major difference that makes the IP system unique is that there is also an administrative system to provide remedies for infringement. A major similarity to the US system is the use of a concentrated hearing where all of the evidence and arguments are presented at one hearing. This differs from the practice of having a series of hearings set by the courts as in the Japanese legal system.

Because the Chinese education system includes law as an undergraduate program, as in many other countries, few lawyers in China have both technical and legal training. Patent Agents handle matters before the administrative bodies and lawyers handle matters before the courts. Generally they will team up when IP issues are to be handled before the courts.

3.1.1 Criminal and Civil Procedures

Both criminal and civil proceedings are available in the people's courts and violations of intellectual property rights may result in both civil and criminal penalties depending on the offense. There are relatively harsh criminal penalties that can be imposed for the most significant copyright violations. Imprisonment of one or more years is possible along with fines and many such sentences are imposed. However, in instances where a prison sentence is imposed, the sentence is sometimes suspended for one or two years so that if the defendant does not break the law for that period, the defendant can avoid going to jail.

The Procuratorate at the provincial and local levels are responsible for bringing the criminal action once they have enough evidence to prove a crime has been committed. They will investigate and gather evidence as needed.

A civil action can be initiated in the court having subject matter jurisdiction, generally either the Intermediate Court (for patent infringement) or the Basic Court (see section 3.5.6.1, 3.5.8 and 3.5.9). If a criminal action is initiated, a civil action may be appended to the criminal proceeding. The evidence gathered by the prosecutor may be used in the civil proceeding and court costs for the appended civil action can be avoided.

3.1.2 The Civil Law system and the role of precedent

China has a legal system based on the continental civil code system. The ultimate authority is the statutory law and decisions are rendered by courts using the facts as basis and the law as the criterion according to Article 7 of the Code of Civil Procedure. Decisions of the various courts are generally not binding in the trial of other matters as may be the case in common law systems. Decisions are not routinely published or indexed.

Foreign nationals, stateless persons, foreign enterprises and organizations have the same procedural rights and obligations as Chinese citizens, legal persons and organizations per Article 5 of the Civil Code. In trying cases, courts are expected to attempt voluntary conciliation in accord with legal principles. But if conciliation is ineffective, the court should then render judgment. There are generally two levels of courts which may be involved in any given matter, with the court of second instance generally being the court of last resort.

3.1.3 The Discovery of Evidence

There are no subpoenas or other means to compel parties in a civil action to bring evidence to the court. Generally the parties must rely on private investigators to gather the evidence that is needed to show infringement. This sometimes makes it very difficult to initiate an action, particularly for a foreign party. If a criminal action is initiated, a civil action may be appended. The evidence gathered by the prosecutor may be used in the civil action.

3.2 The Intellectual Property Law

3.2.1 The Trademark Law

The modern IP laws in China are relatively new. Although regulations regarding trademarks were promulgated in 1963, the current Trademark Law was first promulgated at the 24th session of the Standing Committee of the Fifth National People's Congress on August 23, 1982. This law came into force on March 1, 1983. The Revision of the Trademark law came into force on July 1, 1993. The revision of the Implementing Regulations under the Trademark Law was promulgated on January 3, 1988 and subsequently revised again on July 15, 1993. China acceded to the Paris Convention for the Protection of Industrial Property in 1985 and the Madrid Agreement Concerning the International Registration of Marks in 1989. In November 1988 China adopted the Nice classification in the registration of trademarks and the Vienna classification of the figurative elements of trademarks.

The PRC has the first to file rule to determine who is entitled to register a mark. There are provisions in the law for exceptions if the mark has been registered in bad faith or for well known marks if their fame can be proven by showing a leading position in the home country, international market recognition and that the mark is known in the PRC. Several foreign marks have received the benefit of this protection while other marks thought to be famous by Westerners have encountered difficulty. It is important to consider registering a trademark in both Chinese and Roman characters in order to obtain the most complete protection. Service marks are registrable. There is a need to file separate applications in each international class of products. A registered mark is valid for 10 years and is renewable. Use of an unregistered mark is allowed except on pharmaceutical and tobacco products where registration is mandatory. Licensing of an

unregistered mark is not permitted and a trademark license agreement must be registered with the local AIC and with the Trademark Office within 3 months of granting the license.

The PRC anti-unfair competition law also relates to the protection of marks and provides a cause of action and penalties for counterfeiting trademarks, using similar names, using similar packaging to mislead buyers, using other tradenames, stealing commercial secrets or revealing them to others.

Enforcement of rights in marks is available from the courts, administrative agencies and the Customs authorities as discussed elsewhere.

3.2.2 The Patent Law

The Patent Law was first adopted in 1984 and came into force in 1985. The first and latest revision was in 1992. Protection is available for inventions, utility models and industrial designs. In order to be patentable, an invention must be novel, inventive and have practical utility. Publication anywhere in the world and local use bars novelty. The inventive standard is "prominent substantive features and represents a notable progress", but incremental advances can be patentable. Excluded form protection are scientific discoveries, rules and methods for mental activities, diagnostic methods of disease treatment and animal and plant varieties. The term of protection is 20 years from date of filing.

The application must be filed with the Chinese patent Office in the Chinese language. Foreign applications must be filed through a designated local agent. Applications are published within 18 months from the priority date. In 1994, China acceded to the PCT so that China can be designated under a PCT application. PCT applications may be filed in Chinese or English. There is no opposition procedure, but a request for revocation can be filed within six months after the grant of the patent. An invalidation action can be filed after that period.

Patents may be licensed, but the license agreement should be registered with the Patent Office within three months of granting the license.

A utility model can be filed for any new technical solution relating to the shape, structure or the combination, of a product that has a practical use. There is examination for formalities, but no substantive examination of utility model applications. A valid utility model should be inventive to the extent of having "substantive features and represents progress."

Industrial design protection may be granted for any new design of the shape, pattern, color or the combination of a product that is fit for practical use.

3.2.3 The Copyright Law

In the early 1980's, China promulgated Trial Regulations of Copyright Protection on Books and Magazines. The Copyright law and implementing regulations became effective on June 1, 1991 and the Regulations for the Protection of Computer Software were implemented on October 1, 1991. On October 15 and October 30, 1992 China became a contracting State of the Berne Convention and the Universal Copyright Convention, respectively. China has adopted the principle of automatic protection for copyright according to international practice, and works need not be registered to receive such protection. However, various parties expressed wishes to have their works registered in the administrative authority for copyright affairs, so The State Copyright Administration has recently promulgated the Procedures for Voluntary Registration of

Works and has started to accept applications for voluntary registration. The registration fee is about US$400 (including official fees and attorney fees) for each work to be registered.

Computer software is further protected in the Computer Software Protection Regulations implemented in 1992. There are procedures for registering software, but they are not often followed because there is no requirement for registration if the holder of the right is a national of a country belonging to the Berne Convention and disclosure of the source code may be required. Originally, China established the Computer Software Registration Center of China to be administered by the Ministry of Electronics Industry. However, the State Council recently decided that as of June 1, 1995 this function would be merged into the State Copyright Administration to minimize fragmentation of copyright registration.

3.2.4 The trade Secret Law

Protection for Trade Secrets in China is not yet addressed in a special trade secret law. Rather, protection for trade secrets is achieved through a combination of general contract law, the Anti-Unfair Competition Law effective on December 1, 1993 and the criminal law. There has been discussion about a new trade secret law, but as of this writing, such law has not been adopted.

Under contract law, an employee or licensee or other person can be bound by a contract to protect certain trade secrets and can be sued for breach of that contract. However, it may not be possible to sue a third party under the contract law, such as a subsequent employer, for misappropriation of the trade secret learned from another. Another difficulty is that the term of a license agreement cannot exceed 10 years and the term of confidentiality shall cease when the term of the agreement expires. Special permission from the government (MOFTEC) can be requested for a longer term. Some commentators anticipate that the regulations will be amended to allow negotiation of confidentiality obligations without the need for permission of the government.

The Law for Countering Unfair Competition became effective on December 1, 1993 and the Provisions Concerning the Prohibition of Acts of Infringing Business Secrets became effective on November 23, 1995. This law identifies among several other grounds of unfair competition, misappropriation of trade secret as one of several unfair acts prohibited under the law. The law defines a trade secret as "Technological information and business information that is not know to the public, derives economic value for the holder, is of practical applicability and has been subject to steps by the holder to maintain secrecy."

The law specifically provides for civil and administrative relief for misappropriation. Civil remedies include injunction and compensation for damages based on the trade secret holder's actual losses caused by the misappropriation. Alternatively, if that amount is difficult to calculate, the amount of damages should be the infringer's profit derived from the misappropriation. In addition, the owner should be compensated for reasonable costs to investigate the misappropriation. The administrative remedies stated in the law include issuing an injunction and imposing a fine from about USD$1000 to about USD$24000. However, the administrative authority cannot order compensation for damages.

Article 10 of the law states that where a third party obtains uses or discloses the business secrets of others with full knowledge of the illegal acts mentioned in the law,

they shall be deemed to have infringed on the business secrets of others. However, it may be difficult to sue a third party, such as a subsequent employer, for misappropriation of the trade secret learned from another unless it can be proven they had full knowledge of the illegal acts undertaken to obtain the secrets.

Criminal sanctions have been available for trade secret misappropriators since December 11, 1992 when the Supreme People's Court and the Supreme People's Procuratorate jointly issued the "interpretation on the Application of Laws in Practice Concerning Some Questions Regarding the Handling of Theft Cases." On June 17, 1994 the Supreme People's Procuratorate and the State Commission of Science and Technology jointly issued the "Opinions on Handling Economic Crimes in Science and Technology Activities" which state that whoever steals technical know-how in serious circumstances should be prosecuted for criminal liabilities as a criminal offense of theft. Criminal penalties include imprisonment, including life imprisonment, the death penalty and confiscation of property. Normally, the sentence for misappropriation of trade secrets is not as harsh as theft of tangible property and would likely not exceed five years in prison.

3.2.5 The Law of Unfair Competition

The Law for Countering Unfair Competition became effective on December 1, 1993. The purpose is to prohibit unfair acts which harm trade competitors such as counterfeiting trademarks; using similar names and packaging to mislead buyers; using the tradename of another; stealing commercial secrets or revealing them to others; actions by local governments to force the buying of goods form operators designated by them; bribery; predatory pricing; tie-ins or other unreasonable conditions; making certain kinds of sales of goods by giving prizes; collusion among competitors; uttering falsehoods to damage a competitor, etc. See section 3.2.4 above for other aspects of the remedies available under the law.

3.2.6 The Law relating to the Protection of Plant Varieties

The Regulations on Protection of New Varieties of Plants were adopted on October 1, 1997 and China has joined the UPOV Convention.

3.2.7 The Customs Law

The Customs Law of the People's Republic of China came into force on July 1, 1987. The Regulations of the People's Republic of China Governing Customs Protection of Intellectual Property Rights became effective as of October 1, 1995. The Law and Regulations permit the Customs General Administration of China (CGAC) to detain goods being imported or exported if they infringe a patent, trademark or copyright.

In order to enforce their rights, the IP owner must record the right with the CGAC and thereafter petition the CGAC to detain suspected goods. The petitioner must deposit a security with the CGAC equal to the CIF value of the import goods or the FOB value of the export goods. Disputes about the goods are resolved by the parties applying to the People's courts. (See further comments in section 3.7.4)

3.2.8 The Arbitration Law

Although arbitration in various forms has been practiced in China for some time, the first arbitration law in the PRC became effective on September 1, 1995. The law provides that disputes over contracts or other disputes involving property between citizens, legal persons and other organizations are subject to arbitration. The law also states that the following disputes cannot be arbitrated:

1) disputes over marriage, custody, support and inheritance;

2) administrative disputes that by law should be handled by administrative organs.

IP disputes may be subject to arbitration where there is a contractual relationship between the parties and, according to some commentators, perhaps in certain instances even where there is not such a relationship. Validity of a patent would not seem to be arbitrable in view of Article 3(2) because validity is a subject to be addressed by the SIPO.

The law specifies that the system of one ruling is practiced in arbitration. The people's courts will not accept a lawsuit over the same dispute that has been decided in arbitration. However, if a court repeals a ruling as provided under the Arbitration Law, the parties may re-file the arbitration under a new arbitration agreement or bring suit in the people's courts. The rulings of the arbitration Commission must be signed by the parties and will be enforced by the People's courts. The law applies to an arbitration that involves foreign parties as well as domestic parties.

The new Arbitration Law establishes a new arbitration system under the China Arbitration Association and purports to govern all arbitration in China. Article 79 states that the operation of other arbitration institutions which are established before this law goes into effect and which are not in line with this law shall be terminated. On June 8, 1996 the State Council promulgated the "Circular of the State Council General Office on the Clarification of Certain Issues Concerning the Implementation of the Arbitration Law of the People's Republic of China." This circular provides among other things that the newly created local arbitration commissions can handle international arbitration cases as well as domestic cases. This raises some questions about the continuing role of the China International Economic and Trade Arbitration Commission (CIETAC) which has traditionally handled international disputes in China. (See further comments on arbitration procedure in Section 3.7).

China is a contracting state of the Convention on the Recognition and Enforcement of Foreign Arbitral Awards of 1958 (New York).

3.2.9 The Regulations on Administrative Protection of Pharmaceuticals

An important set of regulations in the pharmaceutical industry is the "Regulations on Administrative Protection of Pharmaceuticals" promulgated on December 19, 1992 and became effective January 1, 1993. Administrative protection can be applied for pharmaceutical products which (1) were not subject to protection under the China Patent Law prior to January 1, 1993, (2) were subject to an exclusive right in applicant's home country between January 1, 1986 and January 1, 1993 and (3) have not been marketed in China prior to the date of filing the application for administrative protection. Foreigners must file the application through an agency designated by the State Council to act as their agent. In accordance with the regulations, the examination of the application shall be completed within 6 months unless the applicant is notified of special reasons why the examination cannot be completed within 6 months. If protection is granted, it shall endure for a period of seven (7) years and six (6) months from the date the certificate or protection is issued. The protection shall cease prior to its full term if (1) the exclusive right in the home country is lost due to invalidity or other reasons, (2) where the annual fees are not paid, (3) where the owner abandons the right by written declaration, and (4)

where the owner of the right does not apply for the right to manufacture or market the product in China within one (1) year of the issuance of the certificate.

3.3 Lawyers

Because the legal system and legal education was disrupted during the cultural revolution, until the mid 1970s, the modern Chinese legal system has a relatively short history. The number of formally trained and qualified lawyers has been growing, but the numbers are still relatively small and not sufficient to serve the needs of a growing economy. By 1987 there were 20,000 lawyers in all of China. Currently there are about 90,000 lawyers registered in China. Prior to 1986 anyone could apply to be a lawyer. Since 1986 the bar examination system has come into effect. The Government has encouraged the qualification of additional lawyers to meet the internal needs of the country as it transitioned from a rule of men to a rule of law. As the market-based economy grows and more laws have been promulgated to meet the needs of a developed country, more lawyers are needed.

Law is an undergraduate, 4-year degree in China followed by a bar examination. As an example, the current pass rate for the national bar exam for the municipality of Shanghai is about 20% though other provinces may have a different pass rate. Passing the bar exam earns a certificate, but to be licensed you must work for a law firm and renew your license every year. If you work for the State you cannot be licensed as a lawyer. An enterprise can have a legal department and the Ministry of Justice may give special approval to allow the lawyers to be registered, but it is reviewed each year. Graduate schools in law are also available. Continuing legal education is required and the licensed lawyers must attend 6 out of 12 seminars on various legal topics given each year in order to get their license renewed. Lawyers in China can represent foreign clients on many general matters without being designated as authorized to do so in contrast with patent and trademark agents who must be specially authorized to represent foreigners.

3.4 IP Agents/Attorneys

Patent agents (also commonly referred to as patent attorneys) are available to represent applicants in applying for patents. They do not have to be attorneys-at-law. Generally the agents will have some technical training and be admitted to the patent bar. Recently there has been established a qualification test administered by the SIPO for patent agents. Foreign applicants must use one of the agents designated by the SIPO to handle foreign applications. Currently there are 15 such designated agents for handling foreign patent applications with 6 of those being newly designated in 1998.

Trademark agents are also licensed by the Trademark Office. As of April of 1998 there were 36 agencies designated as authorized to handle foreign applications. Currently there are about 10,000 members of the China Intellectual Property Society, but not all of them are patent or trademark attorneys.

3.5 People's Courts

The Law of People's Courts promulgated on July 1, 1979 and amended on September 2, 1983 by the National People's Congress determines the structure and composition of court system in China. There are three judicial levels including the Basic People's Courts, Intermediate People's Courts and High People's Courts. The Courts are

charged with deciding civil and criminal cases according to the Constitution and the Law. Courts decide cases independently conforming to the law. Decisions are not routinely published, though records may be kept by each court and may be circulated among persons in legally related positions. The Supreme Court Publishes a Supreme Court Bulletin that includes regulations, instructive cases, and reports of work. The National Congress and many local governments have their own official bulletins to make legislation public. Superior courts supervise lower level courts.

Trials are normally held in public except when concerned with state secrets, crimes of infants, and private confidential matters. Superior courts supervise lower level courts. The courts generally sit in panels of 3 judges to hear cases. Under the Chinese system, a matter is tried in the court of first instance with appeal to a court of second instance. The second instance judgment is usually final and enforceable immediately. There is minimal discovery permitted and the courts use a concentrated hearing system rather than a series of short hearings spread out over several months or years. There is no preliminary injunction proceeding, but a similar proceeding called a "conservation measure" may be requested so the court can seize goods when the complaint is filed.

3.5.1 Supreme People's Court

The Supreme Court has jurisdiction over all lower level courts, criminal, civil, economic and other tribunals. The Court has Jurisdiction over cases of first instance specially designated by law as being within its jurisdiction, appellate authority over decisions and judgments of high level courts and specialty courts and cases presented by Chief Procuratorate pursuant to supervisory procedure. When deciding cases where there are substantive legal problems, the court will undertake to explain its decision.

3.5.2 Basic People's Courts

The Basic People's Courts are the courts of first instance for most legal matters and exist at the level of county, autonomous county, city at the level of a county, and district under the jurisdiction of a municipality (or a municipal district). There are more than 3000 such courts in China

3.5.3 Intermediate People's Courts

The next higher level of court is the People's Intermediate Court. These courts hear appeals from the Basic People's courts and may be the court of first instance for certain intellectual property disputes, such as patent infringement. There are more than about 400 such courts and they exist at the level of a region (or prefecture) under the jurisdiction of a provincial government, a municipality (or city) under the jurisdiction(?) of a provincial government or of a municipality under the jurisdiction of the state government, and at the level of autonomous prefecture under the jurisdiction of an autonomous regional government. Thirty seven of these courts have been designated by the Supreme Court to hear patent disputes. Because intellectual property litigation is specialized, the Intermediate courts in Beijing and several other municipalities and provinces have set up special intellectual property divisions responsible for hearing cases of patent, trademark and copyright infringement together with cases of disputes over technology contracts (see 3.5.6.1).

3.5.4 High People's Courts

The High People's Courts are the courts of appeals in most instances. There are more than 30 of such courts at the level of province, municipality (or city) under the jurisdiction of the state government(such as Beijing, Shanghai and Tianjin), and

autonomous region. Many of these courts in the major provinces and municipalities have also established specialized Intellectual property divisions and panels of trained judges to hear such cases.

3.5.5 Special Courts

There are also separate courts set up to hear matters relating to special areas of the law. These are the military court, the maritime court, and the railway transportation court.

3.5.6 Trial of Patent Cases

3.5.6.1 Subject Matter Jurisdiction:

Beijing Municipal Courts

The Intermediate Court of Beijing Municipality is the **court of first instance** for appeals from the decisions of the SIPO regarding:

* Decision rejecting a patent application by Reexamination Board of SIPO.
* Decision revoking or upholding a patent by Reexamination Board of SIPO.
* Decision invalidating or upholding a patent Reexamination Board of SIPO.
* Decision on compulsory license or royalty for a patent by the SIPO.

The **court of second instance** relative to these matters is the High People's court of Beijing Municipality.

Beijing and Other Courts

For the following patent-related disputes:

* Using invention, utility model and design without consent of the patentee during the period of time from after publication of the application and before grant of a patent,
* Appeal of a decision on the infringement of a patent within prescribed time limit,
* The right to apply for a patent, e.g. status of an invention (service or non-service invention), inventorship, applicant,
* Ownership of a patent, and
* Assignment of a patent application or a patent.

The **court of first instance** will generally be:

* The Intermediate People's Courts at the locations of provincial governments, autonomous regional governments and municipalities under the jurisdiction of the state government;
* The Intermediate People's Courts in Special Economic Zones; and
* The Intermediate People's Courts in cities open to foreigners or in larger cities where the administrative authorities for patent affairs is located, which are designated by the High People's court of each province and autonomous region and approved by the Supreme People's Court.

The **court of second instance** will generally be the corresponding High People's Court at the locations of provincial governments, autonomous regional governments, and municipalities under the jurisdiction of the state government, i.e. Beijing, Shanghai and Tianjin.

Special IP Divisions

Special Intellectual Property Divisions were set up both in the Intermediate People's Court of Beijing Municipality as the **court of first instance** and in the Higher People's Court of Beijing Municipality as the **court of second instance** in July, 1993 for the following disputes:

* Ownership of a patent,

* Ownership of a trademark,
* Ownership of a copyright (including computer software),
* Infringement of the right of invention, the right of discovery and the right of other scientific and technical achievements,
* Contracts for technology transfer,
* Various intellectual properties involving foreign countries, Hong Kong and Taiwan.

(**Note**: some of disputes identified above will have the Basic People's Courts as the **court of first instance** and the Intellectual Property Division in the Intermediate People's Court of Beijing Municipality as the **court of second instance**).

Special Intellectual Property Adjudication Divisions have been established in:

* The Basic People's Courts of the following districts: Haidian District in Beijing and Pudong District in Shanghai.
* The Intermediate People's Courts of 14 municipalities including: Beijing, Shanghai, Tianjing, Fuzhou, Changsha, Haiko, Xiamen, Shenzhen, Shantou and Zhuhai.
* The Higher People's Courts of the following provinces and municipalities (7): Guangdong, Hainan, Fujian, Jiansu, Beijing, Shanghai and Tianjing.

3.5.6.2 Venue

Article 29 of the Civil Procedure Law governs the territorial jurisdiction for infringement in general:

* The People's Court at the location where infringement took place or where the defendant resides following the judicial level requirement,
* Plaintiff can choose the one that is the most appropriate jurisdiction where there is more than one court having jurisdiction for the same case, (where both the People's Court located at the place where infringement occurred and the People's Court located at the place where the defendant resides has the jurisdiction),
* Where the plaintiff files the lawsuit with more than one court having jurisdiction, the court which places the case on record shall have the jurisdiction.

The place where the infringement takes place is:

* The place where the infringed product is manufactured, with respect to infringement of patented product,
* The place where the infringed product is used or sold when the production place can not be identified with respect to infringement of patented product, (In practice, there were cases in which the courts at the places where the infringed products were sold accepted the cases even though the production facility was clearly identifiable in another territory),
* The place where the infringed patented process is used,
* The place where the licensor is located, with respect to licensing another party to exploit the patent without authorization of or license from the patentee,
* The place where the licensee is located if he has exploited the patent, with respect to licensing another party to exploit the patent without authorization of or license from the patentee,
* The place where the licensor is located when one co-owner of the patent licenses others to exploit the patent without the consent of the other co-owners;

* The place where the licensee is located when one co-owner of the patent licenses others to exploit the patent without the consent of the other co-owners and the licensee has exploited the patent,

* The place where the assignor is located when one co-owner of the patent assigns more than his share of the right to the patent to others without the consent of the other co-owners;

* The place where the assignee is located when the assignee was aware of the fact that the assignor overstepped his authority,

* The place where the passing off (marking as patented) took place or where the consequential damage occurred when passing off of other party's patent has caused the damage to the patentee or the interested party without criminal liability.

3.5.7 Trademark-related disputes:

The court of first instance for most trademark disputes is the Basic People's Court. The court of second instance in these cases will be the Intermediate People's Court. Under Article 29 of the Civil Procedural Law, venue is proper in the court at the location where infringement occurred or where the defendant resides. Venue may also be proper in the court at the place where the goods with the infringed registered trademark have been sold. Plaintiff can choose the most appropriate jurisdiction where there is more than one court having jurisdiction for the same case. Where the plaintiff files the lawsuit with more than one court having proper jurisdiction, the court that places the case on record shall have the jurisdiction. There are exceptions where some important foreign-related cases may be handled by the People's Courts at higher levels (including first and second instance).

Local industry and commerce administrative authorities at the level of county and those at higher level have the power to handle trademark-related disputes:

* For trademark infringement, the industry and commerce administrative authorities at the place where the infringer is located or where the infringing act was committed have the power to handle the case as the **first instance.**

* The corresponding industry and commerce administrative authorities at higher level have the power to reconsider the decision made in the **first instance** upon request.

* The People's Courts at the place where the administrative authorities as **second instance** is located have the jurisdiction for an appeal on the decision of reconsideration by the relevant administrative authorities.

3.5.8 Copyright-related disputes:

Generally the court of first instance is the Basic People's Court with the People's Intermediate Court being the court of second instance. Again, some important foreign-related cases may be handled by the People's Courts at higher levels (including first and second instance). During recent years the People's courts have set up special trial courts for intellectual property rights and there are about twenty provinces and cities that have such courts. Copyright cases accepted by the People's Courts have been increasing year after year. In the year 1994, the number of copyright cases accepted by courts nationwide was 362. In 1995, 385 cases were accepted and 436 cases were accepted in 1996. A number of important copyright infringement cases have been tried. In recent years 23 international record companies, including the American Microsoft Company, Walt Disney Company and Polygram Company of Hong Kong have sued in the People's

courts and won. It should be noted that in many cases the criminal sentences are suspended so that if the defendant abides by the laws in the future, the sentence is not served. It should also be noted that the damage awards to prevailing parties are generally very low by Western standards.

3.6 The Procuratorate

The Procuratorate system operates in conjunction with the courts at the various levels in China. The structure is similar to that of the courts. The primary function is to investigate and prosecute serious criminal cases. IP owners can request the local prosecutors to take action against infringers in appropriate cases where the criminal laws apply. The prosecution of IP cases is not a common function performed by the Procurator and would only be considered in especially serious cases, for example the manufacture of products which could cause death or injury, such as perhaps pharmaceutical, medical and food products by way of example.

3.7 Administrative Enforcement

One of the unique features of the Chinese IP system is the system of administrative enforcement of IP rights as an alternative to the courts. The origins of such a system may be traceable to China's reliance on a centrally planned economy where the executive branch of the government plays a strong role in administering the national economy. As China moves toward a socialist market economy, the intervention of administrative agencies in many areas of Chinese life is decreasing. However, the role played by government in developing the economy continues and has been reinforced in some cases as being essential to this transition. This is particularly true in the IP area where the establishment of a full-service IP system has happened very rapidly and needs to be centrally administered with coordinated enforcement nationwide.

The administrative agencies may be used to enforce IP rights of various types in a number of situations. The IP owner should carefully consider whether the administrative remedies available may be superior to the relief afforded the courts in some instances. Typically the cost and speed of action favors the administrative remedy. In some cases, relief can be had in a matter of days or weeks if there is reasonable proof of infringement. The administrative agency normally does not charge the owner for their services unless there is a special situation where a number of agents may have to be involved. Countervailing is the fact that the agency will decide on its own whether or not to pursue a particular action. This often depends on the amount of proof brought to them by the IP owner asking for assistance. Further, the orders of the administrative agency may be appealed to the courts so in some cases, the relief may be uncertain for a time.

3.7.1 Administration of Industry and Commerce (AIC)

In China, the Trademark Office is under the supervision of the State Administration for Industry and Commerce (AIC) due to the historical development of the trademark registration system in China. The administration of trademarks follows the principle of a unified registration system at the central government level and administration at various levels locally. Under the PRC Trademark Law, the AIC and its offices at the provincial, municipal and other local levels are empowered to make decisions on trademark infringements and counterfeiting. AIC's are also authorized to enforce the rights under the Counter Unfair Competition Law.

Upon complaint by a trademark owner against an infringer, the AIC has the right to exercise such powers to investigate and collect evidence, to make inquiries of the parties, to check the infringing articles and order a seizure of the articles, to investigate into the illegal acts relating to the infringement, and to review and copy relevant records of the suspected infringer. When the infringement is declared, the AIC is authorized to take such actions as ordering the infringer to immediately stop selling the infringing goods, seize and destroy the infringing trademark logos, order the removal of the infringing trademarks from the articles, confiscate tools directly and exclusively used in the infringement and order and supervise the destruction of the infringing articles if the other measures are not sufficient to stop infringement or if the marks can not be separated from the infringing goods. The AIC can also levy fines of no more than 50% of the illegal turnover from the infringement or less than five times the illegal profit. Further, the AIC can impose a fine not exceeding about USD$1000 on the person in charge of the infringing entity. The AIC may also order that damages be paid to the trademark owner. When trademark counterfeiting is considered a violation of the penal code, such as where the public health and welfare is affected, for example as with food or medical products, the AIC or the trademark owner may petition to the public prosecutor to institute a criminal action against the violator. In a recent year, the AIC's throughout the country handled a total of about 20,000 infringement and counterfeiting cases, out of which more than 1000 involved foreign parties.

3.7.2 Administrative Authority For Patent Affairs (AAPA)

The AAPA is the administrative body under the Patent Law to not only administer the patent system at the various local levels, but to also enforce patent rights by making decisions on disputes concerning fees for exploiting patents, the right to apply for a patent of invention, the ownership of a patent, whether an application should be filed for a service invention and illegal passing off of products as patented. The AAPA can issue an order to stop infringement of a patent and awarded compensation to the patent owner under Article 60 of the Patent Law.

The PRC Patent Law empowers the AAPA to handle, *ex officio*, patent passing off cases by ordering the violator to cease the activity and by levying a fine ranging from about USD$100 to about USD$6000 or one to three times the illegal gains. If the offense is serious, the offender may also be prosecuted under the criminal law.

3.7.3 National Copyright Administration of China (NCAC)

In accordance with Article 8 of the PRC Copyright Law, the Copyright Administration Department under the State Council shall be responsible for the nationwide administration of copyright including the investigation and punishment of copyright violations. The local offices of the NCAC have the power to send a warning to pirates, issue an injunction to stop producing and distributing infringing copies, confiscate illegal gains of infringers, seize infringing copies and the facilities for making the infringing products and impose fines on violators ranging from about USD$1000 to 12000 or two to three times the local value of the infringing copies. A fine of from USD$120 to 63,000 may be levied in the case of production and sale of a work of fine art where the signature of an artist is counterfeited. The NCAC can also order compensation be paid by the infringer to the owner.

3.7.4 Customs General Administration of China(CGAC)

China Customs is a state organ responsible for the supervision and control over all arrivals in and departures from the Customs territory. The CGAC is under the direct leadership of the State Council. There are 338 port Customs Offices in the country and 40 regional Customs Houses.

According to the Customs Regulations of Intellectual Property Rights which came into force in October of 1997, IP rights holders can record their rights with the Customs General Administration of China (CGAC) and request the Customs offices at ports to seize the goods that infringe their IP rights as the goods are imported into China or exported out of China. Not only can trademarks and copyrights be registered, but patents can be registered as well. Obviously enforcing a patent right presents some difficulties in terms of proof of infringement that are not present with trademarks and copyrights. To date, most of the patent enforcement matters have involved mechanical devices that are easily recognized. The trademarks that are enforceable by Customs include trademarks registered with the Trademark Office, trademarks registered with the International Bureau of WIPO and trademarks confirmed as well-known in China. Patent rights include patents of invention, utility models and industrial design. Copyrights include those that are valid according to the China Copyright Law and international conventions.

The Customs Regulations require the IP owner to record their rights with the CGAC before requesting seizure of goods infringing the IP rights. The documents required are an application for recordation, a copy of the IPR certificate or other evidence, a copy of business license, a power of attorney by the agent acting for the owner and a copy of any license issued by the IPR owner. Owners outside of China should apply for recordation through a Chinese agent. CGAC will approve the recordation within 30 days from receiving the application or give reasons if the application is denied. A fee of about USD$100 must be paid for each application. The validity period for recordation is 7 years and may be renewed for another 7 years.

The basic procedure involves IP recordation with Customs, detention of suspected infringing goods, Customs investigation of infringement, and the confiscation and disposition of goods determined to infringe. CGAC has the power to take *ex officio* action against imported or exported infringing goods, such as in the case of pirated CD's, etc. An *ex officio* action is rarely taken in the case of trademark or patent violation. In 1996 most customs seizures involved pirated disks in personal luggage. The new Customs Regulations permit the transport of CD's for personal use so long as the quantity is less than 20 in number. As a result, CGAC has now focused their attention on commercial cargo involving trademark infringement. Though the number of seizures has decreased the total value of the seized goods has increased.

If the suspected infringer disputes the detention they can lodge an opposition within 7 days and the parties may go to the court to resolve the dispute. If the IP owner intends to obtain damages or other relief against the infringer, the owner must sue in the civil court.

3.8 Arbitration

Many types of disputes may be resolved by arbitration if the parties agree to such procedures. Until recently, domestic arbitration cases have been handled by arbitration commissions established within departments of the Administration of Industry and

Commerce at the various levels of the government. Currently there are bout 120 arbitration commissions in China. International cases have been solely handled by the China International Economic and Trade Arbitration Commission (CIETAC). Founded in 1956, CIETAC has over 40 years experience in arbitration work in the PRC and is internationally recognized as being one of the prominent arbitration centers in the world. The new law does not mandate termination of CIETAC, but merely requires it to operate in conformance with the law and provides that the other commissions may now also handle international arbitrations.

In order to arbitrate there must be an agreement to arbitrate. The parties then file an application to arbitrate with the selected commission. The arbitration tribunal is composed of a single arbitrator or three arbitrators. With three arbitrators, each party appoints one and those two choose the third and presiding arbitrator. If the parties want a single arbitrator, they jointly choose the arbitrator or authorize the commission to appoint the arbitrator.

The arbitration may be conducted in private or in open session. The parties may have legal representation. A written record is made of the proceedings, the tribunal may require mediation before ruling. The award shall be in writing and will state the arbitration claim, the facts in dispute, reasons for the award, result of the award, period of performance, the payment of the arbitration fee and the date of the award. The award is final, but a request for cancellation may be made to the court within 6 months for the reasons specified in Article 58 of the Arbitration Law.

4.0 PRACTICE TIPS AND RECOMMENDATIONS

A cautiously proactive approach to protecting and enforcing intellectual property in China is recommended. Because of the nature of the Chinese culture and political system, developments and changes in the intellectual property laws and their enforcement should be monitored closely. Organizations should take advantage of opportunities to engage in debate and discussion regarding the development of intellectual property laws and enforcement. Additionally, an organization should endeavor to become known among Chinese bureaucrats as a technology leader in China and a company with a strong record and long history of doing business in China and employing Chinese workers.

