PACIFIC

INTELLECTUAL PROPERTY ASSOCIATION

太平洋知的財産協会

The Thirtieth International Congress

NEW ORLEANS

October 12 - 15, 1999



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PIPA 30th INTERNATIONAL CONGRESS
New Orleans Marriott Hotel
October 12 – 15, 1999

ADVANCE PROGRAM

Tuesday October 12

3:30 pm - 6:00 pm Registration

6:30 pm - 9:30 pm Grand Reception and Buffet Dinner

Wednesday October 13

7:00 am – 8:20 am Breakfast

7:00 am - 8:30 am Registration

(9:00 am – 4:00 pm - Guest Program: A walking tour of historic sites in New Orleans with lunch)

8:10 – 10:25 Opening Session

Welcoming Address
Address by the Honorary Chairman, - Professor Paul Janicke
Guest Address - Commissioner Q. Todd Dickinson
Guest Address - Masayuki Koyanagi

10:25 am – 10:40 am Coffee Break

10:40 am –10:55 am Opening Session (continued)

PIPA Award Presentation - Dr. Allen Spiegel

10:55 am – 12:05 pm Technical Session A: (Committee #4 & Committee #2)

Paper Presentation - **Current Aspects and Prospects of Pro-Patent Policy in Japan** (Hiroshi Morita)
Paper Presentation - **The National Patent Board** (Eric Dubrusin)
Paper Presentation - **Valuation of Intellectual Property** (Patrick Sullivan)
Paper Presentation - **Valuation of Intellectual Property** (Dan McGavock)

12:10 pm – 1:10 pm Lunch

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1:20 pm - 2:40 pm Technical Session B (Committee #4– continued)

Panel Discussion - **Economic Evaluation of Intellectual Property** (Naoko Nanao, Takeshi Momma, Hiroaki Kase, Yuichi Honjo; Terrence Strobaugh, Eric Dubrusin, Patrick Sullivan, Dan McGavock)

2:40 pm - 3:40 pm Technical Session C (Committee #2)

Paper Presentation - **Comparison of Rules Governing Patent Practioner Conduct in the United States, Japan, Europe and Taiwan** (Edward Blocker)
Paper Presentation - **Damages for Patent Infringement and License** (Yukihiro Misaka)

Wednesday evening is free for informal dinners and networking

Thursday October 14

7:00am – 8:20 am Breakfast

8:30 am – 9:30 am - Technical Session E (Committee # 2 continued)

Panel Discussion – **Patent License Agreement and Corporate M/A Split** (Shigeru Kitano, Yoshinobu Kinoshita, Eiichi Harada, Hiroshi Kitajima, Yukihiro Misaka; Edward Blocker, Jack Haken, Jack Slobod)

9:30 am 10:40 am - Technical Session F (Committee #3)

Paper Presentation - **Trademark Developments in India and the Subcontinent** (B. Niyogi)
Paper Presentation - **Patentability and Loss of Novelty of Inventions made Publically Available through Electronic Communication Line** (Masatoshi Ohtani)
Paper Presentation – **Study on Global Patent Portfolio II** (Hiroshi Homma)

10:40 am – 11:00 am - Coffee Break

11:00 am – 12:15 pm Technical Session G (Committee #3 - continued)

Paper Presentation - **PCT Filing in Japan** (B. Bartels)
Informal Questions and Answers on PCT issues
Paper Presentation - **Reduction of Global Patent Costs** (Naoyoshi Jinno)

12:30 pm – 10:00 pm - Social Outing

For members and guests;including a trip to Louisiana bayou country, boat tour and wildlife viewing, southern Bar-B-Que dinner and Cajun entertainment at the Bayou Barn. (Box Lunch will be provided on the bus)

Friday October 15

7:00 am – 8:45 am Breakfast and Checkout

9:00 am – 10:25 am Technical Session H (Committee #1)

Paper Presentation - **The Evolution of a Patent Evaluation Tool** (S. Roberts)
Paper Presentation - **IP Asset Management** (B.Buck)
Paper Presentation - **Evaluation of Inventions** (Hirohiko Usui)

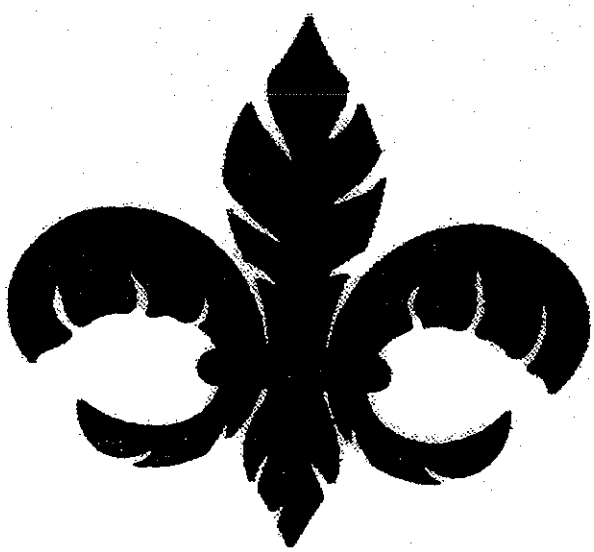
10:25 am – 10:40 am - Coffee Break

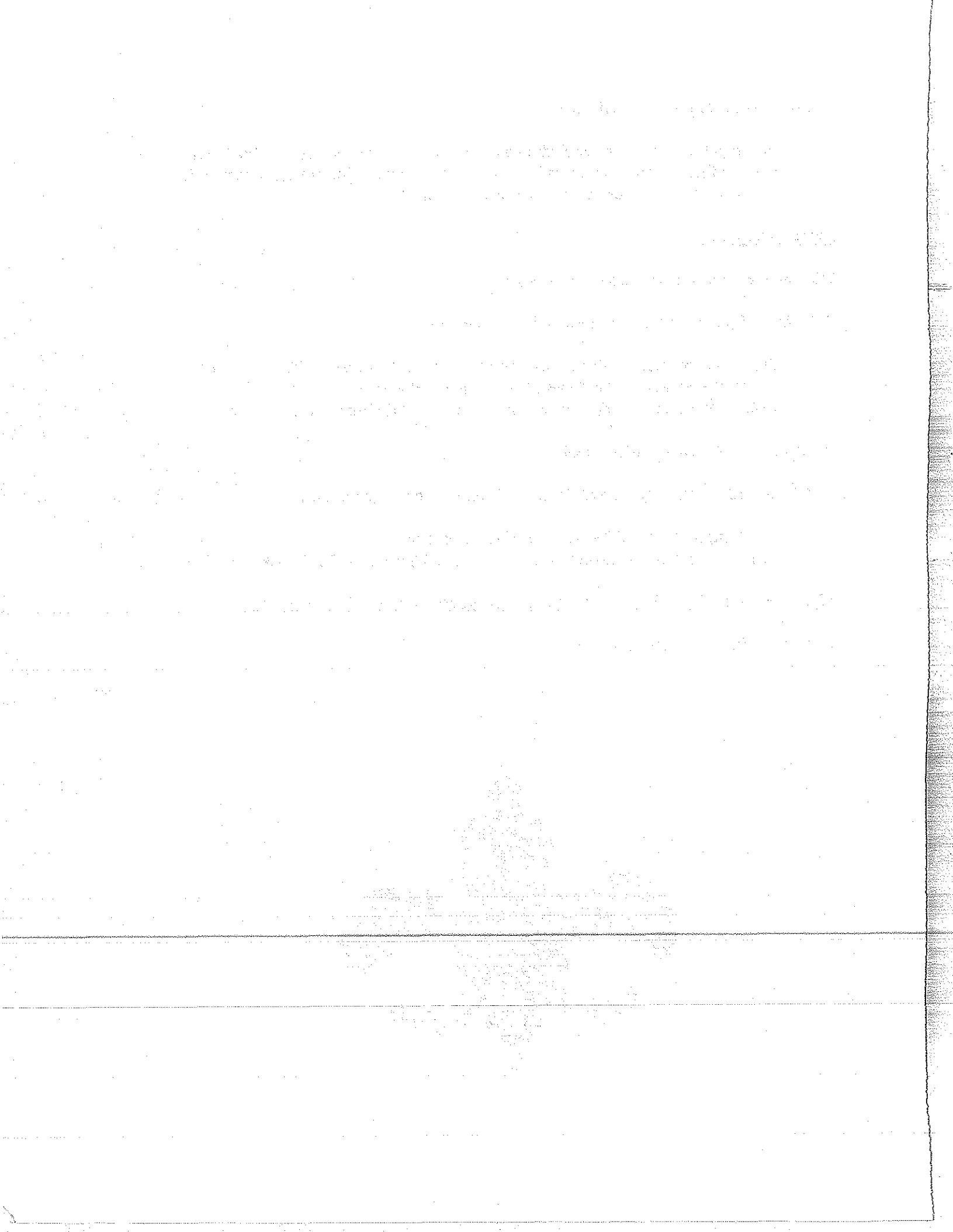
10:40 am – 12:05 am - Technical Session I (Committee #1 – continued)

Panel Discussion - **Effective Use of Outsourcing**
Paper Presentation - **Industrial Design and 3D Trademarks** (Hisako Tanaka)

12:15 noon – 1:15 pm Lunch for members and guests with closing ceremony

1:15 pm - End of the 30th Congress





INDEX

Committee 1

"The Evolution of a Patent Evaluation Tool", p. 1-1

"IP Asset Management" p. 1-11

"Evaluation of Inventions" p. 1-26

"Effective Outsourcing for IP Management" p. 1-70

"The Protection of Three-Dimensional Designs" p. 1-90

Committee 2

"Damages for Patent Infringement and License", p. 2-1

"Patent License Agreement and Corporate M&A/Splits", p. 2-22

"A Comparison of the Rules Governing Patent Practitioner Conduct in the United States, Japan, Europe and Taiwan", p. 2-37

Committee 3

"Trademarks in India and the Indian Sub-Continent" p. 3-1

"Patentability and Loss of Novelty of Inventions made Publicly Available Through Electronic Communication Line" (Amendment of Japanese Patent Law: Article 29 and 30) p. 3-6

"Study of Global Patent Portfolio" p. 3-31

"PCT Filing in Japan" p. 3-49

"Reduction of Global Patent Costs" p 3-93

Committee 4

"Current Aspects and Prospects of Pro-Patent Policy in Japan", p. 4-1

"The National Patent Board Adding Value to your Patent Position", p. 4-20

"Economic Evaluation of Intellectual Property", p. 4-28

"IP Valuation: Concepts, Tools and Examples", p. 4-53

"Valuing Intellectual Assets", p. 4-76

PAPERS

Committee 1

"The Evolution of a Patent Evaluation Tool", Sarah Meeks Roberts (Kodak)

"IP Asset Management", Byron G. Buck II (Caterpillar, Inc.)

"Evaluation of Inventions", INQUE Motoo, (Ube Industries, Ltd.), IWATA Shigeru, (Fujitsu Limited), KAZAMA Takeo, (Toshiba Tec Corporation), SHIMOSAKA, Naoki, (NEC Corporation), KISHI Fumio, (Ricoh Company Ltd.), FUJII Hideyuki, (Mitsubishi Electric Corporation)

"Effective Outsourcing for IP Management", KAMATA Kenji, (Matsushita Electric Industrial Co. Ltd.), KOBAYASHI Hideki, (Teijin Ltd.), SUNAMI Kiyokazu, (Toyota Central Research and Development Laboratories), KURATANI Yasutaka, (Mitsubishi Electric Corp.) , OHSAWA Takaaki, (Terumo Corp.), HISAIZUMI Akihiko, (Hitachi Ltd.), KUWAGAKI Mamoru, (Nippon Telegraph and Telephone Corp.)

"The Protection of Three-Dimensional Designs", Shimizu Sonoko, (Eisai Co. Ltd.), Yamagata Yoshiaki , (Hitachi Ltd.), Tanaka Hisako, (Pfizer Pharmaceuticals Inc.), Mizuno Emi, (Sapporo Breweries Ltd.)

Committee 2

"Damages for Patent Infringement and License", KITAJIMA, Hiroshi, (Omron Corporation), NAGAISHI, Eisaku, (Ricoh Ltd.), MISAKA, Yukihiro, (Toshiba Corporation)

"Patent License Agreement and Corporate M&A/Splits", KINOSHITA, Yoshinobu, (Mitsui Chemicals Inc.), MATSUMOTO, Shinichi, (Nippon Telegraph and Telephone Corporation), HARADA, Eiichji, (Mitsubishi Electric Corporation), OSADA Ikue, (Ebara Corporation)

"A Comparison of the Rules Governing Patent Practitioner Conduct in the United States, Japan, Europe and Taiwan", Edward Blocker, Jack Haken, Ann Marie Nista (U.S. Philips Corporation)

Committee 3

"Trademarks in India and the Indian Sub-Continent", Bidyut K. Niyogi

"Patentability and Loss of Novelty of Inventions made Publicly Available Through Electronic Communication Line" (Amendment of Japanese Patent Law: Article 29 and 30), SHIMIZU Takao, (Asahi Glass Co., Ltd.), TSUDA Yoshiaki, (Toshiba Corporation), MARUSHIMA Toshikazu, (NEC Corporation), YASUDA Manabu, (Mitsubishi Rayon Co. Ltd.), YAMAMOTO, Masamichi, (Toshiba Tech Co., Ltd.), OTANI, Masatoshi, (Sony Corporation)

"Study of Global Patent Portfolio" Tadashige Itoh, (Sumitomo Heavy Industries, Ltd.), Eiju Okuyama, (Toyota Motor Corporation), Takumi Nittono, (Nippon Telegraph and Telephone Corp.), Hiroshi Homma, (Sankyo Co. Ltd.), Masayuki Muratani, (Oki Electronic Industry Co. Ltd.)

"PCT Filing in Japan", Busso Bartels (WIPO)

"Reduction of Global Patent Costs", KONNO, Katsuharu, (Fujitsu Corporation), SATO, Shigeru, (Fuji Photo Film Co. Ltd.), JINNO, Naoyoshi, (Sumitomo Chemical Ind., Co. Ltd.), NISHIYAMA, Hitoshi, (Fujisawa Pharmaceutical Co. Ltd.), FUJITA, Masaki, (Mitsubishi Electric Co. Ltd.), YAMAMOTO, Yutaka, (Sumitomo Electric Ind., Ltd.)

Committee 4

"Current Aspects and Prospects of Pro-Patent Policy in Japan", IMURA, Takuji (NEC Corporation), SASAKI Osamu, (Tanabe Seiyaku Co., Ltd.), TAKENAKA, Hironori, (Kobe Steel Ltd.,), NAKAMURA, Hirokazu, (Fujitsu Ltd.), HANDA, Masami, (Takeda Chemical Industries Ltd.), MURAYAMA, Konosuke, (Ricoh Co., Ltd.), MORITA, Hiroshi (Yamanouchi Pharmaceutical Co. Ltd.), MOMMA, Takeshi (IBM Japan Ltd.)

"The National Patent Board Adding Value to your Patent Position", Eric M. Dobrusin

"Economic Evaluation of Intellectual Property", OTA, Akihito, (Toyoda Gosei Co. Ltd.), ODA Tomohiro, (Toyota Motor Corporation), KASE, Hiroaki, (Daicel Chemical Industries Ltd.), KIKUCHI, Yasuhisa, (Sapporo Breweries Ltd.), SONOBE, Nobuyuki (JSR Corp.), HONJO Yuuichi, (Aishin Seiki Co., Ltd.)

"IP Valuation: Concepts, Tools and Examples", Daniel M. McGavock, IPC Group Inc.

"Valuing Intellectual Assets", Patrick H. Sullivan, Sr.

COMMITTEE #1

(1) Title: **The Evolution of a Patent Evaluation Tool**

(2) Date: October 15, 1999

(3) Source: (a) Source: PIPA
(b) Group: U.S.
(c) Committee: No. 1

(4) Author: Sarah Meeks Roberts

(5) Abstract: The story of Kodak's experience in developing and implementing a patent evaluation tool, particularly the story of the changes in that tool from its inception to its current form.

The Evolution of a Patent Evaluation Tool

This paper tells the story of Kodak's experience in developing and implementing a patent evaluation tool. It particularly relates the story of the changes in that tool from its inception to its current form. Although the paper is entitled "The Evolution of a Patent Evaluation Tool" it perhaps would be more appropriately entitled "The Devolution of a Patent Evaluation Tool". Normally, when things evolve they become more complex. In contrast, Kodak has recently been striving to simplify the patent evaluation tool originally adopted by the Company only a few years ago. The simplification process is succeeding in spite of a countermanding principle of evolution, the tendency of an organism to evolve into different forms in response to a diverse environment. There has been a tendency within Kodak for the various diverse organizations to tailor the patent evaluation tool to their own needs. A number of people involved with the patent system at Kodak have been trying to reconcile the need for simplicity in the evaluation tool and the need for a tool which can be utilized by the diverse technology groups within Kodak.

Kodak decided to create a patent evaluation tool in 1996. The creation of this tool was a small part of a major reorganization of the way that Kodak manages its intellectual property. The process of reorganizing the management Kodak's intellectual property could itself be the subject of several papers and will not be explored in any detail herein. As an outcome of that process, however, it was decided to manage Kodak's intellectual property by aligning all of Kodak's intellectual property with preexisting technology clusters. The technology clusters were already being utilized by Kodak's Research Division to organize and fund research and development projects. As part of the process of aligning Kodak's intellectual property with the technology clusters an Intellectual Property Subcommittee (IP Subcommittee) was assigned to each cluster to create and implement an IP strategy for the cluster. An Intellectual Property Coordinator (IP Coordinator) was appointed to each cluster to make day-to-day decisions around the maintenance of the patent portfolio "owned" by the cluster.

As part of the new intellectual property management process, it was decided that Kodak should implement a system for evaluating the individual patents in the patent portfolio of each cluster. The initial goal of implementing such a system was to move the focus of the company from "number of patents filed" in the direction of "value of patents filed". It was anticipated that a patent evaluation tool would enable each cluster to obtain the most value from its patent portfolio and to obtain some correlation between the value of the patent portfolio and research dollars spent. The initial proposal was that the performance of those individuals involved in intellectual property management would be determined in part by the performance of the various patent portfolios.

A committee was selected to develop a tool to evaluate individual items in a cluster's patent portfolio. The committee chosen represented a broad cross-section of the intellectual property community and included a representative from Kodak's licensing group, two patent attorneys, representatives from the research community, and an information management representative. The objective set by the committee was to find a method for estimating the value of a potential and existing patent that was 1) quantitative, 2) applicable across all Kodak businesses, 3) easy to use, and 4) easy to administer.

This was one time when it was to Kodak's benefit not to be a pioneer. Several companies had excellent patent evaluation programs which they had either published or were willing to share with Kodak. A few companies had evaluation tools which they were marketing. The types of systems in the market were quite varied. Some systems were very complex and could be utilized to estimate fairly accurate dollar values on individual patents. The evaluation results of such ystems were suitable for use in the outlicense or sale of intellectual property, tax-related transactions, or in-kind contributions. Other systems were as simple as rating a patent from 1 to 5 on a fairly subjective basis. The results of these types of systems could be utilized for different purposes, such as making renewal decisions.

It was quickly decided that Kodak would not utilize a tool similar to the more complex models. Given the size of Kodak's patent portfolio, such a tool would have required substantial additional staff to implement. Furthermore, obtaining detailed

sales information for individual products and relating those products to individual patents would have been extremely time consuming. On the other hand, it was determined that the IP managers wanted more information than that which would have been available using one of the simplest models.

The committee eventually decided to evaluate two existing models for use by Kodak. The models were tested on a range of patents from different technical areas. One of the models tested, although it was easy to use and supplied useful information, did not lend itself well to the chemical side of Kodak's business. It also required a fair amount of specific sales information. During the testing it became apparent that Kodak was somewhat unique in that it leverages a great deal of its technology across many product lines. Neither of the patent evaluation models reviewed easily took such leverage into account. Eventually the committee decided that Kodak would create its own evaluation tool. The Kodak tool would be loosely modeled around one described by a consultant in that it would have separate questions around "internal use" and "external use" and around the breadth of the claim coverage. The committee decided, however, that it needed to create an original set of questions that would be tailored to evaluating Kodak's products. Further, it was decided that Kodak's evaluation tool would include a detectability factor. The assumption was that if an invention was used in a manufacturing process, the patent on that invention was not as valuable as one covering a product because the manufacturing process was not easily detected.

The process used to develop the set of evaluation questions was as follows. It was determined the questions should be developed by a small group of individuals in order to get the project done in a timely fashion. The committee happened to include a highly experienced patent attorney/inventor team who had worked together for several years and were very familiar with a particular patent portfolio.. Because of their familiarity with the particular patent portfolio, these two individuals were able to subjectively approximate a value for several patents in the portfolio on a scale of 1 to 200. Then, given their combined experience in the patent field and their recent studies of various evaluation systems, the attorney/inventor team developed a test set of questions. They then tested this evaluation tool against the patent portfolio they had already valued to determine if the test set of questions resulted in a similar value for each of the sample

patents. Using this sample patent portfolio they were able to change the wording and the weighting of the questions until they arrived at a set of evaluation questions which, when utilized with the sample patent portfolio, gave them approximately the same valuations earlier agreed upon. This team then asked representatives from two other technology groups to utilize the test set of questions against patents in their portfolios with which they were very familiar. After this secondary review a few adjustments were made to the questions.

The final tool contained two sets of statements, one set for the prefiling evaluation and one set for the post-filing evaluation. The factors to be rated were "internal use" i.e. use by Kodak; "external use" i.e. use by other manufacturers; "coverage" i.e. breadth of claims and geographical coverage; and "detectability" which is self-evident. The prefiling evaluation contained a set of ten different statements for ranking "internal use" from 1 to 10, nine different statements for ranking "external use" from 1 to 10, and nine different statements for ranking "coverage". It further provided eight different statements for ranking "detectability" from 0.5 to 1.0. The postfiling evaluation contained ten different statements for ranking "internal use" from 1 to 10, ten different statements for ranking "external use" from 1 to 10 and six different statements for ranking "coverage". It further provided six different statements for ranking "detectability" from 0.5 to 1.0. The equation used to arrive at a final evaluation score was [Internal Use + External Use] x [Coverage] x [Detectability] = Evaluation Score.

Originally it was intended that the evaluation tool would be a computerized tool, but it eventually became clear that the use of a computerized evaluation tool was not well accepted by the research community. The reasons for this are not quite clear although it may have been difficult to shuttle between so many documents using the computerized tool. It was also rare that one person would evaluate the patents in a portfolio; rather, numerous parties might be involved in the process and it may have been easier to do this using a paper format. Additionally often the analysis was done in venues other than the office.

It was initially proposed that each patent would be evaluated at the time of filing; after issuance; and at each renewal decision. It was left up to the individual IP Subcommittees to determine what system they would utilize to value patents which had

already issued prior to the institution of the evaluation tool. A few of the smaller Portfolios took on the project of evaluating every patent in the Portfolio as soon as the evaluation tool was made available. Others determined that it was better to evaluate the patents as they came up for renewal.

Once the evaluation tool was available the Patent Department required that a pre-filing evaluation be done on every patent before it was filed. The Patent Department also requested that each patent be reevaluated upon allowance. Shortly after the evaluation tool was available the Patent Department of Eastman Kodak replaced its patent docketing system. As part of the new docketing system, fields were provided for the evaluation scores assigned to each patent. Fields are provided for all four elements of the final score and not just the total. This was done to capture the valuable information provided by the elements of the equation.

For the two years following the implementation of the patent evaluation tool the tool was utilized with varying degrees of success. About ten months ago Kodak's Director of the Patent Legal Staff met with the Intellectual Property Forum (IP Forum), an informal group of IP Coordinators, to discuss issues of concern. The IP Forum represents approximately half of the Patent Portfolios within Kodak. During the discussion, several of the IP Coordinators indicated that they felt that the evaluation tool did not meet their needs in managing their patent portfolios. This group was invited to improve the tool to better address the needs of Kodak's operations.

The following is a list of some of the reasons that the IP Coordinators felt that the original evaluation tool did not meet their needs.

1) It was believed that the original tool did not adequately address the needs of non-media technologies.

2) It was felt that there were too many categories and subcategories and that it was very difficult to distinguish between some of the subcategory divisions.

3) It was felt that the definitions used for the category/subcategories were unclear and led to arguments about interpretation.

4) It was felt that the external use questions focused too much on licensing opportunities.

5) It was felt that some valuable information such as the date of the evaluation was not on the current evaluation tool.

The IP Forum used the following process to revise the patent evaluation tool. They first surveyed the members of the group to obtain input with regard to the current tool and to solicit ideas and suggestions for a revised evaluation tool.. The IP Forum then formed a subcommittee to analyze the information received from the membership; to format and test a new tool, and to return recommendations to the group. As part of the activity of the subcommittee it again reviewed how other companies perform evaluations, mainly from published articles on the subject.

It was hoped that the new tool developed would alleviate all the concerns around the original evaluation tool. The two main goals for the revised tool were that it be simpler to use and that it provide more consistent results among evaluators. The general recommendations for the new tool were:

1) that the tool could be used by all areas of Kodak (no jargon, no technology preference, etc;

2) that it provide simple, clear category definitions which were obvious in meaning to all technologies;

3) that it make all definitions quantifiable or measurable (to eliminate arguments about which level applied);

4) that it reduce the number of category/subcategory levels to the minimum number (3 to 4 levels each);

5) that it expand the external use category to broader interpretations;

6) that it be usable throughout the life of the patent from pre-filing to maintenance; and

7) that it contain desired information on dates, etc.

Although the subcommittee looked at the possibility of completely changing the format of the evaluation tool, it eventually decided to retain the general format, i.e. "Internal Use" + "External Use" x "Coverage" x "Detectability". This was done so that future evaluations would be consistent with the large number of evaluations which had already been completed. Further, the new evaluation tool contained the same fields of information to be entered into the patent docketing system.

The new tool contains only one set of statements to be used for both the prefiling evaluation and the post-filing evaluation. It provides a set of four different statements for ranking "internal use" from 1 to 10, four different statements for ranking "external use" from 1 to 10, and four different statements for ranking "coverage". It further provides three different statements for ranking "detectability" from 0.5 to 1.0. The equation used to arrive at a final evaluation score is the same. A new category of technical coverage was added which is still in the testing stage.

One factor which was again discussed but not included in the evaluation tool was the use of information around the sales volume and profits of products covered by a particular patent. It was again decided that it was too difficult to obtain this information and that it would discourage the use of the evaluation tool. Additionally, it was decided that it was very hard to put a value on certain patents because so much of the technology of Kodak is leveraged across numerous products. In making such a decision, the committee, once again, has determined that the evaluation tool can basically be utilized only as a partial valuation tool rather than as a tool to place a dollar value on the portfolio for use in licensing-out, asset sales, etc.

Several groups also tested the new evaluation tool across a range of technologies. It was found that at least one stated goal, greater consistency among evaluators, was met by the new form.

The new evaluation tool was then sent to the management of the Patent Legal Staff for review and implementation. Patent management reviewed the form, made some suggestions to modify some of the language and then approved the form. This was a recent development and the new evaluation form is still being implemented by the Patent Legal Staff. It will then take some months to determine whether the new evaluation tool is utilized more widely and whether it is considered to adequately evaluate Kodak's Patent Portfolio.

Not all of the Patent Portfolios have agreed to use the new evaluation tool, only the members of the IP Forum. Input was solicited from the IP Coordinators of the other Patent Portfolios but not all commented on the revision process. At this point it is not absolutely necessary that every Portfolio choose the same evaluation tool since the

new tool has been designed to result in consistent ratings with the old tool, however, as discussed below, that may change.

The reason this paper was entitled "The Evolution of a Patent Tool" was to indicate the continuous change in such an evaluation tool. Although Kodak has within the last six months revised its patent evaluation tool, there is still an active committee within the IP Forum to further refine the tool. The new evaluation tool was not even implemented before discussion started around revising it once again.

The issues still being discussed range from the philosophical to the mundane. At the highest level there are still discussions concerning the reason for having an evaluation tool. As noted earlier, evaluation tools can range from a simple internal number to be used for renewal decisions to a very complex evaluation which can be used when evaluating the assets of the company. Another issues being discussed is whether the evaluation tool should be normalized to 100. There is also a move afoot to change the current equation which is being utilized. As noted, it has been proposed to have a technical coverage factor in the equation. There is also a great deal of discussion around the value of the "internal use" factor utilized in the tool. One thought has been to multiply the "external use" factor by two or three to increase its importance; another thought has been to totally eliminate the "internal use" factor. The author personally feels that an internal evaluation factor is still important because one measure of the value of a technology is whether Kodak itself uses that technology. One proposed variation on the equation is going to be piloted in one of the Patent Portfolios over the next few months.

In addition to the evaluation tool being utilized by Kodak as a whole, certain portfolios have determined that no tool which is utilized across all technologies can fully evaluate the individual patents in their portfolios. Therefore, some of the Patent Portfolios are utilizing tailor made evaluation tools in addition to the Kodak evaluation tool. There is no concern regarding this practice as long as these portfolios are also utilizing the sanctioned evaluation tool.

One last item which should be noted is that the rest of the company does not remain static while the evaluation tool is being revised. Computer systems are constantly evolving within Kodak and may change the way the evaluation tool is being

used. The focus of certain technologies may change, technology clusters may change, research and development groups may be reorganized, and even the patenting philosophy of the company could change over the next few years.

It is hoped that it can be seen from Kodak's experience that developing and adopting an evaluation tool for intellectual property is not for the faint of heart. Like most things in today's business world, the only thing that can be depended on with regard to any viable evaluation tool is that it must evolve over time to meet the needs of the company and the users of the system. Although developing the evaluation tool has not been an easy task, it has already partly served its original purpose. Rather then just concentrating on "number of patents", the research community has become more aware of and has discussed in some detail the value of their patents. This change in awareness is a giant step towards achieving the goal of the original project.

1) Title: IP ASSET MANAGEMENT

2) Date: October 15, 1999, 30th PIPA Congress, New Orleans, Louisiana

3) Source: 1) Source: PIPA (Pacific Intellectual Property Association)
2) Committee: 1

4) Author: Byron G. Buck II (Caterpillar, Inc.)

5) Key Words/Phrases: Patent Management, IP Management, IP Asset Management, International Patent, Japan Patent Application, EPO Patent Application, South American Patent Application,

6) Abstract: For many patent practitioners management of an international patent portfolio may be seen as a daunting task rife with opportunities for mistakes, miscommunication, confusion, inefficiency, delays, and exorbitant costs. This document is a brief discussion of issues a practitioner should consider during the evaluation of an idea and potential preparation of an international application. This is not an exhaustive collection. Rather, it is primarily intended to address many of the major issues with others sprinkled therebetween. However, it is intended to be a brief guide and reference for the practitioner as he/she prepares to manage IP assets internationally. Comments, considerations and suggestions are included under headings to which they most readily apply.

7) Comments: Byron G. Buck II is an intellectual property attorney with Caterpillar, Inc. in Peoria, Illinois. His practice includes international and domestic agreements, advocacy, opinions, patent preparation and prosecution, copyright practice and counseling clients with respect to all aspects of intellectual property law. He is Caterpillar's representative to PIPA, Co-Chairperson of the AIPLA International and Foreign Law Committee's China Study Group and is a member of the AIPLA Japan Practice Committee.

I. Identification and Receiving Notification of an Invention

There are numerous methods and processes for identifying an invention. These usually involve some form of interaction with scientists and engineers. For example, this may involve preventative or informative law tutorials, presentations or classes provided to the technical and commercial groups occasionally or periodically. The primary objective of these activities being to train the technical staff to be able to identify an idea that should be brought to the attention of a patent practitioner. The following are some examples of factors provided to the technical staff for determining whether to bring the idea to the attention of a patent practitioner:

- Differentiates the product
- Helps sell more of a product
- Significantly reduces costs
- Increases productivity
- Simplifies assembly
- Simplifies maintenance time/costs
- Provides significant new features
- Has licensing potential

Some companies may provide training as part of a structured orientation for new or recently promoted employees. The training may be focused toward first level supervisors and above, thereby limiting the expense of training and allowing a majority of the technical staff to focus on their technical activities. Once there is buy-in from management of the technical staff, reminders and reporting requirements can be built into project plans such that the project or research leader must report on intellectual property issues as well as other aspects of the project in a formalized manner and on a periodic basis.

Another approach is to periodically meet with members of the technical staff individually or in small groups and discuss any recent project developments and activities. This approach may be the most comprehensive. However, it also carries the greatest cost in terms of the patent practitioner's and technical staff's time, and it may interfere with important technical activities.

Most of the processes utilized require interaction between the patent practitioner and the technical staff. The technical staff is generally focused on many other issues (e.g. finding a solution to a particular problem, today). They may not understand or appreciate the importance and value of intellectual property. Moreover, they may not appreciate the value of their idea or may be modest in that regard. However, the technical staff are generally the ones in the best position to initially identify an idea that should be considered for protection. Once these issues are recognized and addressed, notification to the patent practitioner is more readily accomplished.

Once the technical staff recognizes the appropriateness of notifying the patent practitioner of an idea, any number of processes and technologies can be utilized to get the information or notice to the patent practitioner. Moreover, certain efficiencies can be attained if processes and mechanisms are utilized to ensure that all relevant and necessary information is provided in the initial notification. However, requiring all information requested on a list before providing notification to the patent practitioner may have the adverse affect of discouraging notification and should probably be scrutinized closely before implementation. The following is a listing of some information that is recommended to be included in an initial notification if it is available from the technical staff at the time of notification:

- Date of Invention;
- Drawings, Flow Charts, Control Diagrams & Equations;
- Description Of Invention, Including How Invention Functions;
- Best Way To Make And Use the Invention;
- Problem Solved;
- Advantages Over Existing Systems/Designs;
- Closest Known Technology/Designs (Prior Art);
- Important (Critical) Dates (e.g. field tests, disclosures, suppliers, consultants, customers, technical papers/presentations, sales, offers for sale); and
- Signed and dated by two witnesses who are not inventors.

II. Stewardship of Corporate Technology

Technology is an asset to the company and should be managed properly—with an eye toward opportunity, return on investment and costs. It is important to closely cooperate with business management. An understanding of the business' products, direction, goals, competitors, markets, manufacturing (both corporate and competitors') and opportunities are critical to proper technology stewardship. These are also imperative for providing a foundation for evaluating an idea and "out-of-the-box" thinking that may provide the next great opportunity.

There are at least three possible determinations that can result from receiving notification of an idea. First, a patent application can be filed, and hopefully, a right to exclude will eventually be obtained. Second, the company's right to use the technology can be preserved by publicly disclosing the idea. Third, the idea can be maintained as a trade secret. Each of these possibilities provides certain benefits and carry widely varying costs and risks. However, each creates an asset for the company and should be considered as such.

Like any other asset, ideas and technology should be evaluated based upon its value. Value is a function of the estimated return the asset can provide to the company and marketable price. The return may be in terms of product differentiation, increased sales of product(s), reduced maintenance/service requirements, increased manufacturing

efficiencies, improved responsiveness or customer service, barriers to entry into the market, perceived leadership by customers, marketing advantages, and the like. Marketable price may include the money, goods or services other parties would pay in a particular instance or over a longer period (assignment & licensing), would trade for access to the technology (cross-licensing), or would contribute in lieu of such technology in order to participate in a joint activity (joint research, development, simulation, commercialization and production agreements). The foregoing are not by any means exhaustive and are provided as being illustrative of the types of attributes that should be considered when estimating the value of technology.

There are many different approaches to determining whether to file a patent application. However, a common aspect of successful and efficient management of intellectual property is a framework wherein value guides every step of the decision process. Another common aspect of successful and efficient management of intellectual property is re-evaluating prior decisions whenever action is required.

Value Should Be the Guide in Determining Whether to File a Patent Application.

Once a patent practitioner is notified of an idea, the idea should be evaluated to determine the value to the company. There are many different approaches to making and documenting this determination. The more methodical managers and those desiring a written record, statistical analysis, consistency or control of the number of patent filings may elect to utilize an invention rating sheet. However, there are drawbacks to documenting these decisions, and those issues should be carefully considered prior to establishing such a document.

Invention rating sheets vary greatly from company to company, but usually have some common features. Generally, there is a section where a numerical value is assigned for any or a combination of the following aspects:

- Corporate use of the technology;
- Licensing opportunity/Blocking capability;
- Potential scope of coverage of any potential claims;
- Whether the technology can be easily discovered from the product (reverse engineering); and
- Amount of investment required to make the invention.

Then, often the numerical values assigned are weighted according to the value the manager places on each aspect. The costs of certain actions along with potential benefits should be considered in development of the weighting factors. The resulting numbers can be manipulated according to a formula such that a final numerical score results.

Often, the resulting numerical score is compared to a hurdle number established by the manager to ensure quality and value in the portfolio. Additionally, several different break point numerical values can be provided. This allows for additional

interpretation for those ideas that may fall within a particular range of values, or allows for a means of readily evaluating the filing decisions.

The establishment of hurdle numbers should include an aspect of cost-benefit analysis. Some determination that if an idea has a certain level of potential, then a patent should be pursued. For example, there may be categories (Highly Strategic, Moderately Strategic, Important, Supporting, and the like) in which different ideas are divided based upon the score.

The patent practitioner should use his/her understanding of the business to determine appropriate default filing strategies for ideas in each category. However, once an idea has been scored and categorized, then an evaluation by the practitioner should occur. The default should not always be followed, but should provide a guide. Deviation should be encouraged when supportable. However, if deviations are frequent, the invention rating sheet, weighting factors, hurdle numbers, break points or the formula used should be reconsidered.

Several examples of invention rating sheets have been published and are readily available from knowledgeable US law firms. However, in order for the sheet to be reasonably useful, an organization needs to go through the process of developing its own sheet. Other sheets can provide guidance, but is no substitute for the knowledge and understanding that comes from working through the issues posed during the development of the rating sheet. Development of the sheet forces an organization to focus on its particular characteristics and needs.

Whether combined into one rating sheet or separated into multiple forms, the rating sheet concept can be readily expanded to assist with foreign filing decisions. A patent practitioner should consider the enforceability of a patent in a particular country, the potential recoverable damages, the translation costs, the local counsel fees and the government fees when establishing the default filing decisions for different categories of ideas. For example, if primary products are consumer goods or low price/high volume, a company may value foreign filings in a much different way than a company with other types of products. Some companies may use a shotgun approach that results in filing in a large number of countries. Other companies may take a regional approach that results in filing in only a few select countries in any given region of the world. Finally, others will take a surgical approach that results in rarely filing in more than two to five countries. Whatever the approach to foreign filings, if protection is sought in countries that are relatively more expensive, then the costs and benefits of filing in these countries should be accounted for in the rating sheet.

Additionally, efficient and sound intellectual property management acknowledges and utilizes publications. In many instances an idea may be of marginal value as a patent, but the company needs the ability to use it or would not want a competitor to obtain a patent covering the idea. Therefore, at least one category should provide for public disclosure. Generally, public disclosures can be accomplished at nominal expense.

As a result, a table of categories and default filing decisions similar to the following may be developed:

CATEGORY	SCORE	DOMESTIC DECISION	FOREIGN DECISION
Highly Strategic	-	File	File in all applicable countries
Moderately Strategic	-	File	File in regionally significant countries
Important	-	File	Minimal filing
Supporting	-	Public Disclosure	None

A sophisticated management system will recognize the value and provide for only filing patent applications in certain foreign jurisdictions. Such a system requires significant planing and often employs a two tier formula. Obviously, situations arise where only filing in one foreign jurisdiction may provide the most value to the company.

Re-evaluating Decisions Whenever Action is Required

Another attribute of efficient intellectual property management is re-evaluating the filing decisions at any time during the patenting process and providing flexibility to change decisions or abandon an application when appropriate. Unless protection must be obtained quickly, use of time deferring practices like PCT filings and deferred examination can be advantageous. An organization that files large numbers of patents every year may benefit from attrition. The following are some opportunities for re-evaluation (whether in domestic or foreign jurisdictions):

- Receipt of office actions;
- Receipt of notices of allowance;
- Paris Convention filing deadlines;
- PCT filing deadlines; and
- Translation deadlines.

Tips For Time & Cost Saving In Obtaining A Patent

There are three key factors that should be considered when efficiently managing time and costs in obtaining a patent:

- Relationship with counsel;
- Preparation; and
- Prosecution, annuities, etc.

The following discussion also assumes an organization has a reasonable volume of cases and values a long-term relationship.

It is advantageous to build a partnership with counsel that focuses on mutual trust and respect. There are numerous ways to accomplish this including the following:

- Visiting each others offices and facilities;
- Reviewing and discussing patent drafting, claim philosophies, and office practices and procedures;
- Identifying costs, then looking for savings and allocating the benefit of these for both parties; and
- Identifying improvements in efficiency and share the savings.

Companies should expect counsel to make a profit. However, the company should be advised and agree to where the profit is being earned and the magnitude. As long as this is accomplished and the rewards of cost reduction are shared, the relationship will grow into a strong, balanced and objective relationship.

Additionally, companies should routinely verify conflicts with counsel.

Preparation is critical to efficient patent preparation when working with outside counsel. Due to the significance of this single factor, a section directed specifically to preparation of an international patent application has been included.

However, it is also advantageous for counsel and the examiner to understand the invention. The better counsel and the examiner understand the invention--the quicker, stronger and easier the prosecution will be! Therefore, the following practices are recommended:

- Educate counsel on the technology, invention and application of the technology;
- Advise counsel as to whether the invention is on a product and how such a product operates or is used (help them visualize the environment and operation);
- Identify the problems overcome and the advantages;
- Distinguish the invention from the closest known prior art;
- Interview cases with an examiner (telephone); and
- Take a firm, but fair approach with examiners.

Finally, with respect to prosecution, annuities, and the like, control these to the extent possible. Many annuities can be paid directly by the company and payment services are available for minimal additional cost. Other issues and needs can often be resolved in a similar manner. Always respond quickly to requests from counsel and office actions. Attempt to provide counsel as much latitude in preparing a formal response as practical.

Prosecution should be closely controlled. The quality and expense of prosecution can quickly disrupt many prudent intellectual property management decisions and destroy

asset value. Quality and expense may often seem opposed to one another. However, when value is imposed as the guide, the proper decisions quickly become apparent.

Notably, prosecution in one jurisdiction may well impact on the patent rights in another jurisdiction. For this reason alone, some coordination and consistency is necessary in the prosecution of corresponding patents.

III. Preparation of an International Patent Application

Once it has been determined that a patent application should be filed, it is important that an international patent application be prepared if the company has a pattern or intent to file for patent protection in more than one country. This provides consistency and allows for changes to the filing decisions and streamlined procedures.

For many patent practitioners preparation of an international patent application may be seen as a daunting task rife with opportunities for mistakes, miscommunication, confusion, inefficiency, delays, and exorbitant costs. The following is a brief discussion of issues a practitioner should consider during the preparation of an international application. This is not an exhaustive collection. Rather, it is primarily intended to address many of the major issues with others sprinkled therebetween. However, it is intended to be a brief guide and reference for the practitioner as he/she prepares an international application. Therefore, this paper has been arranged using headings similar to those included in a typical patent application. Comments, considerations and suggestions are included under headings to which they most readily apply.

Title of the Invention

The Title of the Invention should be descriptive of the invention and consistent with the preamble of the broadest claim(s). If the application contains more than one type of claim (E.g. both apparatus and method claims) this generally should be indicated. PCT Rules suggest two to seven English words. A practitioner should recognize that this is a searchable field in many databases and may also be used to quickly categorize an invention.

Cross-reference to Related Applications

Although this section is required for US applications, it should be deleted when preparing an application for filing in other countries. In a US parent or priority case, this may be used to serve as a reminder to review the preceding case(s) to determine if these cases were filed in foreign patent offices and for the scope of disclosure and obtainable claims. Upon completion of the review, an evaluation of whether there is an opportunity to save time and costs by claiming the subject matter within the previously filed case can be made. (E.g. If the present case is a divisional, it may be prudent to pursue claims from

the divisional case if it is now known that the obtainable claims in the previously filed case are narrow and of a lesser value than originally expected.)

Technical Field of the Invention

This should be a very generic statement about the invention. Generally, this section is the same for applications in most countries.

Background of the Invention

To the extent possible, the Background of the Invention section should state the field of art to which the invention generally pertains, identify the reference(s) believed to be the closest prior art, disclose the problems or deficiencies of the reference(s) and identify any of these solved by the invention. Identification of the reference(s) should include the patent number or identification of the publication, the filing or publication date, the country of publication and inventor's or author's name(s) (including any middle initial).

Any "incorporation by reference" should be deleted, and the information needed for support should be inserted into the application. Additionally, US practitioners often include some boilerplate language in this section. In foreign jurisdictions the value of the typical boilerplate phrases is often less than the costs associated with the translation. Therefore, the practitioner should consider deleting boilerplate language.

Summary or Disclosure of the Invention

As is common in US practice, the broadest independent claim of each type may be paraphrased. Generally, this section is the same for applications in most countries.

Brief Description of the Drawings

Generally, this section is the same for applications in most countries.

However, it is important to consider the format, necessity and content of the drawings. A practitioner should critically evaluate the need for each drawing, consider ways to combine features shown in several figures into one figure and consider whether multiple figures may be presented on a single sheet. Except for flow charts, the practitioner should consider eliminating text from the drawings. Including text in drawings significantly increases translation, foreign counsel and other costs but generally provides little value. PCT rules discourage text in the drawings. When text is included, like in flow charts, it may be more economical to initially obtain two copies of the

drawings—one including text and one excluding text. Providing drawings with and without text may assist foreign counsel in some countries.

Detailed Description of the Invention

There are numerous philosophies on drafting the Detailed Description of the Invention. Any chosen approach should at least meet the Best Mode and Written Description requirements in the US. If these requirements are met, the description is generally sufficient for filing in foreign countries.

However, there are a few issues of notable concern when filing applications in foreign countries that should be particularly evaluated in this section. Other considerations are listed below in the General Considerations section of this paper.

It is extremely important to keep the Detailed Description of the Invention as short as possible while adequately describing the invention. Because this section is typically the longest section of the application it also provides the greatest opportunity to reduce translation and filing costs. Carefully consider all opportunities to shorten the description when aspects of the invention are conventional and widely known in the field and are not necessary for the understanding and use of the invention by one skilled in the art. Again, the value of boilerplate language should be considered and weighed against its value in the foreign jurisdictions, if any.

Additionally, verify that consistent terminology and nomenclature is used throughout the description and the rest of the application. The terminology should be short, jargon-free and readily translatable. Every attempt should be made to use accepted terms set forth in international or professional standards for as many features as possible. It is important that complete sentences are used and that compound, complex and compound-complex sentences are avoided. These can severely effect the quality, timeliness and accuracy of a translation, increase the workload on foreign counsel, and add to confusion or delays in prosecution and enforcement. A practitioner should recognize that some languages are not technically oriented and direct translations can be difficult. Obviously, these can significantly increase costs in terms of both time and money.

In an international application it is preferable that all units in the application are metric units of measure. Imperial or other units of measure may be placed in parenthesis after the metric units. However, care should be taken to verify that multiple quantities are equivalent.

As discussed above in the Background of the Invention section of this paper, any identification of reference(s) should include the patent number or identification of the publication, the filing or publication date, the country of publication and inventor's or author's name(s) (including any middle initial). Incorporation by reference should be avoided. Instead, insert the necessary information into the application.

Some words or phrases often used in US practice should be reconsidered. The practitioner should consider eliminating use of "about," "approximately," "substantially" and the like when used preceding a numerical value. However, these may be left in any specific examples included in the description. Often, foreign patent examiners will object to this type of language—resulting in increased time and costs.

Similarly, practitioners should evaluate the use of words like "critical," "important," and "must." These should probably not be used anywhere in the application if it does not form part of the broadest claim. These can cause problems during prosecution with some foreign examiners. Instead, consider using words like "advantageously," "preferable" and "preferably" in these situations.

The practitioner should consider including a brief section setting forth how the invention functions and may be used in practice or by industry. It may teach the broader commercial use, need and value. Aspects of advantages that might be used to support an argument to overcome obviousness (lack of inventive step) should be included. This section is often useful during interviews with examiners. The practitioner may consider including this section under a separate title like "Industrial Applicability" at the end of the Description or may choose to incorporate it into the Summary and/or Description. Notably, all of the same arguments typically advocated in the US to overcome anticipatory and obviousness rejections are valid and useful arguments in foreign prosecution.

As discussed below in the Claims section of this paper, it is advisable to reduce the number of claims when filing an international application. However, it is advisable to include the non-elected claims in the Description. Often, the non-elected claims are placed in a section at the end of the Description titled something like "Other Features of the Invention" or "Additional Embodiments of the Invention." This approach retains the disclosure in the application during prosecution and allows for readily using one of the non-elected claims should an elected claim fail to make it through prosecution. Once the application evolves toward an allowable condition, this section should often be deleted from the application.

Claims

It is acceptable in the US to merely title this section of the application "CLAIMS." This is something suggested for doing in all applications. It relieves a practitioner from remembering to change it when it comes time to file certain applications.

It is generally advisable to leave the claims in their original form when filing the initial foreign application (except for including reference numerals). In most applications, there is little justification for changing claims to two-part form ("characterizing") unless the examiner requires it. However, the foreign examiners

require it often enough that it is generally advisable to consider at the time of drafting the application whether the claims are readily convertible to two-part form. If not, it may be advisable to take a few minutes at the time of drafting to prepare two-part claims while the case is current. It is generally advisable to prepare a copy of the independent claims including reference numerals and a parts list at the time of drafting the application. A parts list merely lists the parts called out in the drawings and indicates the corresponding reference number. Parts lists are not filed and are primarily useful for the draftsmen, clerical staff, foreign associates and sometimes the practitioner. Later, it may be more difficult, time consuming and costly for the client to produce these. Also, another practitioner may manage the case during foreign prosecution.

The practitioner should consider reducing the number claims when filing foreign applications. Generally, many of the claims in a US application are duplicative to a certain extent or provide narrower protection than other claims. The value of these claims often can not justify the increased fees, translation costs, prosecution time and the like. For example, a practitioner should consider filing only independent claims and should critically consider filing any more than three claims in Japan. In Europe, similar considerations should be undertaken. However, in Europe it may often be justifiable to file more claims than three but fewer than ten. Fees can significantly increase in Japan and Europe beyond the three and ten claim cutoffs. Also, a practitioner should make use of multiple dependent claims in Europe and Japan when possible. Similarly, many other countries do not discourage use of multiple dependent claims through increased patent office fees. As mentioned above, it is advisable to consider including the non-elected claims in a section at the end of the Description. Then, the subject matter of the non-elected claims is disclosed and they are available if needed during prosecution.

In Europe, a practitioner should consider including one very broad claim in the application. This may be helpful and necessary if the practitioner later needs or desires to make a broadening amendment to the claims. The one very broad claim is usually cancelled at the end of prosecution.

Abstract

The Abstract often merely provides a general description of a broad embodiment of the invention. There are many philosophies about how the Abstract should be drafted. However, the practitioner should recognize that this is searchable text in many databases and may also be used to quickly categorize an invention. It may be advisable to include the title of the application at the top of the abstract. Generally, this section is the same for foreign applications as for US applications.

General Considerations

Prior to filing a foreign application the priority application (often the US application) should be reviewed for any amendments, particularly to the drawings or

claims. The practitioner should consider including these changes in the foreign application. If changes are made in light of amendments, the chain of claim dependency should be verified and corrected if necessary.

The format for all dates provided in an international application should be similar and follow international customs (E.g. 23 April 1999).

A well drafted application for filing in the EPO can readily be used for most European countries and Taiwan. An application filed in Taiwan may also be useful and reduce costs when working with foreign associates in the People's Republic of China. A well drafted application for filing in Japan can be used for South Korea. In summary, a well drafted international application suitable for filing in Japan and/or the EPO will generally be suitable for filing in other countries, including Asian, South American and African countries.

References to pending US applications should generally not be included when drafting an international application. However, if these are present in the application, the practitioner should consider deleting them or replacing them with references to corresponding applications pending in the foreign jurisdiction in which the application is being filed when these foreign applications exist.

Standard Application Format

This paper has been divided according to headings commonly found in US patent applications in order to assist the US practitioner. However, it is recommended and prudent in international applications to use the PCT headings after the title (i.e. "Technical Field", "Background Art", "Disclosure of Invention", "Brief Description of Drawings", "Best Mode for Carrying Out the Invention" or "Mode(s) for Carrying Out the Invention", "Industrial Applicability", "Sequence Listing", "Sequence Free Text", "Claims" and "Abstract"). Notably, the USPTO does accept applications with these same headings.

Paper:

A4

Margins:

Top 1.25"
Bottom 1.25"
Left 1.5"
Right 1.25"

Page Numbering:

Centered at bottom of the page above the 1.25" margin

Font/Point Size:

Times New Roman/12 Point

Spacing:

1 1/2 Spacing

Paragraphs:

The first line of each paragraph should be indented 1" (10 spaces); text should be left aligned.

Headings:

Each heading (e.g., Technical Field) should be consistent with the other headings in the application. Underlining, capitalization, centering or left justification, and boldfaced lettering may be used. However, the text must lend itself to easy reproduction and copying.

Title:

The title may be all capitalized, boldfaced letters, centered, and underlined. It should appear at the top of the first page of the description.

Abstract Page:

The abstract page should appear at the end of the application after the claims and begin on a new page. The heading (e.g. "Abstract") may be all capitalized, centered, boldfaced letters, and underlined. Include reference numerals in the text when filing outside the US.

Claims:

The claims should begin on a new page. The first line of each claim should be indented 1" (10 spaces). A return should be placed between each claim. Include reference numerals in the text when filing outside the US.

Headers:

Page numbers should be centered at the top of each page with a margin of 0.9", 1 1/2 spacing; no returns before the page number and one return after the page number.

Line Numbering:

Times New Roman font/12 point; number every 5th line of each page (5, 10, 15, etc.) of the specification and abstract in the right half of the left margin.

Drawings:

The drawings should include page numbers centered at the top or bottom of each sheet without being in the margin. Sheet 1 of 4 should be expressed as "1/4" in numbers larger than those used for reference signs.

Parts (or Element) List:

For mechanical and electrical applications with drawings, a parts list should follow the abstract, as a page(s) separate from the specification, with no line numbering. The parts list should list each reference number in the drawings and the associated part name. The part name should be consistent throughout the specification and parts list. Parts lists are not filed and are primarily useful for the draftsmen, clerical staff, foreign associates and, sometimes, the practitioner.

A well drafted international application can readily and easily be prepared by an informed patent practitioner. The comments, considerations and suggestions contained herein serve to inform and provide a reference. Although foreign prosecution may potentially impact a US patent, it is not necessary that the US case be compromised in a substantive manner in order to provide a well drafted international application. In fact, well drafted international applications turn into valuable and enforceable US patents all the time. Further, by prudently drafting the international application a patent practitioner can help minimize prosecution in other countries, opportunities for mistakes, miscommunication, confusion, inefficiency, delays, and exorbitant costs. It seems that a patent practitioner's responsibility to the client and the profession requires such action.

(1) Title: Evaluation of Inventions

(2) Date: October 1999(30th General Meeting in New Orleans)

(3) Source: 1. PIPA

2. Japan

3. Committee #1

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Table of Contents:

1. Introduction

2. Present Condition and Problems of Japanese Patent Applications

2.1 Trend of Japanese Patent Applications

2.2 Effect of Shortened Period of Request for Examination

3. Evaluation of Inventions

3.1 Significance of Evaluation of Inventions

3.2 Purpose of Utilizing Patent Applications

3.3 Evaluation Factors

3.4 Process of Evaluation

3.5 Evaluation Sheet

4. Summary

Evaluation of Inventions

1. Introduction

The number of patent applications by the Japanese nationals has ranked top in the world for the past few years, with more than 30,000 domestic applications and more than 10,000 foreign applications per year. In spite of the large number of patent applications, it must be admitted that these applications are not fully utilized. Since we have to bear costs in connection with patenting inventions (including applications, registration and maintenance), it is desirable for a company to increase the number of patents put into actual use as much as possible from the point of view of cost performance.

While Japan has been facing extremely severe economical conditions these years, we are urged to realize the so-called globalization and the so-called "pro-patent" handling of patents. Legislative actions have been in progress, including some enacted laws aiming at the implementing of the "pro-patent" policy. In particular, the amendment to Japanese Patent Law to "shorten the period for request for examination" effective from January 1, 2001 will greatly affect the method of evaluating inventions, and thus it gives us a good occasion for reconsidering the method of invention evaluation. Considering these circumstances, it would be worthwhile for us to review our method of evaluation, aiming for its improvement. Therefore, first we would like to clarify the present condition

of patent application by the Japanese and the problems involved, and then we would like to make a proposal of a new method of evaluation, keeping in mind "the utilization of patents" in line with the present patent globalization and "pro-patent" trend.

2. Present Condition and Problems of Japanese Patent Applications

2.1 Trend of Japanese applications

The number of annual applications both domestic and in foreign countries by persons of the leading countries in 1995 is as follows:

Japan: about 320,000 domestic applications and about 150,000 foreign applications

U.S.A.: about 100,000 domestic applications and about 800,000 foreign applications

Germany: about 50,000 domestic applications and about 200,000 foreign applications

(from the Japanese Patent Office's home page, http://www.jpo-miti.go.jp/tousi/nenzi98s/1/1-1-2.htm).

As shown above, as far as domestic applications are concerned (apart from foreign applications), Japan ranks first in the world, and considering the size of population and GDP, Japanese domestic applications are considerably larger in number than other countries.

Among this large number of domestic applications, the ratio of applications requested for examination to the total

applications is about 50%, the ratio of registered applications to the ones requested for examination is about 60%, further, among existing total registered patents of approximately 900,000, about 600,000 registered patents are dormant (from the Japanese Patent Office's home page, http://www.jpo-miti.go.jp /tousi /ki6_1.htm). In other words, only 30% of total applications were issued as patents and only 10% of total applications were applied to practical use.

The above figures show that many patented inventions are not actually utilized. The reasons for these results are commonly pointed out as follows:

1) Research & development with stress on improvement

Japanese industry started with efforts to catch up with American and European technology, and tried to develop its products in a manner so as to improve the technology introduced from abroad. Since we are still accustomed to this practice even now, very few basic inventions are made while a large number of improved inventions are made. This is the reason why only a small portion of the patented inventions is actually applied to practical use.

2) Laying stress on quantities instead of qualities in applications

There is a strong tendency that we try to maintain a leading position by increasing inventions in quantity instead of

promoting inventions in quality. In order to grasp the results of patent promotion activities in a company, quantitative results are easier for appraisers to visualize, and thus quantitative evaluation is preferred to qualitative evaluation, and stress is apt to be laid on the number of patent applications made.

3) Defensive applications

Although the main purpose for companies to make patent applications is either to use the patent exclusively for the company or to grant licenses expecting revenue from the license fee, companies often file patent applications for the purpose of defense. For example, patent applications are sometimes made to prevent others from developing similar products to their own by obtaining patents for the improvement of their own inventions and products, without intention to use the improvement patent. Such defensive patent applications are strategically very important, but in fact it is not easy to judge properly whether the applications actually serve the purpose of defense, and in reality such defensive applications are made quite often without evaluating fully the effectiveness of the application. In addition, the current 7 years period of the request for examination is thought to encourage this practice. This period leads us to make the initial application as a temporary measure, thinking that we may make a final judgement as to whether to

request for examination 7 years from the filing date. Further, in some cases, a patent application is filed only for fear that other companies may obtain a patent on the invention concerned, even if the patentability of the invention is very weak. According to a survey conducted by the Japanese Patent Office on "corporate trends concerning intellectual property", Japanese companies make more defensive patent applications than foreign companies do (http://www.jpo-miti.go.jp /tousi/nenzi98s/1/1.1-2.htm).

Considering the above-mentioned present situation (50% ratio of examined applications to total applications, 30% ratio of issuance as patent to total applications, and many dormant patents), we cannot deny the fact that we tend to make applications and obtain patents for inventions which are not worth patenting. Under these circumstances, companies face the following problems:

(1) bad cost performance such that the costs incurred by patent applications and maintenance cannot be recovered,

(2) a large number of applications with low patent value are examined at the Patent Office, and as a result the issuance as patent of applications with high patent value is delayed,

(3) since human resources in companies' intellectual property division though they are quite limited, must be assigned even to applications with low patent value, the care that can be taken with applications of high patent value is

lessened.

In order to solve these problems and obtain many industrially useful patents, conducting an appropriate evaluation as to whether a patent application or the issuance of each patent should be sought with respect to an individual invention, while it is important for us to change the fundamental corporate policy of patenting so as to shift to the basic technology development type from the improved technology development type, and also to switch over to quality oriented practice from quantity oriented practice.

2.2 Effect of shortened period of request for examination

For patent applications from effective date of October 1, 2001, the period of request for examination is scheduled to be shortened from 7 years to 3 years. With this amendment, "evaluation of inventions" will become more important than before. The effect of this amendment is discussed below.

As mentioned above, the ratio of application requested for examination was 50% in Japan. The statistics show that half of these examined applications requested for examination in the 6th or 7th year from the filing dates of the applications, under the provision of 7 year period of the examination request (from the Japanese Patent Office's home page, http://www.jpo-miti.go.jp/tousi/ ki6_2.htm). The fact that the request for examination is usually made just in time before the expiration of the request period, raises the following transitional and

permanent problems involved in this amendment of the abridged examination request period from 7 years to 3.

1) Transitional problem

The problem in the transitional period of coming 10 years or more is now taken up for discussion. As for a company which makes it a strategy to request for examination just in time before the expiration of the request period, patent applications subject to review as to the request for examination will increase in number temporally for the transitional period. Taking the year of 2004 for an extreme example, there will be in that year requests for examination relating to applications filed in 2001, three years prior to 2004 and applications filed in 1997, 7 years prior to 2004. Assuming the applications filed in 1997 and the applications in 2001 are equal in number, the applications to be requested for examination in 2004 would be doubled in number. This situation would continue for about 4 years from 2004.

This transitional increase of the request for examination will not only cause increased costs, but also will have an adverse effect on intellectual property jobs as a whole due to the suddenly increased work. We cannot easily handle the increase in requests for examination, due to budgetary restriction. In order to preclude the cost increase, we have to decrease the number of requests for examination by an appropriate evaluation of inventions. Under the present

circumstances, it is a difficult management problem for us to increase manpower to solve the problem of the extraordinarily increased work.

On the other hand, the Patent Office will be thrown into confusion in handling the extremely increased requests for examination. We are wondering whether standards for examining procedures will be maintained in such a situation.

Under these circumstances, we will have to equalize the requests for examination evenly over the request period, but a temporary increase in the request for examination in the transitional period will still be inevitable. Therefore, it will be necessary for us to decrease the number of patent applications to some extent through an appropriate evaluation and selection of inventions.

2) Permanent problem

The system of the request for examination means that examiners are obliged to examine only the patent applications that are requested for examination within a stipulated period. Under this system, applicants can postpone their decision to seek the issuance of their applications up until the expiration of this examination request period. Therefore, in the meantime, companies can make a strict and careful selection of the applications for the request for examination, and as a result companies can keep low the cost related to the acquisition of patents. As mentioned above, the Japanese

companies make half of their requests for applications for examination in the 6th and 7th year from the filing dates of the applications, taking advantage of the current system.

Under the amended system, the companies, which are used to requesting for examination just in time before the expiration of the request period, will face the following problems:

(1) The rate of applications requested for examination is anticipated to increase. Since the production of the applicability of inventions will be difficult within such a shortened request period, it will not be easy for us to properly determine whether request for examination should be made. Therefore, some of the inventions that would not have been requested for examination under the old law may well be requested for examination in the future. The increased number of requests for examination will have unfavorable effect on cost performance.

In particular, if we judge whether to request for examination by the same evaluation method as the present one, more applications not worthy of patenting will be requested for examination, and it is most likely that the increased applications requested for examination will not be utilized effectively even if they are issued as patent. Therefore, it is not advisable to allow the requests for examination to increase. Though the efforts to decrease unnecessary

requests for examination as much as possible is important, fundamentally speaking, it would be more important to improve our quality of judgement regarding the examination requests, keeping fully in mind the significance of the issuance of the patent.

(2) The shortened period of the request for examination will also affect the timing of evaluation. We will have to decide whether to request for examination at latest two years or two years and half from the date of filing of the application, therefore the timing for judging whether to make a domestic application or whether to file a foreign application, or whether to request for examination will be much earlier than at present. If a company makes the above three judgements separately, it means the company conducts similar judgements repeatedly in a short time, and it is not efficient to do so. Therefore, in order to increase efficiency, it is necessary to conduct at least two judgements simultaneously. In other words, it would be advisable to make each of these judgements by adopting a stricter method of evaluation of the invention instead of mere increase of efficiency of the present method.

Since the amendment to the Patent Law to shorten the period of examination requests will have a great effect on the costs and management of patenting work, improving the method of evaluating inventions will become very important in order that the above problems confronting us be solved.

3. Evaluation of Inventions

3.1 Purpose of evaluation of inventions

The question to discuss here is what is a good method of the evaluation of inventions for the solution of the problems involved in the patent applications in Japan as mentioned in the preceding Section 2. We will not be able to solve those problems by merely making the evaluation standards stricter. It would be better for a company to review and consolidate its business operations and R & D areas first, before placing a mere limitation on the number of patent applications.

However, if a company files an application for every invention, the expenses and manpower necessary to handle these applications would be enormous and this will impose a heavy burden on the company. We are accustomed to making a large number of patent applications, but properly speaking, the patent application is a kind of investment, thus if no return is obtained on the investment, it is nothing but a loss. In order to minimize the risk of loss, we should select and make an application for only inventions that will contribute to our company profit. We would like to propose that it is most important to evaluate inventions comprehensively from many viewpoints with respect to what benefits the invention will bring about to the company. Through such evaluation we could expect to improve the quality of patent applications and to decrease total applications and requests for examination as

a result.

The main points of our proposal are as follows:

1) to shift from the present standardized method of invention evaluation to the method of invention evaluation according to its fulfillment of the "Utilization Objective" set for the invention. Under such new method of evaluation, the inventions which can be used by the company to its exclusive profit or are expected to gain license fees under its patent, will be highly evaluated,

2) to unify evaluation factors (standards) at all stages from the patent application through the expiration of a patent term,

3) to shift evaluation of inventions from patentability oriented standard to business oriented standard. Under this standard, an invention with high business value is evaluated highly, even if its patentability is low.

3.2 Utilization Objectives of patent application

Utilization Objectives are divided into the following 4 categories from a viewpoint of whether the invention is utilized exclusively by the company or whether it is licensed to use to other companies:

A. In the case in which the company desires to utilize the invention exclusively, that is, the company desires to operate its business to its advantage by monopolizing the product embodying the invention in the related market.

B. In the case in which the company desires to utilize the invention and to license to use it to other companies for license fee or under a cross-license arrangement ---- an invention expected to become the so-called de fact standard falls into this category,

C. In the case in which the company neither intends to utilize the invention nor to license to use it to other companies ---- at the stage of patent application, many of the applications are aiming at possible industrial application in future, thus practical applications of the patent may be few; an invention comprising merely improvement techniques that is not used by the company but for which a patent is applied for a defensive purpose falls into this category,

D. In the case in which the utilization of the invention by the company is undecided, but there is a possibility that the invention will be licensed to use to other companies. This category includes the patent applications of which objective is not clear and do not fall under the above categories of A~B, and also inventions related to a subject of which a feasibility study was canceled after the patent application on the inventions.

3.3 Evaluation Factors

In order to determine whether an invention conforms to the above classified Utilization Objectives of patent

application, the following five evaluation factors were established as a measure of evaluation:

technical evaluation, business evaluation, strength of patent right (patent utilization) evaluation, patentability evaluation and cost evaluation.

We consider it advisable that the intellectual property department of the company is responsible for the evaluation as a final evaluator, taking account of the opinion of the departments and divisions concerned.

1) Technical evaluation

This is the evaluation of an invention on the basis of technical value. The following subdivided factors can be considered:

- Originality: Judgement of whether an invention is a basic invention or an improvement invention. A basic invention without any substitutable technique is highly evaluated.
- Degree of technical completion: Judgement of to what extent additional study is needed for its completion.
- Effects of invention: Judgement of the degree of the effects of an invention, such as an improvement of quality and the saving of manufacturing costs.
- Life of technique: Judgement of how long the technique will be in use.

2) Business Evaluation

This is the evaluation of an invention on the basis of contribution to the company's profit. The following subdivided factors can be considered:

- Utilization period: The longer the invention is used by the company, the more profit accrues to the company.
- Market size of product: Evaluation is made comprehensively with respect to the company's products incorporating the invention, the scale of related market, the estimated market share of the products, estimated quantity of production and sales volume of the product.
- Relation to R & D areas: Judgement is made with respect to the status of the invention in the company business on the basis of the importance of area of the invention, whether it is one of the company's designated important concerns or one of the R & D areas.

3) Strength of Patent Right (patent utilization) Evaluation:

This is the evaluation of an invention on the basis of the effect of the invention issued as patent on other companies. The following subdivided factors can be considered:

- Design around: If design around of the invention is technically difficult, it is effective in preventing other companies' imitations. The more an invention is of general-purpose nature, the more it will be difficult to design around.
- Ease of ascertain meat of infringement: Generally it is

easier for us to find infringement of a product invention, and to assent our rights over it than to a process invention.

- Possibility of becoming the standard: When the invented technique is expected to become a de facto standard or to be a formally established as the standard technique, we can expect with certainty that other companies will seek a license on the invention, and we can obtain a large amount of income from the license, and such an invention is highly rated.
- Situation of Other Companies' Use: A technique that other companies will desire more highly to use is more highly evaluated.

4) Patentability

The patentability of an invention is evaluated according to the standard requirements such as "novelty" and "inventive step". Properly speaking, the determination of the patentability of an invention may be given priority to other factors, because without patentability no patent application would be of value. However, since we cannot predict the patentability of an invention perfectly, it will not be necessary for us to employ patentability as an essential evaluation factor, although we have to suspend a patent application for a clearly unpatentable invention.

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5) Cost Evaluation

This is the evaluation of an invention on the basis of estimated costs necessary for issuance as a patent. For instance, an invention that we cannot expect a favorable generation of income from, as compared with costs involved, would be negatively rated.

3.4 Evaluation Process

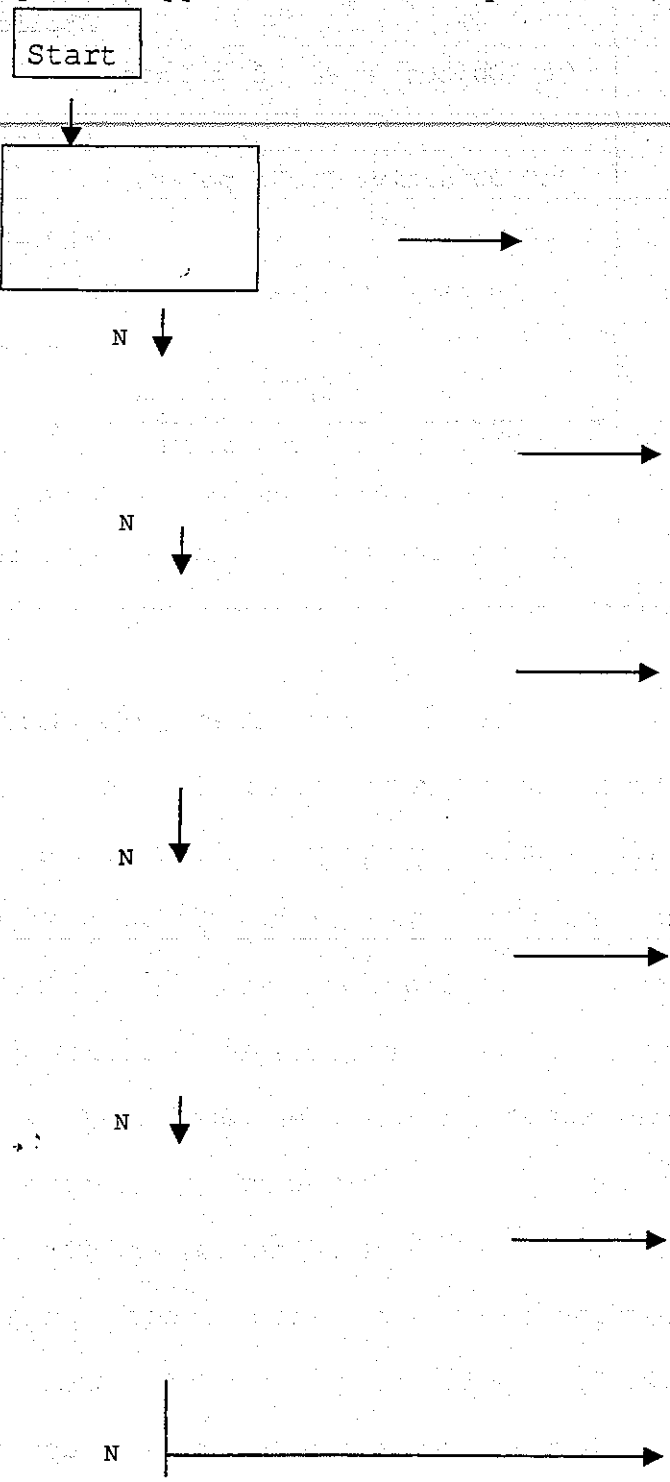
The evaluation of inventions involves judging the necessity of patent application, request for examination and maintenance of the patent. We would like to explain our proposed method of the evaluation of inventions by a flow chart (Chart 1) below which illustrates a total evaluation process, determining whether to file an patent application and whether to request for examination based on our evaluation method.

Since to predict the feasibility of inventions involving basic research is difficult, it does not fit this method of evaluation, which lays stress on the business side. Therefore, under this method of evaluation, we handle inventions other than those related to basic research. Whether the evaluation is done for judging the propriety of a patent application or a request for examination, we first select appropriate one category of Utilization Objectives out of four Utilization Objective Categories (A~D) for an invention to be evaluated, judging for which objective the invention will be utilized after the issuance as a patent. Then the invention is rated according to one of four types of evaluation

sheets that are prepared for the respective Objectives (A~D), and on the basis of this rating, determination is made as to whether to make a patent application or whether to request for examination. With respect to an invention related to basic research, we consider that a separate method of evaluation is preferable, but this is not referred to in this paper.

The evaluation sheets are divided into 4 types in accordance with 4 Utilization Objectives (A~D), and as a maximum aggregate point (a full mark) rating, 100 points are assigned to the evaluation Sheets of A and B, 60 points are assigned to Sheet C, and 40 points are assigned to Sheet D. The passing mark is set at 35 points for all inventions both for the evaluation regarding the patent application and the request for examination. By adopting this method, we are aiming at such a drastic change in our patent application behavior that the inventions with the objectives A and B may increase in terms of the ratio of patent application, and the inventions in the objectives C and D may decrease in terms of the ratio of patent application.

Chart 1 "Flow chart of total evaluation process regarding patent application and request for examination"



* File an application or request for examination	• Application "a"(Objective A) 80 points • Application "b"(Objective A) 70 points • Application "c"(Objective B) 70 points • Application "d"(Objective B 60 points • Application "e"(Objective C) 50 points
* Do not file an application or do not request for examination	• Application "f"(Objective C) 30 points • Application "g" (Objective D) 25 points • Application "h" (Objective D) 20 points

We intend to maintain consistent standards in our evaluation through both the patent application and the request for examination by unifying the evaluation factors applicable to inventions, in order to secure the most appropriate patents for application, acquisition, and maintenance after issuance, always for the purpose of effective utilization.

For example, suppose there are 8 applications "a"~"h" as shown in the above chart. For each application one of the Utilization Objectives A~D is selected, and the application is rated according to the evaluation sheet corresponding to the objective. The applications "a"~"e" scored higher than 35 points and thus are eligible for patent application or examination request, and the applications "f"~"h", which

scored lower than 35 points, are excluded from patent application or examination request.

3.5 Evaluation Sheet

3.5.1 Outline of Evaluation Sheet

Table 1 shows an example of the format of the evaluation sheets that are used for the evaluation of patent applications and examination requests. 4 types of sheets in a similar format are prepared according to the Utilization Objectives A~D.

In the column of "Coefficient", one of coefficients from a1 to a12 is assigned beforehand to each of the 12 evaluation factors other than "Cost Evaluation". The values of the coefficients represent the weight given to those evaluation factors, and vary with the Utilization Objectives. In this paper, more details are explained later in the trials showing actual figures of these coefficients corresponding to the Objectives A~D. The same values are given to the coefficients of the evaluation factors for both patent applications and examination requests, in order to keep consistency in the judgements of evaluation all through the stages of the evaluation process.

An evaluator in charge of the evaluation of inventions selects one of the rating points 1 through 5 shown in the "Five Level Rating " column of each evaluation factor and enters it in the column of "Rating Points". A three level rating

of 1, 3 and 5 is adopted for "Difficulty of Design Around", "Ease in Ascertaining infringement" and "Patentability". In the "Score" column of each evaluation factor, an amount obtained by multiplying rated points under "Five Level Rating " by the "Coefficient" of the evaluation factor is to be entered. The aggregate rating points of each score for the 12 evaluation factors constitute an "Overall Score" of the invention. The definition of each of the five levels or three levels for each evaluation factor is shown in Table 2 "Definition of Five Level Rating "".

The scores may vary between those rated at the stage of patent application and those rated at the stage of examination request, since the applicability to business may change with the lapse of time. Therefore, Overall Scores obtained at the stage of examination request could be higher or lower, compared with those evaluated at the stage of a patent application. "Score" in the column of "Cumulative Procedure Costs" shows "0" for the stage of patent application and "-1" for the stage of examination request. In other words, "-1"must be added to "Score" if an examination is requested. This evaluation factor of "Cumulative procedure costs" acts as a negative factor in evaluating benefits to the company brought about by the inventor, because cumulative costs of handling an invention grows as the process of patenting progresses, from an application, a request for examination,

registration and maintenance (the latter two are not reflected in the Tables). This means a stricter rating is required for an advanced procedure such as a request for examination than for a patent application. Although as a negative number "-1" is assigned to the score for a examination request in this paper, this figure should be adjusted according to the size of the related market to the products concerned, for instance, if "Cumulative Procedure Costs" are negligibly small considering the scale of the prospective market, the score could be changed to "0", on the other hand, if the prospective market is not big enough to justify the costs, the negative number could be increased.

If the Overall Score of an invention is higher than 35 points, we decide to proceed to a patent application or a request for examination, while if the Overall Score of an invention is lower than 35 points, we decide not to continue with further procedures.

3.5.2 Weighting of Evaluation Factors

Tables 3~6 illustrate four evaluation sheets, each corresponding to Utilization Objectives A~D. In each sheet, a weighted value based on our proposal in this paper is assigned to each "Coefficient" of each evaluation factor.

As stated above, maximum total points of rating (full marks) are established in such a manner that 100 points are assigned to Evaluation Sheets of A and B, 60 points are assigned to

Sheet C, and 40 points are assigned to Sheet D. In order to afford you a better understanding of this method, in each of the tables 3~6, a highest rating of 5 points (a full mark) is entered in each "Rating Points " column of all the evaluation factors only for convenience. However, an aggregate maximum points minus one point is set as a full mark of the overall score for the rating relating to a request for examination.

In establishing the "Coefficient", we considered the weighting of the coefficients for each evaluation factor, so as to reflect the maximum benefit obtainable through the utilization of the invention towards the selected objective. We will explain below the grounds for the weighting of each evaluation factor in each case of the utilization objectives A~D as shown in tables 3~6.

(1) Objective A (Exclusive use by the company)

Since objective A is to make a profit for the company by utilizing the invention exclusively by the company, the amount of the increased profit of the company attributable to the application of the invention can be the basis of evaluation.

The profit generated by the exclusive use of the invention is considered to be the additional profit after the application of the invention over the profit before the use of the invention. The profit can be estimated by the following simplified formula: (scale of product market) x (company's

share) x (rate of profit), provided that necessary expenses for the working of the invention is to be estimated separately and must be deducted from the increased profit.

The related expenses to be considered are as follows:

- License fee payable required to work the invention
- New investment necessary for the working of the invention
- Additional costs of Research & Development

Therefore, the basis of the evaluation of a patent with Objective A can be simplified as the increased profit obtained as above, less expenses required to utilize the invention. Each evaluation factor is explained below.

"Scale of Product Market " is itself an evaluation factor and one can easily understand that it has much effect on the profit to be created by the invention by a mere comparison between a 100 million yen market and 1 trillion yen market. Therefore, the highest maximum score of 20 (coefficient: 4) is assigned to this factor of "Scale of Product Market".

Both "Company's share" and "the rate of profit" reflect "the effect of an invention", for instance, an improvement of a product's special qualities could increase market share from a few percent to several tens of percent and also increase an amount of profit largely. In addition, a reduction of costs by an invention contributes greatly to the rate of profit. Therefore, like "Scale of Product Market ", the highest

maximum score of 20 (coefficient: 4) was assigned to this factor of "Effects of Invention".

Market share has much to do with whether other companies have technique substitutable for the invention, that is, the possibility of "design around". If other companies do not have substitute technique, the company can enjoy a monopoly and can license other companies to use the invention. Generally speaking, the application of substitute technique is considered with cost and benefit. Thus, a maximum score of 15 (coefficient: 3), second to that of "Scale of Product Market " in weight is assigned to this factor of "Difficulty of Design Around".

If profit is considered in terms of time, "Period of Utilization" of the invention is important, because it directly relates to the amount of profit. "Period of Utilization" is related to "Life of Technique". Therefore, a maximum score of 7.5 (coefficient: 1.5) is assigned respectively to the factors of "Period of Utilization" and "Life of Technique" with total maximum score of 15.

The next point is costs required for a working invention, as a negative factor for the evaluation. License fee payable is related to outside prior patents to be utilized to work the invention (hereafter called "prior patents to be utilized"), and is handled here in relation to the "Originality" evaluation factor. Therefore, the

"Originality" factor here is established to check to what extent the utilization of other companies' patents is necessary for the utilization of the invention in question.

If we use other companies' patents, license fee to be paid works as a negative factor against the company profit. We assumed the profit decreases roughly by a few percent due to the payment of license fee per license, but of course in actuality the percentage varies with the rate of royalty and the volume of sales. A maximum score of 10 points (coefficient: 2) is assigned to this "Originality" evaluation factor. In this evaluation, although we assume the necessary license from other companies is available, this availability must be checked separately.

An additional investment for the utilization of the invention has much to do with whether the invention is related to the company business. If the invention falls in the company's R & D areas, the required additional investment would be kept to a minimum. Although this evaluation could vary with the actual investment in additional R & D required, in this paper a maximum score of 10 points (coefficient: 2) is assigned to the "Match with R & D Areas" evaluation factor.

This additional investment with additional funds is also related to the factor of "Degree of Technical Completion". A maximum score of 5 points (coefficient: 1) is assigned to this "Degree of Technical Completion" factor here.

"Ease in Ascertaining Infringement" is a factor to judge whether other companies will penetrate the market related to the invention by attempting to sell infringing products. If such penetration occurs, of course the company suffers a decrease in profit, but considering the recent amendment to the Japanese patent law that makes a patent infringement more difficult, the effect to the company of this factor would diminish in future. Thus, a maximum score of 5 points (coefficient: 1) is assigned to this "Ease in Ascertaining Infringement" factor here.

"Patentability " factor is needed for the patent, but large weighting is not necessary. Since patentability, though it is excellent, has nothing to do with an expected profit created by the invention. Therefore, a maximum score of zero (coefficient: 0) is assigned to this "Patentability" factor. Patentability is reviewed when what to do with an invention is decided, and an invention found unpatentable is eliminated.

"Situation of Other Companies' Use" factor has nothing to do with the objective of the exclusive use of the invention by the company, thus a maximum score of zero (coefficient: 0) is assigned to this factor.

<Final judgement of the exclusive use of the invention by the company>

As stated above, in order to make exclusive use of the invention, it is prerequisite that there is no related "prior

patent to be utilized", or that it is available if necessary. It is also true that an invention without any patentability is of no value. Furthermore, an invention that is not related to the company business is unlikely to be used by the company. Therefore, in evaluating benefits brought about by the invention, the following minimum requirements must be judged:

- Rating of "Originality" is not 1 (viz. should be more than)
- Rating of "Patentability" is not 1
- Rating of "Match with R & D Areas" is not 1.

If the above requirements are not met, we should decide not to continue with the further procedure of a patent application or a request for examination, even if the overall score is 35 points and above.

2. Objective B (in the case where the invention is used by the company and licensed to other company)

The patent application of an invention which can be used by the company as well as by other companies include an application for patent for the purpose of cross-license, licensing and the establishment of a de fact standard, each of which is aiming to obtain money, licenses and a common market in compensation for the license on the invention. Therefore, in this evaluation, different weighting of the evaluation factors as compared with the case of objective A is required for such factors as "Other Companies' Present Use", "Possibility that Invention will become a Standard",

"Originality" and "Match with R & D".

The possibility of the use of the invention by other companies and the expected benefit (licensing fee) from the invention heavily depend on the operation of other companies in the field of similar products. Therefore, a maximum score of 10 points (coefficient: 2) is assigned to this "Other Companies' Present Use" factor.

If the contents of the invention are likely to become a standard in the industry, the company can expect to enter a huge market related to the standard produced. Thus, a maximum score of 10 points (coefficient: 2) is assigned to the "Possibility of the Invention becoming a Standard" factor.

"Originality" is a factor to measure the degree of necessity of using outside prior patents to be utilized as mentioned above, but the weight of this factor in evaluation is comparatively small, because we need not confine patents only to the company, and the objective B itself is aiming at the wide utilization of patents through mutual use as much as possible by cross-license and standardization and so on. Thus, only a maximum of 5 points (coefficient: 1) are assigned to this "Originality" factor.

"Match with R & D Areas" is an important factor for the utilization by the company of the invention but has nothing to do with other companies', on the contrary, an invention which has no relationship with the company business may be

important to other companies. Therefore, only 5 points (coefficient: 1) are assigned to this factor as a maximum score.

"Effects of Invention" and "Scale of Product Market" are important factors in the case of objective B to the same extent as in the case of objective A, therefore a maximum score of 20 points (coefficient: 4) is assigned to these two factors respectively as well.

< Judgement of the possibility to gain profit through the use of an invention both by the company and other companies>

As discussed in the case of objective A, in addition to the estimate of the company profit from the utilization of the invention in this manner we have to judge whether the invention can actually be so utilized.

When the use of another company's prior patent is necessary to utilize the invention in question, if the other company intends to use the invention in question at the same time, there is a good possibility that a good arrangement could be made for mutual use of these patents through a cross-license agreement. Therefore, the existence of other companies' prior patents to be utilized would not be an unavoidable obstacle. However, an invention without any patentability is outside the scope of the evaluation.

Therefore, before evaluating the benefits of the invention, the following minimum requirements must be judged:

- Rating of "Patentability" is not 1 viz. should be above1)
- Rating of "Match with R & D Areas" is not 1.

If the above requirements are not met, we should decide not to continue with the further procedure of a patent application or a request for examination, even if the overall score is 35 points and above.

(3) Objective C (No intention to use the invention in the company and no intention to license to other companies)

The inventions falling under this objective group are only aiming at such indirect effects on the company profit as preventing other companies from utilizing the invention and making profits. In this sense, those inventions in this group are comparatively low in importance to the company compared with those in the groups of Objective A and B. Therefore, a maximum Overall Score of only 60 points (when given a full mark in each factor) is assigned to Objective C evaluation as against 100 points to Objective A and B evaluation.

Since the main objective of this group of invention is to preclude other companies from using the invention, a high maximum score is assigned to the factors preventing infringement, so that a high score may be given to an invention serving this defensive purpose. On the other hand, a maximum score assigned to "Patentability" was raised in order to set a higher hurdle to go over to the next procedure than those of objectives A and B, in view of the comparatively low weight

of Objective C. Therefore, if the possibility of obtaining a registration of patent is found weak, further procedures are given up.

With respect to evaluation factor to appraise the ability to exclude other company, there are two factors, "Difficulty of Design Around" and "Ease in Ascertaining Infringement" under the control factor of "(other companies') Patent Utilization Evaluation". Comparatively high maximum score is assigned to these two factors respectively. By contrast, a maximum score of "0" point is assigned to "Possibility of the Invention becoming a new Standard" and "Other Companies' Present Use", because these factors are incompatible with the objective itself of preventing other companies from the using of the invention.

On the other hand, only 10% of maximum overall core is assigned to "Business Evaluation" factor, because this factor is not relevant where there is no intention to use the invention for the company.

Since the invention falling under this group has so need to be appraised based on the value of the invention for the company use, it is not necessary to evaluate those inventions under each factor in the "Technical Evaluation" category, as far as internal utilization is concerned. Therefore, only one fourth of overall maximum score are assigned to "Technical Evaluation" as a whole, but some weight is assigned to "Degree

of Technical Completion", "Effects of Invention" and "Life of Technique" under "Technical Evaluation", because the higher the rating score under these factors, the more other companies would seek to use the invention, and also the more the invention is expected to act as an effective barrier against the using of the invention by other companies.

Further, if the invention is found unpatentable, proceeding to the next step is meaningless, however high scores the invention get under other factors. Therefore, in such a case, taking further action is given up.

(4) Objective D (Utilization by the company is undecided, and utilization by other companies is allowed)

The invention in this objective group cannot be expected to have a contribution to the company business at the time of evaluation. Therefore, judging from the primary purpose of obtaining profit through its issuance as a patent, this kind of invention should not be selected for a further procedure such as patent application. Therefore weighting of the evaluation factors in this form was made so as to abandon most of those inventions in this category, while saving only some of the outstanding inventions by exception.

The maximum overall score obtained when the invention receives a full mark in each evaluation category is set at 40 points, only a little above the boundary point in deciding whether to proceed further. Under this assignment of maximum

rating points, most of the inventions in this objective group are automatically eliminated from selection for going further in the patenting process, with the exception of a few inventions given almost full marks.

A total of 30 points, equal to three fourths of the above overall maximum score of 40 points, is divided equally into 15 points and assigned to "Technical Evaluation" and "Patentability Evaluation" respectively. The greater portion of the points assigned to "Technical Evaluation" is allocated to "Effects of Invention". Under this assignment of rating points, only inventions with excellent effects and strong possibility of patenting could be selected for further procedure.

The remaining 10 points are assigned to the subdivided factor of "Match with R & D" under the factor "Business Evaluation", because the inventions in this group would have better possibility of utilization in the future if they are in important R & D areas of the company, compared with the inventions in other areas. Needless to say, the inventions without any patentability are omitted from the selection in the same way as in the case of Objective C.

4. Conclusion

As mentioned above, in our proposed method of evaluation of inventions, stress is laid on the business side of evaluation, and this method makes a clear distinction from

the various methods of evaluation hitherto proposed in that uniform evaluation factors and evaluation method, according to the different objectives, are adopted to apply to all stages of patenting process, from a patent application through the expiration of a patent term.

How to evaluate adequately inventions, as results of research and development, is a permanent subject in the handling of intellectual property, and our proposed method of evaluation in this paper can not necessarily be said to be an ideal one. But we believe that we can conduct evaluation of inventions in close relation to the company business, by means of such evaluation method that gives a higher evaluation to inventions that would contribute to the profit of the company. Specifically, under this evaluation system, a higher rating is given to an invention that is expected to be utilized by the company and other companies as well, and a lower rating is given to an invention that is excellent in technical idea or conception but is not valuable for business application purpose. As a result of such kind of evaluation, it would be possible for a company to eliminate unnecessary patent applications or the requests for examination. Of course, we do not believe that this method can be applied as it is uniformly to companies that vary in the size of organization, the type of industry (or the type of technique), the in policy of intellectual property and so on, but we would

be glad if this patent evaluation method would be utilized in some way, through necessary adjustment for matching it to the actual circumstances of the individual company.

Lastly, we hope the discussion on "the method of evaluation of inventions employed by companies in the future" will be encouraged and developed further, as a result at this paper.

Table 1 Example of the Format of Evaluation Sheet

	Evaluation Factors	Patent Application Phase			Request for Examination Phase			Five Level Rating
		Coefficient	Rating Points	Score	Coefficient	Rating Points	Score	
Technical Evaluation	Originality	a1	3	a1*3	a1	3	a1*3	1, 2, 3, 4, 5
	Degree of Technical Completion	a2	2	a2*2	a2	4	a2*4	1, 2, 3, 4, 5
	Effects of Invention	a3	2	a3*2	a3	2	a3*2	1, 2, 3, 4, 5
	Life of Technique	a4	4	a4*4	a4	3	a4*3	1, 2, 3, 4, 5
Business Evaluation	Utilization Period	a5	2	a5*2	a5	3	a5*3	1, 2, 3, 4, 5
	Scale of Product Market	a6	2	a6*2	a6	4	a6*4	1, 2, 3, 4, 5
	Match with R & D Areas	a7	3	a7*3	a7	3	a7*3	1, 2, 3, 4, 5
Evaluation of Patent Utilization (by Other Companies)	Difficulty of Design Around	a8	3	a8*3	a8	3	a8*3	1, 3, 5
	Ease in Ascertaining Infringement	a9	5	a9*5	a9	5	a9*5	1, 3, 5
	Possibility of the Invention becoming a Standard	a10	1	a10*1	a10	1	a10*1	1, 2, 3, 4, 5
	Other Companies' Present Use	a11	3	a11*3	a11	4	a11*4	1, 2, 3, 4, 5
Patentability Evaluation	Patentability	a12	3	a12*3	a12	3	a11*3	1, 3, 5
Cost evaluation	Cumulative Procedure Cost			0			-1	

Total Overall Score Overall Score

*Total of all scores is the "Overall Score".

Table 2 Definition of Five Level Rating

Evaluation Factor	Rating Points	Definition		
Originality	1	Improvement of basic patent of other company; there are plural patents (impossible to monopolize).		
	2	Reduction to practice requires 3~5 prior patents to be utilized (availability of license is weak).		
	3	Reduction to practice requires 1~2 prior patents to be utilized.		
	4	Improvement of basic patent of the company, dependent patent.		
	5	Basic patent (no infringement of prior art involved).		
Degree of Technical Completion	1	There are many problems to be solved, and embodiment as product is difficult, even spending much manpower and time.		
	2	With progress of technology, there is good possibility of utilization 10 years from now.		
	3	To solve problems, investment and time about the same as that hitherto spent is needed.		
	4	Only easy problems remain unsolved, utilization is possible in near future.		
	5	Ready to utilize.		
Life of Technique	1	Become obsolete within 2~3 years.		
	2	Become obsolete within 5 years		
	3	Become obsolete within 10 years.		
	4	Become obsolete within 15 years.		
	5	No substitute technique anticipated for the coming 20 years.		
Effects of invention *1		A. Reduction of manufacturing cost (% against present manufacturing cost)	B. Improvement of performance (Increase of sales by performance)	C. Creation of market (Increase of share)
	1	Less than 10% reduction	Less than 10% increase	Less than 10% of the present relevant market
	2	10~20% reduction	10~20% increase	10%~20% of the present relevant market
	3	20~30% reduction	20~30% increase	20%~40% of the present relevant market
	4	30~40% reduction	30~40% increase	40%~60% of the present relevant market
	5	over 40% reduction	over 40% increase	Over 60% of the present relevant market
Utilization Period	1	Total utilization period of under 3 years		
	2	Total utilization period of over 3 years and under 6 years		
	3	Total utilization period of over 6 years and under 9 years		
	4	Total utilization period of over 9 years and under 12 years		
	5	Total utilization period of over 12 years		
Scale of Product Market *2	1	10 million yen		
	2	100 million yen		
	3	1 billion yen		
	4	10 billion yen		
	5	100 billion yen		
Match with R & D Areas	1	No relation		
	2	General R & D subject		
	3	Linked with next generation important area		
	4	Peripheral technique of a major business strategic area		
	5	Key technique of a major business strategic area		
Difficulty of Design Around	1	Substitute means are available, therefore other companies will not use this invention.		
	3	Substitute means are available, but other companies will desire to use this invention.		
	5	Substitute means are not available, therefore other companies will be forced to use this invention.		
Ease in Ascertaining Infringement	1	Cannot ascertain infringement whatever measures are taken.		
	3	Can ascertain infringement but a huge cost is required.		
	5	Easy to ascertain infringement.		
Possibility of the Invention becoming a Standard	1	Undecided or no possibility of becoming a standard.		
	2	Discussion of becoming a standard commenced.		
	3	Becoming a standard is under discussion but adoption is still pending.		
	4	Becoming a standard is under discussion, and adoption is promising.		
	5	Becoming a standard is determined.		
Other Companies' Present Use * 3	1	0~20% of market		
	2	20~40% of market		
	3	40~60% of market		
	4	60~80% of market		
	5	80~100% of market		
Patentability	1	None		
	2	Unknown		
	3	Patentable		

*1 Each of A~C is rated separately and the highest score among three is

regarded as the rating for the factor "Effects of Invention".

*2 If the growth of the market is anticipated, the average scale of the market over the remainder at the patent term is to be used.

*3 Those percentages show the other companies' present use of the technique prior to the invention.

Table 3 Evaluation Sheet for Utilization Objective A

Utilization Objective A (exclusive use intended for the company)

	Evaluation Factors	Patent Application Phase				Request for Examination Phase				Five Level Rating
		Coefficient	Rating Points	Score		Coefficient	Rating Points	Score		
Technical Evaluation	Originality	2	5	10	42.5	2	5	10	42.5	1, 2, 3, 4, 5
	Degree of Technical Completion	1	5	5		1	5	5		1, 2, 3, 4, 5
	Effects of Invention	4	5	20		4	5	20		1, 2, 3, 4, 5
	Life of Technique	1.5	5	7.5		1.5	5	7.5		1, 2, 3, 4, 5
Business Evaluation	Utilization Period	1.5	5	7.5	37.5	1.5	5	7.5	37.5	1, 2, 3, 4, 5
	Scale of Product Market	4	5	20		4	5	20		1, 2, 3, 4, 5
	Match with R & D Areas	2	5	10		2	5	10		1, 2, 3, 4, 5
Evaluation of Patent Utilization (by Other Companies)	Difficulty of Design Around	3	5	15	20	3	5	15	20	1, 3, 5
	Ease in Ascertaining Infringement	1	5	5		1	5	5		1, 3, 5
	Possibility of the Invention becoming a Standard	0	5	0		0	5	0		1, 2, 3, 4, 5
	Other Companies' Present Use	0	5	0		0	5	0		1, 2, 3, 4, 5
Patentability Evaluation	Patentability	0	5	0	0	0	5	0	0	1, 3, 5
Cost Evaluation	Cumulative Procedure Cost	0	0	0	0	0	0	-1	-1	
Total					100				99	
					Overall Score				Overall Score	

Note: If a rating is "1" for "Originality", "Match with R & D Areas " or "Patentability", further procedures are not to be taken, regardless of the Overall Score.

Table 4 Evaluation Sheet for Utilization Objective B

Utilization Objective B (In the case where an invention is both used by the company and licensed to other companies for a fee)

	Evaluation Factors	Patent Application Phase				Request for Examination Phase				Five Level Rating
		Coefficient	Rating Points	Score		Coefficient	Rating Points	Score		
Technical Evaluation	Originality	1	5	5	37.5	1	5	5	37.5	1, 2, 3, 4, 5
	Degree of Technical Completion	1	5	5		1	5	5		1, 2, 3, 4, 5
	Effects of Invention	4	5	20		4	5	20		1, 2, 3, 4, 5
	Life of Technique	1.5	5	7.5		1.5	5	7.5		1, 2, 3, 4, 5
Business Evaluation	Utilization Period	1.5	5	7.5	32.5	1.5	5	7.5	32.5	1, 2, 3, 4, 5
	Scale of Product Market	4	5	20		4	5	20		1, 2, 3, 4, 5
	Match with R & D Areas	1	5	5		1	5	5		1, 2, 3, 4, 5
Evaluation of Patent Utilization (by Other Companies)	Difficulty of Design Around	1	5	5	30	1	5	5	30	1, 3, 5
	Ease in Ascertaining Infringement	1	5	5		1	5	5		1, 3, 5
	Possibility of the Invention becoming a Standard	2	5	10		2	5	10		1, 2, 3, 4, 5
	Other Companies' Present Use	2	5	10		2	5	10		1, 2, 3, 4, 5
Patentability Evaluation	Patentability	0	5	0	0	0	5	0	0	1, 3, 5
Cost Evaluation	Cumulative Procedure Cost	0	0	0	0	0	0	-1	-1	

Total 100 99

Overall Score Overall Score

Note: If a rating is "1" for "Match with R & D Areas" or "Patentability", further procedures are not to be taken, regardless of the Overall Score.

Table 5 Evaluation Sheet for Utilization Objective C

Utilization Objective C (In the case where there is no intention of utilization by the company and no intention to license to other companies)

	Evaluation Factors	Patent Application Phase				Request for Examination Phase				Five Level Rating
		Coefficient	Rating Points	Score		Coefficient	Rating Points	Score		
Technical Evaluation	Originality	0.4	5	2	14	0.4	5	2	14	1, 2, 3, 4, 5
	Degree of Technical Completion	0.8	5	4		0.8	5	4		1, 2, 3, 4, 5
	Effects of Invention	0.8	5	4		0.8	5	4		1, 2, 3, 4, 5
	Life of Technique	0.8	5	4		0.8	5	4		1, 2, 3, 4, 5
Business Evaluation	Utilization Period	0	5	0	6	0	5	0	6	1, 2, 3, 4, 5
	Scale of Product Market	0.4	5	2		0.4	5	2		1, 2, 3, 4, 5
	Match with R & D Areas	0.8	5	4		0.8	5	4		1, 2, 3, 4, 5
Evaluation of Patent Utilization (by Other Companies)	Difficulty of Design Around	2	5	10	20	2	5	10	20	1, 3, 5
	Ease in Ascertaining Infringement	2	5	10		2	5	10		1, 3, 5
	Possibility of the Invention becoming a Standard	0	5	0		0	5	0		1, 2, 3, 4, 5
	Other Companies' Present Use	0	5	0		0	5	0		1, 2, 3, 4, 5
Patentability Evaluation	Patentability	4	5	20	20	4	5	20	20	1, 3, 5
Cost Evaluation	Cumulative Procedure Cost	0	0	0	0	0	0	-1	-1	

Total 60 59

Overall Score Overall Score

Note: If a rating is "1" for "Patentability", further procedures are not to be taken, regardless of the Overall Score.

(1) Title:

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(2) Date:

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(3) Source:

1) Source: PIPA

2) Japan

3) Committee: First

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(6) Statutory Provisions: None

(7) Contents:

1. Introduction
2. Parameters for resource evaluation in obtaining rights
3. Resource evaluation in each work stage
4. Comparative cost analysis; in-house handling vs. outsourcing for new application preparations
5. Efficient use of outsourcing for new application
6. Evaluation of models of efficient outsourcing
7. Conclusion

1. Introduction

Businesses today are taking outsourcing into greater consideration. The factors contributing to the growth in interest in this new business approach include: the possibility of functional decentralization as a result of advanced developments in communication networks, simplification of the ability to have a wide variety of collaborations, the necessity of specialized skills due to the diversification of society, and the reconsideration of general organizational setups (concentration on core competencies and preference towards a compact head office).

An IP department in an organization also faces similar business concerns. The point here is that the procedural system to obtain intellectual property rights is likely to be divided into functional components, some of the tasks of which will be transferred to outsourcing vendors. As business operations expands globally, processes of obtaining IP rights (hereinafter referred to as "OIPR")are necessary respectively in each target country. While business trends have made international IPR-process a common practice, significant issues are raised, namely what to choose and how to use outsource for the purpose of promoting high quality and cost effective OIPR. This paper discusses such issues from the viewpoint of efficient use of resources.

2. Parameters for resource evaluation in obtaining rights

When contemplating outsourcing for the purpose of improving operation efficiency, no consequential deterioration in the quality of IP should be made. Streamlining OIPR and flexibility in the use of resources does not ensure that the existing process quality will be maintained. An organization must also evaluate the output returned from outsourcing objectively and feed the evaluation back to the resource, thereby maintaining the quality of IP. And IP departments should continue to play an instrumental role in the organization. Consequently, successful outsourcing, particularly cost-effective performances by an outside human resource, will heavily depend on the availability of an objective and reasonable evaluation parameter within an IP department. The following are possible parameters that can generally be applied for IP management.

(1) Cost

When an organization regards IPR as "a tool to increase profits"

it will decide whether or not that tool is necessary by balancing the cost to obtain it and the profit to be yielded. Accordingly, the comparison between expenses incurred within an IP department and the outsourcing expenses such as legal fees for patent attorneys can be regarded as a representative evaluation parameter.

(2) Strength of IPR (quality of added value in view of the evaluation of an invention)

Outsourcing, if employed, should enhance the strength of rights, or at least maintain the existing quality standard. Strengthening of rights, in this context, refers to the quality of added value i.e. the resulting increase in quality gained by outsourcing. Actually, the measurement of the true quality of work such as a patent specification typically is extremely difficult. The number of claims could be a candidate for an objective evaluation parameter, however, the evaluation by an objective and absolute parameter alone is not sufficient to measure the true quality. A comparative evaluation approach may be applied as well. Comparative evaluation of several draft specifications drafted by more than two patent firms would be an ideal solution if an organization could afford to hire them. But, this is not realistic, because the cost is difficult to justify. A sensible organization will typically hire a single vendor (patent firm) and revise the obtained draft to suit the organization's idea. On the other hand, the quality of operation management and the administration of "due dates" can be evaluated easily, as it is related to risk management.

(3)Communication (simplicity of communication)

Every OIPR has its objective. In order to achieve the objective every participant in the OIPR process must share a common understanding. In this sense, smooth communication among the participants is extremely critical. In the drafting stage of a specification, an essential parameter for acquiring strong rights is dependant on the participants having extensive knowledge in the technological field relevant to the invention's subject-matter, and their ability to reach a mutual understanding of the technological concerns and the objective of the OIPR, i.e. the OIPR strategy.

(4) Flexibility

The tasks of an intellectual property department have both routine and highly variable aspects. Outsourcing enables the flexibly to address the

excess of work arising from such variable aspects. And this is indeed one of the true benefits of outsourcing.

(5) Consistency in the procedure as a whole

Consistency, especially in communication, is a vital factor for such an entangled process as handling OIPR, namely in the application, prosecution and post-registration processes. Outsourcing always involves at least two parties, a beneficiary user and a fiduciary vendor. Accordingly, appropriate attention should be paid towards the integration with in-house resources when considering the efficiency of outsourcing.

(6) Simple checking system (feedback)

All outsourcing must be evaluated. Where an unambiguous evaluation parameter is established, it is easy to identify what type of outsourcing is appropriate.

(7) Personnel training

From time to time a personnel training scheme for the purpose of active in-house resource management is as important as finding a good outsourcing vendor. Such a scheme will require considerations towards the harmonization with the career path structure of an organization. When contemplating outsourcing, the instability of the outsource staff is also an essential evaluation parameter from a viewpoint of maintaining an operation's stability and conserving the competitive know-how and skill. Routine works may be affected by an unstable outsource personnel structure, therefore, an organization's readiness to reduce such a negative impact can be measured by the availability of a flow chart and instruction manuals illustrating the required procedures, which can be incorporated into the evaluation parameter.

(8) Confidentiality

Strict confidentiality should always carefully be adhered to, especially because multiple party interface is inevitable once outsourcing is used. Consequently, information management capability can also be an important evaluation parameter.

3, Resource evaluation in each work stage

Now based on the concept of the evaluation parameters which have been explained, we will discuss in this text the details of the operations in each of the OIPR stages, specifically new applications, prosecution, and post-OIPR activities, and then address the viability or necessity of

outsourcing as well as its advantages and disadvantages.

(1)New application

1) Extracting (or "Digging") an inventive subject matter from Inventors and broadening the idea for better patent (hereinafter called "Extracting invention")

An organization should conduct extracting and broadening invention activities with the full understanding of its development history and the technological art concerning the invention subject-matter. An organization is advised to promote its invention based on relevant market trends, the invention's importance, and the current state of art and overall operation strategy. In most organizations R&D departments and IP departments are jointly responsible for extracting and broadening invention activities. They may sometimes employ a patent attorney in collaboration with a patent firm, which can take care of the preparation of specifications and application administration together as a package. An arrangement like this will achieve greater work consistency and facilitate communication, thereby enabling the drafting of specifications more closely in line with operation strategies. Furthermore, multi-party involvement will add an element of variety and objectivity to an extracting invention activity, despite the higher expenses which may be incurred.

2) Evaluation of an invention

This application stage evaluates an invention from the viewpoint of patentability, marketability, the potential for contribution to sales and a competitive edge against rival companies, and then determines whether the application for OIPR should be made domestically or internationally. The evaluation of an invention should be conducted taking into account the identical factors as those considered for an extracting invention activity, again noting that the evaluation is often handled jointly by product development and IP departments.

Some of above factors such as market trends, can be investigated by contracting with outside service vendors such as market research companies and consulting firms. Indeed the use of outsourcing will benefit an organization through providing an objective evaluation report. However, the use of outsourcing will require a full explanation on the relevant technology and an OIPR strategy to the contracted vendor, thus being a foreseeable time-consuming and expensive process.

3) Selection of a domestic or a foreign patent firm

An IP department selects a patent firm after weighing the advantages and disadvantages of in-house documentation, such as the drafting of a specification. The advantages and disadvantages should be measured by evaluating the gravity of an invention, the capability of a candidate patent firm, the IP department and the estimated cost. Such evaluation should be handled within the IP department, further supporting the organization's belief that the evaluation function is generally one of an IP department's core competencies. The evaluation parameter to be applied to measure a candidate patent firm's capability may vary depending upon the intended job to be assigned. Therefore, it is difficult but critical to carefully determine which parameter is to be applied. When specification drafting is of issue, the percentage of patents granted may be viewed as a worthy evaluation parameter. But, this value is not practical to compare different types of technology, and tends to be subjective in light of the scope limitation to particular areas. Thus, it barely serves as a general parameter to evaluate a patent firm's average success ratio in obtaining granted patents. The staff size, filing system, and interview results is sometimes useful, but as a dominant factor for a parameter this often becomes more subjective rather than objective. As is often the case, reputation of a patent attorney or equivalent talent established through previous performance, reliability of application know-how, technological expertise is taken into consideration.

When contracting with a new patent firm the majority of organizations might like to evaluate it primarily based on a trial-job result. Cost-wise the patent attorney association's tariff set the standard rate, which leaves virtually no room for competitive pricing among patent firms.

As far as foreign patent firms are concerned, data analysis for evaluation may not be sufficient. If an organization often files international applications, it could investigate such a foreign office's operational history and the reliability of their job handling processes. The availability of Japan-based offices could also be considered. On the other hand, if there is little international application experience it will be hard for an organization to obtain the necessary data to evaluate the previous performance and staffs' reputation. In a situation like this there is no choice but to trust another evaluator's opinion. (i.e. third-party Japanese patent firm)

4) Deciding if foreign patent filing is necessary and Selecting countries

where foreign patent should be filed

The necessity of an international application should be considered in coordination with the development of business operations relevant to a patent. Therefore, the development and IP departments are responsible for the decision of whether international application is to be made and, if so, in which country. If calculated risk has to be taken based on objective information due to a patent's critical importance and investment value, an organization should go back to the above invention evaluation stage and again discuss outsourcing to a market research or consulting firm.

5) Administration of due dates

This will not gain much benefit from outsourcing as it is substantially subject to other operation stages. Normally, responsibility rests with the party in charge of a specification (a responsible in-house department or contracted patent firm).

6) Prior art research (Prior art research & evaluation of patentability during the promotion of a project)

It is often the case that a development department takes the initiative of prior art research with the support from an IP department. Recent development in internet and intranet communications allowed the carrying out of online research with relative ease. A development engineer can obtain necessary solutions through a periodical information research.

Research companies or subsidiary companies are useful for systematic and detailed research, as such work requires a reasonable degree of experience. A subsidiary where an former executive familiar with the relevant art is in employment is particularly useful, as the time and money necessary for giving instructions regarding the research purpose can be saved to some extent.

7) Drafting an invention report and a domestic application specification

Essentially, an invention report should be prepared by an inventor himself. However, where a patent attorney is employed or IP members are involved with an invention project, it is possible to assign to either of them the responsibility of drafting a report, based on instructions from an inventor, in order to reduce the workload imposed on the inventor.

A specification can be drafted by IP members to the extent at which the job can be handled internally, otherwise a contracted patent firm should take over. The advantage of using in-house resources like this is in promoting smooth communications with a development department, which

enables the reflect of the operation strategy in the specification. On the other hand, if outsourcing is relied upon for handling the entire job of drafting a specification and up to filing an application, cost reduction may definitely be achieved, however the operation strategy may not fully be reflected and the invention will not fully be protected. With the aim towards protecting internally-developed art one possible solution encourages an IP department to work together with an outsource patent attorney on a specification, and then re-check a completed specification. This will cost more, but the main objectives will be achieved.

8) Drafting a specification for an international application and translations into local languages

An organization usually lets an IP department or Japanese patent firm draft a Japanese specification prior to filing an international application. An IP department can continually revise a draft specification to reflect fresh data in accordance with ongoing operation development which takes place after a domestic application. Therefore, a Japanese patent firm can maintain procedural consistency and perform its service in a cost-effective way, if it is involved from the drafting stage.

Today, English translation work can be outsourced to a patent specialist translation agent. Such outsourcing benefits an organization in terms of cost savings. However, an organization must carefully investigate the expertise of a translation agent in each area so as not to deteriorate the quality of the rights, therefore particular attention should be given to an IP department's final check.

Outsourcing a translation to a Japanese patent firm, as well as Japanese documentation, will help secure the procedural consistency, which, in turn, enables to enhance the accuracy in translation. Although their translation costs more, this could save the cost for an organization's administration work required particularly in the case of multiple international applications, as the Japanese patent firm can operate as an liaison with the overseas agents and help sort out the paper work on behalf of the IP department.

9) Application before the Patent Office

Applications before the Japanese Patent Office can be carried out by agents specialized in Japanese specifications. However, when applying before a foreign Patent Office a foreign patent attorney must be employed. An IP department is responsible for the evaluation of such foreign agents from

the viewpoints of cost, quality of rights and communication. Constant feedback is essential. The demands on the agents operating in major markets such as the US or Europe should be exceptionally high. If they do not establish efficient systems to manage costs and the quality of rights through close communication with their clients, they may not be strong candidates for outsourcing. One possible solution to clear this sort of uncertainty is to employ them on a long-- or short term basis so that they can learn from the client's in-house practice and gain the client's confidence.

(2)Prosecution

1) Examination requests

This process includes two stages, namely discussion of the necessity to request examination and preparation of the request letter. Generally an IP department takes care of the first stage, and the second stage is left to the party which is handling application work.

2) Countermeasures to take against the office action

The appropriate steps include arranging a translation of the office action, a discussion of whether to refute or not and of the appropriate argument approach, and preparation of the argument statement and amendment. These works are normally assigned to the party which is handling the application. The translation could be separately left to a translation agent or the entire work can be contracted to an outside agent as package. However, the agent must be the one who is fully knowledgeable about the operation strategy and the patent application concerned, otherwise the documentation could end up as no more than a white elephant. Still worse an IP department can not stock much technical know-how through this arrangement. Therefore, an IP department is advised to step in at the decision making stage as an intermediary; in other words, there should be a discussion as to whether to refute or not and to establish the argument approach. In the meantime, the department promotes closer contact with engineers so that OIPR will agree with the direction of an overall operation.

(3)Post-registration procedure

1) Retain or disclaim? Proposal for the use of a patent

An organization determines whether they should retain or disclaim a right, normally, based on its usefulness towards an organization's operation, or

competitor's current practice, operativeness competitors could realize and claims. Use of outsourcing to perform this task is possible in order to maintain an objective view in decision making. It is notable that engineers are the most knowledgeable about their subject-matter art. In light of the importance of communication to establish a mutual understanding with the engineer, it is sensible to leave the decision to an IP department, which is in an advantageous position to confer with the engineer closely.

2) Retention administration

Annuity payments are the primary part of retention administration. However, a sound approach is required to do the job properly, therefore certainty and cost-effectiveness is the most important evaluation parameter.

3) Litigation on infringement

Most infringement related litigation proceeds in cooperation with a lawyer or a patent attorney. An organization must take precaution against pushy lawyers, or so-called "ambulance chasers," as well as venture businesses that are attempting to obtain licenses, and understand that there is no ideal outsourcing to deal with such litigation. Accordingly, a development department is advised to take the initiative, collaborating with an IP department, a lawyer and patent attorneys.

Now that the possible choices for resource management have been discussed with respect to each work stage, the subsequent discussion focuses on the application stage, which accounts for the biggest portion of OIPR budget

4. Comparative cost analysis; in-house handling vs. outsourcing for new application preparations

How much does a patent firm cost?

Calculations based on "the standard tariff of Japanese Patent Attorney Association" indicates that an organization spends approximately 350,000 yen per patent application, (assuming an average of 10 claims per application, the expenses for typing, drawings and miscellaneous services included). The expenses for services like typing, drawing and preparation of tables are items which will required outsourcing anyway, even if a specification is drafted internally. Effectively outsourcing to a patent firm for the purpose of drafting a specification is deemed to cost approximately 300,000 yen.

1) Personnel expenses in an IP department

It is very hard indeed to compute the personnel expenses per application an IP department bears when a specification is drafted without outsourcing. Here, we dare to attempt a rough computation anyway, for the sake of comparison with the above-mentioned outsourcing to a patent firm. The computation is based on the assumption that total personnel expense per employee, taking fixed expenses into consideration, costs twice more than the salary expenses. Accordingly, a personnel expense by an employee whose annual salary is 5,000,000 yen is deemed to be 10,000,000 yen per year. Let's compute hourly personnel expense per employee by setting provisional annual working hours as below.

- Annual working days: 365 x 5/7 - 36 = 225 (36 national holidays and annual leaves, for example)
- Working hours per day: 7.25hours

These values indicate that hourly personnel expenses for an employee with an annual salary of 5,000,000 yen and 10,000,000 yen is approximately 6,000 yen/hour and 12,000 yen/hour respectively.

What if the hourly personnel expense per patent staff in an IP department is 10,000 yen? When one support administrator (annual salary 5,000,000 yen and 1,533 yen/hour) takes care of four patent staff members work, an IP department is supposed to incur personnel expenses of 11,533/hour for one application. Total personnel expenses vary, depending upon how many days one patent staff member spends to prepare one patent application.

- 1day : 11,533 x 7.25 = 83,614 yen/application
- 2days: 83,614 x2 = 167,228
- 3days: 83,614 x3 = 250,842
- 4days: 83,614 x 4 = 334,456
- 5days : 83,614 x 5 = 418,070

Needless to say, the above values widely vary depending upon the size of an organization, philosophy towards personnel expenses, and actual application fees paid to a patent firm. This text is based on the assumption that an IP department takes more than three days to draft one specification, and asserts that effectively outsourcing costs less than in-house handling when drafting a specification, even though this assumption may be a little far-fetched.

5. Effective outsourcing for new patent application

In consideration of evaluation parameters and advantages and disadvantages of outsourcing for each stage discussed so far, the text will examine how efficient use of outsourcing in the IP industry should be with respect to the following different types of projects:

(a) patenting project for invention having received a low evaluation rank
(b) patenting project for invention having received a medium evaluation rank
(c) patenting project for invention having received a high evaluation rank

The bases for the discussion here is such that an IP department manpower is a minimum for a given project and an appropriate task for the patent application filling work can not be carried out without outsourcing. The following discussion will focus on the new application stage, because it has the broadest room for outsourcing.

Definition of symbols in the following evaluation tables:
◎:Process performed by a single resource performs
○:Process performed by more than two resources perform jointly
○*:Distinctive feature in a new proposal
△: Auxiliary process

(A) patenting project for invention having received a low evaluation rank

・ Purpose of outsourcing: Reducing application cost and the number of processes an inventor and an IP department must cope with.

・ This project assumes that only domestic application will be filed.

- Cost reduction by using a single resource

Multiple resource operation tends to cause an overlap in work, resulting in an increase in evaluation time and cost per process. It is advisable to use a single resource, and leave specification drafting and application work to, for example, a patent firm.

In the meantime, process simplification should be taken into consideration for the purpose of lightening the workload imposed on an

inventor who has to handle an extracting and broadening activity and prior art research by himself. To this end preparation of an invention report could be partially assigned to a patent firm so that the work will be linked to a preparation of domestic specification.

- Duty of an IP department

An IP department still has to evaluate an invention and outsourcing service, in other words, a specification drawn by a patent firm. It should regard these works as its duty to be performed so as to maintain strength of rights.

Table 1

	Extracting Invention	Prior art research	Invention evaluation	Report of Invention	Spec. Drafting	Spec. Evaluation	Application Filing
Inventor	◎	◎	○	○			
IP dept.			○			◎	
Patent firm (domestic)				○*	◎ (domestic)		◎

(B) Patenting project for invention having received a medium evaluation rank

• Purpose of outsourcing: Reducing application cost and, at the same time, preparing a high quality specification

When an invention gains an above average evaluation use of outsourcing must be discussed considering the possibility of foreign patent application to the major markets like the US or Europe.

- Increase in manpower for highly evaluated invention

the better the invention is evaluated, the more internal personnel should be involved for substantive patent works so as to improve patent quality. When the invention is evaluated as a medium rank, it may be preferable to rely solely on the inventor to find the inventive subject matter and broadening the idea for the better patent. It is preferable, to add the certainty, that an inventor cooperate with an IP department in searching prior art. In selecting which country to apply, both party should work together, as it is necessary to take into account the issues including internal and external trends of technology, market size and the country's

IP enforcement legislation status.

- Saving application cost by reducing the number of workload conducted in an IP department.

When dealing with an invention which has received a medium evaluation, an IP department's resources should be focused on invention evaluation, research and appropriate selection of target countries, while the specification drafting and application administration should be assigned to a patent firm.

This approach will reduce the number of processes a patent department has to clear, and save application costs. However, an IP department still owe the duty to evaluate an invention at the initial stage and also to evaluate the outcome of the outsourcing, namely the drafted patent specification by patent firms.

Table 2

	Extract-ing	Prior art research	Invention evaluation	Report of invention	Spec. Drafting	Trans.	Spec. evaluation	Country selection	Application Filing
Inventor	◎	○	○	○				○	
IP dept.		○*	○				◎	○	
Patent firm				○	◎ (domestic) ◎ (international)	◎			◎ (domestic) ◎ (international)

(C) patenting project for invention having received a high evaluation rank

· Purpose of outsourcing: Elaborating on and improving the quality of a specification

- Improve an invention to the degree of a generic concept by multiple sourcing and obtain strong rights

Prime concern with this type of invention is to obtain strong patent rights, therefore it is necessary to discuss from various points of view by multiple resourcing. It is advisable to have an IP department and, if necessary, a patent firm involved with an activity to find the inventive subject matter in their projects and broadening the idea therein in order

to improve an invention to the degree of a generic concept.

- Drafting a specification by an IP department

An IP department should be involved in drafting a specification for a domestic patent application in Japanese and also a foreign patent application in such foreign language, in this type of invention in cooperation with a patent firm. Taking advantage of easy access to inventors, an IP department can closely communicate with them so that it can improve claims and include a variety of embodiments in the specification.

The higher the invention is evaluated, the more the IP department should be involved in drafting the patent application because they are aware of internal technical trends and business prospects.

- Use of outsourcing for the purpose of prior art research

An organization should employ " a patent research company" and carry out objective and precise prior art research. By outsourcing the prior art search work, workload of an IP department--which is already tied up with an extracting and broadening invention activity and drafting specification--will be effectively lightened.

Table 3

	Extracting Invention	Prior art research	Invention evaluation	Report of invention	Spec. Drafting	Trans-lation	Spec. evaluation	Country selection	Application Filing
Inventor	○	○	○	◎				○	
IP dept.	○*	○	○		○*		◎	○	
Patent firm	○*				○	◎			◎ (domestic) ◎ (international)
Research Firm		○*							

(C-1) Patenting project for invention having received a high evaluation --- 1st Proposal for cost reduction

- Use of "translation agents"

When an IP department has to take care of a broad field of work ranging from an broadening the idea of inventive subject matter to drafting a

specification like in the above case (c), application procedure tends to lose cost-effectiveness. It is possible to use outsourcing to recover cost-effectiveness by leaving the procedural aspect of patent application filing work and translation work to outsource. Outsourcing vendors like translation agent could undertake translation and procedural work necessary to employ a foreign patent attorneys for the purpose of foreign patent application filing at reasonable price.

Table 4

	Extracting Invention	Prior art Research	Invention evaluation	Report of invention	Spec. Drafting	Trans-lation	Spec. evaluation	Country selection	Application Filing
Inventor	○	△	○	◎				○	
IP dept.	○	△	○		◎ (domestic) ◎ (international)		◎	○	◎ (domestic)
Patent firm						◎			(1)◎ (internation.)
Research Firm		◎*							

(1) Requesting procedure to a foreign patent attorney only

(C-2) Patenting project for invention having received a high evaluation rank : --- 2nd Proposal for cost reduction

• When outsourcing for the purpose of foreign patent application, it is possible to hire translation agents who exclusively conduct translation services. This outsourcing requires an IP department an additional process for proofreading a translation and complete it into a formal specification for the purpose of foreign patent application. An IP department or an outside patent attorney could take over this additional work or, alternatively, an organization could employ a patent attorney from an patent filing target country (e.g. US attorney) or patent engineer on a full-time basis for such work.

The salary for a patent attorney is a serious concern. The cost reduction achievable through outsourcing to a translation agent, as above, is unlikely to set off the high costs entailed with the employment of a patent attorney. An organization must be ready for a considerable amount of personnel expenses. However, if the patent attorney is used effectively, not only for the stage of preparing new patent applications but also in

responding to Office Actions, it is possible to relax the impact of the cost increase and even achieve further cost reduction. That is to say, in responding to the office action, an inventor, IP members and an in-house patent attorneys should collaborate to establish the approach to overcome the rejection and prepare remarks in an appropriate language (e. g English) thereby bypassing the translation stage. Through this collaboration communication can run smoother, and accordingly foreign patent prosecution can be efficiently performed. By improving the efficiency in the combined area of operation from application to prosecution cost reduction effect could be generated.

- Staff Training/education considerations

The experience of a cross-functional operation contributes to build-up and retention of internal know-how regarding the practical skill in patent prosecution and also in evaluating the outcome of outsourcing. This type of project, (C-2) as discussed above, involves using an in-house patent attorney to complete a specification, therefore, it should be an excellent opportunity to improve the IP department's capability to handle an international patenting operation.

6, Evaluation of models of efficient outsourcing

Discussion in section 5 presented five possible models of efficient outsourcing in different business contexts. The table below shows the result of the 5-grade evaluation of each model in terms of (a) cost (b) strength of rights (c) communication (d) flexibility (e) consistency in the procedure as a whole (f) simple checking system (feedback) (g) personnel training. Strength of rights is supposed to be defined as the quality of patent related to the quality of an invention.

Table 5

Evaluation parameter	Model A	Model B	Model C	Model C-1	Model C-2
(1) Cost	5	4	1	2	1
(2) Strength of rights	2	3	5	5	5
(3) Communication	1	2	5	4	4
(4) Flexibility	5	4	1	1	1
(5) Procedural Consistency	5	4	3	2	2
(6) Simple checking System	1	3	5	5	5
(7) Personnel training	1	2	4	4	5

This table indicates that model A is evaluated highly in respect of cost (5 points), whereas the points scored with respect to the strength of rights is low. In model A organization assigns as much specification drafting as possible to an outsource vendor, consequently the flexibility scored relatively high (5 points). By converting the fixed cost to variable cost (cost for outsourcing) the budget allocation becomes flexible in accordance with increase/decrease in the number of applications. On the contrary, the quality checking for specifications is more severely evaluated (1point) than in other models, as C1 and C2 indicate a tendency contrasting to model A. Cost points are low, but the quality of output (i. e. strength of rights) is highly evaluated, as it is necessary to mobilize greater manpower for the application procedure in order to obtain strong rights. Another notable fact is that flexibility is lost due to expanded fixed costs, which, on the other hand, enables to check the evaluation of quality of output to be precise (5 points). It seems that model C is best suited for an invention received a high evaluation rank and would have an exclusive effect on competitors. Models C-1 and C-2 suggests how to maintain strength of rights (5 points) reducing the cost burden slightly (2 points). C-2 is highly evaluated from the viewpoint of personnel training.

In actual practice, some organizations may put priority on cost savings, while others may be seriously concerned about the strength of rights even to the point of disregarding cost increases. So the table below the multiplier is applied so as to represent the weight of each evaluation parameter. The supposed cost, for the sake of evaluation, is weighed 3 and strength of rights 2.

Table 6

Evaluation parameter	Weight	Model A	Model B	Model C	Model C-1	Model C-2
(1) Cost	3	5 x 3	4 x 3	1 x 3	2 x 3	1 x 3
(2) Strength of rights	2	2 x 2	3 x 2	5 x 2	5 x 2	5 x 2
(3) Communication	1	1	2	5	4	4
(4) Flexibility	1	5	4	1	1	1
(5) Procedural Consistency	1	5	4	3	2	2
(6) Simple checking System	1	1	3	5	5	5
(7) Personnel training	1	1	2	4	4	5
Total point		32	33	31	32	30

Weighting like this does not make much difference in the total points of each model. This shows that every model has both advantages and disadvantages that offset each other, thus leaving the total points almost even. Therefore, weighting the parameters, namely cost, strength of rights and etc., should be determined by an organization's policy towards the IP, and it is essential to choose an outsourcing model based on the evaluation of an invention.

As discussed above, for efficient patent-related administration an organization must discuss the pros and cons of outsourcing, the evaluation parameter for outsourcing and the possible choices of the above-mentioned models, and then establish the evaluation of an invention, based on which the most appropriate model will be identified. The point is that an organization must maximize the advantage of single-outsourcing from the viewpoint of cost savings when an invention is not highly evaluated. On the contrary, when it is highly evaluated multiple resourcing, ranging from internal IP and development departments to outside patent firms, can be used to make a concerted effort to obtain rights by mobilizing as much manpower as possible for each administration stage such as extracting and broadening invention activity and application. This will eventually work to secure both cost-efficiency and the greatest strength of rights.

Use of outsourcing cannot fully replace an IP department. An organization must retain certain functions in an IP department; it must evaluate an invention reasonably and evaluate the performance by each member resource reasonably. In order to maintain these functions an IP department should internally deal with the extracting and broadening patentable subject

matter, especially for the invention which has a critical significance for company's business, and drafting specifications for domestic and international patent applications.

7, Conclusion

This paper has discussed ways of improving efficiency in obtaining rights from the viewpoint of the different kinds of outsourcing that are offered. The goal is to achieve the highest level of cost-efficiency possible. A patent firm can be used as one example of a valuable outsource. It is also important to recruit such talents among an organization's in-house resources, and provide the necessary training for them. When employing a non-Japanese national (e.g. American) resource, other factors should be considered; the gaps in working ethic, patent attorney's practice, attitude towards rights (litigation) and etc. Whether using outsourcing or in-house resources, an organization--particularly, an IP department--will definitely have to play an important role in evaluating the resources and the appropriate posting of recruited talents.

The IPR-process used to be simple, but the degree of procedural complexity has intensified in scale due to the increase in the volume of applications and multiple international applications. As the use of multiple resources accelerates the output, i.e. patents, will be a remote existence from the starting point of an invention. Now that the necessity for the effective use of the larger-scale and entangled system is pronounced, isn't it time to review the patenting procedural system including the issues of outsourcing?

(1) Title: **The Protection of Three-Dimensional Designs:**

- Three-Dimensional Trademarks and Designs -

(2) Date: October 1999 (30th General Meeting in New Orleans)

(3) Source: 1.PIPA
2.Japan
3.Committee #1

(4) Authors: Shimizu Sonoko, Eisai Co. Ltd.
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(5) Key words: 3-D Trademarks, Designs, Partial Designs

(6) Statutory provisions: Trademark Law Article 2-1, 3-1, 3-2, 4-1-10, 4-1-11, 4-1-15, 4-1-18, 26, 29, 37
Design Law Article 3-1,3-2,5-2,5-3,26,38
Unfair Competition Prevention Act. Article 2-1-3

(7) Abstract Due to the introduction of 3D Trademarks and Partial Design in their respective laws, the border between trademarks and designs seems to have become ambiguous. This report presents the results of the investigations concerning the comparison of 3-D trademarks and Designs. We provide proposals and suggestions regarding application strategies designed for the effective management of rights. We also summarize the various conflicts that can occur, both in examinations and in rights enforcement, when trademarks and designs are closely intertwined and combined. We also study possible approaches and solutions to such conflicts.

(8) Table of Contents

I. Introduction

II. Overview of 3-D TMs and Designs
1. Overview of 3-D TMs
(1) Definition of 3-D TMs
(2) Registration conditions
(3) Current status of 3-D TM applications and registrations
2. Overview of Designs
(1) Definition of Designs
(2) Registration conditions
(3) Current status of design applications and registrations
(4) Notable Points regarding the amendment of the Design Law

III. Comparison of 3-D TMs and Designs
Table Contrasting Trademarks vs. Designs

IV. Actual Cases Showing Status of Protection Provided for 3-D TMs and Designs, and Considerations

V. Problems of Conflict between Designs and Trademarks
1. Applications
2. Examinations
(1) Examinations to ascertain the prior-after application relationship between trademarks and design applications
(2) Novelty as a registration condition
3. Protected Objects and Rights Infringement
4. The relationship between 3-D TMs and Partial Designs

VI. Three-Dimensional Designs: Application Strategies and Management
1. Application Strategy Flowchart
2. A Study of Effective Methods of Combining Applications for Trademarks and Designs

VII. In Conclusion

I. Introduction

The amendment of the Trademark Law in 1997 introduced three-dimensional trademarks (3-D TMs), and the 1999 Design Law amendment introduced partial designs. The goal of these amendments was the expansion of the protective scope for both trademarks and designs.

Today, we see a forward movement in the trends to "make brands of designs" and to "make designs of brands." If one considers the above amendments as "changes (for increased rivalry) in the dimension of designs and trademarks," then one can imagine that, in the future, trends in the protection of intellectual creations will tend to make more ambiguous the border lines separating these two laws.

Meanwhile, the spirit of the Design Law amendment was described in this way: "Along with the changes in industrial structure, company management has also come to have a strong recognition of the importance of designs. [. . .] Thus, it has become necessary to establish a new protection system that stimulates the creation of designs with high creativity, through the appropriate protection of designs having high creativity." Thus, designs have become increasingly important, which means that the effective protection of designs has also become more important. In the actual business arena, we have seen several trends which have spurred diversification in the types of protection available for creations. Such business trends include even finer segmentation of markets, and a greater diversification of products and services, as exemplified by niche products.

In such an environment, how will companies best be able to protect their creations? Indeed, more can be done than merely protecting 3-D TMs and designs. Another possible, and effective, means of protecting product-related 3-D marks and the like would be the establishment of fixed protection periods, through the regulation of dead copies in the Prevention of Unfair Competition Act.

The present report provides a detailed comparison of, chiefly, 3-D TMs and designs. This is accomplished through a detailed analysis of everything from the purpose of the laws, to actual registration requirements. One goal of the report is a clarification of the borderlines separating these two distinct items.

In addition, this report lists actual cases of creation protection adopted by specific companies. In sum, this report provides a consideration of product design and sales activities being performed by various companies. We study how product designs, company "mascots," and the like can be protected by an effective combination of both the Trademark Law and the Design Law.

Finally, we provide proposals and suggestions regarding application strategies and policies designed for the effective management of rights. We also summarize the various conflicts that can occur, both in examinations and in rights enforcement, when trademarks and designs are closely intertwined and combined. We also study possible approaches and solutions to such conflicts.

II. Overview of 3-D TMs and Designs

1. Overview of 3-D TMs

(1) Definition of 3-D TMs

"Characters, graphics, symbols, or three-dimensional shapes or their combinations, or combinations of characters, graphics, symbols, or three-dimensional shapes with color." (Trademark Law, Section 2(1))

In terms of the use of 3-D TMs, the following uses are assumed:

1) Shape of a good itself;
2) Shape of a package (container, etc.) of a good;
3) Shape of an article, etc., used in a service;
4) Shape of an advertisement (signboard).

(2) Registration conditions

1) Marks without distinctiveness cannot be registered.

The following will not be registered: "Trademarks consisting solely of marks indicating the . . . shape of goods . . . (including the shape of goods packaging) . . . in the ordinary manner." (Trademark Law, Section 3(1)(iii)).

2) However, a trademark that acquires distinctiveness through its continuos use can be registered.

"Even trademarks conforming to subparagraphs iii-v of the preceding paragraph, when, as a result of the use of such trademarks, consumers can thereby identify the source of the goods or services concerned with a certain person's business, notwithstanding the stipulations of the preceding paragraph, are eligible for trademark registration." (Trademark Law, Section 3(2))

3) However, even marks that have acquired distinctiveness through their use cannot be registered in a shape that is indispensable for securing the functions of the goods or its packaging.

"A trademark consisting solely of a three-dimensional shape indispensable to securing the functions of goods or goods packaging, as in the shape of goods or goods packaging," is not registrable (Section 4(1)(xviii))

(3) Current status of 3-D TM applications and registrations

Since the introduction of 3-D TMs, as of December 1998, a total of 1,700 applications had been made for 3-D TMs, while 420 had been registered. Around 1,000 applications were received at the date of introduction; since then, around 30-50 applications were received each month.

As for applicants, one notes an extreme polarization. That is, for companies in the same industry, there are some companies which make numerous 3-D TM

applications, yet there are others that make absolutely no such applications. Thus one can see here a clear difference in internal company policies.

For example, in April 1997, there were a total of 116 applications for goods classification 33, "Japanese and Western liquors, etc." Yet of these, 84 applications were made by one single company.

3-D TMs may be divided into two major categories: 1) marks consisting only of the three-dimensional shape, and 2) marks that are combinations of distinctive characters, symbols, etc., and the three-dimensional shape.

Up to the current date (July 1999), registered trademarks in category 1) have been only 3-D marks for advertisement and publicity uses; there have been almost no examples in this category of registrations of marks for goods or goods packaging, containers, etc.

The majority of registrations have been for applications with 3D shapes combined with distinctive characters, symbols, etc. When 3-D TMs were introduced, protection was not sought directly for goods themselves, but rather for company "characters" and mascots and the like. However, a survey of 3-D TM applications shows an extremely large number of applications for goods and goods packaging, containers, etc.

The examination standards of the Japanese Patent Office consider trademarks "recognized solely as not exceeding the scope of the figure itself that is the shape of the designated good or is used for the provision of the designated good" as corresponding to trademarks as described in Section 3(1)(iii).

Thus, for example, even if the object has undergone characteristic changes, or has made to include decorations or the like, in the case of a television which can still be recognized as a television, or a car as a car, or a perfume bottle as a perfume bottle—in other words, in the case where the change, etc., can be recognized as being for the purpose of merely improving the aesthetic appearance of that object—then such will be considered as not having exceeded the scope of the figure itself, and will thus fall under Section 3(1)(iii).

It should be noted that although 3-D shapes that have acquired a self/other distinctiveness as a result of trademark-like usage are stipulated as registrable under Section 3(2), considering current examination standards, it is still thought that it will be quite difficult to register 3-D TMs that are comprised solely of the three-dimensional shape of the product, the package or container, etc.

Further, only a very few trademarks have been found to be not registrable for the reasons stipulated in Section 4(1)(xviii); this is because most such trademarks have been recognized as falling under Section 3(2).

2. Overview of Designs

(1) Definition of Designs

The definition of "design" is "the shape, pattern or color or any combination thereof in an article (including a portion of an article) which produces an aesthetic impression on the sense of sight." (Section 2(1))

The types of designs that are to receive protection are:

(1) An entire article;

(2) A portion of an article;

(3) Component parts;

(4) Systems (system designs)

(2) Registration conditions

1) The design must be capable of being used in industrial manufacturing.

2) Novelty (Section 3(1)):

Designs cannot be registered if they are:

Publicly known or described in a publication prior to the filing of the design application.

3) Ease of creation (Section 3(2)):

Designs cannot be registered if they can easily be created, by a person with ordinary skill in the art, or on the basis of a shape, pattern or color or any combination thereof widely known.

4) Functionality (Section 5(3):

Designs cannot be registered if they consist only of a shape that is indispensable for securing the functions of the article.

(3) Current status of design applications and registrations

Over the past few years, design applications have been steady at around 40,000 cases [??per year]. The large number of applications has continued to be made in the following fields: civil engineering and construction goods, electrical and electronic machinery and apparatus, communications machinery and apparatus, and household equipment. This particular trend has shown no changes over recent years.

Notably, however, rapid progress has been made in product development of digital still cameras. This has been spurred by lower prices for charge coupling devices (CCDs), liquid crystal devices, etc., as well as the general availability of convenient image-processing environments, by the result of the widespread diffusion of the personal computer in Japan. There has been thus a corresponding rapid rise in the number of design applications in the digital still camera field.

For wristwatches, numerous product developments have been made for an increasing diversity of users. This increase in unique, "personalized" designs has led to a corresponding increase in related applications. At the same time, there were also many imitations in this field. This has led to numerous applications under the accelerated examination system, which was revised in September 1997.

(The above information was taken from the Patent Administration Annual Report.)

Since the promulgation of the amended [Design] Law in 1998, there have been 15,782 applications (as of June 17, [1999]; source: Japanese Patent Office). Thus, at the current time, no major changes in terms of application quantities have been seen.

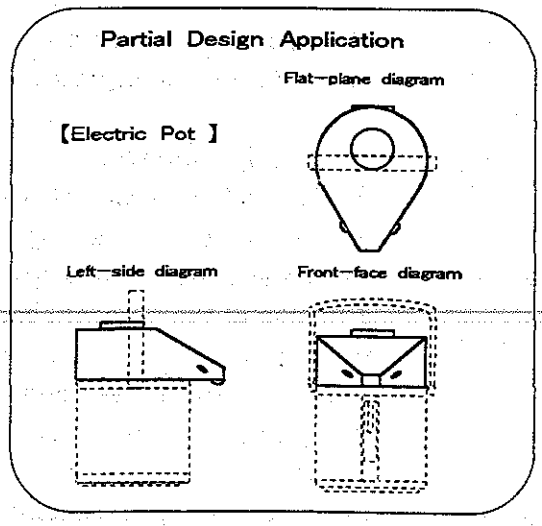
In regards to the new introduction of partial designs and related designs, there appears to be some confusion on the applicant side as to just what rights would be the most effective. Especially, the examination and practice standards for partial designs are still unclear. It is hoped that instruction and guidance will be provided as soon as possible in these areas.

In terms of registrations, there have been some year-on-year discrepancies in terms of registration quantities. In 1998, 36,264 designs were registered, or 1,100 less registrations than in the previous year (source: "Current Status and Future Trends in Industrial Property Rights Administration", edited by the Patent Office). It is thought that the number of registrations will continue to decrease in the future, largely as a result of the raising of the "ease of creation" levels.

In terms of Patent Office examination periods, since 1995, there has been a steady year-on-year reduction of 2 months each in average first action periods. Thus in 1998, this figure stood at 18 months. The PO is currently pursuing various policies towards the realization of earlier granting of rights. Its goal is to realize a 12-month period for first actions by the end of the year 2000.

(4) Notable Points regarding the amendment of the Design Law

Under the amended Design Law, protection was extended to newly include partial designs. And in actual practice, the examination standards were made less stringent for partial designs. The partial designs and part designs are the essential part of creation, which is not easily changed. Therefore this change gives a large scope of registration and greater strength to the rights of rightholders.



The legal model for partial designs was the protection provided for partial designs in the United States. In that nation, where legal (case) precedence is the standard, the history of such protection goes back to the 1960s, when a court agreed to accept the claims of an applicant. The "broken line [in diagrams] practice" proved to be an effective

means of providing a large protection for industrial product designs. It is said, the ideas underpinning such rights granting, as well as the interpretation of the details of such rights, have been the objects of careful study.

As it is, the U.S. patent design system was originally established as one specific category or facet of the patent system; namely, the "patenting of design inventions." It is uniquely characterized by the fact that the type of protection for objects is provided by means of claims. In this sense, the U.S. system appears to differ from the design system of Japan.

Nevertheless, the U.S. model was [finally] introduced in Japan due to the necessity of responding to acts of imitation, whereby although the created portion with unique characteristics was imitated, infringement of the entire design was still avoided by changing the remaining portions. Under the new law, protection is provided specifically for the created portion of the design having unique characteristics.

Under the newly adopted partial designs, the portion with unique characteristics is extracted, and shown in drawings with solid lines. Meanwhile, other portions are shown with broken lines, thus making it possible to acquire rights solely for unique portions.

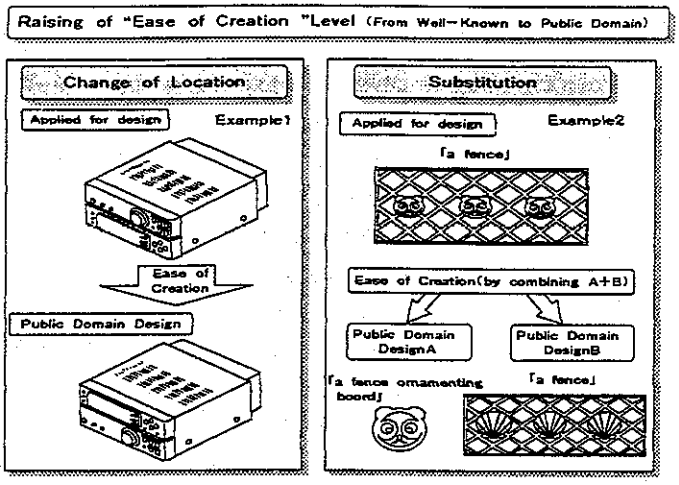
Compared with entire designs, partial designs have fewer configuration elements comprising the design. That means that, [for partial designs], unique points/portions can be more accurately depicted and expressed; as a result, these rights can be interpreted as being stronger than those for entire designs.

It should also be noted that the name of the article used at the time of application for partial designs is recorded as the name of the article as a whole; that is, those portions of the article depicted in both solid and broken lines. Also, the scope of the portion recognized as the partial design is the scope of portions that are clearly ascertainable as portions, as designated in units which have unity and consistency.

As for the interpretation of partial design rights, this is not exactly clear—even in the United States several theories and hypotheses exist. However, portions shown with solid lines are interpreted as important elements in terms of their arrangement locations vis-à-vis broken lines.

Moreover, the criteria for judging "ease of creation" has been raised from "well-known (known to anyone in Japan)" to "existing in the international public domain." This means that rights are granted only for designs having a high degree of creativity.

In other words, in the past, the ease of creation was judged on the basis of widely known motifs or designs. With the amendment, however, now ease of creation judgments will be made on the basis of types in the public domain.



Thus, the end goal [of the amendment] is an improvement of the current situation, whereby as a result of the above-described environment hitherto, currently many design rights exist that are narrow in scope; this was due, in turn, to the increase in defensive applications made in order to protect designs having little creativity.

III. Comparison of 3-D TMs and Designs

In our daily lives, among the many media available which enable us to discriminate articles are: 1) article shape; 2) color; 3) graphics ("signs" or designs); 4) characters; 5) sounds; 6) smells, etc. Of these, combinations of 1), 2), 3), and 4) are used to form marks. The Trademark Law is designed to protect such marks, to recognize distinctions between differing marks, to protect the reputation of a business that is physically incorporated in such marks, to prevent recognition-related confusion in the marketplace, and thus to protect the interests of consumers.

On the other hand, the Design Law has as its goals the protection of aesthetic creations as well as the novelty of articles that are combinations of 1) physical shape, 2) color, and 3) graphics, all in order to spur the development of industry.

Stated in a different way, trademarks protect the reputation of a business, while designs exist to protect aesthetic creations. Thus, for trademarks, the main question is self/other distinctiveness, while in the Design Law, what is at question is the novelty of a design compared with previous designs.

The present chapter provides a detailed comparison between designs and trademarks, covering everything from the purposes of their respective laws to their respective registration conditions, related expenses, effectiveness of rights, etc. An attempt has been made to provide a clear demarcation between designs and trademarks; the results are shown in the following Table.

Contrasting 3D Trademarks vs. Design Patents

		Designs	*3D Trademarks*
Purpose of Law		"The purpose of this law shall be to encourage the creation of designs by promoting their protection and utilization so as to contribute to the development of industry." (Design Law Sec. 1)	"The purpose of this law shall be to ensure the maintenance of the business reputation of persons using trademarks by protecting trademarks, and thereby contribute to the development of industry and to protect the interests of consumers." (Trademark Law Sec. 1)
Objects		"'Design' in this Law means the shape, pattern or color or any combination thereof in an article (including a portion of an article) which produces an aesthetic impression on the sense of sight." (Design Law, Section 2)	"'Trademark' in this Law means characters, signs, three-dimensional shapes of any combination thereof, or any combination thereof with colors, which are used in respect of goods . . . in the course of trade." (Trademark Law, Section 2)
Protected Objects		Aesthetic creations related to articles ・ Shapes of articles ・ Partial shapes of articles	Distinctive marks of goods and services ・ Goods or their packaging shape ・ Shapes which symbolize services ・ Three-dimensional advertisements
Time Required for Registration		18 months (1998)	Approx. 18 months
Continuous Rights Period		15 year period from registration.	10 year period. May be continued in perpetuity through renewals
Registration Requirements	Distinc-tiveness	Not required.	Required "Trademarks recognized solely as not exceeding the scope of the figure itself that is the shape of the designated good or is used for the provision of the designated good" are not allowed. (3-1-3, Examination Standards) However, cases are excepted whereby, "as a result of the use of such trademarks, consumers are able to recognize the goods or services as being connected with a certain person's business." (Trademark Law, Section 3(2))
	Novel y	Required However, a six-month lack of novelty exception exists (Design Law, Sec. 4).	Not required
	Creati -vity	Required	Not required
	Func-tional Exclu-sions	Exist. Designs consisting solely of a shape indispensable to securing the functions of the article. (Design Law, Section 5(3) [sic]) No restrictions regarding effectiveness.	Exist. Trademarks consisting solely of a shape indispensable to securing the functions of goods or goods packaging, as in the shape of goods or goods packaging. (Trademark Law, Section 4(1)(xviii)) Stipulations regarding effectiveness restrictions exist. (Trademark Law, Section 26)
	Aesthe tics	Required	Not required

		Designs	*3D Trademarks*
Application Expenses		Expenses required to create design sample (figures for application use). Application: for all types: ¥16,000 (entire, partial, related)	Almost no expenses required for creation trademark sample. "Descriptions in applications for thr dimensional trademarks must be made with drawing or photographs showing one or two more differing directions of that trademark." Application: (for each 1 class) ¥21,000
Continuation Expenses		Registration Fees 1st-3rd years: ¥8,500 4th-10th years: ¥118,300 11th-15th years: ¥169,000 15 year total: ¥311,800	Registration: (for each 1 class) ¥66,000 (years) Renewal fees: ¥151,000 (10 years) 20 year total: ¥238,000
Non-Use Cancellations		None.	Exist. Cancellation after three or more years of continuous non-use.
Ease of Registration		• 75% of applications were registered (fiscal year 1995) * It is thought that the new Design Law amendment will raise the hurdle in terms of "ease of creation".	* A high hurdle exists in terms distinctiveness. * For 3-D applications, it is almost impossible receive registration for 3-D marks, other th "characters" (goods themselves, packaging, et which contain no written characters. • Of 1,729 applications, 424 were registered, 585 were rejected, and the remainder are und examination (through December 1998).
Validity of Rights	Scope of Rights	Scope identical with, or similar to, article.	Scope identical with, or similar to, article or service.
	Exclusive Rights Prohibitive Rights	Exclusive rights exist to the identical and similar scope.	Prohibitive rights for similar scope only.
	Similarity	Similar in visual aesthetic appearance from the perspective of consumers. Do consumers experience confusion in recognizing the article? Do the aesthetic feelings engendered by the external appearance of the article fall within the identical scope?	Is there any confusion about the origin?
Compensation for Damage		Claims for damage compensations can be made, even if no working exists.	Difficult in cases where there is no usage. Supreme Court ruling exists (Kozo Sushi case

IV. Actual Cases Showing Status of Protection Provided for 3-D TMs and Designs, and Considerations

Based on a consideration of the respective protection purposes for 3-D TMs and designs, the scope of protection provided under these types was studied. To ascertain this in more detail, a survey of applications filed by companies was performed to see exactly how they apply for 3-D TMs and designs

Survey results revealed various circumstances. In general, companies first attempt to gain rights for designs. Then, regardless of whether design rights will continue or expire, companies apply for 3-D TMs for products and "characters" which appear to have a long-life, in an attempt to gain semipermanent rights for such items.

Another division is also seen. That is, for 3-D shapes showing creativity, design rights are applied for; conversely, for 3-D shapes with few unique characteristics, but which have been used continuously for a long time, a 3-D TM is applied for.

This practice of combining designs and trademarks in order to effectively protect creations was one that the authors of this report concurred with as they made more and more detailed comparisons between trademarks and designs. In fact, in summarizing the present report, the authors will also submit their proposal for using such means to protect 3-D designs.

Further, the type of organizational system employed by a company has important effects on application circumstances which cannot be ignored. That is, cases occur whereby, for protection of a single product design, there is no communication between personnel in charge of trademarks and those in charge of designs; there are even cases where either a trademark supervisor or a design supervisor does not exist within a company. In both such cases, applications become one-sided and prejudiced in favor of one protection type over another.

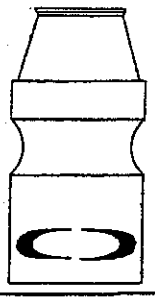
It has now been just over two years since 3-D TMs were introduced. Yet we still see so many cases where appeals are pending for only those parts of the examination which deal solely with the three-dimensional portion at issue. Thus, one must conclude that we are still in the "trial-and-error" stage in terms of such applications.

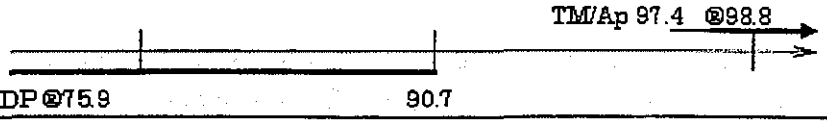
From now on, in tandem with examinations performed under the 10-year Design Law, we should be seeing new developments in terms of the registrability of designs. Thus, we shall have to continue to closely monitor examination trends for both 3-D TMs and designs.

For the present report, from among our numerous survey results, the authors selected 9 companies in differing industries. Herein we will introduce the protection strategies of these companies for some of their most famous and well-known products.

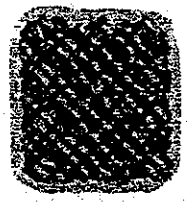
Actual Examples Showing Protection Status

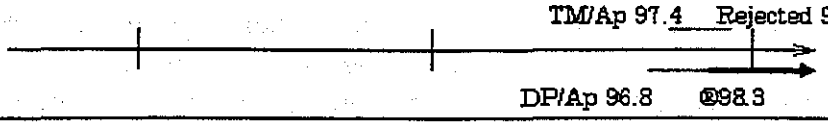
" Yakult "/Yakult Designated good: Lactic acid beverage Article name: Packaging container

3-D TM/Registration No. 4182141	Design/Registration No. 409380	Comments
		・ For the 3-D TM, application was also made for the article without the "Yakult" logo; this was rejected, and is currently under appeal.

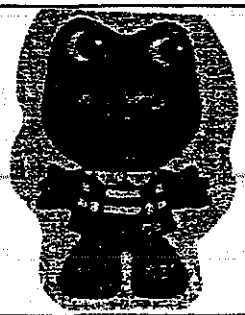


"Kurifu"/Meiji Seika Designated good: Confectionery Article name: Packaging box

3-D TM/ No. 101450/1997	Design/Registration No. 1011959	Comments
		・ Design application was made for the package of a chocolate candy called "Kurifu", while 3D-TM application was made for the chocolate contained inside the package.

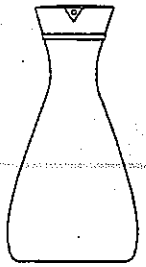


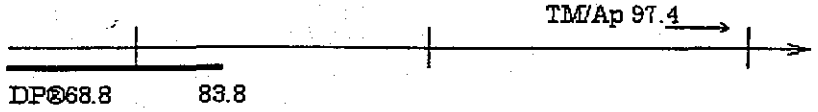
"Kero-chan "/Kowa Designated good: 12 separate classification categories employed, including pharmaceuticals, clothing, and confectioneries. Article name: Animal toy

3-D TM/ No. 111721/1997	Design/Registration No. 507422	Comments
		・ For the design, rights were obtained for 2 patterns.



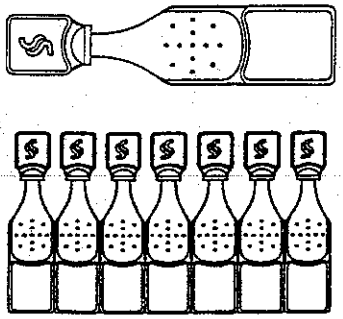
Soy sauce bottle/Kikkoman Designated good: Seasoning Article name: Packaging bottle

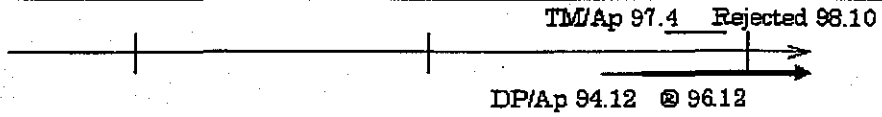
3-D TM/No. 105216/1997	Design/Registration No. 288210	Comments
		• This is a pioneering bottle for table-top soy sauce bottles. Yet will it be recognized as having distinctiveness as a result of its long-term trademark-like use?



One-time use eye medicine/Santen Pharmaceutical Designated good: Pharmaceutical

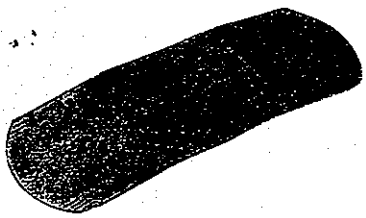
Article name: Packaging container

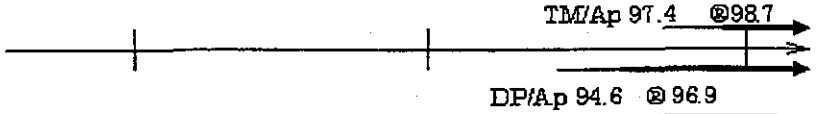
3-D TM/ No. 102687/1997	Design/Registration No. 946420-7 Registration No. 946421-2	Comments
		• Design rights are possessed for two types: an individual item, and seven contiguous items. • The design includes the Santen mark, while the 3-D TM has no mark.



"Sarasahti"/Kobayashi Pharmaceutical Designated good: Sanitary napkin

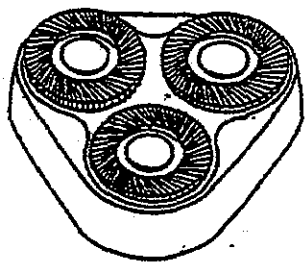
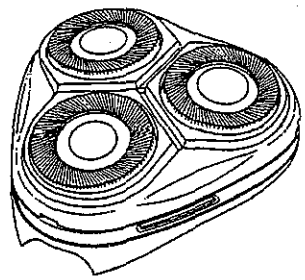
Article name: Sanitary napkin

3-D TM/Registration No. 4168940	Design/Registration No. 969554	Comments
		• Currently, it appears that the logo is not found on the product. However, the registered 3-D TM does include the logo. So where exactly are the rights located?



Shaver/Philips Designated good: Shaving blade

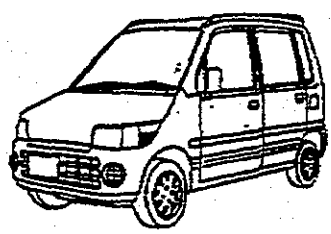
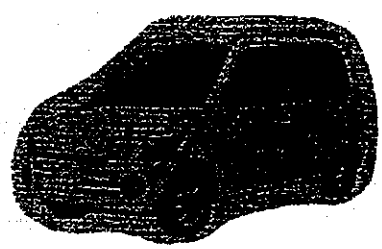
Article name: Holder with blades for electrical shaver

3-D TM/No. 102731/1997	Design/Registration No. 1014039	Comments
		• This is thought to be the only shaver that uses three rotating blades; nevertheless, will trademark functions actually be recognized for that portion?

TM/Ap 97.4 Rejected 98.8 Trial 99.3

DP/Ap 95.10 @98.4

"Move"/Daihatsu Designated good: Toy Article name: Passenger vehicle

3-D TM/No. 102432/1997	Design/Registration No. 985998-1	Comments
		• After obtaining design rights for this passenger car, 3D-TM application was made for a model toy version; perhaps this was an attempt to prevent imitations?

TM/Ap 97.4 Rejected 98.8

DP/Ap 95.3 @97.4

"G-Shock"/Casio Designated good: Watch Article name: Wristwatch body

3-D TM/No. 101771/1997	Design/Registration No. 980970	Comments
		• Even though both the designated product and the article was a watch, was applying for both types an attempt to extend exclusive rights to also cover advertising uses and the like?

TM/Ap 97.4 Rejected 98.9

DP/Ap 96.2 @97.2

V. Problems of Conflict between Designs and Trademarks

As described above, the objects of protection are similar for both for 3-D TMs and designs. However, since the respective purposes of protection are different, in the process from application to execution of rights for 3-D TMs and designs, conflicts may occur in any of the several situations described below.

1. Applications

3-D TM applications are likely to fall under one of the following types: 1) those solely for the 3-D shape itself; 2) those for the 3-D shape and symbols; 3) those for the 3-D shape and written characters; 4) those for the 3-D shape, symbols, and characters.

Conversely, design applications are likely to fall under one of the following types: 1) those solely for the 3-D shape itself; 2) those for the 3-D shape and patterns.

The Design Law excludes characters and symbols possessing self/other distinctiveness. If, however, at the time of the design application, the 3-D shape is displayed together with symbols possessing self/other distinctiveness, then such symbols will become an object of protection together with the 3-D shape.

Therefore, one sees two types of applications—i.e., trademark and design applications—for a single design; namely, for designs having solely a 3-D shape, and for designs comprising a 3-shape and symbols (including patterns).

2. Examinations

(1) Examinations to ascertain the senior/junior application relationship between trademark and design applications

Registration conditions as stipulated in the Trademark Law chiefly concern self/other distinctiveness and functionality; novelty is not at issue. Still, trademarks well known among consumers (Trademark Law, Section 4(1)(x)), and trademarks which are liable to cause confusion with another person's business (Trademark Law, Section 4(1)(xv)), are not registrable.

Further, although separate stipulations exist in both the Trademark Law (Section 29) and the Design Law (Section 26) regarding the respective relationship with the patent rights, etc., of others, there are no stipulations concerning the senior/junior application relationship between trademarks and designs under application.

Therefore, from a logical standpoint, two separate rights could be obtained for a single design (this applies whether the applicants for the two separate rights are the same person or different people).

Thus, in some cases where the rights owner of a design application is not the same person as the rights owner of a trademark application, even if the creation of

the design application was prior, one can imagine that protection is not truly provided for that prior creation.

Therefore, we can predict that in the future, it will become necessary to stipulate the senior/junior application relationship between and among the Trademark Law and the Design Law.

(2) Novelty as a registration condition

Subsections 3(1)(ii) and (iii) of the Design Law stipulate that designs described in a publication prior to filing, and also similar or identical designs, cannot be registered.

As described above in 2.(1) of this report, no senior/junior application relationship exists between Trademark Law and the Design Law. However, the application abstracts of trademark applications are usually published approximately three months after application; and, of course, another person or the applicant herself cannot obtain design rights as a result of making a trademark application (with the exception, however, of cases where the applicant is the same person, and where a lack of novelty exception within the Design Law is applied).

Even when the designated good and the article of the 3-D TM are non-analogous, the corresponding shape of the 3-D TM will be rejected as a design which can easily be created, in those cases where the design is widely known prior to the filing of the design application, by a person with ordinary skill in the art to which the design pertains (Design Law, Section 3(2)).

To summarize the above, one can say that a design application should be made prior to a trademark application, except in those cases where a request is made to apply a lack of novelty exception.

3. Protected Objects and Rights Infringement

For trademark rights, an act of infringement is defined as the use of a trademark similar to the registered trademark in respect of the designated goods or designated services (Trademark Law, Section 37).

For design rights, an act of infringement is defined as the use of a registered design or a design similar thereto in respect of an identical or similar article (Design Law, Section 38).

In terms of specifying an infringement of rights, the designated portion is the important element of trademark rights, while the article is the important element of design rights.

Thus, one can summarize the above by stating that although the rights of 3D-TMs and designs are for protecting the same three-dimensional shape, the scope of the protection may differ according to the methods used to obtain rights.

Let us examine, for example, Fig. 1. Here, the scope of the article covered by the design right for a bottle for containing toiletry water is the entire container; thus, even if the item contained within the bottle is not toiletry water, the article can still be protected.

However, when the designated portion of the trademark rights is solely the toiletry water, when anything other than toiletry water is contained within the bottle, such will be excluded as an object of protection.

In sum, a design right is for protecting the external (aesthetic) appearance of the article, and a 3-D TM that is being subjected to trademark-like use will be excluded from protection.

In Fig. 2, the hypothesis is that a 3-D TM is being infringed, both in terms of its use in a good that is a toiletry water container, and also in terms of its trademark-like use within signs, advertising posts, etc.

In this case, there is an infringement of the design rights in terms of the article that is the container, but its working in signs, advertising posts, etc., is excluded [from protection].

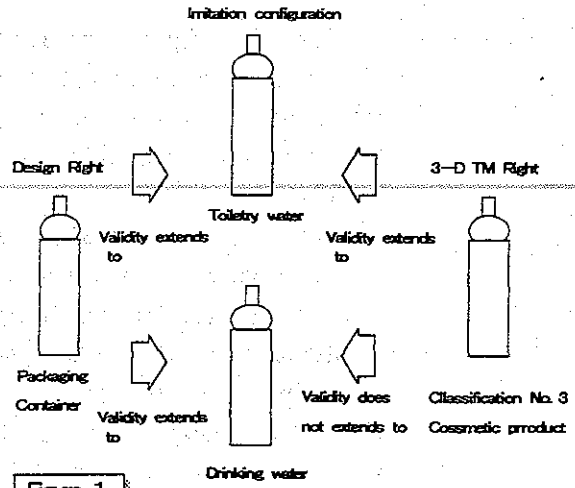


Figure 1

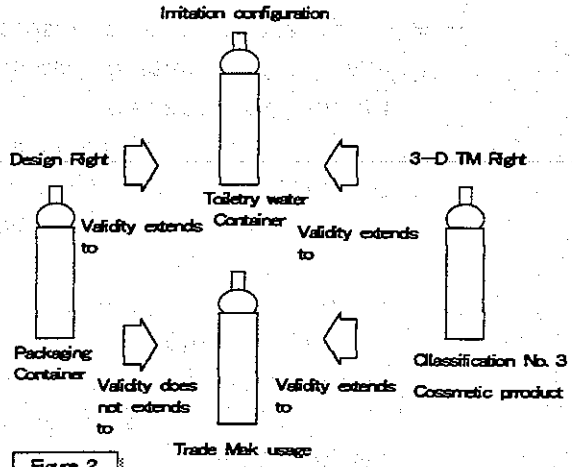


Figure 2

One should take important note of the following in regards to trademark rights where, to a 3-D shape lacking self/other distinctiveness, symbols and characters having self/other distinctiveness are added to comprise the mark. That is, such rights are being interpreted, in some cases, as not being infringed by an act of working the 3-D shape alone.

Therefore, prior to the active use of a 3-D TM comprised of distinctive characters, symbols, etc., one must first ensure that sufficient study is made in regards to the above-described issue.

4. The relationship between 3-D TMs and Partial Designs

Partial designs were introduced with the goal of granting broader and stronger rights. A partial design may be considered as a means of obtaining rights by designating the article, and then by "spotlighting" only the essential portions of the creation—i.e., portions which are the unique characteristic of the designated article.

In terms of the relationship between partial and entire designs, partial designs which have been shown in a portion of the senior application will not be registered (Design Law, Section 3(2)). However, when the partial design is the junior application, an entire design that includes the prior partial design is registrable. At this time, a use relationship is interpreted to exist between the partial design and the entire design. Further, the rights of a partial design extend to the entire design which includes the partial design.

For these reasons, it is thus thought that no special conflicts will occur between a partial design and a 3-D TM, other than those relationships with 3-D TMs as described above for entire designs.

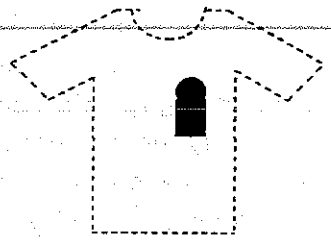
Nevertheless, as described below, prior to obtaining rights, one must first make some adjustments concerning the relationship between a partial design and a plane-figure trademark.

Consider, for example, a case where one wants to protect a figure (pattern) provided on a shirt. Thus, when creating the diagram, the shirt will be outlined using a broken line, while the figure will be displayed using solid lines. The result is as shown on the accompanying figure.

Here, if the figure displayed on the shirt has self/other distinctiveness at the time of application, and when the design is one that may cause confusion with the articles related to another person's business (Design Law, Section 5(2)), then the design will not be registered. It will be registered, however, if it has no self/other distinctiveness.

Thus, one must always pay special consideration to these factors. That is, in the case where the figure does not originally possess self/other distinctiveness, first, a design application should be filed. Then, at the point and time where the mark does possess self/other distinctiveness, trademark application should be performed.

The scope of protection of partial designs has still not been made crystal clear. However, it can be imagined that the object of protection will be the figure and the arrangement location of the figure.



In other words, even if the shirt outline shown in broken lines is changed somewhat, so long as the impression made by the shirt is maintained, the scope of protection can be considered as covering designs where the figure and the arrangement location of the figure are identical,

or have an analogous relationship. Stated another way, these can be called rights for the figure itself, as is.

Thus, as described above, in terms of partial designs, one can expect more conflicts with plane-figure trademarks than with 3-D TMs.

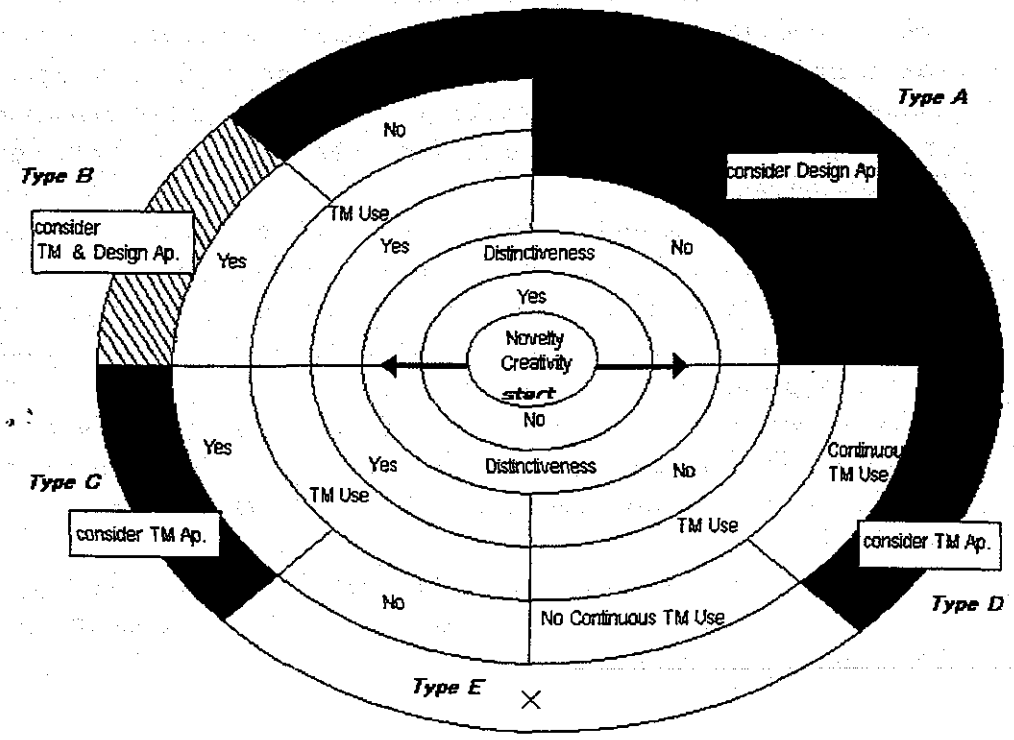
VI. Three-Dimensional Designs: Application Strategies and Management

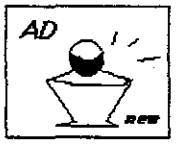
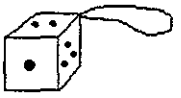
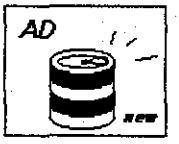
1. Application Strategy Flowchart

The illustration found below is a charting of basic categories which can be used in studying whether to protect a three-dimensional creation as a design, or as a trademark.