Ideally, an organization would begin obtaining patent protection on important technology in a country three to five years before the country becomes a significant market or competitors begin operating significant manufacturing facilities within the country. This lead time allows, among other things, for protection on the most recent technology to be in place and for a reasonable knowledge base to be developed with respect to operating efficiently and economically within the foreign system. Because it takes approximately three years to obtain a patent in China and another three year delay if deferred examination is used to an organizations advantage, patent applications should start being filed today if China is projected to be a significant market within nine to eleven years or competitors are expected to establish significant manufacturing facilities in China within this time.

For many organizations the average of most projections indicates that China is expected to be significant ten years from now. However, it is understood that lack of motivation in the Chinese market and society for efficiency may impact on sales of some products, particularly products that depend on improved efficiencies provided by new

technology to support their prices. Therefore, this could slow the significance of China to some organizations and the timing of protecting intellectual property rights, particularly with respect to specific product lines. However, the market for other products may be driven more by other forces—governmental regulations or reduced consumption of natural resources, to name a few. Therefore, a decision to protect intellectual property related to these products may not only be justified—but imperative.

China's current intellectual property system is less than two decades old and in some ways may resemble rather crude and unsophisticated systems found in underdeveloped or developing countries. Consistent, predictable and adequate enforcement of the existing laws continues to be a tremendous concern in China. To an outsider that does not fully understand the Chinese system, some enforcement in China may still appear to be related as much to a party's "connections" as to their legal position or argument. Further, the amount of any monetary award to a foreign claimant is generally insufficient to compensate for the damages sustained and is usually dwarfed by the legal costs to pursue the action. Today, most cases for enforcement must be justified solely on the benefits that come with obtaining an injunction against the other party or in limited instances, seizures of the infringing goods or the benefit of publicity for taking action against the infringers.

However, China's intellectual property systems are changing and developing at a rapid pace. Changes are enacted and progress is being made every few months. Many reasonably acceptable intellectual property laws have been enacted—indicating a commitment to improving China's IP systems. These are factors for which China deserves credit and which should attract the attention of foreign companies seeking to operate, manufacture and sell products in China.

To be in a position to take advantage of the intellectual property systems in China, organizations need to monitor developments and changes in the intellectual property laws, pursue opportunities to assist with changes in the laws, and gain experience with the processes for obtaining and enforcing intellectual property rights in China. The following issues should be considered by an organization desiring to improve its position in China:

1. If there is little or no experience, an organization should consider filing patent applications in China for important technology related to one or more specific product lines. This should include greater exploration and analysis of the alternatives for obtaining intellectual property protection in China, including different intellectual property firms and the geographic location of those firms.

2. Work closely with administrative officials, including the AIC, provincial patent administrative offices and Customs, to quickly enforce and seize infringing articles. Consider the use of private investigators in order to provide significant evidence and information to the administrative authorities.

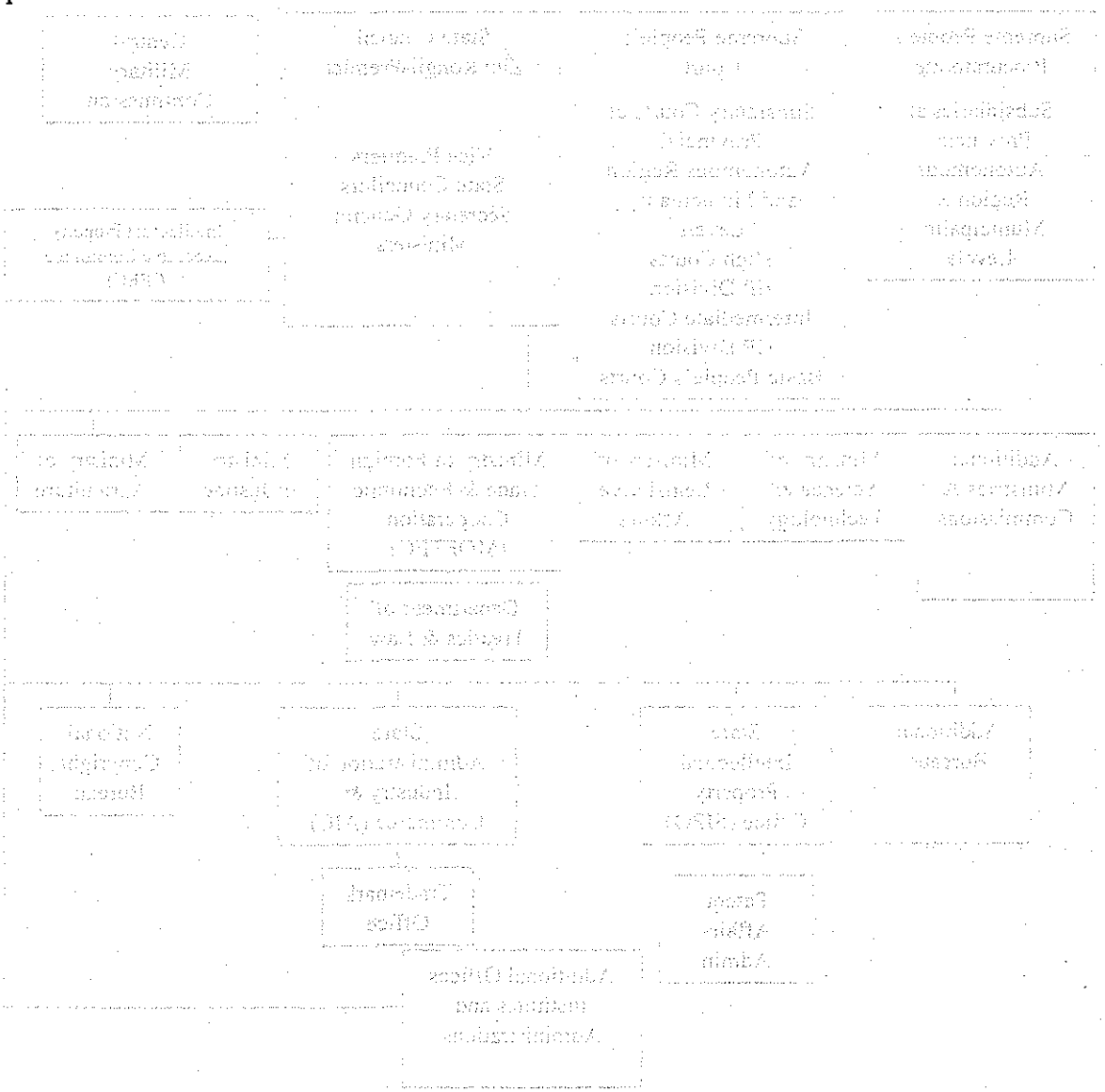
3. Consistently include a familiar face in an organization's enforcement activity. This should help coordination of enforcement efforts, heighten awareness of an organizations proactive approach to intellectual property and build a reputation among Chinese officials.

4. Consider registration of copyrightable works that have specific regulations governing their protection, like software (see Appendix 5). Keep in

mind that many Chinese practitioners seem to recommend not registering other types of works.

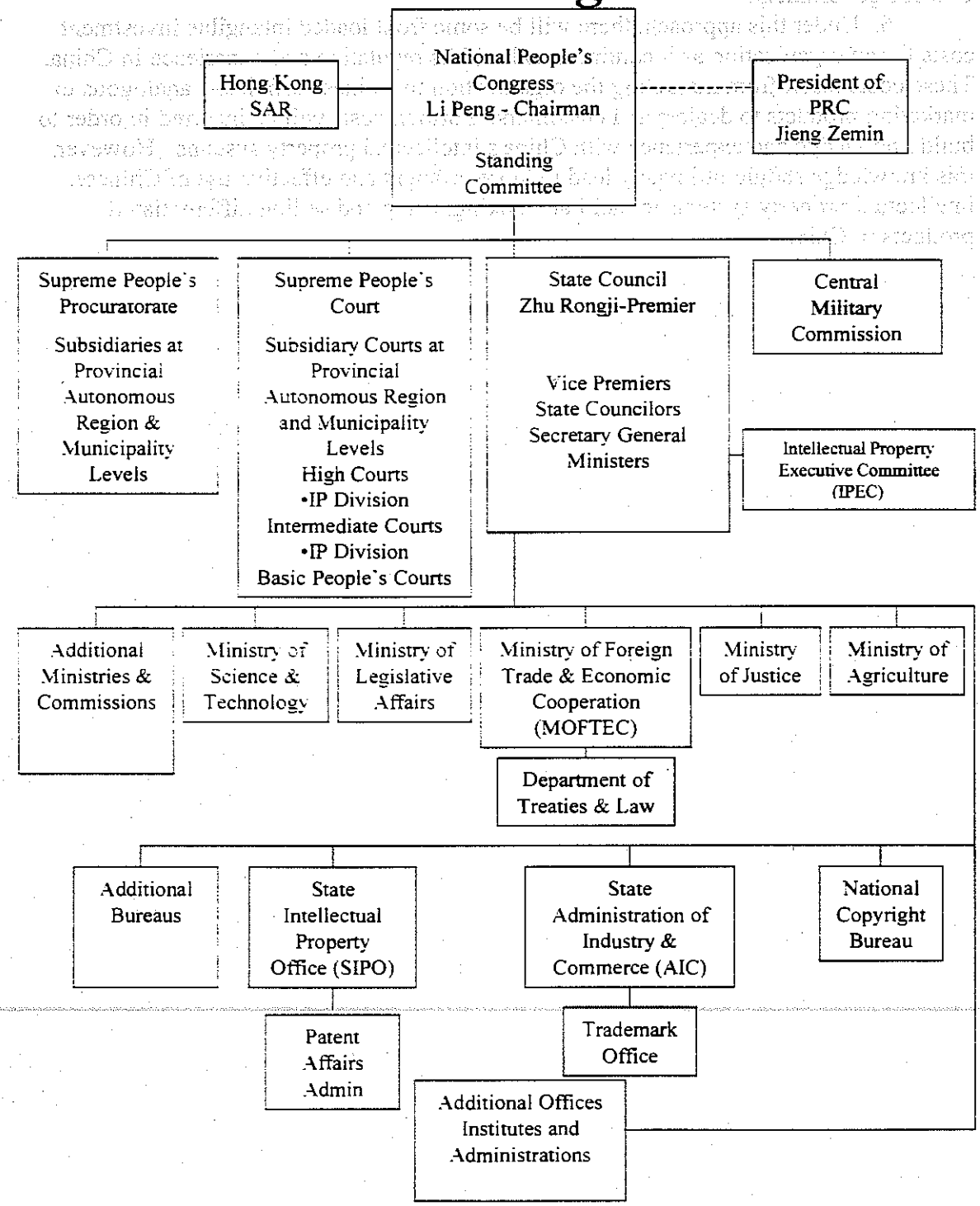
5. Actively support and participate in activities sponsored by national intellectual property organizations which meet, give presentations and seminars, and exchange perspectives on policies underlying intellectual property laws and enforcement with various Chinese officials from different levels within the Chinese government.

6. Under this approach, there will be some front loaded intangible investment costs for an organization as it continues to build its reputation and experience in China. These costs result from marketing the organization to Chinese officials—analogous to marketing products to dealers and customers. Further, costs will be incurred in order to build knowledge and experience with China's intellectual property systems. However, this knowledge should ultimately lead to more efficient and effective use of Chinese intellectual property systems to facilitate making, using and selling differentiated products in China.



APPENDIX 1

Government Organization



APPENDIX 2

Details of Various Key Offices that Handle IP matters

1.0 STATE INTELLECTUAL PROPERTY OFFICE OF CHINA

1.1 Official Name: State Intellectual Property Office of China (SIPO)

1.2 Other Popular Names: Formerly Chinese Patent Office (CPO) and sometimes referred to as China Intellectual Property Office (CIPO), State Patent Bureau.

1.3 Location of Main Office and Branch Offices:

Headquarter: Beijing

Address: No. 6 Xituchenglu, Haidian District, Beijing 100088, China
Email: www@SIPOn.SIPO.cn.net
Web: http: /www.SIPO.cn.net

The SIPO has set up receiving offices in Shenyang, Jinan, Changsha, Nanjing,Chengdu and Shanghai. The SIPO has also established the Patent Personnel Training School at Yan-tai City and an IP training center in Beijing. In addition, SIPO has designated the Regular Microorganism Deposit Center of Microorganism Research Institute of the China Academy of Sciences and the China Typical Culture Deposit Center of Wuhan University as the institutions for the deposit of microorganism for the purpose of patent procedure.

1.4 Introduction:

The SIPO was founded in January 1980 as the Chinese Patent Office (CPO) as an institution directly under the State Council entrusted with the governmental function of administering the nationwide patent work. On April 1, 1998, the office was renamed the State Intellectual Property Office of China (SIPO) and was elevated from Institution to full Bureau status.

1.5 Mission:

1) Receiving and examining applications for patent, utility model and design. Handling reexamination, revocation and invalidation of patents.

2) Exercising the governmental function of administering nationwide patent affairs, e.g. guide and coordinate patent administrative authorities of localities and government departments in their work of mediating patent disputes, organizing the patent bar examination and examining and approving the establishment of patent agencies and designating foreign-related patent agencies, etc..

3) Proposing amendments to the Patent Law and its Regulation as mandated by the State Council; Interpreting the Regulation as requested by the People's courts, administrative authorities and any other executive organs; and formulating or participating in formulating relevant regulations on intellectual property and related administration (or management).

4) Working out strategies and programs for the development of the nationwide patent work and general and specific principles for patent work and, upon approval, initiating the implementation of them ; formulating, jointly with relevant government departments, rules and regulations on patent work in the fields of economy, science and technology and guiding the patent work in localities and enterprises, scientific research institutes, and colleges and universities.

5) Studying and proposing the criteria for the confirmation of patent right and infringement of patent right to guide and coordinate patent administrative authorities of localities and government departments in their work of mediating patent disputes and investigating and dealing with the act of passing off patent, and put forward consultative suggestions for the people's court in the trial of cases of patent disputes such as patent infringement. etc.

6) Formulating relevant policies and regulations to standardize and guide patent licensing : Guiding and participating in the work of appraising intangible property that mainly deals with the appraisal of intellectual property.

7)Administering the country's patent documentation and providing patent information services for the society; guiding government departments and localities in their work of patent documentation and patent information. intensifying the diffusion of patent information to all fields of the society and bringing about the advance in the information industry.

8) Administering the activities of international communication. cooperation and exchange on patent work. and participating in and coordinating foreign affairs in the aspect of intellectual property.

1.6 Leader: Director-General (Commissioner) is Jiang Ying. Appointed to the current position in 1998. The Director General is appointed by the State Council.

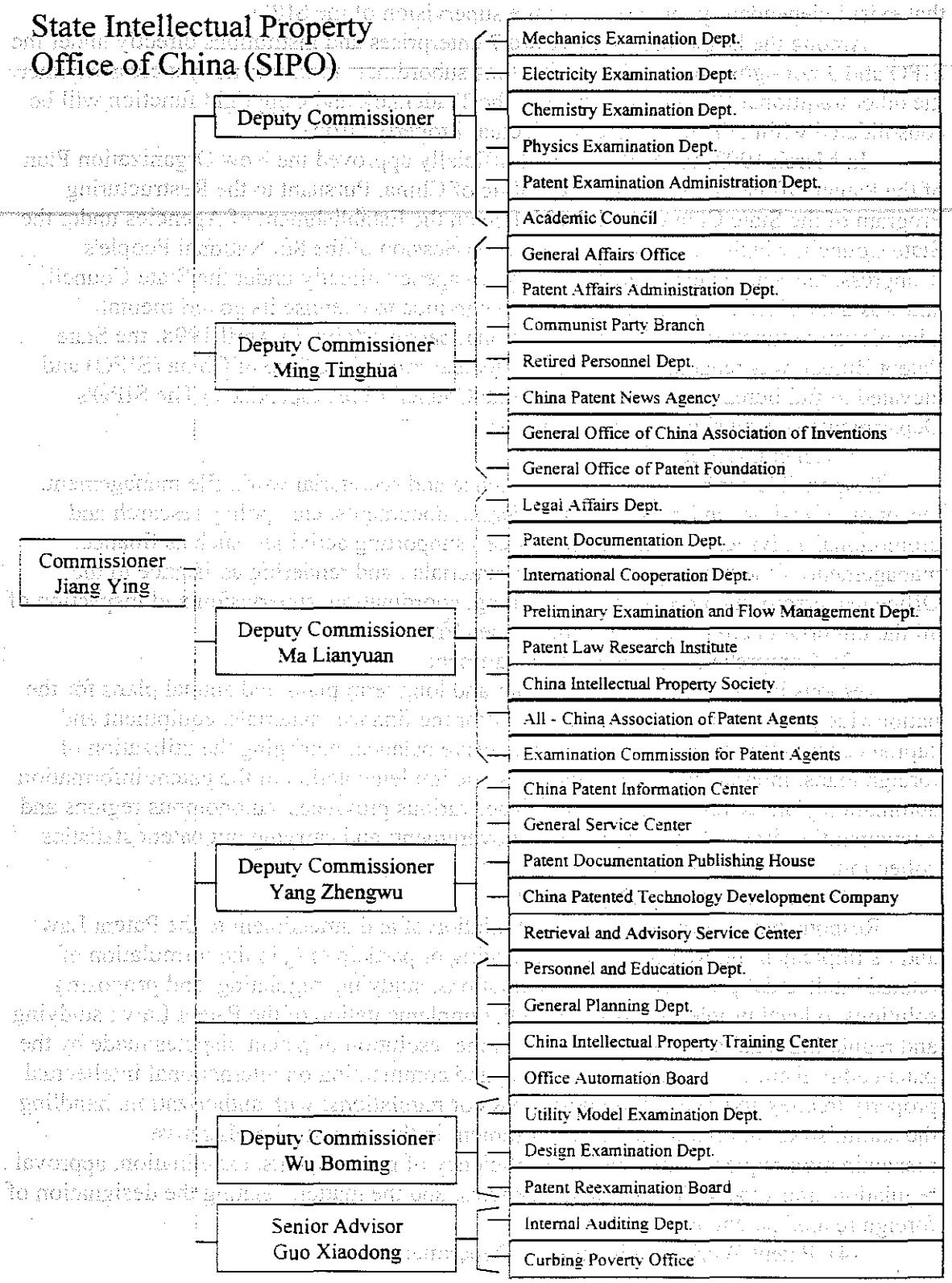
The Commissioner of the SIPO is appointed by the State Council. Deputy Commissioners are denominated by the SIPO and approved by the State Council.

Current Commissioner:	Ms. Jiang. Ying
Deputy Commissioners:	Mr. Ming. Tinghua
	Mr. Ma. Lianyuan
	Mr. Yang, Zhengwu
	Mr. Wu. Boming

1.7 Reporting Relationship:

The SIPO reports directly to the State Council and has recently been upgraded to the status of Bureau with the change in name from the Patent Office to the State Intellectual Property Office. It is not yet clear whether its function will be expanded to include jurisdiction over other IP rights as the change of name might imply.

1.8 Internal Structure:



The structure of the office follows the form of departments and subsidiaries. The departments are structured within the SIPO itself while the subsidiaries are organizations that exist independently, but are under the supervision of the SIPO.

Among the Departments, there are 7 enterprises and institutions directly under the SIPO and 3 non- governmental organizations subordinate to it. It is not yet clear whether the other traditional IP functions, such as the Trademark and Copyright function will be consolidated within the new State Intellectual Property Office.

In March 1993, the State Council officially approved the New Organization Plan of the Patent Office of the People's Republic of China. Pursuant to the Restructuring Program of the State Council and the Notice on the Establishment of Agencies under the State Council, which were approved at the 1st Session of the 8th National People's Congress, the State Patent Bureau became an agency directly under the State Council, and was authorized by the State Council to continue to exercise its governmental administrative function with regard to national patent affairs. In April 1998, the State Patent Bureau was renamed the State Intellectual Property Office of China (SIPO) and elevated to full bureau status under the State Council (See Appendix 1) The SIPO's Departments and subsidiaries are as follows:

(1) General Office

Responsible for handling correspondence and secretarial work, file management, reception of visitors and handling confidential documents, etc.; policy research and promotional activities; managing the Office's supporting activities, such as finance, management of the housing property and materials ; and rendering assistance to the Office leadership in comprehensive planning, coordination, supervision and inspection of all the important activities carried out by the Office.

(2) Comprehensive Planning Department

Responsible for formulating medium and long term plans and annual plans for the nationwide patent work; preparing budgets for the finance, materials, equipment and capital construction to achieve a comprehensive balance; managing the utilization of foreign loans; internal auditing; organizing the implementation of the patent information automation plan covering the whole Office, various provinces, autonomous regions and municipalities directly under the central government; and carrying out patent statistics collection.

(3) Law and -Treaty Department

Responsible for organizing the formulation of and amendment to the Patent Law and its Implementing Regulations; formulating or participating in the formulation of related intellectual property Laws or regulations; studying, regulating, and proposing solutions to legal problems arising from the implementation of the Patent Law ; studying and regulating legal problems arising from the resolution of patent disputes made by the patent administrative authorities; studying and commenting on international intellectual property treaties and relevant domestic laws or regulations; with authorization, handling the administration, review, and court argument in the case of administrative reexamination request; assessing the proficiency of patent agents, examination, approval , regulation, and supervision of patent agencies; and the matters relating the designation of foreign related patent agencies.

(4) Patent Work Administration Department

Responsible for directing and coordinating the work of patent administrative authorities nationwide ; directing the exploitation of patented technology and regulating the market for patented technology; the authentication and registration of patent license contracts ; directing and coordinating the mediation and settlement of patent disputes in conjunction with the Law and Treaty Department; enacting related policies and regulations in respect of strengthening patent administration work ; and evaluating and selecting Chinese patent gold prizes and distinguished patent workers.

(5) Personnel and Education Department

Responsible for the organizational setup, personnel, labor and salary affairs of the Office and its subordinate units; the selection and administration of personnel to participate in cadre training, and personnel to be sent abroad for further education; and the security of the Office.

(6) International Cooperation Department

In charge of international liaison, cooperation and exchange in respect of patent affairs ; contacts, cooperation and exchange with related international organizations and intellectual property institutions of related countries and regions; and formulating and executing plans of overseas visits by personnel from the national patent administrative system and the Office.

(7) Patent Examination Administration Department

Responsible for formulating plans for examination work, inspecting its progress, and collecting related statistics ; formulating, implementing and supervising quality control standards and administrative measures for the Office's examination work ; coordinating the formulation, amendment and implementation of patent examination criteria and related rules and regulations ; and coordinating patent examination, patent documentation, gazette publication and the comprehensive coordination.

(8) Preliminary Examination and Flow Administration Department

Responsible for reception and classification of patent applications for invention, utility model and design; reception of various intermediate documents and other requests or documents submitted by concerned parties in the filing process; maintaining records of patent applications for invention and utility model and patent files ; supervising the fulfillment of various time limits specified in the Patent Law or provided by the Patent Office, and rendering decisions on such matters accordingly ; issuance of patent certificates; editing patent gazettes and patent specifications; collection and regulation of patent fees; and receiving and regulating international patent applications.

(9) Mechanical Examination Department

Responsible for the substantive examination and related work for patent applications for invention in the mechanical industry, such as mechanical processing, transportation, arms, plastic processing, and light industry, food, mining, construction, metallurgy and chemical plant and equipment.

(10) Electrical Examination Department

Responsible for the substantive examination and relevant work for patent applications for invention in respect of electronic elements, electrical machinery, power generating and distribution, electronic circuits, computers; communications, television and broadcasting.

(11) Chemical Examination Department

Responsible for the substantive examination and related work for patent applications for invention in respect Of inorganic chemistry, organic chemistry, macro-molecular compound, technique and equipment of chemical industry, metallurgical metal materials treatment, food. Medicine, micro-organism and genetic engineering.

(12) Physical Examination Department

Responsible for the substantive examination and related work for patent applications for invention in respect of measuring and meteorological techniques and devices, optical elements and instruments, acoustic elements and instruments, automatic control and adjustment, signal devices, precision instruments, medical instruments and equipment, daily consumable, civil engineering and thermal engineering.

(13) Utility Model Examination Department

Responsible for preliminary examination of patent applications for utility model for and its administration. and for file keeping of patent applications for utility model during the period from receiving such file to the issuance of the grant notice.

(14) Design Examination Department

Responsible for the classification. preliminary examination and file keeping of patent applications for design during the period from receiving such file to the issuance of the grant notice.

(15) Patent Reexamination Board

Responsible for reexamination of cases where any party appeal for reconsideration as he or it is dissatisfied with the official decision of rejecting the application. or the decision of the office revoking or upholding the patent right, conducting examination upon requests of invalidation and providing consulting services in coordination with related departments in respect of technical judgement over cases of patent confirmation and infringement of patent right.

(16) Patent Documentation Department

Responsible for the establishment. preparation and management of searching files for examination (including patent documents and nonpatent documents): for the operation of the Patent Documentation Library. collection of patent documents and their international exchanges. and for providing macro-guidance to nationwide patent documentation network and information services. and patent documentation research work.

The Patent Documentation Library is a patent documentation service unit under Documentation Department of SIPO. which contains the largest patent documentation in China. It includes:

1. Patent Documentation Library

The Library has systematically stored up patent specifications published by 23 states and international organizations. and the search tools produced by Derwent Information limited and EPIDOS.

Opening Hour: Monday to Friday 8:30-16:00
Tel: (86-10) 2019662
Fax: (86-10) 2019662

2.NPL Library

In NPL Library, technical books, periodicals and other publication from home and abroad are available to the examination for search purpose. Among these non-patent literature, the most important content is the 169 kinds of periodicals(135 kinds in 1994) together with their IPC-classified list JOPAL (Journal of patent associated literature).

The 169 kinds of periodicals are usually referred to as the minimum documents required for an International Searching Authority. Besides, there are also Chemical Abstract, Biological Abstracts and scientific reports, etc.. All the collections are opened freely to the examiners of SIPO for their reference.

(17) Supervisory Office

Responsible for the administrative supervision over the whole Office.

Organizations Subordinated to SIPO

China Intellectual Property Training Center
China Patent News Agency
China Patent Information Center
China Patent Retrieval and Advisory Service Center
China Patent General Service Center
China Patent Documentation Publishing House
China Patented Technology Development Company

Organizations under the SIPO's Supervision

China Association for Intellectual Property Research
General Office of China Association of Inventions
All China Association of Patent Agents

1.9 Number of Employees:

The Office has 18 departments with approximately 1000 staff members of which about 600 are full-time examiners.

1.10 Representative Fees:

See Fee Schedule in Appendix 3.

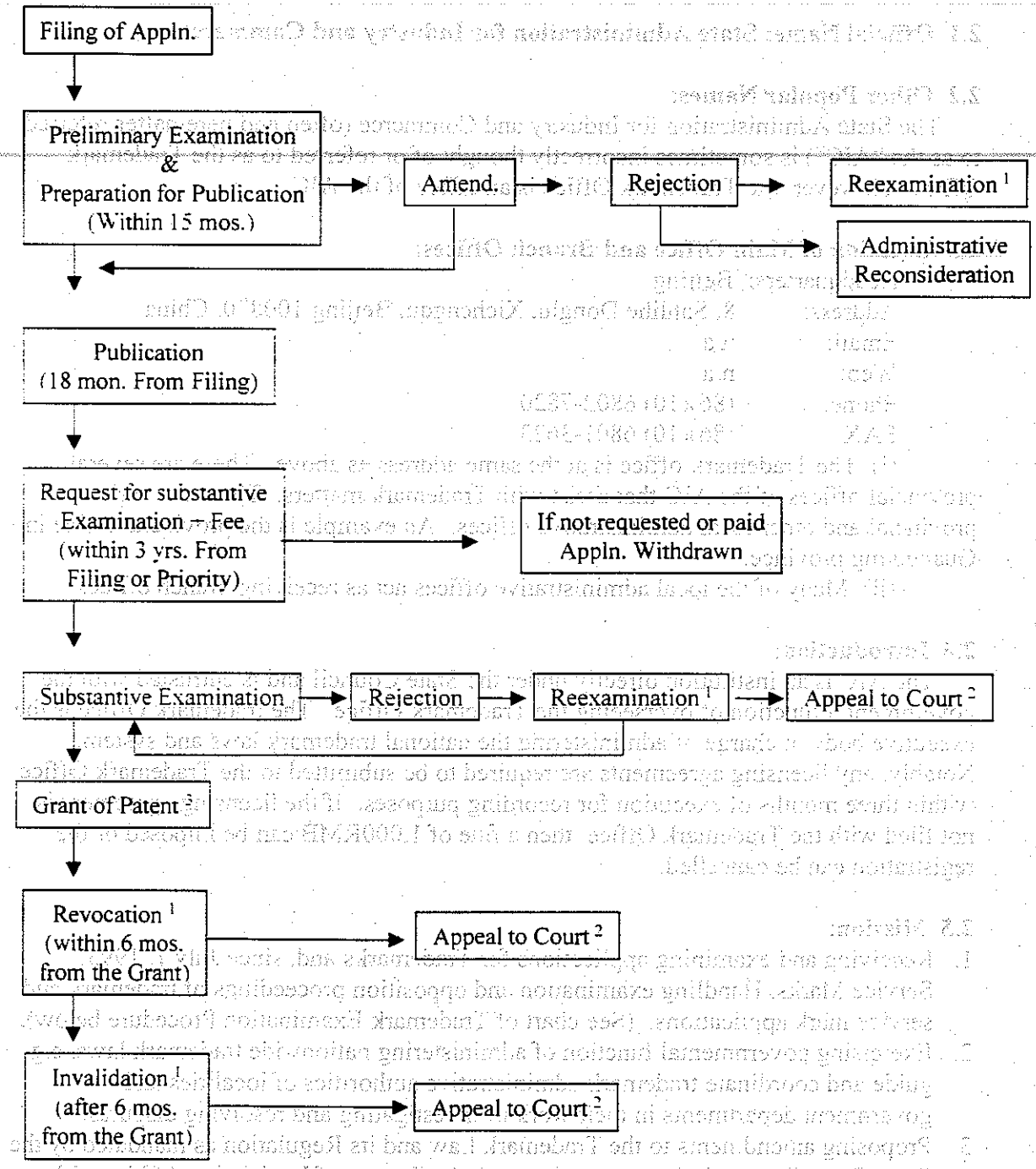
1.11 Statistics on Patent Information: (Accumulated Total March 31, 1998)

	Invention	Utility Model	Design	Total
Application for patent	210271	426787	126987	764045
Granted right	36972	261813	75378	74163
Application for Reexamination	1497	360	83	1940
Conclusion of Reexamination	945	292	39	1276
Application for Invalidation	278	2057	722	3057
Conclusion of invalidation	187	1178	323	1688

Miscellaneous Statistics:

- the number of applications filed in 1996: 102,735, increasing by 24% over 1995. Granted: 43,780.
- the total number of applications filed from April 1, 1985 to December 31, 1996: 625,309. Granted: 311,996.
- the number of PCT application entering the China national phase from Jan. 1, 1994 to Dec. 31, 1996: 9,432.
- the number of request for reexamination from April 1, 1985 to May 31, 1997: 1645 (39%). Closed: 1121.
- the number of request for invalidation from April, 1, 1985 to May 31, 1997: 2560 (61%). Closed: 1328.
- The average length of appeal proceedings in Reexamination Board is about 26 months. By May 31, 1997, there are 1702 cases to be handled, counting a workload of more than 3 years.
- the number of appeals for the decisions of Reexamination Board to the court from April. 1 1985 to Dec. 31, 1996: 65. Closed: 46, of which SIPO won 42.
- The number of appeals for the decisions of Reexamination Board to the court in 1996 is 22.
- By Dec. 31, 1997, there are totally 91 countries that filed patent applications in China.

Utility Patent Examination Procedure in the CPO



[1] by Reexamination Board
[2] appeal within 3 mon. from date of receipt of CPO's notification
[3] Average Time from filing to grant currently 2.5 - 3 years

2.0 STATE ADMINISTRATION FOR INDUSTRY AND COMMERCE—Trademark Office

2.1 Official Name: State Administration for Industry and Commerce

2.2 Other Popular Names:

The State Administration for Industry and Commerce (often and hereinafter referred to as the "AIC") is sometimes incorrectly thought of or referred to as the Trademark Office. However, the Trademark Office is an office of the AIC.

2.3 Location of Main Office and Branch Offices:

Headquarters: Beijing
Address: 8, Sanlihe Donglu, Xichengqu, Beijing 100820, China
Email: n/a
Web: n/a
Phone: (86)(10) 6802-7820
FAX: (86)(10) 6801-3623

(i) The Trademark office is at the same address as above. There are several provincial offices of the AIC that assist with Trademark matters. There are various provincial and other local administrative offices. An example is the provincial office in Guangdong province.

(ii) Many of the local administrative offices act as receiving branch offices.

2.4 Introduction:

The AIC is an institution directly under the State Council and is entrusted with the governmental function of overseeing the Trademark Office. The trademark Office is the executive body in charge of administering the national trademark laws and system. Notably, any licensing agreements are required to be submitted to the Trademark Office within three months of execution for recording purposes. If the licensing agreement is not filed with the Trademark Office, then a fine of 1,000RMB can be imposed or the registration can be cancelled.

2.5 Mission:

1. Receiving and examining applications for Trademarks and, since July 1, 1993, Service Marks. Handling examination and opposition proceedings of trademark and service mark applications. (See chart of Trademark Examination Procedure below).
2. Exercising governmental function of administering nationwide trademark laws, e.g. guide and coordinate trademark administrative authorities of localities and government departments in their work of investigating and resolving disputes.
3. Proposing amendments to the Trademark Law and its Regulation as mandated by the State Council (usually in cooperation with the Bureau of Legislative Affairs of the State Council of the People's Republic of China); Interpreting the Regulation as requested by the People's courts, administrative authorities and any other executive

bodies; and formulating or participating in formulating relevant regulations on intellectual property and related administration (or management).

2.6 Leaders:

Wang Zhongfu, Director General of the State Administration for Industry and Commerce. Appointed by the State Council.

Bai, Dahua, Deputy Director General of the State Administration for Industry and Commerce, Director of the Trademark Office. The Deputy Director General of the State Administration for Industry and Commerce, Director of the Trademark Office reports to the Director General of the State Administration for Industry and Commerce. Deputy Director Generals are nominated by the Director General of the State Administration for Industry and Commerce and approved by the State Council.

2.7 Reporting Relationship:

The AIC reports directly to the State Council with the Trademark Office reporting through it.

2.8 Internal Structure:

The AIC oversees six governmental organizations, including the Trademark Office, Fair Trade Bureau, Enterprise Registration Bureau, Market Administration Department, Advertising Department and Private Enterprise Department. Each organization may have departments and subsidiaries. The departments are structured within the organization itself, while the subsidiaries are organizations that exist independently, but are under the supervision of the AIC organizations. Most notably, the Trademark Office has the Trademark Review and Adjudication Board as part of its organization. The Trademark Review and Adjudication Board makes final administrative decisions with respect to registration, enforcement or cancellation of a mark.

Additionally, the AIC has administrative responsibilities regarding the issuance of licenses to do business. Because of this responsibility, the AIC trademark investigators often quickly gain the attention of parties in an administrative proceeding.