To use the chart, start in the center circle. Then, proceed in the direction that matches the characteristics of the creation under consideration. When you've reached the outer circumference portion of the circle, then you will have a general idea concerning which type of protection to apply.

Naturally, in actual cases, various unique circumstances will also have to be taken into consideration. You may first use this chart, however, to get a basic idea of where to start.



Type A consider; Design Application	Has novelty and creativity, but will not be used as TM.	ex. A perfume bottle that has novelty and creativity, which is used solely as a container.	
Type B consider; Design & TM Application	Has novelty and creativity, and will be used as TM.	ex. A perfume bottle that has novelty and creativity. The bottle is going to be used as TM.	
Type C consider; TM Application	No novelty and creativity. But is distinctiveness as a TM and will be used as a TM.	ex. Using a dice "mascot" as TM for advertising a medicine.	
Type D consider; TM Application	No novelty and creativity and not distinctive as TM. However continuous TM use is intended and the mark may become distinctive as a result of continuous use.	ex. A striped can used as TM of beverage. Striped in itself is not distinctive enough to be registered as a TM. But it may become distinctive after continuous use.	
Type E Application Difficult or Not Required	No novelty and creativity and will not be used as TM	ex. A container that has no novelty and creativity, used solely as a container.	

2. A Study of Effective Application Methods

The authors made a study of effective application methods for protecting 3-D TMs related to goods containers and goods themselves. As shown in the accompanying illustration, "Effective Filing", within the three year period from the launching of a product, one can obtain protection through a combination of 3D-TMs and designs, as well as under the dead copy restriction of the Prevention of Unfair Competition Act.

There is a high possibility that a design will be registered around 19 months after its application; yet there is also a high possibility that the 3-D TM filed at the same time will be rejected due to a lack of distinctiveness. At that point, and during the time while the design protection remains valid, one must collect evidence showing a distinctiveness for which Section 3(2) can be applied.

We ask our readers to pay close attention to one fact: namely, that in order to obtain a 3-D TM, the applicant must make every effort towards, and fully concentrate on, successfully achieving that goal. [Below is a summary of how to do just that.]

First, one must maintain the exclusivity of the registered design; and that means, in part, the avoiding of licensing to other entities in order to avoid dispersion of distinctiveness.

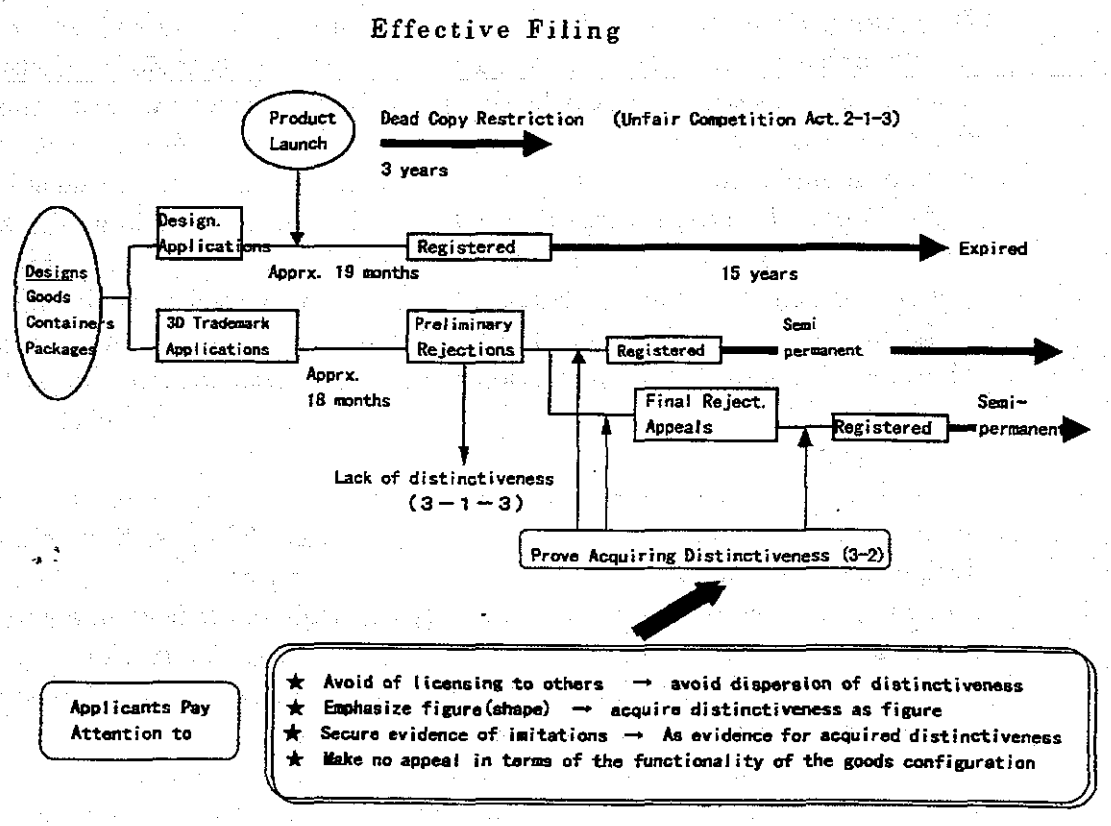
Also, in publicity and advertisements, one must emphasize the figure (shape) of the goods rather than any accompanying written characters or statements. In other words, one must make sure that the contents of ads enable the recognition of the goods configuration.

Further, as evidence for acquired distinctiveness, it is important to secure evidence of any imitations or copies that appear.

And finally, even if one makes sure to make no appeal in terms of the functionality of the goods configuration, one must also be sure to avoid a rejection for the reason stated in Section 4(1)(xviii), i.e., of being solely of a 3-D shape that is indispensable for securing the functions of the goods or their packaging.

In the pursuit of the above-described strategies for acquiring distinctiveness, it is especially a wise policy to emphasize Section 3(2) (distinctiveness by use) as one makes one's responses.

Thus we emphasize that trademark registration be performed in order to protect the 3-D configurations related to goods containers and goods themselves. By doing so, even after the expiration of the design rights for those particular 3-D creations, they will continued to be protected [as trademarks] virtually forever.



VII. In Conclusion

Is the 3-D TM system, introduced in Japan as part of its international harmonization efforts, finally beginning to take root in our country? In the current situation, where—with the exception of company "characters"—registration is only being made for 3-D [configurations] that accompany a plane-figure trademark, it will be of great interest and importance to monitor future decisions for examinations and appeals regarding distinctiveness acquired through use. One will also have to wait for more examination results to see how high the criteria for judging "ease of creation" is to be set as a result of the latest amendment of the Design Law.

It is commonly said that, when one wants to obtain protection for a 3-D [configuration], the best method is to first acquire protection via a design, as designs are relatively easy to register. Then, after achieving acquired distinctiveness, one should obtain registration [for the 3-D configuration] as a 3-D TM. Yet other considerations make it difficult to say that registrations for designs are only—and always—easy. That is, for designs, novelty and creativity are registration conditions, and especially under the new Design Law, the guidelines for judging creativity have been effectively raised. Conversely, for trademarks, novelty and creativity are not registration conditions; only self/other distinctiveness is at issue. Thus with trademarks there is still some leeway whereby the efforts of the applicant (e.g., by acquiring obviousness through long-term use, or through mass communication and other media and publicity efforts) can be decisive.

As described above, designs will not be registered if, prior to application, there are cases of identical or similar designs in the public domain. On the other hand, for trademarks, the existence of identical or similar marks in the public domain is not at issue; rather, senior applications will prove an impediment to registration. Therefore, if a trademark application is not made simultaneously with the design application, there is a danger that the trademark rights may be acquired by another party.

Taking all of the above points into consideration, we recommend that the following application strategy be seriously studied. That is, first, simultaneous design and trademark applications should be performed for a creation. Then, in order to gain semipermanent exclusive rights, while using in a timely manner the protections provided in the Design Law and the Prevention of Unfair Competition Act, and while ensuring that one preserves the exclusive nature of one's mark, one should strive to acquire distinctiveness through use.

Further, one must be aware that, in those cases where there is a difference between the rights holders for the design application and the similar trademark, even if the creation in the design application has priority, there may be cases where

the creation is not truly protected. It is thus thought that, in the future, policies for responding to such conflicts will become a necessity.

COMMITTEE #2

(1) Title: Damages for Patent Infringement and License

(2) Date: October, 1999
(The 30th General Meeting at New Orleans Conference)

(3) Source: 1) Source: PIPA
2) Group: Japan
3) Committee: Second

(4) Authors: KITAJIMA, Hiroshi; Omron Corporation
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(5) Key Words: Patent Infringement, Damages, Lost Profit, Royalty Rate, Attorney Fees, Criminal Penalty, Slight Negligence, Licensing Policy

(6) Statutory Provisions:
Patent Law, Sections 102, 105ter; Civil Code, Section 709, US Patent Act, Sec. 284

(7) Summary:
The patent law amendments in 1998 and 1999 seem to have triggered the inflation of damages in Japan. For comparison of the new damages recovery system in Japan with that of the United States, we have analyzed a hypothetical case and simulated likely court decisions in both countries. Our simulation revealed that the recent law amendments in Japan have moved the damages recovery system closer to that in the United States. As private companies, we hope that the new system would be operated to provide sufficient protection to the owner of an intellectual property right. On the other hand, protection of a third party has to be sought in balance, avoiding undue disadvantages under the new system. Under the new system, issues of the application of attorney fees to be borne by a losing party and slight negligence remain to be discussed for appropriate protection. In licensing practice, more attention should be paid to clarify the licensing policy of each party.

(8) Content:
1. Introduction
2. Outline of the Damages Award System
   2.1 Difference between Japan and the United States
   2.2 Damages Calculation in Japan
   2.3 Damages Calculation in the United States
3. Hypothetical Infringement Case Study
   3.1 Outline of the Cases
   3.2 Decisions to be Made
4. Recent Development of Case Law in Japan
5. Desirable Implementation of the Damages Award System for Companies
   5.1 Expectations for the Enforcement of the Amended Law
   5.2 Remaining Issues
6. Critical Points of Licensing
   6.1 For Patentees
   6.2 For Licensees

1. Introduction

The purpose of the patent law is to "contribute to the development of industry" (Japanese Patent Law, Section 1) and to "promote the Progress of Science and useful Arts" (US Constitution, Article I, Section 8[8]). In order to achieve this purpose, the patent system needs to function as an infra structure to support the development of creative technologies. While providing a framework to assure quick and appropriate protection of the results of research and development, the patent system has to include a mechanism to adequately recover from infringers. Private companies have put more weight on the importance of patents and other forms of intellectual property, and regarded them as a means for collecting income for the compensation of past R&D investments and for fund-raising for further investment. Bearing witness to this, the amount of litigation involving any form of intellectual property rights has constantly increased both in Japan and the United States (See Table 1 and Table 2).

However, damages awarded against infringers of intellectual property rights have been comparatively small in Japan heretofore. Such small damages have been one of the main reasons for the criticism that an infringer still gains even if he/she pays for damages. Some of the reasons for this were difficulties of proving causation of lost profits and the provision of an upper limit under the word of ▮normally,▮ as a claimant was limited in their damages collectable to what they would ▮normally▮ be entitled to receive as royalty under Section 102, para. 2 of the Patent Law. In 1998, the Patent Law was amended to address these problems. Before the Amended Law became effective on January 1, 1999, there was a case decision in which a court awarded a large amount of damages in 1998 (See Table 3). To the contrary, the United States has, since the Young Report in 1985, been adopting a so-called pro-patent policy under which the doctrine of equivalence and theories favoring larger damages, including the incremental damages theory and punitive damages, have been applied. These theories have allowed the collection of large amounts of damages, sufficient for the protection of patentees (See Table 4).

On the other hand, industrial development cannot be achieved without the effective use of patented technologies by the public. The protection of patentees has to be balanced against with public interest. This can be assured by disclosing useful arts to the public in patent publications. There are increasing concerns that higher damages may bring out higher royalty rates, which would adversely affect the smooth development of technologies.

This paper discusses overviewsthe outline of the damages award systems in Japan and the United States, and hypothetical cases to illustrate difference of damages award before and after the law amendment. It further discusses how damages are determined in Japan and the United States and what would be the desirable implementation of the damages award system. It also discusses the critical points of licensing practices under the damages award system.

2. Outline of the Damages Award System

2.1 Difference between Japan and the United States

1) Nature of Damages

In the award of damages, Japan is significantly different from the United States in the following respect. In Japan, law does not allow the award of damages higher than the actual damages. On the other hand, the US Patent Act, Section 284 makes it clear that a claimant can seek adequate damages, "but in no event less than a reasonable royalty." "The court may increase the damages up to three times the amount found or assessed." In case law, also, theories admitting inflated damages amount have developed. In the United States, the damages award system functions as a means for deterring infringement by way of the introduction of punitive damages while, in Japan, sanctional judgments can only be sought under the Criminal Code.

2) Calculation of Damages

There are three types of methods for calculating damages for patent infringement: lost profit, presumed undue profit by the infringer and royalty adequate to compensate for the infringement. In Japan, these types of calculation methods are available. However, the undue profit calculation is unavailable in the United States.

3) Burden of Attorney Fees on the Losing Party

In the United States, 35 USC 285 sets forth that the court in exceptional cases may award reasonable attorney fees to a winning party. The exceptional cases include intentional infringement by infringer and abuse of rights with frivolous and sham pleading by a patentee. In Japan, there are no explicit statutory provisions to support the idea that the losing party will pick up the attorney fees of the winning party. The only exception is the case where damages are established satisfyingwith a statutory required level of causation of infringement. In this case, the claimant can claim entitlement to recovery of compensation from the other party for their attorney fees. The case law shows that the reasonable range of compensation is around 10% of the actual damages.

4) Deferred Interest

In Japan, the statutory rate of 5% is applied as is set forth under the Civil Code, Section 404. In the United States, banks' prime rates or state statutory rates are applied in general. They are relatively larger figures averaging around 10%. In addition, the date of starting calculation is different: the date of filing complaint in Japan and; the date of starting infringement in the United State.

5) Slight Negligence

One of the features under the Japanese Law, Section 102, Para. 4 (before amendment, Section 102-3) is a provision for slight negligence. In cases where a claimant claims damages larger than adequate license fees under Paragraph 3, the court has discretion to lower the award taking into account slight negligence. Provided however, this provision has seldom been applied in actual cases.

6) Procedures for Discovery

In the United States, there are procedures called discovery in which relevant evidence has to be produced. This system helps provide proof to patentees. In Japan, there was an amendment of the Patent Law in 1999 to ease the establishment of infringing act and the damages amount. The amended law to become effective in 2000 has the following features.

- A special provision is introduced for affirmative denial at the time of denial of infringement. For defense, Defendant must argue about its own acts in a specific and concrete manner. (Section 104*bis*)
- Orders for document production are strengthened to establish infringement. Judges can review in camera whether there are reasons for the refusal of production. (Section 105)
- Damages expert system was introduced. Alleged infringers have a duty to give explanation to the damages expert. (Section 105*bis*)
- Courts have discretion to determine the amount of damages. It is now clear that Section 248 of the Civil Procedure Law (discretionary finding of damages) is applicable to a patent infringement case. (Section 105*ter*)

2.2 Damages Calculation in Japan

1) Lost Profits

The legal basis for lost profit damages has been Section 709 of the Civil Code. Before its amendment in 1998, there was no explicit provision in the Patent Act. Before the latest amendment, a patentee was required to prove: 1) intent or negligence, 2) infringement of a patent, 3) occurrence of damage, 4) causation between damage and infringement, and 5) damages. Among those, the proof of causation, factor 4) above, was difficult. In addition, the patentee had to prove that, but for infringement, all customer demand would have gone to the patented products. Since any court finding was a sort of all-or-nothing judgement, no lost profit damages were awarded in the following cases: 1) when the same features would be available without the use of a patent at issue; 2) when there were competitive products on the market or; 3) when the court found the existence of demand for other characteristics of the infringer's product.

The amended Patent Law newly includes a provision, Section 102, Paragraph 1 for the presumption of damages. When proof is appropriately made to show the substitution of infringing products by patentee's prospective product, damages can be calculated by multiplying a profit margin by the patentee's product in the number of infringing products sold by the infringer, by the sales capacity of the patentee. In the provision, there is a reference to the reduction of a damages amount. The reduction shall be in proportion to the degree of reasons for unavailability of sale by the patentee. In this case, however, the alleged infringer has a burden to prove the inapplicabilitylack of the presumption. This will reduce the burden of proof of causation on the part of the patentee. The court will award lost profit damages on a case by case basis,

discarding the conventional all-or-nothing approach. The gist of Section 102, Para. 1 of the patent law can be expressed in the equation that follows.

[Damages to Patentee]
=[Sales volume by Infringer]x[Profit Margin to Patentee]
- [Amount which Patentee cannot sell]
< [Utmost Sales Capacity of Patentee]

Generally, the term "profit" allows three types of interpretation: gross margin, marginal profit and net income. The gross margin is obtained by deducting manufacturing costs from the sales amount. For the marginal profit, variable overheads (personnel and sales expenses) are further deducted in order to determine the manufacturing cost and the sales amount. The net income also deducts general administrative and selling expenses. In recent years, a prevailing interpretation is that the profit to be used in the above equation is the marginal profit.

With regard to the limited sales capacity of the patentee, and the presumed amount successfully challenged by the infringer, it is unlikely that the damages to be awarded would be nil. Rather, resultant damages would be a reasonable royalty under Section 102, Paragraph 3.

2) Presumption of Profit by Infringer
The amended law sets forth in Section 102, Para. 2 (before amendment, Section 102, Para. 1) that the profits gained by the infringer through infringement shall be presumed to be the amount of damage suffered by a patentee or an exclusive licensee. This provision is included in the Patent Law as a special provision from the Civil Code, since proof of lost profit is difficult. In the case law, however, the courts did not award any damages when the patentee had not exploited its patent. Their rationale was that presumed damages were nothing. Substantially, this provision has been functioning as a right to demand to return undue enrichment under the condition that the patentee exploits its patent.

3) Reasonable Royalty
The amended law sets forth in Section 102, Para. 3 (Section 102, Para. 2 before amendment) an amount of money which a patentee would receive for the working its patent, is the amount of damage caused by the infringer. In the law before amendment, the provision articulated this by stating "an amount of money which a patentee would normally be entitled to receive for the working of its patent." During the legislation of the amended law, however, the word "normally" was deleted. Conventionally, "normally" dictated the allowance of the calculation of damages based on abstract evidence including the industrial norm and standards for nation-owned patents. Even if a patent at issue were licensed to a third party at a higher royalty rate, such existing royalty rate was often disregarded and, instead, more general standards, such as the public norm were applied. The amended law will provide the judges with discretion to weigh special features of an invention and specific circumstances such as existing licensing policies so as

to determine the amount of damages. If there are established policies for licensing, royalty rates used for such licensing shall usually be relied on for damages calculation.

2.3 Damages Calculation in the United States

1) Lost Profits
The rationale for lost profits is called the "But for" rule. Profits which would have been obtained without the infringement occurring are considered damages. There are four requirements called the Panduit Tests: 1) existence of demand for patented products, 2) non-existence of non-infringing substitutes, 3) patentee's capacity for manufacture and sale to meet demand, and 4) calculation of lost profits which the patentee would have obtained but for the infringement. With regard to causation between torts and damage, proof of reasonable probability would be considered sufficient.

In many cases, courts awarded damages by multiplying the infringer's sales volume by the patentee's profit margin. Like in the marginal profit approach in Japan, only the variable expenses are deducted from the total sales amount.

2) Reasonable Royalty
When proof of lost profits is unsuccessful, compensation by award of a reasonable royalty is available. In many cases, the amount can be determined following the hypothetical negotiation method established by the Georgia-Pacific case. Assuming that a willing licensor sits for negotiations with a willing licensee, a reasonable royalty will be determined. There are 15 factors to be observed. When it turned out that a patentee was in fact unwilling to license its patent, then, the court has discretion to apply a higher royalty rate.

When a patentee granted a license and evaluation for the license is established, the court may apply the rate for the license. In a case where a rate based on the hypothetical negotiation approach is higher than an existing royalty rate, the court applies higher rates based on the hypothetical negotiation approach.

3) Theories for Enlarged Damages
i) Entire Market Value Rule
Even if a patent cover only some components of an infringing product, calculation of damages would rely on the whole product but not limited to the infringing parts, provided that the sale of the whole product is attributed to the patented components.
ii) Collateral Sales Rule
When the sale of parts and expendables is attributed to the sale of an infringing product, the sales amount of such parts and expendables are to be included into the basis for calculation of damages, to the extent such parts and expendables are collateral to the infringed product.
iii) Accelerated Reentry Rule

When infringer starts selling its infringing product on certain market before the expiration of a patent and when he/she obtains profits by the early entry into the market, the difference between the pre-expiration profit and the post-expiration profit of the infringer can be subject to damages.

iv) Damages for Non-exploitation of the Patent

The King Instruments case teaches a rule that when infringement causes the decrease in the sale of non-patented products and such decrease is reasonably foreseeable, the sales reduction can be recoverable as a part of lost profits.

3. Hypothetical Infringement Case Study

Having outlined differences between and features of the damages recovery systems in Japan and the United States, the authors would like to discuss how damages are calculated based upon specific hypothetical cases. Such discussion will hopefully show realities of law enforcement in both countries.

3.1 Outline of the Cases

1) Patent at Issue

Patented Invention A:

A cart system comprising a golf bag cart and rails provided on supports to hold said cart and have said cart run on said rails.

Patented Invention B:

A cart system comprising a golf bag cart and rails provided in grooves to hold said cart and have said cart run on said rail.

2) Defendant's Acts

Defendant manufactures and sells a system according to invention B.

3) Other Competitors

a. Plaintiff manufactures and sells the system according to invention A.

b. A third party C (▮ Party C▮) manufactures and sells a cart system different from those of inventions A and B. In party C's system, rails are provided at the height of 3 m from the ground and carts hang down from the rails.

4) Sales Volume

The following table shows the sales volume of the system by Plaintiff, Defendant and Party C. Each year, sales figures for Plaintiff and Party C remain the same. Defendant started sales in 1997.

	1994	1995	1996	1997	1998
Plaintiff	60	70	80	70	70
Defendant	0	0	0	50	80
Party C	60	70	80	70	70
Total	120	140	160	190	220

5) Price and Profit for the Parties

Prices and profit ratios of the products of Plaintiff and Defendant are shown in the following table. Profit ratios

are divided into three groups for: gross margin, marginal profit and net income.

	Plaintiff	Defendant
Price	Unit Price: ¥100 mil. For Invention A: ¥80 mil. For accessories*: ¥20 mil.	Unit Price: ¥80 mil. For Invention B: ¥60 mil. For accessories*: ¥20 mil.
Gross margin	35%	30%
Marginal profit	20%	unknown
Net income	10%	unknown

* Accessories do not use the invention.

Accessories here mean battery chargers exclusively designed for the cart in each system. They cannot be marketed independently from each system.

6) Manufacturing Capacity of Plaintiff
Defendant manufactured and sold its products in 1997 and 1998. In that period, Plaintiff's manufacturing capacity was 100 sets per year.

7) Plaintiff's Licensing Policy
Plaintiff did not have any place of business in Hokkaido. In 1994 it granted a non-exclusive license to another third party D (Party D) whose principal office was in Hokkaido. The agreed royalty rate was 5%.

8) Intentional Infringement by Defendant
It appears that Defendant was aware that the manufacture and sale of its products would infringe the patent at issue. In 1994, Defendant visited Plaintiff and had a tour to learn about the system. At that time, Defendant was informed of two relevant patents owned by Plaintiff. There is no evidence to show that Defendant performed study of the validity of Plaintiff's patents. Upon knowing the Defendant's use of its patents, Plaintiff gave a prior notice of infringement to Defendant. Defendant did not heed the notice and did not stop using the patents.

9) Claims by Plaintiff
i) Injunction against manufacture and sale of products by Defendant.
ii) Damages of lost profits caused by reduced sales (Defendant's total sales volume is tantamount to the Plaintiff's reduced sales.)
iii) Damages as a preliminary claim assuming infringer's profits as being lost profits.
iv) Reasonable royalty as a preliminary claim (compensation for interruption against Plaintiff's enjoyment of a monopoly under the patent: royalty rate of 8% which is higher than the statutory rate).

10) Defendant's Argument
i) Defendant admitted the validity and infringement of the Invention B.
ii) Plaintiff failed in exploiting the Invention B. Party C (third party) launched competitive products on the market. There was no proof of causation to establish that without infringement Plaintiff could have sold the volume that

Defendant had sold. Therefore, PlaintiffDefendant had no standing for the claim of lost profit damages.

iii) The basis for the royalty rate should be 3% according to the calculation for the nation-owned patents. In view of the patent use ratio of 0.75 (¥60 mil to ¥80 mil), the resultant rate should be 2.25%.

3.2 Decisions to be Made

The injunction claim is admissible by the court in view of Defendant's admission of infringement. It does not matter whether the applicable law is Japanese Law or US Law, or which country's practice is taken into account.

The following discusses likely decisions on other claims, more specifically, damages claims, taking into account, traditional Japanese practice, enforcement of the amended Japanese Patent Law and US practice.

3.2.1 Damages of Lost Profit Caused by Reduced Sales

1) Traditional Practice in Japan
Conclusion: Dismissal of claimed damages.
Applicable law: Civil Code, Section 709
Reason: Plaintiff did not exploit the patented invention at issue. Thus, Plaintiff has no lost profits caused by reduced sales.
Comment: Even if Plaintiff actually exploited the patented invention, this claim would have been dismissed for the following reasons. First, there were non-infringing competitive products on the market. Second, there was no proof to show what amount out of Defendant's sales volume would have gone to Plaintiff.

2) Practice under the Amended Law
Conclusion: Award of ¥1100 mil. as lost profit damages.
Applicable law: Civil Code, Section 709; Patent Law, Section 102, Paragraph 1
Reason: The equation for calculations in the Patent Law, Section 102, Paragraph 1 is applicable.

The Section 102, Para. 1 defines the Plaintiff's products as a basis for calculation of "itemswhich could have been sold but for infringing acts." This provision does not necessarily limit the statutory coverage to the patented product actually infringed. Like in this case, products using Plaintiff's other patents can be a basis for calculation of damages.

Accessories sold by Plaintiff do not fall within the category of the goods utilizing the patented invention. They are chargers exclusively used for the cart manufactured and sold by Plaintiff. It is unlikely that they will be sold independently from the Plaintiff's system. Taking them all into consideration, the whole accessories could be included into the category of products which "could have been sold without infringement." Therefore,

the price of ¥20 mil. can be included into the basis for calculation of Plaintiff's profits.

Defendant sold 50 sets of the system in 1997 and 80 sets in 1998. Section 102, Para. 1 of the Patent Law provides for two conditions: "upper limitation not to exceed the amount for which a patentee can comply with" and "deduction of the amount which is tantamount to sales volume which a patentee cannot afford to sell." These conditions have to be considered in connection with the sales volume by Defendant.

With regard to the first condition, Plaintiff's manufacturing capacity in 1997 and 1998 was 100 sets per year. Plaintiff sold 70 sets each year so that the remaining capacity per year was 30 sets for both years.

With regard to the second condition, each of Plaintiff and Party C occupied, before the commencement of infringement, a 50% share of the golf bag cart market. Their market share remained the same even after the commencement of infringement. But for infringement, 50% of the demands for Defendant's products would have directed to Plaintiff's patented products.

In other words, but for infringement, 50% of the Defendant's sales volume, more specifically, 25 sets in 1997 and 40 sets in 1998 would have gone to Plaintiff. In view of the remaining manufacturing capacity on the part of Plaintiff, 25 sets in 1997 and 30 sets in 1998 would reasonably be converted to the recoverable sales volume in favor of Plaintiff.

With regard to "Plaintiff's profit margin per unit," a percentage of 20% should be employed as the marginal profit in view of lost profit recovery. Multiplying a 20% of the marginal profit by the unit price of 100 million yen would result in 20 million yen.

To sum up, the amount of damage against Plaintiff can be calculated as follows.

(25sets + 30sets) x ¥20 mil./set = ¥1100 mil.

3) Practice in the United States

Conclusion: Lost profits of ¥1100 mil. to be awarded.

Authority:

35 USC 284,

Panduit Corp. v. Stahlin Bros. Fibre Works, 575 F.2d 1152

Reasons: Application of the Panduit tests revealed the same finding which would be anticipated under the amended Japanese Patent Law.

Comments: In this case, the manufacturing capacity of Plaintiff was found to be 100 sets per year. However, it is arguable whether increased capacity should be admitted if Plaintiff had a plan to expand its manufacturing plans subject to the continuation

of expanded sales. By way of contrast, under the amended Japanese Patent Law, the upper limit of Plaintiff's manufacturing capacity is stipulated explicitly. Inclusion of planned expansion may not be persuasive.

With regard to the influence of non-infringing substitution (allocation of the demands for Defendant's products to Plaintiff's products and non-infringing substitutions, and in what percentage), Defendant has a burden of proof in Japan while Plaintiff does in the United States. In this specific point, recent law amendment in Japan seems to have reduced the burden compared with the plaintiff in the United States.

3.2.2. Damages Based on Infringer's Profit

1) Traditional Practice in Japan
Conclusion: Denial of claimed damages.
Applicable law: Patent Law 102, Para. 2 (Section 102, Para. 1 before amendment)
Reasons: Plaintiff did not exploit the patented invention at issue. There should be no presumed damage so that Section 102, Para. 2 shall not be applicable.
Comments: Even if Plaintiff exploited the patented invention, a majority of prior cases support the interpretation that infringer's profits are net income. In this hypothetical case, net income is unknown while gross margin is established. The claim would be dismissed due to an absence of proof.

2) Enforcement of the Amended Patent Law
Since the lost profit award is found, the court would not hear this preliminary claim.

3) Practice in the United States
Infringer's profit was excluded from the basis for calculation of damages when the Patent Law was amended in 1946.

3.2.3 Claim for Damages as a Reasonable Royalty

1) Traditional Practice in Japan
Conclusion: 234 million yen to be awarded as a reasonable royalty.
Applicable Law: Patent Law, Section 102, Para. 3 (old law, Section 102, Para. 2)
Reasons: Defendant sold 50 sets in 1997 and 80 sets in 1998. Unit price per set is ¥80 mil.
A royalty rate of 3% is employed from the method for nation-owned patents. This rate is multiplied with the use ratio which is 0.75 (out of the product price of ¥80 mil., the patented components are ¥60 mil.) Thus, the royalty rate can be obtained by:

$$3\% \times 0.75 = 2.25\%$$

The total amount of reasonable royalty which will be found is:

(50sets + 80sets) x ¥80 mil. x 0.0225 = ¥324 mil.

2) Enforcement of the Amended Law
Conclusion: Reasonable royalty of 300 million yen will be found.
Applicable law: Patent Law, Section 102, Para. 3
Reason: Defendant's sales initially considered outside of the calculation of lost profits are in fact subject to the calculation of a reasonable royalty.

Sales volume beyond the manufacturing capacity of Plaintiff are 25 sets in 1997 and 50 sets in 1998.

Accessories sold by Defendant do not use the patented invention. However, they are chargers exclusively designed for Plaintiff's carts and they are unlikely to be marketed independently from the Plaintiff's system. They are indispensable for working the patented invention. Taking these factors into account, the sale of the accessories by Defendant can be regarded as being unseverable from its infringing acts. Therefore, it could be deemed appropriate to include the entire sales amount of the accessories into the basis for royalty calculation. The sales price of the Defendant's set with accessories is ¥80 mil. per set.

As a royalty rate, 5% is applied as agreed upon.

Therefore, the reasonable royalty to be awarded is:

(25 sets + 50 sets) x ¥80 mil. x 0.05 = ¥300 mil.

3) Practice in the United States

Conclusion: ¥480 mil. as reasonable royalty.
Authority: 35 USC 284; Georgia-Pacific Corp. v. United States Plywood Corp., 318 F. Supp. 1116 (15 Factors).
Reason: Defendant's sales initially considered irrelevant to lost profit calculation are in fact subject to the calculation of a reasonable royalty.

Sales volume beyond the manufacturing capacity of Plaintiff were 25 sets in 1997 and 50 sets in 1998.

Accessories sold by Defendant do not use the patented invention. For the same reason as discussed above, the entire sales amount of the accessories should be included into the basis for royalty calculation. The sales price of the Defendant's set with accessories is ¥80 mil. per set.

The royalty rate is 8% as claimed. Although Plaintiff has experience in granting a license, such license was limited to a certain geographical area (Hokkaido). Apart from that area, Plaintiff kept a policy to maintain an exclusive right. Therefore, the rate of 5% as seen in the license agreement

should not be considered as an established royalty rate. For the compensation of interruption against Plaintiff, 8%, higher than the existing license, should be appropriate.

For the reasons mentioned above, the reasonable royalty is:

(25 sets + 50 sets) x ¥80 mil. x 0.08 = ¥480 mil.

3.2.3 Total Amount of Damages

1) Actual Damages
To sum up, actual damages calculated following the traditional practice in Japan are supposed to be ¥234 mil. Under the amended Japanese Law, they will be ¥1400 mil while they are ¥1580 mil. in the United States.

2) Punitive Damages
There are no punitive damages in Japan.
In the United States, punitive damages of up to 3 times as much as actual damages are available when infringement is found to be intentional. In this hypothetical case, intentional infringement can be found, thus constituting treble damages of ¥4740 mil.

3) Deterred Interest
Let us assume that the period from the date of filing a complaint to the date of decision is 3 years. For simplicity, the period of 3 years is considered to be subject to deferred interest. In Japan, the statutory interest is flatly defined as 5% in the Civil Code (Section 404). In the United States, 10% are frequently employed so that 10% is applied to this hypothetical case.
Under the traditional practice in Japan, the deferred interest will be ¥35.1 mil. (¥234 mil. x 0.05 x 3 yrs)
Under the amended Japanese Law, it would be ¥210 mil. (¥1400 x 0.05 x 3 yrs).
Under US practice, it would likely be ¥474 mil. (¥1580 mil x 0.1 x 3 yrs). In the United States, the period for deferred interest could commence when infringement has taken place and accrue through the date of decision. Therefore, actual amount of deferred interest would be much higher than the above simulated figure.

4) Attorney Fees
In Japan, attorney fees cannot be shifted to a losing party.
In the United States, an exceptional case allows for a court order against a losing party to pick up attorney fees for a winning party. In this hypothetical case, Defendant continued infringement even though the patents were valid and infringement was apparent and such continuation triggered the lawsuit. Therefore, Defendant should be ordered to pick up attorney fees of Plaintiff.

5) Total Payment from Defendant to Plaintiff

The total payment from Defendant to Plaintiff would be variable depending upon the law and practice applicable. Under traditional practice, the total amount would be ¥269.1 mil. (¥234 mil. of actual damages plus ¥35.1 mil. of deferred interest).
Under the amended Japanese Law, the total amount would be ¥1610 (¥1400 mil. of actual damages plus ¥210 mil. of deferred interest).
Under US practice, it would be ¥5314 mil. (¥4740 mil. of punitive damages plus 474 mil. of deferred interest plus ¥100 mil. of attorney fees).

The chart on the next page compares likely decisions under the different applicable laws.

3.2.5 Summary of the Likely Decisions

1) There are significant gaps between the amount of actual damages calculated under traditional Japanese practice and the amended Japanese Law (¥234 mil. to the former v. ¥1400 mil. to the latter). Part of the reasons for this gap is that lost profits were not usually found under traditional practice in Japan. Under the amended Japanese Law, however, lost profit awards will likely be found more flexibly, taking into account various factors such as the existence of competitive products. Further, our calculations yield gaps in royalty rates. Conventionally, an established rate for nation-owned patents has been employed. Further, a use ratio was multiplied to obtain the rate of 2.25%. Under the amended law, the rate of 5% employed in existing agreements would be used. Under certain circumstances, the inclusion of collateral sales into the royalty calculation basis would be employed.
2) On the other hand, the gap between the amounts of the amended Japanese Law and the US practice is not large: ¥1400 mil. to the former and ¥1580 to the former. Both jurisdictions would have a same finding on lost profits. In the United States, the court may put more weight than in Japan on the interest of Plaintiff to maintain its monopoly right under patents. Eventually, 8% was awarded. In our hypothetical case study, this has caused the gap in actual damages between two countries.
3) Payment from Defendant to Plaintiff is far higher in the United States than in Japan as a result of the application of punitive, treble damages which have not been adopted in Japan.

Claims of Plaintiff	Likely Court Decision		
	Traditional Approach	Approach under Amended Law	Approach in US
Lost Profit due to reduced sale	Dismissal Plaintiff did not exploit the patents so that Plaintiff is not entitled to lost profit due to reduced sale.	Awarded lost profit: ¥1100 mil. Calculation: Defendant's sale within Plaintiff's capacity 25 sets (1997) + 30 sets (1998) x Plaintiff's marginal profit ¥20 mil./set = ¥1100 mil.	Same as Japan
Damages presumed from infringer's profit	Dismissal Plaintiff did not exploit the patents so that Plaintiff is not entitled to presumed damages.	No need because lost profit is found.	No statutory provision to presume infringer's profit as Plaintiff's damages.
Reasonable royalty	Awarded reasonable royalty: ¥234 mil. Calculation: Defendant's sale 50 sets (1997) + 80 sets (1998) x Defendant's sales price ¥80 mil. x royalty rate 0.025 = ¥2340 mil.	Awarded reasonable royalty: ¥300 mil. For Defendant's products not covered by lost profit. Calculation: Defendant's sale beyond Plaintiff's mfg capacity 25 sets (1997) + 50 sets (1998) x Defendant's sales price ¥80 mil. x royalty rate 0.05 = ¥300 mil.	Awarded reasonable royalty: ¥480 mil. for Defendant's products not covered by lost profit. Calculation: Defendant's sale beyond Plaintiff's mfg capacity 25 sets (1997) + 50 sets (1998) x Defendant's sales price ¥80 mil. x royalty rate 0.08 = ¥480 mil.
Total amount of actual damages	¥234 mil.	¥1400 mil.	¥1580 mil.
Damages including punitive damages	¥234 mil. without punitive damages	¥1400 mil. without punitive damages	¥1580 mil. x 3 = ¥4740 mil.
Deferred interest	¥234 mil. x 0.05 x 3 = ¥35.1 mil.	¥1400 mil. x 0.05 x 3 = ¥210 mil.	¥1580 mil. x 0.1 x 3 = ¥474 mil.
Attorney fees	No	No	¥100 mil. as Plaintiff's attorney fees
Total payment from Defendant to Plaintiff	¥234 mil. + ¥35.1 mil. = ¥269.1 mil.	¥1400 mil. + ¥210 mil. = ¥1610 mil.	¥4740 mil. + ¥474 mil. + ¥100 mil. = ¥5314 mil.

4. Recent Development of Case Law in Japan

The 1998 Amendment has introduced the calculation of lost profits and has eliminated limitations posed under the term of "normally" in connection with finding of a reasonable royalty. Such new provisions could have been realized to some extent even under the old law through interpretation of laws. The amendment has made it clear from statutory provisions. Before the amendment, courts were in a position to introduce the gist of the amendment in their decisions. In fact, there are recent court decisions reflecting points of the law amendment. Here in this paper, we would like to discuss two representative case decisions, before and after the enforcement of the amended law, relating to points of the amendment.

1) "Cimetidine" Case (Tokyo District Court, decided Oct. 12, 1998, Civil Hei 5(wa)11876)
Applying the similar calculations as those in the amended law, a total amount of 3000 million yen was awarded as damages. Defendant argued to deny any finding causation between infringement and lost profits in view of present of non-infringing substitutes being on the market. However, the court did not accept this argument and found causation between the entire sale of infringing products and lost profits.

2) "Package tray" Case (Osaka District Court, decided July 6, 1999, Civil Hei 6(wa)13506)
Defendant argued that a reasonable royalty should be in the range of 1-3% in view of industrial norms and profit ratios. However, the court, negating this argument, agreed to the argument of Plaintiff that the royalty rate should be 0.2 yen per tray, which amounts to 5.46%. This rate reflects the terms of a past settlement.

5. Desirable Enforcement of Damages System for Private Companies

5.1 Expectations for the Amended Law

Litigation requires allocation of a huge amount of cost and labor, not only for attorney fees but also internal research and analysis for the case. Companies in general desire amicable settlement before the dispute goes to court. Once in litigation, however, companies hope royalties obtained through court proceedings willbe higher than that for amicable settlement. If such royalties are not available, bringing a case to trial seems unreasonable. In this respect, the situation has to be improved to prevent a "free ride" on others' proprietary rights. Under the amended law, the lost profit award should be introduced more actively. Even in the case of a reasonable royalty, Plaintiff's license policy, if any, should be reflected in the court-awarded royalty rates.

With regard to the enforcement of the amended law, we would like to see the development of the following points.

1) Scope of Patentee's Products to Be Basis for Calculation of Lost Profit
Section 102, Para. 1 of the Patent Law broadly defines the scope of the Patentee's products which can be a basis for

calculation of lost profits. It covers "products which could have been sold without infringement." This definition may allow interpretation and application of law which is tantamount to the incremental damages theories in the United States. In order to protect a patentee appropriately, a reasonable scope should be sought in proportion to the value of a patented invention.

2) Finding of Royalty Rate

In finding royalty rates, the court will possibly respect for past agreements, if any, being free from industrial norm or established rates for nation-owned patents. However, it is still questionable whether the court will, in view of the value of the invention at issue, be agreeable to a rate higher than a rate used in a past agreement.

In this specific respect, the hypothetical negotiation approach should be appreciated in order to find a rate for reasonable royalties. Given an established royalty, the court should not hesitate to award a higher rate if there are reasons to support such higher rate. Sometimes it is likely that a royalty rate was set at a somewhat lower level for various reasons. For example, it may be reduced because of package business transactions including non-patented products; because of cross-licenses with the other party's strong patents or; because of limited license to a limited number of licensees due to the need to spread patented technologies. In these instances, Patentee's demands for higher rates will be considered reasonable.

3) Level of Proof

In the United States, there are two types of standards for evidential proof: preponderance of evidence and clear and convincing evidence. Depending on a case, either of these two standards is employed. To the contrary, in Japan, court practice has required that with regard to important facts, proof had to be made to the extent which can enable the judges to be convinced without reasonable doubt. This requirement has been the background of the "all or nothing" approach. In the Amended Law, however, discretional finding of damages is introduced into Section 105*ter*. However, discretional finding is limited to a situation where the proof of facts necessary for the establishment of damages is extremely difficult because of the nature of the facts. If this provision is applied in a limited manner, it would be difficult to find lost profits and reasonable royalty in order to recover the actual damage caused to the Plaintiff. Then, there should be no substantial difference from the conventional approach taken by the courts. On the other hand, Defendant may find it difficult to strictly prove the facts to reduce the amount of presumed damages under Section 102, Para. 1. With regard to the level of proof, balance should be taken into account thereby to protect the interests of both Plaintiff and Defendant, adequately and appropriately.

5.2 Remaining Issues

For the increased protection of a patentee and the adequate protection of a third party, below a few remaining issues are discussed.

5.2.1 For Increased Protection of a Patentee

1) Attorney Fees Being Paid by a Losing Party

For a patentee, attorney fees for litigation should have been avoided if there were no infringement. The fees can be considered as arising from the tortuous acts of the Defendant. Under the Japanese law, there are no provisions setting forth attorney fees to be borne by a losing party. In a case of intentional infringement, causation can hopefully be found and findings should be substantially the same as those in the United States with regard to attorney fees.

2) Determent of Infringement under Criminal Penalties

The amended Patent Law increased criminal penalties. However, effects of these penalties for deterring infringement is questionable because of the statute of limitations of 3 years. Even if a patentee sues infringer immediately after the discovery of infringement, prosecution offices are not yet ready for prosecuting patent infringement cases. In actuality, it may be difficult for them to commence prosecution in time. Prosecution may theoretically be available using facts established through civil procedures. However, civil procedures take a long time to go through so that this may be impractical in view of the statute of limitations for criminal prosecution. In order to make this system truly effective, prosecution authority should be lined up for patent infringement cases otherwise special arrangements should be sought to freeze the statute of limitations when a civil action is filed.

5.2.2 Adequate Protection of a Third Party

In actual infringement cases, there are arguments made in gray areas, wherein determination of infringement is not apparent. Nevertheless, the law is designed to draw a line to make the matter black or white. This poses a fundamental problem in practice. The increase of damages amounts will have a patentee expect larger income by drawing a line to expand the black zone, i.e., the area of infringement. This will be an incentive for a patentee to enforce his/her patent despite the matter of infringement requiring a gray area argument. When damages in the gray area increase, such trend may work out to wither the gray area players, specifically newly alleged infringers, thereby resulting in consequentialexpansion of the scope of patent rights substantially. The same thing can be said about validity in the gray area.

It can easily be predicted that the amount of damages will increase in Japan. There are in fact already appearing the symptoms of such increase. With this background, it seems necessary that some consideration should be made with regard to drawbacks of increased damages amounts. For that reason, excepting truly pioneer inventions, the existence of the gray area should be recognized so far as claimed inventions relate to improvement. In the gray area, arrangements should be sought thereby to secure the easier settlement of disputes between a patentee and potential infringers - this will contribute to the development of industry as proclaimed in the patent law. In many cases, a reason for the appearance of the gray area is ambiguity of description in the specification. Liability for such ambiguity should be placed on the patentee, the party must be able to prevent ambiguity.

Let us assume that there is a patent whose validity is gray, or whose inventive-step is very low. In this case, although appeal for invalidation may not be successful because of court's inclination towards stability and predictability of law, refusal by the examiners might have been highly likely during the examination if a good prior art was available. In such instance, enforcement of such vulnerable patent shall not be justified to claim strong enforcement rights and a larger damages amount. With these in mind, we would like to propose the following.

1) Use of Slight Negligence (Section 102, Para. 4)
So far, there are no cases where arguments based on slight negligence were made. However, in the environment where high damages are awarded, slight negligence will likely be a valuable basis for lowering damages amounts. In the case where issues of infringement or validity are argued, the court should not be reluctant, even if Plaintiff has a strong case, to find slight negligence when and if arguments of non-infringement by Defendant have a good reason to be believed. In that case, a normal royalty rate should be used for awarding damages or in reaching settlement.

2) Refinement of Evaluation of Value of Inventions
For a patent with high value, high damages should be awarded while for a lower value patent, damages should be in proportion. For that purpose, methods for evaluation of the value of inventions should be established.

3) Punitive Damages
The amended law did not include punitive damages. We, the authors are against the introduction of punitive damages into the IP framework of Japan in the future. We appreciate its effects of deterring infringement. However, we cannot see justification for a system in which only the patentee is entitled to enjoy its benefit. Rather, we see a concern that punitive damages would invite unnecessary litigation. As sanctions against intentional infringement, attorney fees and criminal penalties would work out effectively. Of course, circumstances related to criminal penalties should be refined in order to make it substantially effective as discussed above.

4) Preparation of a Guideline
Accumulation of case laws with regard to remaining issues will require a long period of time. Such time lapse cannot be justified for industrial development. There should be some measures which will make the system run without legislation. They include, for example, factors for fluctuation of royalty rates, requirements for a losing party to provide the attorney fees of a winning party, requirements for slight negligence, and methods for evaluation of the value of inventions. For these measures, however, the Japanese Patent Office and the courts have to cooperate with each other to prepare a guideline for the operation of a system which will enhance the predictability of the system. Such guideline should reflect the voice of the industrial circle.

6. Critical Points of Licensing

6.1 For Patentee

When a patentee prepares its license policy, he/she has to keep in mind that it can be a basis for claims in litigation and settlement negotiations. He/she should put the policy for individual patents into documents. Here are points to be aware of in preparation of such documents.

1) Make it clear whether the patentee agrees to license. Example: No license available to others; No exploitation but no license; Limited license available; and Open license available. Preferably detailed reasons should be added.

2) Make the terms and policy of a license clear. Example: Explanation of discriminated royalties and payments, depending on the initial stance of potential licensees, i.e., whether they wanted to settle amicably or to challenge the patent; Explanation of patent policies for specific patents and for other unspecified patents; Inclusion of expenses for license negotiations in the initial payment, etc.

6.2 For Licensee

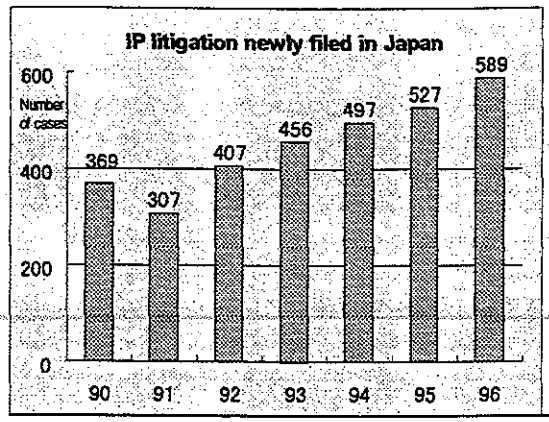
Licensee should keep in mind the following.

1) Patent clearance should be performed as much as possible in order to avoid the finding of intentional infringement. If there is a concern about patent infringement, an opinion should be obtained from patent attorneys. If concern involves an important, major product of a potential licensee, second or third opinions should be sought. If the opining attorney sees reasons for possibly finding infringement, the potential licensee has to quickly decide whether to avoid the patent or to obtain a license. In the case of the former, an opinion should be sought from an attorney considering design around technologies. the same thing could be said when a potential licensee receives a warning letter.

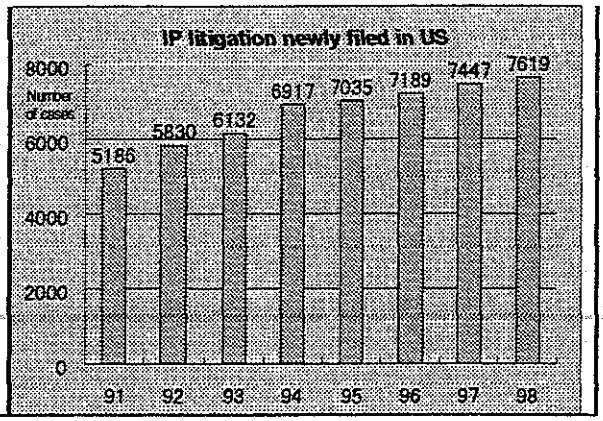
2) When a potential licensor and a potential licensee have conflicting views on infringement and when a dispute between them seems unavoidable, the potential licensee should analyze the matter for earlier decision-making with respect to whether the matter goes to court, whether the case is strong, how much cost would be involved, and whether to obtain a license. Chances for settlement should always be sought and economically reasonable settlement should be attempted even after litigation starts.

3) The framework under the Amended Law is uncertain in Japan. When a potential licensee conducts negotiations and argues about disputes in Japan, he/she should try to asset any pertinent matters discussed in this paper in order to achieve inexpensive resolution. It does not matter whether he/she is a voluntary licensee or a challenger against the validity or the protective scope of the alleged patent.

<Table 1>



<Table 2>



<Table 3> Highest Damages Award in Japan

When & Where	Type of IP	Damages (\mil.)
98.10.12 Tokyo District Court	Patent on anti-ulcer chemical	3059 (out of which ¥500 mil. are for undue enrichment)
73. 5.25 Tokyo District Court	Design for motorcycle	761
94. 3.25 Shizuoka District Court	Patent on Vitamin D compound	729
98. 6.16 Tokyo District Court	Design for a crane structure	451

<Table 4> Table 4 Highest Damages Award in US

Plaintiff v. Defendant	Damages	Jury Bench	Year	Invention	Court	Content of Award
Polaroid v. Eastman Kodak	$873,158,971	Bench	1991	Instant Photography	Mass	Royalty:$204,467,854 Lost Profit:$233,055,432 Interest:$435,635,685
Harworth Inc. v. Steelcase	$211,499,731	Bench	1996	Wall Panel	Western Mich	
Smith Int'l v. Hughes Tool	$204,809,349	Bench	1986	O-ring seals for Drill Bits	Central Ca	$134,569,161.50 +Interest$70,241,187.90
Procter & Gamble v.Paragon Trade Brands	$178,000,000	Bench	1997	Diaper	Del	
3M v. Johnson & Johnson Orthopaedics	$116,797,696	Bench	1992	Orthopedics Casting Tapes	Minn	$53,636,348*2(Willful) +Interest$9525,000
Fonar v. GE	$103,421,726	Jury	1997	MRI	Eastern NY	Royalty:$69,125,000 Lost Profit:$27,825,000 +Interest

(1) Title:
Patent License Agreement and Corporate M&A/Splits

(2) Date:
October 1999 (The 30th General Meeting in New Orleans)

(3) Source:
PIPA Japanese Committee #2

(4) Authors:
KINOSHITA Yoshinobu ; Mitsui Chemicals, Inc.
MATSUMOTO Shinichi ; Nippon Telegraph and Telephone Corporation
HARADA Eiichi ; Mitsubishi Electric Corporation
OSADA Ikue ; Ebara Corporation

(5) Keywords:
Corporate merger, split-up (divestiture), acquisition, contract, patent, know-how, license, license fee, joint ownership, intellectual property

(6) Statutory provision:
Commercial law, civil law, patent law, anti-trust law

(7) Summary:
In accordance with the restructuring and diversification of businesses, corporate mergers, divestitures, and acquisitions have also become active in Japan.

The authors conducted a study of the impact on licensing agreements due to a change in the contracting parties as a result of such mergers, split-ups (divestitures), and acquisitions; of what issues will arise; and of what contingencies and solutions should be employed, particularly when framing the contract provisions.

The authors studied the issues that arise, including avoiding competition, maintaining confidentiality, risk management, and economic advantages and disadvantages when measures have and have not been provided in the agreement for both when the licensee continues and does not continue as a corporate entity.

First, the authors conduct a general consideration of the legal aspects, and then discuss the results of a case study. For the case study the authors addressed the case where the licensee is merged, which has a major impact on and causes major problems for the licensor. The conclusion discusses points of consideration in regards to the characteristics of intellectual property agreements, such as patent licensing agreements.

(8) Table of Contents:
I. Introduction
II. General Consideration
1. Contracting Party Exists as a Legal Entity: Divestiture/Sale
1.1 Licensee Divests of Business Covered by License Agreement
(1) Legal Treatment
(2) Contractual Arrangements
(3) Other
1.2 Licensee Sells Business Covered by Agreement
1.3 Licensee Acquires Business of Non-licensee

1.4 Licensee Acquires a Third Party by Merger
2. Contracting Party Ceases to Exist as a Legal Entity
2.1 Licensee is Acquired through Merger
(1) Assignment of Agreement (Assignment of Contractual Status)
(2) Assumption of the Duties and/or Obligations of a Former Licensee
(3) Policies to Substitute for a Restraint on Alienation
(4) License Contractual Points that Should be Considered
III. Case Studies and Considerations
[1] Acquisition through Merger of Party with Joint Ownership Rights
[2] Acquisition through Merger of Licensee by Party with Joint Ownership Rights
[3] Merger by Licensees Possessing Differing License Fees
[4] Merger by Licensees Possessing Differing Licensed Manufacturing Areas
[5] Handling of Paid Lump Sums when Licensee is Acquired through Merger
[6] Merger of Licensee with Company that is Infringing on the Rights of Licensor (1)
[7] Merger of Licensee with Company that is Infringing on the Rights of Licensor (2)
[8] Treatment of Sub-licensee when Licensee is Acquired through Merger
IV. Conclusion (Points of Consideration, etc.)
(1) Characteristics of Intellectual Property Agreements
(2) Status
(3) Performance of Duty to Maintain Confidentiality
(4) Exchange of Improved Technology
(5) Governing Laws
(6) Economic Impact

I. Introduction

In accordance with the restructuring and diversification of businesses, corporate mergers, divestitures, and acquisitions have also become active in Japan.

To prevent problems from arising after the conclusion of a licensing agreement, it is important that a study be made of the impact on a licensing agreement due to a change in the contracting parties as a result of such mergers, split-ups (divestitures), and acquisitions; of what issues will arise; and of what contingencies and solutions should be employed, particularly when framing the agreement provisions.

The case of protecting the rights of the licensee when the licensor goes bankrupt as an example of a case where the parties to a licensing agreement change was previously studied. For this paper the authors decided to focus on protection of the licensor when the licensee changes.

In this paper the authors studied the issues that arise, including avoiding competition, maintaining confidentiality, risk management, and economic advantages and disadvantages when measures have and have not been provided in the agreement for both when the licensee continues and does not continue as a corporate entity.

First, in Section II the authors conduct a general consideration of the legal aspects, and then in Section III discuss the results of a case study. For the case study the authors addressed the case where the licensee is merged and the surviving entity succeeds to the rights and duties of the non-surviving entity. For example, if the licensee is acquired in a merger with a competitor of the licensor, the competitor will automatically succeed to the license, which thus has a major impact on and causing major problems for the licensor. Section IV is the conclusion for this paper and discusses points of consideration in regards to the characteristics of intellectual property agreements, such as patent licensing agreements.

II. General Consideration

1. Contracting Party Exists as a Legal Entity: Divestiture/Sale

1.1 Licensee Divests of Business Covered by License Agreement

In case that a licensee is divided into several companies and assign the license agreement to a new company which will engaged in the business covered by the license agreement, the licensee (assignor) exists as a legal entity after such possible assignment, even if the contractual licensee itself is not engaged in the business covered by the license agreement. Therefore, from a viewpoint of legal treatments and contractual arrangements, it should be considered to determine whether the license agreement can be assigned or not.

(1) Legal treatment

If a licensing agreement is silent on possible assignment of the agreement, in Japan and the United States, a licensee cannot license contractual status to a third party without the consent of the licensor. (Restraint of assignmentassignment of interests and obligations) assignment

(2) Contractual Arrangements

As mentioned above, a licensee (possible assiagnor) exists as a legal entity. Therefore, the provisions that any assignment without any consent of a licensor shall be invalid can function effectively.assignment In other words, if the licensor does not consent

to assignment of the agreement, for example, even if the contractual licensee is not engaged in the business covered by the license agreement, the license agreement itself remains in affect between the licensor and the dormant licensee. The agreement is not automatically assigned to a new legal entity without consent of the licensor. Running royalties do not come in because the licensee is no longer manufacturing and selling. In the case of a spin-out, manufacturing is subcontracted to a subsidiary, so the arrangement is essentially unchanged.

[1] Agreement Restricts Alienation

It is very conceivable that a new legal entity (possible assignee) and the former business division of the licensee will be substantially(not legally) one and the same. This may not present a major problem for license agreements only for industrial property rights, such as patents, or only for executable and object code computer program license agreements, but for license agreements that include know-how (including source code), there is a high possibility that a problem will arise with regards to know-how protection and maintaining confidentiality. This requires that the disclosing of confidential information, such as said know-how, to the new legal entity or the wrongful use of such information by the new legal entity be prevented. To prevent such actions it is possible to request the strict confidentiality control of the legal entity that is the contractually dormant licensee, such as not handing over any materials, including confidential information, to the new legal entity, or, if the materials are unnecessary, to request the licensee to completely destroy or return them to the licensor, and such should be requested by the licensor at the time it gives notice that it will not consent to assignment. Also, if the new legal entity is financially weak, it might be difficult to collect the license fee. This possibility should be considered by the licensor especially when a deferred payment method is used. Care must be taken when a new company is established to effect a 100% internal restructuring because prohibiting assignment of the agreement in this case might not meet the intendment of restraint on assignment and thus could give rise to abuse of status or violation of good faith. And even if assignment is restricted, if a contractual "have made" right has been framed for the instance where the licensee sells and the new legal entity manufacturers then in essence the arrangement remains unchanged if manufacturer is outsourced to the new legal entity.

[2] Assignment of the Agreement is Possible

This includes the case where provisions have made contractual assignment possible and where assignment is contractually restricted but where the licensor agrees to assignment, but these cases will be considered in terms of the assumption of the duties, responsibilities, and obligations of the former licensee.

a. Duties and Responsibilities of Former Licensee

Even if contractual status has been assigned to the new legal entity, the former licensee's duty to maintain confidentiality should continues with the assignment of the license agreementregarding know-how (including source code) while the licensed rights of the former licensee should be extinguished.

Consideration also needs to be made of whether the former licensee is responsible in any way for the actions of the new legal entity. When

assignment is made to a third party in which the former licensee has a stake, especially in the case where the former licensee has established the new legal entity as its own subsidiary, from a viewpoint of the licensor there is a need for the former licensee to bear joint responsibility for execution of the agreement by the assignee to assure execution of the agreement by the assignee, especially the payment of royalties. For this reason a study must be made of the obligations assumption problem as discussed hereafter.

b. Form of Obligations Assumption

When the license agreement is assigned to a new legal entity, the obligations (duties) of the licensee toward the licensor as prescribed in the license agreement must be transferred to the new legal entity. In this case, a study must be made of how the transfer will take place and how the new legal entity will be made to assume the obligations.

There are two types of obligation assumption, exemptionary obligation assumption and contemporaneous (concurrent) obligation assumption. Exemptionary obligation assumption is when the licensee's obligations to the licensor are assumed by the new legal entity making the licensor the obligor and exempting the former licensee from any obligations to the licensor. Contemporaneous (concurrent) obligation assumption is when the licensee's obligations to the licensor are assumed by the new legal entity but the licensee is not exempted from the obligations but continues to be obligated to the licensor such that both the new legal entity and the former licensee are both obligated for the execution of all obligations to the licensor. And this arrangement has the options of leaving the former licensee obligated for all or part of the obligations. A spin-out is a form of contemporaneous obligation assumption.

When assigning a license agreement, if the party contracting with the former licensee is not desirable from the standpoint of the licensor, contemporaneous obligation assumption should be used except for limited special circumstances. For example, if a dispute concerning royalties arises after there has been a succession of contractual status, if the problem is simply a royalty problem related to execution after succession of status, the problem is not difficult no matter which form of obligation assumption is used, but difficulties will arise if there is a question regarding royalties related to execution by the former licensee.

(3) Other

In addition, if the license agreement prescribes duties to the licensor, such as the duty of notification of technological improvements or the duty to avoid competition with the licensee (including the granting of exclusive rights), a consideration of the assignment, including the handling of these duties, needs to be made from the standpoint of the licensor. For example, if the assignee is a competitor of the licensor, even if there is deemed to be no problem with the granting of licensing rights itself, it may not be possible to reach agreement on the providing of improved technology.

1.2 Licensee Sells Business Covered by Agreement (Business Transfer)

Basically this is the same as 1. above.

For the transfer of business, even if in principle the assignment of agreement is prohibited, the agreements often allow assignment of the agreement, and the risks in this case are basically the same as those

mentioned above, but compared to a restructuring divestiture, there is a greater risk that the assignee will be a competitor of the licensor.

1.3 Licensee Acquires Business of Non-licensee

When this situation occurs the case where there is an essential problem from the standpoint of the licensor is when the license consideration is the lump sum payment and the acquisition causes the scale of business of the licensee to expand beyond the scope expected when the lump sum payment was determined.

A measure that can be used in the agreement to deal with this situation is to frame a provision that allows the modification of the terms of the agreement in the event that the acquisition of the licensee by a non-licensee expands the scale of the business by a set percentage over the scale prior to the acquisition. This percentage should be set on a case-by-case basis. It is important that arrangements be made to prevent the license from being extended to any portion of business outside the scope of the license that was estimated at the time the agreement was concluded.

1.4 Licensee Acquires a Third Party by Merger

When the licensee acquires a third party by merger, the potential problems differ depending on what kind of third party is acquired. When a non-licensee third party is acquired by merger the situation can be considered to be the same as that for 1.3 above, but if the third party is a joint owner of industrial property covered by the license agreement or has already received a license under different conditions than the acquiring licensee, the problems are complex and this point is considered in the case study.

2. Contracting Party Ceases to Exist as a Legal Entity

2.1 Licensee Is Acquired through Merger

(1) Assignment of Agreement (Assignment of Contractual Status)

When acquired by merger, the former licensee company is extinguished and ceases to exist and the acquiring company succeeds to all rights and duties of the acquired company, so if a provision of cancellation in the event of merger is not provided in the agreement, the acquiring company will succeed to the contractual status of the licensee. General succession in the event of merger is an imperative provision, so as long as a cancellation provision does not exist in the agreement, the licensor cannot oppose the succession of status.

If the business of the licensee has been purchased, it can be addressed as a type of business assignment issue, but if the licensee has previously ceased to exist the licensee will no longer be able to assign contractual status even if there is a provision governing the assignment of business, so this should probably be considered as an issue of assumption of obligations and interests. That is, the agreement cannot be assigned without an agreement to assign between the company that purchased the former licensee and the licensor.

For a divestiture the former licensee remains as a legal entity, so this can be considered as a business assignment issue.

(2) Assumption of the Duties and/or Obligations of a Former Licensee

During an acquisition merger the acquiring company succeeds to all of the obligations and rights of the former licensee, so the duties

of the former licensee cannot be independently addressed.

When the business of the former licensee is purchased, the licensor may desire to address the duties of the former licensee, but this is not possible if the former licensee no longer exists as a legal entity, so it is desirable that a guarantor be assigned or that collateral or a mortgage be designated, but this is difficult to accomplish in practice. Therefore, provisions should be provided allowing the licensor to cancel the agreement or binding the assignor and/or the assignee in the event the business of the licensee is purchased or sold. Further, it is also desirable to provide in the agreement the duty of prior notification in the event the business will be sold or assigned.

If the business of the former licensee is sold and the former licensee ceases to exist as a legal entity, the licensor faces the issue of the assumption of the obligations by the purchasing company. This will give the licensor the option of whether or not to continue the license.

(3) Policies to Substitute for a Restraint on Alienation

As was discussed above, the position of the licensor cannot be legally protected using an agreement restraint on assignment in the case of an acquisition merger. In substitute of this the policies of [1] making an acquisition merger a cause for contract cancellation, and [2] restricting the manufacturing location and/or production amount of the product covered by the agreement can be considered, and this is considered in detail in the following case study. If the licensor desires a guarantee of royalty collection and payment rather than a cancellation of the agreement then a guarantor can be assigned or a mortgage be designated, but this is difficult to accomplish in practice.

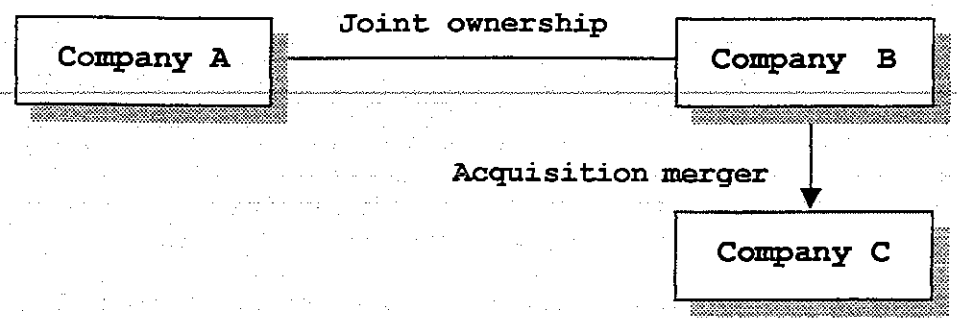
(4) License Contractual Points that Should be Considered

If the licensee is acquired by a merger or its business is purchased, it is conceivable that a state of competition with the licensee could arise or that it could no longer be practically possible to observe a duty of confidentiality. And of course there is the possibility that royalties could no longer be collected.

III. Case Study and Consideration

This case study only considers the case of a merger.

[1] Acquisition merger of party with joint ownership rights



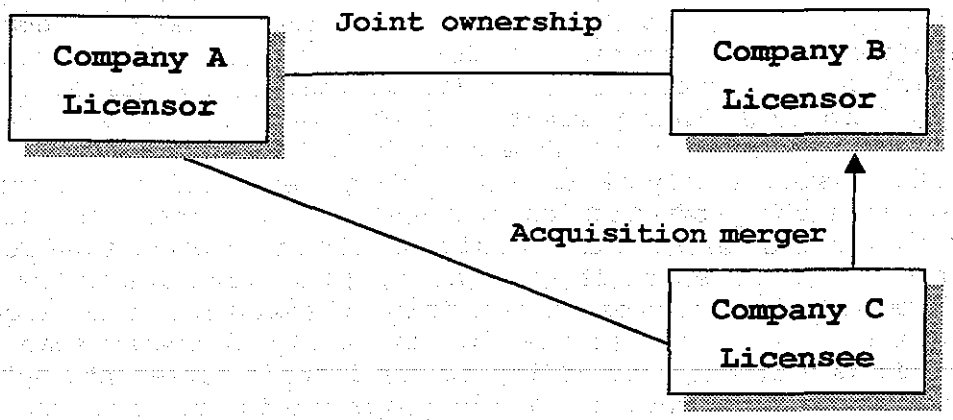
Company A and Company B have joint ownership of a patent. Company B is acquired through merger by Company C. What happens to the rights held by Company B?

They are succeeded to by Company C. What happens if Company A is opposed to the status being succeed to by Company C?

In Japan the imperative provision of the Commercial Code proscribes that Company C succeed to the rights of Company B, and Company A cannot oppose this. (Commercial Code Article 103)

It is the same if Company A is the licensor and Company B is the licensee.

[2] Licensee is acquired through merger by a party with joint ownership rights

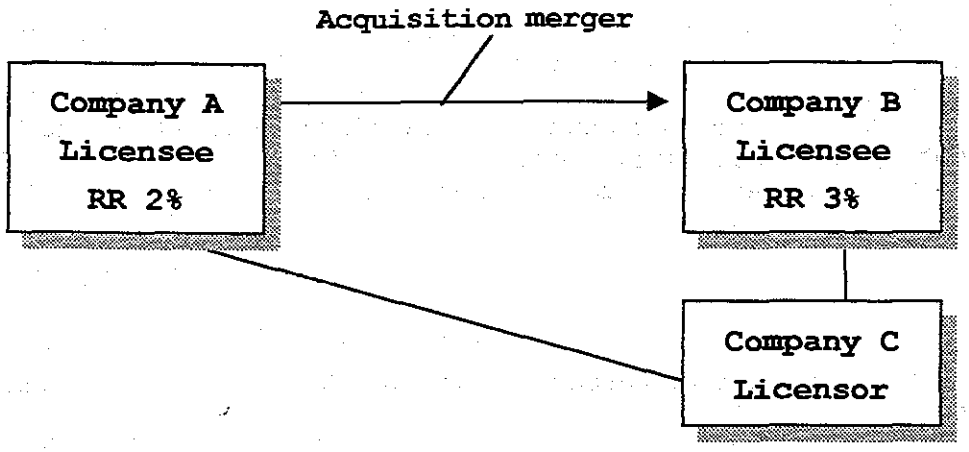


Company A and Company B have joint ownership of a patent. Company C received the same patent license from Company A and paid royalties. Company C is acquired through merger by Company B. What happens to the royalties paid by Company C?

Does Company B succeed to the status of Company C? Because Company B is a joint owner with Company A, unless a special clause is prescribed, Company B will be exempt from paying the fixed past obligations and so is not required to pay the royalty.

However, even if joint owners, if the executing party is contractually required to pay the royalty to the other party, Company B is required to pay the royalty.

[3] Merger of licensees with differing royalty rates

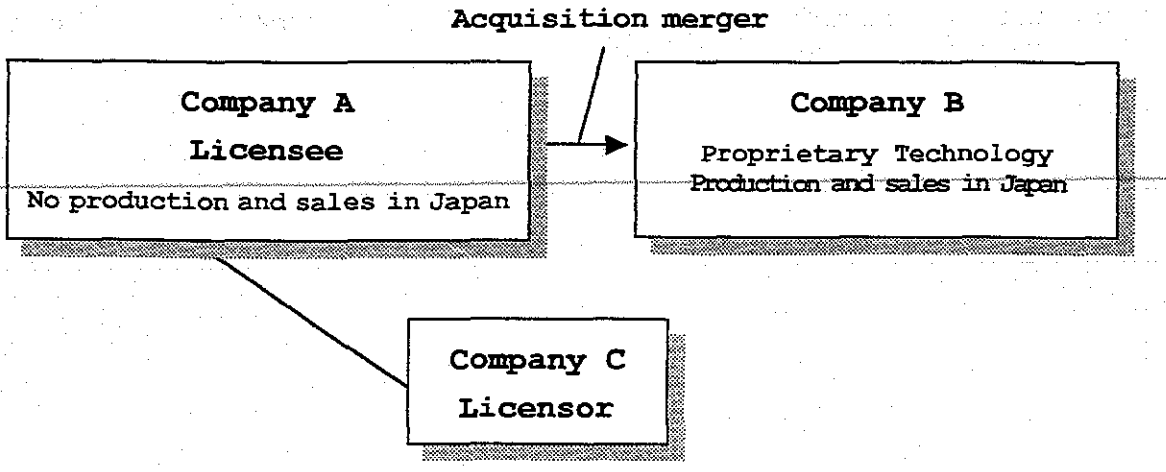


Company A received a patent license from Company C. Company B also received a patent license from Company C. Company A's royalty rate is 2%. Company B's royalty rate is 3%. Company A is acquired through merger by Company B. What percent will the royalty rate be after the merger? What happens if no arrangements for this case have been taken?

This issue can only be resolved through negotiation, but one idea is to pro rate the production quantities of both former companies. A license contractual measure that could be taken to protect the licensor is to prescribe the possibility of canceling the agreement in the event of a change in status, such as merger. This is beneficial to the licensor because it not only provides the ability to cancel the agreement but also serves as a trigger for modifying the license agreement. But this meaning is lost if the royalty rate of Company B is set lower than that of Company A.

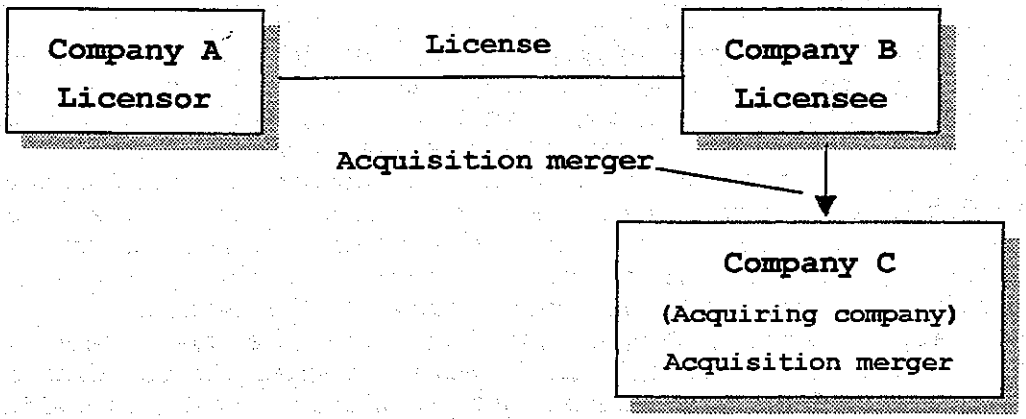
Other measures that can be considered is restricting the production to specified plant and equipment, etc., or restricting the production quantity. With these types of provisions there arise no problems if two types of agreements coexist and the rights of the Licensor or protected.

[4] Merger of licensees from different licensed manufacturing areas



Company A has received a license from Company C and has agreed not to produce or sell in Japan. Company B uses proprietary technology to produce and sell Company A's product in Japan. Company B acquires Company A through a merger. Can Company A manufacture and sell Company A's product in Japan? Company A acquires Company B through a merger. Can Company A manufacture and sell Company A's product in Japan? If Company A does not use Company C's technology, then can Company A can probably use Company B's technology to manufacture and sell Company A's product in Japan, but the license agreement must be modified so that the duty to avoid competition in Japan is observed.

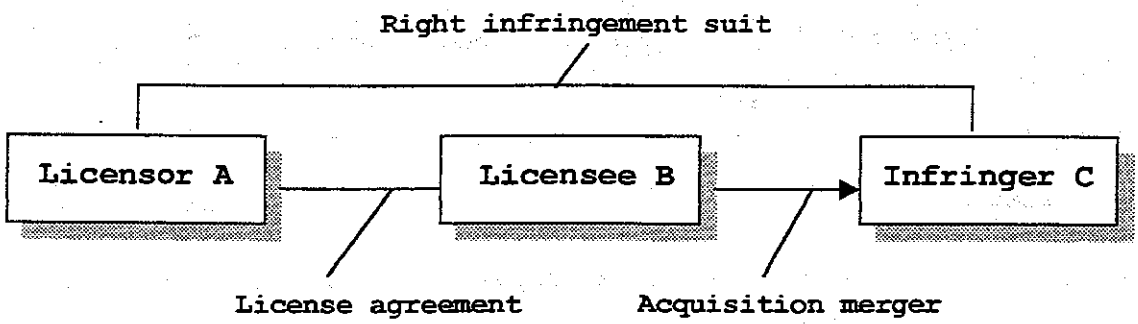
[5] Handling of Paid Lump Sums when Licensee is Acquired through Merger

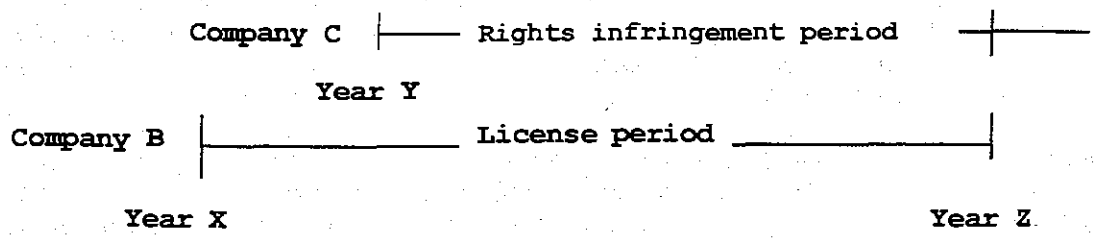


Company A granted a patent license to Company B. The consideration was a lump sum payment of ¥1 million + a royalty of 1.5%. Company B annually produced 100 tons of a product. One year Company B was acquired through merger by Company C. Company C annually produced 5,000 tons of a product. In this case, will Company C succeed to the licensee status granted to Company B? In other words, can Company C license the patent for a royalty rate of 1.5% and no lump sum payment? In Japan, a comprehensive succession in the case of a merger is an imperative provision and cannot be opposed by Company A, the licensor, as long as the agreement does not contain a cancellation provision in the event of an (acquisition) merger.

[6] Merger of Licensee with Company that is Infringing on the Rights of Licensor (1)

(Licensee is acquired by other party company and becomes the extinguished company)





Company B concluded a license agreement with Company A in Year X.

Company C infringed on rights of Company A from Year Y.

In response to this, Company A is seeking damages against Company C.

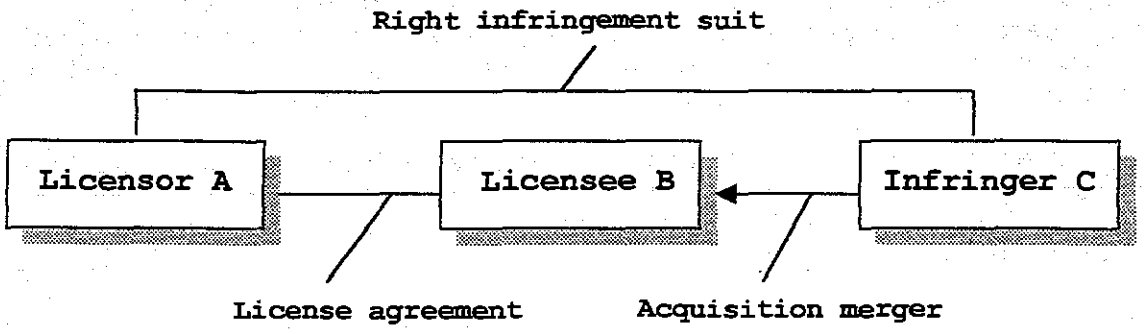
In Year Z Company B is acquired by Company C through merger.

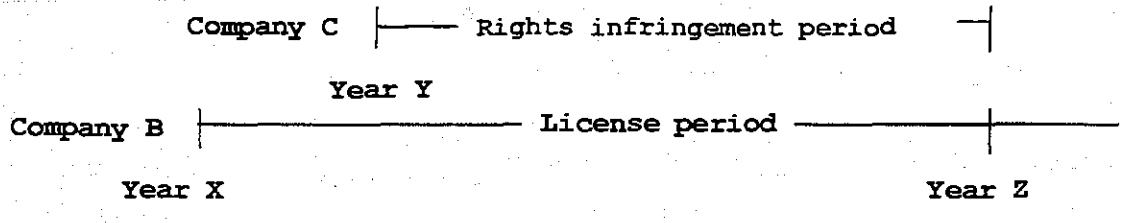
As a result of the merger, Company C succeeds to the license which results in Company C having acquired the license since Year Z. The licensee changes from Company B to Company C, but if the production quantity of Company C is larger than the quantity of production covered by the scope of the license possessed by Company B, can Company C be considered to have possessed the license since Year Z? If so, Company C would obtain a benefit without having to make an initial payment. In effect, this would eliminate the infringement of rights from Year Z but the duty of Company C to pay past damages would remain.

After the merger Company A would no longer be able to seek damages and so would want to cancel the license agreement at the time of the merger. If the license agreement contains a provision for canceling the agreement, then the agreement could be canceled.

[7] Merger of Licensee with Company that is Infringing on the Rights of Licensor (2)

(Licensee acquires other party company and becomes the surviving company)





Company B concluded a license agreement with Company A in Year

X.

Company C infringed on rights of Company A from Year Y.

In response to this, Company A is seeking damages against Company C.

In Year Z Company C is acquired through merger by Company B. This merger does not change the license.

As a result, the infringement of rights from Year Z is eliminated but the duty to pay Company C's past damages remains.

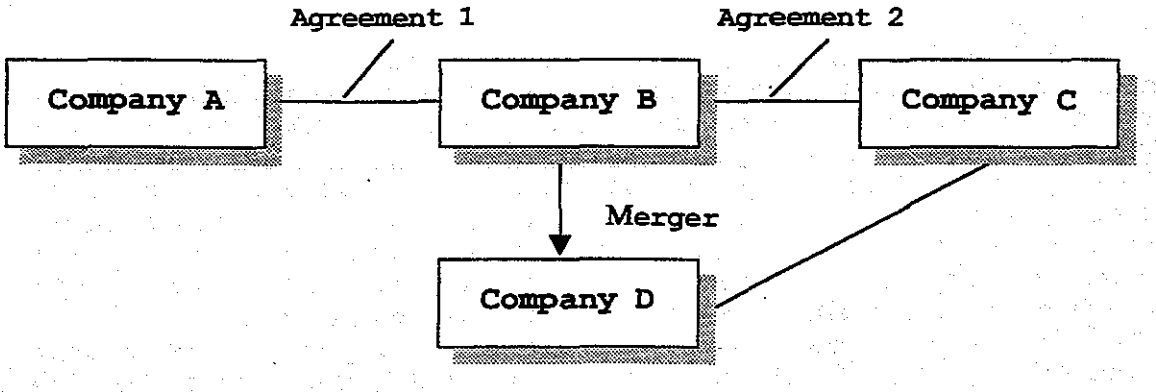
After the merger Company A would no longer be able to seek damages and so would want to cancel the license agreement at the time of the merger. Even though Company B is not assigning the license agreement, if the license agreement provides that merger is a cause for cancellation, then the license agreement can be canceled.

[8] Treatment of Licensee when Licensee is Acquired through Merger

Company A: Licensor, Company B: Licensee, Company C: Sublicensee that has received a sublicense from Company B, Company D: Acquires Company B (acquiring company)

Company C pays royalties to Company B, part of which Company B pays to Company A.

Agreement 1: License agreement between Company A and Company B, Agreement 2: Sublicense agreement between Company B and Company C



After the merger Company D, the acquiring company, succeeds to agreements 1 and 2 of Company B. If Company A cancels the Agreement 1 based on a cancellation provision, is Agreement 2 valid? It can be argued that Agreement 2 would, naturally, be invalid if the principal agreement is canceled, but there is a question of legal interpretation as to whether the authority of Company A extends to the cancellation of an agreement with a third party. The answer depends on the framing of the provisions in the agreement, so care needs to be taken in the framing of provisions to deal with this contingency. When the agreement contains no such provisions, the license can be considered lost because of the removal of the base for the sublicense, but according to the Article 545 proviso of the Civil Code the execution of the right to cancel shall not infringe upon the rights of a third party. And also for a sublease, according to Article 613, when the appropriate method is used to frame a sublease, the subleasee's rights are protected, so a sublicensee's rights can also be considered to be protected.

If Agreement 2 is valid, Company C will pay royalties, but because Agreement 1 has been canceled, Company A can only receive the portion of the royalty paid by Company D. Even if Agreement 1 is canceled, Company

D will still receive royalty payments from Company C, but the license will be eliminated and therefore cannot be exercised. This makes it difficult for Company A to cancel Agreement 1. Actually, Company C will cancel the agreement with Company D, conclude a new license agreement with Company A, and directly pay running royalties to Company A.

IV. Conclusion (Points of Consideration, etc.)

(1) Characteristics of Intellectual Property Agreements

The split up of a company, transfer of a business, or merger will, of course, affect other contractual relationships, but compared to regular pecuniary liability agreements or real estate agreements, agreements for intellectual property, such as patents and know-how, are greatly affected by the status of the contracting parties. The reason for this is that because the economic value and scope of use of pecuniary liabilities and real estate are nearly fixed, the value does not fluctuate depending on the owner. In comparison, however, intellectual property is intangible and is conceptually determined by the technological scope, so the usage value fluctuates greatly depending on the user. The use of the technology itself is what increases the added value. The greater the developmental capability of the licensee the technological value of the intellectual property. Therefore, the users of intellectual property must be carefully selected.

(2) Status

As this paper has shown, it is very disadvantageous for the licensor, which is a party to the agreement, if licensee status can be assigned or succeeded to without any degree of agreement being sought from the licensor. And unexpected situations could also occur. Sometimes there are provisions that allow assignment of the agreement without the prior agreement of the licensor in the case of a transfer of business, but in principle there should be provisions that require prior agreement in writing of the licensor to assign the agreement, but this is difficult to achieve for agreements with multinational companies.