Work Hours:

Monday to Friday 8:30-16:00

2.9 Number of Employees: n/a

2.10 Representative Fees:

See Fee Schedule in Appendix 4.

2.11 Statistics on Trademark Information:

Domestic and Foreign Trademark Applications and Registrations:

Category	Domestic	Foreign	Madrid International Registration	Total
Applications Filed (1996)	122,057	22,615	7,132	151,804
Applications Filed (1997)	118,577	21,676	8,502	148,755
Registrations (1996)	101,178	15,843	11,407	128,428
Registrations (1997)	188,047	24,958	10,033	223,038

Accumulated Effective Domestic and Foreign Trademark Registrations:

Category	Domestic	Foreign	Madrid International Registration	Total
Accumulated Effective (1996) Registrations	517,167	81,665	39,247	638,079
Accumulated Effective (1997) Registrations	705,214	106,623	49,280	861,117

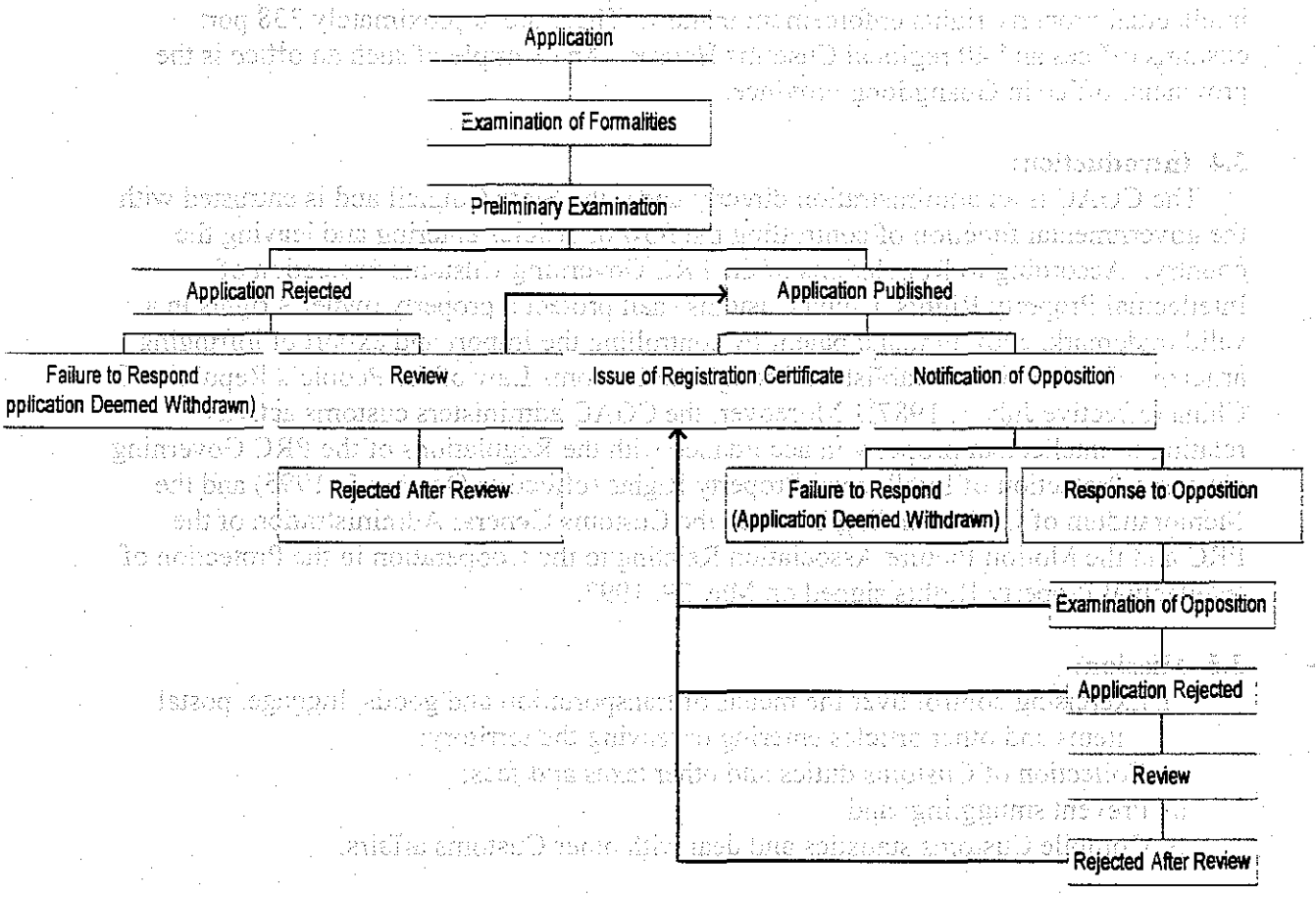
Top ten Countries and Regions According to Their Applications Filed in 1996:

No.	Country or Region	Amount
1	United States	6,685
2	Japan	3,635
3	Hong Kong	3,491
4	United Kingdom	1,134
5	Germany	1,009
6	France	831
7	Republic of Korea	806
8	Singapore	566
9	Switzerland	565
10	Australia	369

Top ten Countries and Regions According to Their Applications Filed in 1997:

No.	Country or Region	Amount
1	United States	7,614
2	Japan	3,504
3	Germany	1,673
4	United Kingdom	1,295
5	Republic of Korea	1,070
6	France	951
7	Switzerland	610
8	British Virgin Islands	523
9	Singapore	489
10	Italy	480

TRADEMARK EXAMINATION PROCEDURE



3.0 THE CUSTOMS GENERAL ADMINISTRATION OF CHINA (CGAC)

3.1 Official Name: The Customs General Administration of China

3.2 Other Popular Names:

The Customs General Administration of China (CGAC) is sometimes referred to simply as "Chinese Customs" or Customs Office.

3.3 Location of Main Office and Branch Offices:

Headquarters: Beijing
Address: 6 Jian Guo Men Nei Ave., Beijing 100730, China
Email: n/a
Web: n/a
Phone: (86)(10) 6519-4114
FAX: (86)(10) 6519-4004
(86)(10) 6519-5150

There are several provincial, local and port offices of the CGAC that assist with intellectual property rights enforcement matters. There are approximately 338 port customs offices and 40 regional Customs Houses. An example of such an office is the provincial office in Guangdong province.

3.4 Introduction:

The CGAC is an administration directly under the State Council and is entrusted with the governmental function of controlling the flow of articles entering and leaving the country. According to Regulations of the PRC Governing Customs Protection of Intellectual Property Rights, China Customs shall protect a property owner's rights in a valid trademark, copyright and patent by controlling the import and export of infringing articles. The CGAC is established through the Customs Law of the People's Republic of China (effective July 1, 1987). Moreover, the CGAC administers customs activity relating to intellectual property in accordance with the Regulations of the PRC Governing Customs Protection of Intellectual Property Rights (effective October 1, 1995) and the Memorandum of Understanding between the Customs General Administration of the PRC and the Motion Picture Association Relating to the Cooperation in the Protection of Intellectual Property Rights signed on May 29, 1997.

3.5 Mission:

i. Exercising control over the means of transportation and goods, luggage, postal items and other articles entering or leaving the territory;
ii. Collection of Customs duties and other taxes and fees;
iii. Prevent smuggling; and
iv. Compile Customs statistics and deal with other Customs affairs.

3.6 Leaders:

Qian Guanlin, Director of Customs. Appointed by the State Council.

3.7 Reporting Relationship:

The CGAC reports directly to the State Council.

3.8 Internal Structure:

The CGAC oversees approximately 338 port customs offices and 40 regional Customs Houses. Additionally, there are several departments within the CGAC including a supervision and control department, foreign affairs department, office of legal affairs, research department and oversight bureaus. Often a Senior Customs Superintendent manages provincial customs offices.

3.9 Number of Employees: n/a

3.10 Recordation Process:

Applications for recordation should be sent to the IPR Division, Supervision Department Customs General Administration at the address above (FAX: 86-10-6519-5358) along with the 1000 Yuan fee for each application. The following documents are required for IPR recordation:

i. An application for recordation;
ii. A copy of the IPR certificate or other evidence of the right;
iii. A copy of a business license or personal ID;
iv. A Power of Attorney if filed by an agent; and
v. A copy of any license issued by an IPR holder

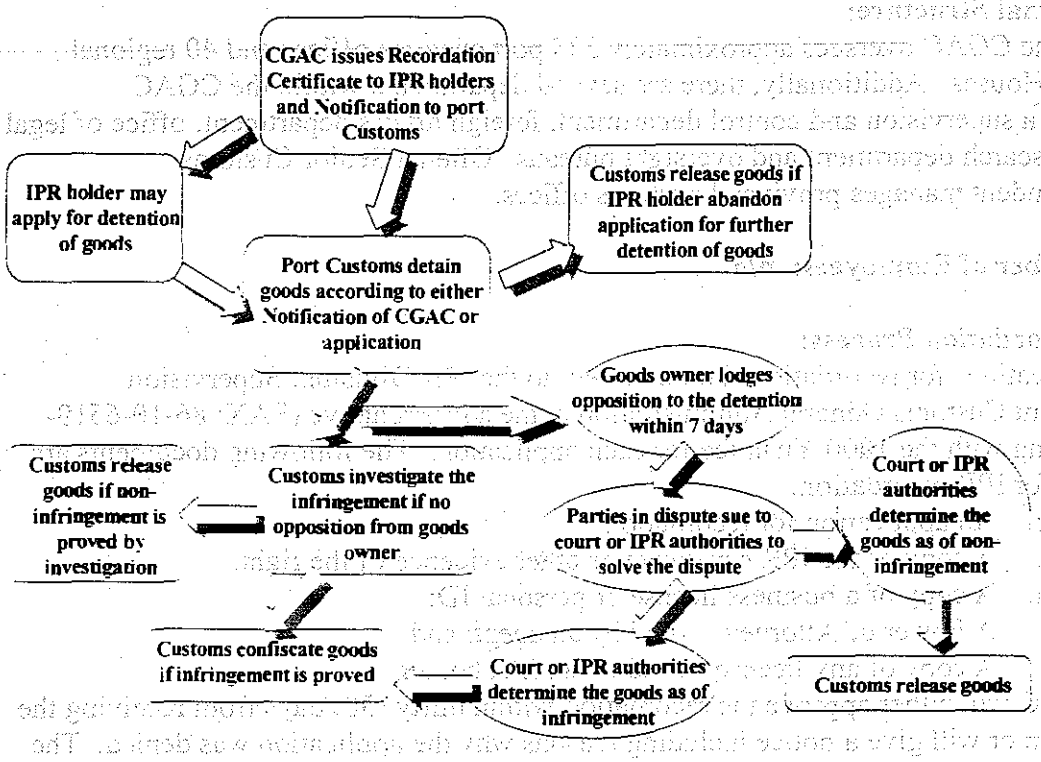
The CGAC will either approve the recordation within thirty (30) days from receiving the application or will give a notice including reasons why the application was denied. The recordation is valid for a period of seven (7) years and may be renewed for another seven (7) years. The CGAC must be notified by way of application to modify the recordation within ten (10) days of the date of any change in the IP right.

3.11 Statistics on Customs Activity:

	1996 Siezures	1996 Value	1997 Siezures	1997 Value
Trademark Infringement	38	11.4 M Yuan	84	19.9 M Yuan
Copyright Infringement	659	3.2 M Yuan	76	7.4 M Yuan
Patent Infringement	8	1.2 M Yuan	15	3 M Yuan
Total	705	15.8 M Yuan	175	30.4 M Yuan

Of the 705 seizures in 1996, 310 were from imports and 395 were from exports. Of the 175 seizures in 1997, 35 were from imports and 140 were from exports.

Basic Procedures of IPR Protection



4.0 STATE COPYRIGHT OFFICE (including Software Registration Center)

4.1 Official Name: National Copyright Administration of China (NCAC)

4.2 Other Popular Names: State Copyright Office, National Copyright Office, National Copyright Bureau, State Copyright Administration, National Copyright Administration, Press and Publications Bureau or Administration

4.3 Location of Main Office & Branch Offices:

Main Office: 85, Dongsi Nan Dajie
100703 Beijing, China
Telephone: (86)(10) 6512-4433 or - 7869
Fax: (86)(10) 6512-7875 or -7805

There are copyright bureaus in each province, municipality and autonomous region. They are a component of the local government and follow the professional guidance of the State Copyright Office to take charge of the local copyright administration and handle copyright disputes.

4.4 Introduction:

The State Copyright Office was established around 1985-86. On the decision by the State Council, the Computer Software Registration Center of China was transferred

from the Ministry of Electronics industry to the State Copyright Office since June 1, 1995. Thus, all copyright affairs including literature, art, science and technology is centrally administered by the State Copyright Office. In 1997, the State Copyright Office promulgated "the Procedures for Voluntary registration of Works" and started receiving applications for voluntary registration of written works, audio-visual works, electronic publications or computer software.

4.5 Mission:

To formulate regulations, rules and measures for copyright related matters nationwide and to supervise and administer the enforcement of the same; to handle copyright-related disputes; approve the establishment of copyright management bodies, administration of copyright issues involving foreign concerns, administering state owned copyrights, instructing local relevant offices regarding copyright administration and to take charge of computer software registration and voluntary registration of works.

4.6 Leader: Director General: Yu. Youxian

4.7 Reporting Relationship: Reports directly to the State Council

4.8 Internal Structure:

Director General

- Administrative Dept. for Copyright Affairs
- Legal Affairs Dept.
- Information and Propagation Dept.
- General Affairs Office
- Computer Software Registration Center

4.9 Number of Employees: 20

4.10 Statistics: n/a

5.0 MINISTRY OF FOREIGN TRADE AND ECONOMIC COOPERATION (MOFTEC)

5.1 Official Name: Ministry of Foreign Trade and Economic Cooperation

5.2 Other Popular Names: MOFTEC, previously named Ministry of Foreign Economic Relations and Trade (MOFERT)

5.3 Location of Main Office and Branch Offices:

Headquarters: Beijing
Address: 2 Dong Chang'an, Avenue, Post Code: 100731, Beijing 100820, China
Email: webmaster@moftec.gov.cn
Web: http: www.moftec.gov.cn/
Phone: (010) 6708-1526, 6708-1527
FAX: (010) 6708-1513

5.4 Introduction:

The Ministry of Foreign Trade and Economic Cooperation is Ministry under the State Council. MOFTEC oversees the administration of China's foreign trade and economic activities. Its main tasks are develop strategies for foreign trade and economic development: draft and submit plans: formulate policies, laws and regulations: exercise macro control: carry out the administration of respective trades: and conduct coordination, supervision and inspection in foreign trade.

5.5 Responsibilities: (As stated by MOFTEC)

1. It is responsible for the formulation of guidelines, policies, laws, regulations, reform plans and methods for administration in the foreign economic and trade sector and the examination and announcement of foreign economic and trade sector and trade laws and regulations: the harmonization and linkage between China's foreign economic and trade laws and regulations on the one hand and the international treaties and agreements on the other hand: the investigation and handling of import-related anti-dumping, countervailing cases and safeguard measures.
2. It is responsible for the formulation of medium and long term plans for import and export, the development strategy for export commodities and market development and combining trade with industry, agriculture; the country's annual plan of foreign exchange revenue and expenditure in import and export trade to adjust the balance between import and export, and organizing the implementation of the plans.
3. It is in charge of the guidance and coordination of the foreign economic and trade work and the macro administration of the import and export commodities; the examination and approval of national various foreign economic and trade corporations (group) and the establishment of various foreign trade enterprises as well as the administration of China's overseas investment and the establishment of enterprises abroad (excluding financial enterprises); the administration of permanent representative organizations of foreign businessmen and businessmen from Taiwan, Hong Kong and Macao: the promotion of various kinds of new trade forms and the macro guidance and

administration of foreign trade fairs, exhibition and sales fairs and fairs for trade talks held both at home and abroad.

4. The formulation and implementation of country policies for foreign trade and bilateral and multilateral foreign trade policies; the participation in international economic and trade organizations and conferences on behalf of the Chinese government, the organization of economic and trade negotiations with foreign governments and related international organizations and signing of agreements; the organization of economic and technical cooperation and exchanges with the United Nations system and related international organizations, the guidance of the work of the economic and commercial counselors and consul's offices and the Chinese representative offices at the United Nations and related international organizations.

5. The formulation of the guidelines, policies and development strategies for attracting foreign investment, the guidance and administration of the introduction of foreign investment; the formulation of the laws, policies and administration methods concerning foreign investment, the supervision and inspection of the implementation of relevant laws, regulations and contracts by the foreign-funded enterprises and settlement of problems concerned.

6. The formulation and implementation of the policies and administration methods concerning the utilization of loans from foreign governments and the plans for the utilization of these loans and the supervision of the repayment of the loans with subsidized interest provided by foreign governments.

7. The formulation of country policies on foreign assistance, the adjustment of the structure, patterns and forms of foreign assistance, the formulation and implementation of the annual plans for foreign assistance and the administration of funds earmarked for foreign assistance and, together with the departments concerned, the approval of foreign economic, trade, scientific and technology cooperative projects.

8. The formulation and administration of the policies, administration methods and annual plans for overseas projects contracting and labor cooperation as well as the administration of China's overseas contracted projects and labor cooperation as well as the fund for international economic cooperation.

9. The formulation and implementation of the policies, administration methods and the annual plans for technology trade with foreign countries, participation in the formulation and implementation of the credit policies, preferential policies and other related policies on the export of technology and complete plant, the administration of the export of technologies subject to the state's restriction and the re-export of the imported technologies.

10. The participation in the formulation of the policies on tariffs, taxation, exchange rates, credit and prices, the macro control of foreign economic and trade activities through economic means in cooperation with the departments concerned; the supervision of the state-owned assets in the large and key foreign trade enterprises and the administration of the state assets in the units directly under MOFTEC in accordance with the stipulations of the State Council; guidance of the implementation of the share-holding system in the foreign trade enterprises and the compilation of statistics on foreign economic & trade activities and the provision of information and consulting services.

11. The formulation of the policies, laws and regulation on and the administration of the economic relations and trade and labor cooperation with Taiwan, Hong Kong and Macao regions according to the principle of one country, two systems.
12. The handling of other affairs entrusted by the State Council.

5.6 Leader:

Shi Guangsheng, Minister and Secretary of the Party group of MOFTEC. Appointed to the current position in March of 1998. Appointed by the State Council.

5.7 Reporting Relationship:

MOFTEC reports directly to the State Council.

5.8 Internal Structure:

MOFTEC has several departments including the General Office, Department of Personnel Resources, Department of Foreign Economic and Trade Policy, Department of Planning and Finance, Department of Asian Affairs, Department of West Asian and African Affairs, Department of European Affairs, Department of American and Oceanian Affairs, Department of Taiwan, Hong Kong and Macao Affairs, Department of International Trade and Economic Affairs, Department of Foreign Trade, Department of Foreign Investment, Department of Foreign Credit, Department of Foreign Aid, Department of Foreign Economic Cooperation, Department of Science and Technology, Department of Cargo Transport Coordination, Department of Treaty and Law, Protocol Department, and Department of General Service.

6.0 STATE PRHARMACEUTICAL ADMINISTRATION OF CHINA (SPAC)

6.1 Official Name: State Pharmaceutical Administration of China (SPAC)

6.2 Location of Main Office & Branch Offices:

Headquarter: 38A Beilishilu, Beijing 100810, China
Tel: 6831-3344 (Trunk Line)
6831-5647
Fax: 6831-5648
Cable: 5502
Telex: 222523 SPAC CN

There are Pharmaceutical Administration bureaus (or General Pharmaceutical Corporation) in each province, municipality and autonomous region. They are a component of the local government and follow the professional direction of SPAC to take charge of the local pharmaceutical administration.

6.3 Introduction:

The State Pharmaceutical Administration of China (SPAC) is a government agency in charge of the general and professional administration and supervision of pharmaceutical products, medical devices, pharmaceutical machinery, medical dressing and pharmaceutical packaging materials of the whole country. It also carries out international pharmaceutical cooperation and exchange activities on behalf of the State.

The performance of international affairs of SPAC is under the unified responsibilities of its International Cooperation Department (ICP). The ICP organizes and guides the cooperation and exchange activities between the various production, distribution, scientific research, education and design units in the nationwide pharmaceutical trade and foreign governments, international organizations, non-governmental organizations, industrial and commercial enterprises, education and scientific research institutions, etc. It also organizes and carries out importation of qualified foreign personnel and intelligence, etc.

Pursuant to Article 2 of "Memorandum of Understanding Between the Government of USA and the Government of P. R. China on Protection of Intellectual Property" concluded on January 17, 1992, the State Council approved "the Regulations on Administrative Protection of Pharmaceuticals" on December 12, 1992, which came into effect on January 1, 1993. Authorized by the State Council, the SPAC promulgated the Regulations and set up a special office --- The Office for Administrative Protection of Pharmaceuticals (OAPP) to handle pharmaceutical protection-related matters including receiving and examination of the applications for administrative protection.

Following the agreement with USA, China has had bilateral agreements on administrative protection with Switzerland, European Union, Japan, Sweden and Norway.

Pursuant to Article 7 of the Regulations on Administrative Protection of Pharmaceuticals, foreign applicants need to appoint an agency to practice before the SPAC. The SPAC has designated Huake Pharmaceutical Intellectual Property Consultative Center as the agency for the applications.

6.4 Mission:

The main function of the SPAC is to formulate policies, regulations, measures and guiding principles for the pharmaceutical trade nationwide and to supervise and administer the enforcement of the same.

For the IP related function, the OAPP of SPAC is in charge of administrative protection for pharmaceuticals, which includes receiving and examining the applications for administrative protection of pharmaceuticals, the issuance of certificates, the registration and announcement of relevant matters of administrative protection and the settlement of infringement disputes.

6.5 Leader:

Director General:	Zheng, Xiaoyu
Deputy Director General:	Shi, Huan
	Dai, Qingjun
	Zhang, Heyong
	Zhang, Wenzhou

6.6 Reporting Relationship: State Council

6.7 Internal Structure:

Director General

- Deputy Director Generals
  - Policy and Regulations Dept.
  - Comprehensive Economy Dept.
  - Finance, Market & Distribution Dept.
  - Quality Supervision Dept.
  - Medical Device Administration Dept.
  - Science, technology & Education Dept.
  - Office of Administrative Protection of Pharmaceuticals (OAPP)
  - International Cooperation Dept
  - Office of Taiwan Affairs

6.8 Official Fee prescribed by the SPAC: (as of April 5, 1996)

Application fee:	$ 500
Examination fee:	$ 5000
Annual fee:	$ 2000/yr from the first to third year,
	$ 3000/yr from the fourth to last year.
Announcement fee:	$ 100
Certificate fee:	$ 100
Fee for a request for revocation:	$ 2000
Fee for settlement of infringement disputes:	$ 300

6.9 Statistics:

From January 1, 1993 to March 31, 1996, the OAPP of SPAC received 67 applications filed by applicants from USA, Japan, Switzerland, England, Germany, Ireland, Italy, Holland, Sweden and Belgium including major pharmaceutical

manufacturers such as Pfizer, Merck, Glaxo, Sandoz, Ciba-Geigy, Astra, Takeda and Sankyo. Of 58 concluded, 49 were approved with the approval rate of 84.5 %.

APPENDIX 3

SCHEDULE OF MINIMUM CHARGES FOR CHINESE PATENT, UTILITY MODEL AND DESIGN

(Effective as of July 1, 1996)

Item	Official Fees RMB	Attorney Fees US$
I Patents for Invention		
101. Filing an application (including publication fee)	490	500
102. Filing a PCT application for national phase entry (including publication fee)	490	550
103. Filing a divisional application (including publication fee)	490	500
104. Additional charge for specification including drawings in excess of 30 pages, per page	25	-
in excess of 300 pages, per page	50	-
105. Additional charge for claims in excess of 10, per claim	30	5
106. Filing request for earlier publication	-	70
107. Filing request for substantive examination	1200	150
108. Filing request for re-examination	600	500
109. Patent certificate fee (including printing fee and stamp tax)	205	80
110. Filing request for revocation	30	600
111. Filing request for invalidation	600	650
112. Fee for deposit of microorganism for 30 years		
a) Microorganisms (per strain)	500$	*
b) Cell lines, animal and plant viruses (per strain)	700$	*
113. Fee for iability report		
a) Microorganisms (per strain)	50$	*
b) Cell lines, animal and plant viruses (per strain)	70$	*
114. Fee for providing samples of microorganisms		
a) Microorganisms (per strain)	30$	*
b) Cell lines, animal and plant viruses (per strain)	50$	*
115. Quarantine	50$	*
116. Filing request for compulsory license	300	300
117. Filing request for adjudication on compulsory license fee	100	100
118. Application maintenance fee (per annum)	300	30
119. Annuities		
1st to 3rd year (per annum)	600	50
4th to 6th year	900	60
7th to 9th year	1200	70
10th to 12th year	2000	80
13th to 15th year	4000	90
16th to 20th year	8000	100
120. Delayed payment of annuity or maintenance fee within six months	+25% surcharge	50
121. Delayed submission of PCT application text in Chinese	300	250

Item	Official Fees RMB	Attorney Fees US$
II Patents for Utility Model		
201. Filing an application	300	400
202. Filing a divisional application	300	400
203. Filing a PCT application for national phase entry	300	450
204. Additional charge for specification (including drawings) in excess of 30 pages, per page	25	-
in excess of 300 pages, per page	50	-
205. Additional charge for claim in excess of 10, per claim	30	5
206. Filing request for re-examination	300	450
207. Patent certificate fee (including printing fee and stamp tax)	155	80
208. Filing request for revocation	20	450
209. Filing request for invalidation	400	500
210. Filing request for compulsory license	200	200
211. Filing request for adjudication on compulsory license fee	100	100
212. Annuities		
1st to 3rd year (per annum)	300	50
4th to 5th year	600	60
6th to 8th year	900	70
9th to 10th year	1200	80
213. Renewal of the patent for utility model**	100	80
214. Delayed payment of annuity fee within six months	+25% surcharge	50
215. Delayed submission of PCT application text in Chinese	300	250
III Patents for Design		
301. Filing an application	250	320
302. Filing a divisional application	250	320
303. Filing request for re-examination	250	400
304. Patent certificate fee(including printing fee and stamp tax)	155	80
305. Filing request for revocation	20	450
306. Filing request for invalidation	300	500
307. Annuities		
1st to 3rd year (per annum)	150	50
4th to 5th year	300	60
6th to 8th year	600	70
9th to 10th year	800	80
308. Renewal of the patent for design**	100	80
309. Delayed payment of annuity fee within six months	+25% surcharge	50

Item	Official Fees RMB	Attorney Fees US$
IV. Fees in General		
401. Late filing application documents and references	-	60
402. Receiving and forwarding official documents	-	50
403. Registration of change of bibliographic data for agency	10	80
404. Registration of change of bibliographic data for inventor, applicant, and patentee	100	80
405. Claiming priority		
a) Claiming single conventional priority	80	60
b) Additional charge for each additional priority	80	40
406. Filing a request for exception to loss of novelty	-	100
407. Interview with examiner	-	300 min
408. Providing a certified copy of Chinese patent application	20	100
409. Filing request for extension of time limit (for tile same notice or office action)		
The request for the first extension (per month)	150	80
The request for the second extension (per month)	300	80
The request for the third extension (per month)	600	80
410. Recording a license contract	-	150
411. Recording a transfer of a patent right	100	130
412. Recording a transfer of a pending application	100	130
413. Translation fee (per 100 original words or characters)		
a) From English into Chinese	-	1.6
b) From Japanese into Chinese	-	11
c) From German, Russian or French into Chinese	-	22
d) From Chinese into English	-	22
e) From Chinese into Japanese	-	22
f) From Chinese into German, Russian or French	-	25
414. Typewriting		
per page of English	-	8
per page of Chinese	-	12
415. Copying, per page	-	0.7
416. Making drawings (per piece)		
a) Drawing against a draft	-	50 min
b) Correcting a formal drawing	-	14 min
c) preparing a drawing	-	6
417. Making photo (per piece)	-	50 min
418. Restoring right	300	250
419. Preparing observation on the office action	-	Hourly basis
420. Assuming representation during re-examination, revocation or invalidation	-	Hourly basis
421. Withdrawing a patent application	-	60

Remarks

a) *: It is charged by actual cost.

b) **: Only for the application filed before January 1, 1993.

APENDIX 4 - Trademark Office Fee Schedule

(RMB: YUAN)

On application for registration in one class (including registration fee and stamp fee)	605
Additional fee for registration in each additional class (including registration fee and stamp fee)	605
On application for review on refusal	200
Fee for obtaining an extension of time	200
Renewal Fees:	
On application for renewal per class (including registration fee and stamp fee)	1080
Fine for late filing of renewal documents	200
Application for registration of an assignment	600
For recording of change of name or address of registrant	200
On application for review of decision on opposition or of cancellation decision	200
On application for adjudication on or response to dispute	200
On application for the reissue of a registration certificate	605
For obtaining a certified copy of registration certificate	100
Search Fees:	
Normal search per case	160
Urgent search per case	260
On application of registration of trade name	1000

(Information above is current from October 1, 1992. In case of discrepancy, the original version in Chinese shall prevail.)

Appendix 5 - Selected Titles of IP Treaties and Laws of China

Trademark Law (Adopted August 23, 1982, amended February 22, 1993)
Patent Law (effective 1985, revised 1992)
Interim Provisions on the Claims for Priority in Applying for Registration of Trademarks (March 15, 1985)
Implementing Regulations of the Trademark Law (Revised January 3, 1988, further revised July 15, 1993)
Copyright Law (September 7, 1990)
Implementing Regulations of the Copyright Law (1991)
Regulations on Patent Commissioning (March 4, 1991)
Regulations on Computer Software Protection (May 24, 1991)
Regulations for the Implementation of the Copyright law (effective June 1, 1991)
Memorandum of Understanding Between China and USA n the Protection of Intellectual Property (January 7, 1992)
Provisions on the Implementation of the International Copyright Treaties (September 30, 1992)
Implementation of the Patent Law (December 21, 1992)
Supplementary Provisions on the Punishment of Crimes of Counterfeiting Registered Trademarks (February 22, 1993)
Supplementary Provisions of the Standing Committee of the National People's Congress for the Punishment of Crimes of Passing Off Registered Trademarks (effective July 1, 1993)
Provisions on the Implementation of Patent Cooperation Treaty in China (November 23, 1993
Agreement on Trade Related Aspects of Intellectual Property (TRIPS) (April 15, 1994)
Anti-Unfair Competition Law (effective December 1, 1993)
Regulations on the Administration of Audio-Visual Products (August 25, 1994)
Memorandum of Understanding Between China and USA on the Protection of Intellectual Property (February 26, 1995)
Procedures for the Registration and Administration of Collective Marks and Certification Marks (effective March 1, 1995)
Rules for Trademark Review and Adjudication (November 2, 1995)
Provisions Concerning the Prohibition of Acts of Infringing Business Secrets (November 23, 1995)
Regulations on the Enforcement of Intellectual Property Rights by Customs (1995)
Arbitration Law (effective 1995)
Interim Provisions for the Establishment and Administration of Well-Known Trademarks (August 14, 1996)

APPENDIX 6 – URLs for Some Useful Chinese Related Internet Sites

http://www.cpo.cn.net/	SIPO Home Page
http://www.moftec.gov.cn/	MOFTEC Home Page
http://www.qis.net/chinalaw/	University of Maryland School of Law—Contains Chinese Laws, References and commentary in English and Chinese
http://www.chinaexpo.com/	Information from the Bureau of Legislative Affairs of the State Council of the People's Republic of China as presented by the editors of China Expo—Contains a large compilation of Chinese Laws translated into English, including laws of general application, tax, accounting and finance, banking, IP, Forestry and Agriculture, Customs, Industry and Commerce, Communications and Transport, Science and Technology, Culture and Sports, and Public Health and Medicine
http://www.china-embassy.org/	Embassy of PRC in the US
http://bbs.bamin.com/law_cvfl.htm	The authors are told this is a useful site for obtaining laws of the PRC in the Chinese language.
http://www.cnnic.net.cn/indexeng.html	Internet Information for PRC
http://www.chineselaw.com/ip-inf.htm	General Introduction to IP Law in PRC
http://www.sinologic.com/ChinaLinks.html	General Links Related to China

APPENDIX 7 – MAP OF CHINA



Base 800028 (545114) 1-84

(1) Title : ASPECTS OF THE PATENT COOPERATION TREATY

(2) Date : October 1998, Sapporo

(3) Committee : 1) PIPA
2) American Group
3) Committee #3

(4) Author : Bidyut K. Niyogi (Harris Corporation)

(5) Keywords : P.C.T., U.S.P.T.O., WIPO International Bureau, International Searching Authority, International Search Report, International Preliminary Examination, Receiving Office, Provisional Application

The Patent Cooperation Treaty (P.C.T.) is an American baby which was born at Washington D.C, U.S.A on June 19, 1970. This international treaty is very much in parallel with the Paris Convention of March 20, 1883.

The only difference is that the P.C.T regulates only Patents and Utility Models unlike the Paris Convetion which also regulates trademarks etc.

Although the P.C.T. is of recent origin, since July 1988 - so far 96 countries each have deposited its instruments of accession to the P.C.T. The notable exceptions to P.C.T are Taiwan and India.

Although there are severnal regional treaties such as the European Patent Convention regulating international patent etc, applications, the Paris Convention is the primary regulator of intellectual property with specific rules and regulations as to priority rights, licensing provisions, etc. However, P.C.T. is rapidly becoming the alternative choice international treaty governing patent rights on a substantial globe basis, and major U.S. corporation, for example, Proctor and Gamble, are enlarging their use.

One of the specific advantages of the P.C.T is that it provides a rather convenient means of applying for several national patents in a multitude of countries particularly in the early stages in the emerging countries. National patents are thus obtained fairly easily and the question of enforcement and infringement in different countries will be decided in respect of a patent granted pursuant to a P.C.T. application in some what the same way as a patent granted pursuant to an ordinary patent application, through the Paris Convention, a national application, or a regional patent system.

As you will appreciate, that on the basis of a single application called an international application, an applicant or inventor may directly acquire a number of national patents of their choice in any such contracting state that also has ratified regional patent system, e.g., the European Patent Convention.

The P.C.T. was ratified by the United States of America on January 24, 1978. You will please note that the scope and rights of inventor(s) and owners(s) of patents are restricted solely to each countries territorial jurisdiction. Consequently, through P.C.T. you are entitled to a bundle of patents rights, these will no doubt vary in several different scope of rights, and rules relating to validity matter, infringement problems, maintenance fee payments and obviously hopeful enforcement, as the basis of different countries and the judicial systems are widely varying.

Advantageously, the P.C.T. Treaty works as follows: an applicant or inventor may make his international application either to his local patent office (United States Patent Office), or to the International Bureau (World Intellectual Property Organization) in Geneva.