There is the possibility of contractual assignment due to some circumstance, but in this case there should be provisions to require notification of agreement or precautionary measures in the assignment agreement, in other words, provisions that clarify the assumption of the duties, responsibilities, and obligations of the former licensee as well as the duties of the licensee after the assignment as a condition of assignment in this case and when there is agreement to assign when there is a contractual restriction on assignment. In this way it is theoretically possible to prescribe the conditions of assignment for assignable license agreements, but it is not possible to foresee and set conditions for all possible contingencies. In principle, therefore, from the licensor's standpoint it is more desirable to restrict assignment then to set conditions for allowing assignment. Further, a license agreement is based on a relationship of trust between the licensor and licensee, so restriction on assignment can also be viewed as not being unreasonable from the standpoint of the licensee.

Restriction on assignment can be applied in the above case, but in the case of a merger the succession of status cannot be refused, so a restriction on assignment provision becomes meaningless. In this case provisions that require cancellation of the agreement in the event of sale, divestiture, or merger should be used. Canceling the agreement

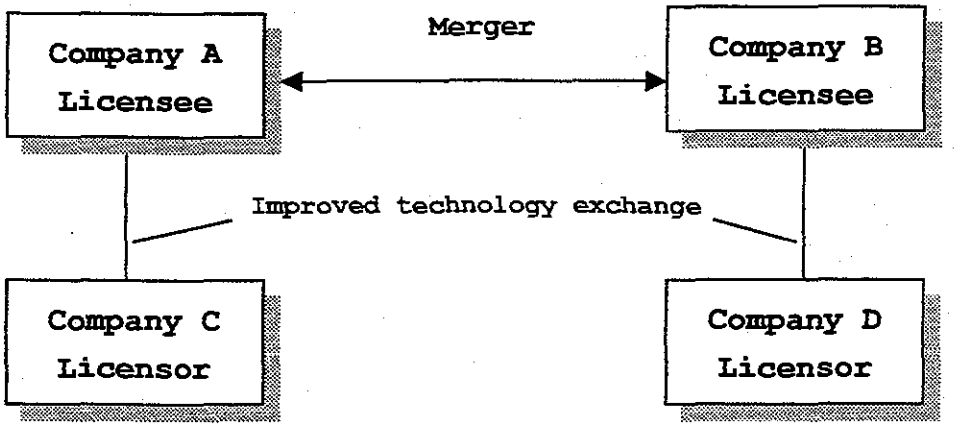
is not just a standard solution when such circumstances occur, but, as this case study shows, when a party to the agreement changes, there is a need to determine if problems will arise from the continuation of the agreement, such as reviewing fixed royalty amounts, exchange of improved technology, and exclusivity/non-exclusivity. In this case, having the licensor hold the right of agreement cancellation places the licensor in a superior position for negotiating modification of the agreement. Therefore, when framing the right of agreement cancellation it is desirable that the provision also be valid for other changes in contractual status in addition to mergers, and that it is used together with agreement restriction on assignment.

It is not necessary to make the restriction on assignment and agreement cancellation provisions cover every possible situation, that is to say, assignment and merger can contractually be allowed in cases that are not problematic. For example, even in the case of an acquisition merger, if the business of the acquired former licensee clearly functions separately from the business of the acquirer, there is essentially no problem with the agreement remaining valid under the condition that the scope of the license does not extend to the business of the acquirer.

(3) Performance of Duty to Maintain Confidentiality

There sometimes occurs the [contamination???] of technical information. This problem occurs when strict information control is not conducted when a license for similar technology is obtained and when there is a merger between two entities that have been conducting joint development. This problem cannot be prevented through contractual measures alone. In this case the researchers can be isolated from each other. In the case where the company is split up or sells one of its businesses, provisions are required so that the duty to maintain confidentiality is succeeded to, but care must be taken so that confidentiality is not lost due to de facto diffusion.

(4) Exchange of Improved Technology



Company A receives a technology license from Company C. And Company B receives a technology license from Company D. In both cases there are provisions exchanging improved technology. The technologies of Company C and Company D are very similar. Companies A and B merge.

In this case the merged company respectively grants back technical improvements to the technologies of Company D and Company C,

so the improved technologies need to be strictly defined.

(5) Applicable Laws

Generally, the applicable laws in Japan are civil law, commercial law, industrial property rights law, fair trade law, and contract law. When a merger will have a major impact on competitiveness in a specific product market or technical field then anti-trust law also applies. When the agreement is with a foreign entity, then there arises a problem of international private law and so the laws based on the selected governing law apply.

(6) Economic Impact

Mergers, split ups, and sales of an entity's business have a major impact on the interests of the licensor and licensee. The license income changes. The licensor and licensee could become competitors. A licensee with technological development capability could become a major threat to the licensor. The licensee could loss its ability to pay. Of course, the agreement should be framed so that it can be canceled due to failure to pay, bankruptcy, liquidation, dissolution, etc.

One suggestion is to frame provisions so that the involved parties can in good faith discuss modifying the license agreement provisions when circumstances change greatly due to a marked change in the merits obtained from the license and/or an essential loss of value. Inserting an arbitration provision is also necessary.

(1) Title: A Comparison of the Rules Governing Patent Practitioner Conduct in the United States, Japan, Europe and Taiwan

(2) Date: October, 1999 (The 30th International Congress in New Orleans)

(3) Source:

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

(4) Authors: Edward Blocker, Jack Haken, Ann Marie Nista (U.S. Philips Corporation)

(5) Key Words: "Rules of Professional Conduct", "Canons", "Ethical Violations", "epi"

(6) Statutory Provisions:

USPTO Code of Professional Responsibility, 37 C.F.R. §§ 10.20 – 10.112
American Bar Association Model Code of Professional Responsibility
American Bar Association Model Rules of Professional Responsibility
Japanese Patent Attorney Law
Japanese Patent Attorney Association Articles of Association
Japanese Patent Attorney Association Ethics of Patent Attorneys
Council of the Institute of Professional Representatives before the EPO
Taiwanese Rules Governing Attorneys Ethics and the Rules of Patent Agents

(7) Abstract:

The legal systems within the United States, Japan, Europe and Taiwan each have rules governing the patent practitioner's professional conduct. The patent practitioner's understanding of and appreciation for the rules of conduct are essential to his/her successful practice of law. This paper will review and compare the rules of conduct governing each of these systems, with particular emphasis placed on certain U.S. rules of conduct within a licensing context.

A COMPARISON OF THE RULES GOVERNING PATENT PRACTITIONER CONDUCT IN THE UNITED STATES, JAPAN, EUROPE AND TAIWAN

I. INTRODUCTION 1

II. OVERVIEW - RULES OF CONDUCT 2

- A. United States 2
- B. Japan 3
- C. Europe 4
- D. Taiwan 4

III. COMPARISON OF RULES BY THEME 5

- A. Protection of Client 5
- B. Protection of the Legal System 6
- C. Protection of the Legal Profession 7

IV. COMPARISON OF RULES BY SYSTEM 8

- A. United States 8
- B. Japan 8
- C. Europe 9
- D. Taiwan 9

V. U.S. LICENSING APPLICATION 9

VI. CONCLUSIONS 11

Appendices

Table 1 - Comparison of Provisions Governing Patent Practitioner Conduct Protection of the Client A1

Table 2 - Comparison of Provisions Governing Patent Practitioner Conduct Protection of the Legal System B1

Table 3 - Comparison of Provisions Governing Patent Practitioner Conduct Protection of the Profession C1

USPTO Code of Professional Responsibility D1
Japanese Disciplinary Rules & Ethical Considerations E1
European Code of Professional Conduct F1
Taiwanese Rules Governing Attorneys' Ethics G1

I. INTRODUCTION

The way in which a patent practitioner should conduct himself/herself with the public and within the legal profession and legal system are set forth under various canons, rules, codes and considerations within the United States, Japan, Europe and Taiwan.

Within the United States, during the last several years, there has been a steady increase in the number of disciplinary actions regarding ethical conduct brought against attorneys. According to the Legal Times, January 19, 1998 edition, the number of grievances filed in 1997 against attorneys in the Washington D.C. area hit an all-time high of 1,612 complaints representing a steep climb of 81% in the last decade.[1]

The Lawyers in the Office of Bar Council speculate that the increase in the number of disciplinary actions is due mainly to the overall increase in the number of lawyers as well as greater public awareness of the disciplinary process itself.[2] Whatever the reason for the increase in disciplinary activity, the patent practitioner's understanding of and appreciation for the rules of professional conduct are essential to his/her successful practice of law.

The legal systems within the United States of America, Japan, Europe, and Taiwan each have rules governing a patent practitioner's professional conduct. By comparing these rules, certain similarities and differences among these systems have been identified. To facilitate this comparison, these similarities and differences have been separated into three broad themes, namely, "protection of the client", "protection of the legal system" and "protection of the legal profession".[3]

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[1] Legal Times, January 19, 1998, at page 1.
[2] *Id.* at 1.
[3] The three themes are completely discretionary and have been developed to facilitate the comparison between the different systems.

The special emphasis placed in the United States in protecting a client clearly affects the conditions under which an attorney representing a licensor (typically in-house counsel) can negotiate with a prospective licensee and especially when the prospective licensee has retained outside counsel to assist the latter. Particular care must be must be taken by licensor's in-house counsel to understand the relationship between the prospective licensee and the prospective licensee's outside counsel's. Otherwise, the prospective licensee's rights to counsel can be compromised and place the licensor's in-house counsel in jeopardy of having violated the rules of professional responsibility.

II. OVERVIEW – RULES OF CONDUCT

A. United States

Within the United States, the various states have adopted, in whole or in part, portions of the older American Bar Association (ABA) Model Code of Professional Responsibility[4] and/or newer ABA Rules of Professional Conduct.[5] The rules governing the practice by attorneys and agents before the United States Patent and Trademark Office (USPTO), entitled the Code of Professional Responsibility, are based on the ABA Model Code of Professional Responsibility.[6] For purposes of this paper, the USPTO Code of Professional Responsibility will serve as the United States' model and as the basis of comparison to the rules from Japan, Europe and Taiwan.

The USPTO Code of Professional Responsibility includes both canons and disciplinary rules. The canons "are statements of axiomatic norms, expressing in general terms the

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[4] American Bar Association Model Code of Professional Responsibility (1981).
[5] American Bar Association Model Rules of Professional Conduct, reprinted as amended (August, 1997).
[6] 37 C.F.R. §10.20- §10.112 (1997).

standards of professional conduct expected of practitioners in their relationships with the public, with the legal system and with the legal profession."[7] The "[d]isciplinary rules are mandatory in character and state the minimum level of conduct below which no practitioner can fall without being subjected to disciplinary action.[8] The USPTO "Commissioner may, after notice and opportunity for a hearing, (1) reprimand or (2) suspend or exclude, either generally or in any particular case, any individual, attorney or agent . . . who violates a Disciplinary Rule."[9]

B. Japan

The Japanese Patent Attorneys Association ("JPAA"), authorized under the Japanese Patent Attorney Law[10], has established two sets of rules governing the conduct of patent attorneys, namely, 1) the Articles of Association ("Articles") and 2) the Ethics of Patent Attorneys ("Ethics"). The Articles impose legal obligations upon members of the JPAA to conform to a certain conduct, which if violated, may subject the member to sanctions, disbarment, etc. Ethics, however, are discretionary in nature and urge members to follow their moral responsibilities and obligations.

All patent attorneys are obligated to become members of the JPAA and as such, the Articles apply almost exclusively to patent attorneys. However, if a patent attorney hires a non-attorney assistant, the assistant may be indirectly bound to conform to the Articles,

[7] 37 C.F.R. §10.20(a). The canons include §§10.21, 10.30, 10.46, 10.56, 10.61, 10.76, 10.83, 10.100 and 10.110.
[8] 37 C.F.R. §10.20(b). The disciplinary rules include §§ 10.22-10.24, 10.31-10.40, 10.47-10.57, 10.62-10.68, 10.77, 10.78, 10.84. 10.85, 10.87-10.89, 10.92, 10.93, 10.101-10.103.
[9] 37 C.F.R. §10.130(a).
[10] Japanese Patent Attorney Law, Law No. 100, Volume VI, Article 16 (1991).

although the ultimate responsibility remains upon the patent attorney to comply with the rules. Non-attorneys, such as patent engineers, are not bound by the requirements of the Articles.

C. Europe

The Council of the Institute of Professional Representatives before the European Patent Office ("epi") amended the Code of Professional Conduct at its 43rd meeting in October 1997 and remitted it to the EU-Commission for approval. This Code includes both mandatory provisions and ethical considerations.

The Commission's decision was rendered in April 1999, and in May 1999, the Amended Code of Conduct ("Amended Code") was put into full force and effect by the board of the epi. Articles 2(b) and 5(c) of the Code of Conduct relating to advertisement and relations with other members, respectively, will be in force until April 23, 2000. Although the Amended Code was used in the analysis of this paper, the epi Council in its meeting on 10 May 1999, decided to file an appeal against the EU-Commission's decision at the European Court of Justice ("ECJ"). Further developments should be carefully monitored to reevaluate the validity of these discussions in the future.

D. Taiwan

The mandatory rules (i.e. violation of rule subjects practitioner to disciplinary action) and ethical considerations (i.e. axiomatic norms/moral obligations) governing attorneys' and patent agents ethics in Taiwan are codified under the Rules Governing Attorney Ethics and the Rules of Patent Agents, respectively.

III. COMPARISON OF RULES BY THEME

A. Protection of Client

This first theme is directed to the relationship between the patent practitioner and the public. This relationship is multi-faceted and is more easily understood by identifying different areas/topics of the relationship. These topics, which have been summarized within Table 1, appended hereto, include i) zealous representation, ii) failing to act competently, iii) preserving client funds, iv) disagreement with clients, v) method of compensation for legal service, vi) conflict of interest, viii) payment of legal services, viii) billing amount, ix) client confidences, x) communication with adverse party represented by counsel, and xi) advertisements and xii) withdrawal from representation.

Each of the four systems include provisions addressing zealous representation, conflict of interest, client confidences, and communication with adverse party represented by counsel. Within the USPTO, all other topics are addressed except for disagreement with clients. There are no specific provisions within the Articles of Association or the Ethics of Patent Attorneys of the JPAA which address failing to act competently, preserving client funds, form of compensation for legal services or advertisement. The epi does not address the topics of preserving client funds, disagreement with clients, billing amounts and withdrawal from representation. The Taiwanese rules governing attorneys' ethics and patent agent rules do not include the topics of disagreement with clients and form of compensation for legal services.

As compared to the other three systems, the USPTO provides the most comprehensive set of rules governing the patent practitioner's (attorney and agent) relationship with the

public. This special emphasis in protecting the client within the USPTO has resulted in far more disciplinary rules, in number, governing the patent practitioner's relationship with the client than with the legal system or legal profession.

B. Protection of the Legal System

The second theme is directed to the relationship between the patent practitioner and the legal system. Topics, summarized within Table 2, appended hereto, include i) admission to practice, ii) representing a client within the bounds of the law, iii) limitations of practicing law, iv) lawyer communication with witnesses, v) cooperation with the patent agency, vi) improper influence upon a government agency, vii) avoiding the appearance of impropriety and viii) statements regarding public/elected officials and the judiciary.

Each of the four systems include provisions addressing admission to practice. Within the USPTO, all other topics are also addressed. There are no specific provisions within the Articles of Association or the Ethics of Patent Attorneys of the JPAA which address lawyer communication with witnesses or statements regarding public/elected officials and the judiciary. The Taiwanese rules governing attorneys' ethics and patent agent rules do not address the topic regarding limitations of practicing law.

Unlike the other three systems, the epi does not address the many different relations between the patent practitioner and the legal system, including representing a client within the bounds of the law, limitations of practicing law, lawyer communication with witnesses, cooperation with the patent agency, improper influence upon a government agency or avoiding the appearance of impropriety.

C. Protection of the Legal Profession

The third theme is directed to the relationship between the patent practitioner and the legal profession. Topics, summarized within Table 3, appended hereto, include i) general ethical considerations, ii) objectives of the legal profession, iii) safeguarding the integrity of the legal profession, iv) maintaining conduct within the legal profession, v) unauthorized practice of law, vi) regulating professional standards and discipline, vii) fellowship among attorneys, vii) business conduct viii) maintaining professional standards, ix) disciplinary actions, x) reporting fellow attorney misconduct, xi) fee splitting requirements, and xii) discrimination.

Each of the four systems include provisions for safeguarding the integrity of the legal profession and reporting fellow attorney misconduct. There are no specific provisions within the Articles of Association or the Ethics of Patent Attorneys of the JPAA which address the unauthorized practice of law or discrimination. The Taiwanese system does not specifically govern regulating professional standards and discipline, fee splitting requirements or discrimination.

Unlike the other two systems, both the USPTO and the epi address far less topics within this theme. More particularly, the epi has no specific provisions regarding objectives of the legal profession, maintaining conduct within the legal profession, business conduct, maintaining professional standards or disciplinary actions. The USPTO has no specific provisions regarding objectives of the legal profession, safeguarding the integrity of the legal profession, fellowship among attorneys, business conduct, maintaining professional standards or discrimination.

IV. COMPARISON OF RULES BY SYSTEM

A. United States

Generally speaking, the USPTO has far more canons and disciplinary rules governing the patent practitioner's relationship with a client than with the legal system or legal profession. The emphasis placed in the USPTO on protecting the client clearly signals to the patent practitioner the special care that one needs to attend to in the practitioner's relation with the public. On the contrary, the USPTO has far less restrictions placed on the patent practitioner's day-to-day conduct with regard to the legal profession especially compared with the Japanese, epi, and Taiwanese systems.

B. Japan

Generally speaking, and in comparison with the provisions of the USPTO and Taiwanese systems, the Japanese requirements for protecting the client are less restrictive and more comparable with that of the epi. With regard to protection of the legal system, however, the Japanese requirements are more restrictive than the epi, but less burdensome than either the USPTO or Taiwan. There appears to be a special emphasis placed in Japan in protecting the legal profession. The only mandatory rules governing patent practitioners are directed to the legal profession. There are far more ethical considerations governing the patent practitioner's relationship with the legal profession than with the client or legal system.

C. Europe

The epi is the least restrictive of the four systems in safeguarding the client and protecting the legal system. The epi and the USPTO are relatively comparable in protecting the legal profession.

D. Taiwan

There appears to be no special emphasis on any one of the three themes within Taiwan. Generally speaking and in comparison with the provisions of the USPTO, the Taiwanese provisions are substantially similar in topic and by number in protecting the client and legal system.

V. U.S. LICENSING APPLICATION

There are several ethical provisions within each theme, which are particularly relevant when offering a patent portfolio for license. The special emphasis placed in the United States in protecting a client clearly affects the conditions under which an attorney representing a licensor (typically in-house counsel) can negotiate with a prospective licensee and especially when the prospective licensee has retained outside counsel to assist the latter.

In each of the four systems, there is a variation on this fundamental concept regarding the limitations placed on a practitioner in communicating directly with an adverse party. In the USPTO, epi and Taiwan, the provisions are mandatory and can subject a practitioner to discipline if violated. On the other hand, in Japan, the requirement is imposed merely as a moral obligation to be followed by the practitioner at his/her own discretion.

Under 37 C.F.R. §10.87, the USPTO requires that "during the course of representation of a client, a practitioner shall not communicate or cause another to communicate *on the*

subject matter of the representation with a party the practitioner knows to be represented by another practitioner in that matter, unless the practitioner has the prior consent of the other practitioner representing such other party or is authorized by law to do so." In addition to the USPTO, all 50 States and the District of Columbia have considered this concept to be critically important and thus embodied the fundamental precept into their respective Model Codes.

In licensing a patent portfolio to a prospective licensee represented by counsel, it is unclear whether the licensor's representative (typically in house counsel) is precluded from direct contact with the prospective licensee. To determine how to proceed, reference should be made to the limitations imposed under 37 CFR §10.87. Under this provision, the "subject matter of the representation" needs to be fully explored in order to determine whether the practitioner can contact the represented party.

It is therefore important that the "subject matter of the representation" be well defined. The practitioner should seek to have the subject matter clearly set forth (identified) before proceeding. As a general guideline, the licensing practitioner should abstain from discussions with the represented party until such time as the discussions expand to areas outside the scope of representation or until the licensee's counsel consents to such discussions.[11]

Where the subject matter of the representation is general, such that a prospective licensee indicates only that the licensee's counsel will represent them in "all" matters, then there is a strong presumption that the subject matter lacks sufficient specificity to trigger the operation of the rule.[12] Similarly, retaining counsel for "all matters that might arise" may be construed as too vague to trigger the rule. A represented party or their attorney cannot simply

[11] ABA Committee on Ethics and Professional Responsibility – Formal Opinion 95-396 (July, 1995).
[12] *Id.*

claim blanket, inchoate representation and expect the prohibition on communication to apply. [13] If there is any question regarding the extent of the scope of the relationship between the prospective licensee and his/her counsel, or the subject matter of the representation, the practitioner should direct all correspondence exclusively through the prospective licensee's counsel to avoid ethic violations.

VI. CONCLUSIONS

The legal systems within the United States, Japan, Europe and Taiwan each have rules governing the patent practitioner's professional conduct. The emphasis placed in the USPTO on protecting the client clearly signals to the patent practitioner the special care that one needs to attend to in the practitioner's relation with the public. In contrast thereto, there appears to be a special emphasis placed in Japan in protecting the legal profession. The epi is the least restrictive of the four systems in safeguarding the client and protecting the legal system. There is no special emphasis on any one of the three themes within Taiwan.

The special emphasis placed by the USPTO in protecting a client clearly affects the conditions under which an attorney representing a licensor (typically in-house counsel) can negotiate with a prospective licensee. As a general guideline, the licensing practitioner should abstain from discussions with a prospective licensee when the discussions directly relate to the subject matter that has been clearly defined as the subject matter of the representation between the prospective licensee and his/her attorney.

[13] *Id.*

APPENDICES

TABLE 1
PROTECTION OF THE CLIENT

TABLE 1
COMPARISON OF PROVISIONS GOVERNING PATENT PRACTIONER CONDUCT
PROTECTION OF THE CLIENT

Topic Area	***United States*** (Mandatory rules are codified under Title 37 - Code of Federal Regulations (37 CFR) and are identified by Section Number. *Ethical considerations (italicized) are identified by Canon Number).*	***Japan*** (Mandatory rules are governed by Article of Association 19 & 29 of the JPAA. *Ethical considerations (italicized) are governed by Articles of Association and Ethics of Patent Attorney).*	***European*** (Mandatory rules and ethical considerations are governed under the Amended Code of Professional Conduct of the Institute of Professional Representatives before the EPO).	***Taiwan*** (Mandatory rules and ethical considerations are codified under Rules Governing Attorney Ethics and/or Rules of Patent Agent).
Zealous Representation	**Sec. 10.84:** A practitioner shall not intentionally - 1) fail to seek the lawful objectives of a client through reasonable available means permitted by law and the Disciplinary Rules. ***Canon 7:*** *A practitioner should represent a client zealously within the bounds of the law.*	*CH4 (Art18): A patent attorney must always proceed with a case so as not to impede its progess, and make the best effort to fulfill the trust of his/her client. Regarding the case the patent attorney accepts, it is his/her responsibility to manage and to administer the case until it is closed.*	**Sec.4a:** A member shall at all times give adequate care and attention and apply the necessary expertise to work entrusted to him by clients. A Member shall keep clients informed of the status of their cases.	**CH4 (Sec.26):** Attorneys ought to do their best to defend the client's legal rights according to the laws with the legal procedure. Attorneys ought not to delay handling cases. Attorneys ought to inform their clients about the progress of the cases. **CH4 (Art18):** A patent attorney must always proceed with a case so as not to impede its progress, and make the best effort to fulfill the trust of his/her client. **CH4 (Sec.27):** Attorneys ought to tell honestly their clients about legal opinions. Attorneys ought not to twist laws or deceive, leading their clients to wrong expectancy or judgment to their cases. **CH 6 (Sec39):** Attorneys must not slander the oppositions or do anything that will hurt the oppositions, while they defend their clients' legal rights.

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Failing to Act Competently	**Sec.10.77:** A practitioner shall not: handle a legal matter which the practitioner knows or should know that the practitioner is not competent to handle, without associating with the practitioner another practitioner who is competent to handle it, handle a legal matter without preparation adequate in the circumstances, or neglect a legal matter entrusted to the practitioner. ***Canon 6:*** *A practitioner should represent a client competently.*	No applicable provision.	**Sec.6d:** Where a member is instructed by a client to take over the handling of a case from another member, the member so instructed is free to accept such instruction but then shall ensure that the other member is informed. Such other member shall without delay, loan or transfer all documents necessary for the handling of the case or provide copies at reasonable expense to the new representative. **Sec4b:** In principle, a Member does not need to serve the interests of a client in matters not connected with professional work entrusted to him by the client.	**CH2 (Sec15):** Employees of the law office ought to be well behaved. Attorneys ought to supervise and guide their employees to obey laws and act properly.
Preserving Client Funds	**Sec.10.112:** All funds of clients paid to a practitioner's firm, other than advances for costs and expenses, shall be deposited in one or more identifiable bank accounts. A practitioner shall promptly notify a client of the receipt of the client's funds, securities, or other properties, identify & label securities, maintain complete records of all funds, promptly pay or deliver to the client as requested by the client all funds, securities, or other properties. ***Canon 9:*** *A practitioner should avoid even the appearance of professional impropriety.*	No applicable provision.	No applicable provision.	**CH4 (Sec34):** Attorneys ought to pass immediately the money to their clients, which is entrusted to collect by their clients. Attorneys ought to return all stuffs related to the case to their clients after the case is accomplished. Attorneys must not postpone or refuse to return them.

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Disagreement with Clients	No applicable provision.	***CH4 (Art25):*** *When a disagreement comes about between a patent attorney and his/her client, the attorney must make an effort to come to an agreement with his/her client by using the mediation committee of the patent attorney association.*	No applicable provision.	No applicable provision.
Method of Compensation for Legal Services	**Sec.10.46:** A practitioner shall not acquire a proprietary interest in the subject matter of a proceeding before the Office which the practitioner is conducting for a client, except that the practitioner may 1) acquire a lien granted by law to secure the practitioner's fee or expenses 2) contract with a client for a reasonable contingent fee 3) in a patent case, take an interest in the patent as part or all of the fee. ***Canon 3:*** *A practitioner should assist in preventing the unauthorized practice of law.*	No applicable provision.	**Sec4e:** A member must not acquire a financial interest in any industrial right in such circumstances as to give rise to a conflict between professional duty and interest. He must not charge a fee directly related to the outcome of the services he provides.	No applicable provision.

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Conflict of Interest	**Sec.10.66a:** A practitioner shall decline proffered employment or continue representation if the exercise of the practitioner's independent professional judgment in behalf of a client will be or is likely to be adversely affected by the acceptance of the proffered employment, or if it would be likely to involve the practitioner in representing differing interests, except if the practitioner can adequately represent the interest of each and if each consent after full disclosure. **Sec. 10.62a:** Except with the consent of a client after full disclosure, a practitioner shall not accept employment if the exercise of the practitioner's professional judgment on behalf of the client will be or reasonably may be affected by the practitioner's own financial, business, property, or personal interests. ***Canon 5:*** *A practitioner should exercise independent professional judgment on behalf of a client.*	***CH4 (Art21):*** *A patent attorney must not take a case with which he has dealt as a representative of the other party. If an attorney has taken a case as representative of an applicant or person with patent rights, the attorney must not take this case as a representative of the party which takes offensive action against the applicant or person with patent rights. Also, a patent attorney must not take any action similar to the afore described.* ***CH4 (Art20):*** *A patent attorney must not take a case which might cause a conflict of interest with the case he is working on at the moment unless the person concerned consents to it.*	**Sec.1d:** A Member shall take measures to safeguard his client's interests in the event he would be prevented from exercising his profession. **Sec4d:** A member shall decline an order which is in conflict with his own interests. In all such cases, if the order cannot be postponed without possible damage to the client, a member shall accept and perform the order so far as immediately necessary to avoid such possible damage; thereafter he shall resign from the case. **Sec.1c:** The basic task of a member is to serve as a reliable adviser to persons interested in patent matters. He should act as an independent counsellor by serving the interests of his clients in an unbiased manner without regard to his personal feelings or interest. **Sec.4f:** A member shall not take any action against a particular matter which is being handled or has been handled by the Member or another person in his office, unless the client in the matter agrees to this action.	**CH 5 (Sec.38):** Attorneys must not work for both parties in one case. Even though they discontinue the job with their clients, they must not accept the appointment from another party in one case, except working on arbitrating or mediating, entrusted by both parties with certificate of appointment. **CH4 (Sec.32):** Attorneys working in the same law office, must not plead for both parties in one case. Attorneys ought to inform their client and deal with it properly when they find out the below circumstances happen.
Payment of Legal Services	**Sec.10.68:** Except with the consent of the practitioner's client after full disclosure, a practitioner shall not: 1) accept compensation from one other than the practitioner's client for the practitioner's legal services to or for the client 2) accept from one other than the practitioner's client any thing of value related to the practitioner's representation of or the practitioner's employment by the client. ***Canon 5:*** *A practitioner should exercise independent professional judgment on behalf of a client.*	***CH4 (Art22):*** *A patent attorney must not accept money, entertainment, or other benefit from any concerned parties.*	No applicable provision.	**CH4 (Sec36):** Attorneys must not gain money for the tender for the case that is being handled and accept anything related with the tender for the case before the case is finished. **CH 5 (Sec40):** Attorneys must not discuss with the oppositions without their clients' appointment or agreement. Attorneys ought not to accept opposition's remuneration or gift.

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Billing Amount	**Sec. 10.36:** A practitioner shall not enter into an agreement for, charge, or collect an illegal or clearly excessive fee. A fee is excessive when, after a review of the facts, a practitioner of ordinary prudence would be left with a definite and firm conviction that the fee is in excess of a reasonable fee. Canon 2: A practitioner should assist the legal profession in fulfilling its duty to make legal counsel available.	***CH4 (Art 24):*** *As a rule, a patent attorney must have a contract to include fees before the case is begun. It is preferable for a patent attorney to take a case as a service when the applicant has no means.*	No applicable provision.	**CH4 (Sec35):** Attorneys ought to convince their clients clearly about the remuneration and calculation ways. Attorneys must not set the further remuneration according to the result of the cases.
Client confidences	**Sec.10.57b:** Except when permitted, a practitioner shall not knowingly 1) reveal a confidence or secret of a client 2) use a confidence or secret of a client to the disadvantage of the client 3) use a confidence or secret of a client for the advantage of the practitioner or of a third person, unless the client consents after full disclosure. A practitioner may reveal 1) confidences or secrets with the consent of the client affected but only after a full disclosure to the client 2) confidences or secrets when permitted under Disciplinary Rules or required by court order 3) the intention of the client to commit a crime 4) confidences or secrets necessary to establish or collect the practitioner's fee or to defend the practitioner or employees against accusation of wrongful conduct. ***Canon 4:*** *A practitioner should preserve the confidences and secrets of a client.*	***CH4 (Art19):*** *All business and technical information an attorney has learned about from his/her client from the case must be kept confidential. An attorney must not take any action which may raise a doubt.*	**Sec.4g:** A member is automatically released from his secrecy obligations if the secret information becomes published.	**Rules of Patent Agent (Rule 8):** The patent agent must not reveal or steal his client's invention or creation. **CH4 (Sec.33):** Attorneys must keep secrets about the cases, except their clients' intention and plan of crime, or the continuation of crime that may damage other life or health. **CH6 (Sec48):** Attorney ought not have their clients of his previous company change to entrust him after he leaves the company.

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Communication with Adverse Party Represented by Counsel	**Sec. 10.87:** During the course of representation of a client, a practitioner shall not: a) communicate or cause another to communicate on the subject of the representation with a party the practitioner knows to be represented by another practitioner in that matter unless the practitioner has the prior consent of the other practitioner representing such other party or is authorized by law to do so. It is not improper, however, for a practitioner to encourage a client to meet with an opposing party for settlement negotiations. b) give advice to a person who is not represented by a practitioner other than the advice to secure counsel, if the interests of such person are to have a reasonable possibility of being in conflict with the interests of the practitioner's client.	*CH3 (Art17): A patent attorney must not directly negotiate with an adversarial party who has retained an attorney, unless the patent attorney has a valid reason why this rule should not apply.*	**Sec.5c:** A member must avoid any exchange of views about a specific case, which he knows or suspects is being handled by another member, with the client of the case, unless the client declares his wish to have an independent view or to change his representative. The member may inform the other member only if the client agrees.	**CH5 (Sec.41):** Attorneys ought not to contact directly with the oppositions without the agreement of the oppositions' attorneys, after the attorneys know the opposition have attorneys.

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Advertisements	**Sec. 10.23:** Practioner may advertise services through public media (i.e., telephone directory, legal directory, newspaper, or other periodical, radio, T.V.). Nothing of value may be given for the person recommending the practioner's service, except that practioner may pay reasonable cost of advertising. **Sec.10.33:** A practitioner may not solicit professional employment from a prospective client with whom the practitioner has no family or prior professional relationship, by mail, in-person, or otherwise, when a significant motive for the practitioner's doing so is the practitioner's pecuniary gain under the circumstances evidencing undue influence, intimidation, or overreaching. ***Canon 2:*** *A practitioner should assist the legal profession in fulfilling its duty to make legal counsel available.*	No applicable provision.	**Sec.2:** Generally permitted provided true and objective and conforms with the basic priniciples of integrity and professional secrecy. NOT allowed are: 1) comparison of professional services of one member with those of another; 2) identification of a client without express authorization of that client; 3) mention of the name of another professional entity uless there is a written cooperation agreement between the member and the entity; 4) advertisement, announcement or publishing of offers to buy, sell or negotiate industrial property rights, except upon the instruction of a client. **Sec.3b:** A member shall not give any indication on office premises, stationery or otherwise which is misleading to the public.	**CH2 (Sec12):** Attorneys must not promote their business by exaggerated advertising, paying commission to introducers, hiring sales or in other inappropriate ways. **CH2 (Sec13):** Attorneys must not gain business by any ways that violating social order and general standards of behaviors, or damage attorneys' reputation.

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Withdrawl from employment	**Sec. 10.40a:** A practitioner shall not withdraw from employment in a proceeding before the Office without permission from the Office. A practitioner shall not withdraw from employment until the practitioner has taken reasonable steps to avoid foreseeable prejudice to the rights of the client, including giving due notice to his or her client, allowing time for employment of another practitioner, delivering to the client all papers and property to which the client is entitled, and complying with applicable laws and rules. A practitioner who withdraws from employment shall refund promptly any part of a fee paid in advance that has not been earned.	***CH4 (Art23):*** *A patent attorney must report matters about a case, clear the account, and return items in his/her custody without delay.*	No applicable provision.	**CH4 (Sec31):** Attorneys ought to discontinue the case with their clients when the following circumstances happen. 1) the attorney finds out what the purpose of their clients is to threaten or harm others 2) the attorney is aware of the case will break the Rules of Governing Attorneys' Ethics if they continue to handle the case 3) the attorney's health is not good enough to continue coping with the case. When the attorney discontinues the case, they ought to adopt legal procedures avoiding their clients' legitimate rights are damaged. Attorneys also ought to return part of the remuneration.

TABLE 2
PROTECTION OF THE LEGAL SYSTEM

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COMPARISON OF RULES GOVERNING PATENT PRACTIONER CONDUCT
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Admission to Practice	**Sec.10.22:** A practioner is subject to discipline if the practitioner has made a materially false statement in, or if the practitioner has deliberately failed to disclose a material fact requested in connection with, the practitioner's application for registration or membership in the bar of any U.S. court or any State court or his or her authority to otherwise practice before the Office in trademark and other non-patent cases. ***Canon 1:*** *A practitioner should assist in maintaining the integrity and competence of the legal profession.*	*CH3 (Art36):* *A member has to pay membership of 20,000Yen, by the end of every month. This amount is due for as long as he/she belongs to the Association.* *CH3 (Art37):* *When a member neglects payment of membership dues for more than six months, a director must give him/her warning that he/she has to withdraw from the Association if he/she does not complete payment within 30 days.*	**Sec3a:** A member shall uphold public reputation of this Institute, of its Members and of the practice of representation before the European Patent Office. **Sec.7b:** Members must pay in accordance with arrangements laid down and notified by the Council the annual subscription required by Article 6 of the Regulation on the establishment of the Institute. If a member fails to pay the subscription as required by the arrangements, the matter may be referred by the Treasurer to the Disciplinary Committee.	**Rules of Patent Agent (Rule 3):** People who have residence in the Republic of China and match one of the following conditions, may register with the Patent Organization after their credentials are examined. 1) Judicial Officers, Attorneys or Accountant 2) Registered Technicians 3) People graduated from college and worked in the patent organizations, responsible for examination for two years.
Representing a Client within the bounds of the law	**Sec. 10.85a:** In representation of a client, a practitioner shall not 1) initiate or defend any proceeding before the Office, assert a position, conduct a defense, delay a trial or proceeding before the Office, or take other action on behalf of the practitioner's client when the practitioner knows or when it is obvious that such action would serve merely to harass or maliciously injure another. ***Canon 7:*** *A practitioner should represent a client zealously within the bounds of the law.*	*CH4 (Art18):* *A patent attorney must always proceed with a case so as not to impeded its progress, and make the best effort to fulfill the trust of his/her client.*	No applicable provision.	**CH3 (Sec22):** Attorneys must not refuse or delay the cases that are assigned by the Judicial Department, and get remuneration from the defendant or other related person of the cases. **CH3 (Sec25):** Attorneys ought to assist the Judicial Department to handle the cases that are inquired, entrusted or assigned by the Judicial Department. **CH3 (Sec23):** Attorneys must not deceive and cheat when they fulfill their roles. Attorneys must not forge or instigate others to forego the evidences, as well as hinder others from revealing the truth.

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Limitations of Practicing Law	**Sec.10.101:** A practitioner who holds public office shall not: 1) use the practitioner's public position to obtain, or attempt to obtain, a special advantage in legislative matters for the practitioner or for a client under circumstances where the practitioner knows or it is obvious that such action is not in the public interest 2) use the practitioner's public position to influence, or attempt to influence, a tribunal to act in favor of the practitioner or of a client 3) accept any thing of value from any person when the practitioner knows or it is obvious that the offer is for the purpose of influencing the practitioner's action as a public official. A practitioner who is an officer or employee of the U.S. shall not practice before the Office in patent cases except where so provided. ***Canon 8:*** *A practitioner should assist in improving the legal system.*	***CH2 (Art24):*** *A member can not hold an official position which concurrently pays him/her additional salary.* ***CH2 (Art25):*** *When a member, who himself runs a business pursuing profit, is employed by a person who manages a business, joins the staff or becomes a director of a body corporate, the member has to report the matter to the patent attorney association beforehand.*	No applicable provision.	No applicable provision.
Lawyer Communication with Witnesses	**Sec.10.92:** A practitioner shall not suppress any evidence that the practitioner or the practitioner's client has a legal obligation to reveal or produce. A practitioner shall not advise or cause a person to be secreted or to leave the jurisdiction for the purpose of making the person unavailable. ***Canon 7:*** *A practitioner should represent a client zealously within the bounds of the law.*	No applicable provision.	No applicable provision.	**CH2 (Sec16):** Attorneys can inquire the witness for the truth outside the court, but inquires should be limited to information related to the case. They ought not to induce the witness to lie.

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COMPARISON OF RULES GOVERNING PATENT PRACTIONER CONDUCT
PROTECTION OF LEGAL SYSTEM

Topic Area	United States (Mandatory rules are codified under Title 37 - Code of Federal Regulations (37 CFR) and are identified by Section Number. *Ethical considerations (italicized) are identified by Canon Number).*	Japan (Mandatory rules are governed by Article of Association 19 & 29 of the JPAA. *Ethical considerations (italicized) are governed by Articles of Association and Ethics of Patent Attorney).*	European (Mandatory rules and ethical considerations are governed under the Amended Code of Professional Conduct of the Institute of Professional Representatives before the EPO).	Taiwan (Mandatory rules and ethical considerations are codified under Rules Governing Attorney Ethics and/or Rules of Patent Agent).
Cooperation with the Patent Agency	**Sec 10.131:** Practitioners shall report and reveal to the Director any knowledge or evidence required under the disclosure of information to authorities requirement, which require that a practitioner possessing unprivileged knowledge of a violation of a Disciplinary Rule shall report it to the Director. Any non-practitioner possessing knowledge or information concerning a violation of a Disciplinary Rule by a practitioner may report the violation to the Director. ***Canon 9:*** *A practitioner should avoid even the appearance of professional impropriety.*	*CH2 (Art11): A patent attorney has to cooperate with the Patent Agency and the court regarding the process of filing an application, judging a case, and proceeding with a lawsuit. He/She must not take any action to extend a lawsuit.* *CH2 (Art12): A patent attorney has to cooperate in regard to a matter assigned by government or municipal offices.*	No applicable provision.	**CH3 (Sec20):** Attorneys ought to assist court to defend judicature dignity and justice. Attorneys are also responsible for prompting the society to rule by law together witht the Judicial Department.
Improper Influence Upon A Government Agency	**Sec. 10.111b:** A practitioner shall not accept private employment in a matter in which he or she had personal responsibility while a public employee. **Sec.10.93b:** In an adversary proceeding, including any inter partes proceeding before the Office, a practitioner shall not communicate, or cause another to communicate, as to the merits of the cause with a judge, official, or Office employee before whom the proceeding is pending, expect if official proceeding, in writing, adequate notice to opposing counsel or to adverse party. ***Canon 7:*** *A practitioner should represent a client zealously within the bounds of the law.*	*CH2 (Art13): A patent attorney must not accept a case with which he/she has dealt as a government employer.*	No applicable provision.	**CH2 (Sec14):** Attorneys must not have inappropriately social engagement with the judicial staffs in order to facilitate cases and gain more business.

TABLE 2
COMPARISON OF RULES GOVERNING PATENT PRACTIONER CONDUCT
PROTECTION OF LEGAL SYSTEM

Topic Area	United States (Mandatory rules are codified under Title 37 - Code of Federal Regulations (37 CFR) and are identified by Section Number. *Ethical considerations (italicized) are identified by Canon Number).*	Japan (Mandatory rules are governed by Article of Association 19 & 29 of the JPAA. *Ethical considerations (italicized) are governed by Articles of Association and Ethics of Patent Attorney).*	European (Mandatory rules and ethical considerations are governed under the Amended Code of Professional Conduct of the Institute of Professional Representatives before the EPO).	Taiwan (Mandatory rules and ethical consideretions are codified under Rules Governing Attorney Ethics and/or Rules of Patent Agent).
Avoiding the Appearance of Impropriety	**Sec. 10.111a:** A practitioner shall not accept private employment in a matter upon the merits of which he or she has acted in a judicial capacity. **Sec.10.93:** A practitioner shall not give or lend anything of value to a judge, official, or employee of a tribunal under circumstances which might give the appearance that the gift or loan is made to influence official action. ***Canon 9:*** *A practitioner should avoid even the appearance of professional impropriety.*	*CH2 (Art14): A patent attorney must not either privately interview or negotiate with the person dealing with official business in order to gain an advantage in a case in which he/she is involved.*	No applicable provision.	**CH2 (Sec18):** Judicial staffs must not work as an attorney in the same courts or the same procurator department within 3 years, where they worked in the past 3 years.
Statements Regarding Public/Elected Officials & the Judiciary	**Sec.10.102a&b:** A practitioner shall not knowingly make false statements of fact concerning the qualifications of a candidate for election or appointment to a judicial office or to a position in the Office. A practitioner shall not knowingly make false accusations against a judge, other adjudicatory officer, or employee of the Office. ***Canon 8:*** *A practitioner should assist in improving the legal system.*	No applicable provision.	**Sec.3a:** A member shall uphold public reputation of this Institute, of its Members and of the practice of representation before the European Patent Office.	**CH3 (Sec21):** Attorneys ought to attend actively the assessment to judges and public procurators, which are run by the Attorneys Association or other government department. **CH3 (Sec24):** Attorneys must not slander judicial staffs or the Judicial Department. Attorneys ought to inform police when they get evidence about judicial staff corruption.

TABLE 3
PROTECTION OF THE LEGAL PROFESSION

TABLE 3
COMPARISON OF RULES GOVERNING PATENT PRACTIONER CONDUCT
PROTECTION OF THE LEGAL PROFESSION

Topic Area	***United States*** (Mandatory rules are codified under Title 37 - Code of Federal Regulations (37 CFR) and are identified by Section Number. *Ethical considerations (italicized) are identified by Canon Number).*	***Japan*** (Mandatory rules are governed by Article of Association 19 & 29 of the JPAA. *Ethical considerations (italicized) are governed by Articles of Association and Ethics of Patent Attorney).*	***European*** (Mandatory rules and ethical considerations are governed under the Amended Code of Professional Conduct of the Institute of Professional Representatives before the EPO).	***Taiwan*** (Mandatory rules and ethical considerations are codified under Rules Governing Attorney Ethics and/or Rules of Petent Agent).
General Ethical Considerations	**Sec. 10.89:** A practitioner shall not disregard or advise a client to disregard any provision of the Code or a decision of the Office, but the practitioner may take appropriate steps in good faith to test the validity of such provision or decision. ***Canon 7:*** *A practitioner should represent a client zealously within the bounds of the law.*	*A patent attorney must foster and protect originality and creativity in the industrial field, and contribute to sound use and development of the ownership system of industry. Through this, a patent attorney will contribute to the progress and development of society.* **CH2 (Art19):** an attorney must value his/her personal integrity, do business honestly following all codes of conduct and laws pertaining to attorneys. *CH1 (Art1): A patent attorney should value honor, cultivate sound reason, be assiduous in raising integrity and maintaining trust.* *CH1 (Art3): A patent attorney should keep abreast of current law and science, study technical advancement, be familiar with business case law and perform his duties sincerely and fairly.*	No applicable provision.	No applicable provision.
Objectives of Legal Profession	No applicable provision.	*A patent attorney must foster and protect originality and creativity in the industrial field, and contribute to sound use and development of the ownership of industry. Through this, a patent attorney will contribute to the progress and development of society.*	No applicable provision.	The missions of the attorneys are to protect human right, to ensure justice, as well as to enhance democracy. All attorneys ought to self-government and defend the dignity and reputation of attorneys basing on the consciousness of attorneys' Ethics. All attorneys ought to obey the Rules of Governing Attorneys' Ethics.

TABLE 3
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Topic Area	***United States*** (Mandatory rules are codified under Title 37 - Code of Federal Regulations (37 CFR) and are identified by Section Number. *Ethical considerations (italicized) are identified by Canon Number).*	***Japan*** (Mandatory rules are governed by Article of Association 19 & 29 of the JPAA. *Ethical considerations (italicized) are governed by Articles of Association and Ethics of Patent Attorney).*	***European*** (Mandatory rules and ethical considerations are governed under the Amended Code of Professional Conduct of the Institute of Professional Representatives before the EPO).	***Taiwan*** (Mandatory rules and ethical considerations are codified under Rules Governing Attorney Ethics and/or Rules of Patent Agent).
Safeguarding the Integrity of the Legal Profession	No applicable provision.	*CH1 (Art4):* *A patent attorney should maintain his/her integrity, carry out business based upon his/her beliefs. When dealing with a case, a patent attorney renders judgments or an opinion, a patent attorney should be independent, and perform matters with legal and technical confidence.*	**Sec.3c:** A member shall not give any commission to others for the introduction of business, but this does not extend to the acquisition in part or whole of another patent agency practice.	**CH1 (Sec.3):** Attorneys ought to defend the dignity and reputation of attorneys.
Maintaining Conduct within the Legal Profession	**Sec. 10.23a:** A practitioner shall not engage in disreputable or gross misconduct. ***Canon 1:*** *A practitioner should assist in maintaining the integrity and competence of the legal profession.*	*CH1 (Art1):* *A patent attorney should value honor, cultivate sound reason, be assidous in raising integrity and maintaining trust.* **CH2 (Art 19):** An attorney must value his/her personal integrity, do business honestly following all codes of conduct and laws pertaining to attorneys. *CH1 (Art 6):* *A patent attorney must not do any business which might harm his/her integrity of the patent attorney.* *CH1 (Art8):* *A patent attorney must not let others use his name.* *CH1 (Art9):* *A patent attorney must not unfairly bring about a case.*	No applicable provision.	**CH1 (Art6):** Attorneys ought to be prudent in their speech and behaviors, and to rectify bad trends in the society as a good model in the society. **CH1 (Art8):** Attorneys' jobs ought to be based on honest, justice, reason and conscience.

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Unauthorized Practice of Law	**Sec.10.47:** A practitioner shall not aid a non-practitioner in the unauthorized practice of law, nor shall a practitioner aid a suspended or excluded practitioner in the practice of law before the Office. A practitioner shall not aid a non-lawyer in the unauthorized practice of law. ***Canon 3:*** *A practitioner should assist in preventing the unauthorized practice of law.*	No applicable provision.	**Sec.3d:** A member shall not permit without adequate supervision, professional activities related to the European Patent Office under his name or the name of this association by a person who is not a member.	**CH2 (Sec.17):** Attorneys must not assist people, who do not have Licenses in the Republic of China, to practice law by forming partnership or any other ways, except approved by law.
Regulating Professional Standards & Discipline	**Sec. 10.23b:** A practitioner shall not 1) violate a disciplinary rule 2) circumvent a Disciplinary Rule through actions of another 3) engage in illegal conduct involving moral turpitude 4) engage in conduct involving dishonesty, fraud, deceit, or misrepresentation 5) engage in conduct that is prejudicial to the administration of justice 6) engage in any other conduct that adversely reflects on the practitioner's fitness to practice before the Office. ***Canon 1:*** *A practitioner should assist in maintaining the integrity and competence of the legal profession.*	*CH1 (Art5): A patent attorney must conform to the rules related to patent attorneys, and to the rules and decisions of the Patent Attorney Association. A patent attorney must sincerely deal with cases assigned by the Patent Attorney Association.* CH1 *(Art7): A patent attorney must not be a representative of, nor be assigned to a case by, nor get a case, through those who have the possiblity of violating patent laws, or who might be violating them.*	**Sec.1f&g:** Each member should know of the Code of Professional Conduct and cannot plead ignorance of it. A breach of the Code cannot be justified by referring to instructions from a client.	No applicable provision.

TABLE 3
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Fellowship Among Attorneys	No applicable provision.	*CH3 (Art15): Patent attorneys must help each other, respect each other, must not take any action to harm or trouble other attorneys.*	**Sec.1e:** Good fellowship among members is a necessity for preserving the reputation of the profession and should be exercised irrespective of personal feelings. **Sec.5a:** A member must observe good fellowship toward other members, and this includes courtesy and the fact that a member may not speak of another member in discourteous or offensive terms. Grievances in respect of another member should first be discussed in private with the other member, either directly or through a third member, and then if necessary through the official channels prescribed by the Institute and in the disciplinary Regulation.	**CH 6 (Sec42):** Attorneys ought to respect each other, and concern the proper benefit of law field. Attorneys ought to respond to other attorneys' inquire or give them the reason that they can't respond. **CH6 (Sec43):** Attorneys ought not slander other attorneys, as well as instigate or indulge their clients to slander other attorneys.
Business Conduct	No applicable provision.	*CH3 (Art16): A patent attorney must not try to get involved in a case which other attorneys have already received.*	No applicable provision.	**CH6 (Art47):** Attorneys ought to ask the Attorneys Association to mediate when they have controversy with each other because of a case.
Maintaining Professional Standards	No applicable provision.	*CH1 (Art2): A patent attorney considers the internationality of industrial ownership, undertakes business with a broad vision, and makes an effort to contribute to society in conformity with international trust.* *CH1 (Art3): A patent attorney should keep abreast of current law and science, study technical advancement, be familiar with business case law and perform his duties sincerely and fairly.*	No applicable provision.	**CH1 (Sec9):** Attorneys ought to attend public law services or social activiites so as to spread law services. **CH1 (Sec5):** Attorneys ought to be proficient in laws, enrich professional knowledge, absorb update information and keep improving their services. **CH4 (Sec28):** Attorneys ought not to assure their clients that they could have favorable results when the attorneys try to get the cases.

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Disciplinary Actions	**Sec. 10.89:** A practitioner shall not disregard or advise a client to disregard any provision of the Code or a decision of the Office, but the practitioner may take appropriate steps in good faith to test the validity of such provision or decision. **Sec. 10.130:** The Commissioner may, after notice and an opportunity for a hearing, 1) reprimand or 2) suspend or exclude, either generally or in any particular case, any individual, attorney, or agent shown to be incompetent or disreputable, who is guilty of gross misconduct, or who violates a Disciplinary Rule. ***Canon 9:*** *A practitioner should avoid even the appearance of professional impropriety.*	**CH2 (Art29):** A member will be punished according to the following procedures when he/she violates the rules of the Patent Attorney Association. 1) Warning issued. 2) Notification of disciplinary punishment. 3) Withdrawal from membership. When a director believes that there is a case of violation of rules, he/she must inform the investigation committee. A director must report the person who has been withdrawn from the assocation by the aforementioned rules for more than a year, if that person becomes a member again. **CH2 (Art29,2):** When it is decided by the investigation committee, or by the board of directors to withdraw a member from the Association, a director has to follow the necessary procedures to get authorization from the Minister of International Trade and Industry.	No applicable provision.	**Rules of Patent Agents (Rule 10):** If the patent agent reveals or steals his client's invention or creation, they would be punished with the following issues by the patent organization: 1) warn 2) stop their license from 6 months to 2 years or 3) cancel their qualifications. **CH2 (Sec19):** Attorneys must not break the Rules Governing Attorneys' Ethics even though their clients require.

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Reporting fellow attorney misconduct	**Sec10.22b:** A practitioner shall not further the application for registration or membership in the bar of any U.S. court, State court, or administrative agency of another person known by the practitioner to be unqualified in respect to character, education, or other relative attribute. ***Canon 1:*** *A practitioner should assist in maintaining the integrity and competence of the legal profession.*	*CH2 (Art30):* *When it is believed that there is a case of violation of the rules, it should be referred to a director.*	**Sec.3e:** As far as the exercise of his profession is concerned, a member is responsible for the acts of non-member assistants.	**CH6 (Art44):** Attorneys ought to report to the attorneys Association about other attorneys breaking the Rules of Governing Attorneys, when they get evidence, besides keeping secrets. **CH6 (Sec45):** Attorneys must not hinder other attorneys from their cases, or lead the clients discontinue the appointment with their current attorneys. **CH6 (Sec46):** Attorneys ought to inform the Attorneys Association before they accuse other attorneys, because of their own reasons. If it is a civil case about dispute, the attorney ought to let the Attorneys Association mediate the case first.
Fee Splitting Requirements	**Sec. 10.37:** A practitioner shall not divide a fee for legal services with another practitioner who is not a partner in or associate of the practitioner's law firm or law office, unless full disclosure and client consent, proportion division. **Sec. 10.48:** A practitioner or a firm of practitioners shall not share legal fees with a non-practitioner except: by agreement, to complete unfinished business, non-practitioner compensation or retirement plan. ***Canon 2:*** *A practitioner should assist the legal profession in fulfilling its duty to make legal counsel available.*	*CH2 (Art 21,2):* *A member cannot share with a specific foreign law attorney remuneration from income received for business secured under contract with the Patent Attorney Association, or from income received from doing business in the manner described under the rules of the Association.*	**Sec.10.37:** A practitioner shall not divide a fee for legal services with another practitioner who is not a partner	No applicable provision.

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Discrimination	No applicable provision.	No applicable provision.	**Sec.5b:** Since a prime interest of the Institute is to maintain a unified profession, no member must exercise or promote discrimination between members, for example on grounds of language or nationality.	No applicable provision.

USPTO
CODE OF PROFESSIONAL RESPONSIBILITY

(3) To the best of practitioner's knowledge, information, and belief, there is good ground to support the correspondence, including any allegations of improper conduct contained or alleged therein; and

(4) The correspondence is not interposed for delay.

(b) Any practitioner knowingly violating the provisions of this section is subject to disciplinary action. See § 10.23(c)(15).

[Added 50 FR 5175, Feb. 6, 1985, effective Mar. 8, 1985; para. (a) amended, 58 FR 54494, Oct. 22, 1993, effective Nov. 22, 1993]

§ 10.19 [Reserved]

PATENT AND TRADEMARK OFFICE CODE OF PROFESSIONAL RESPONSIBILITY

§ 10.20 Canons and Disciplinary Rules.

(a) Canons are set out in §§ 10.21, 10.30, 10.46, 10.56, 10.61, 10.76, 10.83, 10.100, and 10.110. Canons are statements of axiomatic norms, expressing in general terms the standards of professional conduct expected of practitioners in their relationships with the public, with the legal system, and with the legal profession.

(b) Disciplinary Rules are set out in §§ 10.22–10.24, 10.31–10.40, 10.47–10.57, 10.62–10.68, 10.77, 10.78, 10.84, 10.85, 10.87–10.89, 10.92, 10.93, 10.101–10.103, 10.111, and 10.112. Disciplinary Rules are mandatory in character and state the minimum level of conduct below which no practitioner can fall without being subjected to disciplinary action.

[Added 50 FR 5175, Feb. 6, 1985, effective Mar. 8, 1985]

§ 10.21 Canon 1.

A practitioner should assist in maintaining the integrity and competence of the legal profession.

[Added 50 FR 5175, Feb. 6, 1985, effective Mar. 8, 1985]

§ 10.22 Maintaining integrity and competence of the legal profession.

(a) A practitioner is subject to discipline if the practitioner has made a materially false statement in, or if the practitioner has deliberately failed to disclose a material fact requested in connection with, the practitioner's application for registration or membership in the bar of any United States court or any State court or his or her authority to otherwise practice before the Office in trademark and other non-patent cases.

(b) A practitioner shall not further the application for registration or membership in the bar of any United States court, State court, or administrative agency of another person known by the practitioner to be unqualified in respect to character, education, or other relative attribute.

[Added 50 FR 5175, Feb. 6, 1985, effective Mar. 8, 1985]

§ 10.23 Misconduct.

(a) A practitioner shall not engage in disreputable or gross misconduct.

(b) A practitioner shall not:

(1) Violate a Disciplinary Rule.

(2) Circumvent a Disciplinary Rule through actions of another.

(3) Engage in illegal conduct involving moral turpitude.

(4) Engage in conduct involving dishonesty, fraud, deceit, or misrepresentation.

(5) Engage in conduct that is prejudicial to the administration of justice.

(6) Engage in any other conduct that adversely reflects on the practitioner's fitness to practice before the Office.

(c) Conduct which constitutes a violation of paragraphs (a) and (b) of this section includes, but is not limited to:

(1) Conviction of a criminal offense involving moral turpitude, dishonesty, or breach of trust.

(2) Knowingly giving false or misleading information or knowingly participating in a material way in giving false or misleading information, to:

(i) A client in connection with any immediate, prospective, or pending business before the Office.

(ii) The Office or any employee of the Office.

(3) Misappropriation of, or failure to properly or timely remit, funds received by a practitioner or the practitioner's firm from a client to pay a fee which the client is required by law to pay to the Office.

(4) Directly or indirectly improperly influencing, attempting to improperly influence, offering or agreeing to improperly influence, or attempting to offer or agree to improperly influence an official action of any employee of the Office by:

(i) Use of threats, false accusations, duress, or coercion,

(ii) An offer of any special inducement or promise of advantage, or

(iii) Improperly bestowing of any gift, favor, or thing of value.

(5) Suspension or disbarment from practice as an attorney or agent on ethical grounds by any duly constituted authority of a State or the United States or, in the case of a practitioner who resides in a foreign country or is registered under § 10.6(c), by any duly constituted authority of:

(i) A State,

(ii) The United States, or

(iii) The country in which the practitioner resides.

(6) Knowingly aiding or abetting a practitioner suspended or excluded from practice before the Office in engaging in unauthorized practice before the Office under § 10.158.

(7) Knowingly withholding from the Office information identifying a patent or patent application of another from which one or more claims have been copied. See §§ 1.604(b) and 1.607(c) of this subchapter.

(8) Failing to inform a client or former client or failing to timely notify the Office of an inability to notify a client or former client of correspondence received from the Office or the client's or former client's opponent in an *inter partes* proceeding before the Office when the correspondence (i) could have a significant effect on a matter pending before the Office, (ii) is received by the practitioner on behalf of a client or former client and (iii) is correspondence of which a reasonable practitioner would believe under the circumstances the client or former client should be notified.

(9) Knowingly misusing a "Certificate of Mailing or Transmission" under § 1.8 of this chapter .

(10) Knowingly violating or causing to be violated the requirements of § 1.56 or § 1.555 of this subchapter.

(11) Knowingly filing or causing to be filed an application containing any material alteration made in the application papers after the signing of the accompanying oath or declaration without identifying the alteration at the time of filing the application papers.

(12) Knowingly filing, or causing to be filed, a frivolous complaint alleging a violation by a practitioner of the Patent and Trademark Office Code of Professional Responsibility.

(13) Knowingly preparing or prosecuting or providing assistance in the preparation or prosecution of a patent application in violation of an undertaking signed under § 10.10(b).

(14) Knowingly failing to advise the Director in writing of any change which would preclude continued registration under § 10.6.

(15) Knowingly signing a paper filed in the Office in violation of the provisions of § 10.18 or making a scandalous or indecent statement in a paper filed in the Office.

(16) Willfully refusing to reveal or report knowledge or evidence to the Director contrary to § 10.24 or paragraph (b) of § 10.131.

(17) Representing before the Office in a patent case either a joint venture comprising an inventor and an invention developer or an inventor referred to the registered practitioner by an invention developer when (i) the registered practitioner knows, or has been advised by the Office, that a formal complaint filed by a federal or state agency, based on any violation of any law relating to securities, unfair methods of competition, unfair or deceptive acts or practices, mail fraud, or other civil or criminal conduct, is pending before a federal or state court or federal or state agency, or has been resolved unfavorably by such court or agency, against the invention developer in connection with invention development services and (ii) the registered practitioner fails to fully advise the inventor of the existence of the pending complaint or unfavorable resolution thereof prior to undertaking or continuing representation of the joint venture or inventor. "Invention developer" means any person, and any agent, employee, officer, partner, or independent contractor thereof, who is not a registered practitioner and who advertises invention development services in media of general circulation or who enters into contracts for invention development services with customers as a result of such advertisement."Invention development services" means acts of invention development required or promised to be performed, or actually performed, or both, by an invention developer for a customer. "Invention development" means the evaluation, perfection, marketing, brokering, or promotion of an invention on behalf of a customer by an invention developer, including a patent search, preparation of a patent application, or any other act done by an invention developer for consideration toward the end of procuring or attempting to procure a license, buyer, or patent for an invention. "Customer" means any individual who has made an invention and who enters into a contract for invention development services with an invention developer with respect to the invention by which the inventor becomes obligated to pay the invention developer less than $5,000 (not to include any additional sums which the invention developer is to receive as a result of

successful development of the invention). "Contract for invention development services" means a contract for invention development services with an invention developer with respect to an invention made by a customer by which the inventor becomes obligated to pay the invention developer less than $5.000 (not to include any additional sums which the invention developer is to receive as a result of successful development of the invention).

(18) In the absence of information sufficient to establish a reasonable belief that fraud or inequitable conduct has occurred, alleging before a tribunal that anyone has committed a fraud on the Office or engaged in inequitable conduct in a proceeding before the Office.

(19) Action by an employee of the Office contrary to the provisions set forth in § 10.10(c).

(20) Knowing practice by a Government employee contrary to applicable Federal conflict of interest laws, or regulations of the Department, agency, or commission employing said individual.

(d) A practitioner who acts with reckless indifference to whether a representation is true or false is chargeable with knowledge of its falsity. Deceitful statements of half–truths or concealment of material facts shall be deemed actual fraud within the meaning of this part.

[Added 50 FR 5175, Feb. 6, 1985, effective Mar. 8, 1985; amended 50 FR 25073, June 17, 1985; 50 FR 25980, June 24, 1985; paras. (c)(13), (19) & (20), 53 FR 33950, Oct. 4, 1988, effective Nov. 4, 1988; corrected 53 FR 41278, Oct. 20, 1988; paras. (c)(10) & (c)(11), 57 FR 2021, Jan. 17, 1992, effective Mar. 16, 1992; para. (c)(a) amended, 58 FR 54494, Oct. 2, 1993, effective Nov. 22, 1993; para. (c)(9) amended, 61 FR 56439, Nov. 1, 1996, effective Dec 2, 1996]

§ 10.24 Disclosure of information to authorities.

(a) A practitioner possessing unprivileged knowledge of a violation of a Disciplinary Rule shall report such knowledge to the Director.

(b) A practitioner possessing unprivileged knowledge or evidence concerning another practitioner, employee of the Office, or a judge shall reveal fully such knowledge or evidence upon proper request of a tribunal or other authority empowered to investigate or act upon the conduct of practitioners, employees of the Office, or judges.

[Added 50 FR 5176, Feb. 6. 1985, effective Mar. 8, 1985]

§ 10.25 – 10.29 [Reserved]

§ 10.30 Canon 2.

A practitioner should assist the legal profession in fulfilling its duty to make legal counsel available.

[Added 50 FR 5177, Feb. 6, 1985, effective Mar. 8, 1985]

§ 10.31 Communications concerning a practitioner's services.

(a) No practitioner shall with respect to any prospective business before the Office, by word, circular, letter, or advertising, with intent to defraud in any manner, deceive, mislead, or threaten any prospective applicant or other person having immediate or prospective business before the Office.

(b) A practitioner may not use the name of a Member of either House of Congress or of an individual in the service of the United States in advertising the practitioner's practice before the Office.

(c) Unless authorized under § 10.14(b), a non–lawyer practitioner shall not hold himself or herself out as authorized to practice before the Office in trademark cases.

(d) Unless a practitioner is an attorney, the practitioner shall not hold himself or herself out:

(1) To be an attorney or lawyer or

(2) As authorized to practice before the Office in non–patent and trademark cases.

[Added 50 FR 5177, Feb. 6, 1985, effective Mar. 8, 1985]

§ 10.32 Advertising.

(a) Subject to § 10.31, a practitioner may advertise services through public media, including a telephone directory, legal directory, newspaper, or other periodical, radio, or television, or through written communications not involving solicitation as defined by § 10.33.

(b) A practitioner shall not give anything of value to a person for recommending the practitioner's services, except that a practitioner may pay the reasonable cost of advertising or written communication permitted by this section and may pay the usual charges of a not–for–profit lawyer referral service or other legal service organization.

(c) Any communication made pursuant to this section shall include the name of at least one practitioner responsible for its content.

[Added 50 FR 5177, Feb. 6, 1985, effective Mar. 8, 1985]

§ 10.33 Direct contact with prospective clients.

A practitioner may not solicit professional employment from a prospective client with whom the practitioner has no family or prior professional relationship, by mail, in-person, or otherwise, when a significant motive for the practitioner's doing so is the practitioner's pecuniary gain under circumstances evidencing undue influence, intimidation, or overreaching. The term "solicit" includes contact in person, by telephone or telegraph, by letter or other writing, or by other communication directed to a specific recipient, but does not include letters addressed or advertising circulars distributed generally to persons not specifically known to need legal services of the kind provided by the practitioner in a particular manner, but who are so situated that they might in general find such services useful.

[Added 50 FR 5177, Feb.6, 1985, effective Mar. 8, 1985]

§ 10.34 Communications of fields of practice.

A registered practitioner may state or imply that the practitioner is a specialist as follows:

(a) A registered practitioner who is an attorney may use the designation "Patents," "Patent Attorney," "Patent Lawyer," "Registered Patent Attorney," or a substantially similar designation.

(b) A registered practitioner who is not an attorney may use the designation "Patents," "Patent Agent," "Registered Patent Agent," or a substantially similar designation, except that any practitioner who was registered prior to November 15, 1938, may refer to himself or herself as a "patent attorney."

[Added 50 FR 5177, Feb. 6, 1985, effective Mar. 8, 1985]

§ 10.35 Firm names and letterheads.

(a) A practitioner shall not use a firm name, letterhead, or other professional designation that violates § 10.31. A trade name may be used by a practitioner in private practice if it does not imply a current connection with a government agency or with a public or charitable legal services organization and is not otherwise in violation of § 10.31.

(b) Practitioners may state or imply that they practice in a partnership or other organization only when that is the fact.

[Added 50 FR 5177, Feb. 6, 1985, effective Mar. 8, 1985]

§ 10.36 Fees for legal services.

(a) A practitioner shall not enter into an agreement for, charge, or collect an illegal or clearly excessive fee.

(b) A fee is clearly excessive when, after a review of the facts, a practitioner of ordinary prudence would be left with a definite and firm conviction that the fee is in excess of a reasonable fee. Factors to be considered as guides in determining the reasonableness of a fee include the following:

(1) The time and labor required, the novelty and difficulty of the questions involved, and the skill requisite to perform the legal service properly.

(2) The likelihood, if apparent to the client, that the acceptance of the particular employment will preclude other employment by the practitioner.

(3) The fee customarily charged for similar legal services.

(4) The amount involved and the results obtained.

(5) The time limitations imposed by the client or by the circumstances.

(6) The nature and length of the professional relationship with the client.

(7) The experience, reputation, and ability of the practitioner or practitioners performing the services.

(8) Whether the fee is fixed or contingent.

[Added 50 FR 5177, Feb. 6, 1985, effective Mar. 8, 1985]

§ 10.37 Division of fees among practitioners.

(a) A practitioner shall not divide a fee for legal services with another practitioner who is not a partner in or associate of the practitioner's law firm or law office, unless:

(1) The client consents to employment of the other practitioner after a full disclosure that a division of fees will be made.

(2) The division is made in proportion to the services performed and responsibility assumed by each.

(3) The total fee of the practitioners does not clearly exceed reasonable compensation for all legal services rendered to the client.

(b) This section does not prohibit payment to a former partner or associate pursuant to a separation or retirement agreement.

[Added 50 FR 5177, Feb. 6, 1985, effective Mar. 8, 1985]

§ 10.38 Agreements restricting the practice of a practitioner.

(a) A practitioner shall not be a party to or participate in a partnership or employment agreement with another practitioner that restricts the right of a practitioner to practice before the Office after the

termination of a relationship created by the agreement, except as a condition to payment of retirement benefits.

(b) In connection with the settlement of a controversy or suit, a practitioner shall not enter into an agreement that restricts the practitioner's right to practice before the Office.

[Added 50 FR 5177, Feb. 6, 1985, effective Mar. 8, 1985]

§ 10.39 Acceptance of employment.

A practitioner shall not accept employment on behalf of a person if the practitioner knows or it is obvious that such person wishes to:

(a) Bring a legal action, commence a proceeding before the Office, conduct a defense, assert a position in any proceeding pending before the Office, or otherwise have steps taken for the person, merely for the purpose of harassing or maliciously injuring any other person.

(b) Present a claim or defense in litigation or any proceeding before the Office that it is not warranted under existing law, unless it can be supported by good faith argument for an extension, modification, or reversal of existing law.

[Added 50 FR 5177, Feb. 6, 1985, effective Mar. 8, 1985]

§ 10.40 Withdrawal from employment.

(a) A practitioner shall not withdraw from employment in a proceeding before the Office without permission from the Office (see §§ 1.36 and 2.19 of this subchapter). In any event, a practitioner shall not withdraw from employment until the practitioner has taken reasonable steps to avoid foreseeable prejudice to the rights of the client, including giving due notice to his or her client, allowing time for employment of another practitioner, delivering to the client all papers and property to which the client is entitled, and complying with applicable laws and rules. A practitioner who withdraws from employment shall refund promptly any part of a fee paid in advance that has not been earned.

(b) *Mandatory withdrawal.* A practitioner representing a client before the Office shall withdraw from employment if:

(1) The practitioner knows or it is obvious that the client is bringing a legal action, commencing a proceeding before the Office, conducting a defense, or asserting a position in litigation or any proceeding pending before the Office, or is otherwise having steps taken for the client, merely for the purpose of harassing or maliciously injuring any person;

(2) The practitioner knows or it is obvious that the practitioner's continued employment will result in violation of a Disciplinary Rule;

(3) The practitioner's mental or physical condition renders it unreasonably difficult for the practitioner to carry out the employment effectively; or

(4) The practitioner is discharged by the client.

(c) *Permissive withdrawal.* If paragraph (b) of this section is not applicable, a practitioner may not request permission to withdraw in matters pending before the Office unless such request or such withdrawal is because:

(1) The petitioner's client:

(i) Insists upon presenting a claim or defense that is not warranted under existing law and cannot be supported by good faith argument for an extension, modification, or reversal of existing law;

(ii) Personally seeks to pursue an illegal course of conduct;

(iii) Insists that the practitioner pursue a course of conduct that is illegal or that is prohibited under a Disciplinary Rule;

(iv) By other conduct renders it unreasonably difficult for the practitioner to carry out the employment effectively;

(v) Insists, in a matter not pending before a tribunal, that the practitioner engage in conduct that is contrary to the judgment and advice of the practitioner but not prohibited under the Disciplinary Rule; or

(vi) Has failed to pay one or more bills rendered by the practitioner for an unreasonable period of time or has failed to honor an agreement to pay a retainer in advance of the performance of legal services.

(2) The practitioner's continued employment is likely to result in a violation of a Disciplinary Rule;

(3) The practitioner's inability to work with co-counsel indicates that the best interests of the client likely will be served by withdrawal;

(4) The practitioner's mental or physical condition renders it difficult for the practitioner to carry out the employment effectively;

(5) The practitioner's client knowingly and freely assents to termination of the employment; or

(6) The practitioner believes in good faith, in a proceeding pending before the Office, that the Office will find the existence of other good cause for withdrawal.

[Added 50 FR 5178, Feb. 6, 1985, effective Mar. 8, 1985]

§§ 10.41 – 10.45 [Reserved]

§ 10.46 Canon 3.

A practitioner should assist in preventing the unauthorized practice of law.

[Added 50 FR 5178, Feb. 6, 1985, effective Mar. 8, 1985]

§ 10.47 Aiding unauthorized practice of law.

(a) A practitioner shall not aid a non–practitioner in the unauthorized practice of law before the Office.

(b) A practitioner shall not aid a suspended or excluded practitioner in the practice of law before the Office.

(c) A practitioner shall not aid a non–lawyer in the unauthorized practice of law.

[Added 50 FR 5178, Feb. 6, 1985, effective Mar. 8, 1985]

§ 10.48 Sharing legal fees.

A practitioner or a firm of practitioners shall not share legal fees with a non–practitioner except that:

(a) An agreement by a practitioner with the practitioner's firm, partner, or associate may provide for the payment of money, over a reasonable period of time after the practitioner's death, to the practitioner's estate or to one or more specified persons.

(b) A practitioner who undertakes to complete unfinished legal business of a deceased practitioner may pay to the estate of the deceased practitioner that proportion of the total compensation which fairly represents the services rendered by the deceased practitioner.

(c) A practitioner or firm of practitioners may include non–practitioner employees in a compensation or retirement plan, even though the plan is based in whole or in part on a profit–sharing arrangement, providing such plan does not circumvent another Disciplinary Rule.

[Added 50 FR 5178, Feb. 6, 1985, effective Mar. 8, 1985]

§ 10.49 Forming a partnership with a non–practitioner.

A practitioner shall not form a partnership with a non-practitioner if any of the activities of the partnership consist of the practice of patent, trademark, or other law before the Office.

[Added 50 FR 5178, Feb. 6, 1985, effective Mar. 8, 1985]

§§ 10.50 – 10.55 [Reserved]

§ 10.56 Canon 4.

A practitioner should preserve the confidences and secrets of a client.

[Added 50 FR 5178, Feb. 6, 1985, effective Mar. 8, 1985]

§ 10.57 Preservation of confidences and secrets of a client.

(a) "Confidence" refers to information protected by the attorney–client or agent–client privilege under applicable law. "Secret" refers to the other information gained in the professional relationship that the client has requested be held inviolate or the disclosure of which would be embarrassing or would be likely to be detrimental to the client.

(b) Except when permitted under paragraph (c) of this section, a practitioner shall not knowingly:

(1) Reveal a confidence or secret of a client.

(2) Use a confidence or secret of a client to the disadvantage of the client.

(3) Use a confidence or secret of a client for the advantage of the practitioner or of a third person, unless the client consents after full disclosure.

(c) A practitioner may reveal:

(1) Confidences or secrets with the consent of the client affected but only after a full disclosure to the client.

(2) Confidences or secrets when permitted under Disciplinary Rules or required by law or court order.

(3) The intention of a client to commit a crime and the information necessary to prevent the crime.

(4) Confidences or secrets necessary to establish or collect the practitioner's fee or to defend the practitioner or the practitioner's employees or associates against an accusation of wrongful conduct.

(d) A practitioner shall exercise reasonable care to prevent the practitioner's employees, associates, and others whose services are utilized by the practitioner from disclosing or using confidences or secrets of a client, except that a practitioner may reveal the information allowed by paragraph (c) of this section through an employee.

[Added 50 FR 5178, Feb. 6, 1985, effective Mar. 8, 1985]

§§ 10.58 – 10.60 [Reserved]

§ 10.61 Canon 5.

A practitioner should exercise independent professional judgment on behalf of a client.

[Added 50 FR 5179, Feb. 6, 1985, effective Mar. 8, 1985]

§ 10.62 Refusing employment when the interest of the practitioner may impair the practitioner's independent professional judgment.

(a) Except with the consent of a client after full disclosure, a practitioner shall not accept employment if the exercise of the practitioner's professional judgment on behalf of the client will be or reasonably may be affected by the practitioner's own financial, business, property, or personal interests.

(b) A practitioner shall not accept employment in a proceeding before the Office if the practitioner knows or it is obvious that the practitioner or another practitioner in the practitioner's firm ought to sign an affidavit to be filed in the Office or be called as a witness, except that the practitioner may undertake the employment and the practitioner or another practitioner in the practitioner's firm may testify:

(1) If the testimony will relate solely to an uncontested matter.

(2) If the testimony will relate solely to a matter of formality and there is no reason to believe that substantial evidence will be offered in opposition to the testimony.

(3) If the testimony will relate solely to the nature and value of legal services rendered in the case by the practitioner or the practitioner's firm to the client.

(4) As to any matter, if refusal would work a substantial hardship on the client because of the distinctive value of the practitioner or the practitioner's firm as counsel in the particular case.

[Added 50 FR 5179, Feb. 6, 1985, effective Mar. 8, 1985]

§ 10.63 Withdrawal when the practitioner becomes a witness.

(a) If, after undertaking employment in a proceeding in the Office, a practitioner learns or it is obvious that the practitioner or another practitioner in the practitioner's firm ought to sign an affidavit to be filed in the Office or be called as a witness on behalf of a practitioner's client, the practitioner shall withdraw from the conduct of the proceeding and the practitioner's firm, if any, shall not continue representation in the proceeding, except that the practitioner may continue the representation and the practitioner or another practitioner in the practitioner's firm may testify in the circumstances enumerated in paragraphs (1) through (4) of § 10.62(b).

(b) If, after undertaking employment in a proceeding before the Office, a practitioner learns or it is obvious that the practitioner or another practitioner in the practitioner's firm may be asked to sign an affidavit to be filed in the Office or be called as a witness other than on behalf of the practitioner's client, the practitioner may continue the representation until it is apparent that the practitioner's affidavit or testimony is or may be prejudicial to the practitioner's client.

[Added 50 FR 5179, Feb. 6, 1985, effective Mar. 8, 1985]

§ 10.64 Avoiding acquisition of interest in litigation or proceeding before the Office.

(a) A practitioner shall not acquire a proprietary interest in the subject matter of a proceeding before the Office which the practitioner is conducting for a client, except that the practitioner may:

(1) Acquire a lien granted by law to secure the practitioner's fee or expenses; or

(2) Contract with a client for a reasonable contingent fee; or

(3) In a patent case, take an interest in the patent as part or all of his or her fee.

(b) While representing a client in connection with a contemplated or pending proceeding before the Office, a practitioner shall not advance or guarantee financial assistance to a client, except that a practitioner may advance or guarantee the expenses of going forward in a proceeding before the Office including fees required by law to be paid to the Office, expenses of investigation, expenses of medical examination, and costs of obtaining and presenting evidence, provided the client remains ultimately liable for such expenses. A practitioner may, however, advance any fee required to prevent or remedy an abandonment of a client's application by reason of an act or omission attributable to the practitioner and not to the client, whether or not the client is ultimately liable for such fee.

[Added 50 FR 5179, Feb. 6, 1985, effective Mar. 8, 1985]

§ 10.65 Limiting business relations with a client.

A practitioner shall not enter into a business transaction with a client if they have differing interests therein and if the client expects the practitioner to exercise professional judgment therein for the protection of the client, unless the client has consented after full disclosure.

[Added 50 FR 5179, Feb. 6, 1985, effective Mar. 8, 1985]

§ 10.66 Refusing to accept or continue employment if the interests of another client may impair the independent professional judgment of the practitioner.

(a) A practitioner shall decline proffered employment if the exercise of the practitioner's independent professional judgment in behalf of a client will be or is likely to be adversely affected by the acceptance of the proffered employment, or if it would be likely to involve the practitioner in representing differing interests, except to the extent permitted under paragraph (c) of this section.

(b) A practitioner shall not continue multiple employment if the exercise of the practitioner's independent professional judgment in behalf of a client will be or is likely to be adversely affected by the practitioner's representation of another client, or if it would be likely to involve the practitioner in representing differing interests, except to the extent permitted under paragraph (c) of this section.

(c) In the situations covered by paragraphs (a) and (b) of this section, a practitioner may represent multiple clients if it is obvious that the practitioner can adequately represent the interest of each and if each consents to the representation after full disclosure of the possible effect of such representation on the exercise of the practitioner's independent professional judgment on behalf of each.

(d) If a practitioner is required to decline employment or to withdraw from employment under a Disciplinary Rule, no partner, or associate, or any other practitioner affiliated with the practitioner or the practitioner's firm, may accept or continue such employment unless otherwise ordered by the Director or Commissioner.

[Added 50 FR 5179, Feb. 6, 1985, effective Mar. 8, 1985]

§ 10.67 Settling similar claims of clients.

A practitioner who represents two or more clients shall not make or participate in the making of an aggregate settlement of the claims of or against the practitioner's clients, unless each client has consented to the settlement after being advised of the existence and nature of all the claims involved in the proposed settlement, of the total amount of the settlement, and of the participation of each person in the settlement.

[Added 50 FR 5179, Feb. 6, 1985, effective Mar. 8, 1985]

§ 10.68 Avoiding influence by others than the client.

(a) Except with the consent of the practitioner's client after full disclosure, a practitioner shall not:

(1) Accept compensation from one other than the practitioner's client for the practitioner's legal services to or for the client.

(2) Accept from one other than the practitioner's client any thing of value related to the practitioner's representation of or the practitioner's employment by the client.

(b) A practitioner shall not permit a person who recommends, employs, or pays the practitioner to render legal services for another, to direct or regulate the practitioner's professional judgment in rendering such legal services.

(c) A practitioner shall not practice with or in the form of a professional corporation or association authorized to practice law for a profit, if a non–practitioner has the right to direct or control the professional judgment of a practitioner.

[Added 50 FR 5180, Feb. 6, 1985, effective Mar. 8, 1985]

§§ 10.69 – 10.75 [Reserved]

§ 10.76 Canon 6.

A practitioner should represent a client competently.

[Added 50 FR 5180, Feb. 6, 1985, effective Mar. 8, 1985]

§ 10.77 Failing to act competently.

A practitioner shall not:

(a) Handle a legal matter which the practitioner knows or should know that the practitioner is not competent to handle, without associating with the practitioner another practitioner who is competent to handle it.

(b) Handle a legal matter without preparation adequate in the circumstances.

(c) Neglect a legal matter entrusted to the practitioner.

[Added 50 FR 5180, Feb. 6, 1985, effective Mar. 8, 1985]

§ 10.78 Limiting liability to client.

A practitioner shall not attempt to exonerate himself or herself from, or limit his or her liability to, a client for his or her personal malpractice.

[Added 50 FR 5180, Feb. 6, 1985, effective Mar. 8, 1985]

§§ 10.79 – 10.82 [Reserved]

§ 10.83 Canon 7.

A practitioner should represent a client zealously within the bounds of the law.

[Added 50 FR 5180, Feb. 6, 1985, effective Mar. 8, 1985]

§ 10.84 Representing a client zealously.

(a) A practitioner shall not intentionally:

(1) Fail to seek the lawful objectives of a client through reasonable available means permitted by law and the Disciplinary Rules, except as provided by paragraph (b) of this section. A practitioner does not violate the provisions of this section, however, by acceding to reasonable requests of opposing counsel which do not prejudice the rights of the client, by being punctual in fulfilling all professional commitments, by avoiding offensive tactics, or by treating with courtesy and consideration all persons involved in the legal process.

(2) Fail to carry out a contract of employment entered into with a client for professional services, but a practitioner may withdraw as permitted under §§ 10.40, 10.63, and 10.66.

(3) Prejudice or damage a client during the course of a professional relationship, except as required under this part.

(b) In representation of a client, a practitioner may:

(1) Where permissible, exercise professional judgment to waive or fail to assert a right or position of the client.

(2) Refuse to aid or participate in conduct that the practitioner believes to be unlawful, even though there is some support for an argument that the conduct is legal.

[Added 50 FR 5180, Feb. 6, 1985, effective Mar. 8, 1985]

§ 10.85 Representing a client within the bounds of the law.

(a) In representation of a client, a practitioner shall not:

(1) Initiate or defend any proceeding before the Office, assert a position, conduct a defense, delay a trial or proceeding before the Office, or take other action on behalf of the practitioner's client when the practitioner knows or when it is obvious that such action would serve merely to harass or maliciously injure another.

(2) Knowingly advance a claim or defense that is unwarranted under existing law, except that a practitioner may advance such claim or defense if it can be supported by good faith argument for an extension, modification, or reversal of existing law.

(3) Conceal or knowingly fail to disclose that which the practitioner is required by law to reveal.

(4) Knowingly use perjured testimony or false evidence.

(5) Knowingly make a false statement of law or fact.

(6) Participate in the creation or preservation of evidence when the practitioner knows or it is obvious that the evidence is false.

(7) Counsel or assist a client in conduct that the practitioner knows to be illegal or fraudulent.

(8) Knowingly engage in other illegal conduct or conduct contrary to a Disciplinary Rule.

(b) A practitioner who receives information clearly establishing that:

(1) A client has, in the course of the representation, perpetrated a fraud upon a person or tribunal shall promptly call upon the client to rectify the same, and if the client refuses or is unable to do so the practitioner shall reveal the fraud to the affected person or tribunal.

(2) A person other than a client has perpetrated a fraud upon a tribunal shall promptly reveal the fraud to the tribunal.

[Added 50 FR 5180, Feb. 6, 1985, effective Mar. 8, 1985]

§ 10.86 [Reserved]

§ 10.87 Communicating with one of adverse interest.