To comply with national security requirements a resident of the United States must file a P.C.T. application at the United States Patent and Trademark Office in Washington D.C. in the English language, where it will be checked for formalities and provide the application with its international filing date. The United States Patent and Trademark Office as the receiving office then will forward a copy of the application to the International Bureau and to an International Searching Authority. Such searching authority will carry out an international search which is forwarded to the International Bureau, and to such selected and designated Patent Offices from where the patent is requested for issue. The international application and the international search are published by the International Bureau, and communicated to the requisite designated office. To proceed further one must ensure that the application has been sent to the designated offices and the required fees paid within 19 months of the priority date of the application. The need to carefully evaluate the Search Report and decide what amendments and steps to be taken to proceed with this Patent Application. A preferred way initially would be to designate all countries as the charges and fees are the same. A final selection of the countries should be made at about the 18/19 month after reviewing the Search Report. The nineteenth month is critical since the Demand has to be filed to prevent lapse of the application.

Chapter Ⅱ of the P.C.T. additionally provides for an international preliminary examination on the demand within 19 months. The objective being to formulate a "preliminary and non-binding opinion of the questions whether the claimed invention appears to be novel, to involve any inventive step (to be non-obvious) and to be industrially applicable". The procedures and time limits for making an application under P.C.T. are fairly stream lined, but is somewhat rigid with the deadlines for which extensions of time are unavailable thus rendering it lacking "user friendly."

The driving force behind P.C.T was the pharmaceutical and the chemical industries, which desired an effective mechanism to avoid multiple filing of Applications in many countries. As you will note that the early members of P.C.T were countries encircling the Equator where filing numerous patent applications was expensive and

cumbersome. This being the rational approach through P.C.T towards global patenting took place in its conclusion at Washington on January 24, 1978.

The P.C.T international patent application, searching and preliminary examination follows a defined sequence. The first step to file an "international application" at a national patent office is to designate as many to the contracting states, in the English language for U.S. residents and in the Japanese languages for one Japanese members.

Once an "international application" is received by a national patent office Washington or Tokyo, the office examines the application as to formal requirements, and if it is designated as an "International Searching Authority," conducts a novelty search and completes an "International Search Report." In some instances, applicants may request an International Preliminary Examination-so as to remove duplicative efforts of examiners in reviewing formalities and conducting prior art searches.

Afer the International Search Report and an International Preliminary Examination one may enter the national stage in the various patent offices where protection is required, using the typical national phase of entry like the Paris Convention.

Conveniently, the P.C.T. harmonized the form, content and the framework under which the patent application process is conducted by the 96 member countries. However, the treaty does not issue an "international patent;" the task and responsibility for granting patents still remain with the national, or in many cases regional patent offices. As a consequence the delayed cumbersome forms of national patents still persists. This second step of the P.C.T. system will naturally have to be revised if a global patent is to emerge. This question has been debated in different countries.

Before we come to the question of advantages and problems, let us review some of the critical deadlines that have to be observed so that as the P.C.T. patent application proceeds, failure to observe these will result, with the application considered as withdrawn and consequently abandoned. It is needless to stress that the first decision is to file the Application at a Receiving Office (Japanese Patent Office, Tokyo or the United States Patent and Trademark Office, Washington) within 12 months of the original priority date. It should be observed that in the case of a U.S. Provisional Patent Application for which the priority rights are claimed, one must include at least one claim in the Provisional Application to meet priority rights in some European countries. It is essential for the provisional patent application to be revised as a

complete patent application within this 12 month period, for final P.C.T. Application filing.

The search report that will follow after the P.C.T. international patent application will appear around sixteen months of the priority date followed by a publication with the search report at the eighteenth month. A critical deadline is before the nineteenth month expires. A demand based on P.C.T. Chapter Ⅱ has to be filed otherwise the Application lapses with no extensions or restorations possibilities. During the next month (twentieth) one continues with the P.C.T. Chapter Ⅰ national phase entry.

A second period follows where the P.C.T. Chapter Ⅱ preliminary Examination takes place including the option of filing amendments and supporting amendments upto the 28 month stage, when the P.C.T. Chapter Ⅱ Examination Report is received, and the final phase of Chapter Ⅱ selection and entry into the National phase has to be compieted by the thirtieth month. Failure to observe any of these deadlines results in loss and one then has to resort to non-convention patent applications without any priority rights.

The disadvantages will be mentioned prior the advantages, since these are more stringent if the patent Application has a rather useful and licensable invention, the life of a granted patented for a P.C.T. International Application will be reduced by 18 months with financial losses. In the U.S.A., greedy pirates are waiting ready to exploit such valuable intellectual property rights with generic substitutes as is happening currently with some well known pharmaceutical inventions and their corresponding patents. Well known branded and patented inventions, are immediately worked by other people and the financial impact is rather noticeable with a reduction in corporate profits as soon as the term of the patent expires.

Some of the other disadvantages are the observation of the deadlines and the total larger expense that is as compared to the same patent application had followed the Paris Convention.

The P.C.T. international patent application is well organized in its steps of filing, searching, selective examination and submission into the respective national phase countries over a period of nineteen to thirty months based on selective choice, thus streamlining the early stages of patent filing, searching and part prosecution resulting in a multitude of eventual granted patents, and is preparing the mental philosophy of an

emerging global patent, but at what price.

Before concluding it should be mentioned that the search and preliminary examination reports established by the International Bureau will provide important reference for a patent application after entering the designated State, and will also have important reference value respectively for the determination by the applicant on whether to enter the designated State in the 20th or 30th month, the determination on whether to discontinue filing the patent application abroad, and the final determination of the designated State. However, this preliminary examination report is not the same as the examiner's comments of the patent office in the designated State. Therefore, one has on the other hand to pay attention to the conclusions of the international search report and the international preliminary examination report, and to the other hand to study the patent law of the designated State carefully, and on this basis to make a proper judgement and analysis.

A P.C.T application has its own procedure and special requirements and differs in many respects from directly filing applications in various countries. Any one intending to carry out P.C.T. application must acquire an intimate knowledge of these special features and differences and promptly listent to and study the opinions and suggestions of W.S.P.O. in order to avoid procedural mistakes leading to the loss of rights.

The final conclusion is that the P.C.T international application has failed to provide a unified and acceptable international patent for both the developed and the emerging countries. This has still to be finalized for grand through the selected national patent offices, and through the judicial system of different legal thoughts and prejudices.

It is the opinion of the author, that a balanced and rational tie-up with the patent systems of Tokyo, Washington and Munich with the system harmonization and utilizing the languages of Japanese, English, French and German be considered for an International Patent.

1. Title : In House Documents Retention Program

2. Date : October, 1998 (29th General Meeting in Sapporo)

3. Committee, etc.: Group: PIPA Japan
Committee: #4

4. Authors :
OKUMURA, Yoichi, Takeda Chemical Industries, Ltd.
ODA, Tomohiro, Toyota Motor Co.
TORII, Masahiko, Toshiba Co.
NAGANO, Kiyoshi, NEC Co.
KIKUCHI, Yasuhisa, Sapporo Breweries, Ltd.

5. Keywords : Document Control, Burden of Document Production, Discovery, Document Production, and Document Retention Policy

6. Statutory Provisions:

1) Revised Japanese Code of Civil Procedures: Articles 92, 196, 197, 219 and 220
2) Japanese Patent Law: Article 105
3) Federal Rules of Civil Procedure (FRCP): Rule 26 and Rule 34

7. Abstract:

In Japan, a revised Code of Civil Procedures has increased the burden of document production extensively. The revised law effective on January 1, 1998, has also caused Japanese companies to pay more attention to their document retention programs, thereby to allow them to prepare for litigation in Japanese courts and to effectively manage document production procedures.

This paper overviews document production practice in the context of litigations both in Japan and the U.S. It also suggests a desirable manner of document control and document retention for litigation in Japan. Practical problems and items for panel discussion are also included.

8. Table of Contents

1. Introduction

2. Document Production for litigation in Japan and the U.S.

2.1 Overview of Document Production in Japan

2.2 Overview of Document Production in the U.S.

3. Desirable Document Retention Programs

3.1 Example of Document Retention Policies

3.2 Form of Document Control Programs

4. Conclusion

1. Introduction

In Japan, a revised Code of Civil Procedures became effective on January 1, 1998. It imposes a heavier burden of document production to the parties to a case. As a result, more attention has been directed to the manner of controlling and retaining documents in Japan. If the retention of documents is unsatisfactory, parties to the case may face difficulties in supporting their arguments for their offenses and defenses. Further, if handling of relevant documents is awkward, a court judge may ask "Why only such important documents are missing?" and will have an unfavorable conviction to the questioned party. On the other hand, if a favorable evidence is missing, the missing party may lose a good chance for successful rebuttal. Partly due to growing respects for proprietary rights in Japan, the number of litigation rapidly increased in recent years. Take the Tokyo District Court for instance. The cases received were somewhat stable in number up until 1992. However, thereafter, it has increased by approximately 20 % every year as shown below:

Cases on the Merits:

Until 1992 - Approximately 150 cases per year

1997 - Approximately 330 cases during year (cases related to patent and utility model account for 40%)

Cases for Preliminary Injunctive Measures:

Until 1992 - Approximately 100 cases per year

1997 - Approximately 200 cases during year (cases related to patent and utility model account for 30%)

Some of the Japanese companies have adopted a system for administering documents in which necessary documents are ready for production for litigation in the U.S.

Document retention in a stricter manner is required for a company to defend itself from losing its case. This year, we would like to discuss this issue with emphasis on litigation strategy.

2. Document Production for Litigation in Japan and the U.S.

2.1 Overview of Document Production in Japan

1) Changes in document production practice and impact on internal document retention programs.

The revised Japanese Code of Civil Procedures, which became effective on January 1, 1998, categorizes the burden of document production as so-called "general obligation" to the parties to the case. It expands the scope of documents which are subject to production. To be specific, a new subparagraph 4 is added to Article 220 of the revised law, to follow the existing subparagraphs 1 to 3 which limit documents to be produced. According to the new subparagraph, a holder of documents is obliged to produce

his documents unless the documents are explicitly excluded under the items (a) through (e) thereof.

Since the burden of document production is getting harder, it is more essential for a Japanese company to sophisticate its document retention policy. Further, the provision of Article 222 makes it easy for a requesting party to identify the documents in general terms. Article 92 clarifies requirements for limitation of document inspection because of confidentiality. Namely, the document has to be actually kept in confidence. Taking these changes in account, the need of sophisticated document retention programs is becoming more important them ever.

2) Article 220 of the revised Japanese Code of Civil Procedures

(1) Provisions of Article 220 (an Amended Draft 1998)

A holder of documents cannot refuse to produce his documents under the following situations:

(i) A party to a case possesses documents referred to and identified in its pleading.

(ii) A person-to-prove requests a delivery or review of certain documents.

(iii) Documents are prepared for the benefit of the proving person or prepared with respect to legal relations between that person and the holder of those documents.

(iv) In addition to the cases in the above (i) to (iii), any document which may not fall within the following categories:

a. Document which describes the matters provided for in each subparagraph of Article 196, concerning its holder or person with whom the holder has a relationship in connection with the matters prescribed in this Article.

b. Document which contains confidential information relating to the duties of public servants and ones whose disclosure would impair public interests or greatly hinder the performance of their official duties.

c. Document which describes facts provided for in Article 197(1)(ii) or matters provided for in Article (2)(iii), provided that they are not exempted from the obligation of acquiescence.

d. Document which is used by its holder for its own private purpose (excluding documents held by the central Government or local government to be used by the organization as a whole)

e. Document relating to a criminal action or records related to a juvenile protection case or documents seized in respect thereof.

(2) Documents Exempted from Production under the Subparagraph 4

The interpretation of the terms "matters relating to technological and professional secrets" (revised Japanese Code of Civil Procedures, Article 197(1)(iii)), in Item c) of the subparagraph 4 and that of the terms "Self-Usage Documents" in Item d) of the subparagraph 4 have a significant practical influence.

Subparagraph 4.c) - " Matters Relating to Technological and Professional Secrets" (revised Japanese Code of Civil Procedures, Article 197(1)(iii))

There are no established standards with respect to the scope of technological or professional secrets. Whether such documents are exempted from document production may be determined by weighing the balance between disadvantage of the document holder due to the disclosure of trade secret and the actual disadvantage in a lawsuit due to lack of evidences on the facts.

Article 105 of the Patent Law is stipulated as a special provision subject to Articles 219 *et seq*. of the Code of Civil Procedures which sets forth document production. This special provision is to decrease the burden of proof of damages in a case of patent infringement.

In the following we would like to discuss interesting cases, although the cases had issues under the former procedure low.

Case 1 (A case where the production of confidential documents and production process followed the court order)

Court: Tokyo High court Date of Decision: May 20, 1997

(Hei 9 (Ra) No.605: Reported in *Hanreijiho*, No.1601)

The scope of documents to be produced under a court subject to Article 105 of the Patent Law covers "documents relating to the conducts of manufacture or sale by an allegedly infringing party and, if such conducts constitute patent infringement, documents which may be reference materials for the calculation of the amount of profits gained by infringement." The court decided that any document closely relating to the alleged infringement is necessary for the calculation of damages, irrespective of whether relevancy is direct or indirect.

The court further said that even if a document includes trade secret, confidentiality is not justifiable to refuse production, when and if trade secret is incorporated in that document which is necessary for the calculation of undue profits gained by infringer.

Case 2

Court: Tokyo Distinct Court

Date of Decision: July 22, 1997

(Hei 2 (Wa) No.5678, No.7476, No.14203, No.14204; Hei 9 (Wa) No.11653: Reported in *Hanreijiho*, No.1627)

The court directed to parties the manner of inspecting and copying documents so as to avoid the unnecessary disclosure of trade secret.

The summary of the decision are as follows:

(1) The documents are allowed for inspection only by counsel for the plaintiff and by the counsel's assistant (only when his perusal is made concurrently with the counsel).

(2) The counsel for the plaintiff may copy pages deemed necessary for proof on a page-by-page basis, provided, however, that such copies will not disclosed to any employee of the plaintiff and any third party.

(3) When there are no arguments about the figures which would be basis for the damages calculation, the documents cannot be produced as written evidence.

(4) The counsel for the plaintiff may produce as written evidence only the photocopies on a page-by-page basis, so far as they contain descriptions necessary for the proof of the case.

Counsel for the defendant may mask or remove portions irrelevant to the case from photocopies of documents to be produced as evidence.

Subparagraph 4.d) - "Self-Usage Documents"

"Self-Usage Documents" is generally interpreted as "documents that are prepared solely for the purpose of internal use and are not supposed to be disclosed to any outside third party".

However, the scope of these documents has been hitherto

construed away from the original meaning so as to limit the expanded interpretation of Subparagraph 3 (Documents relating to Profit and Legal). Therefore, interpretation of whether Subparagraph 4 ("Self-Usage Documents") is the same as the former law, is divided. We need to wait for the development of case law in this respect. However, if a more weight is put on the legislative intent that document production is an obligation in general, the scope of the exemption because of Item c) (personal use) shall be interpreted somewhat narrower than the past.

2.2 Overview of Documents Production Practice in U.S.

In the U.S., a party to a case has a right to request the other party to produce any documents relevant to the case as a part of discovery procedure (Rule § 34). The scope of such request is broad enough to cover any documents if they have any relevancy to the facts in the case.

For instance, a party to a case may request not only the documents retained in the company but those in personal procession. They include internal memoranda and correspondence exchanged with third party companies, minutes of internal meetings, *Ringi* documents, and laboratory notebooks and records, as well as personal pocket diaries, personal files, telephone memos and the like. With the recent development of electronic devices, even computer hard disks, floppy disks, electronic mails and internal LAN servers are

considered to be subject to discovery. A party to a case may file for trial of the court, evidence collected through discovery process, when he believes that that evidence is favorable to his argument.

On the other hand, there is a vehicle called "protective order" to partly offset impacts of broad disclosure. Under this order, while a party is required to produce to the other party relevant information, the other party may be obligated to limit the number of persons who have access to sensitive information. (Rule § 26(c)) In addition, correspondences between attorney and his client are protected under the doctrine of "Attorney-Client Privilege." With regard to privileged documents, requirement is to show the existence of privileged documents in lists. Likewise privilege is recognized under the revised Japanese Code of Civil Procedures as well as the old law, wherein privileged correspondences are entirely exempted from production. In the U.S., the privilege lists shall include such information as titles summarizing its contents, authors, dates of preparation and recipients of documents concerned. It is apparent that discovery is more widely applied in the U.S. than Japan.

We understand that in the U.S., many companies have educational programs on document retention and provide seminars on this topic regularly. We are interested in practice and issues involving document retention programs of the U.S.

companies.

3. Desirable Document Retention Programs

3.1 Example of Document Retention Policies

Document retention policies governs the manner of administering documents. Using standard clauses, we would like to discuss sufficiency and insufficiency of the clauses in view of litigation.

Document Retention Policy

Article 1. Objective

The objective of this policy is to clarify the basic matters with respect to the handling of documents thereby to assure more accurate and speedy business activities.

Article 2. Scope of Application

This provision is applied to the method and procedures involved in handling documents.

Article 3. Definition

Documents for the purpose of this policy mean agreements, reports, internal regulations, correspondences, communications, decision-making documents, books and records, statistics figures, evidential documents, reference documents, slips and any other documents used for company's business.

Article 4. Preparation of Documents

A regulation for preparing documents is stipulated separately.

Article 5. Sending and Receiving Documents

A regulation for sending and receiving documents is stipulated separately.

Article 6. Filing and Retention of Documents

1. All documents are filed and retained by a respective individual unit of organization relevant to those documents.

2. Documents shall be kept at a fixed place collectively by each relevant unit of organization, and an index and a title shall be affix to each of them, so as to enable anybody to find them without difficulty in the absence of a person in charge.

3. Confidential and important documents shall be kept at a place of safety, and be marked in red " Evacuate in Case of Emergency" so that they may be removed with first priority. These documents shall be handled carefully, and shall not be perused or removed without permission of a proper person in charge.

4. Documents shall be filed collectively by business year, provided, however, that documents which are not necessary to be classified by year or are unable to be classified by year are excluded.

5. A regulation with respect to retention or destruction of documents is established separately.

Article 7. In the case of an organizational change such as an amalgamation or a dissolution of a department or a group, the transfer of documents must be conducted.

Supplemental Rule:

This regulation comes into force on _____ .

Stipulation for Administering Confidential Information

Article 1. Objective

This stipulation sets forth the administration of our company's confidential information as well as the confidential information of others which our company handles, and aims at preventing from acquisition, use, disclosure and divulgence of the confidential information through unjust means.

Article 2. Definition

"Confidential information" in these clauses means information handled by our company, which is commercially and technically useful for our company's activities and is required to be kept confidential.

Article 3. Classification of Confidential Information

Confidential information is classified into the following categories:

"Strictly Confidential": Most important confidential information relating to fundamental management activities.

"Confidential": Confidential information to be disclosed only to limited and designated persons concerned

"Confidential to the Outside": Confidential information to be disclosed internally only, excluding the confidential information in the category of "Strict Confidential" or

"Confidential".

Article 4. Marking of Confidential Information

Confidential information shall be marked "Strictly Confidential", "Confidential" or "Confidential to the Outside" respectively in accordance with the above classification, provided, however, that confidential information contained in English documents shall be marked "Confidential".

Article 5. Manner of Handling Confidential Information

1. When a reporter makes a written or oral report containing confidential information, the reporter must first make a confidential marking or raise an appropriate attention to the confidential nature of the information contained in the report before the confidential marking.

2. When any document containing confidential information is distributed, it must be handled separately from the rest of documents.

3. Documents containing confidential information shall be kept in a locked cabinet and the like in principle.

4. The retention period of documents containing confidential information shall be classified into five periods of 1 year, 3 year, 5 year, 10 year and permanent, according to the judgment of a confidential information control observer.

5. When the retention period of documents containing confidential information expires, they must be disposed of by

way of shredding or destruction by fire in principle.

6. Confidential documents shall be copied only by a person who prepared the documents in principle.

7. The matters such as receiving visitors for observation of the company and announcement of confidential information shall be handled in accordance with the standards stipulated separately.

Article 6. Intellectual Property

The confidential information in regard to industrial property such as patent and other type of intellectual property shall be handled in accordance with the regulation of intellectual property control.

Article 7. Confidential Information Observer

The head of an organization unit or a person in a comparable position shall appoint plural confidential information observers in its own organization unit and shall always retain a list specifying the name of such observers.

Article 8. Spread of Knowledge

A confidential information observer shall spread and make known the objective and purpose of this regulation to the employees concerned, and shall take necessary steps such as conducting training.

Article 9. Measure against Breach of Regulation

Any employee who commits a breach of this regulation shall be subject to penalty in compliance with the Company Regulation

and the Office Regulation of the company.

Article 10. Scope of Application

This stipulation shall apply to officers, contracted employees and all other personnel engaged in company activities.

Supplemental Rule:

This stipulation comes into force on ____.

Discussion

The following need further study.

① With respect to documents to be separately provided for (Article 4), and document sending/receiving (Article 5), the followings are to be incorporated in the policies and clauses:

[Preparation of Documents]:

"objective", "scope of application", "Consultation prepared through consultation among relevant departments", "description of documents" ,"style of documents", "name of addresser", "name of addressee", "Identification of a person in charge", "drawing up of sending documents", (code, number, and document number, etc.". "confidential documents", "handling of confidential documents"., etc.

[Sending and Receiving of Documents]:

"objective", "organization", "sending of documents to the outside and to other organizational units", "receiving and distribution of documents by an organizational unit",

"receiving and distribution of documents within a same organizational unit", etc.

② Specific period of retention must be designated for each document clearly, and such period must be reasonable. Unless such retention period is designated, we cannot make any excuse on the ground of expiration of extension period for not possessing the documents concerned.

③ If an original documents was circulated in duplicate and its recipients are unknown, the manner of discovers would be different between Japan and the U.S. It would be desirable to make it a rule not to retain any distributed copies eventually after its use, while specifying in the distributed copy the responsible section for the retention of the original documents. The reason why copies of original documents are also produced in the U.S. is to show that the requested party complies with production burden in Code faith to give favorable impression to the judge. It is also said that the request for photocopies in addition to their original documents is based on the ground that important personal notes might be found in such copies. On the other hand, in Japan, personal notes on photocopies are not considered, in principle, as documents required to be produced. This is because they fall within a type of Self-Usage Documents which are exempted from production in Japan.

④ At present companies in Japan are not well prepared to manage the electronically stored documents (refer to note) which have increased a great deal these years. We are considering it would be necessary to prepare a rule with respect to electronically stored information. In such rule, the following items should be incorporated:

1) Specific and accurate definition of "electronic information".

2) Display of confidentiality classification in electronic information, if applicable.

3) Standard of access to electronic documents for inside and outside disclosure and removal (printout and retention in other place) thereof, and access information control.

4) Certification of originality as documents and control of document revision history.

5) Password security.

6) Life cycle control of electronic information (specification of retention period and deletion of information after expiration of retention period).

7) Backup control of electronic information.

8) Designation of control observers.

3.2 Form of Document Retention Program

(1) The question here is which of the two systems, centralzation or localization of documents is more effective

as document control for the sake of intellectual property litigation. Evidence used for ordinary lawsuits including cases of intellectual property covers various kind of information including that for research & development of products and marketing information. Therefore, it is considered preferable to have a centralized system of information control to cope with a lawsuit. With the development of LAN internal information system, many companies are trying to conduct entire corporate document administration by means of electronic devices. When the electronic document control is fully established, it would be possible for us to perform centralized document control without difficulty. The only problem involved in the centralized document control would be - "who is a control observer of information containing confidential information?" "Can he well perform his duty?", or "Is he willing to perform (or accept) this task?"

In administering electronically stored documents, a control observer must have thorough knowledge of computer and be fully authorized to perform his duty. On the other hand, checking system is also considered necessary to prevent a control observer for using his authority wrongly.

In this regard, we would like to discuss, through a panel discussion, as to the experience of actual appointment of control observers, and how the problems involved in the control observers are solved.

(2) Management and Control of Document Handling

In order to conduct document administration most effectively, we have to set rules to control document handling through the establishment of a document retention policy, and in accordance with its rules, we have to implement document control such as common use of documents (inter-departmental standardization), clarification of the location of retained documents, limitation of access to documents and records, limitation of copying (such as destruction of copied materials as soon as the necessity to use is finished) and compliance with retention period of documents.

Main rules of document administration are summarized as follows:

Rules Mainly Related to Documents Preparation

1. Even a memo for internal use should be written out bearing in mind that it might be produced to a court.

2. In making a report, facts and opinion should be clearly distinguished (with respect to objective facts, making personal inference without clarifying personal assumption or making an exaggerated opinion is strictly prohibited)

3. Use of misleading terms or exaggerated expression should be avoided.

4. Records of an event must be made to cope with the event. In preparing a report on a sensitive event found,

a careful attention is required to pay to the contents of the report, otherwise such report may become a new unfavorable evidence.

5. The form of documents should not have marginal space for scratching.

6. In preparing and retaining documents, Self-Usage Documents (internal documents) should be distinguished from other documents (addressee, name of authors, "Confidential to the Outside" stamp, etc.)

7. Client-attorney privilege and other privilege should be taken into consideration.

8. Documents to be submitted voluntarily to government and municipal offices must be prepared, having in mind that they might be presented to a court.

Rules Mainly Related to Retention Control

9. Documents containing trade secret must be kept under proper control; (method of retention, confidentiality clause, affixing "Strictly Confidential" stamp).

10. Document control manuals are to be formulated, and based on the manuals, preparation, retention and destruction of documents are to be handled. In particular, certain manual in respect of retention and control of electronic documents is necessary (a careful attention should be paid to the personal possession of floppy disks

which are not in compliance with company's document control regulation).

11. Distribution of copies should be limited to minimum people (retainers of documents are specified and recorded). copies are to be destroyed as soon as necessity to use is finished. (retention period is specified in the original documents).

12. Retention of documents is determined so as to cope with related possible lawsuits. (In case of intellectual property lawsuits, the retention period of documents may be determined, taking into account of the questions set forth in Table 1 of attached Reference Materials No. 230 "Control of Intellectual Property Documents" published by Intellectual Property Association of Japan.

Rules Mainly Related to Document Production in case of lawsuit

13. In case of a lawsuit, relevant documents worthy of evidence should be collected so that they may be produced at an early stage.

14. Quick and faithful countermeasure should be taken against a discovered event (concealment of facts may result in irrecoverable damage).

(3) Personal File

In U.S. litigation, documents retained in personal files sometimes become an issue. Because it is highly possible that those documents contain many personal opinions that are

contrary to company's policies. Therefore, the entire abolishment of personal files is proposed.

But such a proposal is considered too ideal and unpractical. It would be more desirable to have such personal documents more refined to be in compliance with the above-mentioned rules of document preparation, and to file them properly as company documents. It would be necessary to make it a rule as practice in the system of document administration to destroy automatically the documents that are not refined as proper company documents at an appropriate early time.

On the other hand, there is such an opinion that since the existence of personal documents itself shows a fact that necessary information for conducting job is not contained in the company documents under control, it may be preferable to have such a document control system (covering preparation and retention of documents) that the employees may do their jobs without relying on their personal files. We would like to discuss this problem through the panel.

(4) Electronic Mail

It would be necessary for us to have a rule on of electronic mails which have spread among various companies. Someone says in our discussion that electronic mails should be deemed to be means of communication at the same level as telephone (in a similar category to telephone). Another says that electronic mails once printed out are nothing but a document

in its effect. But such printed out document could be considered a "Self-Usage Documents" in Japan a question here is how to control electronic mails in fact? We would like to answer this question through our panel discussion, referring information of actual handling and control of electronic mail in the U.S. and in Japan.

4. Conclusion

Document administration to cope with litigation seems available we in Japan if practitioners think of possible litigation in the U.S. our discussion in this paper may not be sufficient because anothers are not familiar with actual lawsuits and actual corporate document retention programs. We are afraid that out discussion may have gone on too much theoretical points or missed the point. Nevertheless, we hope it would be of some help and hope to learn more about this issue through panel discussion.

Notes:

1. Probative Value of Electronically Store Documents

Electronically stored documents are not regarded as one of the samples of so-called "quasi-documents" even in the revised Japanese Code of Civil Procedures, but the electronically store documents may serve as certifying the originality as documents, if the date of preparation, authors and the history of revisions are maintained, thus they are

considered to have some probative value.

2. In the U.S. if the records in electronic media meet the following requirements are deemed to have probative value, under Federal Rule of Evidence and the Uniform Rule of Evidence:

1) The said documents are relevant to a matter to be proved (Federal Rule of Evidence Article 401).

2) The said documents are genuinely prepared by an author (Federal Rule of Evidence Article 901).

3) The said documents are recognized as "the best evidence" (Federal Rule of Evidence Article 1002).

4) If the contents of the said documents are considered to be subject to "hearsay rule", the said documents must be excluded from the application of the rule (Federal Rule of Evidence Article 802).

Table1-1 Questionnaire in Discovery and Relevant Departments

Note 1: ◎ denotes respondent departments., ○ denotes related or confirmation departments.

Each of the following abbreviation denotes its respective department:

A: Public Relations, B: Personnel, C: General Affairs & Secretariat, D: Legal Affairs, E: Accounting, F: Purchasing, G: Sales, H: Planning & Technical Control, I: Production, J: R&D・Design, K: Overseas Subsidiaries, L: Supplier, M: Intellectual Property

	Questions (picked up from several cases)	A	B	C	D	E	F	G	H	I	J	K	L	M
1.	Identify all organizations, branch offices, subsidiaries and others relating to manufacturing and export to U.S. of the said product, and also specify function thereof.			◎			○	○	○	○		○	○	
2.	Specify place of manufacturing, officer in charge of manufacture, dates of manufacture, volume of manufacture and export and stocks of said product.							○	◎	○		○	○	
3.	Specify three staffs most familiar with structure and performance of the said								◎		○			

	product.												
4.	Specify list price, contract price and profit of said product.					◎		◎	◎				
5.	Specify all documents used for promotion and sales of said product in U.S. and Japan.	○						◎	○		○	◎	
6.	Specify all PR articles, newspaper articles, technical reports to the outside of said product.	◎						○	○		◎	○	
7.	Specify all people in charge of marketing, R&D, design, promotion of said product.		○					◎	○	○	○	○	
8.	Specify names, codes and other information to identify said product.					○		○	◎	○		○	
9.	Enumerate all grades, types and kinds of said product.							○	◎	○			
10.	Describe the time of development of manufacturing process of said product.										◎		
11.	Specify other companies and entities associated with the development of said product and also specify the relevant documents .				◎		○		○		◎		○ ◎
12.	Specify notebooks and other records recording development of said product.								○		◎		
13.	Specify all weekly, monthly, quarterly and annual reports and other periodical								○		◎		

	reports, and control reports.													
14.	Specify people who participated in the decision of the commencement of said product.							◎						
15.	Specify all people with knowledge of manufacturing process.							◎	◎	○				
16.	Specify documents used for manufacturing process of said product without limiting in time.							○	◎	○	○	○		
17.	Describe detailed ingredients, property, process and steps of said product in detail.							○	◎	○				
18.	Did you purchase, lease or receive donation of manufacturing facilities of said product from other defendants?					○		○	◎					
19.	Specify patent or application relating to product or process of said product.							○	○	○				◎
20.	When and how did you become aware of plaintiff's patent for the first time? Specify all people who became aware of the patent and all documents concerned.			○		○	○	○	○	◎				◎
21.	Specify all files of patent dept. and legal dept. related to said patent.				◎									◎
22.	Specify all technologies in public domain deemed important in respect of validity									○				◎

	of said patent.												
23	Specify all people who purchased, imported, or received said product.						◎				○		
24	Specify all correspondence between the defendant and the purchasers of said product.		○				◎				○		○
25	. Specify all scheduled witnesses and appraisers.		○		◎	○		○		○	○		◎
26.	. Specify all correspondence with scheduled witnesses and appraisers.		○		◎	○		○		○	○		◎
27	Identify counsels and law firms which represent the defendant.				◎								◎
28.	If you received any opinion on the validity or infringement of said patent from attorney or patent agents, identify relevant attorneys and patent agents and also subjects and documents.				○			○		○			◎
29.	If you discussed validity and infringement of said patent in the company, identify people, subjects and documents concerned.				○			○		○			◎
30.	Describe in detail about status, licensed attorney or not, experience of legal practice (if any) and knowledge of said patent with respect to each witness.		○		◎	○		○		○	○		◎

31.	Specify patent number of patents under which license agreement was concluded and also royalty of the license.				○		○	○						◎
32.	Specify time of study, time of adoption, relevant documents and people involved regarding your designed around product.							◎	○	○		○		◎
33.	Specify policy and regulation of internal document control of the defendant.			◎	○			○		○				◎
34.	Specify persons who provided information, referenced documents for answering above questions and persons who participated in making answers to above questions.	○	○		◎	○	○	○	○	○	○	○	○	◎

Table 1-2 Request for Production of Documents and Articles in Discovery and Relevant Departments in the Company

Note 2: Note 1 in Table 1-1 also applies to this table.

	Request for Production of Documents and Articles (picked up from several cases)	A	B	C	D	E	F	G	H	I	J	K	L	M
1.	Samples at each step of manufacturing process of the said product.								○	◎				◎
2.	Request for on-the -spot inspection at manufacturing facilities of said product.				◎				○	◎				◎
3.	Documents relating to sales and marketing of said product in U.S.							○	◎			○		
4.	Documents regarding individual export to U.S. and sales in U.S. of said product (including but not limited to invoices, bills, custom clearance documents)					○		◎	○			○		
5.	All documents regarding costs or income connected with manufacturing, use, export and import, sales, etc. of said product.					◎		◎	◎	◎				
6.	Periodical financial statements of defendant company.			○		◎								

7.	All of the specified documents in responding to the questionnaires.	◎	○	◎	◎	◎	○	◎	◎	◎	◎	◎	○	◎
8.	All documents referred to for responding to the questionnaires.	◎	○	◎	◎	◎	○	◎	◎	◎	◎	◎	○	◎

(1) Title: Title: Damages Provision in the Amended Patent Law

(2) Date: October 1998 (29th International Conference in Sapporo)

(3) Committee: No. 4 Committee, PIPA Japan Section

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(5) Keywords: Damages, Amended Patent Law, Compensation for Damages, Litigation, Amendment to the Patent Law

(6) Provision: Article 102 of the Patent Law

(7) Abstract: The Patent Law was amended this year (1998) for the purpose of the reinforcing the protection of intellectual property rights. This paper, from the recommendation by the Industrial Property Rights Committee, through the passing of the amendment, reviews the background and legislative processes of the Patent Law amendment. This paper focuses primarily on Article 102 which provides the handling of damages, in order to clarify the significance of the amendment, to discuss its effect on corporations and also to discuss how the goal of reinforcing protection of intellectual property rights can be achieved.

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4. Conclusion

1. Introduction

With the advent of this era of worldwide mega-competition, our domestic industry is forced to gain more competitiveness. In order to do so, the reinforcement of the protection of intellectual property rights and facilitation of inventive creation cycle are the essential issues to be addressed. In this context, the Patent Law was amended this year (1998) for the purpose of the reinforcing protection of intellectual property rights. This paper, from the recommendation by the Industrial Property Rights Committee through the passing of the amendment, reviews the background and legislative processes of this Patent Law amendment. This paper focuses primarily upon Article 102 which provides for the handling of damages, in order to clarify the significance of the amendment, to discuss its influence over corporations and also to discuss how the goal of reinforcing protection of intellectual property rights can be achieved.

2. Legislative Development of the Amendment

During the 33rd General Assembly of the Industrial Property Rights Committee held on April 24, 1997, the Damages Subcommittee of the Committee's Legislative Section was convened. Chaired by Dr. N. Nakayama, Professor of Tokyo University, 21 members assembled from the fields of academia, government, the judiciary, attorneys, industry, and mass communication, for the subcommittee hearing. The minutes of the hearing were reported on November 25, 1997. The recommendation based on this report was submitted by the Industrial Property Rights Committee on December 16, 1997 to the Ministry of International Trade and Industry ("MITI") of which the Japanese Patent Office ("JPO") is a part.

Corresponding to this development, the Cabinet concluded a bill calling for a comprehensive amendment on the Patent/Copyright/Trademark Law during its cabinet meeting on February 10, 1998. On February 12, the Cabinet presented the bill to the 142nd Diet session as a legislative bill for amending a part of the Patent Law. The bill was received by the Lower Diet on February 12, and was remitted to the Lower Diet's Committee on Commerce and Industry on March 30. Ths committee carried out a session and passed the bill on April 3, and the Lower Diet passed the bill on April 7. In the Upper Diet, the bill was received on February 12, and remitted to the Upper Diet's Committee on Economy and Industry on April 15. The Committee on Economy and Industry passed the bill on April 23. During the session in which the Committee on Economy and Industry passed the bill, the committee also passed two supplementary resolutions. Of those two resolutions, the following is the one that is more relevant to current subject.

(Supplementary Resolution)

"The government, at the time of enactment of the present law, shall take adequate measures in regard to the following. The government shall further consider and attempt to promptly resolve appropriate provisions

for expanded ability to obtain court-ordered production of documents, establishment of rules for allowing damage expert testimony, and shall also review the civil procedures pertaining to infringement lawsuits, in order to accelerate resolution of lawsuits for infringement of intellectual property and in order to reinforce the protection of intellectual property rights."

The Upper Diet passed the bill on April 24. The bill was promulgated into law as Legislation No. 51 on May 6. The new law takes effect on January 1, 1999.

3. The Amended Law

In consideration of the changeover of the domestic economy paradigm, the Industrial Property Rights Committee carried out a broad study and provided an amendment draft to MITI which sought to promote and reinforce the protection of intellectual property and to establish a smooth creation cycle, from the cycle's beginning with the inventive process, continuing with the patenting of inventions and concluding with recovery of the related investment. The study and draft amendment were summarized by the Committee in a report titled "Recommendations Concerning the Amendment of the Patent Law et. al". As a result of further discussions amongst the MITI, the JPO and the Cabinet based on this report, a final amendment draft was prepared, presented to the Diet, and passed as previously described.

The following section in this chapter clarifies the contents of the damage provisions which are the subject of the new amendments. It also reviews the relationship between the actual amendment and the draft originally provided by the Industrial Property Rights Committee, and examines to what extent the original draft is reflected in the final version of the amendment.

3-1 Amendments to Article 102

(1) Simplification of Proving Lost Profit

In order to realize an increase in the ability to recover lost profit damages, the original draft proposed by the Intellectual Property Rights Committee made some specific proposals aimed at making it easier to prove lost profits. Specifically, the Committee proposed that Patent Law Article 102, Sections 1 and 2, respectively, be amended so as to state "the amount of lost profits shall not be presumed from the profit gained by an infringer, but the amount of the product units a right holder would have been able to sell shall be presumed from the number of infringing product units sold by the infringer," and, "where a right holder is practicing its invention, the amount of product units the right holder would have been able to sell shall be presumed from the number of infringing product units sold by the infringer, within the limit of the right holder's operations". The amendment as passed by the Diet adopted only the basic concept of the aforementioned proposals, and term "presume" (suitei is the Japanese word) has not been used in Subsection 1 for a reason

explained later.

(Amended Article 102, Subsection 1)

"Where a patentee or a Senyo (exclusive) licensee claims, from a person who has intentionally or non-intentionally infringed the patent right or exclusive license right, compensation for damage caused to it by the infringement, in case that the infringer had assigned the things comprising the act of infringement, the quantity of the assigned things (hereinafter referred to as "assigned quantity") multiplied by the unit profit of the products the patentee or exclusive licensee could have sold if the infringing conduct had not occurred, may be claimed as damages suffered by the patentee or exclusive licensee, provided that the amount shall not exceed the capability of the patentee's or exclusive licensee's operations. However, if circumstances exist under which the patentee or exclusive licensee would not have been able to sell all or a part of the assigned quantity, the amount based upon the quantity corresponding to such circumstances shall be deducted."

(Amended Article 102, Subsection 2)

"Where a patentee or a Senyo (exclusive) licensee claims, from a person who has intentionally or non-intentionally infringed the patent right or exclusive license right, compensation for damages caused to it by the infringement, the profits gained by the infringer through the infringement shall be presumed to be the amount of damages suffered by the patentee or exclusive licensee."

(Contents of Amendment)

The amended Subsection 1 is an entirely new section, and the former Subsection 1 has been shifted by the amendment shifted to Subsection 2, without any changes. The amended Subsection 1 is a provision is a new provision for assessing lost profits as a type of damage compensation, and it is based on Article 709 of the Civil Law. The amended Subsection 2 (former Subsection 1) was originally provided by amendment in 1959 to simplify the assessment of damages by presuming the amount of lost profit damage suffered by a right holder from the amount of profit made by an infringer. The reason for this twofold provision is to allow a right holder to choose, in its own discretion, which of the two subsections that it wishes apply in an infringement suit. As explained below, many of the terms and phrases in Subsection 1 and 2 are not defined by law, and the interpretation of much of the language is left to the development of case law. The terms and phrases in the amended Subsection 1 are explained below.

i) "Things comprising the act of infringement":

This phrase refers to the so-called "things comprising infringement". "Things comprising infringement" is defined in Subsection 2 of Article 100 as "things directly resulting from the infringing act", and the phrase is to be interpreted in amended Subsection 1 of Article 102. Also, it is clear that

the infringement of patented manufacturing methods can constitute an act of infringement, as Subsection 2 of Article 100 specifically provides for such infringement and also provides that "[s]ubsection 1 of Article 102 holds true in this subsection as well".

ii) "the assigned quantity multiplied by unit profit...":

This is based on the idea that a license is an exclusive right, and the right holder's sales quantity was taken away by the quantity sold by the infringer. This is provided to make it easier for a right holder to claim its lost profit since it is assumed easier to prove the amount of money given by the assigned quantity multiplied by the unit profit to which the right holder would have normally been entitled, as opposed to being required to prove directly, in a manner satisfactory to the court, the exact amount of damage the right holder suffered. In the amended Subsection 1, it is not specified whether the "amount of profit" is to be net profit or gross profit. The reason for this is that special consideration was given for allowing the court discretion to determine the amount of "profit" according to the circumstances of the individual case, without being restricted by a definition which, if provided, might narrow the extent of the court's discretion.

iii) "...shall not exceed the capability of the patentee's or exclusive licensee's operations"

This provision is provided to limit the amount of damages which may be recovered to those which have a significant causal nexus to the infringement. The amended Subsection 1 does not provide the definition of "capability . . . of operations". This is, again, to allow the court discretion to adjust to the circumstances of the individual case. For example, where a right holder is an individual inventor, it is not appropriate to value his operational capability to be the same as that of a large corporation, and where a right holder is a small business, it is not always appropriate to limit its operational capability to its current capability. Under this provision, the court can flexibly exercise its discretion in consideration of individual circumstances.

iv) "...may be claimed as damage suffered by ...":

The reason for the use of the wording of the amended Subsection 1 "assigned quantity multiplied by....*may be claimed* as damages suffered by...", instead of using "the damages *shall be presumed* by assigned quantity x profit", is to avoid an "all or nothing" situation. If the phrase "shall be presumed" had been used in this provision, the concern was that the full compensation of "Assigned Quantity x Profit" would be awarded when the "presumption" was not rebutted, but that there may be a possibility that nothing would be awarded if the "presumption" was rebutted. In other words, by avoiding the use of the phrase "...shall be presumed...", a right holder is awarded damages if he could prove the infringer's assigned quantity and his profit. Even if this presumption were rebutted by proof

offered by the infringer, the damage claim will not be rejected outright; instead, only a proven amount of deduction (as established by the rebuttal evidence) would be made from the full amount of the compensation.

v) "if circumstances exist under which the patentee or exclusive licensee would not have been able to sell . . ."

This is a provision indicating what an infringer shall prove to gain a deduction from the damages, in the range between "Assigned Quantity x Profit" and 0. The "circumstances . . . under which the patentee or exclusive licensee would not have been able to sell" include, for example, sales or promotion efforts by the infringer, or the existence of an alternative product. The infringer may be able to reduce the compensation to an amount between 0 and "Assigned Quantity x Profit", by such methods as proving the fact that he had increased his sales by his sales efforts. Also, compensation for damages would not been awarded in the past where an alternative product existed, but the amended provision allows compensation for damages, in accordance with the facts of the case, even though an alternative product exists.

Several other proposals were also made by the Intellectual Property Rights Committee, but were not adopted in the final version of the amendment. For example, proposals to "simplify the proof of the infringers' profits by reverting the burden of proof to the infringer side for deductible amounts from the infringers' total income gained by infringements" and to "specify the profit of the infringer in Article 102 Subsection 1, as a marginal profit" were rejected. Although the reasoning of the Cabinet is not clear, it is assumed that they considered the adopted language was a more straightforward method of handling damage claims for lost profits.

Another proposal was that of "allowing claims based upon the presumption of a lost profit or upon the presumption of an infringer's profit, provided that the patentee has the operational capability", and "allowing claims based upon the presumption of a lost profit or upon the presumption of an infringer's profit even if the right holder and the party who practices the right are different" were probably rejected because of the belief that such provisions would result in the available range of recovery gradually being restricted by court decisions, and also from the apparent sense that cases should be judged flexibly according to their individual facts. One other proposal to "include a [provision to take into consideration various factors - Japanese word is "shanshaku"] so as to allow, when calculating damages, recognition of the correct scope of damage caused by the infringement," was not adopted. The rationale for rejecting this proposal was probably that the determination of causation should be left to the judge's discretion. Yet another proposal to allow the award of damages "up to three times of a proven amount of damage, as an actual amount of loss" was not adopted, probably because it attempts to award an amount of damage that is not the actual amount of damage based on the evidence, which goes beyond the framework of the existing law, and also

because there had been no reasonable explanation for the maximum limit of "three times..."

(2) Increasing Damages by the Amount Equivalent to the License Fee

From the viewpoint of increasing damages by the amount equivalent to the license fee, Article 102, Subsection 3 was amended based upon the committee proposal for a "provision to allow assessment of a reasonable amount equivalent to a license fee with consideration of the circumstances of each individual infringement case".

(Amended Article 102 Subsection 3)

"A patentee or Senyo (exclusive) licensee may claim, from a person who has intentionally or non-intentionally infringed the patent right or exclusive license right, an amount of money which it would be entitled to receive [from a licensee] for practicing the patented invention, as damages."

(Contents of Amendment)

Former Subsection 2 of Article 103 was shifted to the Subsection 3 of the amended law, and the word "normally" from the provision of former Subsection 2, "an amount of money he would normally be entitled to receive for practicing the patented invention..." was deleted.

The word "normally" in former Subsection 2 was deleted to make it clear that an amount can be claimed according to the circumstances of the individual case as "an amount of money which it would be entitled to receive for "practicing the patented invention". By this provision, it is possible for even an amount more than "three times" of a normal license fee to be claimed as a reasonable amount equivalent to the license fee. It is also clear from the purport of the enactment, that the "amount of money it would normally be entitled to receive..." is still deemed to be the minimum measure of these dameages.

Several other proposals were made by the Committee but rejected (by their absence) in the final draft amendment that the Cabinet submitted to the Diet. Following are a couple of them:

One proposal, that "a reasonable amount equivalent to a license fee shall be defined as an amount three times of a normal license fee" was rejected. The reason for this rejection was probably that there is no basis for the "three times" rule, and also, such a provision allows less discretion as to various circumstances where some deduction may be required.

Another proposal, that "the court may assess a reasonable amount of damage up to the maximum of three times a normal license fee", was probably rejected because, again, there is no ground for setting the maximum at "three times", and furthermore, if amounts of damage are determined based upon the

individual circumstances of a case, then there is not a good reason for imposing a maximum limit.

(3) Other Amended Subsections

The Patent Law, Article 102, Subsection 4 was amended as follows:

("Amended" Article 102, Subsection 4)

"The preceding subsection shall not preclude a claim to damages exceeding the amount referred to therein. In the event that there has been neither willfulness nor gross negligence on the part of the person who has infringed the patent right or the exclusive license right, the court may take this into consideration when awarding damages."

(Contents of Amendment)

Former Subsection 3 was shifted to provide the amended Subsection 4. One minor change was made in the amendment, on a Japanese word meaning "exceed", which is converted into a "Kanji" (Sinogram) having the same meaning, so in effect no substantial changes were made. It is assumed that the first component of the amended Subsection 4 has been left unchanged because of its supplemental nature. The second component has also been retained probably because where there are various levels of infringers, from manufacturers to distributors, and it would be too burdensome on distributors (who are at the end of the line) to be bound with a burden of due care and attention, considering that exercising judgment with respect to patent infringement issues is a sophisticated matter.

Other ideas proposed by the Committee, such as "the part allowing the deduction of damages in consideration of [lack of culpability] shall be deleted" and the proposal that "a provision allowing the increase in damages in consideration of willfulness or gross negligence shall be added" were rejected. The former was rejected in consideration of the issues such as the aforementioned situation of distributors. The later was rejected from the standpoint that property damage and its amount should be determined from an objective point of view, and the basis for increasing the amount by consideration of willfulness or gross negligence is ambiguous.

3-2 Significant Proposals which were not Adopted

(1) Treble Damages and Return of Infringement Profit

The proposal entitled "Treble Damages" stated, "[t]he court may award as damages up to three times the amount of actual damages, from a person who intentionally (or by gross negligence) infringed the patent right or exclusive license" was a proposal providing for the possibility of treble damages in cases of willful infringement. "A patentee or Senyo (exclusive) licensee may claim, from a person who intentionally (or by gross negligence) infringed the patent

right or exclusive license, the return of the profit the infringer gained by the infringement" was a proposal entitled "Return of Infringement Profit", which provided that the return of infringement profit can be claimed regardless of the amount of damage suffered by a right holder in a case of a willful infringement. These proposals had been made in an attempt to erode the foundation of what the current patent situation in Japan, which has come to be known as an "Infringers' Heaven", and also in an attempt to provide a strong disincentive to patent infringement by allowing the award of damages up to three times of an amount of actual damage in cases of willful infringement (including gross negligence). These ideas have not been able to gain sufficient consensus as they pursue entirely new provisions that go beyond the existing framework of the present law. The existing law defines the purpose of damage claims as the compensation of damage, and in the present state of the law, damages are allowed only up to an actual amount of damage suffered It is also assumed that these proposals were rejected both for the above reason, and also in consideration of compliance with the Supreme Court decision holding that the enforcement of the exemplary damages in Japan is against the public policy of the domestic law system (*Nothcon I, an Oregon Partnership v. Katayama, et. al.*, Japan Supreme Court, July 11, 1997, No.1199, page 3).

However, if one considers that any laws can be enacted so long as they are not unconstitutional, and the Patent Law itself is a law which allows special rights outside the framework of the Civil Law, it is quite possible that provisions which do not fall within the framework of the existing laws will be provided in the future if the effective protection of inventions is proved to be impossible under the current framework of the Civil Law, or if there is a strong demand from the public, and in particular from those in industry.

(2) Principle of Bearing of Attorney Fees by the Losing Party

"The court may, in the case of the infringement of a patent right or exclusive license, administer justice by its authority, to have the losing party to bear a part of the winning party's attorney fee" is a proposal the Committee made to provide that a losing party pay a portion of the attorney fees of the plaintiff in an infringement case. In reality, the proportion of those infringement claims where claimants (right holders) win accounts for only 60% of total claims, and there is an argument that this provision might even provide a disincentive to making such claims. It is assumed that this proposal was rejected for this reason, and also in consideration of the viewpoint that this is a topic which is more appropriate for discussion as an issue common to the entire civil action system.

4. Conclusion

One should note that in the amendment to the new Patent Law, specific definitions

of various terms and phrases used in the amended provisions were consciously avoided in order to leave a broad margin for judicial discretion. The interpretation of such terms and phrases is left to future court decisions. This is a clear indication that strong protection of intellectual property rights is dependent on both the adequate handling of the amended provisions by the judiciary, and the active use the amended provisions by those in industry.

There has been a controversy on the hollowization of the Japanese judiciary with regard to expertise in intellectual property rights, as patent litigation is mainly carried out in US, and even in Japan, patent right infringements are usually discussed based upon US practice. For the future, it is important to stop this hollowization of the judiciary by domestically providing strong protection for intellectual property rights.

The present law amendment, which was carried out as part of the Pro-Patent policy initiated by the JPO, does not include the provisions for any treble or exemplary damages in consideration maintaining consistency with the current framework of Civil Law which does not allow damages over the actual amount of damage. As for reactions for this decision, there was an utterance made during the Q & A session in the Committee on Commerce and Industry of the Lower Diet that "the provision for damages, which was the very point this amendment was meant for, has somehow become indecisive, however, this time, let us pass the draft then add further corrections...." There has also been an article in a news paper claiming that "industry had been demanding provisions for realizing US-level damages and the bearing of attorney fees by losing parties, but these proposals slipped out of the amendment draft at the last minute." Despite such statements, however, it is rather reasonable to regard this amendment as one with a progressive attitude, which incorporates as many measures as possible, within the framework of the existing law, for reinforcing the protection for inventions. At least this can be said with regard to those issues for which there have been sufficient discussions. If used actively and handled in the right way, it is fully possible for this amendment to reinforce the protection of intellectual property rights and promote new business growth.

We should note here, that strong protection of intellectual property is only possible in a society in which lawsuits are more common, like the U.S. Are Japanese corporations ready to cope with a more aggressive lawsuit policy? According to the result of a survey conducted of 206 companies, which had been referred to in the Committee recommendation, the proportion of companies who support exemplary or treble damages, within those companies who answered "Yes" to the question "Japanese damages are exceedingly low", is only a little over 30% of the companies surveyed (33 companies). This indicates that many of the companies are not fully ready to utilize lawsuits as a means of intellectual property right protection. Notwithstanding this somewhat weak statistical evidence of Japanese companies' reluctance to enter such a new age, the authors of this paper strongly believe that if Japanese companies themselves change their perceptions, that Japanese companies could become capable of practicing US-type litigation without hesitation. We also

believe that we will be able to make good use of the subject amendments to the patent law, and break out of the so-called "Infringers' Heaven".

Corresponding to the general consensus that the final amendment was an "indecisive" amendment, the JPO has declared, "we will start discussing future law amendments right after the closing of the current Diet session". We shall keep our eyes on the future development of amendments to the Patent Law.

Acknowledgment: The authors acknowledge the contribution of Bradley J. Schrock, for his assistance in translating and editing the English version of this paper. Mr. Schrock is an U.S. attorney licensed in the States of Oregon and Washington.

1. Title: Implications of the Japanese Supreme Court on the Doctrine of Equivalents
– Endlessly Sliding Ball Spline Shaft Bearing Case (Feb. 1998) Report –

2. Date: in October 1998 (29th International Conference in Sapporo)

3. Committees: 1) Group - PIPA Japan Group
2) Committee - 4th Committee

4. Authors:
4th Committee Members of PIPA Japan Group
OKUMURA, Yoichi; Takeda Chemical Industries, Ltd. (principle person in charge)

5. Keywords:
doctrine of equivalent, insubstantiality, interchangeability, ease of interchangeability, affirmative defense based on free technology (public domain), intentional exclusion, endlessly sliding ball spline shaft bearing

6. Relevant Articles of Laws: Article 70 of Patent Law

7. Summary:
This session is simply to introduce the Japanese Supreme Court Decision which is the first to imply necessity of court judgment on patent right infringement under the Doctrine of Equivalent and to show five factors for such judgment.

8. Table of Contents:

1. What the Supreme Court Teaches in its Decision
(Criteria for Determining Applicability of Doctrine of Equivalent)
(Reasons for the Criteria for Determining Applicability of Doctrine of Equivalent)
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2. Claims of the Patent
3. The Decision and Reasoning by the Appeal Court (Tokyo High Court)
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②. Patented Invention
7. Other Domestic Cases Adopting the Doctrine of Equivalents
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9. Comment

Title: Implications of the Decision by the Japanese Supreme Court on the Doctrine of Equivalents – Case Report

The Decision by the Supreme Court in the case of "Endlessly Sliding Ball Spline Shaft Bearing"
Supreme Court, February 24, 1998/ Case No. 1994(o)1083

1. What the Supreme Court Teaches in its Decision

(Criteria for Determining Applicability of Doctrine of Equivalent)

①. Insubstantiality of Literally Differing Elements, in a Patented Invention

②. Interchangeability

③. Ease of Interchangeability at the Time of Infringement

④. Non-Free Technology (the technology shall be neither public-known nor easily conceived from any prior art: public domein)

⑤. Absence of Intentional Exclusion in the course of Patent Prosecution

(Reasons for the Criteria for Determining Applicability of Doctrine of Equivalent)

①. It is difficult to prepare complete specification/claims covering all the types of possible future infringing situations at the time of filing.

②. It is highly possible for an infringing party to circumvent the accusation for its infringement by interchanging a portion of the Elements with other(s).

③. If permitting infringements such as the just above ②, the motivation in the society for new inventions will be spoiled: It not only violates the purpose of patent law (to contribute to the development of industries through protection of and encouragement for invention), but also denies social justice, resulting in the breach of equity.

④. A technology that is easily found substantially identical with the elements of the claims is easily anticipated by a third party in the first place.

(Cases the Doctrine of Equivalents is not Applied)

①. A technology which can be easily conceived by those who skilled in the art, based on prior art: It would have been impossible for anyone to obtain a patent in the first place.

②. A technology which has been intentionally excluded by an applicant during patent prosecution: It is deemed to be waived.

2. Claims of the Patent

(Element A)

An outer cylinder having torque transmitting load bearing ball-guiding grooves with a U-shaped cross-section and torque transmitting non-load bearing ball-guiding grooves with a U-shaped cross-section being slightly deeper than that of the load bearing ball-guiding grooves, the load bearing ball-guiding groove and the non-load bearing ball-guiding groove extending alternately in the axial direction within the cylindrical inner wall, the outer cylinder having an annular circumferentially directed groove at each end with the same depth as that of the deeper groove;

(Element B)

A thin wall portion and a thick wall portion formed respectively in conformity with the torque transmitting load bearing ball-guiding groove and the torque transmitting non-load bearing ball-guiding groove formed in the axial direction within the inner wall of the outer cylinder, a joint portion between the thin wall portion and the thick wall portion having a through-hole, and a retainer with an endless track groove for allowing balls to smoothly slide into the non-load ball-guiding groove formed in the thick wall portion;

(Element C)

A spline shaft provided with a plurality of ribs extending in the axial direction thereof, said ribs being shaped to conform with a plurality of recessed spaces formed by the balls incorporated between the retainer and said out cylinder

(Element D)

Elements from A to C being engaged

(Element E)

Endlessly sliding ball spline shaft bearing

3. The Decision and Reasoning by the Appeal Court (Tokyo High Court)

[Decision]

The patent right has been infringed on the ground of the Doctrine of Equivalents.

[Grounds]

- Although Element A and the corresponding portion of the accused product are different in their structures, no special technical significance can be attributed to the difference.
- Although the constitutions of Element B and the corresponding portion of the accused product are different in their structures, the accused product realizes the same function. The interchangeability and the ease of interchangeability are recognized. (Plaintiff Exhibit No.11)
- Accused product is the same as that of the present invention with respect to the technical issue to be solved, the basic technical idea/manner, and the results/effects obtained by each Element.

4. The Decision and Reasoning by the Supreme Court

[Decision]

The case is remanded. (Insufficient review on the relationship between prior art and the accused product)

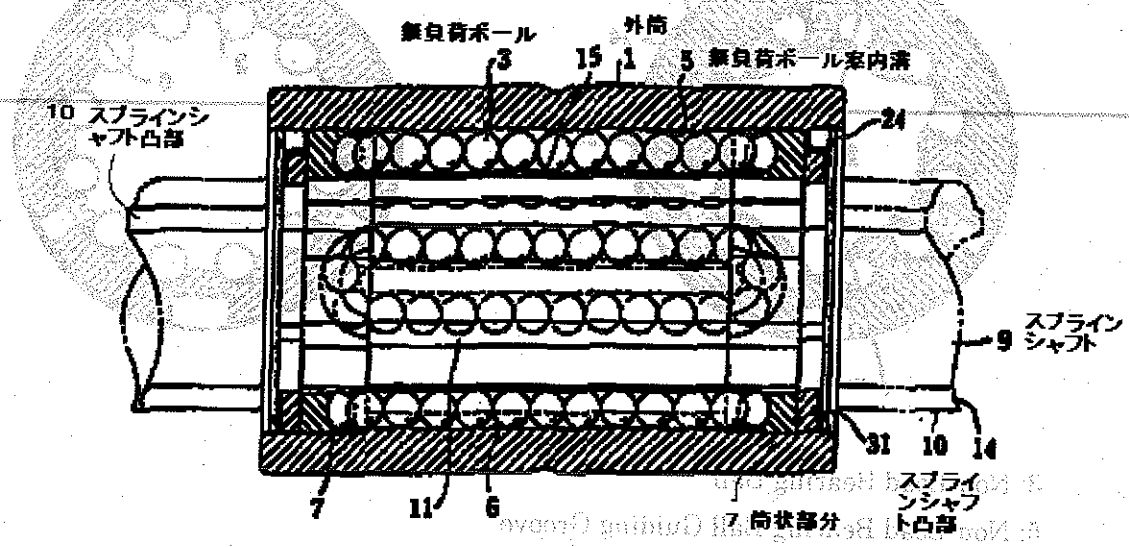
[Ground]

- The different element of the accused product from that of the patented invention of the present case had already been described by prior art (Plaintiff Exhibit Nos. 11 and 13)
- The portions having substantially identical elements as Elements A and C, are also in the teaching of JP S/44-2361, DE1450060 and US3494148.
- The accused product is simply a combination of the prior arts. Given that the combination could have been easily arrived at by the accused infringer, the accused product cannot be said to be equivalent to the present invention.
- The appeal court only reviewed the issues of the interchangeability/ease of interchangeability between the differing elements of the present invention and the accused product. The relationship with prior art had not been examined, thus the decision is erroneous.

6. Facts (Technical Items)

①. Accused Product

Profile of an Endlessly Sliding Ball Spline Shaft Bearing



1: Outer Cylinder

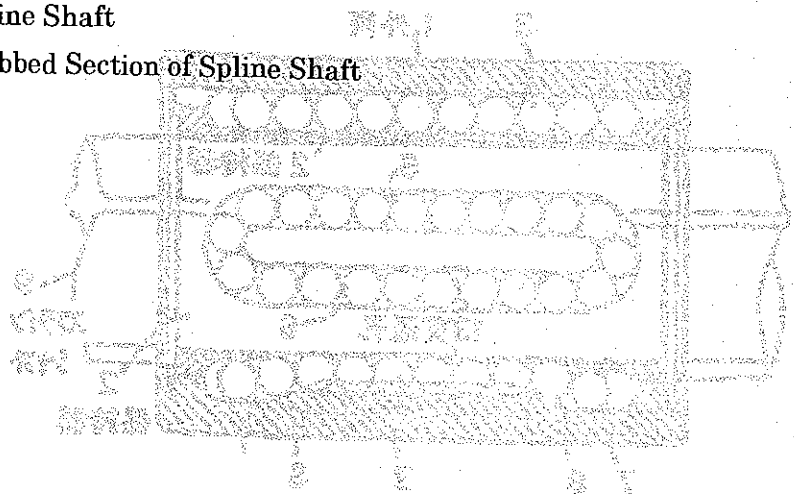
3: Non-Load Bearing Ball

5: Non-Load Bearing Ball Guiding Groove

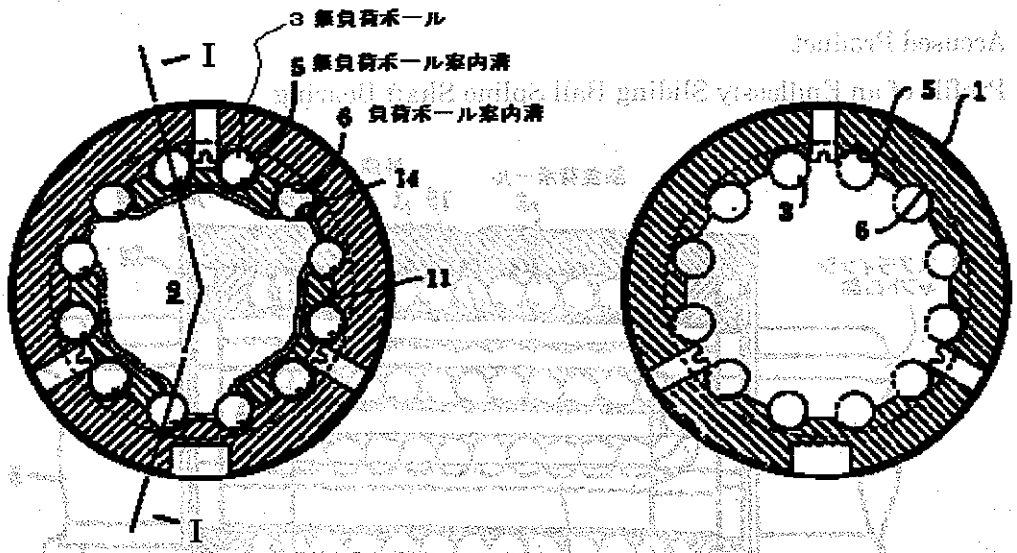
7: Cylindrical Section

9: Spline Shaft

10: Ribbed Section of Spline Shaft



Cross Section of an Endlessly Sliding Ball Spline Shaft Bearing



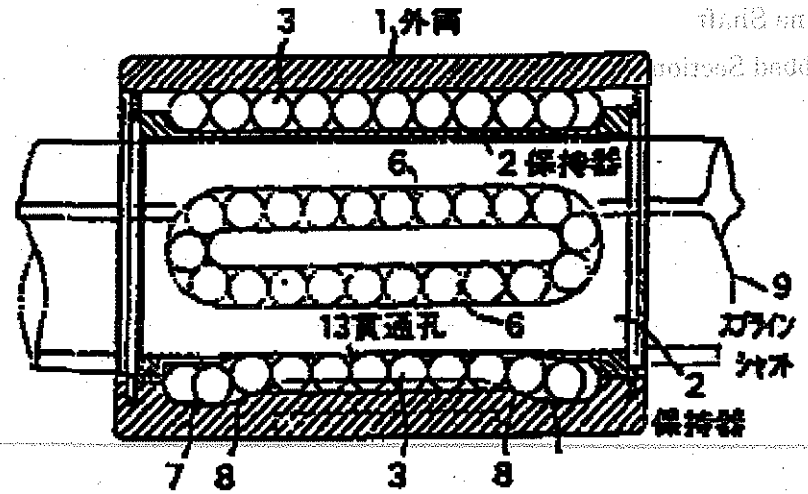
3: Non-Load Bearing Ball

5: Non-Load Bearing Ball Guiding Groove

6: Load Bearing Ball Guiding Groove

②. Patented Invention

Profile of an Endlessly Sliding Ball Spline Shaft Bearing by the Invention of the Present Case



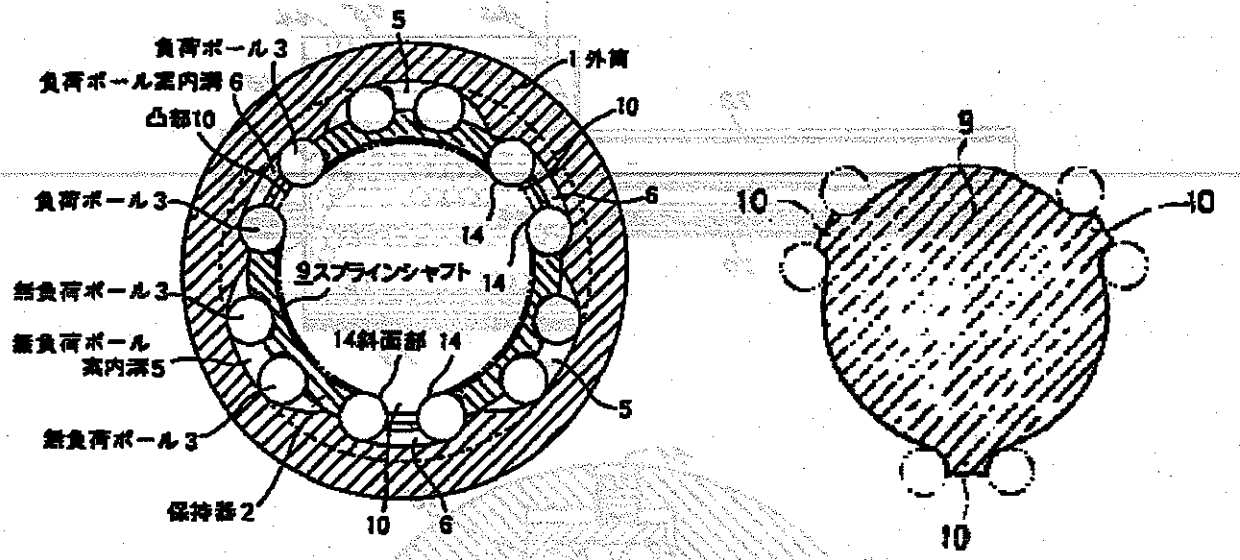
1: Outer Cylinder

2: Retainer

9: Spline Shaft

13: Through Hole

Cross Section of an Endlessly Sliding Ball Spline Shaft Bearing by the Invention of the Present Case