During the course of representation of a client, a practitioner shall not:

(a) Communicate or cause another to communicate on the subject of the representation with a party the practitioner knows to be represented by another practitioner in that matter unless the practitioner has the prior consent of the other practitioner representing such other party or is authorized by law to do so. It is not improper, however, for a practitioner to encourage a client to meet with an opposing party for settlement discussions.

(b) Give advice to a person who is not represented by a practitioner other than the advice to secure counsel, if the interests of such person are to have a reasonable possibility of being in conflict with the interests of the practitioner's client.

[Added 50 FR 5180, Feb. 6, 1985, effective Mar. 8, 1985]

§ 10.88 Threatening criminal prosecution.

A practitioner shall not present, participate in presenting, or threaten to present criminal charges solely to obtain an advantage in any prospective or pending proceeding before the Office.

[Added 50 FR 5180, Feb. 6, 1985, effective Mar. 8, 1985]

§ 10.89 Conduct in proceedings.

(a) A practitioner shall not disregard or advise a client to disregard any provision of this Subchapter or a decision of the Office made in the course of a proceeding before the Office, but the practitioner may take appropriate steps in good faith to test the validity of such provision or decision.

(b) In presenting a matter to the Office, a practitioner shall disclose:

(1) Controlling legal authority known to the practitioner to be directly adverse to the position of the client and which is not disclosed by opposing counsel or an employee of the Office.

(2) Unless privileged or irrelevant, the identities of the client the practitioner represents and of the persons who employed the practitioner.

(c) In appearing in a professional capacity before a tribunal, a practitioner shall not:

(1) State or allude to any matter that the practitioner has no reasonable basis to believe is relevant to the case or that will not be supported by admissible evidence.

(2) Ask any question that the practitioner has no reasonable basis to believe is relevant to the case and that is intended to degrade a witness or other person.

(3) Assert the practitioner's personal knowledge of the facts in issue, except when testifying as a witness.

(4) Assert the practitioner's personal opinion as to the justness of a cause, as to the credibility of a witness, as to the culpability of a civil litigant, or as to the guilt or innocence of an accused; but the practitioner may argue, on the practitioner's analysis of the evidence, for any position or conclusion with respect to the matters stated herein.

(5) Engage in undignified or discourteous conduct before the Office (see § 1.3 of the subchapter).

(6) Intentionally or habitually violate any provision of this subchapter or established rule of evidence.

[Added 50 FR 5180, Feb. 6, 1985, effective Mar. 8, 1985]

§§ 10.90 – 10.91 [Reserved]

§ 10.92 Contact with witnesses.

(a) A practitioner shall not suppress any evidence that the practitioner or the practitioner's client has a legal obligation to reveal or produce.

(b) A practitioner shall not advise or cause a person to be secreted or to leave the jurisdiction of a tribunal for the purpose of making the person unavailable as a witness therein.

(c) A practitioner shall not pay, offer to pay, or acquiesce in payment of compensation to a witness contingent upon the content of the witness' affidavit, testimony or the outcome of the case. But a practitioner may advance, guarantee, or acquiesce in the payment of:

(1) Expenses reasonably incurred by a witness in attending, testifying, or making an affidavit.

(2) Reasonable compensation to a witness for the witness' loss of time in attending, testifying, or making an affidavit.

(3) A reasonable fee for the professional services of an expert witness.

[Added 50 FR 5181, Feb. 6, 1985, effective Mar. 8, 1985]

§ 10.93 Contact with officials.

(a) A practitioner shall not give or lend anything of value to a judge, official, or employee of a tribunal under circumstances which might give the appearance that the gift or loan is made to influence official action.

(b) In an adversary proceeding, including any *inter partes* proceeding before the Office, a practitioner shall not communicate, or cause another to communicate, as to the merits of the cause with a judge, official, or Office employee before whom the proceeding is pending, except:

(1) In the course of official proceedings in the cause.

(2) In writing if the practitioner promptly delivers a copy of the writing to opposing counsel or to the adverse party if the adverse party is not represented by a practitioner.

(3) Orally upon adequate notice to opposing counsel or to the adverse party if the adverse party is not represented by a practitioner.

(4) As otherwise authorized by law.

[Added 50 FR 5181, Feb. 6, 1985, effective Mar. 8, 1985]

§§ 10.94 – 10.99 [Reserved]

§ 10.100 Canon 8.

A practitioner should assist in improving the legal system.

[Added 50 FR 5181, Feb. 6, 1985, effective Mar. 8, 1985]

§ 10.101 Action as a public official.

(a) A practitioner who holds public office shall not:

(1) Use the practitioner's public position to obtain, or attempt to obtain, a special advantage in legislative

matters for the practitioner or for a client under circumstances where the practitioner knows or it is obvious that such action is not in the public interest.

(2) Use the practitioner's public position to influence, or attempt to influence, a tribunal to act in favor of the practitioner or of a client.

(3) Accept any thing of value from any person when the practitioner knows or it is obvious that the offer is for the purpose of influencing the practitioner's action as a public official.

(b) A practitioner who is an officer or employee of the United States shall not practice before the Office in patent cases except as provided in §§ 10.10(c) and 10.10(d).

[Added 50 FR 5181, Feb. 6, 1985, effective Mar. 8, 1985; para. (b) amended, 54 FR 6520, Feb. 13, 1989]

§ 10.102 Statements concerning officials.

(a) A practitioner shall not knowingly make false statements of fact concerning the qualifications of a candidate for election or appointment to a judicial office or to a position in the Office.

(b) A practitioner shall not knowingly make false accusations against a judge, other adjudicatory officer, or employee of the Office.

[Added 50 FR 5181, Feb. 6, 1985, effective Mar. 8, 1985]

§ 10.103 Practitioner candidate for judicial office.

A practitioner who is a candidate for judicial office shall comply with applicable provisions of law.

[Added 50 FR 5181, Feb. 6, 1985, effective Mar. 8, 1985]

§§ 10.104 – 10.109 [Reserved]

§ 10.110 Canon 9.

A practitioner should avoid even the appearance of professional impropriety.

[Added 50 FR 5181, Feb. 6, 1985, effective Mar. 8, 1985]

§ 10.111 Avoiding even the appearance of impropriety.

(a) A practitioner shall not accept private employment in a matter upon the merits of which he or she has acted in a judicial capacity.

(b) A practitioner shall not accept private employment in a matter in which he or she had personal responsibility while a public employee.

(c) A practitioner shall not state or imply that the practitioner is able to influence improperly or upon irrelevant grounds any tribunal, legislative body, or public official.

[Added 50 FR 5181, Feb. 6, 1985, effective Mar. 8, 1985]

§ 10.112 Preserving identity of funds and property of client.

(a) All funds of clients paid to a practitioner or a practitioner's firm, other than advances for costs and expenses, shall be deposited in one or more identifiable bank accounts maintained in the United States or, in the case of a practitioner having an office in a foreign country or registered under § 10.6(c), in the United States or the foreign country.

(b) No funds belonging to the practitioner or the practitioner's firm shall be deposited in the bank accounts required by paragraph (a) of this section except as follows:

(1) Funds reasonably sufficient to pay bank charges may be deposited therein.

(2) Funds belonging in part to a client and in part presently or potentially to the practitioner or the practitioner's firm must be deposited therein, but the portion belonging to the practitioner or the practitioner's firm may be withdrawn when due unless the right of the practitioner or the practitioner's firm to receive it is disputed by the client, in which event the disputed portion shall not be withdrawn until the dispute is finally resolved.

(c) A practitioner shall:

(1) Promptly notify a client of the receipt of the client's funds, securities, or other properties.

(2) Identify and label securities and properties of a client promptly upon receipt and place them in a safe deposit box or other place of safekeeping as soon as practicable.

(3) Maintain complete records of all funds, securities, and other properties of a client coming into the possession of the practitioner and render appropriate accounts to the client regarding the funds, securities, or other properties.

(4) Promptly pay or deliver to the client as requested by a client the funds, securities, or other properties in the possession of the practitioner which the client is entitled to receive.

[Added 50 FR 5181, Feb. 6, 1985, effective Mar. 8, 1985]

§§ 10.113 – 10.129 [Reserved]

INVESTIGATIONS AND DISCIPLINARY PROCEEDINGS

§ 10.130 Reprimand, suspension or exclusion.

(a) The Commissioner may, after notice and opportunity for a hearing, (1) reprimand or (2) suspend or exclude, either generally or in any particular case, any individual, attorney, or agent shown to be incompetent or disreputable, who is guilty of gross misconduct, or who violates a Disciplinary Rule.

(b) Petitions to disqualify a practitioner in *ex parte* or *inter partes* cases in the Office are not governed by §§ 10.130 through 10.170 and will be handled on a case-by-case basis under such conditions as the Commissioner deems appropriate.

[Added 50 FR 5181, Feb. 6, 1985, effective Mar. 8, 1985]

§ 10.131 Investigations.

(a) The Director is authorized to investigate possible violations of Disciplinary Rules by practitioners. See § 10.2(b)(2).

(b) Practitioners shall report and reveal to the Director any knowledge or evidence required by § 10.24. A practitioner shall cooperate with the Director in connection with any investigation under paragraph (a) of this section and with officials of the Office in connection with any disciplinary proceeding instituted under § 10.132(b).

(c) Any nonpractitioner possessing knowledge or information concerning a violation of a Disciplinary Rule by a practitioner may report the violation to the Director. The Director may require that the report be presented in the form of an affidavit.

[Added 50 FR 5181, Feb. 6, 1985, effective Mar. 8, 1985]

§ 10.132 Initiating a disciplinary proceeding; reference to an administrative law judge.

(a) If after conducting an investigation under § 10.131(a) the Director is of the opinion that a practitioner has violated a Disciplinary Rule, the Director shall, after complying where necessary with the provisions of 5 U.S.C. 558(c), call a meeting of the Committee on Discipline. The Committee on Discipline shall then determine as specified in § 10.4(b) whether a disciplinary proceeding shall be instituted under paragraph (b) of this section.

(b) If the Committee on Discipline determines that probable cause exists to believe that a practitioner has violated a Disciplinary Rule, the Director shall institute a disciplinary proceeding by filing a complaint under § 10.134. The complaint shall be filed in the Office of the Director. A disciplinary proceeding may result in:

(1) A reprimand, or

(2) Suspension or exclusion of a practitioner from practice before the Office.

(c) Upon the filing of a complaint under § 10.134, the Commissioner will refer the disciplinary proceeding to an administrative law judge.

[Added 50 FR 5181, Feb. 6, 1985, effective Mar. 8, 1985]

§ 10.133 Conference between Director and practitioner; resignation.

(a) *General.* The Director may confer with a practitioner concerning possible violations by the practitioner of a Disciplinary Rule whether or not a disciplinary proceeding has been instituted.

(b) *Resignation.* Any practitioner who is the subject of an investigation under § 10.131 or against whom a complaint has been filed under § 10.134 may resign from practice before the Office only by submitting with the Director an affidavit stating his or her desire to resign.

(c) If filed prior to the date set by the administrative law judge for a hearing, the affidavit shall state that:

(1) The resignation is freely and voluntarily proffered;

(2) The practitioner is not acting under duress or coercion from the Office;

(3) The practitioner is fully aware of the implications of filing the resignation;

(4) The practitioner is aware (i) of a pending investigation or (ii) of charges arising from the complaint alleging that he or she is guilty of a violation of the Patent and Trademark Office Code of Professional Responsibility, the nature of which shall be set forth by the practitioner to the satisfaction of the Director;

(5) The practitioner acknowledges that, if and when he or she applies for reinstatement under § 10.160, the Director will conclusively presume, for the limited purpose of determining the application for reinstatement, that:

(i) The facts upon which the complaint is based are true and

(ii) The practitioner could not have successfully defended himself or herself against (A) charges predicated on the violation under investigation or (B) charges set out in the complaint filed against the practitioner.

JAPANESE DISCIPLINARY RULES & ETHICAL CONSIDERATIONS

Chapter 2: Discipline

Art.19: An attorney must value his/her personal integrity,, do business honestly following all codes of conduct and laws pertaining to attorneys.

Art.20: An attorney can not own more than one patent attorney office no matter under whose name the office is listed. An attorney can not own a patent attorney office in any other country. An attorney who works for a patent attorney office can not own a separate patent attorney office.

Art.21: When he/she is to work for another patent attorney office for the purpose of attending to business for his home office, he must report this matter to the Patent Attorney Association. The person who works for a patent office must not have a part in patent business outside the parameters of the assignment received by his employer, unless that person has the permission of his/her employer to do so. The person who works for a patent office must not participate in a business that does not belong to his employer, unless said business has some relation to the patent business of his employer . The member must report the matter when there is anyone who does patent business under before mentioned conditional clauses. When the matter reported following the conditional clauses is not appropriate or has become inappropriate, the associate can order the member to change or to discontinue the matter.

Art.21,2:

A member can not share with a specific foreign law attorney remuneration from income received for business he/she conducted with said foreign law attorney for business secured under contract with the Patent Attorney Association, or from income received from doing business in the manner described under the rules of the Association.

Art.22:When a member engages in another occupation and owns an office for it , and he also owns a patent business office at another place, he/she has to hire a full time patent attorney there for the office and report this to the Patent Attorney Association without any delay. It is the same with the office of the owner who engages mainly in a different occupation or has not been working because of long term difficulties.

Art.23:For the name of a patent office, the patent attorney must use his/her own name and the word "office" unless he/she has permission from the Patent Attorney Association to use a different name for his/her office. The patent attorney can not use a name which maybe be mistaken for governmental offices, countries, prefectures, cities, towns, villages, or the name of an historic era. An attorney who works for a patent office must use the name of the office. Those who do not work for a patent office can not use the name of a patent office. A member of the Patent Attorney Association has to put his/her name on the patent office.

Art.24:A member can not hold an official position which concurrently pays

him/her additional salary. This rule will not apply if the member is elected or chosen to a position such as chairperson of the congress or the senate, as Prime Minister, State Minister, Chief Cabinet Secretary, Vice Chief Cabinet Secretary, a parliamentary undersecretary, a private secretary for the Prime Minister, a private secretary for the State Minister, or a congressperson, a member of a local public body , a chairperson of a local public body or he/she holds the position of a public official which does not require a full-time commitment, or is charged with a special assignment by public officials.

Art.25:When a member,who himself runs a business pursuing profit, is employed by a person who manages a business, joins the staff or becomes a director of a body corporate, the member has to report the matter to the patent attorney association beforehand.

Art.26:A member as an agent of an applicant or a rightful person must not violate Art. 8 of the law of patent attorneys.

Art.27: A member must not do the following.

1. Organize a group using a name similar to "The Patent Attorney Association"
2. Use his career or things which might mislead people as an advertisement by putting these on his business card or business sign.
3. Advertise the price of patent business, or to solicit cases.
4. Violate Art.22,paragraph 2 or, Art.23, paragraph 3 of the patent attorney law, or to offer any convenience to the person who violates them.
5. Take over the rights of a patent , the rights of a new design of practical utility, the copyrights of registered designs, etc.
6. Distribute an official report without reason .

Art.28:A member must inform a client without any delay when he declines a request.

Art.29:A member will be punished according to the following procedures when he /she violates the rules of the Patent Attorney Association.

1.Warning issued.
2. Notification of disciplinary punishment.
3. Withdrawal from membership

When a director believes that there is a case of violation of rules, he/she must inform the investigation committee. A director must report the person who has been withdrawn from the association by the aforementioned rules for more than a year,if that person becomes a member again.

Art29,2:

When it is decided by the investigation committee,or by the board of directors to withdraw a member from the Association, a director has to

follow the necessary procedures to get authorization from the Minister of International Trade and Industry.

Art.30:When it is believed that there is a case of violation of the rules, it should be referred to a director.

Chapter3: Rights and Duties

Art.31:A member has the right to attend a general meeting and to vote in accordance with the rules of the Association. This does not, however, apply to an attorney who is under suspension.

Art.32:A member has the right to vote and is eligible for election. This, however, does not apply to a person under suspension.

Art.33:A member can use the equipment of the Association in accordance with the rules.

Art.34: A member can give an opinion regarding the purpose of the Association.

Art.35: A member can ask the Association to show him/her account books and other records, unless they are the records of the inspection committee or they are confidential records.

Art.36:A member has to pay membership of 20,000yen, by the end of every month. This amount is due for as long as he/she belongs to the Association . A person ,who has been a patent attorney for 50 years, or who has been a patent attorney for 25 years and reaches the age of 80, does not have to pay membership from the month following the appropriate birthdate. Members who had been called into the army and have not come back yet are exempt from membership fee payment.

Art.36,2:Elimination
(note): Art.36 ,paragraph 2,the special membership in the second clause of the preceding article is appropriated to build a patent attorney hall. The money is under the control of the director committee.

Art.37:When a member neglects payment of membership dues for more than six months, a director must give him/her warning that he/she has to withdraw from the Association if he/she does not complete payment within 30 days. The board of directors makes a decision of withdrawal from the Association if a member does not complete payment during the specified period. Although after the board of directors has made its decision , if the member completes payment before the necessary withdrawal procedure is finished, the board can repeal its decision.

Art.38:If there is any change in the matters printed in Article 10, clauses 1 and 2,

and in Article 18 clauses 1 and 8, it has to be reported within 7 days.

Art.38,2:

If a member believes another member comes under Art.7, paragraph 2, he/she should promptly report this to the board of the directors.

Art.39:A member can not refuse a task assigned by the Association or a government office without good reason according to the laws or regulations.

Art.40:If a member loses his/her license, the member can not make any claim on the matter of his/her property to the Association.

Chapter 3: Directors and Committee persons

Art.41: The officials of the Association are

1. Directors-- 9
2. Full-time members -- 80

People can not hold the following positions at the same time: director, full-time member, judicial committee or an alternate of it.

A member of the patent attorney judicial committee can not be an official.

Art.42: Directors organize the board of directories. The board of directors decides upon the execution of its own responsibilities.

Art.42,2:

One President and eight vice Presidents. The President represents the Association. When the President can not perform his/her duties condition, the vice Presidents who was registered first will perform the duties of President.

Ethics of Patent Attorneys

A Patent Attorney fosters and protects originality and creativity in the industrial field, and contributes to sound use and development of the ownership system of industry. Through this, a patent attorney will contribute to the progress and development of society.

Chapter 1: General Regulations

Art. 1: A patent attorney should value honor, cultivate sound reason, be assiduous in raising integrity and maintaining trust.

Art. 2: A patent attorney considers the internationality of industrial ownership, undertakes business with a broad vision, and makes an effort to contribute to society in conformity with international trust.

Art. 3:A patent attorney should keep abreast of current law and science, study technical advancement, be familiar with business case law and perform his duties sincerely and fairly.

Art. 4:A patent attorney should maintain his/her integrity, carry out business based upon his/her belief. When dealing with a case, a patent attorney renders judgements or an opinion, a patent attorney should be independent, and perform matters with legal and technical confidence.

Art. 5: A patent attorney must conform to the rules related to patent attorneys, and to the rules and decisions of the Patent Attorney Association. A patent attorney must sincerely deal with cases assigned by the Patent Attorney Association.

Art. 6: A patent attorney must not do any business which might harm his/her integrity of the patent attorney.

Art. 7:A patent attorney must not be a representative of, nor be assigned to a case by, nor get a case, through those who have the possibility of violating patent laws, or who might be violating them.

Art. 8: A patent attorney must not let others use his name.

Art. 9: A patent attorney must not unfairly bring about a case.

Art10:A patent attorney must not either advertise his business or solicit a case in a way that will cause a loss of his/her integrity as an attorney or in a way that may put his/her credibility in doubt.

Chapter 2: The Regulations with the Patent Agency and the Court

Art11 A patent attorney has to cooperate with the Patent Agency and the court regarding the process of filing an application, judging a case, and proceeding with a lawsuit. He/She must not take any action to extend a lawsuit.

Art12: A patent attorney has to cooperate in regard to a matter assigned by government or municipal offices.

Art13: A patent attorney must not accept a case with which he/she has dealt as a government employer.

Art14: A patent attorney must not either privately interview or negotiate with the person dealing with official business in order to gain an advantage in a case in which he/she is involved.

Chapter 3:Discipline among Patent Attorneys

Art15 Patent attorneys must help each other, respect each other, must not take any action to harm or trouble other attorneys.

Art16:A patent attorney must not try to get involved in a case which other attorneys have already received.

Art.17:A patent attorney must not directly negotiate with an adversarial party who has retained an attorney, unless the patent attorney has a valid reason why this rule should not apply.

Chapter 4:Disciplines between an Attorney and a Client

Art.18:A patent attorney must always proceed with a case so as not to impede its progress, and make the best effort to fulfil the trust of his/her client. Regarding the case the patent attorney accepts, it is his/ her responsibility to manage and to administer the case until it is closed. When an attorney can not perform his/her duty through unavoidable circumstances, he/she must select the best counterbalance, such as substitution of a full- time attorney for the case so that the case can proceed without delay or problems.

Art.19:All business and technical information an attorney has learned about his/ her client from the case must be kept confidential. An attorney must not take any action which may raise a doubt.

Art.20:A patent attorney must not take any case which might cause a conflict of interest with the case he is working on at the moment unless the person concerned consents to it.

Art.21:A patent attorney must not take a case with which he has dealt as a representative of the other party. If an attorney has taken a case as representative of an applicant or person with patent rights, the attorney must not take this case as a representative of the party which takes offensive action against the applicant or person with patent rights. Also,a patent attorney must not take any action similar to the afore described.

Art.22:A patent attorney must not accept money, entertainment, or other benefit from any concerned parties.

Art.23:A patent attorney must report matters about a case, clear the account, and return items in his/her custody without delay.

Art24:As a rule, a patent attorney must have a contract to include fees before the case is begun. It is preferable for a patent attorney to take a case as a service when the applicant has no means.

Art.25:When a disagreement comes about between a patent attorney and his/her client the attorney must make an effort to come to an agreement with his/her client by using the mediation committee of the patent attorney association..

No. 6890 弁理士法

□ PATENT ATTORNEY LAW

(Law No. 100, Apr. 30, 1921)

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Amendments:

(1) Law No. 5, Mar. 8, 1938
(2) Law No. 103, Jul. 6, 1948
(3) Law No. 173, Jul. 15, 1948
(4) Law No. 103, May 24, 1949
(5) Law No. 13, Mar. 6, 1951
(6) Law No. 129, Apr. 13, 1959
(7) Law No. 73, Apr. 30, 1960
(8) Law No. 137, Jun. 15, 1961
(9) Law No. 161, Sep. 15, 1962
(10) Law No. 98, Jun. 30, 1966
(11) Law No. 30, Apr. 26, 1978
(12) Law No. 26, Apr. 14, 1980
(13) Law No. 78, Dec. 2, 1983
(14) Law No. 66, May 23, 1986
(15) Law No. 30, Jun. 13, 1990

PATENT ATTORNEY LAW

(Law No. 100, April 30, 1921)

(Business) (1)(4)(7)(9)(10)

Article 1. A patent attorney may, with respect to patents, utility models, designs, trade markes, or international applications act as an agent in matters to be done before the Patent Office, and in matters to be done before the Minister of International Trade and Industry concerning motion for objection or decisions in relation to patents, utility models, designs, or trade marks, or international applications, and render expert opinion on these matters as well as conduct any other business services relating thereto as his business.

(Qualification) (1)(3)(4)

Article 2. Any person satisfying the following requirements shall be qualified to be a patent attorney:

(1) An adult who is a Japanese national, or who possesses such foreign nationality as prescribed by the Minister of International Trade and Industry;

(2) Having a domicile in Japan;

(3) Passed the patent attorney examination.

2. The matters concerning patent attorney examination shall be prescribed for by Cabinet Order.

(Ditto) (1)(4)(7)

Article 3. Any person coming under any one of the following items shall have the qualification to be a patent attorney without satisfying such requirements as prescribed in item (3) of paragraph 1 of the preceding Article:

(1) Any person who has the qualification to be a lawyer in accordance with the Lawyers Law (Law No. 205 of 1949);

(2) Any person who has been engaged in the service of trial hearing or examination for seven years or more as a hearing examiner or examination officer.

Article 4. Deleted. (1)
(Disqualification) (1)(2)(6)(7)(8)(12)(14)

Article 5. Any person as mentioned hereunder shall not have the qualification to be a patent attorney:

(1) Any person who has been sentenced to penalty of confinement or heavier penalty;

(2) Any person who has, except as falling under the preceding item, been sentenced to penalty for such offense as prescribed in Article 22 or Article 22-4 of this Law, Article 196 paragraph 1 or 2, Articles 197, 198 or 200 of the Patent Law (Law No. 121 of 1959), Article 55 paragraph 1 or 2, Articles 57, 58 or 60 of the Utility Model Law (Law No. 123 of 1959), Article 69 paragraph 1, Articles 71 or 73 of the Design Law (Law No. 125 of 1959), or Articles 78 to 80 inclusive of the Trade Mark Law (Law No. 127 of 1959) and who has not yet passed three years as from the date of completion of the execution of such penalty or the date on which such execution has been remitted;

(3) Any person who has been dismissed from public service by disciplinary punishment, or who has been enjoined from engaging in business under this Law, or who has been subjected to the disposition of effacement of

his registration of a certified public accountant in accordance with the provisions of Article 30 or Article 31 of the Certified Public Accountant Law (Law No. 103 of 1948), or who has been expelled under the Lawyers Law or Special Measures Law (Law No. 66 of 1986) concerning the treatment as law office by foreign lawyer, or who has been enjoined from engaging in business in accordance with the provisions of Article 45 paragraph 1 or Article 46 of the Tax Agent Law (Law No. 237 of 1951), and who has not yet passed two years as from the date of such dismissal, enjoinment from engaging in business, effacement of registration, or expulsion.

(4) Any person who has discontinued his business during the period of suspension thereof under this Law and who has not yet passed such period;

(5) Any incompetent or quasi-incompetent person;

(6) Any bankrupt who has not yet been reinstated.

(Registration) (4)(7)

Article 6. The Patent Attorneys' Association shall provide the patent attorney register in which such matters relating to patent attorneys shall be registered.

2. Any person desiring to act as a patent attorney shall register his name in the patent attorney register.

3. A person who intends to be registered as a patent attorney shall submit an application to the Patent Attorneys' Association.

(Making or denying of registration) (7)

Article 7. The Patent Attorneys' Association shall, in case of receiving the application under paragraph 3 of

the preceding Article, make the registration if the applicant is qualified to a patent attorney, and deny the registration if he is not qualified to a patent attorney.

2. The Patent Attorneys' Accociation shall notice the applicant in writing of the making or denying the registration under the provision of the preceding paragraph.

3. The notice of denying the registration under the provision of the preceding paragraph shall contain the reason therefor.

(Cancellation of registration) (7)(10)(13)

Article 7-2. The Patent Attorneys' Association shall, in case where a patent attorney comes under any of the following items, cancel the registration of his patent attorney:

(1) Where an application for cancelling the registration has been made;

(2) Where he has died;

(3) Where he is not qualified or has become unqualified to a patent attorney;

(4) Where he has been made retire from the Patent Attorneys' Association.

2. The Patent Attorneys's Accociation can not cancel the registration under the provision of item (1) of the preceding paragraph until and unless the disposition is made by the Minister of International Trade and Industry, in case where the report has been made in accordance with the provision of Article 19 or where the Patent Attorney Investigation Committee in accordance with the provision of Article 17 of Cabinet Order has been convened.

(Notice of cancellation of registration) (7)

Article 7-3. The Patent Attorneys's Association shall, when it has cancelled the registration of patent attorney in accordance with the provision of item (1), (3) or (4) of the preceding Article paragraph 1, notice the person having been cancelled the registration in writing thereof.

2. The notice of having cancelled the registration of patent attorney in accordance with the provision of item (3) of the preceding Article paragraph 1 shall contain the reason therefor.

(Objection to cancellation) (7)(9)

Article 7-4. The person who has received the notice under Article 7 paragraph 3 or the preceding Article paragraph 2 may make an investigation demand under the Administrative Complaint Investigation Law (Law No. 160 of 1962) in writing to the Minister of International Trade and Industry.

2. The Minister of International Trade and Industry shall, if he recognizes the investigation demand under the preceding paragraph to be reasonable, order the Patent Attorneys' Association to make a proper disposition.

(Entrusted matters to Cabinet Order) (7)

Article 7-5. The matters in relation to the registration of patent attorney other than those as provided for in Article 6 to the preceding Article inclusive shall be prescribed by Cabinet Order.

(Cases not to be handled) (4)

Article 8. Any patent attorney may not conduct the business with regard to cases falling under any one of the

following items:

(1) Cases which he handled as agent of the other party,

(2) Cases which he handled during his service in the court or in the Patent Office.

(Appearing before ~~courts~~ court) (1)(3)(10)

Article 9. With regard to matters concerning a patent, utility model, design, trade mark, or an international application under provisions of the Law Concerning International Application, Etc. Based on the Patent Cooperation Treaty (Law No. 30 of 1978) (hereinafter simply referred to as the "international application), a patent attorney may appear before the court with his party or advocate and may make statement. Such statement shall, in case his party or advocate does not revoke or correct it immediately, be regarded as having been made by his party or advocate himself.

2. In case a patent attorney not being a Japanese national intends to appear and make statement in accordance with the provisions of the preceding paragraph, he must obtain the permission of the court.

(Qualification as advocate) (3)(6)

Article 9-2. A patent attorney may, in regard to the litigation under the provisions of Article 178 paragraph 1 of the Patent Law, Article 47 paragraph 1 of the Utility Model Law, Article 59 paragraph 1 of the Design Law or Article 63 paregraph 1 of the Trade Mark Law, act as an advocate.

2. The provision of paragraph 2 of the preceding Article shall apply mutatis mutandis to the advocate as mentioned in the preceding paragraph.

(Patent Attorney Association) (4)

Article 10. Patent attorneys shall incorporate the Patent Attorneys' Association at the location of the Patent Office.

2. The Patent Attorneys' Association may establish branch offices.

(Ditto - object)

Article 11. The object of the Patent Attorneys's Association is to perform the business for guidance and liaison of patent attorneys for the purpose of maintaining the dignity of patent attorney and improving and progressing the business of patent attorney, so as to meet the mission and responsibility of patent attorney.

(Ditto - legal personality)

Article 12. The Patent Attorneys' Association shall be a juridical person.

(Ditto - membership) (1)(3)

Article 12-2. Patent attorneys shall be members of the Patent Attorneys' Association in accordance with the provisions of Cabinet Order.

(Ditto - supervision) (1)(4)

Article 13. The Patent Attorneys' Association shall be supervised by the Minister of International Trade and Industry.

(Ditto - Articles of Association) (1)(4)(7)

Article 14. The Patent Attorneys' Association shall have its Articles of the Association in which matters relating to executive officers meetings, registration of patent attorneys, guidance and liaison of patent attorneys, remunerations and fees, and other matters

necessary for disposition of affairs of the Association shall be prescribed.

2. The Articles of the Association shall be validated by the Minister of International Trade and Industry through the Director-General of the Patent Office. The same shall apply in the case of the modification of the Articles of the Association.

(Ditto - organization, competence, etc.) (1)(3)

Article 15. The matters concerning organization of the Patent Attorney Association, powers and supervision thereof shall be prescribed by Cabinet Order.

(Ditto - withdrawal) (1)(4)

Article 16. The Patent Attorneys' Association may, by obtaining validation from the Minister of International Trade and Industry, expel any patent attorney who threatens to disturb the order of the Association or injure the credit and confidance thereof.

(Disciplinary punishment, Patent Attorney Disciplinary Punishment Committee) (1)(4)(10)(13)

Article 17. In case any patent attorney has acted in contravention of this Law or the Articles of the Patent Attorneys Association, the Minister of International Trade and Industry may put him under disciplinary punishment according to the resolution of the Patent Attorney Investigation Committee in accordance with the provisions of Article 17 of Cabinet Order.

(Kinds of disciplinary punishment) (3)(5)

Article 18. Disciplinary punishment against any patent attorney shall be the following four kinds:

(1) Reprimand;

(2) Non-penal fine of not more than five thousand yen;

(3) Suspension of business for not more than one year;

(4) Prohibition of conducting business.

(Reports as for disciplinary punishment) (1)(4)

Article 19. The Patent Attorneys' Association shall, in case it has found that disciplinary punishment is necessary to any patent attorney, report to the Minister of International Trade and Industry thereof through the Director-General of the Patent Office.

(Convening of Patent Attorney Investigation Committee) (1)(4)(10)(13)

Article 20. The Minister of International Trade and Industry shall convene a meeting of the Patent Attorney Investigation Committee in accordance with the provisions of Article 17 of Cabinet Order, upon a report of the Patent Attorneys' Association as prescribed in the preceding Article or upon its own competence.

(Non-penal fine due) (1)(4)

Article 21. Non-penal fine shall, in case it is not paid in full, be collected by the order of the Director-General of the Patent Office.

2. The provisions of Article 208 of the Law of Procedure in Non-Contentious Matters shall apply mutatis mutandis to the execution under the provisions of the preceding paragraph.

(Violation of secrecy) (3)(6)

Article 22. Any patent attorney or any person who was a patent attorney shall, in case he has, without due reasons, divulged, or made surreptitious use of the secrets of any person which may have come to his knowledge

in the course of performance of his business, be punished with penal servitude for not exceeding six months or a fine not exceeding three thousand yen.

2. Such offenses as mentioned in the preceding paragraph shall be prosecuted upon complaint.

(Exclusive nature of business for patent attorneys) (1)(4)(7)(9)(10)(15)

Article 22-2. No person other than a patent attorney shall engage in the business of acting as an agent, for the purpose of obtaining profits, in matters to be done before the Patent Office concerning patents, utility models, designs, trade marks, or international applications, or in matters to be done before the Minister of International Trade and Industry concerning making objection or decisions relating to patents, utility models, designs, or trade marks, or shall conduct any other matters relating to drawing up of ~~judgments~~ opinions, documents or electric records as his business (meaning electric methods, magnetic methods or records made by methods which one can not understand by preception; hereinafter the same in next paragraph).

2. Such documents or electric records as mentioned in the preceding paragraph shall be prescribed by Order.

(Title of patent attorney) (1)

Article 22-3. No person other than a patent attorney shall use the title of patent attorney, patent business office, or any similar appellation therato for the purpose of obtaining profits.

(Penal provisions) (1)(3)

Article 22-4. Any person who has violated the

provisions of Article 22-2 shall be punished with confinement not exceeding one year, or with a fine not exceeding ten thousand yen.

2. Any person who has violated the provisions of the preceding Article shall be punished with a fine not exceeding ten thousand yen.

SUPPLEMENTARY PROVISIONS:

Article 23. The day of the coming into force of this Law shall be fixed by Imperial Ordinance.

(Enforced as from January 11, 1922 by Imperial Ordinance No. 459 of 1921.)

Article 24. The Patent Attorneys Ordinance and the Regulations concerning Patent Attorneys' Association shall be abolished.

Article 25. With respect to the application of this Law any person who has been guilty of felony as mentioned in the Penal Code promulgated by No. 36 of 1880 shall be regarded as a person who has been punished by penal servitude or confinement exceeding six years.

Article 26. In addition to the person falling under Article 5 item (1), any person who has been guilty of such offense as mentioned in Articles 92, 93, or Article 97 of the former Patent Law, Articles 22, 23, or Article 27 of the former Utility Model Law, Articles 24, 25, or Article 29 of the former Design Law, or Articles 23, 24, or Article 28 of the former Trade Mark Law may not be a patent attorney: Provided that this shall not apply to any person who has passed three years as from the date of his completion of the execution of such penalty or on which

execution thereof on him was remitted.

Article 27. At the time of the coming into force of this Law any person actually having the qualification as a patent agent shall have such qualification as a patent attorney.

Article 28. At the time of the coming into force of this Law any person who is actually a patent attorney (tokkyo benrishi) shall be regarded as patent attorney (benrishi).

Article 29. The patent attorney register (tokkyo benrishi torokubo) shall regarded as the patent attorney register (benrishi torokubo).

Article 30. The provisions of Article 16 shall not apply for the period of six months as from the day of the coming into force of this Law.

SUPPLEMENTARY PROVISIONS (Law No. 5, Mar. 8, 1938): (1)

The day of the coming into force of this Law shall be fixed by Imperial Ordinance.

(Enforced as from June 6, 1938 by Imperial Ordinance No. 400 of 1938.)

At the time of enforcement of this Law any person who has the qualification of a patent attorney in accordance with the former provisions shall have the qualification as such even after the coming into force of this Law.

The provisions of the former Article 4 item (2) shall, even after the coming into force of this Law, apply to any person who has come to fall under the provisions of the former Article 4 item (2) within three years as from the date of the coming into force of this Law.

The provisions of the former Article 4 item (3) shall, even after the enforcement of this Law, apply to any person who has come to fall under the provisions of the former Article 4 item (3) within five years as from the date of the coming into force of this Law.

With regard to any patent attorney who is not actually a member of the Patent Attorneys' Association at the time of the coming into force of this Law, the provisions of Article 12-2 shall not apply for three months after the coming into force of this Law. In case he does not join the Patent Attorneys' Association within said period pursuant to the former provisions, his registration as a patent attorney shall lose its effect.

As regards such act as the provisions of Article 135 of the former Patent Law, Article 33 of the former Utility Model Law, Article 32 of the former Design Law, or Article 38 of the former Trade Mark Law would have applied prior to the coming into force of this Law, the former provisions shall still be applicable as heratofore: Provided that penal servitude as provided for therein shall read as confinement.

Any person who has been punished in accordance with the provisions of Article 135 of the former Patent Law, Article 33 of the former Utility Model Law, Article 32 of the former Design Law, or Article 38 of the former Trade Mark Law shall, in regard to the application of the amended provisions of Article 5 item (2), be regarded as a person punished under the provisions of Article 22-4 paragraph 1.

SUPPLEMENTARY PROVISIONS (Law No. 103, Jul. 6, 1948): (2)

Article 56. In this Law the provisions of Article 62 shall come into force as from the day of its promulgation, and other provisions shall be put in force as from August 1, 1948.

Article 72. The Patent Attorney Law shall be partially amended as follows; (Abridged)

2. Any accountant who has been prohibited from engaging in the business under the Accountant Law (including the provisions of the said Law having effect in accordance with the provisions of Article 64) and who has not yet passed two years as from the day of such disposition shall not, notwithstanding the amended provisions of Article 5 of the Patent Attorney Law, have the qualification to be a patent attorney.

SUPPLEMENTARY PROVISIONS (Law No. 173, Jul. 15, 1948): (3)

This Law shall come into force as from the day of its promulgation.

SUPPLEMENTARY PROVISIONS (Law No. 103, May 24, 1949): (4)

This Law shall come into force as from May 25, 1949.

SUPPLEMENTARY PROVISIONS (Law No. 13, Mar. 6, 1951): (5)

1. This Law shall come into force as from the date of its promulgation.

2. With respect to imposition of non-penal fine to an act which had been done prior to the coming into force of this Law, the former provisions shall still apply.

SUPPLEMENTARY PROVISIONS (Law No. 129, Apr. 1, 1959): (6)

This Law shall come into force as from April 1, 1960.

SUPPLEMENTARY PROVISIONS (Law No. 73, Apr. 30, 1960): (7)

1. This Law shall come into force from the date as prescribed by Cabinet Order not exceeding thirty days computed from the day of its promulgation.

2. Any person actually qualified to a patent attorney at the time of coming into force of this Law by virtue of the former provisions shall also be qualified thereto even after the enforcement of this Law.

3. The registration in the patent attorney registers in accordance with the former provisions shall be regarded as the registration in the patent registers in accordance with the provisions of the Patent Attorneys' Law after amendment (hereinafter referred to as the "New Law").

4. The documents relating to the registration of patent attorney such as the application presented to the Director-General of the Patent Office shall be regarded to have been presented to the Patent Attorneys' Association in accordance with the provisions of the New Law.

5. The denial to registration of patent attorney, cancellation of registration and notice thereof made by the Director-General of the Patent Office in accordance with the former provisions shall be regarded to have been done by the Patent Attorneys' Association in accordance with the provisions of the New Law.

6. The petitional appeals actually submitted to the Minister of International Trade and Industry at the time of coming into force of this Law relating to the denial to registration of patent attorney or the cancellation of registration thereof shall be regarded as an objection having been raised in accordance with the provisions of the New Law.

7. The Director-General of the Patent Office shall, by the request from the Patent Attorneys' Association, hand over the documents relating to registration of patent attorneys such as the patent attorney registers kept in the Patent Office in accordance with the former provisions.

8. The procedures necessary for changing the regulations of the Patent Attorneys' Association incidentally to the enforcement of this Law may be effected prior to the enforcement of this Law.

SUPPLEMENTARY PROVISIONS (Law No. 137, Jun. 15, 1961): (8)

1. This Law shall come into force as from the day prescribed by Cabinet Order within the scope of not exceeding six months counting from the day of its promulgation (enforced as from December 10, 1961 by Cabinet Order No. 393 of 1961).

SUPPLEMENTARY PROVISIONS (Law No. 161, Sep. 15, 1962): (9)

1. This Law shall come into force as from October 1, 1962.

SUPPLEMENTARY PROVISIONS (Law No. 98, Jun. 30, 1966): (10)

(Enforcement date)

1. This Law shall come into force as from July 1, 1966.

SUPPLEMENTARY PROVISIONS (Law No. 30, Apr. 26, 1978): (11)

(Enforcement date)

Article 1. This Law shall come into force as from the day on which the Treaty becomes effective for Japan (enforced as from October 1, 1978 by Ministry of Foreign Affairs Notification No. 202, July 15, 1978).

SUPPLEMENTARY PROVISIONS (Law No. 26, Apr. 14, 1980): (12)

1. This Law shall come into force as from the day prescribed by Cabinet Order within the scope of not exceeding six months counting from the day of its promulgation. Provided that .....

SUPPLEMENTARY PROVISIONS (Law No. 78, Dec. 2, 1983): (13)

1. This Law (excluding Article 1) shall come into force as from July 1, 1984.

SUPPLEMENTARY PROVISIONS (Law No. 66, May 23, 1986): (14)
(Enforcement date)

1. This Law shall come into force as from the day prescribed by Cabinet Order within the scope of not exceeding two years counting from the day of its promulgations (enforced as from Apr. 1, 1987 by Cabinet Order No. 29 of 1987).

SUPPLEMENTARY PROVISIONS (Law No. 30, Jun. 13, 1991): (15)
(Enforcement date)

Article 1. This Law shall come into force as from the day prescribed by Cabinet Order within the scope of not exceeding one year counting from the day of its promultagation. Provided that .....

EUROPEAN
CODE OF PROFESSIONAL CONDUCT

mitted as usual but had to suffer for an unprecedented delay imposed by EQE Secretariat/Board on availability of Exam Report to epi (problem now solved).
- Tutors at their meeting suggested having an opening meeting around May.

Council is invited to approve and sustain implementation of the initiative, deciding to bear the relative tutors' costs, if any.

4) *epi*-students:

There are currently 245 students.

Council is invited to keep high the awareness of the availability of epi-tutorials/studentship to all interested parties and continue promoting the volunteering of new tutors.

5) EQE

Rewarding EQE Examiners:

Implementation of last year decision to have a reception offered by epi at the next EQE Committees ordinary meeting to take place in June/September.
- New EQE Examiners needed:
  There is a constantly increasing need for new epi-members of the EQE Committees, and, at present, a particularly urgent need for epi-members in EQE Committee II (paper C).
  Potential volunteers are invited to ask our Secretariat for further information.

Council is invited to continue to further the awareness of this and promote the volunteering of new members.

6) PQC WG on EQE statistics

A preliminary report from this WG was presented at the last meeting, where it was agreed to have it finalized and approved for distribution (epi-Information; epi-website) at the next meeting.

One operative conclusion was that there seems to be a need for additional training in papers C and D, in particular for candidates with mother tongue different from one of the EPO official languages.

7) PQC WG on Remission of period of professional activity required to sit the EQE (Art. 11 EQE Reg.)

A preliminary report reflecting on the current experience and perspective was presented and the view formed about the advisability of proposing deleting this provision, thus requiring every candidate to the EQE to have a minimum of three years of professional experience (with the exception of EPO Examiners, see Art. 7(2)(IV)EQE Reg.).

A finalized report will be presented to the next PQC.

Amended Code of Professional Conduct in force

The Code of Conduct was amended by the Council of the Institute in Strasbourg on October 3, 1997 and remitted to the EC-Commission for approval. The Commission's decision was received on April 9, 1999. The entire proceedings were published in the OJ (L 106) of the EC-Commission on April 23, 1999. The amended Code of Conduct was put into force by the Board of the *epi* on May 3, 1999. Arts. 2b) and 5 c) of the Code of Conduct pursuant to the Commission's decision at present will be in force until April 23, 2000. The *epi* Council in its meeting in Florence on May 10, 1999 has decided (46 in favour, 5 against, 16 abstentions) to file an appeal against the Commission's decision at the European Court of Justice. The further developments of the proceedings will be reported in due course. The amended Code of Conduct is published herafter.

Walter Holzer
President

Richtlinien des Instituts der beim Europäischen Patentamt zugelassenen Vertreter für die Berufsausübung

Diese Richtlinien dienen zur Regelung des Verhaltens und anderer Tätigkeiten der Mitglieder insoweit, als diese Tätigkeiten sich auf das Übereinkommen über die Erteilung europäischer Patente (Europäisches Patentübereinkommen) unterzeichnet in München am 5. Oktober 1973, oder dessen etwaige abgeänderte Fassungen beziehen.

Code of Conduct of the Institute of Professional Representatives before the European Patent Office

This Code is to govern the conduct and other activities of the members insofar as such activities are related to the Convention on the Grant of European Patents (European Patent Convention) signed in Munichon 5 October 1973, as may be amended from time to time.

Code de conduite professionnelle concernant les membres de l'Institut des mandataires agréés près l'Office européen des brevets

Ce Code a pour objet de régir la conduite et les autres activités des membres, pour autant que de telles activités ont un rapport avec la Convention sur la délivrance de Brevets Européens (Conventionsur le Brevet Européen) signée à Munich le 5 octobre 1973, et telle qu'elle peut être révisée de temps en temps.

In diesen Richtlinien sind die folgenden Definitionen anwendbar:

„Institut"
bedeutet das Institut der beim Europäischen Patentamt zugelassenen Vertreter;

„Mitglied"
bedeutet ein Mitglied dieses Institutes;

„Übereinkommen"
bedeutet das Europäische Patentübereinkommen;

„Rat"
bedeutet der Rat des Institutes;

„Mandant"
bedeutet jede natürliche oder juristische Person, die von einem Mitglied eine Beratung entgegen nimmt oder Dienste erbittet;

„Disziplinarorgane"
bedeutet die in Artikel 5 der Vorschriften in Disziplinarangelegenheiten aufgeführten Organe;

„Disziplinarrat"
bedeutet den in Artikel 5 der Vorschriften in Disziplinarangelegenheiten aufgeführten Rat.

1. Allgemeines

a) Die allgemeinen Anforderungen an Mitglieder des Institutes sind in den Vorschriften in Disziplinarangelegenheiten niedergelegt.

b) Die allgemeinen Grundsätze des beruflichen Verhaltens sind in diesen Richtlinien niedergelegt, die die gegenwärtigen Ansichten des Rates wiedergeben. Kein Mitglied wird durch diese Richtlinien von seiner Verantwortung entbunden, die in den Vorschriften in Disziplinarangelegenheiten in den Artikeln 1, 2 und 3 enthaltenen beruflichen Regeln zu befolgen.

c) Die grundsätzliche Aufgabe eines Mitgliedes ist es, den an Patentangelegenheiten interessierten Personen als zuverlässiger Berater zu dienen. Er sollte als unabhängiger Berater dadurch wirken, daß er den Interessen seiner Mandanten vorurteilsfrei und ohne Berücksichtigung seiner persönlichen Gefühle oder Interessen dient.

d) Ein Mitglied soll Maßnahmen treffen zur Sicherung der Interessen seiner Mandanten für den Fall, daß es an der Ausübung seines Berufs gehindert ist.

e) Gute Kollegialität zwischen den Mitgliedern ist eine Notwendigkeit für die Wahrung des Ansehens des Berufsstandes und sollte ohne Rücksicht auf persönliche Gefühle geübt werden.

f) Jedes Mitglied soll diese Richtlinien kennen und kann sich nicht mit deren Unkenntnis entschuldigen.

g) Ein Verstoß gegen diese Richtlinien kann nicht mit Instruktionen durch einen Mandanten gerechtfertigt werden.

2. Werbung

a) Werbung ist im allgemeinen erlaubt, soweit sie wahrheitsgemäß und sachlich ist, und mit wesentlichen Grundsätzen, insbesondere der Redlichkeit und der Achtung des Berufsgeheimnisses, in Übereinstimmung steht.

In this Code, the following definitions are applicable:

„Institute"
means the Institute of Professional Representatives before the European Patent Office;

„Member"
means a member of this Institute;

„Convention"
means the European Patent Convention;

„Council"
means the Council of the Institute;

„Client"
means any natural person or legal entity who takes advice or asks services of a Member;

„Disciplinary Bodies"
means those listed in Article 5 of the Disciplinary Regulation;

„Disciplinary Committee"
means the Committee listed in Article 5 of the Disciplinary Regulation.

1. General

a) The general requirements for members of the Institute are laid down in the Disciplinary Regulation.

b) The general principles of professional conduct are laid down in this Code, which reflects the present views of the Council. A member is not released by this Code from his own responsibility to comply with the Rules of Professional Conduct set out in the Disciplinary Regulation in Articles 1, 2 and 3.

c) The basic task of a Member is to serve as a reliable adviser to persons interested in patent matters. He should act as an independent counsellor by serving the interests of his clients in an unbiased manner without regard to his personal feelings or interests.

d) A Member shall take measures to safeguard his client's interests in the event he would be prevented from exercising his profession.

e) Good fellowship among members is a necessity for preserving the reputation of the profession and should be exercised irrespective of personal feelings.

f) Each member should know of the Code and cannot plead ignorance of it.

g) A breach of this Code cannot be justified by referring to instructions from a client.

2. Advertisements

a) Advertising is generally permitted provided that it is true and objective and conforms with basic principles such as integrity and compliance with professional secrecy.

Dans ce Code, les définitions suivantes sont applicables:

„Institut"
signifie l'Institut des Mandataires Agréés près l'Office Européen des Brevets;

„Membre"
signifie un membre de cet Institut;

„Convention"
signifie la Convention sur le Brevet Européen;

„Conseil"
signifie le Conseil de l'Institut;

„Client"
signifie toute personne physique ou morale qui prend avis ou utilise les services d'un Membre;

„Instances disciplinaires"
signifie celles énumérées à l'article 5 du Règlement en matière de discipline;

„Commission de discipline"
signifie la Commission mentionnée à l'article 5 du Règlement en matière de discipline.

1. Généralités

a) Les obligations générales des membres de l'Institut sont fixées par le Règlement en matière de discipline.

b) Les principes généraux de conduite professionnelle sont fixés dans le présent Code, qui reflète les vues actuelles du Conseil. Ce Code ne dégage pas un membre de sa propre responsabilité de respecter les Règles de Conduite Professionnelle fixées dans le Règlement en matière de discipline, en ses articles 1, 2 et 3.

c) Le devoir fondamental d'un membre est d'agir en donnant des avis dignes de confiance aux personnes s'intéressant aux questions des brevets. Il doit agir comme un conseiller indépendant en servant les intérêts de ses clients d'une façon impartiale, sans tenir compte de ses sentiments et intérêts personnels.

d) Un membre prendra des mesures pour sauvegarder les intérêts de ses clients pour le cas où il serait empêché d'exercer ses fonctions.

e) Une bonne confraternité parmi les membres est nécessaire pour préserver le renom de la profession et doit s'exercer indépendamment de sentiments personnels.

f) Chaque membre doit connaître ce Code et ne doit pas alléguer qu'il l'ignorait.

g) Une infraction au Code ne peut être justifiée par son auteur en se référant aux instructions d'un client.

2. Publicité

a) La publicité est généralement autorisée, pour autant qu'elle soit véridique, objective et conforme aux principes essentiels notamment la loyauté et le respect du secret professionnel.

b) Von der erlaubten Werbung sind ausgenommen:

1) der Vergleich beruflicher Dienstleistungen eines Mitgliedes mit denen eines anderen Mitgliedes;

2) Angaben zur Person eines Mandanten, es sei denn, der Mandant willigt hierin ausdrücklich ein;

3) die Angabe des Namens anderer Berufsangehöriger, es sei denn, es besteht eine schriftliche Vereinbarung über die Zusammenarbeit zwischen dem Mitglied und diesem Berufsangehörigen;

4) das Anzeigen, Ankündigen oder Veröffentlichen von Angeboten betreffend den Kauf, Verkauf oder die Vermittlung von gewerblichen Schutzrechten, es sei denn auf Instruktionen eines Mandanten.

3. Beziehungen zur Öffentlichkeit

a) Ein Mitglied soll den guten Ruf dieses Institutes, seiner Mitglieder und der Praxis der Vertretung vor dem Europäischen Patentamt hochhalten.

b) Ein Mitglied soll an Büroräumen, auf Drucksachen oder anderweitig keinerlei Angaben machen, die die Öffentlichkeit irreführen.

c) Ein Mitglied soll Dritten keine Provision für die Vermittlung von Arbeit geben, dies erstreckt sich jedoch nicht auf den teilweisen oder vollständigen Erwerb einer anderen Patentvertretungspraxis.

d) Ein Mitglied soll berufliche Tätigkeiten im Zusammenhang mit dem Europäischen Patentamt durch ein Nichtmitglied unter seinem Namen oder dem Namen eines Zusammenschlusses ohne angemessene Beaufsichtigung nicht gestatten.

e) Soweit es die Ausübung seines Berufes betrifft, ist ein Mitglied für die Handlungen seiner Gehilfen, die Nichtmitglieder sind, verantwortlich.

4. Beziehungen zu Mandanten

a) Ein Mitglied soll auf die ihm von seinen Mandanten anvertrauten Angelegenheiten jederzeit angemessene Mühe, Aufmerksamkeit und Sachkenntnis verwenden. Ein Mitglied soll die Mandanten über den Stand ihrer Angelegenheiten informiert halten.

b) Grundsätzlich ist ein Mitglied nicht verpflichtet, den Interessen eines Mandanten in Angelegenheiten zu dienen, die nicht mit beruflichen Angelegenheiten verbunden sind, die der Mandant dem Mitglied anvertraut hat.

c) Ein Mitglied darf von einem Mandanten Vorschüsse verlangen.

d) Zusätzlich zu den Anforderungen von Artikel 3 (2) der Vorschriften in Disziplinarangelegenheiten soll ein Mitglied einen Auftrag ablehnen, der im Widerstreit mit seinen eigenen Interessen steht. Wenn in solchen Fällen der Auftrag nicht aufgeschoben werden kann, ohne daß möglicherweise dem Mandanten Schaden entsteht, soll ein Mitglied den Auftrag annehmen und ausführen, soweit dies unmittelbar notwendig ist, um diesen möglichen Schaden zu verhindern, und danach die Angelegenheit niederlegen.

b) The following are exceptions to permitted advertising:

1) comparison of the professional services of one member with those of another;

2) the identification of a client without the express authorisation of that client;

3) the mention of the name of another professional entity unless there is a written cooperation agreement between the member and that entity; and

4) the advertisement, announcement or publishing of offers to buy, sell or negotiate industrial property rights, except upon the instructions of a client.

3. Relations with the Public

a) A member shall uphold the public reputation of this Institute, of its Members and of the practice of representation before the European Patent Office.

b) A member shall not give any indication on office premises, stationery or otherwise which is misleading to the public.

c) A member shall not give any commission to others for the introduction of business, but this does not extend to the acquisition in part or in whole of another patent agency practice.

d) A member shall not permit without adequate supervision professional activities related to the European Patent Office under his name or the name of his association by a person who is not a member.

e) As far as the exercise of his profession is concerned, a member is responsible for the acts of non-member assistants.

4. Relations with Clients

a) A member shall at all times give adequate care and attention and apply the necessary expertise to work entrusted to him by clients. A Member shall keep clients informed of the status of their cases.

b) In principle, a Member does not need to serve the interests of a client in matters not connected with professional work entrusted to him by the client.

c) A member may demand advance payments from a client.

d) In addition to the requirements of Article 3(2) of the Disciplinary Regulation, a member shall decline an order which is in conflict with his own interests. In all such cases, if the order cannot be postponed without possible damage to the client, a member shall accept and perform the order so far as immediately necessary to avoid such possible damage; thereafter he shall resign from the case.

b) Des exceptions à la publicité autorisée sont:

1) la comparaison des services professionnels d'un membre avec ceux d'un autre membre;

2) la mention de l'identité d'un client, sauf autorisation expresse dudit client;

3) la mention du nom d'une autre entité professionnelle à moins qu'il existe un accord de collaboration écrite entre le membre et cette entité; et

4) la publicité, l'annonce ou la publication d'offres d'achat, vente ou négociation de droits de propriété industrielle, sauf sur instructions d'un client.

3. Rapports avec le public

a) Un membre doit maintenir le bon renom de l'Institut, de ses membres et de l'exercice de la représentation devant l'Office européen des brevets.

b) Sur les lieux de ses bureaux, sur son papier à lettres et autres articles de papeterie, ou autrement, un membre ne doit donner aucune indication qui puisse induire le public en erreur.

c) Un membre ne doit pas donner de commission à des tiers pour la transmission de travaux, mais cette clause ne s'étend pas à l'acquisition partielle ou totale de la clientèle d'un autre cabinet de brevets.

d) Un membre ne doit pas permettre, sans contrôle adéquat, à une personne qui n'est pas membre, d'exercer au nom de ce membre, ou au nom du groupement auquel il appartient, des activités professionnelles ayant un rapport avec l'Office européen des brevets.

e) En ce qui concerne l'exercice de sa profession, un membre est responsable des actes de ses collaborateurs non-Membres.

4. Rapports avec les clients

a) Un membre doit, à tout moment, consacrer le soin et l'attention convenables à tout travail qui lui est confié par des clients, et faire preuve de la compétence nécessaire dans ce travail. Un membre doit tenir ses clients informés de l'état de leurs dossiers.

b) En principe, un membre n'est pas tenu de servir les intérêts d'un client dans des affaires sans relation avec le travail professionnel qui lui a été confié par un tel client.

c) Un membre a le droit de demander des provisions à un client.

d) En plus des exigences de l'Article 3(2) du Règlement en matière de discipline, un membre doit décliner un ordre qui entre en conflit avec ses intérêts propres. Dans tous les cas de ce genre, si l'ordre ne peut être différé sans dommage éventuel pour le client, le membre doit accepter et exécuter l'ordre dans la limite de ce qui est immédiatement nécessaire pour éviter un tel dommage éventuel; ensuite il se démettra du dossier.

e) Ein Mitglied soll nicht ein finanzielles Interesse an irgendeinem gewerblichen Schutzrecht unter solchen Umständen erwerben, die zu einem Widerstreit zwischen Berufspflichten und Interesse führen. Es soll keine Gebühren in Rechnung stellen, die unmittelbar vom Ergebnis der von ihm besorgten Dienste abhängen.

f) Zusätzlich zu Artikeln 2 und 3 der Vorschriften in Disziplinarangelegenheiten soll ein Mitglied keinerlei Handlungen gegen eine bestimmte Angelegenheit vornehmen, die von dem Mitglied oder von einer anderen Person in seinem Büro bearbeitet wird oder bearbeitet wurde, es sei denn, daß der Mandant in dieser Angelegenheit mit der Handlung einverstanden ist oder daß dieses Mitglied keine Kenntnis von dieser Angelegenheit hat und nicht mehr in der Lage ist, von dieser Angelegenheit Kenntnis zu nehmen. Es ist diesem Mitglied nicht gestattet, bei einer solchen Handlung Informationen zu verwenden, die erhalten wurden, als die Angelegenheit früher bearbeitet wurde, es sei denn, daß diese Information öffentlich ist.

g) Ein Mitglied wird automatisch von seiner Verschwiegenheitspflicht gemäß Artikel 2 der Vorschriften in Disziplinarangelegenheiten entbunden, wenn die geheimen Informationen öffentlich geworden sind.

5. Beziehungen zu anderen Mitgliedern

a) Ein Mitglied hat gegenüber den anderen Mitgliedern gute Kollegialität zu wahren. Darunter versteht sich ein höflicher Umgang sowie die Tatsache, daß ein Mitglied sich über ein anderes Mitglied nicht in unhöflicher oder verletzender Weise äußern soll. Beschwerden gegenüber einem anderen Mitglied sind erst mit ihm persönlich, entweder direkt oder durch die Vermittlung eines dritten Mitglieds, zu erörtern, danach notwendigenfalls auf den durch dieses Institut vorgeschriebenen Wegen unter Einhaltung der Regeln in Disziplinarangelegenheiten vorzubringen.

b) Da ein vorrangiges Interesse des Institutes in der Aufrechterhaltung eines einheitlichen Berufsstandes liegt, soll kein Mitglied eine Diskriminierung zwischen Mitgliedern, insbesondere im Hinblick auf Sprache oder Nationalität, ausüben oder fördern.

c) Über eine Angelegenheit, von der ein Mitglied weiß oder vermutet, daß sie von einem anderen Mitglied bearbeitet wird oder bearbeitet wurde, soll ein Mitglied jeden Meinungsaustausch mit dem Mandanten dieser Angelegenheit vermeiden, es sei denn, daß der Mandant seinen Wunsch erklärt, eine unabhängige Ansicht zu erhalten oder seinen Vertreter zu wechseln. Nur wenn der Mandant einverstanden ist, darf das Mitglied das andere Mitglied unterrichten.

d) Wenn ein Mitglied von einem Mandanten einen Auftrag erhält, die Bearbeitung einer Angelegenheit von einem anderen Mitglied zu übernehmen, darf das beauftragte Mitglied diesen Auftrag annehmen, muß dann aber sicherstellen, daß das andere Mitglied davon Kenntnis erhält. Das andere Mitglied ist verpflichtet, alle für die Bearbeitung der Angelegenheit erforderlichen Schriftstücke ohne Verzögerung dem neuen Vertreter auszuleihen oder zu übergeben oder in Kopien zu angemessenem Kosten zur Verfügung zu stellen.

e) A Member must not acquire a financial interest in any industrial right in such circumstances as to give rise to a conflict between professional duty and interest. He must not charge a fee directly related to the outcome of the services he provides.

f) Supplementary to Articles 2 and 3 of the Disciplinary Regulation, a Member shall not take any action against a particular matter which is being handled or has been handled by the Member or another person in his office, unless the client in the matter agrees to this action or unless the Member has no cognizance of the matter and is no longer in a position to take cognizance of it. The Member is not permitted to make use in the action of information obtained during the time the matter was previously handled, unless the information is public.

g) A member is automatically released from his secrecy obligation according to Article 2 of the Disciplinary Regulation if the secret information becomes published.

5. Relationship with other Members

a) A member must observe good fellowship towards other members, and this includes courtesy and the fact that a member may not speak of another member in discourteous or offensive terms. Grievances in respect of another member should first be discussed in private with the other member, either directly or through a third member, and then if necessary through the official channels prescribed by the Institute and in the disciplinary Regulation.

b) Since a prime interest of the Institute is to maintain a unified profession, no member must exercise or promote discrimination between members, for example on grounds of language or nationality

c) A member must avoid any exchange of views about a specific case, which he knows or suspects is being handled by another member, with the client of the case, unless the client declares his wish to have an independent view or to change his representative. The member may inform the other member only if the client agrees.

d) Where a member is instructed by a client to take over the handling of a case from another member, the member so instructed is free to accept such instruction but then shall ensure that the other member is informed. Such other member shall without delay, loan or transfer all documents necessary for the handling of the case or provide copies at reasonable expense to the new representative.

e) Un membre ne doit pas acquérir d'intérêt financier dans un droit de propriété industrielle quelconque, dans des circonstances propres à donner naissance à un conflit entre ses obligations professionnelles et son intérêt. Il ne demandera pas d'honoraires en relation directe avec le résultat des services qu'il fournit.

f) En complément aux articles 2 et 3 du Règlement en matière de discipline, un membre ne doit engager aucune action contre une affaire particulière qui est en cours de traitement ou qui a été traitée par un tel membre ou par une autre personne de son bureau, à moins que le client concerné par cette affaire ne soit d'accord sur cette action ou à moins que ce membre n'ait pas connaissance de l'affaire en question, et ne soit plus en mesure d'en prendre connaissance. Le membre n'est pas autorisé à utiliser au cours de l'action des informations obtenues pendant la période où l'affaire avait été antérieurement traitée, à moins que ces informations ne soient publiques.

g) Un membre est automatiquement libéré de son obligation de secret selon l'article 2 du Règlement en matière de discipline, si les informations secrètes sont devenues publiques.

5. Rapports avec les autres Membres

a) Un membre doit observer une bonne confraternité envers les autres, ce qui sous-entend la courtoisie et le fait qu'un membre ne doit pas parler d'un autre membre en termes discourtois ou blessants. Les griefs à l'égard d'un autre membre doivent d'abord être débattus en privé avec cet autre membre, soit directement, soit par l'intermédiaire d'un troisième membre, et ensuite si nécessaire, par intermédiaire des voies officielles prescrites par cet Institut et dans le règlement en matière en matière de discipline.

b) Etant donné que l'un des principaux intérêts de l'Institut est de maintenir une profession unifiée, aucun membre n'exercera ou ne favorisera de discrimination entre les membres en raison notamment de sa langue et de sa nationalité.

c) Un membre doit éviter tout échange de vues sur un cas spécifique qu'il sait, ou soupçonne, être ou avoir été traité par un autre membre, avec le client d'un tel cas, à moins que le client ne fasse état de son désir d'obtenir un avis indépendant, ou de changer de mandataire. Le membre peut informer l'autre membre seulement si le client est d'accord.

d) Quand un membre reçoit d'un client des instructions aux fins de prendre en charge un cas provenant d'un autre membre, le membre qui reçoit les instructions est libre d'accepter ces instructions mais doit alors s'assurer que l'autre membre est informé. Cet autre membre est obligé, sans délai, de communiquer ou de transférer tous les documents nécessaires au traitement de ce cas ou en fournir des copies au nouveau mandataire, à un prix raisonnable.

6. Beziehungen zum Europäischen Patentamt

Im Verkehr mit dem Europäischen Patentamt und seinen Bediensteten soll ein Mitglied höflich handeln und soll alles, was möglich ist, tun, um den guten Ruf dieses Institutes und seiner Mitglieder hochzuhalten.

7. Beziehungen zum Institut

a) Die Mitglieder haben das Institut über ihre Zustellanschrift informiert zu halten, an die ihnen vom Institut Korrespondenz und andere Informationen zugesandt werden sollen. Jede Änderung dieser Anschrift muß dem Generalsekretär unverzüglich mitgeteilt werden.

b) Die Mitglieder haben den gemäß Artikel 6 der Vorschriften über die Errichtung des Instituts zu entrichtenden Jahresbeitrag entsprechend den vom Rat festgelegten und mitgeteilten Anordnungen zu zahlen.

Wenn ein Mitglied den Jahresbeitrag nicht entsprechend den Anordnungen zahlt, kann die Angelegenheit vom Schatzmeister dem Disziplinarrat vorgelegt werden.

c) Kein Mitglied darf ohne Genehmigung durch den Präsidenten des Institutes irgendwelche schriftlichen oder mündlichen Mitteilungen im Namen des Institutes abgeben.

d) Ein Mitglied hat das Recht, durch den Generalsekretär um eine Meinungsäußerung zu ersuchen, ob irgendeine Handlung, die es vorschlägt oder billigt, aufgrund dieser Richtlinien zulässig ist. Diese Meinungsäußerung ist für die Disziplinarorgane nicht verbindlich.

e) Unbeschadet der Bestimmungen in Artikel 5b sollten Verstöße gegen diese Richtlinien schriftlich dem Disziplinarrat zur Kenntnis gebracht werden.

6. Relationship with the European Patent Office

In all dealings with the European Patent Office and its employees, a member shall act courteously, and shall do everything possible to uphold the good reputation of this Institute and its members.

7. Relationship with the Institute

a) Members must keep the Institute informed of their address to which correspondence and other information from the Institute are to be sent. Changes of address must be notified to the Secretary-General without delay.

b) Members must pay in accordance with arrangements laid down and notified by the Council the annual subscription required by Article 6 of the Regulation on the establishment of the Institute.

If a member fails to pay the subscription as required by the arrangements, the matter may be referred by the Treasurer to the Disciplinary Committee.

c) No member may, unless authorised by the President of the Institute, make any written or oral communication on behalf of the Institute.

d) A member has the right to seek through the Secretary-General an opinion on the permissibility, under this Code, of any act the member proposes to do or sanction. Such opinion shall not be binding on the Disciplinary Bodies.

e) Except as provided in paragraph 5b), breaches of the Code should be brought to the notice of the Disciplinary Committee in writing.

6. Rapports avec l'Office européen des brevets

Dans tous les rapports avec l'Office européen des brevets et ses employés, un membre doit agir de façon courtoise, et faire tout son possible pour maintenir le renom de l'Institut et de ses membres.

7. Rapports avec l'Institut

a) Les membres sont tenus d'aviser l'Institut de l'adresse à laquelle toute correspondance ou communication de l'Institut doit leur être transmise. Tout changement d'adresse devra être notifié sans délai au Secrétaire Général.

b) La cotisation annuelle requise à l'article 6 du Règlement de création doit être payée par les membres, conformément aux dispositions fixées et notifiées par le Conseil.

Si un membre ne paie pas sa cotisation conformément auxdites dispositions, le Trésorier peut porter l'affaire devant la Commission de Discipline.

c) A moins d'y être autorisé par le Président de l'Institut, aucun membre ne peut faire, au nom de l'Institut, une communication écrite ou orale, quelle qu'elle soit.

d) Un membre a le droit de solliciter par l'intermédiaire du Secrétaire Général un avis sur le caractère licite, selon ce Code, de toute action que ce membre propose d'entreprendre ou de sanctionner. Un tel avis ne lie pas les instances disciplinaires.

e) A l'exception de ce qui est prévu au paragraphe 5b ci-dessus, les infractions à ce Code doivent être portées par écrit à la connaissance de la Commission de discipline.

TAIWANESE
RULES GOVERNING
ATTORNEYS' ETHICS

Rules of Governing Attorneys' Ethics

PREFACE

The missions of the attorneys are to protect human right, to ensure justice, as well as to enhance democracy. All attorneys ought to self-government and defend the dignity and reputation of attorneys basing on the consciousness of attorneys' Ethics. All attorneys ought to obey the Rules of Governing Attorneys' Ethics.

Chapter One

GENERAL RULES

1. Rules of Governing Attorneys' Ethics were made according to the 2nd item in the 15th Attorney Law.
2. Attorneys ought to obey laws, Rules of Governing Attorneys' Ethics and Rules of Attorney Association while they fulfil their roles.
3. Attorneys ought to defend the dignity and reputation of attorneys.
4. Attorneys ought to pay attention to the freedom and independence of their jobs.
5. Attorneys ought to be proficient in laws, enrich professional knowledge, absorb update information and keep improving their services.
6. Attorneys ought to be prudent in their speech and behaviors, and to rectify bad trend in the society as a good model in the society.
7. Attorneys ought to treat their jobs as public works. Attorneys ought to consider the clients' right and public benefit when attorneys practice laws.
8. Attorneys' jobs ought to be based on honest, justice, reason and conscience.
9. Attorneys ought to attend public law services or social activities so as to spread law services.
10. Attorneys ought to respond honestly to the Attorney Association about the ethics enquiry.
11. Attorney ought not to neglect revealing the truth while they only concern the result of the case.

Chapter Two

RULES

12. Attorneys must not promote their business by exaggerated advertising, paying commission to introducers, hiring sales or in other inappropriate ways.
13. Attorneys must not gain business by any ways that violating social order and general standards of behaviors, or damage attorneys' reputation.
14. Attorneys must not have inappropriately social engagement with the judicial staffs in order to facilitate cases and gain more business.
15. Employees of the law offices ought to have well behaved. Attorneys ought to supervise and guide their employees to obey laws and act properly.
16. Attorneys can inquire the witness for the truth outside the court, but inquires should be limited to information related to the case. They ought not to induce the witness to lie.

17. Attorneys must not assistant people, who don't have the License of the Republic Of China, to practice law by forming partnership or any other ways, except approved by law.
18. Judicial staffs must not work as an attorney in the same courts or the same procurator department within 3 years, where they worked in the pass 3 years.
19. Attorneys must not break the Rules of Governing Attorneys' Ethics even though their clients require.

Chapter Three
Attorneys and Judicial Department

20. Attorneys ought to assist court to defend judicature dignity and justice. Attorneys are also responsible for prompting the society to rule by law together with the Judicial Department.
21. Attorneys ought to attend actively the assessment to judges and public procurators, which are run by the Attorneys Association or other government department.
22. Attorneys must not refuse or delay the cases that are assigned by the Judicial Department, and get remuneration from the defendant or other related person of the cases.
23. Attorneys must not deceive and cheat when they fulfil their roles. Attorneys must not forge or instigate others to forge the evidences, as well as hindering others from revealing the truth.
24. Attorneys must not slander judicial staffs or the Judicial Department. Attorneys ought to inform police when they get evidences about the judicial staffs corruption.
25. Attorneys ought to assist the Judicial Department to handle the cases that are inquired, entrusted or assigned by the Judicial Department.

Chapter Four
Attorneys and Clients

26. Attorneys ought to do their best to defend the clients legal rights according to the laws with the legal procedure. Attorneys ought not to delay handling the cases that have been accepted for no reasons. Attorneys ought to inform their clients about the progress of the cases in time.
27. Attorneys ought to tell honestly their clients about the legal opinions. Attorneys oughtn't to twist laws or deceive, leading their clients to wrong expectancy or judgement to their cases.
28. Attorneys oughtn't to assure their clients that they could have favorable result when the attorneys try to get the cases.
29. Attorneys ought to facilitate the conciliation if they find out the conciliation would be at their clients' best interest and in accordance with the laws as well.
30. Attorneys must not accept the following cases except the 3th and 4th items that are agreed by their clients.

1) The case is against the party that always consulted the attorney because of the trust or law consultant relationships.

2) The case is opposite with the case that the attorney has been working currently.
3) The case against with the attorney's current client.
4) The case that is entrusted by the current opposition.
5) The case was handled by the attorney or his colleagues as a public employee or governing arbiter, except the cases that had been accepted before.
6) The attorneys' asset, business or individual benefit would impact the judgement of the case.
7) The case that is appointed by several persons without same interests.

31. Attorneys ought to discontinue the case with their clients when the following circumstance happen.
1) The attorneys find out that the purpose of their clients is to threaten or harm others.
2) The attorney is aware of the case will break the Rules of Governing Attorneys' Ethics if they continue to handle the case.
3) The attorney's health is not good enough to continue coping with the case.

When the attorney discontinues the case, they ought to adopt legal procedures avoiding their clients' legitimate rights are damaged. Attorneys also ought to return part of the remuneration.

32. Attorneys, working in the same law office, must not plead for the both parties in one case.
Attorneys ought to inform their clients and deal with it properly when they find out the below circumstance happen.
33. Attorneys must keep secrets about the cases, except their clients' intention and plan of crime, or the continuation of crime that may damage other life or health.
34. Attorneys ought to pass immediately the money to their clients, which is entrusted to collect by their clients.
Attorneys ought to return all stuffs related the case to their clients after the case is accomplished. Attorneys must not postpone or refuse to return them.
35. Attorneys ought to convince their clients clearly about the remuneration and calculation ways.
Attorneys must not set the further remuneration according to the result of the cases.
36. Attorneys must not gain money for the tender for the case that is being handling, and accept anything related with the tender for the case before the case is finished.
37. Attorney must not give anything to the suspects, defendants or criminals without permits, expect the documents about the cases.

Chapter Five

Attorneys and Oppositions

38. Attorneys must not work for both parties in one case. Even though they discontinue the job with their clients, they must not accept the appointment from another party in one case, except working on arbitrating or mediating, entrusted by both parties with certificate of appointment.
39. Attorneys must not slander the oppositions or do anything that will hurt the oppositions, while they defend their clients' legal rights.
40. Attorneys must not discuss with the oppositions without their clients' appointment or agreement. Attorneys oughtn't to accept opposition's remuneration or gift.
41. Attorneys ought not to contact directly with the oppositions without the agreement of the oppositions' attorneys, after the attorneys know the oppositions have attorneys.

Chapter Six

Attorneys and Attorneys

42. Attorneys ought to respect each other, and concern the proper benefit of law field. Attorneys ought to respond other attorneys' inquire or give them the reason that they can't respond.
43. Attorneys ought not to slander other attorneys, as well as instigate or indulge their clients to slander other attorneys.
44. Attorneys ought to report to the attorneys Association about other attorneys breaking the Rules of Governing Attorneys, when they get evidences, besides keeping secrets.
45. Attorneys must not hinder other attorneys from their cases, or lead the clients discontinue the appointment with their current attorneys.
46. Attorneys ought to inform the Attorneys Association before they accuse other attorneys, because of their own reasons. If it is a civil case about dispute, the attorney ought to let the Attorneys Association mediate the case first.
47. Attorneys ought to ask the Attorneys Association to mediate, while they have controversy each other because the cases.
48. Attorney ought not to have their clients of his previous company change to entrust him after he leaves the company.

Appendix

49. When the attorney breaks the Rules of Governing Attorneys' Ethics, the Attorneys Association will punish the attorney with the following ways, after deliberation.

1) Advise
2) Warn
3) Submit the case to the related government department.

50. The Rules of Governing Attorneys' Ethics is executed after the approved by the Members Meeting of the Republic of China Attorneys Association. The Governing Law Department approves it.

Rules of Patent Agent

It was made, released and executed by Economic Department on July 8, 42 of The Republic of China. It was amended on Oct. 26, 44 of the Republic of China.

1. The Rules are made according to the 14th of the Execution Detailed Rules and Regulations in Patent Laws.
2. The patent agents, who are entrusted by their clients, may apply for the patents and related issues, stipulated by the 13th of the Patent Laws.
3. People who have residence in the Republic of China and match one of the following conditions, may register with the Patent Organizations after their credentials are examined.

1) Judicial Officers, Attorneys or Accountant.
2) Registered Technicians.
3) People graduated from college and worked in the patent organizations, responsible for examination for two years.

4. The following kind of people can not be the patent agents.

1) Criminals
2) Their assets are being frozen.
3) Bankrupts who have not paid off debts.
4) People who work for government.
5) People was punished by canceling their applications according to the 10th of the Rules of Patent Agent.

5. The registration fee of a patent agent is 30 dollars
6. The Patent Organizations gives the Qualifications of the Patent Agent to the qualifiers.
   The agent whose application is rejected may submit their application to Economic Department within 30 days for the final judgement, if they refuse to accept the rejection.
7. The Patent Organization ought to set up the patent agents' files including the following information.

1) Name, Sex, Age, Place of Birth, Assets and address.
2) Office Name
3) Register number of the patent agent.
4) Register date.
5) Disciplinary Records

8. The patent agent must not reveal or steal his client's invention or creation.
9. The Qualification of the patent agent will be canceled when the patent organizations find out the agent match one of the 4th of the Rules.
10. If the patent agents break the 8th of the Rules, they would be punished with the following issues by the patent organizations.

1) Warn
2) Stop their license from 6 months to 2 years
3) Cancel their Qualifications
   If the agent refuse to accept the punishment, they can ask for the final judgement to the Economic Department within 30 days.

11. The Execution Detailed Rules and Regulations of Patent Laws can apply to any issues that are not stipulated in the Rules of Patent Agent.
12. The Rules of Patent Agent are executed since they are released.

COMMITTEE #3

Trademarks in India and the Indian Sub-Continent

Bidyut K. Niyogi

The purpose of this subject is to bring forth, the considerable problems of multinational corporations, trading in the four countries of the Indian sub-continent, namely India (population 900 million) Pakistan (population about 300 million) Bangladesh (population over 120 million) and Sri Lanka (population unknown).

Although, these four countries have diverse religious, cultural, and language differences, the economic base for effective use of trademarks (registered or unregistered) brand names, and design configurations incorporating color variations devices are essentially commonly used in the major urban and its surrounding areas, for example, the following cities: India- Mumbai, (Bombay); New Delhi; Chennai; (Madras) Calcutta, Patna, Kanpur, etc. Pakistan- Lahore, Karachi, Islamahed, etc. Bangladesh-Dhaka. Sri Lanka-Colombo.

The population densities in these large cities closely follows New York City or Tokyo with specific advantages for trade mark owners. There is a fairly educated middle class most of whom speak and read English, and also have a reasonable amount of discretionary spending ability to support established English structured trademarks (registered or unregistered); brand names, device marks with variations of colors, and its combination. To compare this with the vast surrounding population, majority of whom can hardly read or write, it is essential to use device marks or composite marks of local regional languages and a related device, with color variations.

Now turning specifically to India, the trade mark laws in India are regulated by the "Trade and Merchandise Marks Act, 1958" which typically follows the United Kingdom Trade Mark Act of 1938. Moreover, on the 3rd of December 1998 the Government of India notified

130 World Trade Organization signatory countries and 150 International (Paris) Convention countries for the purpose of claiming priority under the Trade and Merchandise Marks Act of 1958, stipulating a six month priority period for filing trade mark Applications in India. The importance of priority rights in trade mark matters is generally insignificant.

The Indian Trade Mark Registry has a very large backlog of pending trade marks Application, and special provisions have recently been set up termed "Operation Arjuna" and "Operation Surya" to whittle down this large back log, and move the effective use of trade marks.

It is very important that the trade marks for use in India has to be specifically structured and separated for different parts of the country, for example, the large urban areas of Mumbai (Bombay), New Delhi, Calcutta, Chennai (Madras) can be in the English languages only, but the surrounding areas as you move away 50 to 100 kilometers (25 to 60 miles) from the central urban areas, needs special language requirements. Mumbai (Hindi, Gujarati or Marathi) New Delhi (Hindi), Calcutta (Bengali) and Chennai (Tamil or Telugu). It is essential to use the regional languages, otherwise most trade marks, brand names, registered designs functioning as trade dress, would be of very limited economic value. Consequently, device marks using local alphabets, and numbers, or color schemes would enhance the effective use of trademarks.

Moreover, there are some very distinct ways and means of conveying consumer products trade marks. In the urban areas, trademarks, brand names, devices, etc., that are in current use in any English speaking country could be used with little or no modification, in any forma of media. However, this will have to be considerably recast in the 17 regional language areas of India, each with its own cultural and religious biases. Considerably, care has to be exercised to maintain peace and harmony.

The appeal of trademarks in such regional parts of India, is through sight and sound. The sight part being predominately in local languages, with a device component and some special color characteristics. They are displayed in special bill boards, mounted on utility poles and trees. Very little of that should be in print advertising or in local newspapers, as the masses do not read such publications. The sound part of it is another source since portable radio use is widespread and utilizes local dialects and languages.

The local languages will overlap in radio broadcast with adjoining different language zones, hence care should be exercised and wrong languages in the adjoining areas will be wasted advertising expenditure.

One other important aspect of the trademark law in India is with respect to textiles and has to be separately formulated for both registration of Textile designs adapted as a Trademark and also for infringement purposes evaluated as Passing-Off (similar to trade-dress in the United States).

Another significant aspect of the trade mark laws in India is applicable to "Certification Trade Marks" which allows certifying authority for a class of good in respect of (an invented word) for which a trademark is registered, and whether such certifying would be to the public advantage. There are considerable regulations and rules concerning such certification.

Since India has taken trade mark laws from the United Kingdom, it consequently has the registered user provisions for arrangement is widespread use to allow subsidiaries, affiliates and licensed permitted use. This allows use by the registered user as use of the trademark of the registered owner of the trade mark, obviating cancellation of the registered trademark for non-use. There's specific rules of use by a registered user and

such permitted uses is carefully evaluated with inspections as to quality etc. of the goods services protected for and on behalf of the proprietor.

India has also acknowledged the well known international trademarks, for example, Sony for electronic equipment; Gillette for razor blades etc. The Supreme Court of India has made it very clear as in the "CEAT" for tyres case , that a famous and internationally well known trade mark is therefore entitled to protection even against non-competing good and services. Any wrongful and infringing use of internationally well known trademarks will, therefore, be fully protected and infringers will be duly prosecuted. The legal system in India allows the use of foreign published magazines, newspapers, that carry internationally famous trade marks, as use of the trade-mark in India, and local use may be deferred.

In India, registered trade marks are generally symbols applied to the goods offered for sale in the market place and it identifies with a particular business entity. It is immaterial if the goods are imported or bought from other systems, repackaged and sold as long as there is a business connection with the origin of this product. For example, "Phillips" for electrical bulbs is known world wide, and "LUX" for soap is similarly known as a reputable trade mark. Like in any other country, in India, trademarks come in different shapes, forms, colors, or a combination of words and devices. Then there is the typical services trade marks, used for speciality services.

The Indian trade mark regulations are expected to be reviewed shortly and a parliamentary committee is expected to be appointed to meet this task. The expected changes are as follows:

1. Internationally famous trade marks will be fully reorganized
2. The rules governing Registered User (Permitted use by a third party) will be considerably streamlined and simplified

3. The new term of a registered trade mark will be extended to 10 years
4. Service Marks for specialty services will become registerable as a trade mark
5. The application for registering a trade mark will be streamlined for easier and simplified registration
6. Infringement penalties for piracy of trademarks will be very stringent
7. Oppositions for the registration of trademarks will be expedited
8. An Appeal Tribunal will be constituted to review and expedite legal matters relating to trademarks and passing off.
9. Finally, with India joining the International Convention trademark applications can obtain priority rights from a foreign trademark registration. This point is insignificant for international trademarks.

On the legal side, the Delhi High Court which has been on the side of owner's of registered trademarks, recently issued an interim injunction against four firms for pirating textile trademarks and textile fabric designs protected by registered trademarks, as well as textile designs.

Before concluding, it would be useful to note a rather unusual legal situation with respect to the rights conferred by the registration of a trademark.

Section 28 of the Indian Trademark and Merchandising Marks Act, of 1958 clearly stipulates the rights conferred to the proprietor of a registered trade mark the exclusive right to use the trade mark with relation to the goods in respect of which the trade mark is registered and to obtain the relief in respect of infringement of the trade mark as provided under Act; *P.M. Diesels Ltd. v. M/s. S. M. Diesels,* AIR 1994 Del 264, On the other hand a reading of section 28(3) with section 30(1)(d) does disclose that the proprietor of a registered trade mark cannot file an infringement action against a proprietor of an identical or a similar trade mark; *N. R. Dongre v. Whirlpool Corporation,* 1995 PTR 154: AIR 1995 Del 300.