2: Retainer

3: (Non)Load Bearing Ball

5: Non-Load Bearing Ball Guiding Groove

6: Load Bearing Ball Guiding Groove

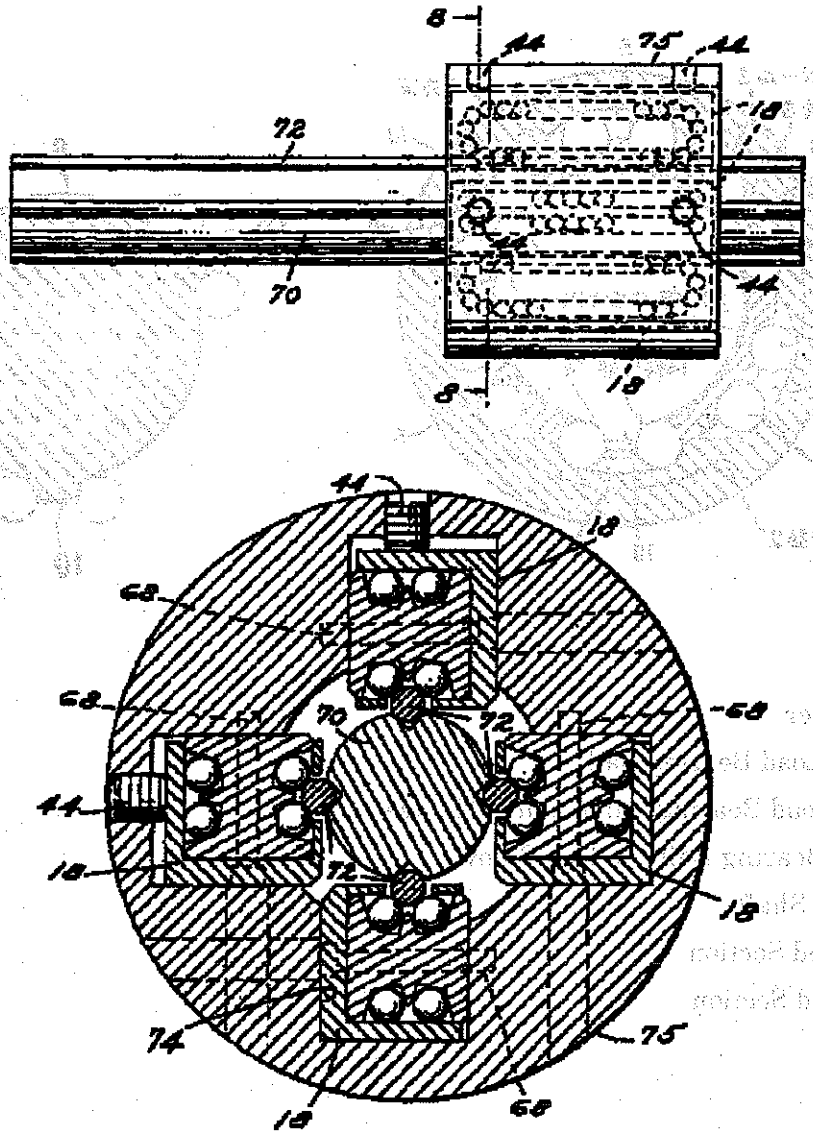
9: Spline Shaft

10: Ribbed Section

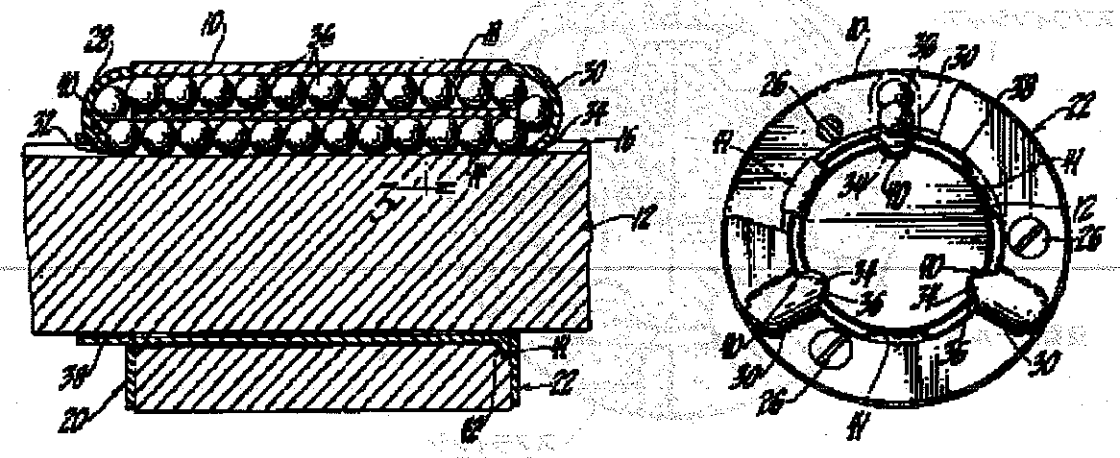
14: Sloped Section

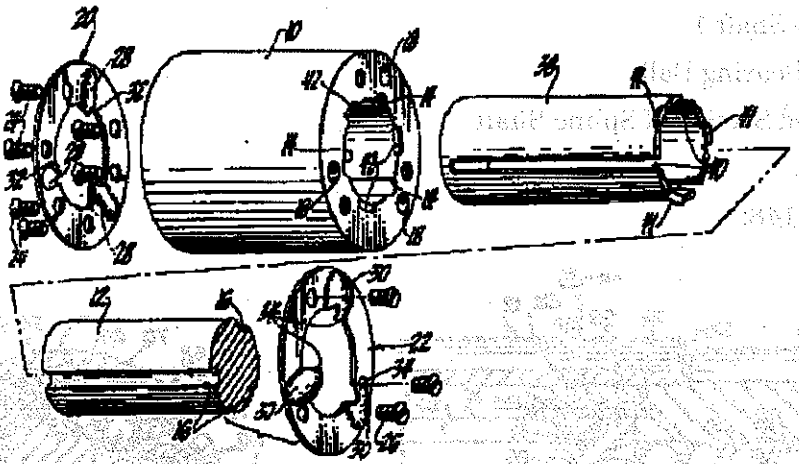
③. Prior Art

Plaintiff Exhibit No. 11 (USP 3,398,999: Halvorsen)

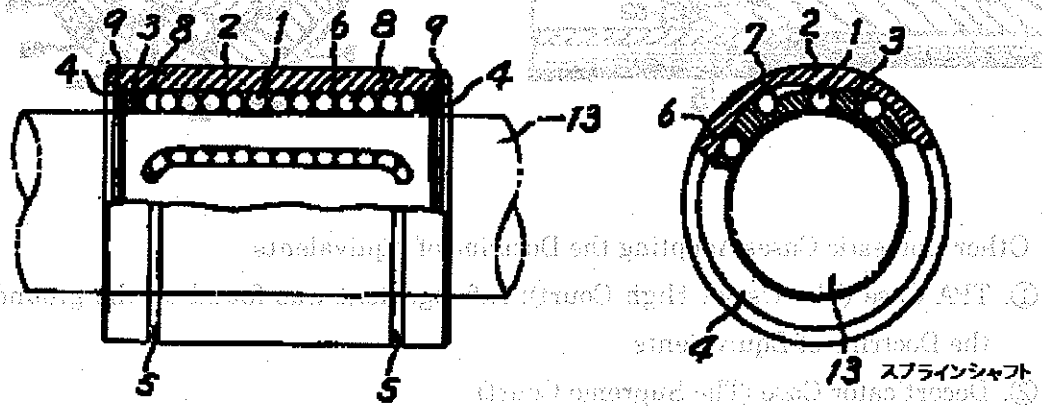


Plaintiff Exhibit No. 13 (USP 3,360,308: Grabowski)



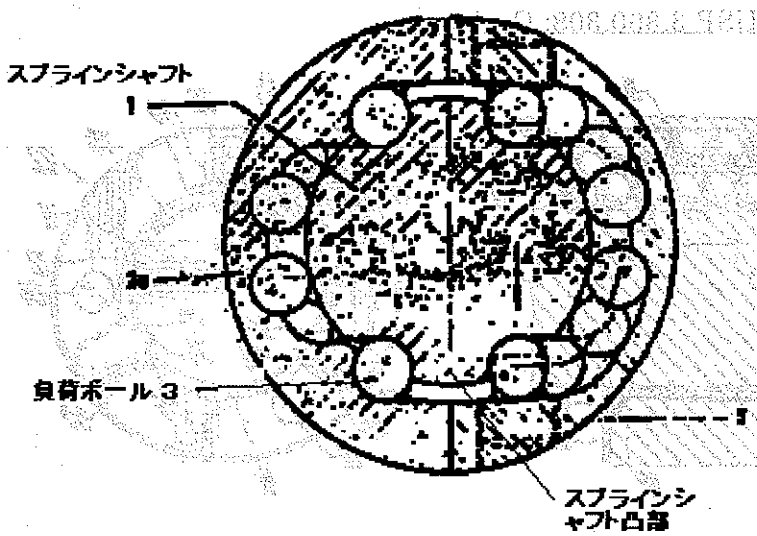


JP-S/44-2361:



13: Spline Shaft

DE1450050:

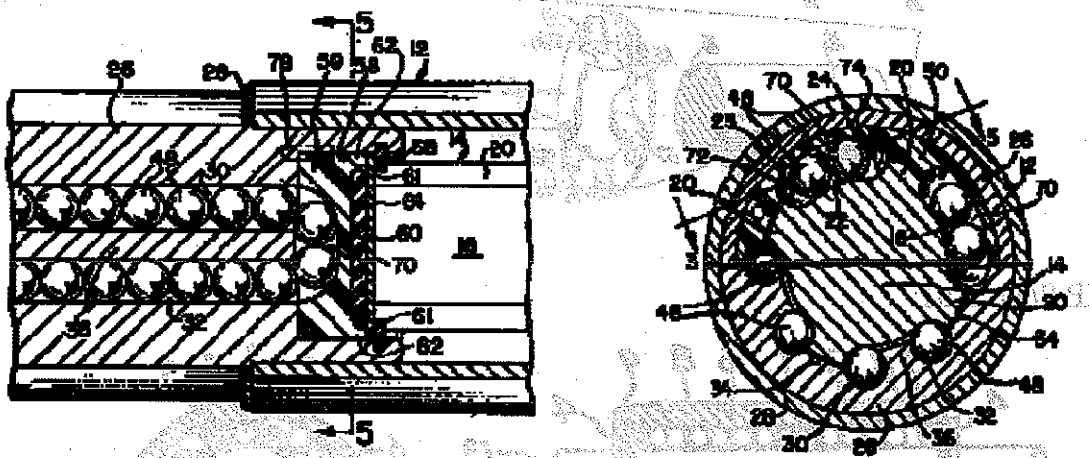


1: Spline Shaft 1

3: Load Bearing Ball

N: Ribbed Section of Spline Shaft

USP 3,494,148:



7. Other Domestic Cases Adopting the Doctrine of Equivalents

①. TPA Case (The Osaka High Court): Infringement was found on the ground of the Doctrine of Equivalents

②. Decorticator Case (The Supreme Court)

8. Defense on the Ground of Free Technology

①. U.S.: Golf Ball Case

②. Germany: Formstein Defense

9. Comment

In the present case, the supreme court might not need to address the requirements for applying the Doctrine of Equivalents. It would have been enough to point out the "insufficient review" by the appeal court on the Free Technology defense etc.

The current law system or court practices do not deny the application of the Doctrine of Equivalents.

The reason the Supreme Court made such teachings, however, seems to demonstrate the forward-looking attitude of Japanese courts toward the consideration of the Doctrine of Equivalents, rather than to avoid the application of the doctrine in determining infringement in patent infringement cases. It implies that the protection of intellectual properties such as patent rights shall be sufficiently provided.

It is assumed that the rationale adopted by the supreme court on the Doctrine of Equivalents, is the result of the thorough consideration on prevailing theories and U.S. cases, especially The Warner-Jenkinson (Hilton-Davis) Case.

However, it is not clearly stated in this case, which party, the patentee (usually Plaintiff) or accused infringer (usually Defendant), should bear the burden of proof with respect to the argued five criteria. We have to wait for case developments by lower courts.

PIPA Database Cover Sheet

(1) Title: Retention Rules on In House Documents

(2) Date: October, 1998 (29th International Congress)

(3) Source:
a) Source: PIPA
b) Group: American
c) Committee: Number 4

(4) Authors:
Terence P. Strobaugh Rohm and Haas Company
Katherine A. Davis Rohm and Haas Company

(5) Key Words:
Documents, Records Management, Retention Schedules

(6) Statutory Provisions:
Federal Rules of Civil Procedure (FRCP)
Rule 26 and Rule 34
Title VII of the Civil Rights Act, Tariff Act of 1930, Title 19 of the Code of Federal Regulations, Internal Revenue Code, Title 19 of the Code of Federal Regulations Internal Revenue Code

(7) Abstract: A program to know what documents should be retained, how long they should be retained before destruction is required because of various statutory requirements - not just for litigation purposes. Litigation usually is focused on because that is usually the time when it becomes evident that established policies are not followed.

This paper presents some basics on how to start a program and develop a retention schedule and ideas for making sure the policy is followed. (The Tariff Act and Title 19 of the U.S.C. requires documents to be retained for importers.)

Why Do You Need a Records Management Program?

You will note that I have listed under the "Statutory" heading several references to United States laws outside of FRCP. These other laws have mandatory document retention requirements. For example, Title VII of the Civil Right Act requires employment records to be retained. The Internal Revenue Services requires records to be retained for 7 years.[1]

For various compliance programs to show that your company is in compliance with, for example, the Foreign Corrupt Practices Act, Antitrust Laws, and the like; records are maintained.

For intellectual property purposes, research records are maintained for possible interference proceedings. Also, the defining of what is a trade secret and the steps taken to protect those trade secrets because of the Economic Espionage Act require records being kept.

It can be easily understood why it is necessary to keep records. The most significant time all of these records are subject to inspection is in a law suit. It is at that time that all types of documents are subject to discovery.[2] This is why it is necessary to adopt a company-wide records management policy that covers all types of documents and records and establishes a criteria and time table for determining what and when records should be retained or destroyed. Such a document-retention/destruction policy requires each department to carefully define each type or category of document and answer questions such as: Do financial records include or exclude marketing and sales data? Do engineering documents include R&D and manufacturing materials? Do patent files and related correspondence fall under R&D or a separate patent/intellectual property heading? Because the volume of computer stored data can become overwhelming, a policy should exist for the periodic review and removal of old computer date including e-mail and remember the backups for computer data.

A considered and comprehensive formal records retention/destruction policy, in force throughout the company, can be a basis for explaining why certain documents are not available and avoid court ordered sanctions.

The fact that a regular program exists, and is enforced company-wide, tends to contradict an inference that particular documents were destroyed in

[1] I want to acknowledge the assistance of Kay Davis, Rohm and Haas Company's Corporate Records Manager. She has provided me with the necessary information to prepare this paper.

[2] Attached is a copy of a "First Request to Plaintiff for Production of Documents and Things" which lists the types of documents subject to discovery.

bad faith. A routinely used records-retention/destruction program, that is in place and functioning for a substantial period of time prior to any particular legal proceeding or case, will tend to rebut an inference that documents were intentionally destroyed with a particular lawsuit in mind.

Remember to monitor such a program when you know a lawsuit is imminent, or pending. In these cases, the policy must be suspended for all material relevant to the subject matter of the possible litigation.

What follows is essentially how a Records Management Schedule is constructed.

At a meeting with the particular group for which a schedule is being drafted we determine the following:

(a) What records are kept in the department?

(b) What are the operational needs for each record type (IRS, Compliance Program, Research)?

(c) Who is the record copy holder of each record type? (Although, the writer is typically the record copy holder, this is not true with all records. For example, the Financial group is the record copy holder for the travel expense statement and Information Services is the record copy holder for the Research Laboratory Notebook.)

(d) Is the record considered vital to the company? Would it's loss cause the company to lose business or ever cause the company to go out of business? (Research Laboratory Notebooks are considered a vital record and are microfilmed and the film stored off-site.

(e) Should the record be sent to off-site storage?

When all departmental operational needs are considered the retention schedule is then reviewed with the Tax and Legal Departments for any financial or regulatory requirements.

When the retention schedule is finalized, it reflects the legal, regulatory and operational needs for the records in the department as well as those for the company. I have a few selected pages from our retention schedules.

What follows is a selection of overheads used in presentations to the department. Usually an attorney attends each presentation to assist in the presentation.

There are also 3 other attachments you should review. The first is a 1995 article from Records Management Quarterly. The second is a report on a state's court ruling that documents in a foreign subsidiaries possession are discoverable. The third is the "Request for Production of Documents and Things" which details what records will be requested.

Retention Schedule Report
08/24/1998 11:38:38
Prepared by Ruth Seitzinger

Department: 001713-01 PATENT & TRADEMARKS
Manager : M. S. ADLER
Coord. : L. K. JANKA GRACE

Address : Rohm and Haas Company
100 Independence Mall West
Philadelphia, PA 19106

Series	Dept	Title / Description	Active MM/YY	Inactive MM/YY	Total MM/YYY	Calc Rest	Destroy Status	Micro Job No / Effective	Computer Report Form Number
D0015	001713-01	AGREEMENTS-LICENSE INCLUDES CORRESPONDENCE MICROFILMED & FILM STORED AT NUS PERMANENTLY	00/07	00/00	00/007 AT	Y N	 Active	#249 08/21/1998	
D0010	001713-01	AGREEMENTS-SECRECY	00/07	00/00	00/007 AT	A N	 Active	 08/21/1998	
D0045	001713-01	AGREEMENTS-SETTLING LITIGATION	00/20	00/00	00/020	A N	 Active	 08/21/1998	
D0050	001713-01	AGREEMENTS-TRADEMARK OPPOSITION SETTLEMENT REVIEW 15 YRS AFTER TERMINATION OF REGISTRATION	00/15	00/00	00/015 AT	A N	 Active	 08/21/1998	
D0070	001713-01	ATTORNEY FILES OF PRIVILEGED DOCUMENTS	00/02	00/00	00/002	A N	 Active	 08/21/1998	
D0078	001713-01	BUDGETS/COST REPORTS ACCOUNTING RETAINS RC 4 YRS AA	00/02	00/00	00/002	A N	 Active	 08/21/1998	
D0079	001713-01	CENTRAL FILE COLLECTIONS-OTHER THAN CORRESPONDENCE	00/01	00/02	00/003 AR	A N	 Active	 08/21/1998	
D0110	001713-01	CHRONOLOGICAL FILES-BY YEAR/BY PERSON	00/02	00/00	00/002	A N	 Active	 08/21/1998	
D0120	001713-01	CIVIL INVESTIGATIVE DEMANDS	00/06	00/00	00/006	A N	 Active	 08/21/1998	
D0125	001713-01	COMPETITION AGREEMENTS-SEE AGREEMENTS	00/00	00/00	00/000	Y N	 Active	 08/21/1998	
D0130	001713-01	COMPUTER REPORTS-AGREEMENT SYSTEM OFFICE RETAINS UNTIL REVISED	00/00	00/00	00/000	A N	 Active	 08/21/1998	VARIOUS
D0080	001713-01	CORRESPONDENCE (CENTRAL FILES)-PATENT MAXIMUM RETENTION-PURGE FILES ANNUALLY	00/03	00/00	00/003	A N	 Active	 08/21/1998	
D0245	001713-01	DOCKET FILES-RH-FOREIGN-GRANTED & EXPIRED OFFICE RETAINS 12 MO AFTER GRANT OF PATENT AT MEANS 6 YRS AFTER PATENT EXPIRES- UPDATE IPSS DATABASE	00/00	00/06	00/006 AT	A N	 Active	 08/21/1998	
D0247	001713-01	DOCKET FILES-RH-FOREIGN-LAPSED OR ABANDONED AT MEANS 2 YRS AFTER PATENT IS ABANDONED OR EXPIRED- UPDATE IPSS DATABASE	00/02	00/00	00/002 AT	Y N	 Active	 08/21/1998	
D0240	001713-01	DOCKET FILES-RH-US US APPLICATION FILES KEPT UNTIL ALL FOREIGN COUNTERPARTS ARE TERMINATED	00/06	00/00	00/006 AT	A N	 Active	 08/21/1998	

Series	Dept	Title / Description	Active MM/YY	Inactive MM/YY	Total MM/YYY	Calc Rest	Destroy Status	Micro Job No / Effective	Computer Report Form Number
D0175	001713-01	HOLD HARMLESS AGREEMENTS-SEE AGREEMENTS	00/00	00/00	00/000	Y			
						N	Active	08/21/1998	
D0180	001713-01	INTERFERENCES	00/02	00/02	00/004 AT	A			
		OFFICE RETAINS 2 YRS AC - EXPIRATION DATE OF THE PATENT WILL BE SHOWN IN FROM/TO DATE				N	Active	08/21/1998	
D0182	001713-01	ION EXCHANGE HISTORICAL INFORMATION	00/03	00/10	00/013	Y			
						N	Active	08/21/1998	
D0185	001713-01	LIBRARY BOOKS-OBSOLETE	06/00	06/00	00/001	Y			
						N	Active	08/21/1998	
D0200	001713-01	LITIGATION FILE	00/01	00/06	00/007 AC	A			
		PLEADINGS-DISCOVERY REQUESTS-COPIES OF DOCUMENTS PRODUCED IN RESPONSE TO DISCOVERY REQUEST				N	Active	08/21/1998	
D0210	001713-01	OFFICIAL GAZETTES OF USPTO	00/01	00/00	00/001	A			
		PATENT RETAINED PERMANENTLY				N	Active	08/21/1998	
D0220	001713-01	OPPOSITIONS/INVALIDATIONS	00/02	00/00	00/002 AT	A			
						N	Active	08/21/1998	
D0230	001713-01	PATENT FILE HISTORIES-NON-RANDH	00/02	00/03	00/005	A			
		OFFICE RETAINS 2 YRS FROM DATE OF RECEIPT TOTAL RETENTION 5 YRS AFTER RECEIPT OF PATENT				N	Active	08/21/1998	
D0248	001713-01	PATENT FILE HISTORIES-SEE DOCKET FILES	00/00	00/00	00/000	Y			
						N	Active	08/21/1998	
D0250	001713-01	PATENT MASTERS (ORIGINAL FILING)	00/04	00/00	00/004	A			
		OFFICE RETAINS 4 YRS AFTER PRIORITY FILING DATE				N	Active	08/21/1998	
		REVIEW BY ATTORNEY							
D0225	001713-01	PATENT QUARTERLY REVIEW/DECISIONS	00/04	00/00	00/004	A			
						N	Active	08/21/1998	
D0265	001713-01	PATENTS-RANDH US RIBBON COPY	00/10	00/00	00/010 P	Y			
		OFFICE RETAINS 10 YRS, THEN STORED PERMANENTLY				N	Active	08/21/1998	
D0270	001713-01	PATENTS-RH US & FOREIGN (BY NUMBER)	00/00	00/00	00/000 P	A			
		OFFICE RETAINS PERMANENTLY-SEE BINDERS IN DEPARTMENT				N	Active	08/21/1998	
D0278	001713-01	PRODUCT STATUS CLEARANCES	00/01	00/00	00/001	A			
		REVIEW ANNUALLY TO DISCARD PAGES FOR DISCONTINUED PRODUCTS				N	Active	08/21/1998	
D0285	001713-01	RETAINERS-LITIGATION AND OTHER MATTERS	00/03	00/07	00/010 AT	A			
		OFFICE RETAINS 3 YRS AT				N	Active	08/21/1998	
D0286	001713-01	RETAINERS-PROSECUTION & MAINTENANCE-PATENTS	00/01	00/00	00/001	A			
						N	Active	08/21/1998	
D0291	001713-01	SECRECY AGREEMENTS-SEE AGREEMENTS	00/00	00/00	00/000	Y			
						N	Active	08/21/1998	

Series	Dept	Title Description	Active MM/YY	Inactive MM/YY	Total MM/YYY		Calc Rest	Destroy Status	Micro Job No Effective	Computer Report Form Number
D0287	001713-01	SPECIAL REQUEST FOR CHECKS ACCOUNTING RETAINS RC 4 YRS	00/02	00/00	00/002		A N	Active	08/21/1998	
D0360	001713-01	SUBPOENA FILES	00/00	00/02	00/002		Y N	Active	08/21/1998	
D0290	001713-01	TAX & WORKING RECEIPTS OF FOREIGN PATENTS OFFICE RETAINS 1 YR AT	00/01	00/01	00/002	AT	A N	Active	08/21/1998	
D0295	001713-01	TECHNOLOGY AGREEMENTS-SEE AGREEMENTS	00/00	00/00	00/000		Y N	Active	08/21/1998	
D0300	001713-01	TRADEMARK FILES-APPLICATIONS-DROPPED OR ABANDONED OFFICE RETAINS 1 YR AT-COPY OF OFFICIAL REGIS- TRATION DOCUMENTS ONLY-NO CORRESPONDENCE	00/01	00/04	00/005	AT	A N	Active	08/21/1998	
D0310	001713-01	TRADEMARK FILES-COPIES OF SOLD MARKS OFFICE RETAINS UNTIL ALL LEGAL ACTION COMPLETED	00/02	00/00	00/002	AT	A N	Active	08/21/1998	
D0320	001713-01	TRADEMARK FILES-MISUSE LETTERS	00/03	00/04	00/007		A N	Active	08/21/1998	
D0325	001713-01	TRADEMARK FILES-OPPOSITIONS-CLOSED OFFICE RETAINS 1 YR AT-T SERIES	00/01	00/04	00/005	AT	A N	Active	08/21/1998	
D0330	001713-01	TRADEMARK FILES-REGISTRATION CERTIFICATES-EXPIRED OFFICE RETAINS 5 YRS AT-INCLUDES US & FOREIGN CERTIFICATES-PATENT DEPT TO ASSIGN DESTRUCT	00/05	00/10	00/015	AT	A N	Active	08/21/1998	
D0332	001713-01	TRADEMARK FILES-REGISTRATIONS-DROPPED OR ABANDONED OFFICE RETAINS 1 YR AT	00/01	00/04	00/005	AT	A N	Active	08/21/1998	
D0335	001713-01	TRADEMARK FILES-REGISTRATIONS-EXPIRED OFFICE RETAINS 1 YR AT-COMPLETE FILES FOR US & FOREIGN COUNTRIES	00/01	00/09	00/010	AT	A N	Active	08/21/1998	
D0350	001713-01	TRAVEL EXPENSE STATEMENTS ACCOUNTING RETAINS RC 4 YRS	00/02	00/00	00/002		A N	Active	08/21/1998	
D1008	001713-01	WEEKLY TIME REPORTS (WITH APPROVAL SIGNATURE)	00/01	00/04	00/005	AA	A N	Active	08/21/1998	

LEGEND

AA - Tax Audits Must Be Complete
AC - After Close or Completion
AL - After Liquidation
AR - Annual Review
AT - After Termination

P - Permanent
SP - Permanent in Storage
RC - Record Copy
NUS - National Underground Storage

Class
C - Company Confidential
P - Private
V - Vital Record

Retention Schedule Report
07/15/1998 12:01:01
Prepared by Ruth Seitzinger

Address : Rohm and Haas Company
Research Laboratories
727 Norristown Road
Spring House, PA 19477

Department: 009709-00 ION EXCHANGE RESINS
Manager : J. JAKOVAC

Series	Dept	Title / Description	Active MM/YY	Inactive MM/YY	Total MM/YYY	Calc Rest	Destroy Status	Micro Job No Effective	Computer Report Form Number
D0205	009709-00	BATCH CARDS-FDA REGULATED	00/07	00/00	00/007	Y			
						N	Active	01/11/1995	
D0200	009709-00	BATCH CARDS-OTHERS	00/02	00/00	00/002	Y			
						N	Active	01/11/1995	
D0090	009709-00	BUDGETS/COST REPORTS ACCOUNTING RETAINS RC 4 YRS AA	00/03	00/00	00/003	Y			
						N	Active	01/11/1995	
D0140	009709-00	CHRONOLOGICAL FILES	00/02	00/00	00/002	Y			
						N	Active	01/11/1995	
D0260	009709-00	CORRESPONDENCE/SUBJECT FILES-GENERAL MAXIMUM RETENTION-PURGE FILES ANNUALLY	00/03	00/00	00/003	Y			
						N	Active	01/11/1995	
D0230	009709-00	CORRESPONDENCE/SUBJECT FILES-TECHNICAL MAXIMUM RETENTION-PURGE FILES ANNUALLY	00/10	00/00	00/010	Y			
						N	Active	01/11/1995	
D0100	009709-00	CUSTOMER FILES MAXIMUM RETENTION-PURGE FILES ANNUALLY	00/03	00/00	00/003	Y			
						N	Active	01/11/1995	
D0060	009709-00	EVALUATION REPORTS PART OF GOVERNMENT CONTRACT FILES	00/07	00/00	00/007 AC	Y			
						N	Active	01/11/1995	
D0170	009709-00	GOVERNMENT CONTRACT FILES	00/07	00/00	00/007 AC	Y			
						N	Active	01/11/1995	
D0020	009709-00	LITERATURE-OTHER	00/03	00/04	00/007	Y			
						N	Active	01/11/1995	
D0030	009709-00	LITERATURE-VENDOR OFFICE RETAINS UNTIL UPDATED	00/00	00/00	00/000	Y			
						N	Active	01/11/1995	
D0160	009709-00	ORDER REQUEST FORMS PART OF CUSTOMER FILES PHILA PLANT RETAINS RC 4 YRS AA	00/02	00/00	00/002	Y			
						N	Active	01/11/1995	
D0150	009709-00	PATENT FILES OFFICE RETAINS 3 YRS AFTER PATENT EXPIRES PATENT RETAINS RC	00/03	00/00	00/003	Y			
						N	Active	01/11/1995	
D0050	009709-00	PRESENTATIONS MAXIMUM RETENTION-PURGE FILES ANNUALLY	00/10	00/00	00/010	Y			
						N	Active	01/11/1995	
D0025	009709-00	PRICE SCHEDULES	00/05	00/00	00/005	Y			
						N	Active	01/11/1995	
D0190	009709-00	PRODUCT FILES OFFICE RETAINS 5 YRS AFTER PRODUCT DISCONTINUED/ OBSOLETE/SOLD	00/00	00/00	00/000	Y			
						N	Active	01/11/1995	

Series	Dept	Title Description	Active MM/YY	Inactive MM/YY	Total MM/YYY	Calc Rest	Destroy Status	Micro Job No Effective	Computer Report Form Number
D0210	009709-00	PRODUCT STATUS INFORMATION WORKSHEET (PSIW)	00/00	00/00	00/000 P	Y			
						N	Active	01/11/1995	
D0180	009709-00	PRODUCT STATUS MEMO (PSM)	00/00	00/00	00/000 P	Y			
						N	Active	01/11/1995	
D0080	009709-00	QUALITY ASSURANCE PROGRAM PLAN	00/07	00/00	00/007 AC	Y			
						N	Active	01/11/1995	
D0240	009709-00	SALESMAN CALL REPORTS	00/03	00/00	00/003	Y			
		PART OF CUSTOMER FILES				N	Active	01/11/1995	
D0070	009709-00	SAPIS REPORTS	00/03	00/00	00/003	Y			
		FINANCIAL REPORTING PROCESS RETAINS ANNUAL REPORT PERMANENTLY				N	Active	01/11/1995	
D0250	009709-00	SECRECY AGREEMENTS	00/07	00/00	00/007 AC	Y			
						N	Active	01/11/1995	
D0120	009709-00	SPECIAL REQUEST FOR CHECK ACCOUNTING RETAINS RC 4 YRS AA	00/02	00/00	00/002	Y			
						N	Active	01/11/1995	
D0220	009709-00	STANDARD OPERATING PROCEDURES (SOP) OFFICE RETAINS UNTIL REVISED-PROJECT ENG RETAINS RC 5 YRS AFTER PRODUCT DISCONTINUED/OBSOLETE/SOLD	00/00	00/00	00/000	Y			
						N	Active	01/11/1995	
D0040	009709-00	TOXICOLOGY FILES TOXICOLOGY RETAINS RC PERMANENTLY	00/07	00/00	00/007	Y			
						N	Active	01/11/1995	
D0110	009709-00	TRAVEL EXPENSE STATEMENTS ACCOUNTING RETAINS RC 4 YRS AA	00/02	00/00	00/002	Y			
						N	Active	01/11/1995	
D0130	009709-00	WEEKLY TIME REPORTS (WITH APPROVAL SIGNATURE)	00/01	00/04	00/005 AA	Y			
						N	Active	01/11/1995	

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LEGEND
P - Permanent
SP - Permanent in Storage
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NUS - National Underground Storage

Class
C - Company Confidential
P - Private
V - Vital Record

Retention Schedule Report
07/15/1998 13:55:00
Prepared by Ruth Seitzinger

Department: 002215-00 MARKETING-ION EXCHANGE RESINS
Manager : L. BURKE
Coord. : G. BALLARD

Address : Rohm and Haas Delaware Valley
5000 Richmond Street
Philadelphia, PA 19137

Series	Dept	Title / Description	Active MM/YY	Inactive MM/YY	Total MM/YYY	Calc Rest	Destroy Status	Micro Job No Effective	Computer Report Form Number
D0010	002215-00	ACTIVE CREDIT/INVOICE INDEX	00/02	00/02	00/004 AA	Y			
						N	Active	05/28/1992	
D0020	002215-00	ASSOCIATION FILES	00/03	00/00	00/003	A			
						N	Active	05/28/1992	
D0030	002215-00	BLANKET ORDER FILES TAX AUDITS MUST BE COMPLETE	00/04	00/00	00/004 AC	A			
						N	Active	05/28/1992	
D0040	002215-00	BUDGET/COST REPORTS ACCOUNTING RETAINS RC 4 YRS AA	00/05	00/00	00/005	A			
						N	Active	05/28/1992	
D1004	002215-00	BUSINESS PLANS STRATEGIC PLANNING RETAINS FINAL REPORT TO BOARD OF DIRECTORS PERMANENTLY	00/03	00/00	00/003	A			
						N	Active	05/28/1992	
D0255	002215-00	CERTIFICATE OF ANALYSIS	00/02	00/02	00/004 AA	Y			
						N	Active	05/28/1992	
D0060	002215-00	CHRONOLOGICAL FILES	00/02	00/00	00/002	A			
						N	Active	05/28/1992	
D0080	002215-00	COMPARISON OF SALES REPORTS-OTHERS (DECEMBER)	00/02	00/08	00/010	A			
						N	Active	05/28/1992	
D0070	002215-00	COMPARISON OF SALES REPORTS-SALESMAN (DECEMBER)	00/03	00/00	00/003	A			
						N	Active	05/28/1992	
D0090	002215-00	COMPETITOR FILES-GENERAL	00/03	00/00	00/003	A			
						N	Active	05/28/1992	
00100	002215-00	COMPETITOR FILES-TECHNICAL	00/10	00/00	00/010	A			
						N	Active	05/28/1992	
D0110	002215-00	COMPETITOR PRICE REQUEST LOG OFFICE RETAINS 5 YRS FROM LAST ENTRY	00/00	00/00	00/000	A			
						N	Active	05/28/1992	
D0120	002215-00	CONSULTANTS FILES	00/05	00/00	00/005	A			
						N	Active	05/28/1992	
00180	002215-00	CORRESONDENCE/SUBJECT FILES-RESEARCH REPORTS RESEARCH RETAINS PERMANENTLY	00/20	00/00	00/020	A			
						N	Active	05/28/1992	
D0130	002215-00	CORRESPONDENCE/SUBJECT FILES-COMPETITIVE PRICING	00/03	00/00	00/003	A			
						N	Active	05/28/1992	
D0140	002215-00	CORRESPONDENCE/SUBJECT FILES-GENL CORRESPONDENCE MAXIMUM RETENTION-PURGE FILES ANNUALLY	00/03	00/00	00/003	A			
						N	Active	05/28/1992	
D0150	002215-00	CORRESPONDENCE/SUBJECT FILES-OUTSIDE REPORTS	00/05	00/00	00/005	A			
						N	Active	05/28/1992	

Series	Dept	Title / Description	Active MM/YY	Inactive MM/YY	Total MM/YYY		Calc Rest	Destroy Status	Micro Job No / Effective	Computer Report Form Number
D0470	002215-00	PRICE SCHEDULES-SPECIAL	00/02	00/03	00/005		A			
							N	Active	05/28/1992	F-2473
D0475	002215-00	PRICE SCHEDULES-STANDARD	00/02	00/03	00/005		Y			
							N	Active	05/28/1992	F-2473
D0480	002215-00	PRODUCT CODE LIST	00/00	00/00	00/000		A			
		OFFICE RETAINS CURRENT LIST					N	Active	05/28/1992	
D0490	002215-00	PRODUCT FILES-COMPETITIVE PRICING	00/03	00/00	00/003		A			
							N	Active	05/28/1992	
D0500	002215-00	PRODUCT FILES-GENERAL CORRESPONDENCE	00/03	00/00	00/003		A			
		MAXIMUM RETENTION-PURGE FILES ANNUALLY					N	Active	05/28/1992	
D0510	002215-00	PRODUCT FILES-MARKET REVIEWS	00/00	00/00	00/000	P	A			
							N	Active	05/28/1992	
D0520	002215-00	PRODUCT FILES-OUTSIDE REPORTS	00/05	00/00	00/005		A			
							N	Active	05/28/1992	
D0530	002215-00	PRODUCT FILES-PRODUCTION MATTERS	00/10	00/00	00/010		A			
							N	Active	05/28/1992	
D0540	002215-00	PRODUCT FILES-REGULATORY COMPLIANCE MATTERS	00/15	00/00	00/015		A			
							N	Active	05/28/1992	
D0550	002215-00	PRODUCT FILES-RESEARCH REPORTS	00/20	00/00	00/020		A			
		RESEARCH RETAINS RC PERMANENTLY					N	Active	05/28/1992	
D0560	002215-00	PRODUCT FILES-TECHNICAL FILES	00/20	00/00	00/020		A			
							N	Active	05/28/1992	
D0562	002215-00	PRODUCT FORMULATIONS	00/00	00/00	00/000	P	Y			
							N	Active	05/28/1992	F-2890
D0563	002215-00	PRODUCT SPECIFICATION-CURRENT & PRIOR SPEC	00/00	00/00	00/000	P	Y			
							N	Active	05/28/1992	
D0564	002215-00	PRODUCT SPECIFICATION-SUPERSEDED SPECS	00/05	00/00	00/005		Y			
							N	Active	05/28/1992	
D0570	002215-00	PRODUCT STATUS MEMOS (PSM)	00/00	00/00	00/000	P	A			
		INCLUDES WORKSHEETS					N	Active	05/28/1992	
D0580	002215-00	PROJECT FILES	00/05	00/05	00/010	AC	A			
							N	Active	05/28/1992	
D0590	002215-00	PURGED CREDIT/INVOICE INDEX	00/04	00/00	00/004	AA	A		J64C3B	
		RECORDS MGMT RETAINS RC 4 YRS AA					N	Active	05/28/1992	
D0600	002215-00	QUALITY CONTROL FILES-CONTROL CHART	00/02	00/00	00/002		A			
							N	Active	05/28/1992	

Records Management Program

Agenda

- What Is Records Management
- Why We Have A Program
- Video "For the Record"
- Records Management From Legal Perspective
- Records Management Misconceptions
- How Records Management Can Help You

RESPONSIBILITIES OF RECORDS COORDINATOR

1. **Keeps department personnel informed of the Records Management Program.**

2. **Maintains Department Retention Schedule.**

   The Retention Schedule details the files and document records in each department and must be used to maintain the department's files in accordance with the retention schedule.

   The Records Coordinator advises HO Records Management of changes, additions or deletions to the department's records. (The Retention Schedule is forwarded every three year's to the department manager for review. The Records Coordinator is copied and is responsible for reviewing the Schedule with all department personnel and obtaining signature of department manager that department is in compliance with Program).

3. **Oversees Annual Files Clean-Out Program.**

   The procedures for "Handling Annual Files Clean-Out" gives the actions to follow to dispose of files, records, papers, e-mail, etc. in accordance with the department's retention schedule.

4. **Oversees Storage & Retrieval of Boxes at the Corporate Records Center.**

   The procedures for "Storage Of Boxes At Corporate Records Center" gives the actions to follow for storage of records in accordance with retention schedule.

   The procedures for "Retrieval Of Storage Boxes At Corporate Records Center" gives the actions to follow while retrieving records.

5. **Maintains Records Center Inventory**

   Verifies all information is correct on Record Center Inventory which is issued annually. Contacts Records Management if changes are needed.



WHAT IS RECORDS MANAGEMENT

Records Management is the process of controlling recorded information from its creation to its destruction or permanent retention



WHAT IS RECORDED INFORMATION?

- **Hard Copy - paper, microfilm, microfiche**

- **Electronic Version - floppy disks, hard drives, magnetic tapes, voice mail, CD-ROM**



WHY WE HAVE A RECORDS MANAGEMENT PROGRAM

- **To protect our company's assets**
- **To assure we have appropriate records needed to support operational, legal and regulatory requirements**
- **To assure that records are retained and destroyed in a consistent manner**

SOME ADDED VALUES OF THE PROGRAM

- **Keeps computer and floor space; file equipment and file supplies to a minimum**
- **Easier to locate a specific file since there are less files to search**



SERIOUS PROBLEMS MAY RESULT FROM IMPROPER AND INCONSISTENT RETENTION PRACTICES:

- **records held past their scheduled retention may damage the company, especially if partial files are maintained which may result in an incomplete picture of events**

- **the company's credibility may be damaged if documents are found subsequent to informing a requesting agency that they have been destroyed in accordance with established retention practices**

- **purging unnecessary copies of sensitive documents reduces the number of documents that must be protected from compromise, therefore benefiting our Information Security Program**

NON-COMPLIANCE TO PROGRAM MAY RESULT IN:

- **higher litigation costs incurred to collect, copy and produce documents in a lawsuit**
- **added expense in terms of filing equipment, filing supplies, computer space, floor space and employee time**
- **not having the appropriate documents to support operational, legal and regulatory requirements**



ELECTRONIC RECORDS

If information is available only electronically and you are the record copy holder, you must be sure the information is available on system or on a backup disk for the required retention period

ELECTRONIC MAIL AND VMX RETENTION

- CCMail

In-Box	45 days
Message Log	30 days
Folders	2 years
Archives	Retained at discretion of owner

Note: Backup is automatically done on CCMail

- VMX

Saved Messages	2 weeks
Unread Messages	3 weeks

Note: There is no backup on VMX messages



VISIT US ON OUR RECORDS MANAGEMENT HOME PAGE

http://web.ho.rohmhaas.com/Legal/RECORDS/

RECORDS MANAGEMENT MISCONCEPTIONS

- Records are retained for litigation purpose only
- The records belong to me
- Records Management Program is just filing, throwing records away or sending them to storage - it's not value added
- Once a record is deleted from computer, it's gone for good
- Records Management only controls records sent to storage
- Records are destroyed at Records Center without department approval
- Files at home are not subject to subpeona or discovery requests

RECORDS MANAGEMENT MISCONCEPTIONS

- **Electronic records are not discoverable in litigation**
- **Records Center not used because retrieval difficult and can't get records back in a timely manner**
- **Records on computer are not taking up any space**
- **Records on your hard drive are backed up automatically**
- **Records refers only to paper copies**
- **Filing and retrieval is not part of Records Management**

HOW TO HAVE AN EFFICIENT PAPER FILING SYSTEM

- Purge files in accordance with your department's records retention schedule
- Have an index with cross references
- Use a simple alphabetical filing system
- Limit number of pages within each folder to 20
- File documents regularly; don't let "to file" piles grow unmanageable
- Purge unwanted papers from your files every time you open them i. e. duplicates, drafts, etc
- File most recent date in front of folder
- Forward inactive records to Corporate Records Center



GRANT US THE :

PATIENCE to retain what must be retained,

COURAGE to destroy what must be destroyed, and

WISDOM to know the difference between the two

It Can Make You or Break You: The Importance of Records Management in Litigation

One of the justifications commonly given for developing a records management program and records retention schedules is that these activities "help in litigation." This article expands on that premise and details some of the roles that records management plays in commercial litigation.

By JOHN C. MONTAÑA, J.D.

Many, perhaps most, disputes involving commercial entities entail the involvement of corporate records —even before litigation is initiated. Something as simple as a "slip and fall" case will implicate an organization's records virtually from the moment the claim is received. The law does not require that a company make a perfect guarantee against all hazardous conditions, only that it makes reasonable efforts to provide safe conditions. The presence or absence of records indicating such reasonable efforts will be critical to a company in evaluating a slip and fall claim made against it.

The company's policies and procedures regarding the cleanup of spills, ice and snow, and other hazards, and the records detailing whether or not those policies and procedures were carried out will come immediately to the forefront of the case. They contain information critical to the company's legal representatives as they make the determination as to whether to defend the claim or settle it. Thus, cost-effective management of the claim is dependent upon the organization's ability to create and maintain the appropriate records, and to locate them quickly when they are needed.

In other cases, such as lawsuits between two corporations for breach of contract or other business matters, disputes with regulatory agencies, or product liability disputes, the involvement of the company's records from the outset is even more apparent. A company contemplating a breach of contract claim against a vendor or supplier must first evaluate its own records to determine whether or not there has been a breach, and whether it can prove that breach to the other party or in court. The ability quickly to determine the true state of affairs will often allow settlement of the dispute without the initiation of legal action. A party defending such a claim has a similar need for timely and accurate information from its own records system.

In similar fashion, a company's records are immediately involved in a dispute with a regulatory agency. With few exceptions, any government agency which regulates a business is entitled to examine the company's books and records with little or no notice, and for any reason. The existence and availability of appropriate records for the auditor is critical to resolving the dispute on terms favorable to the company, while the absence or unavailability of such records may, in and of itself, be enough to raise warning flags which, in turn, cause the initiation of more intrusive or aggressive audit procedures.

In product liability cases, engineering records, accident reports, complaint files, and other related records will immediately become central to the dispute as both sides analyze the merits of the claim.

In all of these cases, a comprehensive records management program will enable an organization to quickly and accurately assess its own position with respect to any allegations made by an opposing party. In many cases, the organization can then favorably resolve the dispute, since it will be in a position to produce tangible, credible, and admissible evidence that its position is defensible should the matter proceed to litigation. Even in cases where the allegations being made have merit, there may still be a substantial savings to the company, since the claim can be thoroughly analyzed and a settlement reached without the considerable expense and risk involved in proceeding to litigation and then discovering late in the game that the organization is advocating a losing position.

THE LAWSUIT

Once a lawsuit is filed, the records management program becomes formally involved in the lawsuit. The plaintiff files a complaint, the defendant files an answer, and if there are multiple claims by multiple parties there may be cross claims or counterclaims. After every party has filed its claims and its answers, the lawsuit begins a phase called discovery, during which the parties gather evidence to bolster their positions. In the federal courts, discovery is governed by the provisions of the

Federal Rules of Civil Procedure (F.R.C.P.). Most states have adopted the provisions of the Uniform Rules of Civil Procedure (U.R.C.P.), which are in most respects identical to the federal rules.

A company's records become involved at this stage through a variety of devices. F.R.C.P. 26 provides that discovery may be made by depositions upon oral examination or written question; written interrogatories; production of documents or things or permission to enter upon land or other property; physical and mental examinations; and requests for admission. In a commercial lawsuit, all of these procedures potentially implicate the corporation's records.

Laymen are oftentimes surprised by the wide latitude afforded parties during discovery. Contrary to the portrayals on television and in popular literature, where the parties play a cat-and-mouse game of hiding evidence from one another, the law *requires* that each party make all relevant evidence in its possession available to the other party, so that the true facts of the case can be determined.

Although the cat-and-mouse game can occur in real litigation, it is a risky strategy, as well as being illegal and unethical. Courts can and do impose drastic penalties, up to and including default judgment, for obstructive behavior during the discovery process. There are innumerable reported cases where parties incurred substantial sanctions for inappropriate behavior in this area. Therefore, if for no other reason than as a matter of self interest, an organization should be prepared to make full and timely disclosure of information during a lawsuit.

F.R.C.P. 26 provides, in pertinent part, that "parties may obtain discovery regarding any matter, not privileged, which is relevant to the subject matter involved in the pending action, whether it relates to the claim or defense of the party seeking discovery or to the claim or defense of any other party, including the existence, description, nature, custody, condition and location of any books, documents, or other tangible things and the identity and location of persons having knowledge of any discoverable matter." Further, "It is not ground for objection that the information sought will be inadmissible at the trial if the information sought appears reasonably calculated to lead to the discovery of admissible evidence." Thus, virtually anything which may shed light on the dispute is subject to discovery, *even if it will be inadmissible at trial!*

Under F.R.C.P. 26, a party can seek to limit discovery if the material sought is unreasonably cumulative or duplicative, it is obtainable from some source that is more convenient, less burdensome, or less expensive, or the party seeking it has already had ample opportunity to discover the material. In practice, however, a party seeking to limit discovery by an opponent must overcome a high burden of proof. In most cases, the opponent seeking discovery will have very broad access to the organization's records, and wide latitude in examining its affairs.

Therefore, if a litigant wishes to take a deposition from an officer of the opposing organization, the officer must show up for the deposition, and with very few exceptions, must answer all questions asked. If the opposing party propounds interrogatories (sets of questions relating to the lawsuit), the organization has a legal duty to answer each question as truthfully and fully as it possibly can, and later to supplement those answers if it becomes necessary. If the opposing party requests to see the organization's records, and the records requested are even remotely related to the controversy in question, the organization will probably end up having to produce them.

THE IMPORTANCE OF RECORDS MANAGEMENT

The records manager is involved in the above process in two ways. First, a sound records management program can serve to minimize those costs which are unavoidable, by maximizing the efficiency of the document production process. Since extensive document production will likely be needed, both for discovery response and in developing the company's own case, the records management program should ensure that the necessary documents can be collected, organized, and reproduced at the lowest possible cost and with the shortest delay, and with minimal disruption to the normal activities of the company.

The costs, and potential savings, in this area should not be underestimated. In *In the matter of The Las Vegas Hilton Hotel Fire Litigation*, (A206777, Clark County, Nev. Dist. Ct.) pretrial costs, including "labyrinthine" discovery, ran between $7 and $10 million. In antitrust litigation initiated against the major television studios in the 1970s, five independent production companies spent $2 million complying with subpoenas for documents relating to the litigation. See *United States v. C.B.S., Inc.*, 103 F.R.D. 365 (C.D. Cal. 1984).

The demands placed upon the parties' records systems can be as enormous as the costs. Large scale commercial litigation often involves discovery of hundreds of thousands or millions of individual documents. In the television antitrust litigation, the independent studios were required to produce six million documents. In *Hense v. G.D. Searle & Co.*, 452 N.W.2d 440 (Iowa 1990), a product liability case, the defendant was required to produce 750,000 documents. In *Transamerica Computer Company, Inc. v. International Business Machines Corp.*, 573 F.2d 646 (9th Cir. 1978), the defendant was required to screen 17 million pages of discoverable material *in 90 days* to determine if attorney-client privilege applied to any of it.

Even under the best of circumstances, identifying and collecting such large numbers of documents for litigation will be expensive and burdensome; any inefficiencies simply make matters worse. Nor does the fact that many of the documents are unsorted or are in an otherwise unusable form justify failure to respond fully to a request. A warehouse containing thousands of completely unsorted boxes of documents, whose contents are completely unknown, is discoverable in its entirety if there may be pertinent information in some of the boxes. The fact that you could have or should have destroyed every one of these documents 20 years ago is immaterial; if they exist, the other party has a right to those that are relevant to the case.

Further, the party in possession of those documents has an obligation to organize and format the documents in a way that is useful to the party seeking discovery. The view taken by the court in *Standard Dyeing and*

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Finishing Co. v. ARMA Textile Printers Corp. No. 85CV5399-CSH (S.D.N.Y. Filed Feb. 10, 1987) is common: "It is not sufficient for [the defendant] to point to a haystack of documents and to tell plaintiffs to arrange with [a third party] to find the needles ... [W]here, as here the state of the corporation's records would make it unreasonably burdensome for the discovering party to search for the sought-after documents, the burden falls on the discoveree to organize the documents so that the discoverer may make 'reasonable use' of them."

Thus, a party possessing such a warehouse of unsorted boxes, or any inefficient records system, whether active or inactive, may find itself in a position of having to hire and train staff for the specific purpose of going through these boxes for the purpose of a single lawsuit. Such a procedure could cost hundreds of thousands or millions of dollars, and take years.

The costs of having to hire additional personnel to respond to discovery in a single lawsuit should not be viewed as a rare occurrence. In the antitrust litigation against the major television studios, the five independent production companies, not even parties to the litigation, were obligated to hire nearly 100 additional employees and spend $2 million to comply with subpoenas for the six million documents ultimately produced. In *Transamerica v. I.B.M.*, the deadline imposed by the court required the hiring of a large staff of outside attorneys and clerical help who worked around the clock to meet the deadline.

In neither of these cases is there an indication that the records system being searched was in particularly bad shape. The costs incurred in these cases may thus represent relatively ordinary figures for cases of this type. It is also highly probable that, although not explicitly stated in the reported decisions, most of the other cases cited above involved similar levels of effort and expense in document production. Cases involving such large numbers of documents are by no means uncommon, and the search for and production of millions of documents could well bring other activities in the records management system to a standstill if regular personnel were required for it.

In addition to the direct costs associated with having to sort through poorly managed records, other expenses will continue to mount while the sort goes on. The lawsuit will continue to drag on, often for years. *Hense v. G.D. Searle & Co.*, cited above, went through six years of pretrial activity and discovery prior to being dismissed. *In the matter of The Las Vegas Hilton Hotel Fire Litigation* required four years of pretrial maneuvering prior to settlement.

When this occurs, the corporation's assets will be tied up, its decision-making process impaired, and its ability to go forward with business decisions significantly hampered. Further, already substantial legal costs will continue to rise as the case goes through an inevitable series of hearings where the party seeking the documents attempts to goad the other party into quicker production, and the producing party explains the reasons for the delay to the court, while attempting to fend off sanctions for the delay. In addition, should the court make a determination that the process is not moving along as fast as it ought to, F.R.C.P. 37 allows the imposition of a variety of sanctions, including the requirement that the sanctioned party pay that part of the other party's attorney's fees and costs which are attributable to the sanctioned conduct.

The burden of producing documents for litigation is likely to rise in the future. Under former Rule 26, full disclosure was limited to what the other party specifically asks for, thus somewhat limiting the search task for the party producing the documents. F.R.C.P. 26, as well as several states' version of U.R.C.P. 26, were recently modified to require parties to produce all relevant evidence early in the lawsuit, *without a specific request from the other party.* This change will require parties to identify *all* relevant records much sooner, without benefit of knowing precisely what the other party is looking for.

WHEN THE RECORDS AREN'T THERE AND SHOULD BE

In addition to being involved in the production of documents that are still in existence, records management is implicated in the discovery process when the records are no longer in existence. Whether or not that involvement is positive or negative for the company depends entirely upon how good the records management program is.

The worst case arises when the circumstances surrounding the absence of the documents indicates that they were destroyed after litigation began, in order to avoid having to produce them to the other party. If the court finds that this occurred, it is empowered to impose the most drastic sanctions, up to and including default judgment. In a default judgment, the court simply throws out one party's pleadings, treats the other party's allegations as true, and enters judgment accordingly. The merits of the allegations are not tested.

The result can be an unmitigated disaster. In *United Nuclear Corp. v. General Atomic Co.*, 629 P.2d 231 (N.M. 1980), for example, the court determined that one of the parties had engaged in a deliberate pattern of destroying records and shipping them out of the country to avoid discovery. The court then entered a default judgment in excess of twenty million dollars on behalf of the plaintiff, as well as requiring the defendant to perform a contract for delivery of six million pounds of uranium, and canceling other contracts of which the defendant was the beneficiary. In a sharply-worded opinion, the New Mexico Supreme Court upheld the trial court's action, and warned future litigants that it would be equally intolerant of such behavior.

In cases where the records simply cannot be located, or were destroyed in error, a variety of sanctions may apply. If, for example, the missing records are tax records, the company may find that the exemptions or deductions supported by those records are simply disallowed, thus giving rise to increased tax liability and possibly penalties. In other types of litigation, a party unable to produce records might find itself precluded by the court from introducing some of its own evidence.

A potentially devastating sanction is that of an adverse inference or presumption. In legal proceedings, inferences and presumptions are simply factual statements which the fact finder, either the court or the jury, may or must take as true. In the case of a missing record, the in-

ference or presumption that may arise in such a case will concern the contents of the record.

The inference or presumption arises upon a finding by the court that the missing documents are unavailable due to the negligence, bad faith, or other misconduct of the party which had custody of them. Mere absence of the records is not usually enough to result in an adverse inference. Rather, the court must determine that the party with custody of the records breached a duty to preserve them. The court may hold a hearing and take evidence concerning the missing records. The party unable to produce them is given an opportunity to explain their absence.

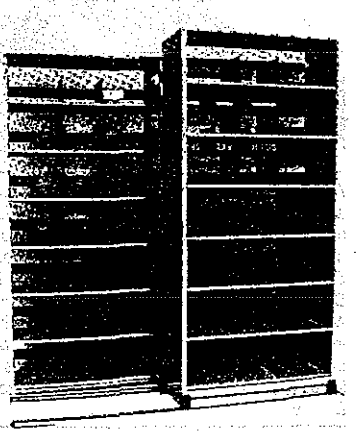
The operation of an inference or presumption during trial is quite simple. If, as was the case in *Furlong v. Stokes*, 427 S.W.2d 513 (Mo. 1968), the presumption is that the missing records would have proven what the other party claims they would have, that party's theory of the contents of the missing documents is presented to the jury, either through testimony or by the judge. Then, at some point prior to jury deliberations, the judge simply turns to the jury and says something like "Ladies and Gentlemen, you have heard certain testimony concerning the contents of documents which were in the defendant's possession which are unavailable for this trial. For the purposes of your deliberations, you must consider the plaintiff's testimony regarding these documents as true." A written instruction to this effect may also accompany the jury to the jury room. Obviously, if the plaintiff is claiming that facts highly favorable and critical to his case were contained in the missing documents, this can be devastating.

The precise formulation of the presumption, and thus its effects, vary from jurisdiction to jurisdiction. For example, in the First Federal Circuit, the court instructs the jury that the documents which were not produced would have been unfavorable to the party which could not produce them. In the Third Federal Circuit, the matter is argued to the jury, and the ultimate decision as to what, if any, inference is appropriate, is then left to the jury. Thus, the severity of the outcome depends at least in part, in the jurisdiction in which the case is being tried.

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Borroughs Record Holders

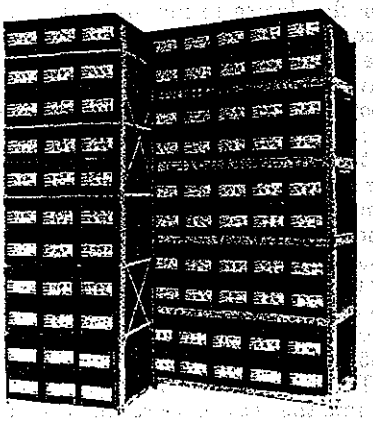
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It Can Make You or Break You: The Importance of Records Management in Litigation ...

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WHEN THE RECORDS AREN'T THERE AND SHOULDN'T BE

Proper records management is central to avoiding sanctions. Those records that the company has a duty to preserve, or which it would be unreasonable to destroy must be preserved. This requires a records management program which clearly identifies and tracks those records which must be preserved, the periods for which their retention is mandated, and the implementation of protocols to ensure that those retention procedures are implemented.

The second step for the records manager is to ensure that those records which need not be preserved for either business or legal purposes are destroyed in a systematic, appropriate, and well-documented fashion, which clearly demonstrates that the records were kept for a reasonable period of time, and that the motives for their destruction were legitimate.

The ability to prove both reasonableness and legitimate motive are vital. Courts have neither the power nor the desire to mandate that all records be kept forever. Rather, they are interested that the litigants behave in a reasonable fashion, and above all, do not attempt to destroy or hide evidence during, or in anticipation of, litigation. Thus, in order for an adverse inference or other sanction to arise, a court must first find that the absence of the record has not been adequately explained by the party which had custody of it. As observed by the court in *Moore v. General Motors*, 558 S.W.2d. 720, 735 (Mo. App. 1977):

> There is no evidence that [at the time the records were thrown out] defendant had any knowledge that it was facing litigation so that it was put on notice that it should not pursue its customary practice of destroying these records. Anyone knowledgeable of business practices and the cost of storing records in these times would find it reasonable and not smacking of fraud for the defendant, with no knowledge of pending litigation, to follow its customary practice.

Explanations such as "We just don't know where that record is" or "We think it might have gotten thrown out" run a grave risk of the imposition of a sanction or adverse inference. In contrast, a demonstration that the record, no longer needed for any purpose, was destroyed in the normal course of business on October 27, 1987, after having been retained for a reasonable and legally sufficient period, will probably persuade the court that the record was destroyed for a legitimate reason and without any improper motive.

This difference is critical. If the court is persuaded that the record's absence is legitimate, the party which sought production of the document simply has to make do without it, and their case is that much weaker. The party which destroyed the document is not obligated to defend the circumstances of destruction to the jury, and the missing document may not be mentioned in front of the jury at all.

THE EXCEPTION

In connection with this, it cannot be emphasized too strongly that, when litigation arises, destruction of records related to that litigation must stop immediately. Once a legal duty to preserve it for a lawsuit has arisen, destruction of any evidence exposes the company to a grave risk of severe sanctions. Even if the destruction was purportedly carried out for business purposes, it will at least be viewed as negligent. Although in some cases, courts have declined to impose sanctions for merely negligent destruction, others have not been so lenient. Further, the appearance that it was an intentional attempt to destroy evidence will be hard to avoid. If the court so concludes, the matter will be dealt with *very* harshly.

The time at which a duty to preserve records in anticipation of litigation arises varies from jurisdiction to jurisdiction. For example, in *William T. Thompson Co. v. General Nutrition Corp.*, 593 F. Supp. 1443 (C.D. Cal. 1984), the court concluded that the duty to preserve evidence extended not only to actual litigation, but to *potential* litigation as well, if the custodian of the evidence was on notice that such litigation was likely. The court in *Carlucci v. Piper Aircraft Corp.*, 102 F.R.D. 472 (S.D. Fla. 1984) *aff'd in part, rev'd. in part* 775 F.2d 1440 (11th Cir. 1985) concluded that the duty extended even further, and entered a default judgment against the defendant for selective destruction of records possibly relevant in future, but at that time unknown, litigation.

The records management program must therefore be closely coordinated with the legal department prior to litigation. The legal department must be aware of the extent to which governing law requires preservation of possibly relevant records. Immediately upon occurrence of a duty to preserve records for litigation, those records must be identified and preserved until either the lawsuit is resolved or permission is granted by the court for their destruction.

CONCLUSION

A company's records management is implicated in a legal dispute at every stage from the initial dispute to trial. The results of that involvement can be either very positive or very negative, and which of these it turns out to be is in large measure within the control of the company and its records management personnel.

■



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Documents In Foreign Subsidiaries' Possession Held Discoverable In New York

Hague Evidence Convention Ruled Non-Exclusive If Party Controls Foreign Non-Party

A parent corporation that is subject to personal jurisdiction in New York must produce documents from foreign subsidiaries that it wholly owns and controls in accordance with the Civil Practice Laws and Rules (CPLR), a New York state trial court has ruled. *Bank of Tokyo-Mitsubishi Ltd. v. Kvaerner a.s.*, N.Y.L.J., Jan. 30, 1998 at 26 (Sup. Ct. N.Y. Co.). Justice Lewis Friedman of the New York County Supreme Court, Commercial Part, rejected the defendant's contention that the foreign subsidiaries' documents were discoverable only if plaintiff used the Hague Convention on the Taking of Evidence Abroad in Civil or Commercial Matters (Hague Convention), 23 U.S.T. 2555, 847 U.N.T.S. 231.

Federal Law Used As Basis For Decision

Noting that there existed no New York case law on this point, the court looked to federal decisions. In particular, the court relied on the U.S. Supreme Court's analysis of the Hague Convention in *Societe Nationale Industriale Aerospatiale v. United States District Court*, 482 U.S. 522 (1987). In *Aerospatiale*, the Supreme Court determined that the Hague Convention was not an exclusive remedy. In Justice Friedman's view, under *Aerospatiale*, the Convention is an optional mechanism to facilitate the gathering of evidence. However, Justice Friedman failed to observe that, under *Aerospatiale*, international comity requires an analysis of the facts of each case, the interests of the foreign nation and the requesting nation, and the likelihood that resort to the Hague Convention would prove effective. 482 U.S. at 543-44. The Supreme Court also cautioned U.S. courts to "exercise special vigilance to protect foreign litigants" from unnecessary or unduly burdensome discovery and to "demonstrate due respect for any special problem confronted by the foreign litigant on account of its nationality or the location of its operations, and for any sovereign interest expressed by a foreign state." Id. at 546.

The *Bank of Tokyo-Mitsubishi* court did not analyze the interests of the United States and the foreign country where the subsidiary was located; indeed, the opinion does not say what foreign country was involved.

The *Bank of Tokyo-Mitsubishi* court combined the analysis of Aerospatiale with what the court said was a general principle that a parent must produce documents of its wholly owned subsidiaries, whether foreign or domestic, to conclude that "if a party subject to the court's in personam jurisdiction controls a foreign corporate entity[,] the party, by virtue of its control, should be obligated to produce any and all appropriate discovery under its aegis, including that under the control of its subsidiary, wherever that subsidiary may be located." *Bank of Tokyo-Mitsubishi* at 26. The court did not explore what constituted "control" because it was undisputed that the defendant controlled the foreign entities that had the documents sought, and could obtain those documents. Nor did the court conduct the comity analysis required by *Aerospatiale*. However, the mere fact that a parent owns a majority of the shares of a subsidiary or controls the majority of a subsidiary's board should not be determinative. As other courts have held, the judge should instead examine whether the parent can obtain its subsidiary's documents "as

a matter of course" *Alden v. Time Warner*, 1996 WL 679238 at *2 (S.D.N.Y. 1995).

Reflecting the frustrations of many U.S. courts, the *Bank of Tokyo-Mitsubishi* court stated that the Hague Convention "was not intended as a shield for purposes of impairing the process of discovery," N.Y.L.J., Jan. 30, 1998, at 26. Yet, whether the Hague Convention facilitates or frustrates discovery is driven not by the litigants but by the reservations and policies of the state of execution. The Hague Convention itself provides that letters of request "shall be executed expeditiously." Art. 9.

Hague Convention Must Be Used With Non-Parties

The *Bank of Tokyo-Mitsubishi* court made a clear distinction between foreign entities affiliated with a party and foreign entities that are not parties to the litigation. New York courts have held that discovery from foreign non-parties may be compelled only through the processes of the Hague Convention. *See, e.g., In re Agusta*, 567 N.Y.S.2d 664 (1st Dep't 1991) (deposition of non-party foreign national could not be compelled except through application of the Hague Convention); *Intercontinental Credit Corp. v. Roth*, 595 N.Y.S.2d 602 (Sup. Ct. N.Y. Co. 1991) (non-party foreign bank subject to discovery only through processes of the Hague Convention).

The court in *Bank of Tokyo-Mitsubishi* viewed the key to those decisions as being that discovery was sought from entities that were "not affiliated in any legal sense with the parties before the court." N.Y.L.J., Jan. 30, 1998, at 26. The holdings in *Agusta* and *Intercontinental Credit* were not applied in *Bank of Tokyo-Mitsubishi* because the foreign entities in question in the latter case were admittedly controlled by a party before the court.

Use Of Hague Convention Also Depends On Personal Jurisdiction

A litigant who does not have or who has lost the defense of lack of personal jurisdiction should assume that local discovery rules will apply to it and all of its controlled entities. In such a case, the Hague Convention will not provide additional objections or flexibility in crafting responses to discovery. The Hague Convention may be available only where one can demonstrate lack of control or lack of jurisdiction. If a parent corporation cannot obtain its subsidiary's documents on a day-to-day basis, it is less likely that the parent will be held to "control" those documents.

A litigant may argue that international comity requires the application of the Hague convention, and *Aerospatiale* requires such an analysis. However, courts, including the *Aerospatiale* court, have concluded that applying local discovery rules to parties subject to a court's personal jurisdiction does not offend international comity, even in the face of foreign laws that apparently prohibit the release of the information sought. *See, e.g., Aerospatiale*, 482 U.S. at 544 n.29; *United States v. Standard Oil Co.*, 23 F.R.D. 1 (S.D.N.Y. 1958). Different comity outcomes may be anticipated where the court has less confidence in its jurisdiction over the parties and the disputes between them.

IN THE UNITED STATES DISTRICT COURT
FOR THE . DISTRICT OF
DIVISION)

Plaintiff,	
v.	Civil Action Judge
Defendant.	

DEFENDANT
FIRST REQUEST TO PLAINTIFF , .
FOR PRODUCTION OF DOCUMENTS AND THINGS

Defendant Corporation ( ) hereby requests that plaintiff ( ) produce in accordance with Rule 34 of the Federal Rules of Civil Procedure, and permit to inspect, copy, photograph, or test each of the documents or things designated below. Production of such documents or things shall be made during normal business hours at the offices of thirty (30) days after service of these requests, or at such other time and place as is agreed upon by the parties in this action. further requests, pursuant to Rule 34, that plaintiffs serve on a written response to these requests within thirty (30) days after service.

DEFINITIONS AND INSTRUCTIONS

A. For purposes of these discovery requests, the following definitions shall apply:

(1) The terms "defendant" shall mean the named defendant,

(2) The terms "plaintiff", "you" and "your" shall mean the named plaintiff Inc., and and their present or former parents, holding companies, predecessors, successors, subsidiaries, affiliates, divisions, subdivisions, branches, partners, joint venturers, shareholders, and agents, including any past or present director, officer, employee, representative, agent, attorney, accountant, or consultant thereof.

(3) The term "person" shall mean any individual, sole proprietorship, partnership, joint venture, corporation, association, organization, or other entity.

(4) The term "patent in suit" or "the patent" shall mean United States Patent No. , all foreign counterpart patents to the patent, and all patent applications which led to issuance of the patent and any of its foreign counterparts, and all divisional, continuation and continuation-in-part applications of any of the foregoing.