This is an unusual state of affairs, and it is hoped the Indian Parliamentary Committee reviewing the present Act and rules will pay particular attention to the situation.

(1) **Title:**

Patentability and Loss of Novelty of Inventions made publicly available through Electronic Communication Line (Amendment of Japanese Patent Law: Article 29 and 30)

(2) **Date:**

October 1999 (The 30th International Congress in New Orleans)

(3) **Source:**

1) Source : PIPA
2) Committee : Third

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(5) **Key Words:**

The Revised Law, Internet, Publicly Known,
Telecommunication Line

(6) **Statutory Provisions:**

The Revised Patent Law Sections 29 and 30

(7) **Summary:**

The amendments to the Japanese Patent Law Sections 29 and 30 will come into force next year. These amendments will allow the prevention of the rights of those inventions that have become available to the public through telecommunications lines from being obtained by third parties, and also to allow for those inventions that have similarly been communicated through telecommunications lines to be handled as exceptions to loss of novelty. This paper considers the influence of these amendments on the patent administration practice and at the same time,

discusses how one, as a patent administrator of a company, can take advantage of these amendments.

Content:

I. Introduction
II. Items to be Discussed
III. Discussion
3-1 Voluntary disclosure of information of inventions over telecommunications lines
3-2 Disclosure of patent application information over telecommunications lines immediately before or after filing the application (see Fig. 1)
3-3 Issues to be aware of in filing an international patent application under the revised Patent Law Section 30
3-4 When a material on telecommunications lines is used as a cited reference (see Fig. 2)
3-5 Use of information on telecommunications lines in the offering of information, objection, trial of invalidation claims, and litigation
IV. Conclusion
Patentability and lack of novelty of inventions that have become available to public through telecommunications lines (How to cope with The Revised Patent Law Section 29 and 30)

I. Introduction

In late years, a greater number of companies are opening their sites on the Internet and they are competing to each other in enhancing the contents of their sites for the purposes of customer service, company image improvement, and even for actual net business. Under such an environment, a large amount of company data is being actively sent out over the Internet today. Among these data, there is a significant amount of technical information, and it is well possible that this includes suggestive information which may give others ideas for business model patents that are lately attracting attention.

On the other hand, the Patent Law Sections 29 and 30 are scheduled to be amended next year so as to prevent the rights of those inventions that have become available to public through telecommunications lines from being obtained by third parties, and to allow for those inventions that have been communicated similarly through telecommunications lines to be handled as exceptions to loss of novelty, so that efforts are being made to change also the Patent Law in response to the present changing environment.

The purpose of this paper is to pursue the most desirable way for a patent administrator of a company to cope with the revised Patent Law in such a changing environment, and to see if there are more affirmative ways to take advantage of it.

II. Items to be Discussed

The bill of the amendments this time is as follows. Amended portions are indicated by underlines.

(Patentability of invention)

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

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

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

(iii) inventions which were described in a publication distributed, or became available to public through telecommunications lines in Japan or elsewhere prior to the filing of the patent application.

(Exceptions to lack of novelty of invention)

30. (1) In case of an invention which has fallen under any of the paragraphs of section 29 (1) by reason of the fact that the person having the right to obtain a patent has conducted an experiment, has made a presentation in a printed publication, has made a presentation through telecommunications lines, or has made a presentation in writing at a study meeting held by a scientific body designated by the Director-General of the Patent Office, such invention associated with a patent application filed by such person within six months from the date on which the invention first fell under those paragraphs shall be deemed not to have fallen under any of the paragraphs referred to, for the application of the provisions of the section 29 (1) and (2).

At this point (as of July, 1999), although the bill of the amendments is presented by the Patent Office, there is no explicit criteria defining the contents of publication, establishment of valid publication date, and which forms of data on telecommunications lines which can be easily tampered with, will be accepted as publicly known. Japanese Patent Office has presented to a certain extent criteria with regard to the use of information on telecommunications lines as reference materials to determine the technical level of the field relevant to the examination, but there is no reference made for the use of the information as important evidence which might serve as a ground of rejection.

This situation is true also in US and Europe that both of the countries have a regulation on the format for publishing information on

telecommunications lines as reference materials, but there is no explicit indication of which forms of the information on telecommunications lines can be deemed as publicly known.

Under this situation, when the revised law comes into effect next year, decisions and actions patent administrators of companies has to make in their actual activities, may include how they shall use the information and what they have to take notice of, in the case where such information on telecommunications lines are used as an actual cited reference during the course of examination, or conversely, where a necessity arises for the presentation of such information regarding a third party's patent or the use as a reference for filing an objection or claiming for invalidation in a trial in a registered case.

Furthermore, from a more affirmative point of view, to acquire patent rights more effectively by taking advantage of the revised law, it may be beneficial to discuss the following: disqualification of later patent applications due to disclosure of information on telecommunications lines, then later acquiring the patent right by taking advantage of the amended Section 30; patent right acquisition when patent application information is disclosed through such telecommunications lines immediately after the application is filed; and filing an international application under the amended Section 30.

This paper discusses the above matters item by item by dividing them into the following;

i) voluntary disclosure of invention information on telecommunications lines
ii) disclosure of patent application information on telecommunications lines immediately before or after filing of the patent application
iii) international patent application for the invention disclosed in i) by taking advantage of the amended Section 30
iv) actions to be taken when information on telecommunications lines is used as a ground of rejection
v) use of information on telecommunications lines in the offering of

information, objections, trials to consider invalidation, and litigation.

Hereafter, the above items are discussed respectively.

III. Discussion

3-1 Affirmative Disclosure of Invention Information on Telecommunication Lines

3-1-1 Purpose of Voluntary Disclosure on Telecommunication Lines

Under the provision of the revised Patent Law Section 29 (1) (iii), it is expected to be easier for a party to prevent a third party from obtaining a patent right, by disclosing in an early stage, the content of its invention using the Internet. Priorly, voluntary disclosures have been done based mainly on paper, in such as publications as the Journal of Technical Disclosures or in the submission of invention disclosure reports to the Patent Office. However, it is expected that voluntary disclosure can be done more readily and quickly by taking advantage of the Internet.

3-1-2 Problems in Publication Over Telecommunications Lines

On the other hand, information on the Internet can be more easily tampered with than that in a printed publication so that it is expected to be more difficult to prove when and what information had been accessible on the net. Most ideally, it is desirable to have something like a technical disclosure journal system implemented on a home page operated by the Patent Office or other public organization. Since we do not have such system yet at this point of time, it is necessary for a company to consider its independent, voluntary disclosure system. Discussed in this section are the elements desired for this independent, voluntary disclosure system.

3-1-3 Information Publication Systems Other Than Conventional Patent Official Gazette System

To date, there have been no such information disclosure systems operated by private companies. The Japan Institute of Invention and Innovation issues the Journal of Technical Disclosure, although it is not available on telecommunications lines. As an example of a system operated by a private company, IBM issues IBM Technical Disclosures, that are submitted to and accepted by the patent office of each country, and in recent years, it has been followed by other Japanese private companies which have started to send similar publications to the libraries of patent offices to gain the similar effect.

3-1-4 Characteristics of the Conventional Information Disclosure System

In such a conventional information disclosure system, the date of issue is established by printing the date on the publication, and the ease tampering is reduced by being in the form of a publication. Furthermore, by having a public incorporated public authorities issue such publications, it gains universality and publicity.

Also, for an information disclosure publication of a private company, the date on which it is accepted by the library of each country's patent office is deemed to be the date of publication, securing its universality and publicity from that date on.

However, delay is inevitable between the date of submission of an article and the date of its publication in the case of the Journal of Technical Disclosure, and between the date of submission and the date of acceptance by each country's patent office in the case of the information publication system of a private company, so that there has not yet been implemented a quicker, voluntary publication system, and at the same time, there has been difficulty in maintaining standards concerning the date of issue.

Moreover, although a journal of technical disclosure may be searched based on a an item heading, keyword search is not available. Therefore one cannot easily find the desired journal unless he (she) knows its search key beforehand, and it is not possible to search for articles with a particular general technical keyword. This is also true in the information publication systems of private companies, and we assume that it is one of the drawbacks that discourage the active use of such systems by users.

However, Disclosed Items in the Journal of Technical Disclosure may serve as a model for our intended information disclosure system, and with this taken into consideration, we have considered possible disclosure items for the future information disclosure system over telecommunications lines.

3-1-5 Items Required for Disclosure on Telecommunications Lines

As for required items, (a) Time and Date, (b) Number, (c) Author, (d) Abstract, and (e) Information would be required. "Time and Date" would serve as a ground for determining the date and time when the novelty is lost. "Number" would be necessary to identify a case. "Author" means an inventor or a creator of device. The content of an invention would be disclosed in "Information", and its abstract would be described in "Abstract".

In the actual operation, it is necessary for the system to give automatically "Date and Time" and "Number" to each case. Unified "Time and Date" would be required. Use of Japan standard time (JST) would eliminate inconveniences caused by factors like summer time etc. However, consideration must be given to the definition of "Time and Date" that is, which point of time shall be deemed as such "Time and Date". It is necessary to clarify whether it is the point when a user enters the information, or when it is uploaded, or the point when it is first outputted from a server. However, since the update of a page is typically done

in a split second, we assume that any disputes over such timing would be rare.

3-1-6 Countermeasures Against Tampering

The operation of the system must prohibit any rewriting and adding to the descriptions on the publications. If this is not completely achieved, its credibility will be considerably damaged by possibility of tampering. When any modification is desired, it shall be published as a new publication, and the prior publication must continue to remain on the system, and must not be discarded.

3-1-7 Duration of Publication

The duration of a publication should be at least 6 months, with consideration of the possibility of filing the patent application based on voluntary disclosure under the provision for "exceptions to loss of novelty". When considering the possibility of the use of it as a material for rejection of patent applications by others or for opposition, it is desirable to keep each publication for 6 to 7 years.

3-1-8 Form of Publication for Easier Use

In addition, considering of convenience in examination, it may be important to allow the search of publication contents. If a link to that home page is registered to a popular search engine, dependability would be further improved.

For convenience in examination, a specific output format shall be set, for example, by numbering paragraphs or lines for ease in locating sections of cited references. Also, considering the recent advancement in the internationalization of information, it would be more convenient to provide an English version as well as Japanese.

In this section, we have discussed items to be included in publications and operation of the voluntary disclosure system.

However, in order to establish the fact of publication as authentic, electronic authentication means would be required, and we would like to leave this issue to others for further discussion.

3-2 Disclosure of Patent Application Information on Telecommunications Lines Immediately Before or After Filing the Patent Application (see Fig. 1)

3-2-1 Provision for Novelty (Section 29)

By the amendment to Section 29, any information accessible over telecommunications lines will be handled as a publicly known case under the Patent Law. Therefore, an inventor or assignee of a patent right can disclose his (her) invention "A" to the public earlier over telecommunications lines to establish it as publicly known. By doing so, any establishment (acquisition of right) of patent applications associated with the invention "A" by others can be prevented.

3-2-2 Exceptions to Lack of Novelty (Section 30)

By the amendment to Section 30 (Exceptions to lack of novelty of invention), it will become possible for a party to obtain the patent right of an invention "A+α" which is an invention easily derived from that invention "A" which has been disclosed by that party itself. Even after the invention "A" is disclosed, it is possible to file the application of the invention "A+α" under the provision of Section 30, and have it examined to obtain the right. Before the amendment comes into effect, it is impossible to obtain the right for the invention "A+α".

3-2-3 Relationship Between Early Voluntary Publication and Patent Application

Even after the invention "A" is disclosed, a party still can file patent applications of inventions "A "and "A+α" under the provision of the revised Section 30 (within 6 months from the date of disclosure). In other words, the significance of the

amendment is in the fact that the party may file its patent applications including improvement inventions (i.e. A+α) after the invention "A" is disclosed for the purpose of making it publicly known at a relatively early stage after it is invented, to minimize the possibility that others will establish their applications.

Of course, the invention "A" may instead be disclosed immediately after filing of its patent application is completed. Also, a party can file a number of patent applications while disclosing the invention "A", then later on, it may file a domestic priority patent application under the provision of Section 30.

Although it is more desirable to file the patent application prior to the disclosure of the invention, filing of the application after disclosure will become safer than before due to the amendments to Sections 29 and 30. Strategic decision making is required for determining in which order to carry out disclosure and filing of applications. However, still the disclosure of the invention "A" is not handled in the same way as the filing of its patent application as it has priorly been. Also, there is the "first-to-file principle" (Section 39), so that in order to disqualify later applications by others due to the order of patent applications, it is still essential for a party to file its own application.

When attempting to have one's own technology become a standard in one field while attempting also to obtain the right associated to this standardized technology at the same time, it is necessary to disclose this developed technology as early as possible to make the appeal that this technology is superior over the others. This is because a technology is required to be essentially superior over other technologies to be deemed as a standardized technology. In fact, there are companies that constantly disclose their improved technologies over the Internet to attract like-minded users to form groups, and in turn, to grow such

technologies into substantial standards.

On the other hand, in order to protect a technology as a patent right, it is necessary first to write a patent application specification with sufficient understanding of that technology, then to file the application to secure the filing date of the application. For this, the information cannot be externally disclosed until the filing of the application is completed in order to gain the right, and the early information disclosure for standardization such as the one described above cannot be initiated until the filing of the patent application is completed. Therefore, there may be a contradiction between the required period of time for the acquisition of a right and early information disclosure for standardization of a technology.

As discussed in this section, by taking advantage of the provision of the revised Patent Law Section 30, the above contradiction can be solved since a patent application can be filed after the disclosure over telecommunications lines for standardization, and at the same time, under the provision of the revised Patent Law Section 29, the acquisition of rights under similar improvement inventions that are filed immediately after by others, can also be prevented.

3-2-4 Comparison Between "Effects" of Early Publication of Patent Application and Early Disclosure For Making it Publicly Known

An important purpose for "early disclosure" (for making an invention publicly known) is to prevent the establishment of rights by others. However, in such a case, early disclosure of a party's own invention would allow any third parties to be aware of that invention, and may induce the exploiting of it or making of improvement inventions by others. In comparison, publication of a patent application is provided under the law, and the effects of the former and latter are different as follows.

3-2-4-a Right to Demand Compensation

A new system, which allows publication to be done upon applicant's request, is likely to be introduced under the revised Patent Law. Herein, this is referred to as "early publication of application". Since an electronic application system is widely and actively utilized today, we assume that it may be possible for an application to be published within a few months (in fact, it may even be several weeks) from its filing date.

In this case, the date on which the right to demand compensation is granted, which is provided under Section 65 (Effect of publication of application), is retroactive to the point of "early publication of application". Similarly, under the revised Patent Law Section 184 (1) and (10), the provision for the time of domestic publication of the translated version of PCT application is amended from "18 months after the priority date or the filing date of the request for examination, whichever is later" (current provision), to "after the filing date of the request for examination", and this allows the domestic law to be able to support earlier international publication of PCT applications.

On the other hand, since "early disclosure" (for making an invention publicly known) is something an applicant (a holder of the right to obtain patent) has done voluntarily, it is not deemed as the date on which the right to demand compensation occurs.

3-2-4-b Section 30 Applicability of "Exceptions to Lack of Novelty"

The act of "early disclosure (for making an invention publicly known)" conducted via telecommunications lines may fall under the definition of Section 30. Also, even when "early disclosure" of an invention is repeatedly conducted several times, the novelty of later patent applications can be secured by claiming the applicability of Section 30 to each of such facts of disclosure.

On the other hand, early publication of application falls strictly under the provision of Section 65, and according to prior cases, it is not deemed as a fact which would fall under the definition of Section 30. Therefore, the publication of application based on the "early publication of application" would limit later applications for relevant improvement inventions owned by the same party.

3-2-4-c Post-Grant Opposition to the Grant of Patent to a Later Filed Application of Other Party

Assume a patent application by another party which has been filed 1 day to 1 month later than the filing date of ones own application for one's invention. Assume that a patent publication gazette of the later-filed patent application which has been registered earlier than the party's application, is issued, for example, within 10 months. Assuming that one's own application filed prior to the other party's application is not yet published, so that one cannot file an objection to the grant of the patent to the other party under the provision for earlier-filed applications (Section $29^{bis.}$). The normal timing (18 months) of the publication of ones own application would be too late. Furthermore, if one's own application was rejected, then that application would not be published, and the invention would lose its position as an "earlier-filed" application secured under the provision. Furthermore, there may be a case where an applicant rather prefers publication over acquisition of the right. In such cases, early publication of application would be beneficial. The party can file, in a timely manner, an objection to the grant of a patent of a later-filed application which has been registered earlier than the party's application.

On the other hand, the purpose of early disclosure is to make a certain fact publicly known, and it is not a patent application. Therefore, one can place an objection to the grant of patent to the other party's application not only on grounds of

identicalness under the provision of Section 29bis., but also on grounds of the inventiveness under the provision of Section 29bis.. Accordingly, it allows one to more strongly prevent the establishment of the other party's right. Furthermore, the invention can be decided to have been made publicly known at any time and date convenient to the oneself.

3-2-5 US Patent Law Section 102 (e)

In the case where an application is filed in the US with claim of priority under the Paris Convention after a domestic patent application is filed in Japan, or a PCT application is filed based on a Japan domestic application with the US as a designated state, the priority date may be found to be the filing date of the domestic application, and such application may be examined in the US; however, it would be impossible to disqualify those inventions filed by others in the US during the period between the filing date in Japan and the actual filing date in US under the US Patent Law Article 102 (e).

In such case, the early disclosure and early publication of application immediately after the filing date in Japan would allow one to disqualify any of such potential later-filed applications in US.

3-3 Matters to be Aware of in Filing International Patent Application Under the Revised Patent Law Section 30

3-3-1 Problems in Applying the Revised Section 30

The Section 30 after the revision provides that the time limit for a party having a right to obtain a patent right to file a patent application is within 6 months from the date on which the invention first lost its novelty, so that it is necessary to prove the date on which the invention first lost its novelty, that is, the date on which the invention was communicated over telecommunications lines such as the Internet.

3-3-2 Issues to be Aware of in Filing Application in US by Claiming Priority on Application Filed Under the Provision of the Amended Section 30

There is no change before and after the revision in the issues to be aware of in filing an application in US by claiming priority on an application filed under the provision of the Section 30.

In the US, 1 year of grace period is granted under the US Patent Law Section 102 (b), so that a patent may be granted to an invention as long as its application is filed within 1 year from the date on which the invention has first lost its novelty, that is, the date on which the invention was published over the Internet. Also the Section 102 (b) provides that the novelty of an invention is lost when it is; i) patented in US or elsewhere; ii) described in a printed publication in US or elsewhere; iii) in public use in US; and iv) on sale in US, and the disclosure on the Internet does not literally fall under any of the above definitions. However, the term "printed publication" is generally construed as covering a wide range of publication including not only printed matters but also computer disks, so that any documents on the Internet may possibly be considered as the "printed publication" as provided in the Section 102 (b).

When the issue in question is whether the date on which an invention lost its novelty is more than 1 year earlier or within 1 year, it would be necessary also in US to be able to prove the date on which the invention was placed on the Internet.

3-3-3 Issues to be Aware of in Filing Application in Europe by Claiming Priority on Application Filed Under the Provision of the Revised Section 30

A corresponding provision in the European Patent Law to that of the Japanese Patent Law Section 30, is the Article 55, provided for "Non-prejudicial disclosures". The Article 55 (1) states that any disclosure due to the following will be deemed as "Non-prejudicial disclosure"; (a) an evident abuse in relation

to the applicant or his legal predecessor; or (b) the fact that the applicant or his legal predecessor has displayed the invention at an official, or officially recognized, international exhibition falling within the terms of the Convention on international exhibitions, and when the application is filed within 6 months therefrom, the invention is considered to be not forming part of the state of the art.

When any third party including the inventor discloses the invention to other third parties over the Internet without the consent of the applicant while that third party does not have a right to do so, such conduct may fall under the definition of "evident abuse". However, if the applicant himself discloses the invention on the Internet, whether or not such conduct may fall under the definition of "evident abuse" is questionable.

Also, it is not clear whether the day of "filing of European patent application" is taken to be the actual filing date or the priority date, so that it is safer to file an European patent application within 6 months from the date on which an invention lost its novelty even if the case may fall under the above definition of "evident abuse". In Europe also, it may be necessary to be able to prove the date on which the invention first lost its novelty, that is, the date it was placed on the Internet.

3-3-4 To Utilize the Patent Law Section 30

We have discussed in the above the issues to be aware of in utilizing the revised provision of "Exceptions to lack of novelty". However, the Patent Law Section 30, even after the amendment, is not a provision allowing the date on which an invention first lost its novelty to be the filing date of its application. Accordingly, if a third party files an application before one files one's own application, it is possible that the one's invention may not be patented under the provision of the Patent Law Section 39 as long as the third party has not misappropriated the application, thus, it is important to file

the application as early as possible.

3-4 When Material on Telecommunications Lines is Used as a Cited Reference (see Fig. 2)

3-4-1 Problems with Materials on Telecommunications Lines

The difference between the information which has become available over telecommunications lines, such as the information on the Internet for example, and the information described on a printed publication which is a paper medium, is in the fact that modification can be made more easily to the content of the information available through telecommunications lines than that made to information described in the printed publication. Therefore, for cited information that has been made available to the public over telecommunications lines, it is necessary to be able to determine whether or not the information is subject to any possible modifications that can be made easily.

3-4-2 Determination of Validity of Materials on Telecommunications Lines

When cited information available to the public over telecommunications lines was found objectively to be (1) accessible before the patent application, and (2) not modified (i.e. by editing) until it was cited, the information should be considered as a citable reference as legitimate as printed publication.

On the other hand, when either of the conditions (1) or (2) is questionable, a party may first consider whether or not that information is not qualified to be used as a cited reference before going into the discussion on its content. Therefore, when information available to the public over telecommunications lines is used as a cited reference, in addition to accessing the information in question to confirm the content of the information, it may be necessary to check how for example the homepage on which the information is described manages the dates and contents. In

a questionable case like this, such conditions shall be pointed out to the examiner before making any statement concerning the content of the information.

3-4-3 Steps for Determining Validity of a Material on Telecommunications Lines

[Step A]

In determining the date, in addition to checking whether or not the date is indicated, that date shall be checked to see what date it is. In other words, the date shall preferably be the date on which the information was disclosed and became accessible, and even if a date indicated in the information is any other date (i.e. the date it is created or the date it is accepted; any dates other than the date on which the information became actually accessible), such date cannot be deemed to be a valid date.

It is understandable that it is difficult to verify how a date was given to the material, but in order to judge whether to accept a date or not, it is necessary to consider the integrity of the dating procedure. It is desirable that such dates are automatically determined by a system.

[Step B]

In order to confirm that the content of a material has not been and will not be modified, it is desirable that the conditions are provided so as to eliminate the possibility of any rewrites and additions to the information. Therefore, when the information is managed in such a manner, then any potential modifications to that information can be considered as impossible.

When a notice of rejection indicates only the URL of the subject homepage, the box ③ in fig. 2 is not applicable. That is, if the information on that homepage is deleted, it will be impossible to confirm even the fact that if the information has actually

been disclosed on that homepage. In consideration of this possible situation, it is expected that some sort of materials associated with the homepage, such as a hard copy of the screen print be attached to the notice of rejection along with the URL of the homepage. When such an attached material is available, then the attached material is examined in the light of the box ③ in fig. 2 for determining whether it is qualified as a cited reference.

3-5 Use of Information on Telecommunications Lines in the Offering of Information, Objections, Trials to consider Invalidation and Litigation

3-5-1 Validity of a Reference as a Ground for Invalidation

When using information disclosed over the Internet etc. as evidence for invalidation on the ground of violation of Section 29 in an objection or a trial for invalidation of patent, such information must fall under "inventions which were described in a publication distributed, or became available to the public through telecommunications lines in Japan or elsewhere prior to the filing of the patent application" [Sect. 29(iii)]. That is, the validity of a reference as a ground for invalidation depends on whether or not the subject information;

I. has been available over telecommunications lines in Japan or elsewhere;

II. has been available prior to the filing of the patent application;

III. has been available to the public

IV. is an invention

in other words, whether or not the information fulfills all these four conditions. Accordingly, a party attempting to use the information in question as evidence for invalidation must be prepared to establish the following.

3-5-2 Specifying of the Site the Information was Disclosed in - Condition I

First, it is necessary to establish that the information in question is that which can be obtained "over telecommunications lines in Japan or elsewhere" by specifying the site on which the subject information was disclosed. If the site still exists at the point when contesting for the validity of the material, then such existence will serve as a sufficient proof, however, if the site no longer exists, the party may be required to make efforts to obtain an oath or written oath from operating administrators etc. of the site to collect as much evidence as possible.

3-5-3 Date of Technical Document - Condition II

This may be an insignificant problem as long as the subject information on the Internet is attached with an electronic signature, and the integrity, origin and the date of the information is provable, however, if it is an Internet information which is not provided with some sort of technology that secures the authenticity of the date, the party may be required, as explained in the prior section, to ask the operating administrators of the site for their cooperation in order to prove the date.

The Patent Office has given its point of view in "Report of the Planning Subcommittee of the Industrial Property Council - To the better understanding of the pro-patent policy - (November,1998), II.3 Establishment of an Environment for Accelerating Intellectual Creation " which explains "there is the view that, in those sites operated by research organizations on which commercial databases and technical papers are accessible, dates of publication of the information indicated have credibility high enough to satisfy the requirements such as those for admissibility of evidence etc." Therefore, we assume that if the information has been given on a site operated by a reliable organization (although such organization's criteria is not clear), with the indication of the date, that would be enough to prove the date.

3-5-4 Possibility of Access by Public – Condition III

The Patent Office has also stated in the report referred to in the prior section, that "it is thought to be appropriate to consider such internet information as the bar to novelty of a patent on the ground that it has entered into the public domain since it is accessible to public and not distributed in a form of hard copy." According to this, if the information in question is proven to be information distributed through the Internet (Condition I), we can say that the information automatically has become publicly accessible. However, further discussion may be necessary because it is still questionable whether we can directly consider information as "publicly accessible" just by the reason it has been placed on the Internet, as there may be a case where such access is not free or provides some kind of limitation (i.e. age).

3-5-5 Authenticity of Content of Document (Invention) – Condition IV

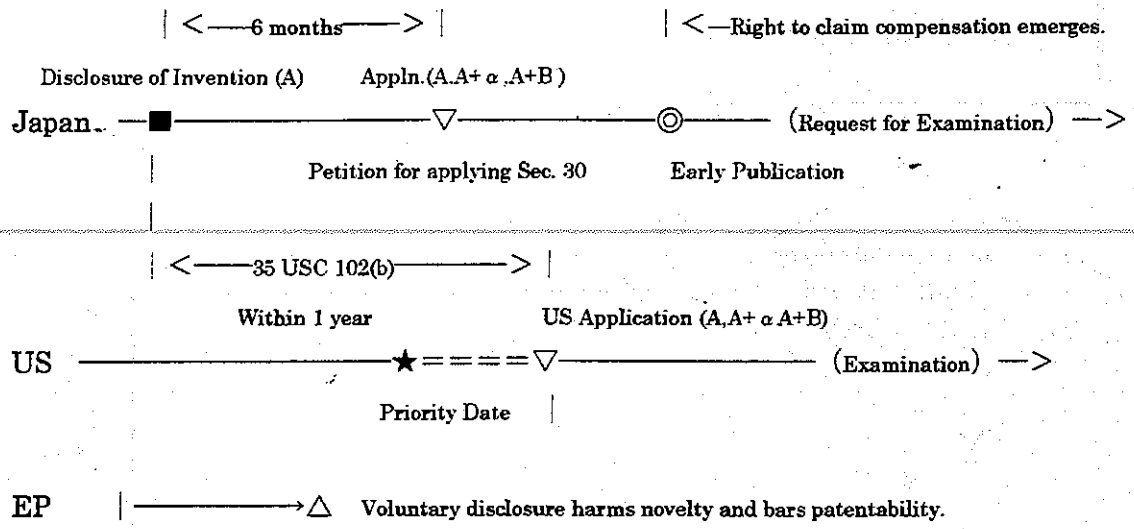
The security of the authenticity of the content of an information on the Internet was discussed in the section for the condition II. When claiming the invalidity of a patent based on information whose authenticity of content has been secured, there be no special considerations given even if the transmission medium of the information is electronic. That is, the only thing left to be done would be the discussion over the range of the description as we normally do with a regular publicly-known paper document.

IV. Conclusion

The discussion in this paper is no more than mere suggestions since the Patent Office has not yet presented, at this point of time, clear criteria for the forms of information on telecommunications lines that can be considered as publicly-known information. However, we believe that this discussion has demonstrated the possibility of achieving

higher effectiveness in the procedures from the filing to the grant of patent in the present environment, in which we are required to take quicker actions, by taking advantage of the present amendments. We may be able to go into further detailed discussion once the Patent Office presents more detailed criteria. Finally, according to the Japan Institute of Invention and Innovation, there has been a discussion for putting the system of the Journal of Technical Disclosure online, so that an information disclosure system over telecommunications lines operated by a third party might be realized in the near future.

(1) *When the First Application (Japanese Application) is filed after disclosure*



(2) *When the First Application (Japanese Application) is filed before disclosure*

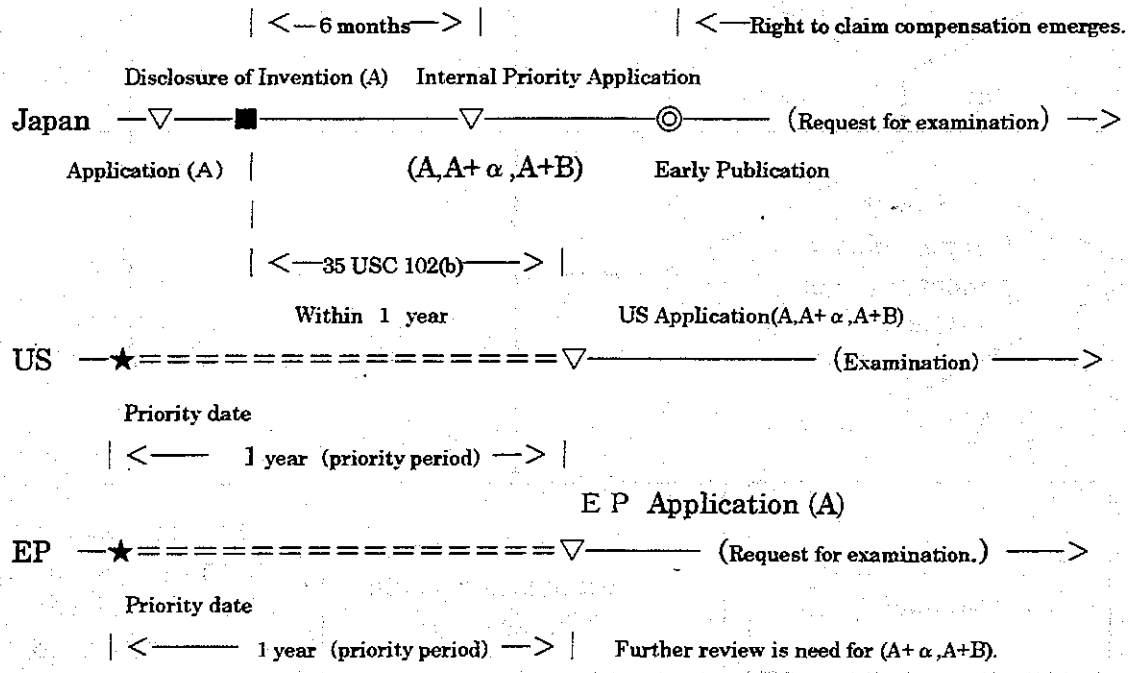


Fig. 1 Flow Chart to show Relationship between Early Disclosure and Prosecution of Patent Application

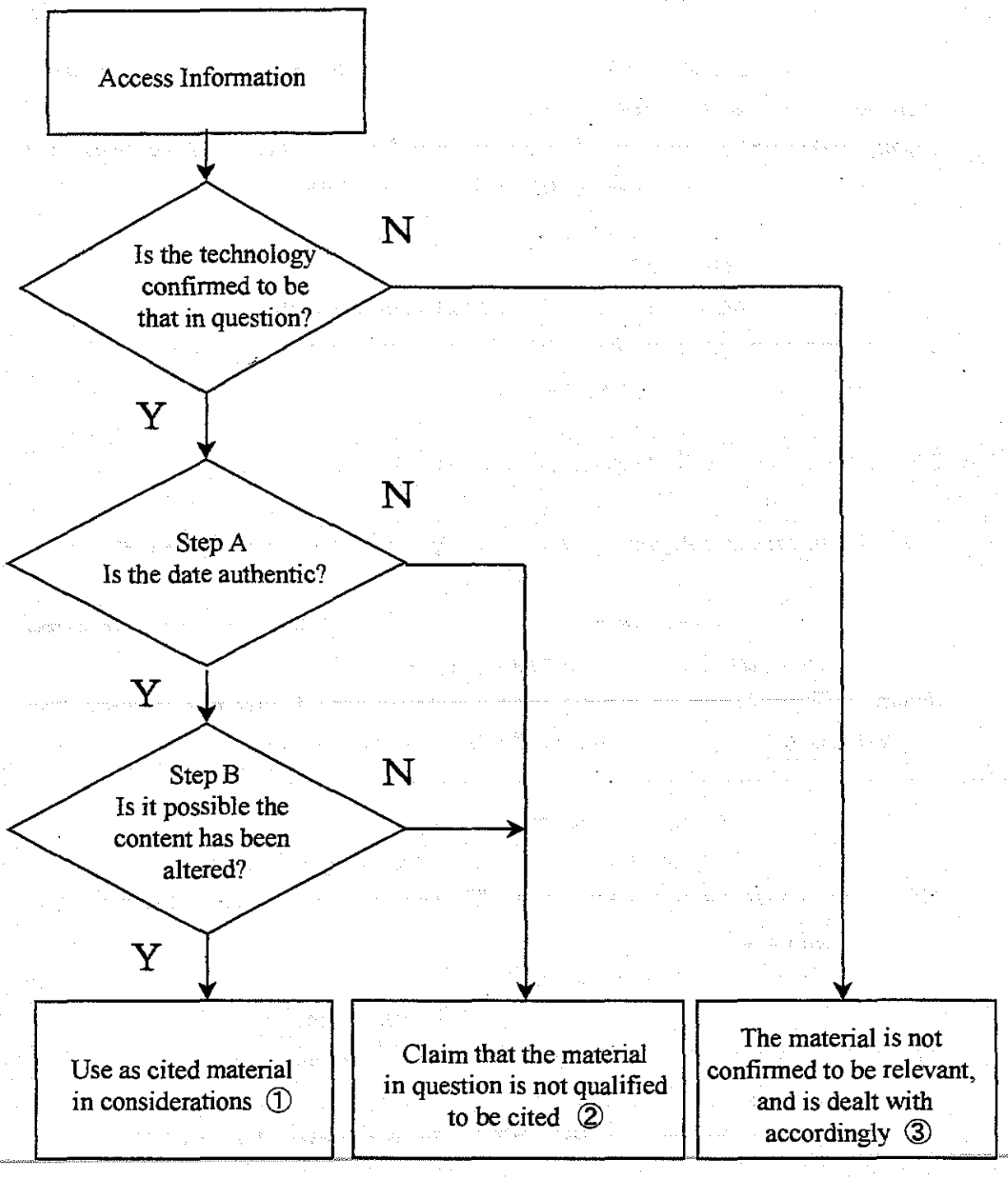


Fig.2 Flow to Determine Validity of Information on Communications Lines

(1) Title: **Study on Global Patent Portfolio - II**

(2) Date: October 1999
(The 30th International Congress in New Orleans)

(3) Source: (a) Source : PIPA
(b) Group : Japan
(c) Committee : #3

(4) Authors: Tadashige Itoh, Sumitomo Heavy Industries, Ltd.
Eiju Okuyama, Toyota Motor Corporation
Takumi Nittono, Nippon Telegraph and Telephone Corp.
Hiroshi Homma, Sankyo Co., Ltd.
Masayuki Muratani, Oki Electric Industry Co., Ltd.

(5) Keywords: Global Patent Portfolio, Patent Value, International Patenting, Proprietary Value, Expected Business Income, Expected Royalty Income, Expected Defensive Value Against Business Income Loss, Expected Defensive Value Against Royalty Income Loss, Defensive Patent, Patent Group

(6) Statutory Provision: N/A

(7) Abstract: An intellectual property right may be accounted as an anticipatory investment for the future benefit so that a well-balanced patent application strategy which allows to maximize the effect (profits) of the investment is important. With the intention of providing an assistance to such patent application strategies, "A Study on Global Patent Portfolio for Patent Application Strategies" has been presented in the 29th PIPA International Congress (Sapporo). The aforementioned paper has proposed a new concept (index) called "Patent Value" which is assessed using assessment parameters such as "Expected Business Income" and "Expected Royalty Income". The paper explains that, by using such an index, values of patents (inventions) can be objectively calculated, thus it is beneficial in constructing effective patent portfolio.

In order to supplement the prior paper, mainly discussed in this paper are, a patent value calculation method of a patent associated with a defensive patent application, and a patent value calculation method of individual patents within a patent group and of a patent value of the whole patent group where the patent group is constituted by a plurality of patents.

(8) Table of Contents:

§1 Introduction

§2 Main Subject

1. Defensive Patent
   - 1.1 Conditions
   - 1.2 PV of Patent (A)
   - 1.3 PV of Patent (B)

2. PVs of a Patent Group and Individual Inventions in the Patent Group
   - 2.1 Summation Method
   - 2.2 Contribution Ratio Method

3. Practicality
   - 3.1 Calculation Method of Coefficients (α, β, γ and γ')
     - 3.1.1 Example of α Calculation
     - 3.1.2 Example of γ Calculation
   - 3.2 Cross-License
   - 3.3 Life Cycle
   - 3.4 Relationship with Company Strategy
     - 3.4.1 Own-Course-Securing Type Strategy
     - 3.4.2 Monopolizing Type Strategy
     - 3.4.3 Open Type Strategy
     - 3.4.4 Royalty-Oriented Type Strategy

4. Hypothetical Cases
   - 4.1 Calculation of PV of Whole Patent Group
   - 4.2 PV Assessment of Individual Patent in a Patent Group
     - 4.2.1 Assessment of (giving factors to) Individual Patents
     - 4.2.2 Contribution Ratio Calculation of Individual Patent Assessment
     - 4.2.3 PV Calculation of Individual Patents
   - 4.3 Example of the Use of Calculated PVs
     - 4.3.1 Case of Using PVs of Individual Patents in Each Country as Application
     - 4.3.2 Case of Referring Total Application Cost

§3 Conclusion

§1 Introduction

An intellectual property right may be accounted as an anticipatory investment for the future benefit so that a well-balanced patent application strategy which allows to maximize the effect (profits) of the investment is important. What constitutes the core of such strategies is Global Patent Portfolio (GPP), and PIPA Japan #3 Committee has presented, with the intention of assisting such strategies, a paper titled "A Study on Global Patent Portfolio for Patent Application Strategies" in the 29th PIPA International Congress (Sapporo).

GPP, when generally defined, is a list of the titles of patent applications (or patents) with information on owner (applied) countries. If it is possible to add value assessment calculation to it, and to have it include time-varying factors, it may serve as an index which can directly be reflected to a patent strategy of a company, so that it can be considered as an extremely beneficial means for determining for each patent, whether to file the applications or not, which countries to file the applications in, or whether rights are maintainable or not and so forth.

The prior paper ("A Study on GPP for Patent Application Strategies") takes notice of "Economic Value Assessment of Patents" as means for GPP construction to quantify "Suitability to Company's Own Business Field (Securement of Design Freedom)" and furthermore, it adds "Country (where applications are filed)" as an assessment parameter to discuss which countries are most effective to file applications in and having them patented, from the viewpoint of investment-to-effect. In addition, a patent value in terms of "Securement of Design Freedom" and a patent value in terms of "Income by Licensing to Others" are calculated, respectively, as "Expected Business Income" and "Expected Royalty Income", and a concept of patent value (PV) having these as assessment parameters has been proposed.

PV= "Expected Business Income" + "Expected Royalty Income" ... (1)

In the above formula (1), "Expected Business Income" and "Expected Royalty Income" are given by;

"Expected Business Income" = $\alpha \times \gamma \times$ NP ... (2)
"Expected Royalty Income" = $\beta \times \gamma' \times$ RI ... (3)

[in the formulas, α represents a probability (chance) of a company to utilize the patent in its own business (products), γ represents a degree of contribution of the patent to the NP (net profit), β represents a probability (chance) of realizing licensing to other companies, and γ' represents a degree of contribution of the patent to the RI (royalty income)], and α, β, γ and γ' are explained to be factors determined based upon the assessment parameters shown in Table 1.

Table 1 Summarizes the factors α, β, γ and γ'

Factor	Nature (Meaning)	Typical Assessment Parameter
α	Probability of practicing in own businesses	Utilization Probability (Implementation Ratio), Commercialization Probability [Industrialization Probability (Industrialization policy)], Exercisability of right (Practicability of Right), Licensing Possibility, Competitor Condition (Competitor Activities), Local Attorney Condition (Accessible Local Attorney)
β	Probability of licensing	
γ	Contribution of Patent to Business Income	Fundamentalness of Invention Compositional Proportion
γ'	Contribution of Patent to Royalty Income	Compositional Proportion

Here, NP and RI are given by;

$$NP = (\text{Profit Ratio}) \times (\text{Company's Share}) \times (\text{Whole Market}) \quad \ldots \quad (4)$$

$$RI = (\text{Royalty Rate}) \times (\text{Other Companies' Share}) \times (\text{Whole Market}) \quad \ldots \quad (5)$$

that is, the formula (1) can be replaced by;

$$PV = \alpha \times \gamma \times (\text{Profit Ratio}) \times (\text{Company's Share}) \times (\text{Whole Market}) + \beta \times \gamma' \times (\text{Royalty Rate}) \times (\text{Other Companies' Share}) \times (\text{Whole Market}) \quad \ldots \quad (6)$$

The prior paper explains that the use of PVs given by the above general formula allows objective assessment to be performed on patent (invention) values and it is extremely beneficial in constructing effective patent portfolio.

At the same time, however, there have been some specific problems pointed out such as that; (1) it is difficult to calculate PVs for defensive patents; (2) it is difficult to calculate PVs when a number of patents form one patent group; (3) the consideration on patent cross-licensing is insufficient; (4) the discussion on future possibilities is insufficient, and so forth. Moreover, although the paper did not specifically explain, there are critical problems from the viewpoint of practicality as the calculation of factors (i.e. α, β etc.) used in the PV formula is complex etc, so that further discussions on the above problems have been recognized as necessary.

Accordingly, in consideration of the above, we have again discussed the problems that had not been thoroughly discussed in the prior paper, and attempted to supplement the prior paper in order to further develop the PV formula we have proposed to a more practical general formula, which will be reported in the following section.

§2 Main Subject

As above mentioned, the problems associated with GPP (PV formula) proposed in the prior paper may broadly divided into issues associated with; (1) defensive patents; (2) PVs of patent groups and individual inventions within the patent groups; and (3) practicality. Hereafter, they are discussed one by one. Also herein, a "patent group" may be compatibly construed as an "invention group" or a "patent application group", and a "defensive patent" as a "defensive invention" or a "defensive patent application", and a " basic patent" as a "basic invention" or a "basic patent application", and a "peripheral patent" as a "peripheral invention" or a "peripheral patent application", as desired.

1. Defensive Patent

A defensive patent is a patent which is not intended to be practiced in company's own products but intended for securing the superiority of the company in the market by preventing other companies from getting into the market, and it includes alternative technology to an invention associated with a basic patent. When calculating a PV for a defensive patent based on the PV formula proposed in the prior paper, the factor α would be 0 since there is no intention of practicing it in the company's own products, so that Expected Business Income would also be 0, thus the PV of the defensive patent would be small. However, where another company obtains the defensive patent, a part of the market share may be acquired by that another company, and business income of the company is expected to reduce. In consideration of this, the PV of a defensive patent calculated according to the PV formula described in the prior paper seems unduly low.

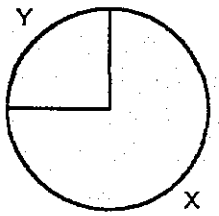


Fig. 1 Market Share (1)
X owns both basic patent (A) and defensive patent (B)

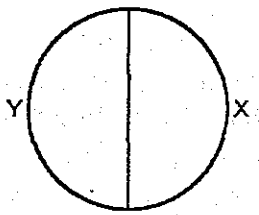


Fig. 2 Market Share (2)
X owns basic patent (A) and Y owns defensive patent (B)

For example, assuming the company X owns the basic patent (A) and defensive patent (B), and the company X accounts for a large market share (Fig. 1). If the company X did not file the application of the defensive patent (B), and instead, if the company Y obtained the right of the defensive patent (B) and it introduces a product implementing said patent into market, a part of the market share of the company X would be acquired by the company Y (Fig. 2) so that it is quite possible

that business income of the company X declines. Moreover, there may be the case where the company Y who has obtained the defensive patent does not require to obtain the grant of working license of the company X's patent, and if such were the case, the royalty income would also reduce. That is, a defensive patent has an aspect of preventing the loss of royalty income of a company as well as an aspect of preventing the loss of its business income, so that it has a significant meaning in forming a patent portfolio.

Therefore, in order to adequately assess the values of defensive patents, we propose two factors that are specific to defensive patents, "Expected Defensive Value Against Business Income Loss" and "Expected Defensive Value Against Royalty Income Loss". "Expected Defensive Value Against Business Income Loss" is defined as an expected amount of loss in business income based on the expected business income from a basic patent owned by a company in case the defensive patent of the subject patent is obtained by another company. "Expected Defensive Value Against Business Income Loss" may be calculated as "amount of expected business income loss" by coinciding the absolute value. "Expected Defensive Value Against Royalty Income Loss" is defined as an expected amount of loss in royalty income based on the expected royalty income from a basic patent owned by a company in case the defensive patent of the subject patent is obtained by another company. "Expected Defensive Value Against Royalty Income Loss" may be calculated as "amount of expected royalty income loss" by coinciding the absolute value.

The following explains an example of calculation of a PV of a defensive patent, especially for the above "Expected Defensive Value Against Business Income Loss" and "Expected Defensive Value Against Royalty Income Loss".

1.1 Conditions

Assuming an invention (A) [hereinafter referred to as Patent (A)] is a basic patent, and an invention (B) [hereinafter referred to as Patent (B)] is a defensive patent, where Patent (B) is obtained by a third party, "Expected Business Income" (EBI) and "Expected Royalty Income" (ERI) associated with Patent (A) are assumed to reduce by 50% respectively. The α and β of Patent (A) are assumed to be 0.3, and γ and γ' are assumed to be 1, and similarly, the α and β of Patent (B) are assumed to be 0.05 and γ and γ' are assumed to be 1. As for the market size, 66 billion yen for US, 43 billion yen for Japan, for the company share, 5% in US, and 30% in Japan, and for the royalty rate, 10% across the board, are assumed respectively.

NP and RI in US and Japan are shown in Table 2.

Table 2 NP and RI in US and Japan

Country	Market Size (¥ Mil)	Company Share (%)	NP (¥ Mil)	Competitors Share (%)	Royalty Rate (%)	RI (¥ Mil)
US	66,000	5	3,300	95	10	6,270
JP	43,000	30	12,900	70	10	3,010

1.2 PV of Patent (A)

The PV of Patent (A) is calculated from "Expected Business Income"(EBI) and "Expected Royalty Income"(ERI), and they are given by;

$EBI = \alpha \times \gamma \times NP$, and
$ERI = \alpha \times \gamma' \times RI$.

PV of Patent (A) are shown in Table 3.

Table 3 PV of Patent (A)

Country	α	γ	EBI (¥ Mil)	β	γ'	ERI (¥ Mil)
US	0.3	1	990	0.3	1	1,881
JP	0.3	1	3,870	0.3	1	903

1.3 PV of Patent (B)

The PV of Patent (B) is calculated from EBI, ERI, "Expected Defensive Value Against Business Income Loss" (EDVBIL) and "Expected Defensive Value Against Royalty Income Loss" (EDVRIL), and EBI and ERI can be calculated in a similar way as in Patent (A). Moreover, EDVBIL is given by "EBI of Patent (A)" × (Income Reduction Rate), and EDVRIL is given by "ERI of Patent (A)" × (Income Reduction Rate), where the income reduction rate is 50% in the respective cases. The PVs of Patent (B) are shown in Table 4.

Table 4 PV of Patent (B)

Country	α	EBI (¥ Mil)	EDVBIL (¥ Mil)	β	ERI (¥ Mil)	EDVRIL (¥ Mil)
US	0.05	165	495	0.05	314	941
JP	0.05	645	1935	0.05	151	452

From the result above, in Patent (B), EDVBIL is greater than EBI so that it can be seen as representing a more accurate value of Patent (B).

2. PVs of a Patent Group and Individual Inventions in the Patent Group

Generally ~~in~~ the electric and engineering fields, unlike chemical related fields, it is difficult to thoroughly cover a product of a company by a single patent, and formation of an effective patent portfolio for a particular product constituted by a number of patents has been an extremely critical issue with regard to the patent strategy of a company. Therefore, in a case where a patent group is constituted by a plurality of patents, it is necessary to calculate and assess, as well as the total PV of the whole subject patent group, the PV of each individual patent within the patent group as a component a part of that patent group.

Proposed in the following are two approaches; (1) summation method and (2)

contribution ratio method that are methods for effectively calculating and assessing the total PV of a whole patent group and PVs of individual patents within the subject patent group. There would be differences among companies in patent strategies, such that the purpose of the patent right acquisition is whether to place a high premium on directly relating it to business income, or to gain royalty fee income etc. (refer 3-4); however, as long as the primary focus is on patent groups, later described approaches can be employed in either case. As for determining which of the approaches is to be employed, it depends on the field to which the subject invention belongs (whether the field allows one patent for one product or multiple patents for one product etc.), and on the patent strategy of a company etc., thus which of the approaches is superior, cannot be generalized.

2.1 Summation Method

This method is a method for respectively calculating PVs of individual patents constituting a patent group, then summing up those values to obtain a total PV of the whole patent group.

For example, assuming that the PV of Patent (A) which belongs to a particular patent group is 2, the PV of Patent (B) is 3, and the PV of Patent (C) is 5, the total PV of the subject patent group as a whole would be 10 (2 + 3 + 5).

If a number of patents constituting a patent group is small, such as in the chemical related fields where a number of patents used within one product is small, the assessment of the total PV of the whole subject patent group can be simply and satisfactorily done only by assuming the total PV of the whole patent group as a sum of the PVs of the individual patents constituting the patent group, by only considering an additive effect instead of considering a synergistic effect, of individual patents, so that this method is practical.

2.2 Contribution Ratio Method

This method is a method in which, at first a PV of a whole patent group is calculated, then PVs of individual patents are allocated based on the weight of possibility that each patent constituting the subject patent group functions for the subject patent group, or on the degree to which each invented technology is essential ("essentiality") for practicing the subject patent group (product) [such weight and essentiality will be hereinafter referred to as "contribution ratio"].

The following shows an example where the contribution ratio method is employed.

First, the following factors are given respectively: 1.0 to a basic patent (most important invention etc. which is essential for practicing the patent group technologies), 0.5 to a sub-basic patent (invention etc. which is not quite essential for practicing the patent group technologies, but is most effective as an embodiment), 0.1 to a peripheral patent (invention not required for practicing the

patent group technologies), and a factor between 1.0 and 0.5 according to its importance, to a defensive patent (the one based on a separate principle from that of the basic patent, but has an alternative nature for the basic patent).

For example, if, within a patent group, there are a basic patent (A) (according to the above, the factor is 1.0), a sub-basic patent (B) (factor 0.5), a peripheral patent (BB) (factor 0.1), a sub-basic patent (C) (factor 0.5), a peripheral patent (CC) (factor 0.1), and a defensive patent (Z) (factor 0.5), the contribution ratio of the basic patent (A) is expressed by the factor given to the basic patent (A) divided by a factor given to the whole subject patent group, that is;

$$1.0 / (1.0 + 0.5 + 0.1 + 0.5 + 0.1 + 0.5) = 0.37$$

When the total PV of the whole subject patent group is 100 for example, the PV of the basic patent (A) is the above value multiplied by 100, that is;

$$0.37 \times 100 = 37$$

This contribution ratio method is generally more practical, more realistic, and more suitable than the above explained "summation method" in the electric and engineering fields where there are a large number of patents in one product, in other words, where a number of individual patents constituting a patent group is large.

The greater the number of patents constituting a patent group, the greater the necessity of performing the assessment on them for the factor of "being a part of the subject patent group", and to do that, it is necessary, not only to assess the plurality of inventions relatively to each other, but also to assess for relationship between those inventions. With this regard, this contribution ratio method allows assessment of the total PV of the whole patent group, then the PVs of many individual inventions constituting the subject patent group, from the viewpoint of how they contribute to the subject patent group as individual components of the patent group, and thus yields a large benefit.

An example using this contribution ratio method will be later explained in detail as a hypothetical example. (ref. 4)

3. Practicality

When the PV formula described in the prior paper is viewed in the light of practicality, there may be some inconveniences such that the calculation of factors (i.e., α, β etc.) used in the PV formula is rather complex, it is impossible to work out PVs associated with cross licensing and so forth. The following discussion is thus made for improving the practicality of the PV formula.

3.1 Calculation Method of Coefficients (α, β, γ and γ')

A PV is a value derived from four factors, that are EBI, ERI, EDVBIL and EDVRIL, and each of the factors is respectively calculated using unique factors (α, β, γ and γ'). However, it would require a significant amount of time to work out the above factors one by one using the assessment parameters such as "Utilization Probability", "Commercialization Probability", "Exercisability of right", "Licensing Possibility", "Competitor Condition", "Local Attorney Condition", "Fundamentalness of Invention" and "Compositional Proportion" etc., and that may be a major drawback in terms of practicality which values efficient calculation of PVs within a limited amount of time.

Unfortunately, as long as the accuracy of the obtained PVs increases in proportion to the thoroughness of the factor calculations, there is no effective means to eliminate the above drawback. Therefore, although this may be an antinomy, the most realistic solution would be to identify critical assessment parameters in determining the factors, and select only those parameters that are thought to be critical for that company to calculate the four factors of PVs.

The following shows an example of a detailed calculation method of the factors (α and γ). β and γ' can also be calculated by using the same method.

3.1.1 Example of α Calculation

Explained in the following is an example of α calculation using three parameters, for example, "Commercialization Probability", "Exercisability of right " and "Product Life".

(1) When "Commercialization Probability" is the most critical assessment parameter of the company, it is assessed in 10 levels. The criteria for determining "Commercialization Probability" would be the present achievement such as the sales associated with the product, prospect of the future sales, amount of profit from working, future market prospect including customer needs for the product, and competitors' conditions etc.

(2) "Exercisability of right" and "Product Life" are assessed in 5 levels. The criteria for determining "Exercisability of right" would be the ease in grasping facts of infringements etc.

(3) From the results obtained by the above (1) and (2), the total points are calculated, and using a table (Table 6) empirically derived beforehand, α is determined.

Table 5 α in Each Country

Country	Commercialization Probability	Exercisability of right	Product Life	α
US	10	5	5	1.0
JP	6	3	4	0.5

Table 6 Reference Table Associated with α

Total Points	3-8	9-5	16-20
α	0.1	0.5	1.0

3.1.2 Example of γ Calculation

Following explains an example of γ calculation using two assessment parameters, for example, "Fundamentalness of Invention" and "Compositional Proportion (Proportion of an Invention Technology in Product etc.)".

(1) When "Fundamentalness of Invention" is the most important parameter for the company, this is assessed in 10 levels. "Fundamentalness of Invention" shall include considerations of: (i) fundamentalness of the invention in the light of whether or not an alternative technology is on the market, and enhancing nature as a peripheral patent of the company (especially, this can be an important parameter in assessing an improvement patent), and (ii) fundamentalness of the invention in terms of the degree of influence of the invention over sales competitiveness of the product (pricing), and these are respectively assessed in 10 levels. This is because, if the invention is basic and epoch-making, and if there are no alternative technologies besides the patented technology, and if the subject patent product has an overriding share in the market, it is possible to set a high price considering the patent of the invention as an added value of the product.

(2) "Compositional Proportion" is assessed in 5 levels. This assessment parameter would be a parameter to be assessed in consideration of the degree of essentiality of the invention to the subject product, and technical value of the invention.

(3) From the results obtained in the above (1) and (2), the total points are calculated, and γ is determined using a table (Table 8) which has been empirically derived beforehand.

Table 7 γ in Each Country

Country	Fundamentalness of Invention		Compositional Proportion	γ
	Presence of Alternative Technology	Degree of Influence on Product Pricing		
US	8	7	3	0.3
JP	8	7	3	0.3

Table 8 Reference Table Associated with γ

Total Points	3-10	11-19	20-25
γ	0.1	0.3	0.5

3.2 Cross-License

In the electric and engineering fields etc., it is difficult to completely cover a product of a company only by the company's patents, so that there are relatively many cases where patents are reciprocally used by patent cross-licensing.

The calculation of a PV associated with a patented invention which falls into the subject to cross-licensing has been assumed to be complex and difficult since a plurality of patented inventions are used in a product, so that it was not discussed in the prior paper. However, cross-licensing may basically be accounted as the use of royalty income, and the income obtained by patent cross-licensing may be construed as a difference between a royalty income from the other company's product earned by the proprietary patents of the company and a royalty expenditure incurred by using the proprietary patents of the other company in the company's product, thus it is thought to be possible to cover by the PV formula we are proposing. That is, when a cross-license agreement is to be made between a plurality of patents, PVs of individual patents owned by the company can be worked out respectively, by calculating the total PV of the whole patent group owned by the company from a sum of ERI and EDVRIL, and by allocating the obtained value using the "Contribution Ratio Method" etc. explained in the prior section 2-2.

3.3 Life Cycle

The factors α, β, γ, γ', NP and RI would be all estimated values at the time of application, thus calculation of exact estimation is extremely difficult. Furthermore, the law system and economic advancement of the country in which the application is filed, and the business conditions of the applicant etc. vary with time, therefore the factors must be modified in response to such changes. Especially it shall be noted that, when estimating the market size, consideration of the native life cycle of the product is required.

3.4 Relationship with Company Strategy

As explained in the above, the four factors of PV are EBI, EDVBIL, ERI and EDVRIL, but it is complex task in terms of practicality to calculate all the factors for each invention one by one, and this is the major disadvantage of the proposed PV formula.

However, when accounting the PVs in relation to company strategies, there may be factors that are essentially unnecessary to be calculated. By eliminating such factors in the beginning, the calculation of the PVs may be simpler so that the above disadvantage may probably be overcome. That is, when using the PV formula at a working level, it is important to determine correctly, which of the

factors comprising the PV are critical.

Furthermore, it is thought to be more practical to handle the four factors as independent values. In other words, it is thought to be more practical to account EBI, EDVBIL, ERI and/or EDVRIL obtained by the above formulas as individually independent values instead of simply adding them up.

The following shows relationships between representative types of company strategies and the four factors of PVs.

3.4.1 Own-Course-Securing Type Strategy

For a company whose intellectual property is rather poor relative to its competitors, it is necessary to employ a strategy to secure the own course of the company, and to consider all the factors. That is, for PVs, all factors are important.

3.4.2 Monopolizing Type Strategy

For an R&D-oriented company having strong basic patents whose product field is rather narrow, it is necessary to employ a strategy for preventing competitors from entering the market to monopolize the market. In PVs, EBI and EDVBIL would be important factors.

3.4.3 Open Type Strategy

For a company in a field such as the electronics industry where technologies are actively developed in short cycles, and it is difficult to cover its own products by its own patents, it is necessary to employ an open licensing strategy or cross-licensing strategy. In PVs, ERI would be an important factor.

3.4.4 Royalty-Oriented Type Strategy

This is a strategy where intellectual properties are viewed as pure assets such as equivalents of financial assets, and these are operated so as to have them yield a maximum profit to obtain royalty income. An R&D-oriented venture company may need to employ this strategy. In PVs, ERI and EDVRIL would be important factors.

4. Hypothetical Cases

The following explains an example of GPP in a case where four patents, a basic patent [Patent (A)], sub-basic patent [Patent (B)], peripheral patent [Patent (BB)] and defensive patent [Patent (Z)] constitute one patent group pertinent to an exhaust gas purifying system for automobiles.

Among the above:
Patent (A) includes an invention associated with a new-type exhaust gas

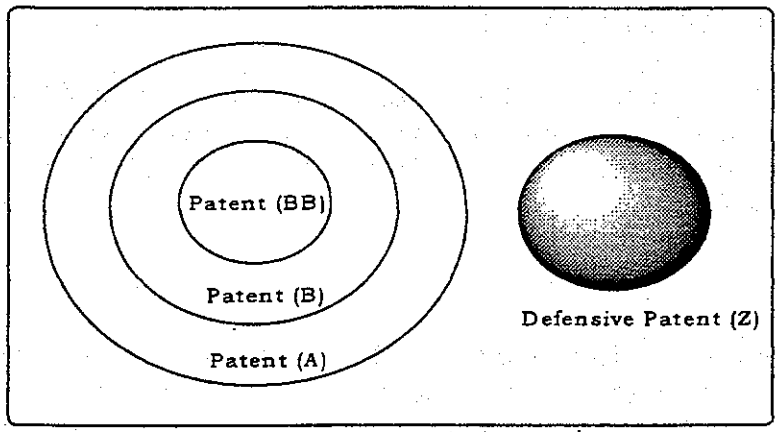
purifying system for automobiles (A) wherein exhaust gas is drastically reduced by "setting air-fuel ratio to a particular value", and by purifying it with a catalyzer;

Patent (B) includes an invention associated with an air-fuel ratio sensor using "Ceramic S", which is capable of accurately detecting the air-fuel ratio;

Patent (BB) includes an invention associated with an air-fuel ratio sensor whose detection accuracy is further improved by adding "Ceramic SS" in addition to "Ceramic S"; and

Patent (Z) includes an invention associated with a new-type exhaust gas purifying system (Z) wherein exhaust gas is drastically reduced similarly as in the system (A), by completely combusting the exhaust gas by a burner; and the system (Z) is assumed to have disadvantages in that it is bulkier and higher in cost than the system (A).

The subject company is assumed to have employed "open type strategy" or "royalty-oriented strategy" (refer 3.4).



4.1 Calculation of PV of Whole Patent Group

First, Total PV = PV(A) + PV(B) + PV(BB) + PV(Z) is calculated. The total PV can be calculated as a virtual patent including Patent (A) which has a largest PV in the patent group and Patent (Z). Since the subject company employs "open type strategy" or "royalty-oriented type strategy", here, ERI only is calculated as for the PV.

Here, PV = $\beta \times \gamma' \times$ RI $\times$ Life Cycle, and within the formula, β is set at 25% based on the licensing possibility in the light of technical needs in each country, γ' is set at 10% based on the degree of contribution (Core: 30%, Sub-core: 10%, Peripheral: 1%) to the RI in the light of technical fundamentalness of the basic patent (A), royalty ratio associated with RI is set at 3%, and life cycle is set at 10 years.

That is;

PV = 0.25 $\times$ 0.1 $\times$ 0.03 $\times$ Market Size $\times$ (1 - Winns Share of the Company) $\times$ 10

Based on the conditions above, Table 9 indicates the result of the calculation of a total PV for the whole invention group in each country.

Table 9 PV Value for the Whole Patent Group in Each Country

Country	Market Size (¥ Mil)	Company's Share (%)	β (%)	γ'	RI (¥ Mil)	Life Cycle (year)	PV (¥ Mil)
US	50,000	20	25	0.1	1,200	10	300.0
JP	16,700	40	25	0.1	300	10	75.0
DE	12,300	3	25	0.1	360	10	89.7

4.2 PV Assessment of Individual Patent in a Patent Group

PV of each individual Patent is given by: Total PV × (Contribution Ratio of the Individual Patent in the Patent Group), and the contribution ratio in the formula can be worked out by the following steps based on the degree of its essentiality in practicing the patent group technologies.

4.2.1 Assessment of (giving factors to) Individual Patents

Based on the relative assessment on individual patents, factors are given. An example of given factors are shown in Table 10. Within the table, the defensive patent is assessed based on a separate principle from that of the basic patent, that is, it is assessed based upon the alternativeness (degree of alternativeness) to the basic patent. Also, absolute values of the factors and layer levels of the ranking shall be set as needed.

Table 10 List of Given Factors

Ranking	Factor	Example
Basic Patent	1.0	Invention of highest level, essential for practicing patent group technologies: technical ideas etc.
Sub-Basic Patent	0.5	Invention most effective as an embodiment although not essential for practicing patent group technologies: effective invention at an specific embodiment level of the technology
Peripheral Patent	0.1	Invention not necessarily required for practicing patent group technologies: further details, improvement etc.
Important Defensive Patent	1.0	Large possibility of substituting core patent
Regular Defensive Patent	0.5	Medium possibility of substituting core patent

4.2.2 Contribution Ratio Calculation of Individual Patent Assessment

Based on the factor given to each individual patent, proportion of the factor of the patent within the factor of the whole patent group, or a sum of the factors, are calculated, and used as a contribution ratio. For example, the contribution ratio

associated with Patent (A) shall be given by the following formula.

Patent (A) Contribution Ratio = Given Factor of Patent (A) / [Given Factor of Patent (A) + Given Factor of Patent (B) + Given Factor of Patent (BB) + Given Factor of Patent (Z)]

Factors given to individual patents and contribution ratios of individual patents calculated based on the given factors are shown in Table 11.

Table 11 Contribution Ratios of Individual Patents

	Given Factor	Calculation of Ratio	Contribution Ratio
Basic Patent (A)	1.0	1.0 / 2.1	0.48
Sub-Basic Patent (B)	0.5	0.5 / 2.1	0.24
Peripheral Patent (BB)	0.1	0.1 / 2.1	0.04
Defensive Patent (Z)	0.5	0.5 / 2.1	0.24
Total	2.1	1.0	1.0

4.2.3 PV Calculation of Individual Patents

PVs of individual patents are worked out by multiplying by the calculated contribution ratios, the total PV of the whole patent group in each country. In the following, the PVs worked out for US, Japan, and Germany are shown in Table 12 – Table 14.

Table 12 PV in US

Patent	Contribution Ratio	Total PV (¥ Mil)	PV (¥ Mil)
Basic Patent (A)	0.48	300.0	144
Sub-Basic Patent (B)	0.24		72
Peripheral Patent (BB)	0.04		12
Defensive Patent (Z)	0.24		72

Table 13 PV in Japan

Patent	Contribution Ratio	Total PV (¥ Mil)	PV (¥ Mil)
Basic Patent (A)	0.48	75.0	36
Sub-Basic Patent (B)	0.24		18
Peripheral Patent (BB)	0.04		3
Defensive Patent (Z)	0.24		18

Table 14 PV in Germany

Patent	Contribution Ratio	Total PV (¥ Mil)	PV (¥ Mil)
Basic Patent (A)	0.48	89.7	43
Sub-Basic Patent (B)	0.24		22
Peripheral Patent (BB)	0.04		4
Defensive Patent (Z)	0.24		22

§3 Conclusion

As explained in the above, described was one of a more quantifiable judgement index for gaining a maximum effect in filing international patent applications of an invention by adding, to the concept of PV consisting of "Expected Business Income" and "Expected Royalty Income", new concepts of "Expected Defensive Value Against Business Income Loss" and "Expected Defensive Value Against Royalty Income Loss". This addition of the new concepts realizes value judgements on defensive patents, that have been considered impossible.

In addition, where one patent group is constituted by a plurality of patents, calculation of a total PV of the whole patent group and PVs associated with individual inventions constituting the patent group has been made possible by using either: i) Summation Method or ii) Contribution Ratio Method.

Furthermore, in calculating the above four factors that are constituents of PV, calculation of each of the factors (α, β, γ, γ') has been made simpler, and also by paying attention to the correlation between company strategies and PVs, the PV formula has been simplified to a further practical formula.

We believe that the starting point of a GPP-conscious patent application strategy may be at a correct assessment of inventions. There are many such assessment approaches, as we can readily name, i.e. i) Market Approach (assessment based on market research), ii) Cost Approach (assessment based on cost), iii) Income Approach (assessment based on expected income) and so forth, and one might even can say that, this has been a hot topic attracting significant attention especially during late years. We would be pleased if our paper results in further active discussions on this topic which, we believe, is going to further develop in the future.

PCT Filing in Japan

This presentation is based on and in response to the article

published in February 1999 in the

*Journal of the Patent Office Society (JPTOS)**

by

Hideo Kodama & Jeffrey D.Tekanic

(hereinafter referred to as "the authors")

on

Reducing the Costs of Obtaining and Maintaining Japanese Patents

* pages 117 to 129

Protecting inventions in Japan

Two routes:

- direct filing under Paris Convention
- filing under the PCT

Main cost elements

- Time spent on drafting application
- Adaptation of application for procedure before the JPO and Japanese translation
- Fees based on number of claims
  - examination fee
  - issue fee
  - annual fees

Costs driven by

- extent of adaptation for filing with JPO
- length of text to be translated
- number of claims

How to reduce costs ?

- Shorter text = lower translation costs
  - Translation costs consist of two parts:
    - translation charge per word
    - typing charge per page
- Sufficient time = avoids supplement for rush translation
- Less claims = lower examination, issue and annual fees

The authors propose

Send English text to the Japanese patent attorney for review, shortening of text and editing to conform to Japanese patent style.

To best protect applicants rights the Japanese patent attorney

- should file in Japanese through the Paris Convention route and
- be permitted to substantially revise and improve the application before filing with the JPO

Busso Bartels, PCT Advisor, WIPO, 31.08.99

The authors suggest

Before filing in Japan the Japanese patent attorney should

- reduce the number of words in the application through judicious editing without sacrificing patent rights

After filing the Japanese patent attorney should

- reduce the number of claims

The authors believe

- Paris Convention filing with the JPO in English is not as effective as filing in Japanese even if the English text has been revised by the Japanese patent attorney
- Paris Convention filing is preferable to PCT filing because under PCT the Japanese patent attorney had no opportunity before filing with the JPO to improve the application and to adjust it to Japanese style

The authors warn

- Without particular knowledge of various jurisdictions the applicant could unintentionally introduce irreversible errors which might materially affect the scope of protection that is ultimately obtained in the various countries
- Problems encountered with PCT national phase filings could not be corrected quickly and efficiently. Such problems could be avoided only under Paris Convention route through pre-filing amendments

Busso Bartels, PCT Advisor, WIPO, 31.08.99

The authors advise

against generally using the PCT for applications that will be later filed in Japan because

- preparation of a single text for multiple national procedures would not necessarily guarantee maximum patent protection
- the patent attorney preparing the application had usually experience only in the country where the application originates

The authors contend

Any savings under PCT from minimizing patent prosecution cost and from delaying national filings may be dissipated either

- by increased prosecution cost during the national stage or

- by loss of patent rights

because the PCT application was not customized for a particular national patent Office

Response to the authors' views

The following slides summarize comments and arguments in particular relating to the views expressed and the allegations made by the authors in the article in JPTOS referred to above with respect to the PCT procedure

General rules for Applications filed in English

- The text filed in English is the decisive text to be used as the reference for the original content of the application and the disclosure of the invention
- This applies in **all** cases whether the application is filed in English
  - directly with the JPO under the Paris Convention route or
  - through the PCT

Need to edit the text of the application ?

Under US practice applicants tend to include more than is necessary for a sufficient disclosure supporting all claims. The text can frequently be shortened without risk by

- deleting repetitive and irrelevant disclosures
- reducing the length of background section
- introducing support for disclosures incorporated be reference in original text
- making, where possible, tables from narrative examples

When to edit the text for foreign filing ?

Any application should be edited **before** filing, irrespective of whether the application is filed

- as a national application with the JPO in Japanese
- as a national application with the JPO in English or
- as a PCT application in English

Who should edit?

The persons best qualified to edit and reduce the text of the application are the applicant and the patent attorney who prepared the application

Option if only Japan involved

- If the applicant is only interested in obtaining a Japanese patent, the procedure suggested by the authors could be a valuable strategy
- If applicant is seeking patent protection also in other countries or regions a pre-filing review would have to be carried out for each country concerned. This strategy is too time consuming and costly, considering time commitment for applicant and patent attorney

Application filed in Japanese (1)

- The text filed with the JPO is decisive if the Paris Convention route is chosen
- Editorial changes by the Japanese patent attorney are costly whether made
  - to the English text before translation into Japanese or
  - to the Japanese translation before filing with the JPO

Application filed in Japanese (2)

Editorial changes by the Japanese patent attorney involve risks of unintentional deletion of important matter

Since the text filed with the JPO is decisive

- only certain changes can be remedied through amendment
- deleted matter would be regarded as new matter which may not be added after filing

Editing consumes savings

- Cost for time spent by Japanese patent attorney in reviewing and shortening text consumes possible savings in translation cost
- Changes require to be checked by applicant which cost also time = money
- Checking by the US applicant is impossible if changes are made only in the Japanese text to be filed with JPO

Who should translate into Japanese ? (1)

Japanese patent firm

- **advantage**: expert in patent and technical terms; patent firm translators work reviewed by patent attorney
- **disadvantage**: translation not made by professional translator, higher costs

Who should translate into Japanese ? (2)

Commercial translation service, **advantage:**

- professional translators, lower costs

Where PCT application is filed

- corrections possible if English text is filed under PCT
- translators can work from the **published** PCT application
- 12 months to prepare the translation, no confidentiality restrictions
- Internet accessibility and download

Who should translate into Japanese ? (3)

Commercial translation service **disadvantage**:

- (initially) lack of expertise in patent and technical terms
- disagreements between commercial translation service and patent firm about nuances of translation

Advantages of using PCT (1)

Under PCT only one single application needs to be prepared which may be centrally amended during the international phase with effect for all designated Offices. The traditional procedure requires filing with the foreign Offices of multiple individual applications and of multiple individual amendments

Advantages of using PCT (2)

- Better home control. No risk that a foreign patent attorney who is less familiar with the invention than the applicant makes changes which may unintentionally affect the best patent protection
- consistent disclosure is more important than cost savings in a certain country through editing by that country's patent firm

Advantages of using PCT (3)

- The PCT gives more time for a better decision
- The PCT guarantees that
  - an international application complying as to form and contents with the PCT must be accepted by all designated Offices
  - the international application can be amended in the national stage to comply with national law and practice, including a change of the number and kind of claims

Advantages of using PCT (4)

- PCT gives more time for translation which means better quality and lower cost
- The text of the PCT application as filed in English is ultimately decisive and not, as under Paris Convention route, the translation filed with the JPO
- A defective translation can be corrected before the JPO with reference to the English text as originally filed under PCT. Matter which was deleted unintentionally during translation can be introduced again

Japanese translation under PCT (1)

It is important to note that the translation into Japanese must be furnished within 20 or 30 month from the priority date. The two-month time limit for translation into Japanese does **NOT** apply under the PCT. The PCT text as published at 18 months is the original text which must be furnished in Japanese translation to the JPO

Japanese translation under PCT (2)

The translation of amendments made during the international phase does not need to be furnished within the 20 or 30 month time limit. Amendments may be made later once a request for examination is made. Until then, the JPO will simply disregard the amendments.

Japanese translation under PCT (3)

- This delay of amendments can allow full USA and European prosecution to conclude before JPO examination begins
- Best, few JPO claims get examined with experience of PCT, USA and EPO examinations completed

Disadvantages of not using PCT

Decision on filing in Japan must be made

- earlier than under PCT and before international search and preliminary examination results are available
- without the better knowledge of the technical, legal and market value as available 30 month from the priority date
- when it is not yet clear whether filing in Japan will still be necessary 30 month from the priority date
- translation cost 18 months earlier - time value of money

Basic observations on national vs. PCT filing (1)

- PCT Contracting States have a largely harmonized patent procedure when PCT route is chosen
- Procedures in Japan and Europe are very similar, different practice usually only in the USPTO
- The general remarks by the authors on unnecessary detailed disclosures and too extensive discussion of background art apply for **all** foreign filings where translations are required and should always be kept in mind when preparing any application for foreign filing

Basic observations on national vs. PCT filing (2)

- The worldwide harmonization initiated through the PCT and TRIPS allows the drafting of a "universal" application which is basically good for all countries, hereinafter referred as the **"international format"**
- Better practice is to write the first application with future international filings in mind

Basic observations on national vs. PCT filing (3)

It is possible to draft an international application in an **"international format"**, i.e..., in such a way that it is suitable for the purpose of all designated States by complying with the most severe requirements applied by the designated Offices.

Basic observations on national vs. PCT filing (4)

The use of such an **"international format"** reduces to a minimum changes required for the national stage and allows early initiation of the translation process with foreign patent firm or using commercial translation services while maintaining all the advantages offered by the PCT

Basic observations on national vs. PCT filing (5)

- It is not only the applicant who can "unintentionally introduce irreversible errors into the specification, which errors may materially affect the scope of protection that is ultimately obtained"
- Also the foreign patent attorney may introduce such errors. There is always a risk on both sides
- The risk is minimized under the PCT with its multiple possibilities for amendments and the validity of the PCT format for all PCT countries

Basic observations on national vs. PCT filing (6)

Paris Convention filing in several countries based on translations containing the changes and adaptations by the foreign patent firms, as suggested by the authors, result in several differing applications because of the individual changes made by each national attorney. The risk of unintentional errors and of inappropriate deletions is multiplied.

Basic observations on national vs. PCT filing (7)

- Applicants cannot fully control the changes and they result in lack of uniformity of protection
- Inconsistent prosecutions become an issue in enforcement litigation, particularly in USA litigation

Further observations on PCT filing (1)

- The authors conclude that using PCT leads to "homogenized" applications which do not maximize the patent protection in any one country
- A "homogenized" application is not considered as a disadvantage by applicants worldwide expected to file over 70,000 PCT applications this year
- The authors conclusion disregards the manifold other advantages of the PCT and the harmonized protection in multiple countries through the PCT

Further observations on PCT filing (2)

- The possibility to amend the description and the claims of an international application during the national phase permits the obtaining of broad patent protection in Japan, avoids loss of rights and allows the reduction of the number of claims = reduction of fees
- Pre-PCT filing review by a Japanese patent attorney could be valuable but is a costly alternative because translation is required 18 months before national phase under PCT

Further observations on PCT filing (3)

- For PCT filing there is no fee depending on the number of claims. Therefore, the author's advice to include many independent and dependent claims and to claim the invention in a variety of styles applies also to the PCT route. It may only result in some additional translation costs
- For fee purposes the number and kind of claims may be amended when requesting examination or even thereafter also for PCT applications

Further observations on PCT filing (4)

Only minor differences exist between the majority of PCT Offices in the national phase. Such differences, in particular the kind and number of claims, in order to obtain maximum protection for minimal cost, can be straightened out upon entry into or during the national phase by making the appropriate amendment without the risk of loss of important matter through changes made before filing when the PCT is not used

Further observations on PCT filing (5)

- The authors also ignore the benefits of International Preliminary Examination.
- A "Positive Report" is very persuasive for the national phase prosecution

Conclusion

The authors show an excellent knowledge and experience with national practice in Japan and the USA but their advice against using the PCT procedures for filing in Japan cannot be shared and does not correspond to the experience of applicants having filed hundred of thousands of applications under the PCT. More than half of all foreign applications in the national stage in Japan are filed under the PCT. They propose a procedure which reverts to an earlier time when PCT benefits where not available

Busso Bartels, PCT Advisor, WIPO, 31.08.99

(1) Title: Reduction of Global Patent Costs

(2) Date: October 13-15, 1999 (The 30th General Meeting at New Orleans Conference)

(3) Source: 1) PIPA, Japan

2) Third Committee

(4) Authors: KONNO, Katsuharu; Fujitsu Corporation

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(5) Key Words: Patent Cost, Breakdown of Costs; Search Cooperation, Examination Cooperation; Partial Translation, Official Costs

(6) Summary:

Actual patent costs including those in Asian countries were surveyed. Details of our survey were analyzed and the differences from past reports were considered. Based on the results of the survey, the following reform proposals were explored: 1) Abolition or relaxation of inessential procedures. 2) The cost of application to the applicant may be reduced by Partial translation of a specification. 3) Promotion of search cooperation and examination cooperation among the countries. 4) The reduction of official fees. and 5) The possibility of promoting competition among patent law firms in Asian countries.

1. Introduction

In recent years, the issue of a reduction in the costs of patent application to a number of countries has been the focus of attention. Many discussions have been held, and various proposals have been made. As part of these discussions, the costs were broken down and analyzed. However, not all outcome of the reports were consistent, and many reports do not always accurately reflect the amendment (reduction) to the fee schedules implemented by some countries. In addition the most of the reports focus on the three major countries, namely the United States, Europe, and Japan, and the data concerning Asian countries are relatively scarce.

For this paper actual patent costs including those in Asian countries were surveyed, the breakdown was analyzed, and the differences from past reports were considered.

Based on the results of the survey, the following reform proposals were explored:
i) Abolition or relaxation of inessential procedures.
ii) The cost of application to the applicant may be reduced by Partial translation of a specification.
iii) Promotion of search cooperation and examination cooperation among the countries.
iv) The reduction of official fees. and
v) The possibility of promoting competition among patent law firms in Asian countries.
The consideration/discussion was based on the view point that not only the interest of the applicant in major countries but also the interest of any third party and of all countries should be sufficiently taken into account. This is because the development of industries owing to the patent system should be achieved in harmony with the interest of not only the applicant but also any third party. Any cost reduction by which the interest of any third party is to be severely compromised should not be allowed. A full consideration of the interests of a third party and of all the countries including developing countries will also in the long run benefit the applicant.

2. The breakdown of the costs (The survey results on the costs arising from patent application to patent maintenance)

In this report, six member companies of the 3rd Committee, PIPA Japan, conducted a survey of the costs arising from patent application overseas including the fees of the Patent Office of each country.

The following items were surveyed, and the data were processed as described below.

1) Costs were surveyed of the following numbers of patent attorneys in the following countries.

USA: 14, Germany: 8, France: 4, UK: 4, Taiwan: 4, Korea: 3,
China: 1(Uniform fee), Indonesia: 4, Thailand: 3, Malaysia: 2

2) The information on the fee schedules of the Patent Office of each country was taken from the data on the home pages of the Internet, or the data from patent attorneys in each country. The effective date of each fee schedule is as follows:

Source: Internet

U.S.: 10 November 1998, EPO: 2 March 1999, Germany: 1998 edition,
U.K.: 1 October 1998, Korea: 1 January 1998, China: promulgated in 1994

Source: patent attorney of each country

France: March 1999, Taiwan: February 1998, Indonesia: 7 June 1999,
Thailand: 23 October 1997, Malaysia: 1 August 1998

3) Costs of the patent agent's were surveyed of basic fees and actual costs when any of six member companies are dealing with patent agents. Multiple data were processed to a mean value between the maximum value and the minimum value in order to sort them out by country. (The data in reference materials were processed in the same manner.)

4) The patent costs were broadly grouped into (a) the costs required from the time of filing an application to the time of registering a patent. (The application cost hereafter), (b) the costs of translating it from English into the local language, and (c) the on-going costs after registration. (The maintenance cost hereafter) (a) and (c) are further broken down to costs arising from the Patent Office and the patent agent.

(a) the basic filing fee, the additional filing fee, the search fee, and the examination

fee.
The additional filing fees include the priority claim fee, the assignment fee, and country designation fee (in case of the EPO) , and IDS costs.
(c) the grant/issue fee, annuity

5) A hypothetical application comprising 20 pages of specification (6500 words in English), 10 claims, 2 sheets of drawings was used to compare costs.

6) The maintenance cost was calculated on the assumption that all the costs of the annuity and the patent agent's cost over the entire period until the expiry date (the maximum of 20 years) were to be paid. In the case of the EPC, the three countries, namely Germany, France and the UK, have been designated to be used for the cost calculation. It was assumed to take four years from the filing date to the registration date. The maintenance fee payable to the EPO over the four year period and the annuity of the three countries over the 5 - 20 year period were added and converted to the cost per country. The annuity payable in Malaysia was calculated over a maximum 15 year period.

7) The costs were converted to US$ by using the following exchange rates.
US$1.0: EUR 0.956, DM1.87, FR6.27, Sterling 0.619, Won 1184, NT$33.03, RMB 7.96, Rupiah 8.035, Bart 37.11, SG$1.72, Jyen 121.6

Many reports on patent costs are available. Helfgott's paper (N.B.1), which studied/analyzed the details of application cost, Berrier' paper (N.B.2) and Sakuta's paper (N.B.3), both of which discussed the total cost, were used as references, and the difference between these reports was also considered.

(N.B.1) Samson Helfgott, "Patent Filing Costs Around the World", JPTOS, pp 567, July 1993

(N.B.2) Erwin F. Berrier, Jr (translated by the 3rd Committee, PIPA Japanese Sectional Meeting) " The need for a reduction in patent costs"
Intellectual Property Management, Vol. 46, No. 8, 1996

(N.B.3) Yasuo Sakuta, "Globalization and a reduction in patent costs" Intellectual Property Management, Vol. 47, No. 11, 1997

(1) Overall patent costs

Table 1 and Fig. 1 compare standard application costs and maintenance costs by country. The costs were shown separately between the costs of the Patent Office (official costs), and the cost of the patent agent. The costs of translation from English into the local language are also added.

The overwhelming cost over the entire period from the application to the expiry is still the maintenance cost. The annuity and the agent's cost in Germany is by far the highest, followed by Korea. The cost in the EPO is relatively high owing to the impact of the annuity in Germany where the annuity is paid over a 5 - 20 year period. The maintenance costs in China, Indonesia, Thailand are also relatively high, while those in Taiwan and Malaysia are low. The reason why the cost in the UK is low is due to the abolition of the fees for the main Patent Office procedures including the filing fee and an average 18 % reduction in the annuity. The Patent Office cost accounts for 60 - 82 % of the total patent cost.

(2) The application cost

Table 2 shows the standard application costs which comprise the basic filing fee, the additional filing fee, the search fee, and the examination fee together with the translation cost. Fig. 2-1, and Fig. 2-2 are Official costs and Agent's costs respectively.

For Official costs (Fig. 2-1), the US and the EPO show high values. With regard to the EPO, the costs are relatively high because only the three countries have been designated for the cost calculation. The US adopts the principle of examining all cases, and so the basic failing fee includes the search and examination costs. Even so, it is characteristic that not only the basic filing fee but also the additional costs are high in the US. The high application cost in the EPO has been pointed out. However, the basic filing fee and the search fee have been reduced to approx. one third and by approx. 20 % respectively from 1998 to 1999.