(5) The term "document" or "documents" shall be construed in the most comprehensive and inclusive sense permitted by Rule 34 of the Federal Rules of Civil Procedure, and includes, without limitation, all handwritten, typed, printed, or otherwise visually or aurally recorded materials, whether originals, copies, non-identical copies, drafts, or translations, within your possession, custody, or control, including, but not limited to, all forms of correspondence such as, by way of example only, letters, cables, wires, telegrams, notes, memoranda, telephone messages, notes of telephone calls and conferences, and interoffice and intraoffice communications of all types; pictures, drawings, blueprints, flow sheets, sketches, graphs, charts, notebooks, diaries, work papers, mockups, data, operating, production, or maintenance manuals or handbooks, operating and product specifications, and fabrication sheets; displays, photographs, movies, and video and audio recordings; books, catalogs, published materials of any kind, and all other writings; assignments, licenses, contracts, agreements, and all other official papers and legal instruments; annual reports, reports to shareholders, and minutes or reports of meetings of directors, officers, or executive boards or committees; sales, advertising, or promotional brochures, pamphlets or other literature,

and press releases; ledgers, bills, invoices, labels, orders, books, records, and files; and microfilms and other storage means by which information is retained in retrievable form. Any original or copy of a document containing thereon or having attached thereto any mark, writing, alteration, note, comment, or other change not appearing on any other document shall be deemed a separate document and shall be separately produced.

(6) The term "thing" or "things" shall be construed in the most comprehensive and inclusive sense permitted by Rule 34 of the Federal Rules of Civil Procedure, and includes, without limitation, physical articles of every kind and nature that are not "documents", such as, by way of example only, samples, prototypes, models, devices, and all other physical objects or manufactured items.

(7) The terms "disclosing" or "referring to" or "relating to" shall mean pertaining to, mentioning, commenting on, connected with, discussing, describing, analyzing, explaining, showing, reflecting, dealing with, comprising of, consisting of, containing, constituting, resulting from, or recording a particular subject in whole or in part and either directly or indirectly.

(8) The term "and" means "or" and vice versa, as necessary to bring within the scope of the discovery request any document, thing, or other information that might

otherwise be construed to be outside the scope of such request.

(9) The singular includes the plural and the plural includes the singular, as necessary to bring within the scope of the discovery request any document, thing or other information that might otherwise be construed to be outside the scope of such request.

B. Where a discovery request calls for the identification of a person who is an individual, you shall identify that person by stating his or her:

(1) Full name;

(2) Present or last known home address and telephone number;

(3) Present or last known business address and telephone number;

(4) Present or last known employer;

(5) Job title or occupation and duties; and

(6) Past or present relationship with you such as, by way of example only, employer-employee, principal-agent, or licensor-licensee, including the nature of such relationship and the dates during which it existed.

C. Where a discovery request calls for the identification of a person or other entity who is a sole proprietorship,

partnership, joint venture, corporation, association, organization, or other entity, you shall identify that person by:

(1) Its full name;

(2) Its place of incorporation or organization;

(3) The present or last known address of its principal place of business and its telephone number;

(4) Its principal business activities; and

(5) Its past or present relationship with you such as, by way of example only, employer-employee, principal-agent, or licensor-licensee, including the nature of such relationship and the dates during which it existed.

D. Where a discovery request calls for the identification of a document, you shall identify each such document by stating or identifying:

(1) The nature of the document, i.e., whether the document is, for example, a letter or a memorandum;

(2) The title of the document and any identifying code or file number or name of such document;

(3) The date appearing on the document or, if not known, the answer so shall state and shall state the approximate date the document was prepared;

(4) All persons who authored, signed, or otherwise prepared or sent the document;

(5) All persons to whom the document was addressed or copied, or who appear on any circulation list associated with the document, or who otherwise received such document;

(6) Each present file or location of the document and each copy thereof, and each person charged with the possession, custody, or control of the document and each copy thereof;

(7) A brief but meaningful description of the general subject matter of the document; and

(8) The number of pages of the document.

E. Where a discovery request calls for the identification of an oral communication, you shall identify that oral communication by stating or identifying:

(1) The manner in which the oral communication was made, e.g., in person or by telephone;

(2) The date the oral communication took place;

(3) The location(s) where the oral communication took place;

(4) Each person who participated in the oral communication;

(5) Each person who witnessed, overheard, or otherwise has personal knowledge of the oral communication; and

(6) All documents referring or relating to the oral communication.

F. Where a discovery request calls for the identification of a patent or patent application, you shall separately identify each such patent or patent application by stating or identifying, where appropriate:

(1) Its country of origin;

(2) Its patent or application number;

(3) Its title;

(4) All applicants and assignees of the patent or patent application;

(5) All corresponding foreign and U.S. patents and patent applications; and

(6) Its present status, i.e., whether such patent is expired or in force, or whether such patent application has been filed, abandoned, or is pending.

G. Where a discovery request calls for the identification of a product or apparatus such as, by way of example only, leak detecting apparatuses manufactured, used, or sold by or for you, for each such product or apparatus you shall state or identify:

(1) All trade or model names and any corresponding names used by defendant or plaintiff to refer to the product or apparatus;

(2) All product codes or other identification numbers associated with the manufacture or sale of the product or apparatus; and

(3) A brief description of the general nature and composition of the product or apparatus.

H. Where a discovery request calls for the identification of a process or method such as, by way of example only, a method for detecting leaks, for each such process or method, you shall identify:

(1) all process steps including process parameters and compounds and apparatus used in such process;

(2) all trade or model names and any corresponding names used by you to refer to the process;

(3) the persons most knowledgeable about such process; and

(4) all documents relating or referring to such process.

I. Where a discovery request calls for you to describe the circumstances surrounding a particular event, you shall state or identify:

(1) The substance of the event;

(2) When and where the event occurred;

(3) Each person participating in the event and the extent of that person's participation; and

(4) Each document referring or relating to the event.

J. Unless otherwise stated or implicit in the discovery request (such as a request for the "first" date), each discovery request shall be interpreted as calling for information covering

the period to the date of service of your discovery responses herein.

K. Where a discovery request seeks the identification or production of documents, things, or other information that are not within your actual or constructive possession, custody, control, or knowledge, you shall so state and shall answer the discovery request to the extent of your knowledge or belief based on the best information presently available. Where you have knowledge or a belief as to other persons having such possession, custody, control, or knowledge, you shall identify, to the extent known and based on the best information presently available, all such persons, together with a brief summary of the nature of the document, things, or other information believed to be known to such persons.

L. All documents or things requested herein shall be produced in the same file or organizational context as that maintained by you.

M. If you elect to avail yourself of the procedure for answering an interrogatory authorized by Rule 33(c) of the Federal Rules of Civil Procedure, then for each such interrogatory and subpart thereof, you shall specify the particular documents responsive thereto and, for each such document, specify its source, i.e., from whose files it was

taken, and any of the other identifying information requested in Paragraph D above if not apparent from the face of the document.

N. If you elect to assert either the attorney-client privilege, work-product immunity, or any other claim of privilege or immunity as to any document or thing or any oral communication for which identification or production is called for herein, you shall properly identify each such document or oral communication by stating or identifying, where appropriate:

(1) The specific basis of the privilege or immunity being asserted;

(2) The nature of the document, i.e., whether the document is, for example, a letter or a memorandum;

(3) The title of the document and any identifying code or file number or name of such document;

(4) The date appearing on the document or, if not known, the answer so shall state and shall state the approximate date the document was prepared;

(5) All persons who authored, signed, or otherwise prepared or sent the document;

(6) All persons to whom the document was addressed or copied, or who appear on any circulation list associated with the document, or who otherwise received such document, or to whom it was displayed;

(7) The present, original, and all intermediate files or locations of the document or thing and each copy

thereof, and each person charged with the possession, custody, or control of the document and each copy thereof for each relevant time period;

(8) The manner in which the oral communication was made, e.g., in person or by telephone;

(9) The date the oral communication took place;

(10) The location(s) where the oral communication took place;

(11) Each person who participated in the oral communication;

(12) Each person who witnessed, overheard, or otherwise has personal knowledge of the oral communication;

(13) Each person to whom the substance of such oral communication was subsequently communicated;

(14) A brief but meaningful description of the general subject matter of the document or thing, or oral communication in sufficient detail to permit the district court to reach a determination as to production should plaintiff find it necessary to file a motion to compel under Rule 37 of the Federal Rules of Civil Procedure;

(15) The number of pages of the document or approximate length of the oral communication; and

(16) The interrogatory, document request, and any subpart thereof to which the document or oral communication is otherwise responsive.

O. These discovery requests shall be supplemented as required by Rule 26(e) of the Federal Rules of Civil Procedure.

DOCUMENT REQUESTS

DOCUMENT REQUEST NO. (1)

All documents and things required or requested to be identified in your answers to "DEFENDANT CORPORATION'S FIRST SET OF INTERROGATORIES TO PLAINTIFF " served concurrently herewith.

DOCUMENT REQUEST NO. (2)

All documents which set forth, discuss, refer or relate to your past or present ownership of the patent or ownership of the patent by anyone else.

DOCUMENT REQUEST NO. (3)

All documents disclosing, discussing, referring, or relating to any assignment of the patent or the patent application which led to its issuance.

DOCUMENT REQUEST NO. (4)

All documents constituting, disclosing, discussing, referring or relating to the conception of the alleged invention claimed in the patent, including, but not limited to, all attempts prior to conception to develop the alleged invention claimed in the patent.

DOCUMENT REQUEST NO. (5)

All documents disclosing, discussing, referring, or relating to the reduction to practice of the alleged invention in the patent.

DOCUMENT REQUEST NO. (6)

All documents disclosing, discussing, referring, or relating to any development, manufacture or production of the alleged invention disclosed or claimed in the patent and any and all improvements and modifications thereto, including but not limited to, drawings, design changes, etc.

DOCUMENT REQUEST NO. (7)

All documents disclosing, discussing, referring, or relating to the prior art and searches thereof known to plaintiff as regards to the patent.

DOCUMENT REQUEST NO. (8)

All documents disclosing, discussing, referring, or relating to the contribution of and any other persons to the alleged invention claimed in the patent.

DOCUMENT REQUEST NO. (9)

All documents disclosing, discussing, referring, or relating to the employment of , including documents sufficient to disclose his current or last known employer, home

and business addresses and telephone numbers, his duties and responsibilities, and his past and present relationship to you.

DOCUMENT REQUEST NO. (10)

All documents disclosing, discussing, referring, or relating to methods or apparatuses having application in, or contemplated by, the inventor of the patent, including, but not limited to, any prior art method or apparatus.

DOCUMENT REQUEST NO. (11)

All documents disclosing, discussing, referring, or relating to any element or function of the invention claimed in the patent, which you contend is not found or disclosed in, or is not present or performed by the prior art.

DOCUMENT REQUEST NO. (12)

All documents constituting, disclosing, discussing, referring, or relating to the alleged invention claimed in the patent and preparation and prosecution of any and all patent applications resulting in the patent and all foreign counterparts thereto, including but not limited to, draft patent applications, amendments, remarks, claims, or correspondence to or from the named inventor, his employer or his attorneys or agents.

DOCUMENT REQUEST NO. (13)

All documents disclosing, discussing, referring, or relating to advertisements, marketing, or promotional efforts by plaintiff with regard to any method or apparatus of the alleged invention disclosed or claimed in the patent.

DOCUMENT REQUEST NO. (14)

A sample of each advertisement, promotional material, news release, brochure, catalog, or other sales, service, or product literature discussing, referring or relating to any method or apparatus for detecting leaks manufactured, sold, licensed or used by or for you.

DOCUMENT REQUEST NO. (15)

All documents disclosing, discussing, referring, or relating to market studies conducted by or for you with respect to the alleged invention disclosed or claimed in the patent.

DOCUMENT REQUEST NO. (16)

All documents disclosing, discussing, referring, or relating to comments, responses, complaints, inquiries or other communications from customers, potential customers or any other person relating to any method or apparatus for detecting leaks manufactured, sold, licensed, or used by or for you.

DOCUMENT REQUEST NO. (17)

All documents and things disclosing, discussing, referring, or relating to improvements made on methods or apparatuses within the scope of the alleged invention disclosed or claimed in the patent.

DOCUMENT REQUEST NO. (18)

All documents and things disclosing, discussing, referring, or relating to any method or apparatus manufactured, sold, licensed, or used by or for you that is similar or related to the alleged invention disclosed or claimed in the patent, together with any and all patents that correspond to the similar or related method or apparatus.

DOCUMENT REQUEST NO. (19)

All documents disclosing, discussing, referring, or relating to whether the sale or offer for sale of products within the scope of the claims of the patent, has any impact on the sale of other products sold by you.

DOCUMENT REQUEST NO. (20)

All documents and things constituting, disclosing, discussing, referring, or relating to license agreements and royalty reports, any negotiations, offers or proposals of licenses, licensing policies, agreements or settlements regarding leak testing apparatus or methods.

DOCUMENT REQUEST NO. (21)

All documents disclosing, discussing, referring, or relating to licensing and licenses of the patent, including, but not limited to, licensing reports and any licensing plan or program you might have.

DOCUMENT REQUEST NO. (22)

As regards the patent, all documents disclosing, discussing, referring, or relating to any prior art cited during any license or settlement negotiations or in connection with any allegation of infringement, or considered by plaintiff or called to plaintiff's attention by any person, for any reason.

DOCUMENT REQUEST NO. (23)

All documents constituting, disclosing, discussing, referring, or relating to any communications plaintiff has had with defendant and third parties regarding the patent or any method or apparatus within the scope of its claims.

DOCUMENT REQUEST NO. (24)

All documents constituting, disclosing, discussing, referring, or relating to customers for any method or apparatus that uses the alleged invention disclosed or claimed in the patent, including, but not limited to, customer lists.

DOCUMENT REQUEST NO. (25)

All documents constituting, disclosing, discussing, referring, or relating to vendors or providers of the materials, components or services used to practice any method or manufacture any apparatus of the alleged invention disclosed or claimed in the patent, including, but not limited, to vendor or provider lists.

DOCUMENT REQUEST NO. (26)

All documents constituting, disclosing, discussing, referring, or relating to any communications with vendors, providers or customers concerning the materials, components or services used to manufacture the alleged invention disclosed or claimed in the patent, including, but not limited to, the quality of the materials, components or services.

DOCUMENT REQUEST NO. (27)

All documents disclosing, discussing, referring, or relating to any alleged acts of infringement, actively inducing infringement, and contributory infringement of the patent, including, but not limited to, acts by defendant or any third party.

DOCUMENT REQUEST NO. (28)

All documents disclosing, discussing, referring, or relating to any alleged willful acts of infringement of the patent,

including, but not limited to, any acts by defendant or any third party.

DOCUMENT REQUEST NO. (29)

All documents disclosing, discussing, referring, or relating to any investigation, analysis, testing, and/or consideration of any method or apparatus alleged to infringe the patent.

DOCUMENT REQUEST NO. (30)

All documents constituting, disclosing, discussing, referring, or relating to any notices given by you of actual or potential infringement of the patent, actively inducing infringement, and contributory infringement, or notices considered by you as to possible or potential infringement by any person.

DOCUMENT REQUEST NO. (31)

All documents disclosing, discussing, referring, or relating to considerations and events leading to, and the decision to, file this lawsuit and to serve the summons and complaint on

DOCUMENT REQUEST NO. (32)

All documents constituting, disclosing, discussing, referring, or relating to any actual, potential, or anticipated litigation or proceeding involving the patent including, but

not limited to, allegations of infringement, actively inducing infringement, and contributory infringement.

DOCUMENT REQUEST NO. (33)

All documents which plaintiff contends establish, or relies on, or will rely on to attempt to prove, or establish, that defendant has infringed the patent, or which discuss, refer or relate thereto.

DOCUMENT REQUEST NO. (34)

All documents which plaintiff contends establish, or relies on, or will rely on to attempt to prove, or establish, that plaintiff has been damaged and irreparably injured, or which discuss, refer or relate thereto, with respect to defendant's alleged infringement of the patent.

DOCUMENT REQUEST NO. (35)

All documents which plaintiff contends establish, or relies on, or will rely on to attempt to prove, or establish, that the plaintiff is entitled to any costs and attorney fees as well as any other relief that the court may deem to be just and proper, or which discuss, refer or relate thereto.

DOCUMENT REQUEST NO. (36)

All documents which plaintiff contends establish, or relies on, or will rely on to attempt to prove, or establish, that the

plaintiff is entitled to any increased damages, or which discuss refer or relate thereto.

DOCUMENT REQUEST NO. (37)

All documents which plaintiff contends establish, or relies on, or will rely on to attempt to prove, or establish, any loss of profits, earnings or sales, or which discuss, refer or relate thereto.

DOCUMENT REQUEST NO. (38)

All documents which plaintiff contends establish, or relies on, or will rely on to attempt to prove, or establish, that defendant has or is willfully infringing the patent, or which discuss, refer or relate thereto.

DOCUMENT REQUEST NO. (39)

All of your statements, summaries or reports that constitute, reflect, discuss, refer or relate to fixed costs, variable costs, burden costs, gross margin, contribution margin, gross profit, net profit, or return on investment for each, all and any of your methods for detecting leaks or leak detecting apparatuses.

DOCUMENT REQUEST NO. (40)

All documents disclosing, discussing, referring, or relating to the sales or profits allegedly lost by you through alleged infringement of the patent.

DOCUMENT REQUEST NO. (41)

All documents disclosing, discussing, referring, or relating to any savings, benefits or advantages resulting from the use of any method or apparatus within the scope of any claim of the patent, as compared to any other method or apparatus.

DOCUMENT REQUEST NO. (42)

All documents disclosing, discussing, referring, or relating to any calculations, considerations, or the like, as to a reasonably royalty, or any basis therefor, as regards the patent, including, but not limited to, royalty rates, terms, and conditions which you either consider or believe are reasonable.

DOCUMENT REQUEST NO. (43)

All documents disclosing, discussing, referring, or relating to income from licensing the patent.

DOCUMENT REQUEST NO. (44)

All documents disclosing, discussing, referring, or relating to the profits which you earn or expect to earn for any and all apparatus for detecting leaks and methods for detecting leaks.

DOCUMENT REQUEST NO. (45)

All of your accounting and controller's procedures and practices manuals, all changes thereto, and all documents that set forth, discuss, refer or relate to your accounting system, practices and procedures, including, but not limited to, the allocations of costs, categories of fixed and variable costs and their components, expenses, profits, depreciation, production, inventory, sales, and all changes thereto.

DOCUMENT REQUEST NO. (46)

All documents that constitute, discuss, refer or relate to explanations, definitions and descriptions for any codes or abbreviations for any information set forth in any of the documents described in the preceding document request, or in any reports, summaries or statements containing production, inventory, sales, revenue, cost, expense, price, or profits information for each all and any or your apparatuses for detecting leaks and methods for detecting leaks.

DOCUMENT REQUEST NO. (47)

All documents disclosing, discussing, referring, or relating to your document retention policies, practices and procedures for maintaining and disposing of documents and records.

DOCUMENT REQUEST NO. (48)

All documents disclosing, discussing, referring, or relating to the production levels, inventory levels, and sales levels in units and dollars for each, all, and any of your apparatuses for detecting leaks.

DOCUMENT REQUEST NO. (49)

All of your annual, quarterly, and monthly financial reports relating in any way to methods and apparatuses for detecting leaks.

DOCUMENT REQUEST NO. (50)

All documents disclosing, discussing, referring, or relating to any relationship between sales and marketing of your methods and apparatuses for detecting leaks and the sale or marketing of any of your other products or services, or whether your methods and apparatuses for detecting leaks promote or make possible the sale or marketing of any or your other products or services.

DOCUMENT REQUEST NO. (51)

All documents disclosing, discussing, referring, or relating to prices for your methods and apparatuses for detecting leaks, including, but not limited to price lists, pricing analyses, proposed pricing, pricing strategies, pricing discounts, volume pricing, the provision of free or discounted products or services, or any other incentives given or offered to a customer

to purchase your methods or apparatuses for detecting leaks or other products and services.

DOCUMENT REQUEST NO. (52)

With respect to defendant's alleged infringement of the patent, all documents disclosing, discussing, referring, or relating to the extent of all your alleged damages and injuries, along with how those damages were calculated.

DOCUMENT REQUEST NO. (53)

All documents disclosing, discussing, referring, or relating to your manufacture of apparatuses for the detection of leaks, the processes or methods you use to make your apparatuses for the detection of leaks, and the processes or methods you use to provide any service related to the detection of leaks.

DOCUMENT REQUEST NO. (54)

A sample of each type of apparatus for the detection of leaks made, sold, licensed or used by or for you.

DOCUMENT REQUEST NO. (55)

All drawings or any other documents disclosing, discussing, referring, or relating to your leak detecting apparatuses and their manufacture.

DOCUMENT REQUEST NO. (56)

All drawings or any other documents disclosing, discussing, referring, or relating to your methods of detecting leaks and their practice.

DOCUMENT REQUEST NO. (57)

All documents disclosing, discussing, referring, or relating to rate of rejection of leak detecting apparatuses manufactured by you either in your own quality checks or by customers.

DOCUMENT REQUEST NO. (58)

All documents including, but not limited to, reports, minutes, summaries, or notes disclosing, discussing, referring or relating to any meeting of your Board of Directors, any Executive Committee or any other meeting at which defendant or the patent was discussed.

DOCUMENT REQUEST NO. (59)

All documents disclosing, discussing, referring, or relating to the patentability, validity, enforceability, or infringement of the patent, or any claim thereof, including, but not limited to, all searches or opinions conducted, prepared, received, or considered by, or on behalf of, you and all patents, publications, and other prior art that were found in any such search or cited in such opinion, or that were obtained by or for you as a result of such search or opinion.

DOCUMENT REQUEST NO. (60)

All documents and things disclosing, discussing, referring, or relating to the analysis of defendant's accused methods and apparatuses, including, but not limited to, methods for detecting leaks and leak detecting apparatuses.

DOCUMENT REQUEST NO. (61)

All documents disclosing, discussing, referring, or relating to your first knowledge of any alleged act of infringement, actively inducing infringement, and contributory infringement of the patent by any person, including but not limited to, the defendant.

DOCUMENT REQUEST NO. (62)

All documents and things disclosing, discussing, referring, or relating to persons or parties contacted by you regarding the patent for the purposes of searches, considerations, evaluations, consultations or licensing.

DOCUMENT REQUEST NO. (63)

All documents disclosing, discussing, referring, or relating to the first oral or written communication to a person who was not an inventor of the patent, of a description of the alleged invention disclosed or claimed in the patent.

DOCUMENT REQUEST NO. (64)

All documents disclosing, discussing, referring, or relating to the first sale, offer of sale, or use of any method or apparatus disclosed or claimed in the patent.

DOCUMENT REQUEST NO. (65)

All documents disclosing, discussing, referring, or relating to the first description in a printed publication of the alleged invention claimed in the patent.

DOCUMENT REQUEST NO. (66)

All documents and things disclosing, discussing, referring, or relating to any written or oral description of the alleged invention and how to make and use the alleged invention claimed in the patent, including, but not limited to, invention disclosures, invention records, specifications, and drafts thereof and proposed patent claims, and method of making same.

DOCUMENT REQUEST NO. (67)

All documents and things disclosing, discussing, referring, or relating to the best mode of the alleged invention disclosed or claimed in the patent.

DOCUMENT REQUEST NO. (68)

All documents and things disclosing, discussing, referring, or relating to any alleged secondary considerations of non-

obviousness regarding the patent including, but not limited to, commercial success, long felt need, attempts by others, failures of others, commercial acquiescence, licensing, professional approval, copying, or laudatory statements by others regarding the patent.

DOCUMENT REQUEST NO. (69)

All documents and things disclosing, discussing, referring, or relating to the scope and content of the prior art, the level of skill in the art, and the differences between the prior art and the alleged invention claimed in the patent.

DOCUMENT REQUEST NO. (70)

All contracts, agreements or understandings relating to the methods for detecting leaks and leak detecting apparatuses made, used, licensed, or sold by you.

DOCUMENT REQUEST NO. (71)

All documents sufficient to identify your current and former officers, directors and management and technical personnel and their duties and responsibilities.

DOCUMENT REQUEST NO. (72)

All current and former organizational charts showing every level of your management, technical, research, and development, manufacturing, marketing and sales personnel.

DOCUMENT REQUEST NO. (73)

All resumes, curriculum vitaes, books, reports, treatises, articles or other publications prepared, authored or co-authored by each person whom plaintiff expects to rely on or call as a witness or an expert witness in this proceeding which relate to the subject matter of the expected testimony.

DOCUMENT REQUEST NO. (74)

Documents and things sufficient to show any and all steps, methods, and processes you use to manufacture leak detecting apparatuses.

DOCUMENT REQUEST NO. (75)

All documents which constitute, discuss, refer or relate to any correspondence or communications with defendant.

DOCUMENT REQUEST NO. (76)

All documents concerning the following subject matter areas relative to the patent insofar as not herein previously specified: Research and development of your methods for detecting leaks and leak detecting apparatuses; patentability, validity, enforceability and infringement of the patent; advertising, marketing and promotion of your methods for detecting leaks and leak detecting apparatuses; sales of your methods for detecting leaks and leak detecting apparatuses; all manufacturing and other costs, profits, and selling prices of

your methods for detecting leaks and leak detecting apparatuses; comparisons of your methods for detecting leaks and leak detecting apparatuses with competing methods and apparatuses; licensing of the patent; royalties received from licensing the patent; and reasonable royalty rates and the basis therefor as regards the patent.

DOCUMENT REQUEST NO. (77)

All documents relied upon prior to the filing of this action to establish to the best of plaintiff's and its attorney's knowledge, information and belief formed after reasonable inquiry that the charge of infringement in the Complaint against defendant is well grounded in fact, and is warranted by existing law or a good faith argument for the extension, modification, or reversal of existing law.

DOCUMENT REQUEST NO. (78)

All letters of incorporation, by-laws and shareholder lists for , , and and all contracts between any two or more of such companies.

DOCUMENT REQUEST NO. (79)

If documents containing all of the information requested in any of the foregoing document requests do not exist, produce all documents necessary to compile such information on at least an

annual basis for all of the foregoing document requests.

Respectfully submitted,

Dated: , 19

PIPA Database Cover Sheet

(1) Title: **Intellectual Property Rights Enforcement in Asia**

(2) Date: October 7-9, 1998

(3) Source:
(1) Source: PIPA
(2) Group: North American
(3) Committee: 4

(4) Author: David H. Fifield, The Dow Chemical Company
Managing Counsel, Dow Chemical Pacific, Ltd.
Hong Kong S. A. R., China

(5) Key Words: Enforcement; Litigation; Patents; Trademarks; Asian Countries

(6) Statutory Provisions:

(7) Abstract: Report on status of I. P. Rights enforcement in various Asian countries and of recent actions or developments in the laws of such countries. Discussion of hints to enhance chances of successful actions.

(8) Acknowledgment: Special thanks to my colleague, Ms. Jin Xiao-Yen, Chinese and American lawyer, for suggestions on and discussions of Chinese law, and I.P. enforcement experiences in China

IP RIGHTS ENFORCEMENT IN ASIA

(China, Taiwan, Hong Kong SAR, Korea, Singapore, Thailand, India, Indonesia, Malaysia)

CN TW HK KR SG TH IN ID MY

I. INVESTIGATION

1. Internal -
   (a) What does the client want?
   (b) How much "value" in the infringement? What are the losses?
   (c) Who has information?
      - Sales personnel, other company personnel
      - Local sales representatives or distributors
2. External - To replace or compliment Internal
   (a) Professional Investigator Firms (Kroll; Pinkerton; others)
   (b) Police and Customs and other Local Officials
   (c) Potential Dangers - Organized Crime, Corrupt Officials
3. Investigate current status of your IP Rights and strengthen, if possible.

II. COUNSEL

1. Local Patent Agent Firm - IN; HK; SG; MY
2. Solicitors/Barristers
3. No Lawyers - Possible if your company has good local organization
   - Administrative Action/Criminal/Customs - CN; ID; TH; HK; SG

III. WARNING LETTERS

1. Preserve Claims for damages, but better approach in some cases is to take out summons, serve and then discuss before going forward with action
2. Local legal counsel needed - "Unjustified Threats" (English or "Common" Law

countries)

3. Especially if directed toward customers

4. May be subject to counterclaims for damages or violation of Laws "For the Prevention of Unfair Competition" (TW, KR, HK, IN, SG, MY)

IV. CORRECT PARTIES

1. Plaintiffs - Patent Owner; Local Subsidiary or Licensees; Exclusive Sales Agent or Distributor - may affect remedy or size of damage award

2. Defendants - Pirates vs. Legitimate Enterprises
   (a) Chains of holding companies HK; SG; MY; ID; IN; TH (?)
   (b) Investigation may find real source
   (c) Connections to influence

V. TYPE OF ACTION

Consider Cost Effectiveness for client. Main goal often is to gain Settlement/ Discontinuance of Infringement in shortest period of time possible.

1. Ex parte Search/Seizure - Civil
   (a) Anton Piller order in most Common Law courts, but restricted
   (b) Singapore, modified- Summit Holding v. Prosecutor (1997) 3 S.L.R. 922

2. Search/Seizure - Criminal/Administrative
   (a) Most effective remedy against pirates - e.g. CR or TM infringement
   (b) In Trade Secret case, if criminal sanctions (CN; KR; TW; TH - draft)
   (c) Customs seizure to stop import/export/warehousing
   (d) Police or public prosecutor office usually must decide to act; a court order is required in most Common Law jurisdictions

(e) Indonesia-evidence of infringement, police may seize infringing goods and equipment for production of such goods. How to get police to act ?

(i) Assist with paper work for police and to submit to prosecutor

(ii) ID recently broadened law to all State Civil Servants of gov't. bodies concerned with IP to carry out investigation of violations

(f) In some Common Law countries, IP owner (qui tam) may take out private summons after consent of prosecutor's office, prosecute through own solicitors in the name of the prosecutor. Normally just for TM /CR .

(g) In some countries, police or other government agency can lawfully be compensated for efforts to seize infringing goods - in criminal actions - with a percentage of the value of goods seized (CN, ID, TH ?).

3. Action to Seize/Secure Defendants Assets

(a) Where it's likely Defendants will dissolve infringing company or move/ hide assets, Common Law jurisdictions normally may grant ex parte order to Plaintiff (subject to posting a bond) to block bank accounts or sequester other assets to prevent such Defendant activity. (Mareva order)

(b) Not familiar with similar pre-judgment remedy details in other countries, except: CN has procedures characterized as "preservation of property and advance execution". Can request on condition you then start IP civil litigation within certain number of days (15/30). Criteria for action are:

(i) Success likely: infringement clear and probable validity of IP right;

(ii) Great harm, if Defendant allowed to continue infringement.

• Similar to Common Law requirements for a preliminary injunction. Chapter IX of Chinese Civil Code, Articles 92-93, permit such "advance execution and preservation of property" procedure. The Court may require a guarantee or money bond from the Plaintiff in

either case. The Civil Procedure Code says Court must issue a decision within 48 hours. Court's Order would be immediately enforceable - by the Execution Division of that Court. A Chinese High People's Court IP Division Chief Judge* characterizes Chinese Law as not providing for preliminary injunctions, although Article 93 appears to produce same effect.

- Also, "preservation of evidence" may be requested by IP owners ex parte under the Chinese Civil Code, Chapter VI, Article 74, when evidence of infringement may otherwise be lost or very difficult to collect at a later stage. Normally requested when litigation starts, but probably can do, if not more than 15 days prior to start of legal action.

4. Preliminary or Temporary Injunction

(a) In Common Law countries, it's possible to obtain them at the start of litigation if Plaintiff demonstrates a likelihood that continued action will result in immediate, irreparable harm to Plaintiff, that cannot by money be compensated. Probably required to give a bond for damages amount the Court finds Defendant would experience due to the injunction, paid to Defendant if infringement not proven. Normally such injunction initiated at same time as Court action for damages or permanent injunction is filed.

(b) Civil Law countries typically don't provide Courts with "injunctive" powers - so must "act" directly against property of the Defendant, as noted above in CN. Korea has, perhaps, recently changed this.

5. Normal Civil Actions for Claims of IP Rights Infringement

* LU Guoqiang, Shanghai High People's Court; IP Asia 44 Oct. 1997

levied on Defendants - unless the Judge finds some very bad behavior.

(a) This seems to be changing in more recent years, as countries:

- Respond to external pressure by WTO or trading partners to improve IP Rights protection; and
- Respond to internal pressure from legitimate enterprises, who themselves are preyed-upon by (mostly local) pirates, to strengthen IP Rights protection.

(b) In criminal cases, police are usually the organization to deal with enforcement, and burden on IP owner is lighter, but police may still require assistance or further encouragement/prompting.

2. Civil actions raise the issue for successful Plaintiff of how to enforce?

(a) Local Defendant - Local Enforcement of Money Judgment

- Get order to release blocked/sequestered assets to Plaintiff, or
- Get post-judgment order of execution on local assets.

(b) Foreign Defendant

- Execute on any local assets.
- Take judgment to Defendant's home establishment and ask the Court there to "domesticate" with execution order in that jurisdiction.
- Comity/Reciprocity and public policy issues (e.g., Treble Damages - punitive, Japanese Court won't enforce).
- Some countries enforce under treaty (normally bi-lateral).
- Recent note on TW - CN reciprocal agreement and recognition of civil judgments.
- In case you have a "foreign" commercial arbitration award, most key Asian countries (CN, IN, ID, KR, MY, SG, TH) as well as Japan, U.S. and Canada (and AU, NZ) are members of the New York

Convention of 1958 on "Recognition and Enforcement of Foreign Arbitral Awards" that can simplify settlement of IP disputes, if parties can agree to such arbitration. Key Asian exception is TW.

IX. SUCCESS

1. How does your client measure/evaluate it for next time?
2. What did/didn't you do that created client appreciation/dissatisfaction?

X. SPECIFIC COMMENTS/COUNTRY DETAILS/ISSUES

1. CHINA

(a) Trademarks - Register equivalent forms of your marks (Simplified and Traditional characters)

- Use Style as registered (calligraphy vs. printed style).
- Be certain ownership documentation is good, before start to act.

(b) Trade Secrets

- Be sure to have written policy on company property, documents, records.
- Include the policy by reference in employee agreements.
- Include in employment agency contracts and require agency to enforce, but also keep right to enforce them directly by yourself.
- Mark documents as Company Property/Confidential/Secret.

(c) Consider getting People's Court judgment before going to AIC to take action, if you doubt AIC's dedication.

- Connections may be important, so AIC may not take action.

(d) Foreign Invested Enterprises (FIE's) can arbitrate commercial matters

with local Chinese parties to an "international award" under the CIETAC (China International Economic Trade and Arbitration Commission).

2. COMMON LAW JURISDICTIONS (HK, SG, MY)

(a) Trade Secrets

- Use Anton Piller order to recover company documents or other company property; still effective for that purpose.
- Have enforceable Employment Contracts with all employees.
- Be able to demonstrate good security measures are maintained.
- Take swift action (criminal/civil) to protect if suspect loss/theft.

(b) All actions - consider self-help measures if authorities hesitant, or too busy to help you.

- Private criminal prosecutions (qui tam)
- Sequestration or seizure orders

3. OTHER COUNTRIES

(a) Take strong and rapid action when violations are first noted.

- If in doubt as to guilty or innocent infringement, first take action, then negotiate settlement.
- If clearly are pirates, prosecute to greatest extent to deter others.

(b) Use pre-emptive ex parte actions or police and customs seizures, when possible to do so.

(c) Use self-help measures where possible to do so safely.