The search fee in France appears to be high. However, the search procedure in France is in effect the examination procedure and the search fee is in fact the fee for both the search and the examination.

In the UK, the application fee is virtually nil due to the reduction described earlier. The application costs include only the search fee and the examination fee.

Search fees do not appear for Asian countries. Their search capability is insufficient compared with that of western countries. They are in some areas dependent on the search reports of western countries.

Of the agent's cost (Fig. 2-2), the translation cost in non-English speaking countries accounts for a major portion.

Even in Germany and France of the EPC, a translated specification in each language is required after the publication of the patent application. The translation cost should be added to the agent's cost in these countries, though Table 2 and Fig. 2-2 do not show it.

In many countries, the translation cost exceeds other costs in the agent's cost. And a reduction in the translation cost is a major issue. This issue is discussed in detail in the next chapter.

Excluding the translation cost, the agent's cost tends to be high in Asian countries where the Patent Office's cost is relatively low. In particular, the agent's cost in Thailand and Indonesia is high. In these countries, the agents have an oligopoly which contributes to the high costs. The agent's cost in Asian countries is also discussed in detail in the next chapter.

(3) Past literature and comparisons

Tables 3-1 and 3-2 compare the result of the survey this time with that in Helfgott's paper, together with the cost reduction rate of this survey to Helfgott's report on each item. Calculations for the cost in the EPO is based on the same assumption as in Helfgott's report. (Five countries were designated.) The data items of this report on Tables 3-1 and 3-2 were matched to the items Helfgott used, and so some of the cost data on Tables 3-1 and 3-2 do not match to the cost data on Table 2.

Excluding the US, the UK, and Korea, the cost is lower than at the time of Helfgott's survey. The main reason for the reduction is because in the EPO the basic filing fee has been substantially reduced, and because the costs of the Patent Office are on the

whole reduced. On the other hand, the agent's costs have fluctuated and not necessarily followed the trend of the Patent Office. In this survey, the US came out as the country where the Patent Office cost was the highest.

In the UK, the agent's fees in this survey were higher than those in Helfgott's paper, and therefore the overall application cost was not reduced. The main reason why the application cost was not reduced in Korea was a high translation cost. The average translation unit cost of US$25/100 words was higher than US$22/100 words in Germany/France, and US$8-19/100 words in Asian countries except Korea.

Table 4 shows the comparison with the data in both Berrier's paper and Sakuta's paper.

Re costs in the US, the values found in this survey came out half-way between the two papers. Barrier's paper showed the highest values. The main factor is the agent's cost from the filing to the registration. His value is approx. US$2000 higher than this report gives, and US$ 4000 higher than Sakuta's report. Barrier's report assumed two official action costs and two amendment costs. As explained later in the next section, response-to-office-action costs vary a great deal, which might have contributed to the difference.

As for the costs concerning the EPO, the reduction in the basic filing fee in the EPO lowered the cost from the application through to the registration in this survey report compared with the two previous reports, despite a fewer number of designated countries.

(4) Actual application costs

Table 5 and Fig. 3 show the agent's actual application costs in contrast to the standard application costs of the Patent Office and the agent. Because of the lack of the actual agent's fee for the search, the application cost excludes the search fee. For reference, actual costs concerning official action were also shown. The actual cost of zero indicates that there was no data, not nil cost.

Actual application costs(A) comprise the standard cost(S) plus some administration costs. These administration costs are about US$150 in the US and the EPO, whereas those costs are about US$50 in Thailand and Malaysia. The actual costs in Korea and

China far exceed the standard costs, because the costs in these two countries include typing and drawing fees as separate items. In Indonesia, the actual costs were lower than the standard costs. This is considered to be due to a wide variation in fees between different agents.

The cost of official action was highest in the US. In this survey report, the data vary between US$535 and US$2593 per case, substantially exceeding the standard costs. The cost of official action can be avoided by careful preparation of the contents of the application. It is necessary to take this into account when considering the reduction in actual costs.

3. Proposals for cost reduction

(1) Abolition or relaxation of inessential procedures

Many and various official procedures are required by the Patent Offices of every country and it is considered that some of them should be abolished or relaxed. The cost under consideration is classified into the additional filing fee described in the previous section, which does not account for a large part. However, a large reduction can be possible in multiple applications or in combination with other cost reductions.

a) Filing of priority documents

In a PCT application, an applicant can save the cost of filing the priority documents into each Patent Office of designated country separately, because the International Bureau of WIPO will send them to all Patent Offices of designated countries after receiving a single set of priority documents. On the other hand, since January 1999 the JPO and the EPO do not require the filing of the priority documents between these Patent Offices anymore. This is the outcome of the Trilateral Commissioners' Conference held in Miami in November 1998, in which two Patent Offices agreed to exchange the priority documents by optical data discs. The USPTO and the WIPO are to join in the agreement. In future, it is desired that every Patent Office in the world should abolish the requirement of the priority documents by the worldwide data exchange of the priority documents.

b) Filing of a translation of the priority documents

The translation of the priority documents is not required by most countries

except the EPO and the Korean Patent Office. In both Offices the translation of the priority documents can be omitted if a specification and drawings are completely identical with the priority documents. In the EPO the filing of the translation can be deferred until the due date of the fee for grant and printing since June 1995. This late filing saves the cost of the translation if the patent application is later abandoned due to the patentability or the patent value. Nonetheless, the filing of the translation is required for registration if the patent application is not completely identical with the priority documents. However, the filing of the translation of the priority documents is an exception to worldwide practice. It is hoped that such an exception should be abolished in view of harmonization or be relaxed to be required only when it is necessary.

c) Filing of a copy of documents with IDS.

The USPTO requires that an Information Disclosure Statement includes a legible copy of any document, e.g. any US and foreign patent and any publication. However, many Patent Offices currently provide free searchable patent databases on their internet sites, for example, the JPO provides the full image of Japanese and US Patents. In future, it is hoped that the Patent Offices of various countries take a program of exchanging patent databases and that the filing of a copy of at least patent for the IDS should be abolished.

(2) Partial translation of a specification

In this survey report as well as in the past reports, the cost of translating a specification in English into the local language of a non-English speaking country is still heavy. A reduction in the cost of translation is a major issue.

If an applicant is given sufficient time to decide whether the translation of a specification is necessary or not, the applicant can select which application or which part of the specification should be translated. This will save unnecessary costs of translation. In other words, a system, which delays the deadline for the translation from the mother tongue into the official language of the country concerned as long as possible, will achieve a reduction in the cost of translation.

1) The filing deadline for translations under each current system.

a) Patent applications using the Paris Convention priority system

When a patent application which was filed in the mother tongue is filed for priority claims under the Paris Convention overseas, the applicant is required to file the translation into the official language of the country concerned within the priority period (within 12 months from the day of filing of the first application). Even in a country which permit a patent application in a language other than the official one, the applicant is required to file a translation of the specification into the official language within a few months.

b) Patent applications using the International Application System.

The Patent Cooperation Treaty made the legal protection of inventions easier and more economical in more than one countries where the protection is sought by integrating the application procedure and by establishing an international search system, an international publication system, etc., (cf. the Paris Convention).

There are also various provisions which handle a number of languages in an integrated manner in the Patent Cooperation Treaty. Furthermore, abstracts and international search reports are published in English for the general public to facilitate access to technical information contained in the patent applications. Thus, the Patent Cooperation Treaty is an extremely valuable system for the general public and the applicants.

The filing period for translation into the official language concerned in the International Application System is in principle within 20 months from the priority date. When an international preliminary examination is demanded for within 19 months from the priority date, the period is extended to 30 months from the priority date. In addition, the applicant has an opportunity to make more accurate decisions on whether the application should be maintained in each country after considering the international search report and the international preliminary examination report, before committing himself the cost of the translation. In all of the above points, the Patent Cooperation Treaty is useful to the applicants. However, the substantial examination is still made by the Patent Office of each country. Therefore, it is essential that the translation of the specification, etc. in the official language concerned is filed.

This means that the cost of translation has not been reduced be it in the international application system, in comparison with the conventional application system using the Paris Convention priority right, except when the application becomes valueless at the

international application stage, thereby making the translation unnecessary.

2) The Ideal system

Ideally, a global patent system should be established incorporating the Patent Cooperation Treaty by which the procedures are harmonized, the TRIPs agreement and the Patent Law Treaty by which the harmonization of intellectual property rights systems is being sought, and the Trilateral Cooperation (the JPO/the USPTO/the EPO).

However, there are many issues yet to be resolved with many law differences in various countries (e.g. the first-to-invent system and the first-to-file system, the grace period system).

With this situation, the partial translation system is proposed as the next best option before the ultimate global patent system is in place.

3) The Partial Translation System

There are many stages in the patent procedure from the application to the exercise of a patent right. The role of a specification changes at each stage. In addition, the applicant, the examiner, the third party (those skilled in the art), the judge, etc. are involved at different stages. Taking the relationship of the roles and the people involved into account, the feasibility of partial translation of a specification was considered.

A specification has to serve: i) as technical literature which publishes accurately and clearly the contents of the invention to a third party. ii) as examination material which specifies the subject of the examination. iii) as a patent right document which defines the range of the patent rights.

a) The role as technical literature

The role of a specification as technical literature is achieved by publishing the contents of the invention in the publication of the patent application. It is desirable to have it published in the official language of the country concerned so that the people can understand it easily, thereby promoting technical advance.

Those skilled in the art who use the specification as a technical literature will find it useful if the abstract is at least published in English, a standard language in the industry, which by and large meets the role as technical literature. In fact, general technical literature is sometimes published in the mother tongue of the country concerned, which could be used as bar to novelty. From this fact, the publishing the abstract in English will mean there is no substantial disadvantage to those skilled in the art in the country where the application was filed.

As a result, it is reasonable to assume that the adoption of a regime by which an abstract in English and a specification in the mother tongue to be published will not be detrimental to the role of the specification.

b) The role as the subject of examination

Today, almost all countries adopt the principle of examination. An invention is a creation of an abstract technical idea, which requires to be objectified and specified by a specification for examination. It is useful for the examiner to have a specification written in the official language of the country concerned.

However, it is harsh for the applicant to be required to file the translation of the specification in its entirety in the official language of the country concerned before the patent right is acknowledged. On the other hand neither is it realistic to expect the examiner to possess the ability to handle the mother tongues of all the applicants. One solution may be to establish a system of examination in many languages by promoting communication between the examining bodies in various countries.

Examiners in each country are supposed to have searched and understood much technical literature (mostly written in English). Examiners whose mother tongue is other than English are considered to be capable of understanding English.

It is therefore proposed that the Patent Office of a country whose official language is other than English should train examiners who can examine a specification in English as well as in the mother tongue. At the same time, the applicant is to file the specification in its entirety in English at the time of requesting the examination. This will meet the role of a specification as the subject of examination in each country.

c) The role as a patent right document

A specification becomes the document of a patent right, after the patent right is granted following the examination. A patent right is an absolute and exclusive right. It is therefore desirable to have it published in the official language of the country concerned. On the other hand, not all the patent rights are exercised against the people of the country concerned.

When the people of the country concerned are likely to have a patent right exercised against them, it is useful to have at least the claims translated into the official language of the country concerned, so that the decision whether there is infringement of a patent right or not, or whether a procedure to revoke a patent right is required or not, can be made.

Once the procedure to revoke a patent right begins, or on warning notice of a possible infringement of a patent right or the filing of infringement litigation, it is considered to be reasonable that the patentee is required to file the translation of the specification in its entirety in the official language of the country concerned so that the interests of the examiner, the trial examiner and the judge (who could be an amateur in technical matters), and the people who are the subject of the patent right exercise are protected to the maximum.

Therefore, the role of a specification as the document of a patent right would be met if the patentee were required to file the translation of the claim section in the official language of the country concerned at the time of the registration, and subsequently he is also required to file the translation of the specification in its entirety when (and if) the procedure to revoke the patent right begins, or at the time of warning notice to an alleged infringer or the filing of patent infringement litigation.

In summary, translations can be filed at each stage described below.

a) A specification in the mother tongue and an abstract in English at the time of the patent application.
b) The specification in its entirely in English at the time of request for examination.
c) The translation of the claim section into the official language of the country concerned at the time of the registration.
d) The translation of the specification in its entirety into the official language of the country concerned when a procedure to revoke the patent right begins, or at the time of

warning notice of a possible infringement of the patent right, or at the filing of patent infringement litigation.

This proposed system which allows partial translation in stages reduces the cost of translation in that the applicant can select which part of the application should be translated at each different stage.

(3) Promotion of search cooperation and examination cooperation

In order to obtain patent rights in more than one countries, patent offices as well as applicants spend redundant efforts(separate and independent patent applications, prior art search, substantial examination in each country). Many proposals have been made to overcome these inefficiencies and the uneconomical nature of the procedures, which ultimately will lead to the world common patent system (regime).

For example, there is a view which advocates an international search body (the global search village) in future to avoid redundancy of data base and search work, which is a factor causing high costs. ("Globalization and a Reduction in Patent Costs." Yasuo Sakuta, Intellectual Property Management, Vol. 47, No.11, pp.1693-1700[1997]) Ultimately, an application itself can be made to this international search body, and the result of prior art search will be notified to each country. In addition, there is a view that the integration of the search results from the other two Offices initiated by one Office will be more reliable, and therefore more desirable than that Trilateral Offices(the JPO/the USPTO/the EPO) mutually acknowledge the search results of others, when the integration of the prior art search is implemented in the world common patent system. (The PIPA 29th Round Sapporo International Convention, The report of the 1st Committee "The Prior Art Search and the Patent Examination in the World Common Patent System."

Furthermore, there is a proposal of the global patent system which attempts not only the acquisition of patent rights, but also the unification of the exercise of patent rights by harmonizing the procedure based on PCT, harmonizing the implementation by the trilateral cooperation, and harmonizing the substantive laws based on TRIPs, and the Patent Law Convention ("The Global Patent System" Tanabe, Murakami, Isozumi, Taniguchi, Hatsumei, Vol. 95, No. 11 [1998] - Vol. 96, No.5 [1999]).

All these proposals are based on the world common patent system or aiming at such a system. However, CPC(Community Patent Convention) which is virtually the EC common patent system which covers all of the EC has not yet come into effect 24 years after the enactment in 1975 due to an insufficient number of countries ratifying it.

In the mean time, ways to reduce the costs in the near future by avoiding redundant procedures were explored.

1) The possibility of integrating the prior art search

The Trilateral Offices began the "Trilateral Concurrent Search Pilot Program" on 26 May this year. In this program, the examiners in the three countries conduct the examination with a mutual consultation/exchange of views at the request of an applicant when an application is filed at one of the Trilateral Offices, and the priority claims based on the Paris Convention is filed in the other two Offices. The subject of search is limited to the claims which the applicant has requested for search out of all the claims listed in each specification in the application to the Trilateral Offices. Our proposal differs from this program in that an application filed in one of the Trilateral Offices is deemed as an application in all Trilateral Offices, thus the specification and its claims in English are the sole subject of search. This requires the translation of the specification in its entirety into English if the application is in Japanese.

In more detail as described in the previous section, only a summary is required in English at the time of application, followed by the translation of the specification and the claims in its entirety into English at the time of the request for examination.

For the time being, the format of a search system will be no more than a joint search supported by the JPO, the EPO, the USPTO contributing to it in the area of their strength. Once the levels of search among the Trilateral Offices become equal, "the mutual acknowledgment of search" where the search by one Office is acknowledged by the other two will be realized, thereby contributing to the reduction of costs. The other two merits of this system for applicants are as follows.

(i) The translation of a specification and summary in English from non-English language is to be done by the Trilateral Offices. (e.g. Japanese when applying to the

JPO, German or French when applying to the EPO) (Once this is realized, it will be preferable to have the specifications of all applications published in their entirety in English before the request for examination, meeting the role as the technical literature.) It is hoped that the Trilateral Offices would make special efforts for the development of machine-translation between English, German, French, and Japanese in order to realize this system. As mentioned earlier in the previous section, this will surely contribute not only to search and examination, but also to the enhancement of use as technical literature which is one of the roles for a specification, and to the interpretation of the patent right as a document of rights.

(ii) The application fee and the search fee are to be reduced while the applicant bears the cost of translation into English, if (1) described above is difficult in practice. (An amount less than the sum of fees required to apply to the JPO, the USPTO, and the EPO.)

Machine-translation can be used for the translation of non-English prior art literature. (e.g. Japanese patents described in Japanese, which are less frequently referred to in the USPTO and the EPO.) Abstracts in English are well catered for in the commercial data base. It is therefore possible to conduct search for non-English prior art literature based on the above data base. The literature obtained from the above data base can be machine-translated. If the difference in technical features between the literature and the invention applied for is still not clear, the quality of search can be upgraded by requesting the assistance of the JPO in the case of literature published in Japanese. Machine-translation can be first developed in the area such as in the prior art literature where the accuracy of translation is not as critical as in the specification for application.

2) Integration of examination

Once the joint search described above is under way, the next step will be the integration of examination. As mentioned already, the integration of the criteria for examination is not even contemplated yet. However, it would be possible to examine jointly the matter for which there is common criteria, leaving situations peculiar to each Office (the subject for granting a patent, and different filing systems at each patent office) with it. The examination fees (the JPO, the EPO) should be either reduced or abolished to give an incentive to make progress in this matter.

A patent right in the country concerned will be granted after passing the joint examination in accordance with common criteria, and the examination by each Office. (The final examination; based on the specific situation of each Office concerned.)

Another measure to reduce costs is to limit the burden on the inventor and/or intellectual property section staff due to an increase in the number of responses to refusals, and the agent's cost by listing all reasons for refusals at the outset.

3) Application from a country other than the three countries

The member countries are initially three (JP, US, EPC[EPC contracting states and Extension States]). However, there is no reason why other countries cannot join if they agree with the purpose of the agreement. The application is made in the language of the country concerned. If the language is not English, the English translation of the specification should be filed. The result of search and examination by the Trilateral Office should be accepted. There will be a reduction in the search fee and the examination fee for non-member countries who use the results of the trilateral search and examination. Machine-translation technology between the official language of the country wishing to join the system and English should also be encouraged here. The Trilateral Offices should cooperate in this matter to expand membership.

(4) Reduction of the official costs

1) The current situation and outlook

The official fees of the Patent Office are set in each country by the Patent Office. The applicant has to pay the Patent Office various official fees from the time of application until the expiry of the patent right. The fees paid for the application overseas comprise the cost for the domestic agent, the cost for the agent overseas, and the official fees. The official fee is reported to account for 55 % of the total cost.

The major cost for the applicant is the maintenance fee. (Refer to this paper (1) "The Reduction in Global Patent Costs", the conclusion of the survey results.) For example, the maintenance fees are quite a burden on business for an applicant who files several thousands of domestic and overseas applications, and holds several tens of thousands of patent rights.

A business files applications with countries of strategic importance. The contents of application are identical, but the examination is conducted in separate countries, which require separate payments for examination. As a patent is independent and separate, it can be the case that some countries grant a patent, while others do not. The official fees for the applicant to overcome rejection will increase as a result.

Based on the above issues, proposals on (1) The maintenance fee and (2) a reduction in the examination fee are made below.

2) Proposals

(i) The maintenance fee

Is the maintenance fee really necessary ? A high maintenance fee has been the subject of discussion in many papers. An applicant who holds many patent rights is paying the Patent Office a large sum in maintenance fees. The maintenance fee in major countries was discussed in the section (1) "A Reduction in Global Patent Costs" survey results and the conclusion in this paper, and the existence of a high maintenance fee was restated.

Though it may be impossible to eliminate the maintenance fee, the following measures to reduce the cost may be workable. i) A fixed sum is to be paid yearly over the period until the expiry instead of an addition system according to the number of claims or an increment system where the payment increases as time progresses. ii) Applicants are classified as in the US, and the maintenance fee is adjusted according to the classification.

Although some Patent Offices have implemented a reduction in the maintenance fee, the maintenance fee is still expensive for applicants. It is hoped that the issue of a high maintenance fee continues to attract attention by being discussed here, hereby contributing to its reduction in the future.

(ii) Examination fee

If one examiner conducted the examination on one application, and the patent granted

were effective in the whole world, the cost borne by the applicant would be reduced substantially. However, the condition unique to each Patent Office does not allow such a system in reality. In some cases, one application in one country may require several applications in another country, which increases the amount of official fees payable.

The applicant takes various measures to reduce the cost of examination fees, e.g. by limiting the number of claims at the time of application, taking the application cost and the maintenance into consideration, or by using the regional patent system in the case of an application in more than one countries.

Practical measures to reduce the cost of the examination fee are taken by the applicant. As for the Patent Office, the integration of the prior art search will be the first step, as discussed in the Section (3) Promotion of research cooperation and examination cooperation. This is because the cost burden on the applicant is heavy in the case of request for examination or in the case of response to an office action based on the current prior art search by the Patent Office in each country. A high examination fee in the EPC needs to be reviewed. However, the EPC system which allows one application to be examined and granted for a patent in more than one countries will lead to a reduction in the burden on the applicant in terms of search and examination costs. The expansion of this model internationally will have a substantial impact on the costs of the search and examination fees borne by the applicant.

A reduction in the cost of the examination fee can also be achieved by improving the quality of the examiners. A reduction in the number of payments of official fees will also reduce the burden of official fees. The ability of the examiners varies depending on countries. An application granted for a patent in one country may not necessarily be successful in another country. The reason why the same contents may produce different examination results can be the difference in criteria or in the quality of examiners. Increased numbers of rejections means increased numbers of payments of official fees required to respond to a rejection. A reduction in the number of payments of official fees means a reduction in the cost of the official fee per application. This is why the improvement in the quality of the examiner is so vital. An interview of the applicant with the examiner can facilitate the examination process, thereby reducing the number of payments of official fees, and ultimately reducing the level of official costs.

It is hoped that the integration of search and examination will deliver a reduction in official costs.

4. Agent's fee in Asian countries.

(1) Is the level of the agent's fee high in Asian countries?

The agent's fee excluding the translation cost、the fee for the preparation of drawings and cost for requesting examination, but including additional fees e.g. priority claim, etc is approx. US$600 in China and Taiwan, approx. US$900 in Korea, approx. US$1000 - 1300 in Indonesia and Thailand, and approx. US$500 in Malaysia. The agent's fee is approx. US$800 in the US, approx. 600 - 700 in European countries e.g. Germany, France, UK, including search fee, etc. (Table 2) It is approx. US$1800 according to the standard fee of the Patent Attorney Association in Japan. The agent's fees in China, Taiwan and Malaysia are a little lower than those in US, and Europe, and are about one third of those in Japan. The agent's fees in Korea, Indonesia and Thailand are a little higher than those in US, and Europe, and range from about half to two third of those in Japan.

The translation fee (per 100 English words to the local language) which accounts for a large share in the cost at the time of application is approx. US$15 in Taiwan, approx. US$16 in China (Chinese Patent Attorney Association Standard fee), US$15- 17 in Thailand, and US$15-38 per page (US$8-19 per 100 words, assuming 200 words per page) in Indonesia. It is approx. US$15-40 in Europe, and approx. US$45 in Japan. So the translation fee in Asian countries ranges from about the same as to a fraction of that in Europe and Japan.

Personnel costs are the major expenses in the patent law firm. If the wage/salary standard in the country is low, the personnel costs are usually low accordingly. Those who are involved in application work or translation work require higher skills and expertise, and therefore the level of wage/salary is naturally higher than ususal. The difference in wage/salary between those engaged in work requiring higher skills and professional expertise and those engaged in average work is substantially large particularly in Indonesia Thailand and Malaysia. However, GDP per capita in each country is as follows (US$, 1996).

China Thailand Indonesia Malaysia Taiwan Japan

741 3174 1138 3477 13154 38086

GDP in Taiwan is approx. one third that in Japan. GDP in Thailand and Malaysia is approx. one eleventh to twelfth that in Japan. GDP in Indonesia is approx. one thirtieth that in Japan. GDP in China is approx. one fiftieth that in Japan. The average wage is in proportion to these. Therefore, even if considering the difference in wage/salary between those engaged in work requiring higher skills and professional expertise and those engaged in average work, there seems room to reduce the cost of the agent's fee in some Asian countries.

As discussed below, there is little competition between patent agents in many Asian countries. It is hoped from the applicant's view point that healthy competition will lead to reduction in agent's fee.

(2) Oligopoly of the Patent Agents in Asian countries.

In China, only fourteen patent agents can process patent applications from foreign applicants, while several hundred other offices cannot be agents of foreign applicants. In addition, the top three agents process some 80 % of all applications, making them a substantial oligopoly. The number of patent law firms however increased from four in 1990, to nine in 1996, to fourteen in 1998. This regulation is to be abolished in 2003. The percentage of business by the top law firms is gradually decreasing, and the competition is said to be becoming more active. A fair discount on the scheduled fees has been seen.

Although there is no such a regulation in Thai, Indonesia and Malaysia as in China, a top few offices monopolize most of the patent applications. For instance, in Indonesia, some forty law firms were approved to be agents when the Patent Law was enacted in 1990. Out of these only five law firms processed more than 90% of all patent applications. When the other two law firms were included in the calculation, almost 100% of all patent applications were processed by them, i.e. seven law firms. In addition, no new agent has been approved since 1990. The ratio of application numbers among the top law firms has hardly changed. The competition among patent agents is far from sufficient.

(3) Future measures

The reason why there is insufficient competition in Thailand, Indonesia, Malaysia, etc.

is because the market is small - the number of annual patent applications is some several thousands, and in a state of oligopoly where new law firms find it hard to enter the market. The governments in these countries are not always enthusiastic about nurturing new agents. It is necessary to encourage new agents and these governments in order to promote competition.

In these countries, more than 90% of applications are from overseas. It is therefore no wonder that the governments were far from enthusiastic about the establishment of the patent system, or the patent agent system. The patent system, if managed correctly, encourages technology transfer, and investment from overseas, which contributes to the development of these countries. The reason why the governments were not so keen on the patent system may be due to their conclusion that the purpose of the patent system may not be effectively fulfilled under international environments or international conventions. It is important to provide international environments/conventions which accommodate the interests of these countries. Assistance and advice on the establishment of patent agents system alone is not sufficient.

Based on the number of annual applications of several thousands, and considering the potential increase in future, there is a sufficient market for at least ten agents, therefore room for growth. Foreign customers who account for more than 90 % of the total applications should actively support new agents, which will ultimately benefit the customers themselves.

For instance, foreign customers are inclined to go for large, traditional agents as the foreign customers do not have enough information. It is important that with more and newer information, customer select better agents - it is possible with the development in transport and communication in recent years- rather than depending solely on size or tradition.

Many young practitioners are dispatched to developed countries for training by government organizations. It is important to assist them to learn not just practical training about patent work, but also the management of a patent law firm. Patent law firms in developed countries can help them by employing young practitioners as apprentices or employees for a certain period. The encouragement and the provision of a favorable environment will be necessary to make that happen.

Table 1. Summary of Patent Cost (US$)

	Application Cost				Maintenance Cost			Official Cost
	Official	Agent's	Translation	(%)	Official	Agent's	(%)	(%)
U.S.	1,040	835	0	19	6,960	957	81	82
EPO(Via Germany)	925	482	0	12	7,882	2,568	88	74
EPO(Via France)	925	593	0	13	7,882	2,366	87	75
EPO(Via U.K.)	1,033	547	0	13	7,943	2,420	87	75
Germany	406	856	1,430	14	12,045	4,243	86	66
France	757	898	1,430	32	5,054	1,529	68	60
U.K.	323	978	0	16	5,347	1,553	84	69
Korea	165	1,020	1,625	19	10,069	2,006	81	69
Taiwan	142	584	780	21	4,142	1,466	79	60
China	223	710	1,040	17	8,330	1,630	83	72
Indonesia	330	1,390	550	22	8,164	0	78	81
Thai	47	1,466	989	19	8,928	1,646	81	69
Malaysia	450	730	0	21	3,310	1,240	79	66

Fig. 1 Summary of Patent Cost

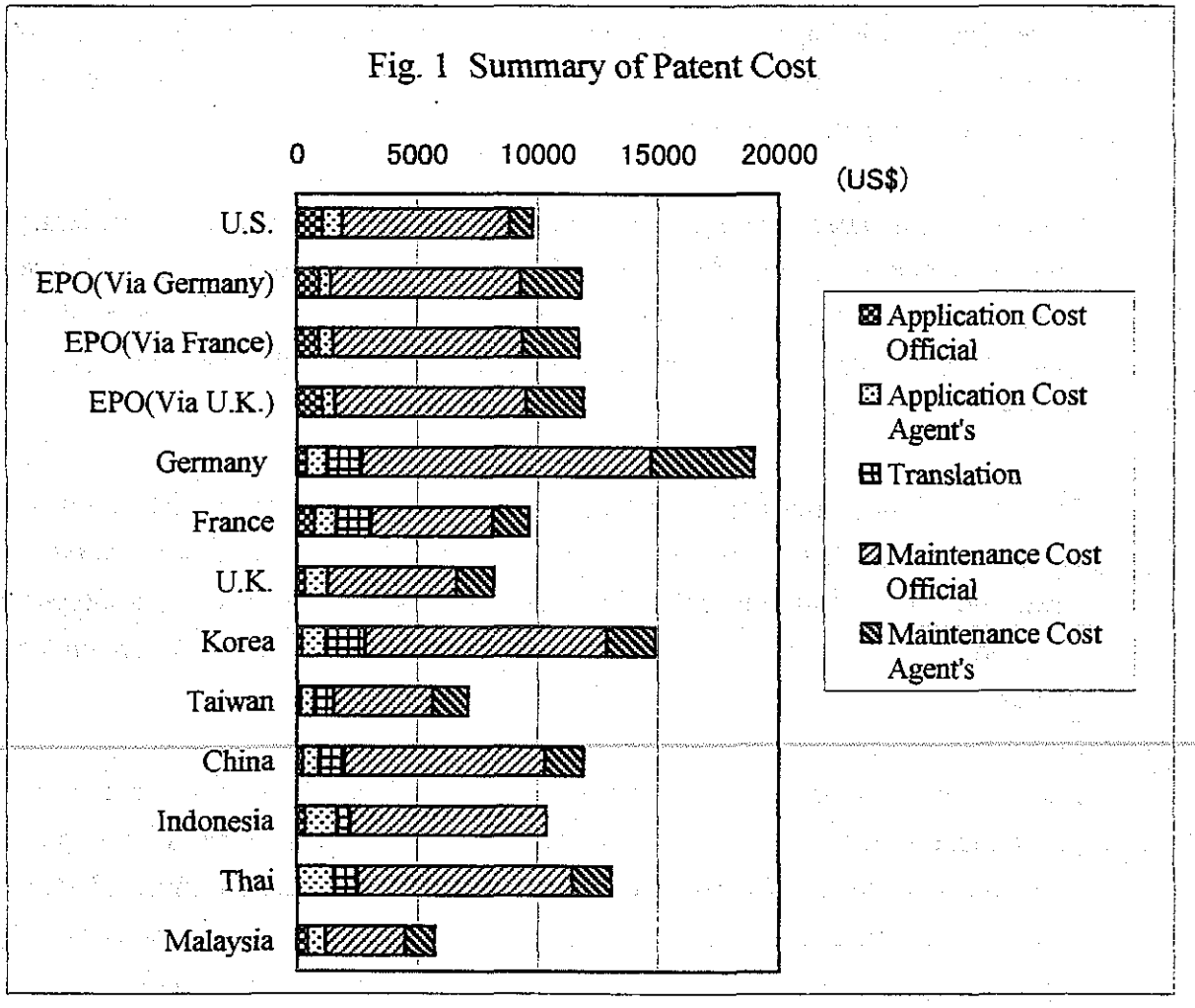
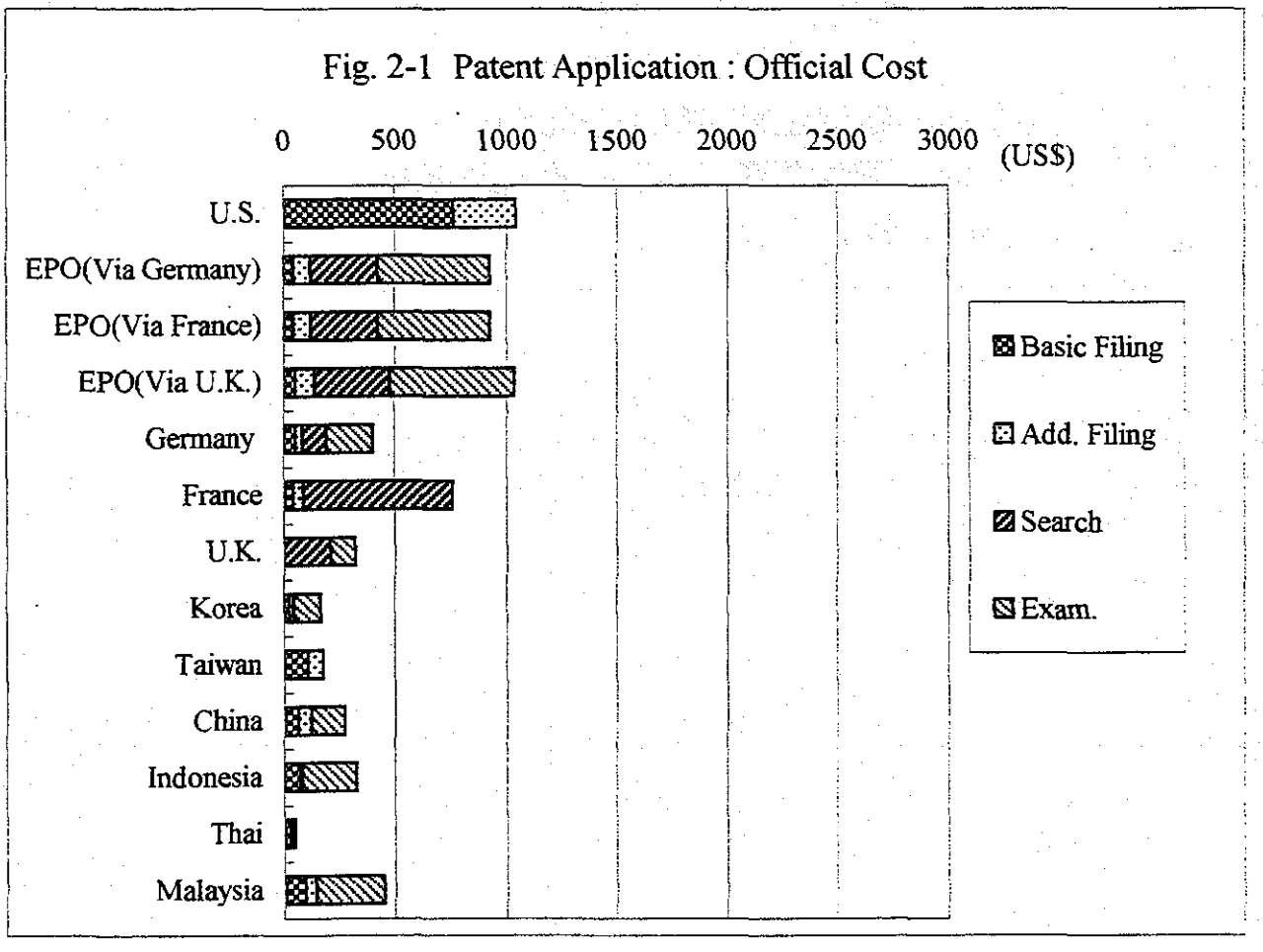


Table 2. Patent Cost for Application

	Official Cost				Agent's Cost				
	Basic Filing	Add. Filing	Search	Exam.	Basic Filing	Add. Filing	Search	Exam.	Transl.
U.S.	760	280	0	0	408	428	0	0	0
EPO(Via Germany)	44	79	303	499	169	122	52	138	0
EPO(Via France)	44	79	303	499	258	145	61	249	0
EPO(Via U.K.)	50	89	338	556	269	111	68	99	0
Germany	53	32	107	214	535	80	107	134	1,430
France	40	47	670	0	590	80	228	0	1,430
U.K.	0	0	210	113	388	89	178	323	0
Korea	24	22		119	820	95		105	1,625
Taiwan	106	69		0	515	69		0	780
China	62	60		151	500	60		150	1,040
Indonesia	72	9		249	775	215		400	550
Thai	29	3		15	997	285		185	989
Malaysia	90	50		310	270	260		200	0



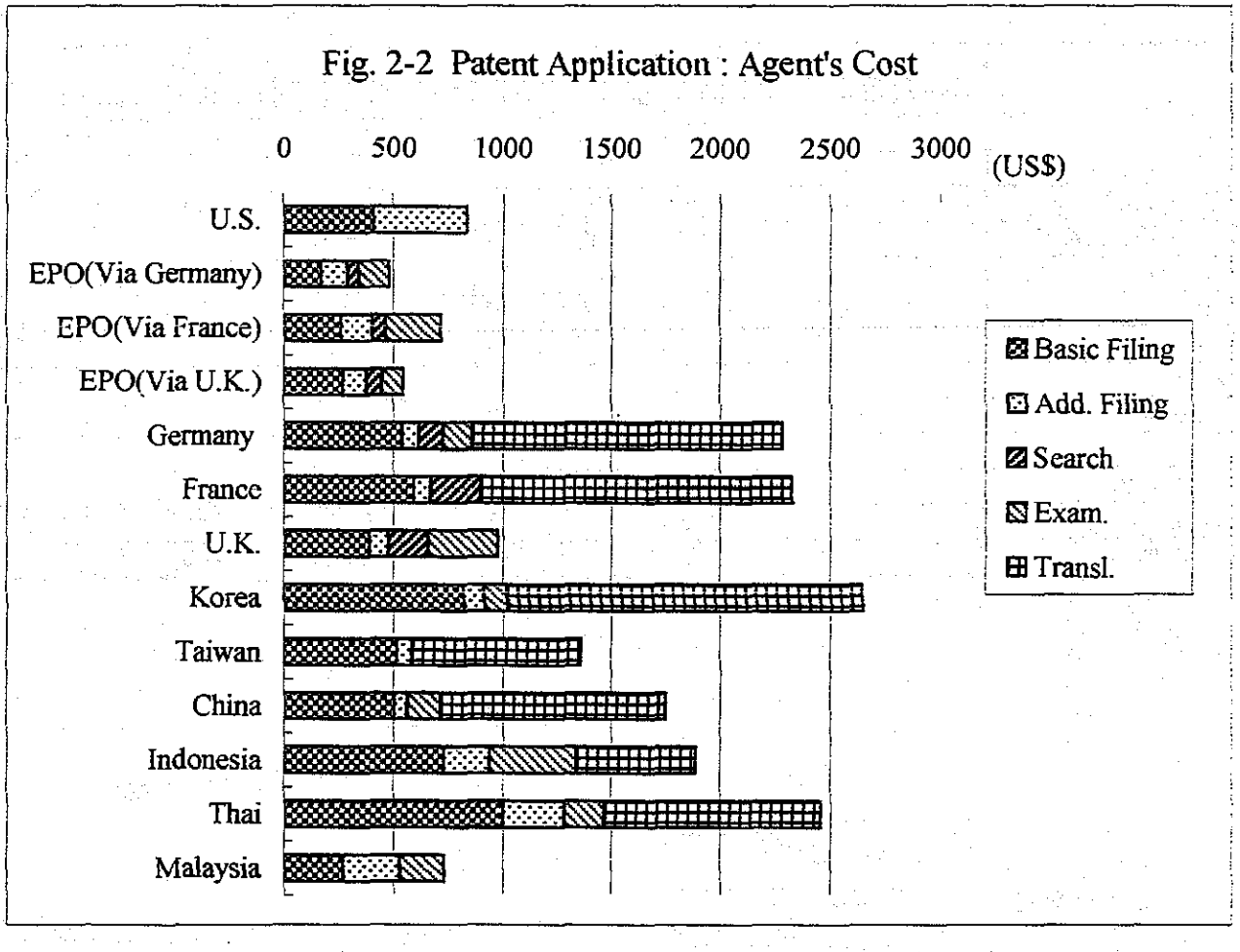

Fig. 2-2 Patent Application : Agent's Cost
0
500
1000
1500
2000
2500
3000
(US$)
U.S.
EPO(Via Germany)
EPO(Via France)
EPO(Via U.K.)
Germany
France
U.K.
Korea
Taiwan
China
Indonesia
Thai
Malaysia
Basic Filing
Add. Filing
Search
Exam.
Transl.

Table 3-1. Comparison with Helfgott Report Part-1

	Official Filing Fees incl. Search			Agent's Filing Fees incl. Search			Translations **		
	Helfgott	This Report *	Redct. (%)	Helfgott	This Report	Redct. (%)	Helfgott	This Report	Redct. (%)
U.S.	755	800	-6	635	683	-7			
EPO(Ger.)	535	287	46	353	220	38			
EPO(Fr.)	545	287	47	298	269	10			
EPO(U.K.)	581	321	45	321	285	11			
Germany	226	192	15	889	722	19	2,001	1,430	29
France	865	794	8	1,177	898	24	2,050	1,430	30
U.K.	585	420	28	612	655	-7	20		
Korea	67	46	31	770	915	-19	1,476	1,825	-24
Taiwan	195	142	27	688	566	18	1,190	780	34

*) The data items in this survey were matched to the items Helfgott used.

**) The cost of translation was calculated based on a hypothetical case of 6500 words as in Helfgott's report.

Table 3-2. Comparison with Helfgott Report Part-2

	Official Examination Fees			Agent's Examination Fees			Total		
	Helfgott	This Report	Redct. (%)	Helfgott	This Report	Redct. (%)	Helfgott	This Report	Redct. (%)
U.S.	0	0		0	0		1,390	1,483	-7
EPO(Ger.)	353	299	15	54	83	-55	1,294	890	31
EPO(Fr.)	360	299	17	369	334	10	1,572	1,190	24
EPO(U.K.)	369	334	10	68	59	13	1,338	999	25
Germany	250	214	14	128	134	-5	3,493	2,692	23
France	0	0		0	0		4,092	3,122	24
U.K.	227	200	12	203	323	-60	1,646	1,598	3
Korea	204	119	42	260	105	60	2,777	3,010	-8
Taiwan	0	0		0	0		2,073	1,488	28

Table 4. Comparison with Berrier Report and Sakuta Report

(US$)

			U.S.	EPO			
				all ctrys.(17)	10 ctrys	5 ctrys	3 ctrys
Total Cost	Berrier *		14,370	7,906	10,204	13,903	
	Sakuta **		12,420		12,960	14,920	
	This Report		13,306				13,715
Filing to Registration ***	Berrier		8,580	1,358	1,820	2,817	
		Official	1,980	637	847	1,422	
		Agent's	6,600	721	973	1,395	
	Sakuta		4,490		1,500	2,620	
		Official	730		840	1,440	
		Agent's	3,760		660	1,180	
	This Report		6,599				2,970
		Official	2,250				925
		Agent's	4,349				2,045
Translation	Berrier			914	919	1,409	
	Sakuta				1,600	1,590	
	This Report						953
Annuity	Berrier		5,790	5,633	7,465	9,677	
	Sakuta		7,930		9,860	10,710	
	This Report		6,345				9,792

*) Berrier's data concerning the EPO were divided by the number of designated countries to yield the cost per country.

**) Sakuta's data were based on the survey result from Japanese agents. They included agent's fee and the cost of translation from Japanese into English. For the sake of comparison, these costs were subtracted.

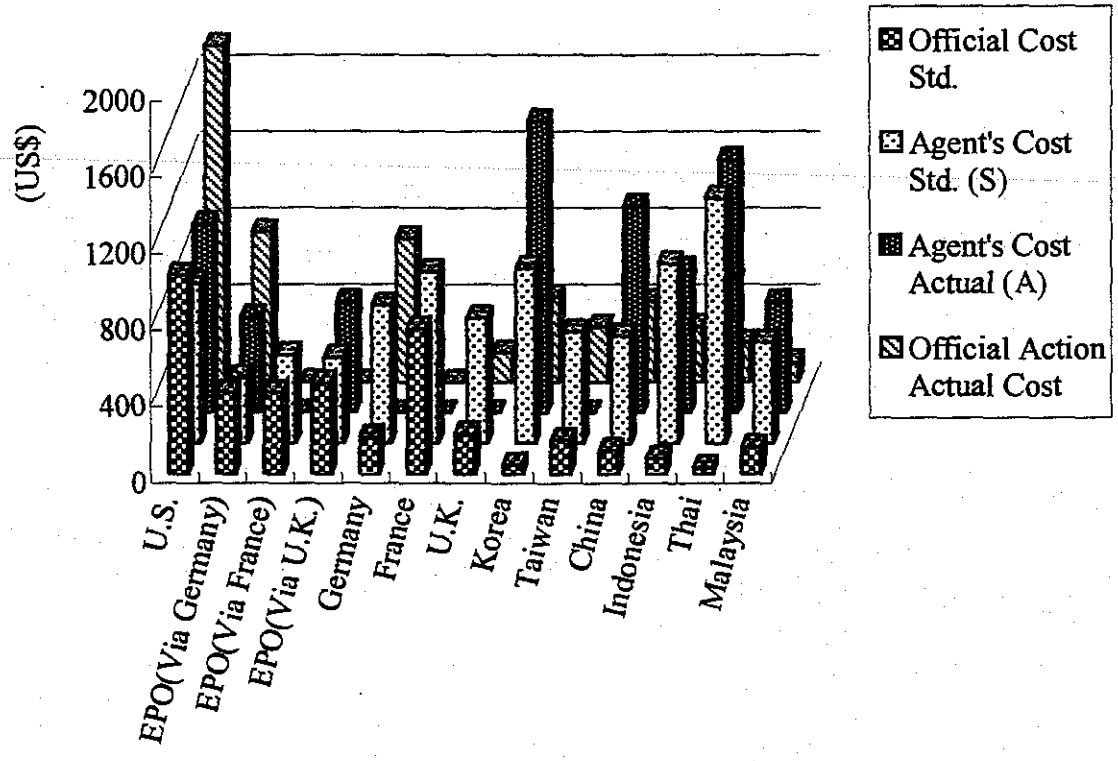
***) The costs from the filing to the registration include the Agent's fee for responding to two official actions.

Table 5. Actual Patent Cost for Application

(US$)

	Official Cost Std.	Agent's Cost Std. (S)	Agent's Cost Actual (A)	Agent's Cost (A)-(S)	Official Action Actual Cost
U.S.	1,040	835	987	152	1,757
EPO(Via Germany)	426	344	499	156	782
EPO(Via France)	426	463	0		0
EPO(Via U.K.)	476	448	579	131	0
Germany	192	722	0		749
France	757	898	0		0
U.K.	210	655	0		152
Korea	46	915	1523	608	445
Taiwan	175	584	0		288
China	122	560	1080	520	420
Indonesia	81	940	750	-190	287
Thai	32	1,281	1325	44	206
Malaysia	140	530	580	50	103

Fig.3 Actual Patent Cost for Application



COMMITTEE #4

(1) Title: Current Aspects and Prospects of Pro-Patent Policy in Japan

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3) Committee: Fourth

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(5) Keywords Pro-patent, opposition, trial for invalidation, *hantei*, infringement suit

(6) Statutory Provisions: Patent Law Articles 71, 113, 123; Regulations under the Patent Law Rule 13 (2).

(7) Summary

The Japanese Patent Office (JPO) has declared that it will promote a pro-patent policy to facilitate creative technological development, and to promote this policy absolutely requires "strong," "broad," and " quick" protection of inventions, and so the JPO is working to achieve this by revising the damage compensation articles and through the actions of the JPO examinations. But although the pro-patent policy will accelerate patent enforcement, it also tends to make the claim scope unclear. The Patent Law provided for a post-grant opposition system in 1996, and together with the trial for invalidation system has been widely used, and a *Hantei* (Interpretation) system has been introduced to clarify the scope of right from the beginning. In this paper the authors extensively introduce these systems to the US groups of PIPA, indicate some problems of the Japanese pro-patent system, and discuss prospects for the future.

(8) Contents

1. Introduction
2. Rights Established Under the Pro-patent Policy
3. Responding to the broad claims of Right
4. *Hantei* (Interpretation) System
5. Direction of Future Patent Litigation
6. Differences between Japan and the United States and Future Prospects

Title: Current Aspects and Prospects of Pro-Patent Policy in Japan

1. Introduction

Based on the "2005 Patent Administration Vision" announced in April of last year, the Japanese Patent Office (JPO) declared that it would use administrative guidance to promote a pro-patent policy to promote creative technological development to establish Japan as a scientifically and technologically innovative country. Promoting a pro-patent policy requires "strong," "broad," and "quick" protection of inventions. "Strong protection" is currently being pursued through the revision last year of the portions of the Patent Law covering compensation for damages and an increasing trend in the amount of compensation for damages in recent court decisions. "Broad protection" is being pursued through the grant of broad claims by the JPO, and "quick protection" is expected to be achieved soon through the JPO's efforts to shorten the examination period, etc.

It must not be overlooked, however, that simplifying enforcement to provide strong, broad, and quick protection of inventions also tends to make the scope of right unclear. And from the beginning the current Japanese Patent Law provided for an interpretation system regarding the technical scope of a patented invention, which is called "Hantei" and is a unique system in the Japanese Patent Law, and with the revision to the Patent Law it seems that the JPO is attempting to further utilize the Hantei system to resolve this problem. And to provide quick protection the post-grant opposition system was established in 1996, and, together with the previously existing trial for invalidation, is being widely utilized.

In this paper the #4 Committee of Japan Group has focused on these systems to introduce them to the members of the American Group, indicate some problems of the Japanese pro-patent system, and discuss prospects for the future.

2. Rights Established Under the Pro-patent Policy

2.1 Quick Granting of Patent (Quick Protection)

2.1.1 Quick Granting of Patent through the Post-grant Opposition System:

In Japan, conventionally the opportunity for a third party to oppose an examination was provided before a patent was granted, but starting January 1, 1996, a post-grant opposition system has been used to transfer the opportunity for the opposition after a patent being granted.

2.1.2 Quicker Examination:

As part of the 2005 Patent Administration Vision, the JPO plans to reduce the examination period (time from the start of examination until the first office action) from the average of 21 months required in 1997 to an average of 12 months by 2000, and has announced, in 2005 as the target date for realizing real-time operations, that will eliminate delays in patent application processing.

In other words, if this vision is achieved, Japan's examination period will be greatly reduced and will reach the international standard (11-month average for the United States; 13-month average for the European Patent Office; 1996*).

To achieve this great reduction in the examination period, the JPO is taking a variety of measures, such as promoting a paperless plan (personal computer application, parallel processing of format check and examination), utilization of private resources (expansion of preliminary surveys, such as surveys of leading edge technologies, expansion of search systems, increasing the number of examination support researchers, etc.), and shortening the examination request period from 7 years to 3 years from the date of application.

2.2 Granted Scope of Patent

2.2.1 Established Patent Claim:

For describing claims, a revised multiple claiming system comparable to that in the United States and Europe was established in 1987, and in 1994 the requirements for the claim description were essentially relaxed (Patent Law Article 36 Paragraph 4), to provide broad protection of inventions and to allow claims for the invention to be appropriately expressed.

And the Supreme Court decision in 1998 clarified the requirement for determining the doctrine of equivalents, and the JPO also has announced a policy of conducting examinations based on this Supreme Court decision under the basic concept of granting broad protection (JPO Homepage: Doctrine of Equivalent), so it appears that the number of patents in Japan with broad claims will increase.

2.2.2 Validity of Broad Claims:

It can be said that conventionally the main purpose of Japanese companies for obtaining patents in Japan was to obtain an exclusive right to work the patented invention. But if "broad protection" is granted and enforcement is simplified then enforcement will also be actively pursued in Japan, then patents with broad claims will likely be effectively utilized.

And to oppose enforcement the usage frequency of opposition and trial for invalidation will likely increase which will increase the number of patents for which the validity has been tested using opposition and trial for invalidation (However, as is mentioned later, at the current time an increasing trend has not been

seen in the number of oppositions and trials for invalidation.).

Opinions regarding whether the scope of claims will broaden differ from depending on the field of invention. Following are representative opinions chemical and pharmaceutical fields and electrical and mechanical equipment fields.

(1) Chemical and pharmaceutical fields:

If claims with a broad scope using functional expressions are allowed in the chemical and pharmaceutical fields then the scope of right will tend to become unclear. Therefore, if there is a large increase in the number of patents that are granted during the initial research stage, such as screening stages, the desire in the chemical and pharmaceutical industries to develop new medicines, etc., would disappear and could hinder research and development.

(2) Electrical and mechanical equipment fields:

In Japan, the scope for the field of invention in the electrical and mechanical equipment fields has conventionally been relatively narrow. For example, a right has only been recognized for the scope of the embodiment itself, so it has tended to be difficult to enforce a reasonable right. In other words, if "broad protection" is granted and a reasonably broad scope of right is recognized then it will also become possible to enforce a reasonable right in the electrical and mechanical equipment fields. For this reason, the electrical and mechanical equipment industries tend to welcome broad protection of patents.

2.3 Problems of "Quick Protection" and "Broad Protection":

As mentioned above, if "broad protection" is granted, the scope of right will become unclear, which could cause major problems for both the enforcing party (patentee) and the party on which the patent is enforced (third party). Currently, there is an increasing trend in the JPO examinations to grant patents without any prosecution, and for these kinds of patents prior art on which the scope of search and decision to grant a patent are based cannot be known, so it is difficult for third parties to ascertain the scope of right.

Therefore, to make it possible to immediately learn from the search results which prior art was referenced to and patented by the examiner during the examination, the JPO should take measures to carry the prior art that is referenced during the examination in the Patent Gazette.

3. Responding to the broad claims

The authors will now introduce the opposition, trial for invalidation, and presentation of information system used to respond to the broad claims established in accordance with Japan's pro-patent policy. At the

end of this paper are a table and procedures flow chart that show a comparison between the Japanese opposition and trial for invalidation, the European Patent Office opposition system, and the US reexamination system, so please use them for reference.

3.1 Opposition System

3.1.1 Purpose of the Patent Post-grant Opposition System:

The patent post-grant opposition system was put in force as of January 1, 1996, in accordance with the agreement made during the 1994 Japan-US Trade Framework Negotiations to replace the prior existing opposition system at the publication of examined application before the patent granted (pre-grant opposition system). By allowing a wide range of third parties the opportunity to cancel a patent regardless of whether there exists any proprietary interest to protect the public benefit will allow the JPO to revise its examining processing to increase the trust in the patent system.

3.1.2 Statistical Data for Pre-grant Opposition and Post-grant Opposition

(1) Table 3.1 below shows the trends for conventional pre-grant opposition.

Table 3.1: Pre-grant opposition statistical data

Year	Patents Published	Number of Oppositions	Opposition Rate (%)	Number Processed	Oppositions Granted	Opposition Grant Rate (%)
1985 (S 60)	60080	5276	8.8	5529	2252	40.7
1986	62000	4564	7.4	5634	2354	41.8
1987	62780	4854	7.8	4935	2001	40.5
1988	67880	4683	6.9	4401	1772	40.2
1989 (H 1)	61280	5404	8.8	4408	1854	42.1
1990	63320	3919	6.2	4415	1818	41.1
1991	81400	5317	6.5	4696	1683	35.8
1992	82200	5565	6.8	5304	1855	35.0
1993	88920	6620	7.4	6102	1986	32.5
1994	106040	7419	7.0	5126	1742	34.0

(2) Table 3.2 below shows the trends for fiscal 1997 post-grant opposition.

Table 3.2: Fiscal 1997 trends for post-grant opposition

Official Decision to Maintain the Patent		Official Decision to Cancel the Patent		Dismissed
No Grounds for Cancellation	Grounds for Cancellation	Entire	Partial	
37. 1%	39. 2%	21. 2%	1. 3%	1. 2%

3.1.3 Comparison of Pre-grant Opposition and Post-grant Opposition:

The post-grant opposition system achieves the initial objective of quickly granting a right and so can be well evaluated. But the results of a questionnaire survey of the companies where the authors work identified the following system and statistical problems with the post-grant opposition system that favors the patentee.

(1) Normally, an opportunity to counter the patentee's written argument or demand for correction is not guaranteed to the opponent after submission of the opposition.
(2) If there are plural oppositions to the same patent right, a consolidated appeal is normally used. This consolidation reduces the burden by consolidating the appeal procedure and so is beneficial for the patentee. But there is a strong opinion that consolidation is often unfavorable for the opponent because the consolidation might direct the logic in an undesirable direction or the opponent's argument might be completely unutilized.
(3) If there is an appeal to the official decision to cancel the patent, the patentee's action against the appeal to the Tokyo High Court is permitted, but for an appeal to a decision to maintain the patent the opponent is not given an opportunity to appeal the action.

3.2 Trial for Invalidation System

3.2.1 Purpose of the Trial for Invalidation System

The purpose of the trial for invalidation system is to provide an invalidation procedure for patents, including defective patents, after the JPO examination and appeals to the interested party.

3.2.2 Trial for Invalidation System Statistical Data

(1) 1986 to 1994

Table 3.3 shows the trends for trial for invalidation prior to the use of the post-grant opposition system.

Table 3.3: Trends for trial for invalidation prior to the use of the post-grant opposition system

Year	Number Requested	Number Processed	Number of Requests Granted	Requests Grant Rate (%)
1985 (S 60)	133	145	46	31.7
1986	135	162	38	23.5
1987	95	113	25	22.1
1988	126	159	32	20.1
1989 (H 1)	108	99	17	17.1
1990	108	118	20	16.9
1991	91	126	19	15.1
1992	102	119	20	16.8
1993	100	90	23	25.6
1994	113	153	41	26.8

3.3 Presentation of Information System:

The purpose of the presentation of information system is to provide means for third parties to submit prior art to examiners during the examination stage to improve the accuracy and speed of the examination and to prevent the granting of defective patents.

3.4 Comparison of the Systems:

Please refer to the table at the end of this paper. The interested party must decide which of the above three systems to use taking into consideration their advantages and disadvantages and other factors such as the state of the patent right, the degree of proprietary interest, business circumstances, and corporate policy, and then, for example, use the presentation of information to prevent the granting of a patent, the opposition system to cancel a patent concerned even if there is no proprietary interest, or use the trial for invalidation when warnings are being received from the patentee or you want to present an argument because the technology is advanced or complex.

(1) Appeal procedure for opposition and trial for invalidation:

[1] Whereas an opposition is conducted using the ex parte procedure, a trial for invalidation is conducted using the inter-parties procedure, and neither can be consolidated.

[2] Whereas an opposition is principally an examination by documentary proceeding, a trial for invalidation is principally an oral appeal examination.

[3] For an opposition, if there are no grounds for revocation, the patent will be maintained even if there is no

response from the patentee, but for a trial for invalidation an opportunity for submission of a written reply or a demand for correction is provided to the patentee, and an opportunity for refutation is provided to the opponent.

(2) Opposition and trial for invalidation request period

The request period for opposition is within 6 months from the issue date of the Patent Gazette, but the request period for a trial for invalidation is limitless.

[1] Both options can be pending at the same time.

[2] When both trial for invalidation and opposition being pending at the same time, in principle, the trial for invalidation has priority unless there are special reasons.

(3) Characteristics of the presentation of information system:

Compared to opposition and trial for invalidation, the information provision system has the advantage of being able to prevent the granting of a patent. However, because the applicant is notified that information has been provided, the applicant becomes aware of the possible of execution which could provide further incentive for the applicant to take action to be granted the right, which could be disadvantageous to the information provider.

3.5 Forecast of Trends for the Opposition System and Trial for Invalidation:

Whether opposition or trial for invalidation will be used the most depends on whether the success rate of trial for invalidation is higher than that for opposition, to what degree, and the resulting effects. Table 3.4 gives a forecast of trends in usage frequency for both systems by scenario. To keep with the meaning of the opposition system, the following forecasts do not use dummy oponents for opposition.

Table 3.4: Opposition system and trial for invalidation system trends

Grant Rate	Forecast Trend	Reason
Trial for invalidation > Opposition	The opposition system goes out of use.	If the evidence is the same the interested party will use the trial for invalidation because it has a higher grant rate.

Trial for invalidation < Opposition	The opposition system is overwhelmingly used.	The interested party will use the opposition system because it allows the right to be invalidated at an earlier stage and has a higher grant rate then trial for invalidation.
Trial for invalidation = Opposition	There is a high possibility that the opposition system will go out of use.	If the possibility of invalidation is the same, there is a high possibility that trial for invalidation will be used because it provides for sufficient invalidation materials research.

3.6 Post-grant Opposition System Problems:

Because the post-grant opposition system makes the invalidation of patent rights more difficult, it appears as though the pro-patent policy is working. Doubts remain, however, if simply greater difficulty in invalidating rights truly means that the pro-patent policy is working. The reason for this is that ultimately the success of the pro-patent policy depends on whether the courts will recognize a broader patent scope of right than was recognized previously. For this reason, we must observe the trends in how the courts recognize the scope of right and its validity.

4. *Hantei* (Interpretation) System

4.1 Overview of the Hantei system

The Hantei system is a system for obtaining an official opinion from the JPO on the technical scope of a patented invention. In the current Japanese Patent Law (1959) the Hantei system replaces the trial for the technical scope of patented invention of the old patent law.

Based on the Supreme Court decision regarding the doctrine of equivalents (Ball Spline Case; 1994 (o) Decision No. 1083 (Decision date: February 24, 1998)), the JPO announced that it will also determine even the scope of the equivalents of the technical scope of a patented invention.

The results of the hantei are not legally binding on the parties or third parties and so is not an administrative disposition, but is comparable to a written statement of expert opinion of the technical scope of a patented invention from the JPO and should be duly respected by society.

The Hantei system is provided in all four of Japanese industrial property rights laws (Patent Law Article 71 [1], Utility Model Law Article 26, Design Law Article 25 [1], and Trademark Law 28 [1]).

There are two types of request for hantei. One is for when the patentee or exclusive licensee

(patentee, etc.) request confirmation of an infringement (regardless of the existence of an opposing party), and the other is for when a party other than the patentee, i.e. third party, is opposing the patentee (exclusive licensee) and requests confirmation of non-infringement. A summary of the Hantei system is given in Table 4.1 below.

Table 4.1: Summary of Hantei system

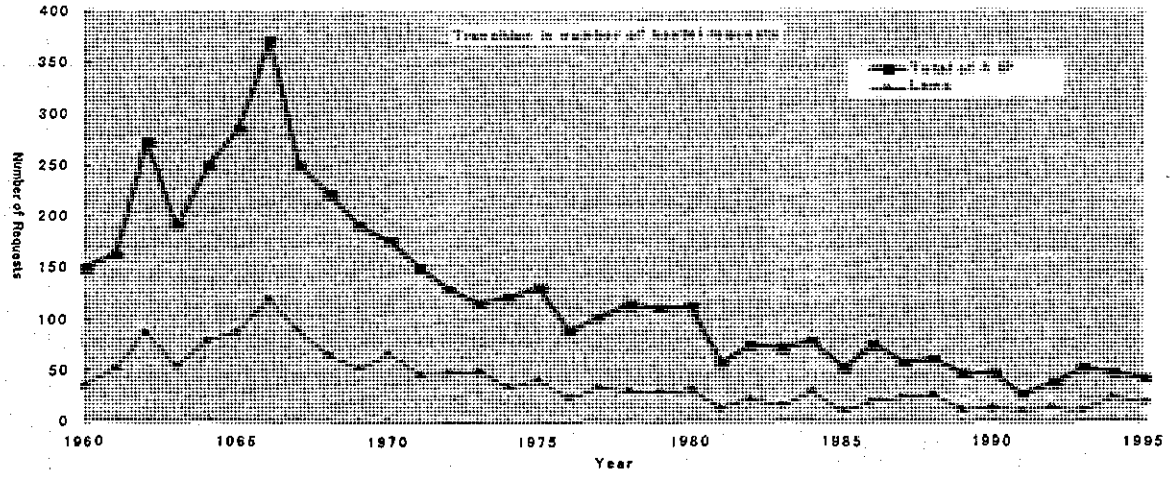
Demandant	Not be required a legal proprietary interest for the hantei results. (However, the necessity of seeking a hantei must be briefly written.)
Period for the demand	From the establishment of the right to 20 years after the extinction of the right. (Same for all four laws.)
Procedure regulations	Prescribed in the Order under the Patent Law, Section 2 (Articles 2 to 11). (In principle, items not prescribed shall comply with the trial procedures.)
Formality requirements of demand	Any amendments changing gist of the request are prohibited (Article 131 [1] [2] of Patent Law) Illegal formality of demand: Invitation of amendments (Article 133 [1] of Patent Law). Irregular demand for trial: Demand that cannot be amended will be dismissed by a trial decision (Article 135 of Patent). Illegal procedure: The procedure shall be dismissed by a ruling decision when fails to make the amendments (Article 133 [2] [3] of Patent Law). For illegal procedures that cannot be amended the procedure will be dismissed by a ruling (Article 133-2 of Patent Law).
Joint trail	Demand for trial may be made jointly (Patent Article 132 [1] [2]). Jointly-owned patents: All the joint owners shall be named as defendants.
Request format	Each right is separately matched with the allegedly infringing product and then a request for a decision of "infringes" or "does not infringe" is requested for each item.
Explanation of allegedly infringing product	Specified in the text (Create a hypothetical claim for an alleged infringing product). Write the disputed area in more detail, and, when necessary, use photographs and drawings, etc., in the explanation. When filing for a patent, as far as possible, write the publicly-known technology (references) that are similar to the allegedly infringing product.
Period for submission of written reply	Submit the written reply within 30 days for persons residing in Japan and within 60 days for persons residing outside Japan from the time a copy of the hantei request is sent to the demandee (Orders under the Patent Law, Article 7 [1]). A copy of the written reply is sent to the hantei demandant (Orders under the Patent Law, Article 7 [2]).

Trial procedure	The trial is heard by three trial examiners in a collegial body (Patent Law Article 71 [2], Orders under the Patent Law Article 5). In principle, documentary examination is carried out in trial (oral examination can be conducted when necessary) (Orders under the patent Law Articles 8 and 9). An trail examination can also be conducted even any grounds not pleaded by the parties (Orders under the Patent Law Article 10). The trial examiner-in-chief can examine the parties and participants (Patent Law Article 134 [4]). The evidence may be taken or preserved on a motion (Patent Law Article 150 [1] [2]). A motion for preserving the evidence may also be filed prior to a request for trial (Patent Law Article 150 [3] [4]). Under the principle of ex officio the trial examiner-in-chief can lead the hantei procedure (Patent Law Article 152). Trail consolidation is allowed when one or both of the parties are involved in the same cases (Patent Law Article 154).
Withdrawal of a demand for the trial	The demand can be withdrawn at any time until the original copy of the hantei is sent (Patent Article 155 [1]).
Disclosure of results	The full text of the hantei results is published in an official gazette for trial decisions.
Examination period	Minimum of 3 months (The target is within 6 months).
Appeal	The results cannot be appealed.
Relation with trial for invalidation	Allegations that there are grounds for invalidation or cancellation are meaningless (if necessary, a separate request should be made for a trial for invalidation). Even if these procedures are conducted concurrently, the trail is examined based on the assumption that the right is valid.
Fee	·40,000 (paid by demandant)

4.2 Hantei system Current Status and Problems

The transition in the number of hantei requests is shown in Graph 1 below.

Graph 1: Transition in number of hantei requests



As can be seen from Graph 1 above, the number of the requests for the Hantei system is declining annually and currently is nearly unused. One of the main reasons for the continuing trend of very few requests is that relatively soon after the Hantei system was established a court issued a decision reverse to the hantei results. In other words, the hantei results are not legally binding. The number of hantei requests has been declining since the courts began issuing this kind of decision.

Another reason that makes it difficult to use the Hantei system is that since the hantei results are considereded as the official opinion of the JPO and hence have more weight than just a private expert testimony, the hantei results are disclosed and there is a possibility that the hantei results might have a negative impact on the benefits of the demandant.

4.3 Hantei system Amendments:

Because problems with the Hantei system, such as the frequency of use, have been pointed out, the Industrial Property Council studied strengthening the Hantei system, submitted an amendment bill to the Diet, and this bill was approved as proposed.

4.3.1 Details of the Hantei system Amendment:

The following options (1) to (3) were studied by the Industrial Property Council Planning Subcommittee.

[Studied Options]

(1) Ability of hantei to be legally binding: hantei results should be appealed,

(2) Active use of hantei by the courts: courts should entrust the JPO with an expert testimony, etc., and
(3) Legally clarify the procedures for investigating evidence.

Because abuses, such as inflexible appeal examinations or rapid filling of law suits, could be occured if the courts are required to request hantei necessarily, the following two points were included in the amendment bill.

Amendment Points
(1) The courts may request expert testimony from the JPO when necessary.
(2) The Hantei system is not civil procedure law but prescribes procedures for evidence investigation and other actions in accordance with the Code of Civil Procedure.

4.3.2 Description of the Amendment

An amendment bill was drafted based on the above.

(1) Article 71 Paragraph 3

Before amendment: The procedures for hantei were prescribed in accordance with Cabinet Orders. In addition, the Patent Law Enforcement Order that relates to the Cabinet Orders pertains to the hantei request procedure, appointing and adding examiners, submitting written replies, examination by documentary proceeding, concluding examinations, etc., but does not prescribe the investigation of evidence.

After amendment: Nearly all of the trial examination procedures can be applied, and the hantei procedures are prescribed to be conducted nearly the same as the trial examination procedures. In other words, those items that were prescribed by Cabinet Order are now prescribed by law, and other procedures (such as joint trial, dismissal of procedure, challenging and rejecting an trial examiner, and consolidation of trials) have been clarified to be the same as those for trial examination. And the related provisions from trial examination and the Code of Civil Procedure are also applied to evidence investigation.

(2) Article 71 Paragraph 4

Before amendment: No provisions.

After amendment: When the hantei request is deemed to be procedurally deficient and the request is dismissed, and appeal cannot be made. Conventionally, "When the hantei request is deemed to be procedurally deficient and the request is dismissed, the application of the Administrative Appeal Law and Administrative Case Litigation Law is recognized" (Appeal or Trial Examination Manual), but this use was amended.

(3) Article 71bis

Before amendment: No provisions.

After amendment: "When a commission for expert testimony on the technical scope of a patented invention is received from the courts, the Director-General for the Patent Office shall designate three trial examiners to provide the expert opinion." The following was said regarding this provision. "In recent years, the Japanese Patent Office has had a policy of refusing requests for expert testimony from the courts for the reason of the existence of the Hantei system." (For information regarding problems with hantei and the Hantei system, refer to "An Explanation of Patent Law" by Kosaku Yoshifuji.) Not only does this revise the operation of the JPO but it also realizes the conclusions of the Industrial Property Council.

4.3.3 Use of Hantei

In this way, nearly the same procedures that are used for other trial examinations are used for hantei and the JPO can express formal opinions regarding the technical scope of a patented invention, so if there is agreement between the parties, this is an effective stage for seeking dispute resolution outside the courts. And if materials that have been requested from the Industrial Property Arbitration Center that was jointly established on March 26, 1998, by the Japan Patent Attorneys Association and the Japan Federation of Bar Associations, the Arbitration Center can also be used as a resource for early dispute resolution.

4.4 Future Prospects for the Hantei (Advisory Claim Interpretation) System

How should the Hantei system be developed in the future? If the importance of hantei increases and the results will be respected, then the advantages of hantei, such as decreasing the number of disputes and obtaining quick results will probably be utilized.

What should be done to increase the importance? One measure would be to make hantei legally binding. But this would give the JPO, which is an administrative organization, judicial power, which is probably not appropriate in terms of the separation of powers.

Or the courts could be persuaded to actively request expert testimony and to use the results of expert testimony in court decisions. If the opportunity to use expert testimony in the courts increases, the importance of expert testimony and hantei will increase, and even if the courts issue a decision that is reverse of the expert testimony, as the number of cases increase they will serve as a resource for improving the expert testimony and hantei procedures.

In this way, if hantei are often used in patent disputes, it will contribute to the growth of industry by reducing the average time to resolution and time and money spent on disputes by companies.

5. Direction of Future Patent Litigation

In the future, the amount of damage compensation and doctrine of equivalent decisions are expected to increase in Japanese patent litigation.

(1) Increase in the amount of damage compensation:

The amendment to the law during the last fiscal year amended the damage award provisions (Patent Law Article 102 Paragraph 1) to make it easy to prove the amount of damages. And the amendment this year will provide for a calculation expert witness to calculate the amount of damages(Patent Law Article 105 bis), and judgement of damages by judge (Patent Law Article 105 ter), which should be expected damages expensively and more satisfying to investors.

(2) Increase in the number of decisions under the doctrine of equivalents:

The Supreme Court decision in the above-mentioned "Ball Spline" case clarified the equivalent scope determination standard in Japan and made possible objective judgments for the equivalent scope. Due to this a broad scope of right is expected to be recognized based on the principle of equivalent. But there remain doubts as to whether recognizing a broad scope of right based on the principle of equivalent achieves the objective of the pro-patent policy, which is to vitalize Japanese industry. That is, there is a possibility that recognizing a broad scope of right based on the principle of equivalent will induce unreasonable enforcement by patentees, make it difficult to accurately determine the scope of right, and inappropriately restrict the industrial activities of third parties. To prevent such abuses, it is hoped for the courts that they should recognize a broad scope of right based on their careful consideration to establish good precedents.

6. Differences Between Japan and the United States and Future Prospects

Up to now the authors have discussed what patent rights are created under the pro-patent policy in Japan, the systems that can be used to cope with the changes of the patent rights to be created, the systems that can be used, and the future changes in patent litigation in Japan.

In conclusion, the authors will discuss the future prospects through the differences between the pro-patent policies between Japan and the United States.

(1) Differences between the pro-patent policies in Japan and the United States:

While the pro-patent policy in Japan does emulate the policy implement in the United States during the Reagan Administration, it must not be forgotten that there are some major differences.

[1] Political guidance and administrative guidance:

The pro-patent policy in the United States was achieved under the strong leadership of politicians to vitalize US industry. On the other hand, the pro-patent policy in Japan is being lead by the Japanese Patent Office (administrative), and its political intent is not always clear. In addition, under the leadership of the US government there was a strong drive to promote policies for protecting and vitalizing US industry that was undertaken concurrently with the pro-patent policy, and it is desirable that the Japanese government also provide strong leadership in the vitalization of industry.

[2] Actions and results of pro-patent policy

The pro-patent policy in the United States played a major role in the revitalization of US industry by giving rise to fierce competition in technological development between companies, promoting the restructuring of industry, and excluding strong rivals, such as Japanese companies, from the market. One must doubt, however, given the social customs and other factors whether the pro-patent policy in Japan will really give rise to such actions and effects. The success of the pro-patent policy in Japan depends on how the administrative branch utilizes administrative policies and how the courts administer the law.

[3] Litigation:

Infringement litigation in the United States takes much less time to complete (one year in the local courts and nine months in the CAFC) than does infringement litigation in Japan. Japanese courts are currently working to speed litigation by increasing the number specialized departments in the Tokyo High Court for handling intellectual property rights, dispatching judges to the United States for studying the facts of patent litigation. But compared to the United States, which radically promoted its pro-patent policy, such as giving jurisdiction for infringement litigation to the CAFC, the authors cannot help but feel that the efforts being taken by Japan are less than thorough. In addition to shorten the litigation period greatly and pursue a pro-patent policy, the fundamental structural reforms, such as establishing a patent court etc. are required in Japan.

(1) Future Prospects

There is no question that the future prosperity of Japan depends on providing an environment that promote innovative intellectual creativity. And creating such an environment depends on how Japan utilizes intellectual property.

[1] Nurturing a environment that promotes fundamental inventions:

Just establishing a pro-patent policy does not necessary result in innovative fundamental inventions. Measures are also needed for nurturing an environment that promotes fundamental inventions, such as business, needless to say the government, rewarding well those that make good inventions.

[2] Promoting competition:

There has been an environment in Japan that views competition as undesirable, and many companies have been able to establish marginally profitable but safe businesses by maintaining parity between companies in an industry, and this has led to policies that tend to promote cooperation between companies in the same industry and to not disputing each others patents. But today, restructuring industry under a pro-patent policy is a requirement for revitalizing Japanese industry, and Japanese companies must use patents as a tool for survival.

[3] Nurturing venture businesses:

Unlike the United States, Japan has not been nurturing venture businesses, but the nurturing of venture businesses is indispensable in revitalizing Japanese industry. The government must use its pro-patent policy as an aid to nurturing venture businesses and also utilize measures to actively support patents.

* Reference works:

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[2] Post-grant Opposition Strategies and Precautions ("Chizai Kanri" Vol. 46 No. 5)
[3] Practical Precautions for Procedures After Post-grant Opposition (Japan Patent Attorneys Association Research Center)
[4] Post-grant System Strategies (Patent Committee No. 2 Subcommittee Material pp. 78-98)
[5] European Patent Law and Practical Applications (Jerald Patterson???)
[6] Patent Office Annual Report (Japan Patent Office)
[7] Japan Patent Office Homepage (Error! Bookmark not defined.)
[8] Guide for Using the Hantei system (JPO Appeal Examination Department)
[9] Hantei system (Anjiro Yukinaga "Tokkyo Kenkyu" No. 23 1997/3)
[10] Supreme Court "Equivalent Decisions After the 'Ball Spline' Case" (Tadahiko Ito "Patento" 1999 Vol. 52 No. 6)
[11] An Explanation of Patent Law (??? Yoshifuji)

Oppositions and Appeals in Japan, US and Europe

	Japan			Europe	USA
Forms	presentation of information	Opposition	Trial for invalidation	Opposition	Reexamination
Purpose	Prior arts are submitted to PTO thereby to allow examiner to review them. This system prevents an obvious invention from being patented.	No requirements for eligibility as claimants. This system is used more frequently than trial for invalidation.	Demandants have to have interests in the case. In general, this system is used for defense against warning and litigation.	This system is used for revocation of a granted patent.	This system is used as a means for invalidation of an issued patent quickly and less expensively.
Claimant	Anyone (uninscribed filing available)	Anyone	Only those having interests in the case.	Anyone	Anyone
Duration	Not applicable to cases no longer pending before PTO (case of recordation of contractual arrangements, finalization of rejections, etc.)	Within 6 months from the date of publication of patent gazette.	No limitation.	Within 9 months from the date of publication of patent grant.	No limitation
Reasons	• Breach of amendment requirements • Lack of patentability requirements • Insufficient description	• Breach of amendment requirements • Lack of patentability requirements Insufficient description	In addition to reasons for oppositions (see left), breach of requirements for joint application and amendment and derivation (*Bonin*) application can be included.	• Breach of amendment requirements • Lack of patentability requirements • Insufficient description	Available only for the case of lack of patentability. Not available for the base of best mode violation and insufficient description (§ 112).
Examiner	—	Panel of trial examiners	Panel of trial examiners	Panel of technical examiners	Usually, original examiner who decided to reexamine.
Multiple demands	—	In principle, to be combined.	Discretion of the Panel	Not combined	To be combined

Appeal	—	Decision to maintain the patent →Unappcalable (a trial for invalidation is available separately)	Anyone can bring a suit to the Tokyo High Court	Anyone can file appeal to the Appeal Board	Finding of patentability → Unappealable
		Decision of revocation →Appealable to the Tokyo High Court			Finding of non-patentability → appealable
Remarks	Submission has effect of drawing patentee's attention to a third party claimant. Patentee may want to protect its invention by way of filing a divisional application.	This system does not guarantee chance for further rebuttal to opponent. When invalidation of a patent is first priority, revocation before the Board of Appeals should be considered.	In general, this approach is considered as means of defense against infringement warning and/or infringement suit.	When suits for invalidation are pending in parallel in other countries, different results may likely be awarded because of independence of jurisdiction.	Involvement of a third party claimant is limited. Success ratio for invalidating all claims is around 10%. For these reasons, filing for reexamination needs careful analysis..

Note) Columns in shadow relates to issues and items which are often pointed out in many countries as the problems inherent to the patent system.

THE NATIONAL PATENT BOARD

ADDING VALUE TO YOUR PATENT POSITION

By Eric M. Dobrusin

I. Introduction

It is widely believed that the value in patents rests in the ability to enforce them. With more patent owners recognizing this, the amount of patent litigation in the United States has grown at a faster rate than the number of patents issuing. This has burdened the Court system and threatens to hamper technological progress, because parties can little afford the risk and uncertainty of litigation. In an effort to contain this growing problem, patent owners and their competitors have joined in creating a new "Court of First Resort" for resolving patent disputes. The following discusses the history of the National Patent Board and provides an overview of the National Patent Board procedures. The paper begins with a review of the dilemma faced by the NPB founders when they conceived the idea. The paper then provides an overview of the National Patent Board, describing its procedures, its organization, its membership, and its corps of world class decision-making panelists.

II. The Dilemma

With an express mission "to provide uniformity in the patent field...", (C.R. Bard, Inc. v. Schwartz, 716 F.2d 874,878, 219 U.S.P.Q. (BNA) 197,200 (Fed. Cir. 1983), the Court of Appeals for the Federal Circuit successfully has renewed investor confidence in United States patents. Since the inception of the Court of Appeals for the Federal Circuit in 1982, the combination of increased confidence in the value of a patent grant and a rapid overall growth in technology (with attendant reductions of product life span) has precipitated an exponential growth rate in patent application filings. Almost 20% of all United States Patents ever issued have occurred within the last decade alone. (U.S. Patent No. 5,000,000 issued in 1991 and No. 6,000,000 should issue in 1999). A natural consequence of the increase in patents has been an increased number of patent infringement lawsuits. As seen in Fig. 1(a), the number of patent lawsuits is growing faster than the number of patents issuing in the United States. As published at www.uscourts.gov), Judicial Business of the

United States Courts 1997, Table C-2A, p. 133; and Creating a Patent and Trademark System for the 21st Century Fiscal Year 1997, A Patent and Trademark Office Review at pp. 84-85.

In view of the rapid growth of patent lawsuits, many have expressed concern about the strain on the United States court system as it continues to administer those lawsuits (in addition to its already crowded dockets) in an expeditious and cost effective manner. The effects of the increased burden placed on the courts are manifested in many ways. For instance, in 1997, the average length of time from complaint to trial (not including an appeal) in a typical civil case was about 19 months (Judicial Business of the United States Courts 1997 (as published at www.uscourts.gov) (Table C-10, p. 175)). It is speculated that one cause of delay in patent cases is the large volume of cases that are not resolved internally by a competitor (such as by a product change), or otherwise by settlement. Rather they are among the approximately 95% of cases that are resolved prior to trial, but only after substantial resources have been spent. (See Fig. 2). On the topic of costs, in 1998, the estimated costs for litigating a patent case through an appeal was $1.5 million, and median discovery costs alone approximate $800,000. (AIPLA 1999 Economic Survey, Table 22).

Uncertainty is another factor that has affected the United States patent enforcement process. On a broad note, in 1996-97, civil tort (generally) plaintiffs prevailed at trial in about 45% of cases. Bureaus of Justice Statistics, NCJ 172855 (2/199). (See also Fig 1(b)).

In the wake of recent important patent infringement decisions from the United States Supreme Court (see Warner-Jenkinson v. Hilton Davis Chem. Co., 520 U.S. 17 (1997); Markman v. Westview Instruments, Inc., 517 U.S. 370 (1996)), concern also has grown about judicial efficacy in patent cases. According to one Federal Appeals Judge, almost 50% of patent claim construction cases appealed were reversed during the period 1995-1998. Cybor Corp. v. FAS Technologies, Inc., 138 F.3d 1448, 1476 (Fed. Cir. 1998) (en banc) (J. Rader separate opinion). Judge Rader stated:

> The problem with this plan was in its implementation because as a question of law, claim interpretation is subject to free review by the appellate court. The Federal Circuit, according to its own official 1997 statistics, reversed in whole or in part 53% of the cases from district courts (27% fully reversed; 26% reversed-in-part). Granted this figure deals with all issues in cases with many issues. Nonetheless, one study shows that the plenary standard of review has produced reversal, in whole or in part, of almost 40% of all claim constructions since *Markman* I.(footnote omitted) A reversal rate in this range reverses more than the work of numerous trial courts--it also reverses the benefits of *Markman I*. In fact, this reversal rate, hovering near 50%, is the worst possible. Even a rate that was much higher would provide greater certainty.

In short, despite all the benefits it has to offer, proceedings in the United States court system (the traditional path for Untied States patent owners to realize patent value, and for accused infringers to attain certainty), have become hampered with costs of enforcement, delays and appearances of judicial uncertainty.

Other forms of alternative dispute resolution are available to patent owners and those accused of infringement, such as binding arbitration and nonbinding mediation. Unfortunately, unless the parties are motivated, experience has shown that parties who opt for a binding decision by an impartial decision-maker in an arbitration refuse to forego the labor and time intensive practice of discovery, inherently part of the United States style of litigation. Consequently, cases tend to last as long as, and cost as much as, what might be expected from a full litigation in the courts. Mediation, on the other hand, has yet to become popular in the United States for resolving patent disputes. Because no decision on the merits is made, it is difficult to bring parties together, particularly when one of the parties is committed to having its position validated by a decision-maker.

III. The NPB Solution

Against the above backdrop, and in mounting frustration with inefficiencies almost singularly unique to United States patent disputes, the National Patent Board started. The National Patent Board is a nonprofit corporation with a mission of helping parties obtain a reliable decision of their patent disputes both quicker and cheaper than through the United States courts. The objective is to free up the courts from the congestion of unnecessary litigation and to resolve those cases instead with the aid of the National Patent Board. Though unique in its procedures, as to its proposed self-regulating forum, the National Patent Board has followed the lead of the National Advertising Division of the Better Business Bureau ("NAD"). That group was formed to resolve advertising

claim disputes between competitors. Often the claims have involved complex technological questions (e.g., the efficacy of product). In businesses where a strong advertising campaign can affect a market swing of millions of dollars, the cases are often high stakes as well. Well past 25 years since the inception of NAD, participants in NAD cases have a high degree of confidence, with an approximately a one percent (1%) appeal rate, even though the procedure is nonbinding (see Fig. 3).

The National Patent Board is designed to provide a nonbinding, but authoritative decision concerning disputed patent issues. To do so, the founders have assembled a large group of volunteers who share a common mission of improving patent dispute resolution.

To help ensure respect for the National Patent Board as an authoritative institution, the group organized as a nonprofit corporation. The National Patent Board has an elected Board of Trustees, an elected President and an elected Executive Director. Of perhaps greater significance concerning the quality of its work product, the National Patent Board has scrutinized and selected a corps of panelists from some of the most well known names in the patent field today, including the following:

Tom Arnold
Gerard Blaufarb
Jeffrey Brandt
Thomas L. Creel
James Davis
William Durkee
M. Scott Donahey
Richard D. Grauer
Dana Haviland
Roy E. Hofer
Jon Hokanson
Seymour Hollander
Richard Horning
Gaynell Methvin
Robert B. Morrill
William Murray
Larry S. Nixon
Rick D. Nydegger
Gale Peterson
David William Plant
B.R. Pravel
Tom Schatzel
G. Gregory Schivley
Mari Gursky Shaw
Peter Shurn
Tom Smegal
Roger Smith

These respected practitioners serve subject to peer review and each will attend a special two-day orientation session for their certification if they have not done so already. An invitation to become a panelist is not automatic, and the commitment they must undertake to learn the National Patent Board procedures is deliberately rigorous.

By the end of January, 2000 the National Patent Board has targeted an expansion of its corps of panelists to almost 50 patent law experts, and is engaged in securing former United States federal judges (sophisticated on patent issues) to also serve as panelists in cases when the parties so elect.

IV. Summary of the National Patent Board Procedure

The National Patent Board commitment to excellence has not stopped with the mere assembly of influential practitioners and talented decision-makers. The organization has labored over the development of its rules and procedures. In a project spanning almost 2 years, the founders have conducted surveys of prospective members, studied the features (good and bad) of other forms of dispute resolution, and devoted more than one hundred person hours in the painstaking drafting (by committee) of the Rules.

Not surprisingly, one of the more controversial issues has rested in striking a solid compromise position on the issue of discovery. To illustrate the conflict, in an independent survey published in the October, 1998 issue of Corporate Legal Times (pages 44-46), over 65 % of corporate law departments agreed that the cost and scope of discovery "is out of control"(Survey Questions 51-52). Only 7% of respondents disagreed with the statement "I would be in favor of across-the-board limits on the scope of discovery". (Question 53). Accordingly, consistent with popular opinion, rather than eliminate discovery, in toto, the National Patent Board substantially limits discovery, which must be conducted under the auspices of the panelists.

A. Overview of the Rules

As presently contemplated, the Proposed Rules comprise the following four procedural modules (see Fig. 5):

1. Initiation of proceeding;
2. Party directed case development;
3. Panel directed case development; and
4. Decision.

Pursuant to the "Initiation of Proceeding" module, a National Patent Board proceeding is commenced by the filing of a request for a proceeding. **Rule 1(A)**. A unique feature of the National Patent Board proceedings is the possibility that a potential infringer can seek an early decision of the National Patent Board at a stage earlier then a declaratory judgment proceeding would be ripe in federal court. **Rule 1(B)**. Assuming a request meets the criteria for initiating a National Patent Board proceeding, the National Patent Board will issue a scheduling order and assign a Panel of one to three qualified practitioners, who are subject to peer review, to decide the issue in dispute. **Rule 3**

and **31**. Because one objective of the National Patent Board is to provide an expedited resolution of patent disputes, extensions of time will only be granted in limited circumstances. **Rule 9**.

In the "Party-Directed Case Development" module the parties provide each other with early disclosures of certain information intended to foster issue narrowing. This is accomplished with initial disclosures of, *inter alia*, the potentially infringing subject matter and the basis for a claim or lack of claim of infringement. **Rule 12**. The parties also participate in preparing a joint pre-hearing statement to identify disputed issues and map out a joint limited discovery plan to secure proofs believed necessary to resolve the disputes. **Rule 14**. In cases where claim construction is in dispute, the joint pre-hearing statement also includes a claim construction statement. **Rules 14** and **15**. The Rules afford confidentiality to the proceedings. **Rule 10**. Duties of candor are also built into the Rules. See e.g., **Rules 12** and **19**.

After the parties complete their joint pre-hearing statement, the Panel becomes actively involved in the "Panel-Directed Case Development" module of the case. In this module, in concerted effort with the parties, the Panel works to identify issues and develop the evidence necessary to decide the issues in dispute. One or more pre-hearing conferences and intensive panelist involvement will facilitate the process, at which necessary discovery will be identified and a reasonable plan for securing the discovery will be implemented. **Rule 16**. The Panel will have discretion to appoint an expert witness to assist the Panel. **Rule 17** and **18**. Moreover, as part of the "Panel-Directed Case Development" module, the parties will prepare and simultaneously file briefs, along with a joint appendix. **Rule 20**. The proceeding will culminate in a one-day hearing. **Rule 21**.

Following the hearing, in the "Decision" module, the Panel will deliberate and issue a decision. **Rule 26**. National Patent Board proceedings are not binding as presently contemplated. However, the parties will have the option to make the decision binding by accepting or rejecting the decision. **Rule 27**. The Rules have certain incentives to make the decision binding, including potential fee shifting and admissibility of decisions in subsequent litigation. **Rules 14, 26** and **28**. One suggestion that may be implemented prior to adoption of the rules is to omit the admissibility of decision effect, substituting it with a requirement of attendance by principals of the parties.

B. Chronology Summary

By way of summary, the following is a chronology of events in the National Patent Board proceeding (see Fig. 6):

1. Request for hearing (petition option) initiating party/initial disclosure;
2. Designation of lead counsel and entry of confidentiality agreement;
3. Opposing party initial disclosure;
4. Joint pre-hearing statement/claim construction statement;
5. Pre-hearing conference(s) with Panel;
6. Limited discovery/expert investigation as directed by Panel;
7. Simultaneous briefing by the parties;
8. One day hearing;
9. Panel renders decision;
10. Parties accept or rejection decision.

The Proposed National Patent Board Rules provide a self-regulating procedure offering the advantages of actively involved panelists in a private setting. The proceedings promise to be fast and inexpensive as compared with conventional federal court litigation or even arbitration, largely due to limits on discovery. Indeed, the current target is to render a written decision within six months from commencement and at less than 20% the expense of traditional patent litigation. Though non-binding, the parties will have incentives to accept the decisions of the Panels, thereby encouraging finality of the dispute process. (Fig. 7).

V. Current Membership

An organization such as this is without any likelihood of success without a strong membership. Less than one year into its formal existence, the National Patent Board already boasts members including highly respected industry leaders from a host of sectors:

Procter & Gamble	Becton Dickinson
Johnson & Johnson	Dial Soap
Daimler Chrysler	Rhodia
Mobil Oil	Intel
Rohm and Haas	General Electric
Kimberly-Clark	Walker Digital
Eastman Chemical	3M
Schlumberger	Henkel
United Technologies	DuPont
Medtronic	

VI. Conclusions

The National Patent Board promises to offer patent owners and their competitors a low cost, fast, and fair resolution of patent disputes. In this manner, patent owners more efficiently can realize value from their patent rights. Likewise, their competitors can reduce their risk and uncertainty, and make reasoned business decisions. The National Patent Board is proud to offer highly qualified and trained experts on patent law as decision makers under.

(1) Title: Economic Evaluation of Intellectual Property

(2) Date: October 1999 (The 30th International Congress in New Orleans)

(3) Source: 1. PIPA

2. Japan

3. Committee #4

(4) Authors: OTA Akihito Toyoda Gosei Co., Ltd.

ODA Tomohiro Toyota Motor Corporation

KASE Hiroaki Daicel Chemical Industries, Ltd.

KIKUCHI Yasuhisa Sapporo Breweries Limited.

SONOBE Nobuyuki JSR Corporation

HONJO Yuuichi Aishin Seiki Co., Ltd.

(5) Key words: Economic evaluations, cost approach, market approach, income approach, discount cash flow

(6) Statutory provisions: No relevance

(7) Summary:

Along with the protracted economic recession in Japan, the utilization of intellectual property has come into the spotlight as one of Japan's economic resuscitation methods. It is anticipated that in actual practice, the selling of intellectual property rights as a portion of sale for an enterprise will increase. Problematic issues regarding the financing of venture businesses prompted a number of financial organizations to set up a "Loan scheme with intellectual

property rights as security." This move paved the way for considering the economic value of intellectual property. With this situation, the Fourth Committee of PIPA has selected "Economic Evaluation of Intellectual Property" as an agenda subject for our panel discussion this year.

In this paper, the subject for discussion focuses on patents from among all other types of intellectual property. The valuation or economic/monetary evaluation of intellectual property in Japan now as well as the various methods used for assessing the value thereof is reported hereafter.

(8) Table of Contents

1. Introduction

2. Methods for assessing the economic value of intellectual property

a) Cost approach

b) Market approach

c) Income approach

d) Discount cash flow

3. Current situation regarding the valuation of intellectual property in Japan

a) Calculation of "remuneration for patent implementation" in enterprise

b) Calculation of compensation in litigation re: infringement of intellectual property rights

c) Valuation of intellectual property rights in the "Loan scheme with intellectual property rights as security"

d) Patent assignment to other companies

4. Conclusion and Outlook

1. Introduction

As the current economic recession has been protracted, various problems such as the maturation/vacancy out of existing industries have become exposed, and are presented as significant social problems in Japan. In response to this situation, economic rejuvenation is a necessity. It is anticipated that in actual practice, the selling of intellectual property rights as a portion of sale for an enterprise will increase. The number of patent assignment is also expected to rise. Japanese Patent Office (JPO) advocates the utilization inactive patents.

In Japan, the number of patent assignment has not been large compared with that of patent licenses. The agreed value (economic value) of a patent between the concerned parties at the time of a patent assignment has not usually been disclosed. There have been no statistical studies performed in this field. Therefore, research into a rational valuation method has made hardly any progress thus far, despite the demand for it. Issues of financing venture businesses in recent years prompted a number of financial organizations to set up a "loan scheme with intellectual property rights as security," where a research & development fund was financed by the organizations using intellectual property rights owned by a venture businesses as

security. This move paved the way for considering the economic value of intellectual property. Papers relating to this subject have been published.

With this situation, the Fourth Committee of PIPA has decided to select this subject, "Economic Evaluation of Intellectual Property." This subject has been discussed before; however, it has never been selected as a research subject due to its complexity. It is our particular pleasure to have secured the support of the American Group in selecting this topic as the agenda subject for the panel discussion this year.

In this paper, the discussion subject focuses on patents out of all other types of intellectual property. The valuation or economic/monetary evaluation of intellectual property in Japan now as well as the various methods used for assessing the value thereof is to be discussed below.

2. Methods for assessing the economic value of intellectual property

Discussed below are valuation methods generally used to consider the economic value of intellectual property, including the cost approach, the market approach, the income approach,

and discount cash flow, which is derived from the income approach.

a) Cost approach

The cost approach assesses the value of intellectual property based on development cost. The value is calculated by the cost required to create the target assets (patents, technology).

As this is a simple and clear (calculation) method, it has been used sometime by Japanese enterprises, even in recent years.

Generally speaking, this approach is one where a valuation method usually used for the valuation of depreciation assets, e.g., building, plant and equipment, etc., has been applied to intellectual property.

Problems

The following problematic points have been pointed out. That is, this method contains no way of measuring future economic profit. Development costs do not correctly reflect the value of the target technology/intellectual property right.

Development costs, and the value of technology/intellectual property, are not identical. In addition, development costs, and the value of technology/intellectual property, vary substantially depending on various factors, such as the development capability of individual enterprises and the competitive condition.

b) Market approach

The market approach attempts to assess the value of an asset by investigating the transaction of another asset or assets similar to the target asset. The market value of an intellectual property is determined on the basis of the transaction of intellectual property similar to the target intellectual property.

Problems

This approach is the most direct and easiest to understand. However, two conditions are required, namely "the presence of an open market" and "the transaction of a comparable asset". It is also necessary to consider the difference between "the value in use" and "the liquidation value."

A The presence of an open market

The presence of an open market means that the transaction of the intellectual property is open to the public. However, information concerning this kind of transaction is not normally disclosed in Japan. In some cases, public information from enterprises, information from mass media, information from intermediaries such as brokers, and investment brokers, information in general business journals, and information from survey questionnaires conducted by specialist organizations, provide reliable information about a transaction of intellectual property that can serve as a basis for the market approach.

Although it is difficult to find a comparable asset, this method is the most direct and systematic approach, provided that relevant reliable information is available; therefore, one should not disregard this method without due consideration.

The market approach is most appropriate when an intellectual property right is the main subject of a transaction. That is, this approach may be used in the consideration of an M&A, or when a set of intellectual property rights concerning a certain technology is to be transferred as a whole.

Japanese Patent Office has been preparing for the

creation of a patent distribution market since 1997. The birth of a public market for intellectual property rights is inevitable. The current proposal is to create a patent distribution market using unutilized patents (inactive patents), which currently amount to some 400.000 in total, via the Internet or patent distribution fairs.

B Comparability (Transaction of a comparable asset)

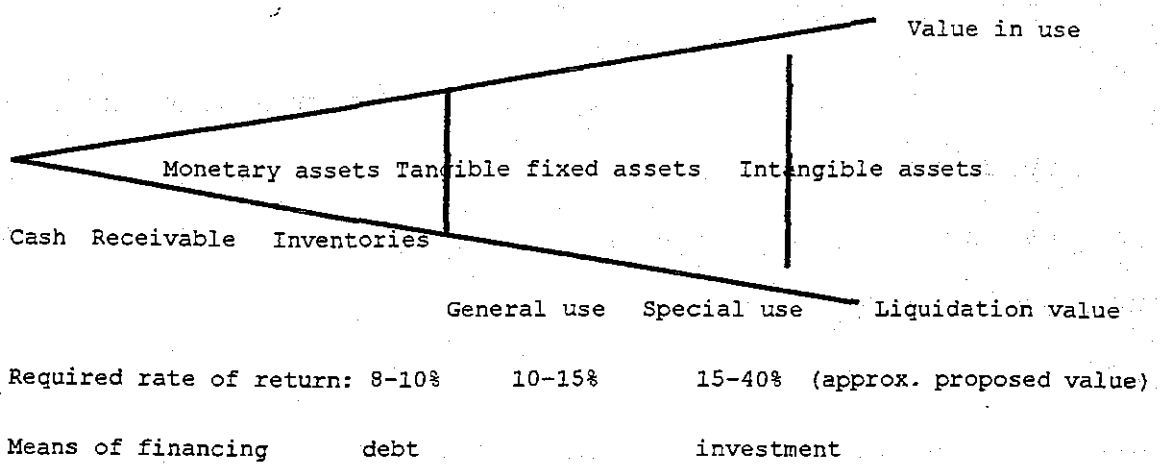
The market approach is used to determine the value of intellectual property by comparing it with the transaction value of similar intellectual property, between the one who wishes to buy and the one who wishes to sell.

When applying the market approach to intellectual property, it is important to ensure effective comparability by taking the following factors into consideration.

1) Type of industry 2) Amount of profit 3) Market share
4) Type of new technology 5) Difficulty of new entry
6) Growth prospect 7) Possibility of legal protection
8) Residual economic life

C Value in use and liquidation value

Various types of assets are compared below based on the assumptions used for valuation. It will be understandable from the comparison that there is a substantial difference between the value in use and the liquidation value for intangible assets, e.g., intellectual property.



The above diagram indicates that the economic value of a patent in a company's case in which said patent is contributing to increasing the profit of their main product, is different from the one in another company's case in which the business is about to withdraw although said patent is supporting the business in making an adequate profit.

As described above, the market approach should therefore be applied with a clear understanding of the characteristics of intangible assets, of which intellectual property is an example.

c) Income approach

The income approach assesses the value based on the present worth of future profits to be gained by the use of intellectual property rights.

The value in this approach is determined by the economic benefits of a specific intellectual property, comprising two factors: the expected amount of economic benefits, and the expected duration.

A feature of the income approach is that it is realistic and gives the buyer confidence, as it is based on the economic benefits gained by the use of an intellectual property. In this way the buyer of the property can confirm the profitability of the business. For this reason, it is easy to conclude an agreement between the concerned parties, provided that the owner of the asset agrees.

Overseas, a valuation method based on the (assumed) economic benefits is applied to the valuation of assets, such as stock, bonds, and real estate, as an international standard practice. This approach is also applied to the valuation of intellectual property as the norm.

Problems

The income approach is based on an assessment of supposed future profits. At times the projection can be vastly different from what actually happens. This methods based on the profits appears rational, but it contains such an uncertainty.

As this method is based on expected sales of the product protected by the intellectual property rights and the product's life, market research and business plans are important.

The issue of exactly which portion of the profits is attributable to the intellectual property must also be clarified. In other words, it is questionable whether it is possible to isolate a profit attributable to a specific intellectual property.

d) Discount cash flow

The discount cash flow method consists of measuring the present worth of expected future profits (cash flow) to be earned by the intellectual property rights, as calculated by the income approach. Future profits to be earned from the intellectual property are calculated by discounting, from the actual profits, the additional cost payable by the third party

in order to continue business (the value of the enterprise).

The future income to be generated from the use of the intellectual property is projected using the income approach, less sales cost and sales administration expenses required by the buyer for the production and marketing of the product in which the intellectual property is concerned. Taxes and other deduction items are also subtracted.

The present value of the remaining cash flow is calculated by an appropriate discount rate. A weighted average capital cost is generally used for the appropriate discount rate. However, some say a rate of 10%-20% will be reasonable for ensuring the certainty of cash flow. (Please refer to "A New Technique For Venture Support - Points of intellectual property rights as security", by Tetsuya Tsuchio, Deputy Researcher, New Venture Division, Japan Development Bank, pp36-39, November 1996.)

Problems

The discount cash flow method is relevant when an OEM agreement, or when it is easy to project market size due to a fixed customer base already confirms a certain volume of business transactions. As was stated in one newspaper: "When

the size of market is equivalent to that of past sales, or in the case of an OEM agreement, then intellectual property is as secure as conventional security." (Nikkan Kogyo Shinbun, 14 June 1996).

On the other hand, the valuation of a high-technology intellectual property, concerning which it is difficult to project the size of the market, will vary substantially depending on the individual appraiser. In the present method, a valuation of the total intellectual property rights concerning the product is possible, but not a valuation of each individual intellectual property right.

Sales

- Sales costs

- Sales administration expenses

+/- Business related profit/loss

(Sub-total) Operating profit

- Effective tax

(Sub-total) After tax operating profit

+ Non-cash expenses (depreciation costs, etc.)

- Deduction items

(Total) Cash flow

An appropriate discount rate is applied.

The present worth of cash flow

3. Current situation regarding the valuation of intellectual property in Japan

Cases where the valuation of intellectual property has been conducted, and valuation methods employed in these cases, are discussed below.

a) Calculation of "remuneration for patent implementation" in enterprises

An enterprise normally pays the employee a combination of a compensation for the consideration of an invention made on work duty as specified by Article 35 of the Japanese Patent Law, and a remuneration to encourage/stimulate the incentive for inventions. Details are provided by the internal rules of individual enterprises.

The value of this combined remuneration and the compensation ("remuneration" hereafter) is determined by the internal valuation of the patent. The value of a patent, although varying between enterprises, is normally measured in terms of its technical aspects, its ownership aspect, and its economic aspects. The remuneration is, in most cases, paid in three stages, namely at the time of the patent application, at

the time of the patent registration, and at the time of the patent implementation.

As the remuneration at the time of the patent implementation ("the remuneration for patent implementation", hereafter), unlike at the times of patent application and patent registration, is paid after the invention has been implemented for a certain period, its calculation formula may be seen as the same as that for the valuation of the intellectual property (the patent concerned). The following is a representative calculation formula for the remuneration for the patent implementation. The formula in I is the income approach described earlier.

I Sales linked type: Profit is calculated from the annual sales, and is multiplied by the contribution rate of the patent, to yield remuneration.

Annual value = annual sales x sales profit rate x the contribution rate of the patent

II The remuneration is calculated by points scored in each valuation factor. Valuation factors are, for instance, performance contribution, binding power to other companies (exclusivity of right), and effects of implementation.

Recently, the Tokyo Metropolitan District Court filed a decision* concerning this "remuneration for patent implementation." The decision referred to a profit the company had earned from a certain patent, and is briefly described below.

In this litigation, the profit that the noted company had earned from the patent concerned (a patent concerning a CD player) was in dispute. The plaintiff calculated the profit that this company had earned by using the sales linked formula as follows: the total domestic production of the CD device ¥703.3 billion x licensing rate (1%) x the contribution rate of the subject patent (33%), which amounted to approx. ¥2.3 billion in 1990. The plaintiff claimed that the consideration that had been paid to its side was too low as compared with the economic value of the patent.

Judges finally deemed the profit earned by the company from the concerned patent to be ¥50 million. This value was calculated by taking the following four points into consideration:

1) Whether the subject patent is an original patent or an amended patent.

2) The implementation situation of the subject patent.

3) The license situation of the subject patent.

4) The patentability of the subject patents (the possible invalidity of the patent).

The calculation formula which produced the ¥50 million amounts was not disclosed in the ruling. It was purported, however, that the total domestic production of the CD device was not used as a basis.

* 16 April 1999, the Tokyo Metropolitan District Court, 1995 (wa) No. 3841

b) Calculation of damages in litigation regarding the infringement of intellectual property rights

The calculation of damage compensation in litigation regarding the infringement of intellectual property rights can be used as an indication of the economic value of an intellectual property right. In recent years, the fundamental pattern of economic development in Japan has shifted from the conventional "catch-up" model to the so-called "frontier" model. Intellectual property rights have become better protected to match the creative technical development environment in the frontier model. One such practical example, among many others,

was an amendment to the damage clause regarding infringement of rights in the Patent Law.

1) Simplification of the proof for lost profit (A quantitative claim (Plaintiff's loss = Accused's sales x plaintiff's profit per unit sale) has been made possible.)
2) An increase in compensation to a value equivalent to the implementation fee (amended in 1998, effective 1 January 1999; refer to "PIPA: The 1998 Sapporo International Congress - Proceedings"). This year (1999), an amendment was made to authorize the appraiser who determines the loss.

Parallel to amendments of the law, the maximum damages of ¥2.56 billion in Japan as lost profit, as calculated by the formula below, was decided on 12 October 1998 at the Tokyo Metropolitan District Court in litigation re infringement of patent rights (1993 (wa) No. 11876, H2 Blocker case).

Plaintiff's loss = Accused's sales x plaintiff's profit per unit sale

When the valuation of an intellectual property is carried to its logical extreme through this kind of litigation regarding the infringement of intellectual property rights, then:

The value of an intellectual property right = sales volume x profit per unit sale.

These values include marketing ability, etc.; therefore the above is far too extreme. Nonetheless, this example may be used as reference.

c) Valuation of intellectual property rights in the "loan scheme with intellectual property rights as security"

The valuation of intellectual property rights in the "loan scheme with intellectual property rights as security," which was established in recent years in Japan, is discussed below. Methods for the valuation of the economic value of intellectual property rights in the "loan scheme with intellectual property rights as security," as published in the paper, are described first. This is followed by the actual current status of this loan scheme having intellectual property rights as security, as reported in Japanese newspapers and magazines.

I Methods for the valuation of the economic value

A "loan scheme with intellectual property rights as security" was set up by the government with some banks in Japan

in 1995. The first loan under this scheme was granted in May 1995. The methods for assessing the economic value of intellectual property rights required for a loan with intellectual property rights as security are found in the report (published in October 1995) of a study group on "Methods for the valuation of intellectual property rights as security," as commissioned to the Institute of Intellectual Property by the Ministry of International Trade and Industries.

The report can be summarized as stating that the discount cash flow method is considered to be reasonable for the valuation of intellectual property when a general buyer is in mind.

II Actual status of the loan scheme with intellectual property rights as security

According to the Japan Development Bank, which finances many companies under this scheme, some 200 companies made inquiries in 1995, out of which about 20 were considered eligible by the Bank. Nine companies actually received financing. Since then, the number of inquiries has increased to over 300, and the number actually financed to 39 in 1998. The total number financed has been 66 loans since 1995 through to the current date (month 1999). The number of companies using

patents, as the sole security was 24, for loans amounting to ¥1.5 billion. The number of companies using patents and other rights, e.g., software in combination, as security was 13, with the financing amounting to ¥1.1 billion. Incidentally, 6 of the 66 approved companies have already gone bankrupt.

The following two problems of actual operation on this security scheme have been pointed out in newspapers, etc.

1) The examination takes a long time. (Venture enterprises are high risk, and therefore these require time for careful examination usually 2 - 3 months per case by the Japan Development Bank.

2) The security for financing was almost software, or the combination of software and patents. (Some banks initially limit the security to computer copyrights.)

The fact that the majority of the companies which received financing used software or the combination of software and patents as security seems to indicate that the market value of software is easily accessed. Moreover, software does not require technology transfer, and it is more advantageous than patents alone as security.

What type of patent is likely to receive financing in

Japan?

The Japan Development Bank lists the following as eligibility requirements for financing:

1) Does the company have actual sales results?

2) Possibility of technology transfer: If the company has external manufacturing contractors or licensees instead of itself being the manufacturer, technology transfer problems will not happen when the owner of the patent changes.

3) Is it a basic patent or a product patent? Does the company have a set of patents required for the production of a product?

4) Is there a risk of invalidity? Is the intellectual property right valid without risk of objection, or an invalidity trial?

5) Erosion of technology: Does the patent contribute to the competitive power of a product and to a higher profit than that of a product of a competitor for a substantial period? (Prospect of an assured profit)

d) Patent assignment to other companies

Although the economic valuation of a patent is required for a patent assignment to another company or for an M&A, there is no public data on the subject available, and therefore the actual situation is not obvious.

Little data is available regarding the number of patent assignment. According to a questionnaire survey* performed in

1992, 9% of the total companies surveyed assigned more than 100 patents to other companies in the past, showing that the number of patent assignment is less than in the US.

* "A survey report on the domestic transaction of intellectual property rights including patents", published by Hatsumei Kyokai, March 1992.

4. Conclusion and Outlook

As described above, methods for the valuation of intellectual property are not perfect at present. Examining the methods currently used in Japan; it appears that the main methods measure the economic value based on the future potential profits to be earned by the use of the intellectual property concerned. That is, the "Income approach", and the "Discount cash flow" approach as derived from the former, are likely be the main valuation methods currently used.

As global competition intensifies, intellectual property that secures the competitive edge for businesses will be expected to play an increasingly important role. In this situation, it is increasingly necessary for businesses to fully utilize the value of intellectual property. The reasonable valuation of intellectual property is most critical. Even if

they do not trade rights in practice, many more companies may measure the potential economic values of intellectual property, and add intellectual property item into the balance sheet in the near future.

At the outset of our studies for this paper, the hope was stated that the result of this discussion would be a proposal regarding new valuation methods. Regrettably, it became clear that the current level of research was not sufficient to make such a proposal; therefore, this report has been focused on to the investigation on various valuation methods used, and the current situation of actual valuation in Japan. It is desired that this paper will form a basis for the exploration of future prospects in the 1999 PIPA International Congress, which will offer an opportunity to better understand the situation in the United States.

Pacific Intellectual Property Association

New Orleans
October 12-15, 1999

IP Valuation: Concepts, Tools and Examples

Presented by:
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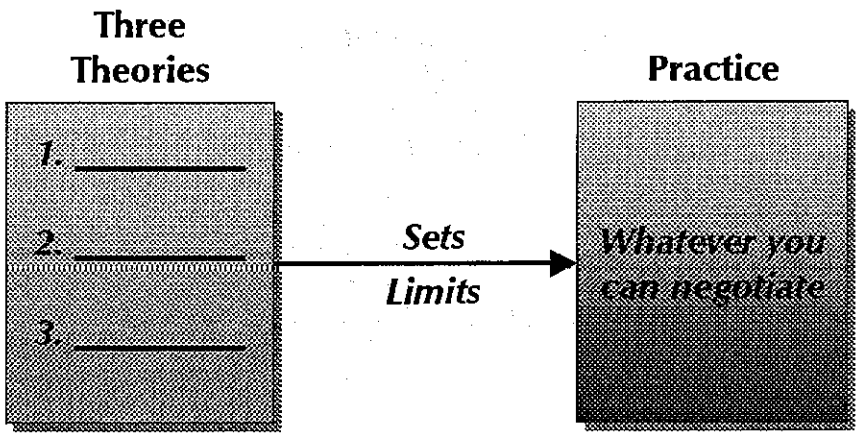
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Discussion Topics/Agenda

- *Introduction to IP Valuation Approaches*
  - *Cost Approach*
  - *Market Approach (including royalty rate analysis)*
  - *Income Approach*
- *IP Valuation Research/Data Sources*
- *Overview of Finance & Accounting Terms*
- *Accounting for Uncertainty–Discount Rates and Decision Tree Analysis*
- *IP Valuation Case Studies*
- *Pop Quiz*

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Common Valuation Approaches for Intellectual Property (IP)



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Cost Approach

- *Value = Cost to replace or re-create the IP*
- *Theory: Licensee avoids these costs by licensing the IP from others*
- *Costs may include:*
  - *R&D (labor and overhead)*
  - *Testing and regulatory approval costs*
  - *Patent protection costs*
  - *Equipment and other capital investments*
  - *Opportunity costs of diverted resources*

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Cost Approach

- *Some observations...*
  - *Does not reflect earnings potential!*
  - *Often used when many substitutes are available*
  - *Sometimes used for embryonic technology*
  - *Don't forget costs of delayed market entry*

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A Question...

Is the licensor's research and development cost relevant to a license negotiation?

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Market Approach

- *Value = Arm's-length price paid in comparable transactions*
- *Theory: Licensee is not willing to pay more than others have paid for similar IP*
- *What constitutes a "comparable" transaction?*
  - *Nature of technology and IP protection*
  - *Market size and characteristics (e.g., # of applications)*
  - *Scope and status of patent protection*
  - *Terms of the agreement (e.g., field of use restrictions)*
  - *Other*

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Market Approach

- *Some observations...*
  - *By definition, IP is unique*
  - *No two deals are exactly alike*
  - *Difficult to compare deals with multiple forms of compensation (e.g., equity, milestone payments, running royalties)*
  - *Many "hidden" deal factors (e.g., strategic buyer "premiums")*
  - *Often used to establish "ballpark" values, especially for running royalties*
  - *Favored by tax authorities for deals with affiliates*

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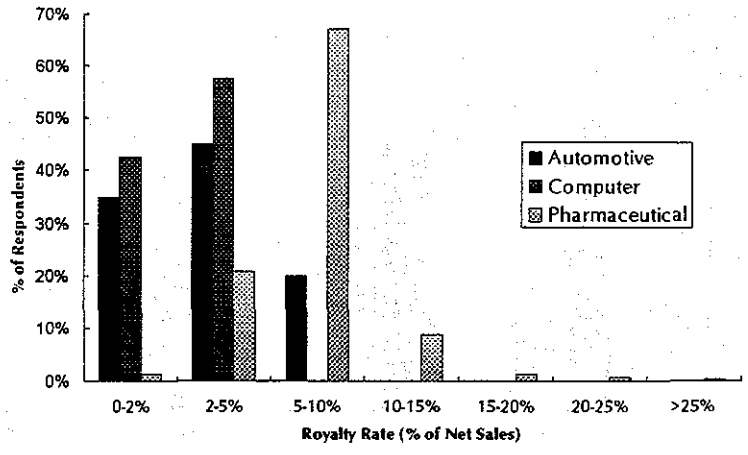
Trademark Royalty Ranges: Survey Results



Source: Financial Aspects of Trademark Licensing, Scott Phillips of IPC Group in conjunction with the U.S. Trademark Association.

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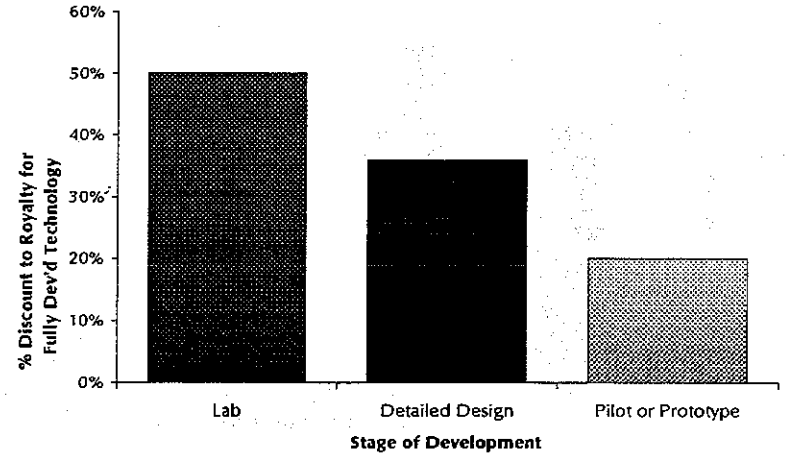
Technology Royalty Ranges Across Industries: Survey Results



Source: Licensing Practices, Business Strategy and Factors Affecting Royalty Rates: Results of a Study, *Licensing Law and Business Report*, March-April 1991, D. McGavock, D. Haas and M. Patin.

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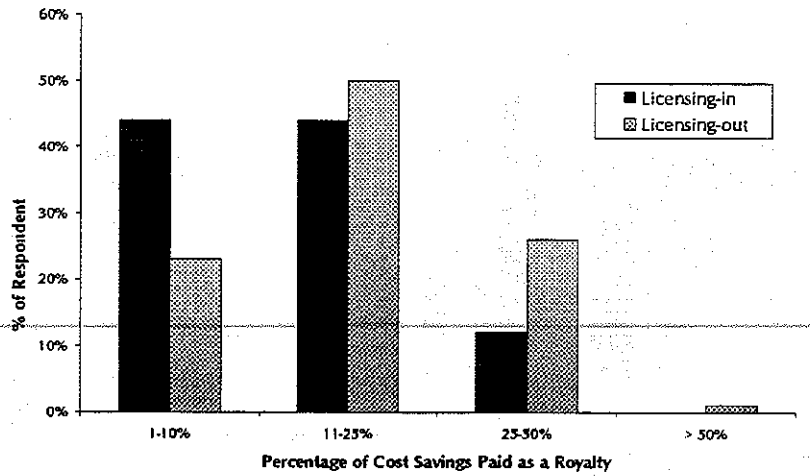
Discounts to Royalty Rates for Technologies Not Fully Developed



Source: A Survey of Licensed Royalty Rates, *les Nouvelle*, June 1997, Stephen A. Degnan and Corwin Horton.

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Royalty Rates for Cost Savings Technologies



Source: A Survey of Licensed Royalty Rates, *les Nouvelle*, June 1997, Stephen A. Degnan and Corwin Horton.

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Income Approach

- *Value = Present value of the expected future income stream*
- *Theory: Licensee is willing to pay some portion of its economic gain from using the IP*
- *Three parameters:*
  - *Amount of the income stream*
  - *Duration of the income stream*
  - *Risk associated with the realization of the income*

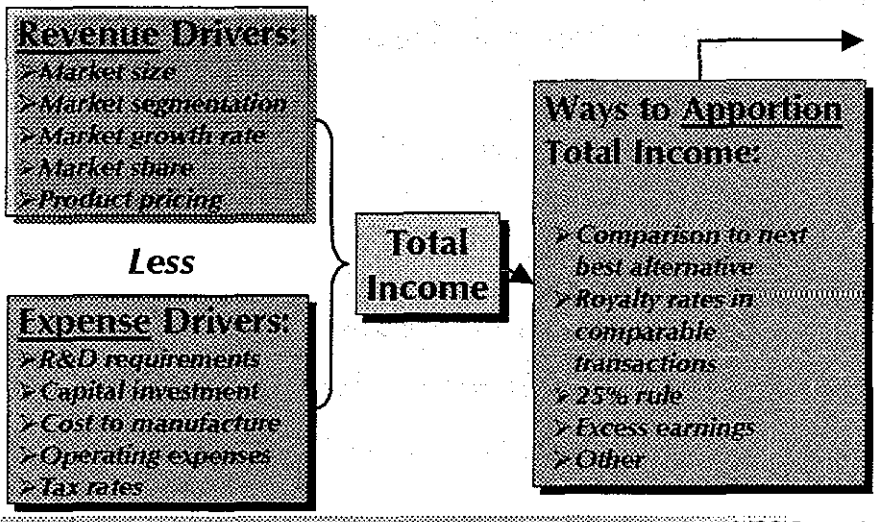
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Income Approach

- *Some observations...*
  - *Most rigorous valuation method*
  - *Exposes sensitive variables and potential deal breakers*
  - *Often used in combination with probability analysis (decision tree modeling)*
  - *Poor assumptions lead to meaningless results*
  - *Challenge is to apportion or isolate the income stream related to IP*

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Income Approach
Amount of the Income Stream



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A Question...

What is the "25% rule" and does anyone know how to use it?

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Accounting 101: The Income Statement

Gross Sales

Less: Deductions (e.g., returns, discounts, allowances, etc.)

= Net Sales (common royalty base)

Less: Cost of Goods Sold (materials, labor and mfg. overhead)

= Gross Profit

Less: Operating Expenses (sales, admin., R&D, advertising, etc.)

= Operating Profit

Less: Non-operating Expenses (e.g., interest expense)

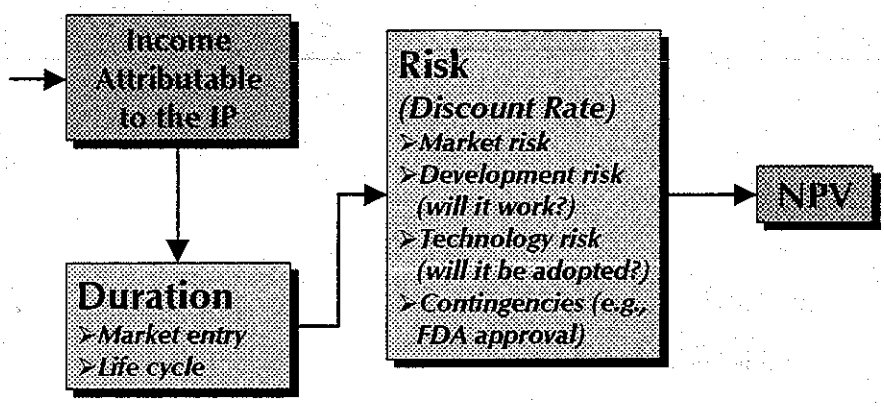
= Profit (Net Income) Before Tax

Less: Taxes

= Profit (Net Income) After Tax

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Income Approach Basic DCF Drivers



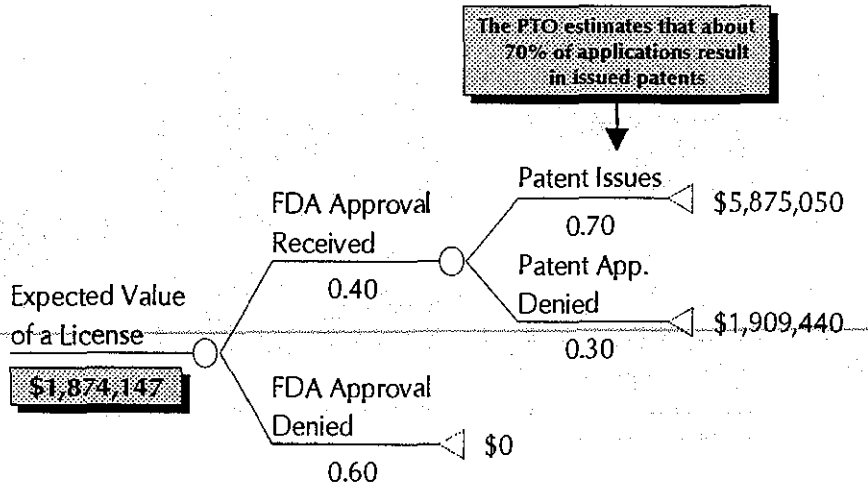
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Finance 101

- **Present Value:** *The value of a future cash flow expressed in today's dollars*
- **NPV (Net Present Value):** *A project's net contribution to wealth (i.e., the present value of annual net cash flows minus initial investment)*
- **WACC (Weighted Average Cost of Capital):** *The percentage return required by a firm's investors in return for undertaking the risk of investing in the firm*
- **IRR (Internal Rate of Return):** *Discount rate at which NPV = $0*
- **Hurdle Rate:** *The rate to which a project's IRR is compared. A project is generally not undertaken if IRR < hurdle rate.*
- **EVA (Economic Value Added):** *Net operating profit after taxes minus capital charge (i.e., cost of capital X assets employed).*

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Dealing with Uncertainty: Decision Tree Analysis



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Case Study #1
Electro Mechanical Device Valuation

- *Client developed a patented technology in response to increased regulatory requirements*
- *Standard industry practice was to license the technology to competitors*

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Case Study #1
Income Approach

- *Created a financial model to compare various scenarios for the licensor and licensee*
  - *Exclusive license vs. non-exclusive license vs. no license*
  - *Cross license to include some of the competitor's technology*
- *Included the key determinants of value*
  - *New sales vs. replacement sales*
  - *Market share/penetration*
  - *Revenues and costs*
  - *Others*

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Case Study #1
Income Approach

Key assumptions
1. 45% market penetration
2. 12% replacement sales

Licensor's Position:

NPV of Licensor's Profits (No license)	$45,748
NPV of Licensor's Profits (Non-Exclusive License)	$21,318
Economic Loss to Licensor	$24,430
Minimum Royalty to Recoup Losses	$35

Licensee's Position:

NPV of Licensee's Profits (Non-Exclusive License)	$32,487
NPV of Licensor's Profits (No License)	($7,997)
Economic Loss to Licensee	$40,484
Maximum Per Unit Benefit to Licensee	$58

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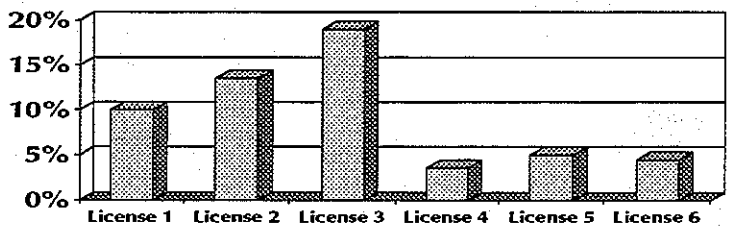
Case Study #1
Market Approach

- *Reviewed license agreements executed by client (as both licensor and licensee) for other technologies*
- *Researched proprietary and publicly available databases for royalty rate information*
- *Analyzed comparable license agreements for various terms including:*
  - *Exclusivity*
  - *Duration of agreement*
  - *Type of technology (i.e., enabling, improvement, etc.)*
  - *Others*

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Case Study #1
Market Approach

Based on the rates and terms of comparable agreements, a reasonable royalty rate of 5% of sales or approximately $30 per unit was derived



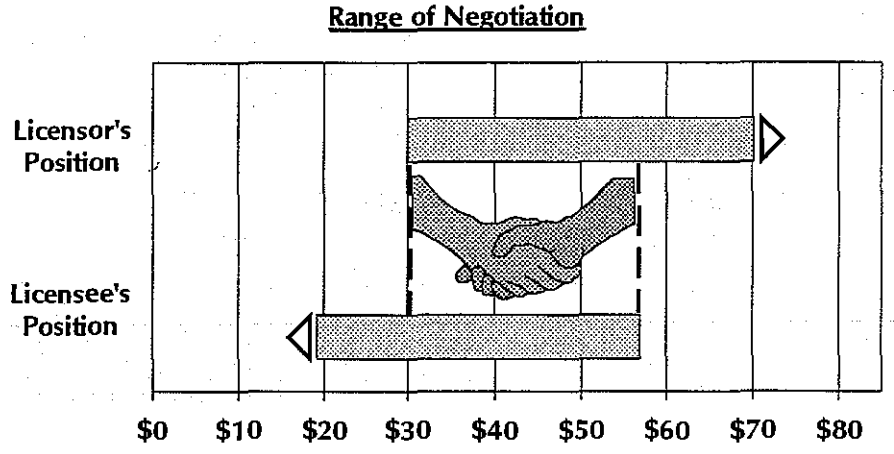
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Case Study #1
Cost Approach

- *Analyzed estimated expenditures to replace the technology. Costs include:*
  - *Research and development*
  - *Engineering*
  - *Others*
- *Estimated the opportunity cost of delayed market entry*
- *Determined the fair market value of the technology to be $28 per unit*

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Case Study #1 Summary



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Case Study #2 Biotech/Pharmaceutical Deal

- *Indication = Treatment of Parkinson's disease*
- *Afflicted U.S. population in 1995 = 1 million*
- *Initial annual revenue per patient = $2,100*
- *Stage of treatment development = Pre-clinical R&D*
- *Time required to receive FDA approval = 8.5 years*
- *Total development costs = $210 million*
- *Assuming FDA approval => NPV = $29.8 million*

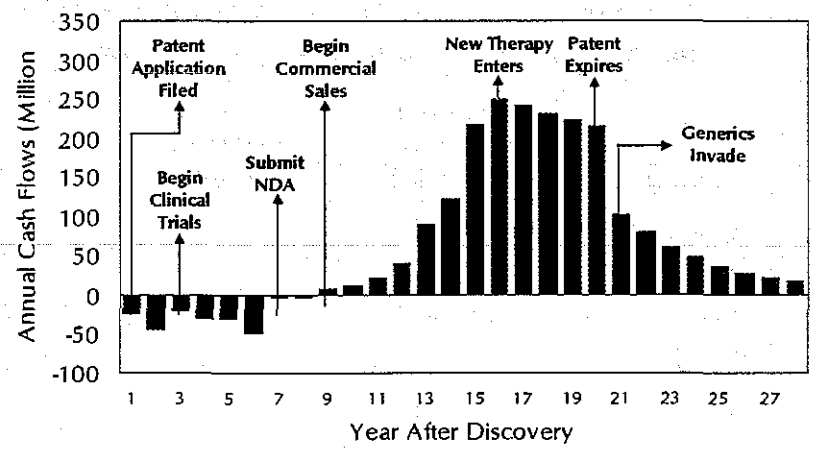
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Case Study #2
Assumptions for DCF Model

1. Year of patent filing/expiration	Yr. 1/Yr. 20
2. Initial annual revenue per patient	$2,100
3. Rate of price increase	4%
4. Inflation rate	4%
5. Afflicted population in 1995	1,000,000
6. Growth rate of afflicted population	0.02%
7. Operating margin: 1st year	6%
Annual rate of increase	30%
maximum	35%
8. Combined tax rate	42%
9. Adoption rate: initial	10%
Rate of increase	30%
10. Year that new therapy enters the market	16
11. Rate of market share decline following new entry	-7.5%
12. Discount rate	16.5%
13. Price drop upon entry of generic products	40%
14. Rate of market share decline following generic entry	-25%

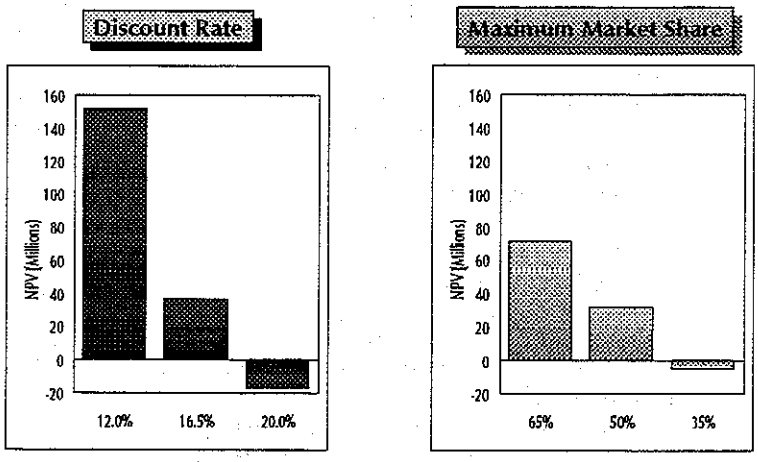
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Case Study #2
Baseline Model Results



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Case Study #2
Sensitivity of NPV



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Case Study #2
Effect of Approval Uncertainty

Given that the value IF approved by FDA = $29.8 million, what is it worth PENDING approval?

Stage of Clinical Trial	Avg. Probability of Successful Advancement (1)	Cum. Probability of Reaching Market	Value
Post-Phase 3/ Premarket	73.5%	73.5%	**$21.9**
Phase 3	83.5%	61.4%	**$18.3**
Phase 2	47.0%	28.8%	**$8.6**
Phase 1	70.0%	20.2%	**$6.0**

Notes: (1) Probabilities shown represent average success rates as estimated by FDA.

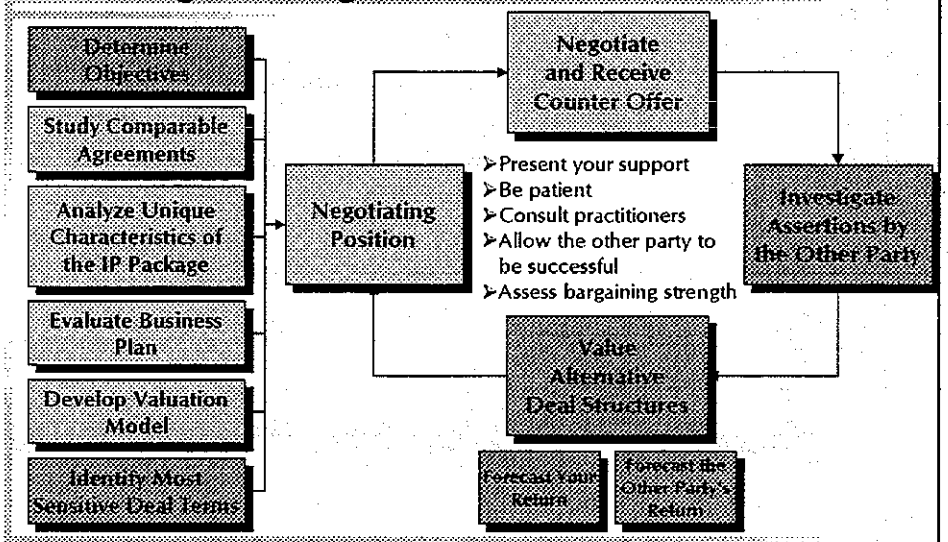
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Case Study #3
University/Biotech Negotiation

- *Technology package: Patent applications and know-how for several pharmaceutical treatments*
- *University's first licensing effort*
- *Seasoned biotech executive proposed licensing the patents to a start-up venture formed specifically to commercialize the pre-clinical stage drugs*
- *University sought royalties, equity and R&D funding*

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Case Study #3
The Negotiating Process



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Case Study #3
Five Forms of Compensation

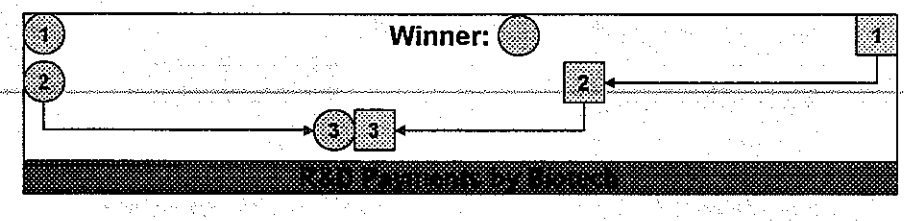
- *R&D Payments by Biotech*
- *Equity Compensation for University R&D Payments*
- *Initial Equity Stake*
- *Royalty Rate*
- *Sublicensing Royalty Sharing*

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Case Study #3
Win the War–Not the Battle(s)

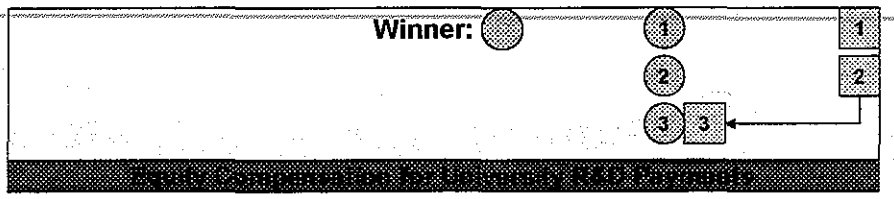
University Licensor

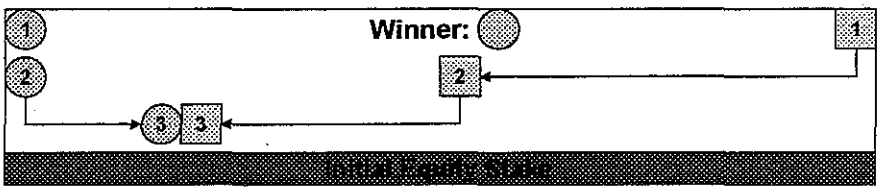
Biotech Licensee



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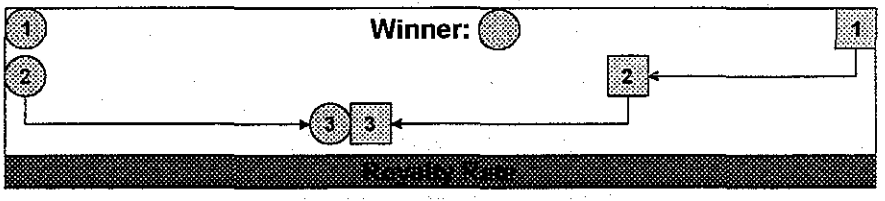
Case Study #3
Win the War–Not the Battle(s)

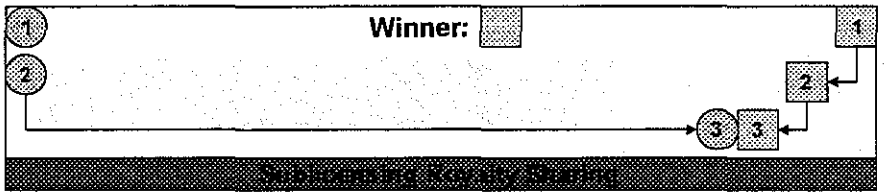




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Case Study #3
Win the War–Not the Battle(s)





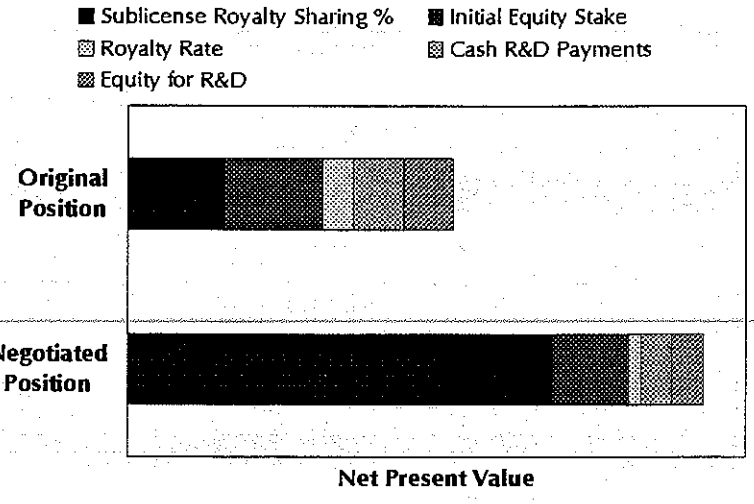
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Case Study #3
Win the War–Not the Battle(s)

- Biotech Wins 4 to 1, Right?

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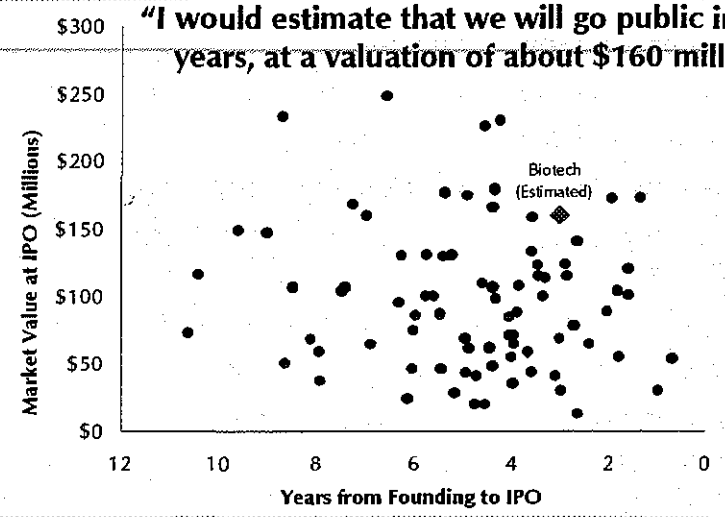
Case Study #3
Identify the Key Sources of Value



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Case Study #3
Investigate Assertions (Homework Part 2)

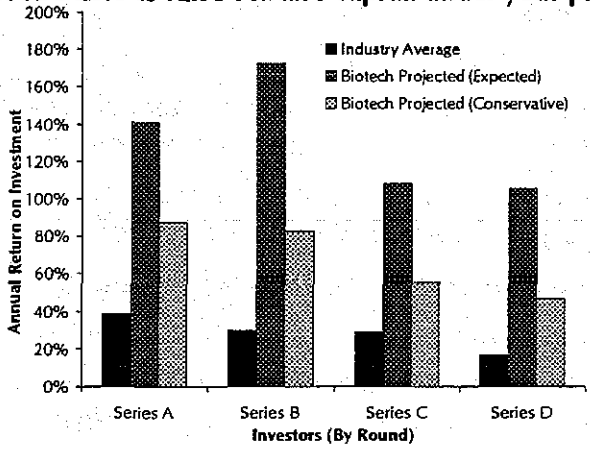
"I would estimate that we will go public in 3 to 4 years, at a valuation of about $160 million."



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Case Study #3
Investigate Assertions (Homework Part 2)

"I will not be able to raise venture capital under your proposed terms..."



Notes: Industry Average per Recombinant Capital.

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Case Study #3
Summary of Lessons Learned

- *Know your priorities and objectives*
- *Know their priorities and objectives (e.g., review business plan)*
- *Do your homework beforehand*
- *Don't rely blindly on traditional licensing terms*
- *Quantify <u>everything</u>–Use DCF analysis to identify the most sensitive terms*
- *Present (most of) your analyses to the other side*
- *Investigate assertions made by the other side*
- *Compute the other party's return to assess reasonableness*
- *Define "win" as "win-win"*

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Pop Quiz

- *How is gross profit different from operating profit?*
- *What is a "sunk" cost?*
- *How do you value an embryonic technology when the market for the technology is very uncertain?*
- *What portion of your expected manufacturing cost savings would you be willing to pay for a process technology?*
- *How do you account for risk when valuing IP?*
- *What is a hurdle rate? (and why do you care?)*
- *How do you compare alternative royalty structures such as a lump sum payment v. a running royalty?*

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Evaluating Deal Structures

- *Assume*
  - *License term is 5 years*
  - *Projected royalty base (revenue) in year 1 is $5 million*
  - *Growth for product revenue is projected to be 10% per year*
  - *Discount rate is 15%*
- *Which deal is better for the licensee?*
  - *A 5% running royalty?*
  - *A lump sum payment of $1.1 million?*
  - *Five annual payments of $300,000?*
  - *A graduated royalty scale of 7% for the first $5 million, 5% for the next $10 million, and 3.5% thereafter?*

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Valuing Intellectual Assets

by

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Intellectual Capital, the newly-popular perspective on the firm's intangible assets, exploded on the business scene in the decade of the 1990's. In 1991, when *Fortune* magazine published its Tom Stewart's article "Brainpower", it was the opening gun in the popularization of a new and exciting perspective on the hidden value of intangibles that had until then only been discussed among a few advanced thinking individuals and corporations. By the end of the decade of the 90's, dozens of firms were actively engaged in extracting value from their intellectual capital. A set of people from thirty of these kinds of firms formed a community (called the ICM Gathering) to share their ideas and success stories. What they have learned about the value of intellectual assets (IA) is the subject of this paper.

This paper will answer several questions implicit in its title:

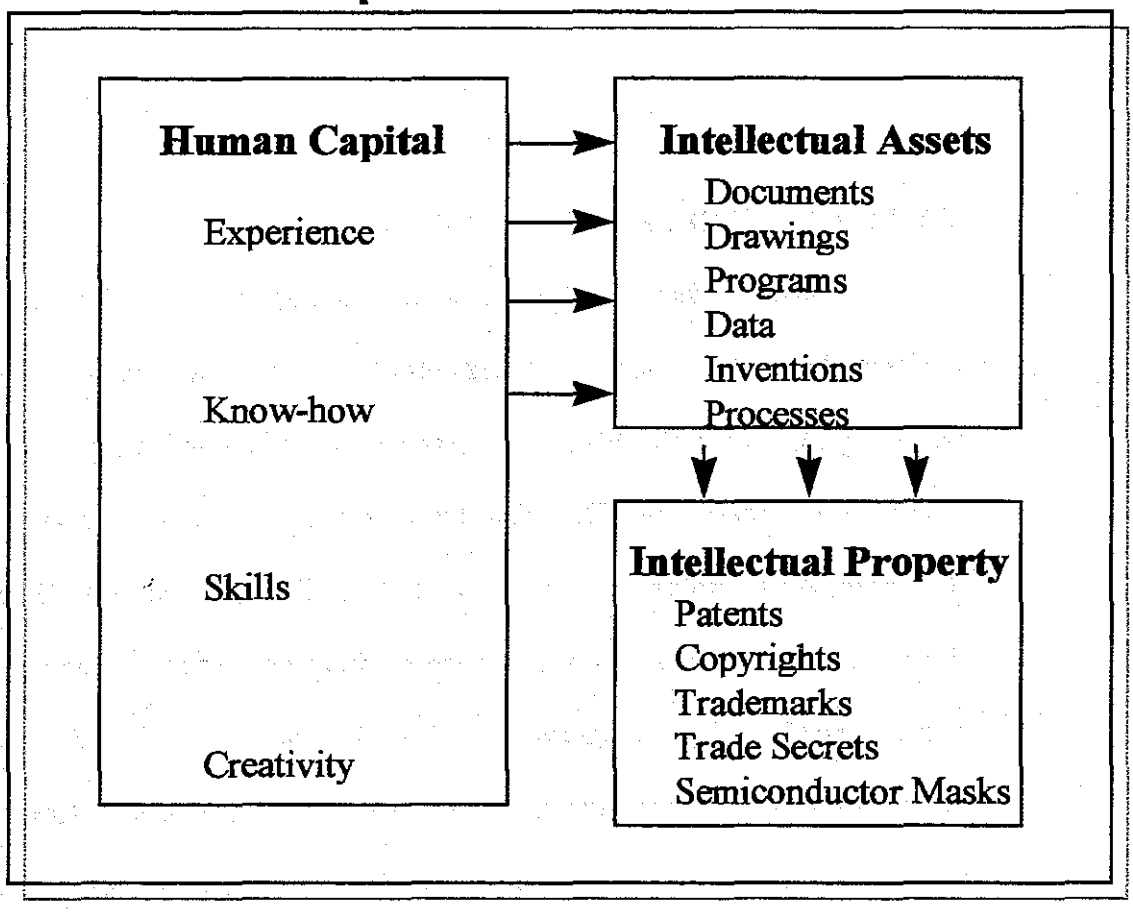
- What are intellectual assets?
- What is value?
- What kind of value do intellectual assets provide to firms?
- How is value measured?
- How is value calculated?
- How do intellectual assets affect the value of a firm?

WHAT ARE INTELLECTUAL ASSETS?

First of all, what is intellectual capital and how, if at all, is it different from intellectual assets? While many definitions of these two now-common terms exist, the Gathering Companies developed their own glossary of terms to make it easier to communicate. *Intellectual Capital*, as the Gathering has defined it, is knowledge that can be converted into profits. This means that of all of the knowledge within a firm, only that portion that can be converted into profit will be defined as intellectual capital. Further, the Gathering companies determined that there were two major components to intellectual capital, or two different but related kinds of knowledge. These were the tacit portions of the firm's knowledge and the explicit, or codified portions. The tacit portion was given the name Human Capital, whereas the firm's codified knowledge was to become known as *Intellectual Assets*. As a matter of definition, then, ***Intellectual Assets are the codified portions of the firm's knowledge that can be converted into profits.***

With the foregoing well established we can turn our attention to a question that is topic of this paper, how does one value a firm's intellectual assets.

Exhibit 1. Intellectual Capital and its Major Components



WHAT VALUE DO INTELLECTUAL ASSETS PROVIDE FOR THE FIRM?

At a 1999 meeting of the ICM Gathering, the member companies listed the following values of intellectual capital to their companies:

- Product and services revenue
- Reputation and image
- Access to the technology of others
- Litigation avoidance
- Design freedom
- Reduced costs
- Blocked competition
- Barriers to entry by potential competitors
- Customer loyalty
- Protection for innovations

Citing two forms of intellectual assets from which they routinely extract value, Gathering companies were able to categorize not only the kinds of value they could extract, but also to group tahese kinds of value into several sets (see Exhibit 2).

Defensive	Patents	Trademarks
	• Protection (exclude others) • Design Freedom	• Protection • (exclude

Offensive	Patents	Trademarks
Revenue	• P&S: Sale, License, JV, SA, Integrate, Donate • Patents: Sale, License, Donate	• P&S: Sales • TM: Sale, License
Cost	• Litigation Avoidance • Access the Technology of	• Litigation Avoidance • Access the Technology of
Position	• Reputation / Image • Competitive Blocking • Barrier to Competition	• Name Recognition • Customer Loyalty • Barrier to Competition

Exhibit 2. The Kinds of Value Brought by Intellectual Assets

As Exhibit 2 shows, the value associated with the more concrete of the intangibles (intellectual properties and intellectual assets) is the easiest to define and measure, whereas the value associated with the "softer" kinds of intellectual capital (know-how and relationships) is less easy to define, describe, and measure.

WHAT IS VALUE?

Value is a concept with many interpretations. Which of these interpretations applies to an organization or business depends, of course, on the beholder. Value as discussed in this paper will be from the perspective of the economist. To people with this view, value is related to usefulness.

> *Nothing can have value without being an object of utility. If it be useless, the labor contained in it is useless, cannot be reckoned as labor, and cannot therefore create value*[1].

Value is different from cost, as it is also different from price. Value is a measure of the usefulness of something, whereas cost is a measure of the amount of resources required to produce it. Price, by way of further contrast, measures what an item's owner believes others will pay for it.

> *Value is the life-giving power of anything; cost, the quantity of labor required to produce it; price, the quantity of labor which its possessor will take in exchange for it.*[2]

> *A cynic is a man who knows the price of everything, and the value of nothing.*[3]

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[1] *Capital* (1867-1883), pt. II, ch. 3, Abridged edition prepared by Julian Borcharadt, translataed by Stephen L. Trask. .....found in Bartlett's Familiar Quotations, 15th edition.
[2] *Munera Pulveris* (1862), ch. 1. ...found in Bartlett's Familiar Quotations, 15th edition.
[3] *Lady Windemere's Fan*, (1892), Act III, Scene 2. ...found in Bartlett's Familiar Quotations, 15th edition.

Value is relative. For example, the value of a piece of rental property may be assessed differently by a seller, a potential buyer, an insurance company, a tax assessor, the executor of an estate containing the property, a government entity considering taking possession by "eminent domain," or a potential mortgage lender. The value assigned to an item depends primarily on the needs of the person or organization that needs to quantify the value.

In the business context, value measurements are used for decision making. The value of an intangible or a piece of intellectual capital is often the basis for deciding whether to invest further in developing the intangible, to continue holding it, or to sell it. This kind of value measurement may be called economic.

To the economist, "value" is a measure of the utility that ownership of an item brings to its owner. Utility is often viewed as a stream of benefits, stretching into the future, that an owner foresees as the "rent" he or she receives from owning the item. Utility may be measured in a number of ways. To the visual artist, utility may be the pleasure his or her work gives to the viewer. To the designer, utility may be the functionality of a design. To the accountant, utility may be measured in the accuracy of historical expenditure data. To the economist, however, utility is most often measured in dollar terms.

Economists typically view a future stream of benefits in dollar terms and can discount and sum these amounts to determine the current dollar equivalent of a future stream of income. This discounting and summing calculation is the

determination of the net present value of a future stream of benefits. This is most often the economist's measure of value.

Looked at through economic eyes, the value associated with knowledge firms lies largely in knowledge it creates for future commercialization as well as the capabilities it creates to extract current profits from existing knowledge.

WHAT AFFECTS VALUE?

In the case of intangibles, such as intellectual assets, value is largely dependent on the firm's view of itself and on the realities of its marketplace. Put another way, each firm exists within a context that shapes its view of what is or is not of value. Context may be defined as the firm's internal and external realities.

Internal Dimensions of Context – Questions asked to determine the internal context center on direction, resources, and constraints. What business is the firm really in? How does the firm define its business? What are the firm's strengths and weaknesses? What are the "levers" to pull for growth? What strategies are available? What strategies has the firm selected? Why? What is the firm's current performance against goal? Is this performance acceptable? What are the political realities of the firm? What is politically correct thinking within the firm and what is not? What is 'do-able'?

External Dimensions of Context – Questions asked to determine the external context center on identifying the fundamental forces affecting the industry as well as the immediate opportunities available in the firm's marketplace.

What are the major environmental forces affecting success in this business (e.g., economic, governmental, technological, sociological, political)? What is the firm's market? How is it changing (getting larger, declining, etc.)? Who are the firm'' competitors? What are their strengths and weaknesses? What are the best market strategies?

We have all had the experience of initiating or seeing someone initiate an idea that was subsequently minimized or abandoned by the organization, despite its apparent initial value. A good idea that could not grow in one context took root and flourished in another. Context is important!

The Importance of Values and Vision

Companies successfully managing their intellectual capital realize that two elements of context are fundamental to determining what kinds of things a firm believes have value: *values* and *vision*. Concerning values, the underlying idea is that the values of a firm are major determinants of what it holds to be of value[4]. Once the firm's values are known, it becomes possible to know how a firm should value an item. The importance of vision (already discussed as a part of the IC framework) is based on similar but different reasoning – if a firm has a vision of what it wants to become, then it will be able to know whether an item (of intellectual capital) will help move it toward that vision. It an item would be helpful, then it has value for the firm. If it has no usefulness in moving the firm toward its vision or objectives, then it has little value.

Vision - A firm's vision describes the company as it wishes to be in the future. The vision often provides the standard against which a new innovation is

[4] B. Hall, Culture and Values Management, contributed chapter to: P. Sullivan, *Profiting From Intel*lectual Cap*ital*, John Wiley & Sons, 1998.

measured: Will the innovation help the firm achieve its long-term vision? Can the firm capitalize on or somehow use the innovation to improve internal operations, how it is viewed by the marketplace, or the list of innovations to commercialize? Will it lead to increased sales? Will it improve internal efficiency? Will it improve the firm's ability to develop new innovations? Are these things important to the firm? If so, the idea has value. If not, then the idea has little value.

Values - The values of a firm represent the consensus beliefs of its members. The sum of these views, the collective values of the firm, determine the worldview held by the employees. Values drive the day-to-day decision making of employees. If the values of the employees differ from those of the executive management, the employees will be unlikely to effectively implement the firm's strategic plan. Values may be thought of as ideals that shape and give significance to our lives. They are reflected in the priorities we choose, the decisions we make, and the actions we take. Values are ideals that individuals select and use as the basis for many decisions in day-to-day life. As decision prioritizers, values are reflected in behavior. As ideals, they provide meaning for people's lives. Values are also measurable. They represent the lens through which individuals and organizations view the world. An item has value to an organization if it is consistent with its values. Items that are *not* consistent with a firm's values have little value to the firm.

To summarize about values and visions: Values set the context within which a firm may determine what it holds to be of value. Vision sets the benchmark against which corporations may *measure* the value of their intangibles.

FORMS OF VALUE PROVIDED BY INTELLECTUAL ASSETS

We have already identified the kinds of value that different forms of intellectual assets can provide to a firm. Each of these kinds of value may manifest itself directly or indirectly, offensively or defensively.

Direct vs. Indirect Value

It should be obvious that intellectual capital provides firms with two kinds of value. The most direct is cash flow. As the fundamental driver of a firm's cash flow, the intellectual capital of the firm creates the innovations that are subsequently converted into revenue (and other kinds of value). In addition, the firm's intellectual capital determines how the firm will conduct its business in a cost-effective manner. Because the firm's intellectual capital creates its income and manages its cost streams, IC is a primary generator of the firm's profits.

The second kind of value is less direct. Some firms use their intellectual capital to position themselves strategically. Their IC is evidence of their intellectual leadership and can be a basis for their customer loyalty. Other firms use the size and power of their patent portfolios to intimidate competing or copycat firms that might otherwise file lawsuits claiming rights to an innovation. Still other firms use their portfolio of intellectual capital assets as a bargaining chip in business negotiations.

Direct-value activities are those that provide an unambiguous link between intellectual capital and value: either revenue or profit. Any intellectual capital activity that results in revenue or cost reduction is considered a direct-value activity. Thus, a direct-value activity (1) can be explicitly linked to the vision or strategy; (2) deals with revenue or cost; and (3) is easily measured.

Indirect-value activities, in contrast, cannot be directly linked to vision, strategy, revenue, or cost, and they are not easily measured. The links between the activities and the value they produce, while often intuitively obvious and sometimes compelling, are not associated with a transaction (such as a sale). A transaction is an event that signifies a transition from one state to another; it typically includes the payment of a market price. Indirect-value activities are not associated with transactions and are therefore less clearly linked and measured.

Offensive and Defensive Value

Some kinds of IC-related value have defensive dimensions; others have offensive dimensions.

Defensive activity prepares the firm for invasive action by individuals or groups outside of the firm. Its purpose is preparation and its focus is on developing assets or resources that will help repel or neutralize intrusive activities that threaten some aspects of the firm's vision or strategy. Defensive activity is generally viewed as passive in nature.

Offensive activity targets individuals or groups outside the firm. The purpose of offensive activity is to advance the organization's ability to achieve its strategic vision or

to implement its strategy. The activity frequently concerns revenue and profit generation, and its targets are customers and groups outside the firm.

Let's return to the list provided in the first section of this chapter. As you can see some intellectual capital management activities are neither entirely defensive nor entirely offensive but a mixture of both (see Exhibit 3).

Type of Activity	Direct Value	Indirect Value
Offensive	Revenue or sales Access to the technology of others	Enforcement of legal rights
Defensive		Obtaining legal protection Litigation avoidance Design Freedom
Offensive & Defensive	Cost reduction activities (manufacturing, distribution, sales, marketing)	Reputation / image Blocking competition Barriers to entry Customer loyalty Being a player

Exhibit 3. The Value of IC to Corporations

Let us review each kind of IC highlighted in Exhibit 3. and the kinds of value it is capable of bringing to the corporation. Exhibit 3. is drawn from the ICM Gathering companies, who said that five kinds of IC brought the most value to their companies: patents, copyrights, trademarks, know-how, and relationships.

Value Associated with Patents

Patents bring both defensive and offensive value to firms that own them.

Defensive Value. Mere ownership of patents implies defensive activity. Patent protection conveys the right to exclude others from unauthorized use of the intellectual asset that is protected. Such rights are defensive (and indirect) in nature.

Offensive Value. Patents provide their owners with a range of potential offensive uses. In providing an owner with rights to an exclusive use of a technology, a patent may be used to generate revenue. The revenue may come from the direct sale of the products and services protected by the patent, from licensing rights to the products and services, from joint ventures associated with producing products and services, or from strategic alliances formed to reach new markets for the products or services. A company may also donate a patent in order to receive tax benefits. Examples of companies that have produced revenue from their patents are well known. IBM has generated over $1 billion per year in licensing revenue. Dow Chemical proudly claims that it has surpassed its goal of $125 million in annual licensing revenue, with this form of income still growing. Some companies are bringing together all of their patents under one organization, sometimes a separately formed company, to optimize their commercialization (Bell South and DuPont are two current examples). Where patents are used to generate revenue their value is offensive and direct.

Patents may also be used to lower company costs. For example, a patent that is well-written and valid may dramatically reduce the possibility that its owner will be sued for patent infringement. High-quality patents can be a key factor in minimizing a company's litigation costs. Where cost reduction is the value to be extracted from patents, this value is considered to be direct. Patents may also be used as bargaining chips to obtain access to the technology of others. Patents are often more valuable than

cash when a competitor needs access to a technology owned by another firm. Technology competitors may be able to establish licensing agreements when other forms of negotiation fail.

Some companies use patented technologies as measures of a reputation or image in the marketplace. For example, IBM, 3M, Texas Instruments, Hewlett-Packard, and Xerox are all companies whose reputations rest on their ability to provide customers with products based upon the latest and best technology. These companies all have substantial portfolios of high-quality patents. Their portfolios bolster their image of technology leadership, which helps them compete in their respective marketplaces. A company that cannot achieve technology leadership, may seek instead to be a "standard setter" or simply a "player." In some industries, in order to be considered a "player" a company needs chips to bring to the table--in other words, evidence that it belongs in the game. A portfolio of high-quality patents is such evidence.

Patents may also be used to block competitors from certain kinds of technology initiatives that would intrude on a patent owner's business or market. Competitive blocking is one often-used value of patents.

Value Associated with Trademarks

Trademarks, the marks or brands that companies use to identify themselves or their products in the marketplace, are another form of legal protection. Trademarking, or legally protecting a brand, means preventing others from using it.

Defensive Value. The defensive value of a trademark is that others may not use it without the express permission of the holder of the rights to the mark. A company may use its trademark to differentiate itself and its products in the marketplace.

Offensive Value. Products and services sold under a trademark often command premium prices, particularly when the trademark is viewed by the purchaser as a guarantee of quality. When a trademark becomes widely known and the products associated with it are highly regarded, competitors without trademark recognition may suffer in the marketplace. Name recognition may lead to repeat sales as well as convoyed sales, thereby reducing a firm's marketing cost per sale. (Convoyed sales are sales of other company products or services after a "first" purchase of a company product. For example, the purchaser of a particular brand of television may decide to purchase a VCR made by the same manufacturer. In this case the VCR would be considered to be a convoyed sale.)

At least one company has tried to use its trademark to extend the franchise it received through its patent. Nutrasweet is reported to have made significant efforts to ensure that its swirl trademark would appear on all products containing Nutrasweet, realizing that the patent protection for Aspertame (the chemical sweetener itself) would expire at the end of its patent period. The Nutrasweet people have tried to ensure that there is now enough value, or customer loyalty, to the trademark that the mark itself will continue to guarantee a high rate of sales for products on which it appears.

Cost-Reduction Value. Like patents, trademarks that are well protected reduce the probability of costly litigation or legal disputes about ownership rights or rights to use the mark.

Positioning Value. In providing name recognition for a company and its products, a trademark may be sufficient incentive for a consumer to buy a new product from a company whose trademark it trusts. Related to name recognition is customer loyalty. Consumers who proudly proclaim that they would never buy any brand of car other than, say, a Ford, are important to companies; and companies spend significant amounts of money to foster such brand name loyalty. Other companies use their advertisements to encourage loyalty: "Have It Your Way" is the slogan of one fast-food chain that wants its customers to know that they can buy a "customized" product. "I Want My MTV" is another slogan designed to create customer loyalty.

Barriers to Competition. Companies with well-branded or trademarked products may often "own" a market. Consider the market for aspirin. While it is common knowledge that aspirin is the same, no matter who makes it, the relatively small number of companies that manufacture and sell aspirin go out of their way to differentiate their aspirin through their brands. A new entrant into the aspirin market would face the formidable barrier of having to compete with several worldwide trademarks.

Value Associated with Human Capital

Human capital, the source and repository of all tacit knowledge, is generally considered to include three different kinds of tacit intellectual capital: knowledge and know-how, relationships, and organizational capital. The following paragraphs highlight several ways in which knowledge or know-how and relationships provide value to their organizations. The state of the art for determining the value associated with

organizational capital is the least advanced of the three forms of tacit knowledge and is not dealt with in detail here.

Knowledge / Know-How. Know-how, generally considered to be tacit, may be explicit--that is, it may be definable and describable but still reside in a tacit form. Some service companies, such as law firms and consulting firms, sell access to their employees' knowledge or know-how. Some manufacturing firms also obtain value from the know-how of their employees in ways other than through its direct commercialization. Employees with very specific skills--how to operate complicated machinery or how to install and set up a factory, for example-- possess knowledge or know-how that can be converted into value.

Explicit know-how is knowledge that a firm knows its employees have. As a defensive tactic, a firm may legally register its employees' knowledge as a trade secret. This means that a company has exclusive rights to the use of this knowledge as long as the company follows certain procedures to protect it and to restrict access to it. Other individuals and organizations may not use knowledge that is a trade secret.

A firm's know-how may provide offensive value by reducing costs or creating a positive image for the firm. For example, companies whose know-how is well documented in the form of trade secrets or where the know-how is unique to the corporation or widely known to be held by the corporation find themselves less likely to be the target of litigation. Know-how may also help a firm position its image or reputation. Perhaps one of the most famous bits of know-how is the formula for Coca-Cola. Know-how is also often used as a credential for companies that want to become

"players" in an industry. Know-how can sometimes be as important as patents or explicit knowledge.

HOW IS VALUE MEASURED?

- Where the firm's intellectual capital is aligned with its vision and strategy, the roles for IC may become known, and their value measurable. The roles for IC are typically divided into two sets: value creation and value extraction. The subdivision into these two, and further subdivisions as desired, make it easier to determine the components of value to be measured.

Once the "what" of IC measurement is known, it becomes necessary to decide *how* to measure it. Here it is useful to differentiate between measures and measurements.

Measures - the dimensions to be used in the act of measuring

Measuring - the act of comparing the thing to be measured against the standard dimensions proscribed.

Measurements - the numerical results of measuring

Measures may be of two kinds: qualitative or quantitative. Qualitative measures are typically judgement-based and often are used where the item to be measured or the attribute of interest does not lend itself to precise or quantifiable measurement. One of the most striking examples of this phenomena may be best exemplified by using a non-business intangible: love. Parents are often asked by their child "How much do you love me?" The answer, of course, defies quantification. As respondents to that question we each tend to fall back on answers like: "A lot!"

The point is that some things, even very important ones like love, do not lend themselves to accurate or quantifiable measurement. Sometimes, when it is difficult to measure an IC activity directly, companies have found that they can use indicators rather than measures. Because direct measurement often requires that something be completed before it can be "counted", there are times when one wants to know about work-in-progress. Indicators are helpful under these circumstances because they are less definitive than measures. Although they also provide information on "amount, they are often "fuzzy", using terms like "a lot" or "more than". Indicators are often defined in terms that are not as black-and-white as normal quantitative measures. This means that companies can define measures that are gray instead of only black and white.

Vectors are another form of measurement that works well when measuring intellectual capital activities. Vectors are helpful because they provide information on direction as well as on amount. So a vector measurement might be that the company's intellectual capital has "increased substantially" over the past year. This means that the vector of change is positive in direction and the length of the vector is relatively long. On the other hand, some companies might find that their intellectual capital had "decreased somewhat" as a result of an early retirement policy. This represents a vector that points in a downward direction, and one whose length is relatively short.

Quantitative measures may be integer- or vector-based. For the integer-based measures, there are two further divisions: financial or non-financial. Exhibit 4 highlights sample measures under each heading.

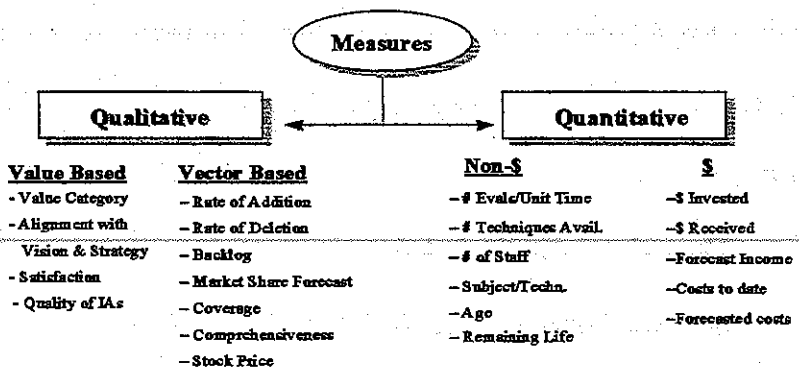


Exhibit 4. Example Measures for Intellectual Capital

For most of us, when we think of measurement, we immediately think of quantitative measures such as feet, time, weight, dollars, and so on. These measures allow us to determine where we have been, where we are going (in terms of distance and time), and where we are today in a physical sense. For companies, in the past largely concerned with physical assets, measurement has traditionally centered around quantitative outputs—in particular amounts of product, dollars and sometimes time. Quantitative measures provide a precise snapshot of activities of the firm. In providing this snapshot, quantitative measurement requires that there be points at which measurement may be taken. In other words, quantitative measurement requires discreet measurements and are very useful to tell us what *has* happened.

Qualitative measures give us a sense of what *is* happening. Qualitative measures are useful to tell us the vector of change rather than the speed. Qualitative measures are useful to answer questions such as "Is the amount of your firm's intellectual capital changing?" The answer to such a question might include the direction (up or down) and

the general degree of change (a lot, a little, a moderate amount). Qualitative measures are often most useful when put into the context of the firm. For example, in a survey of portfolio managers when asked to define their portfolio, managers responded in the following terms:

- The technologies included
- Strategic Objectives and Intent for the portfolio
- Strategic Use of the portfolio
- Value of the portfolio (both qualitative and quantitative)
- Income and Cost associated with the portfolio

With the exception of the final category, all of the other dimensions with which portfolio managers define and describe this set of intellectual assets (a patent portfolio), the ways it is measured are qualitative.

The Value of Intellectual Assets for a Going-Concern

While the financial markets are interested in the current value of knowledge companies, the companies themselves are concerned about their future value. Knowledge companies generally manage their IC in order to create a future income stream and to support the strategy they have developed to achieve their vision. For this reason, the primary reference point for the measurement of the operational value of intellectual capital is the firm's vision and strategy. The primary context for measuring value is the values of the firm. Economic value measurement may be done either qualitatively or quantitatively. Qualitative measures of economic value describe the manner in which an intangible brings utility to the firm. Quantitative measures of value

define the amount of a stock or flow or the rate of change of a stock or flow. Many quantitative measures of intellectual capital use money as the primary dimension for measurement.

Measuring Operational Economic Value

Two monetary measures of value are price and cost. Price is the amount a purchaser is willing to pay in exchange for the utility received from an item. Cost is the amount of money required to produce an item. Both cost and price are considered to be direct (and quantitative) measures of value. But there are other, non-monetary or indirect measures of value as well.

Qualitative measures of value. Suppose a company, Acme Widget, wants to know the value of one of its patents. One way of exploring value would be to ask, "what value does this patent bring to the firm by its inclusion in the portfolio?" The answer may be qualitative. The value of this patent to the portfolio depends on several factors:

1. The intended use of the patent

a. Commercialization. If this patent is in the portfolio to be commercialized, its value may be expressed as its usefulness to the firm in commercialization terms. For example, a patent that is by itself the complete technical basis for a business would be qualitatively more valuable than a patent that required other patented technologies to create a sufficient technical basis for a business.

b. Protection. If this patent is not in the portfolio to be commercialized but to protect another patent that the firm does expect to commercialize, its value is

related to the amount of protection it provides to the patent(s) it is included to protect.

c. Anti-competition. If this patent is in the portfolio as an anti-competitive measure, it is there to provide:

--*blocking*, denial of access by competitors to a pre-determined field of technology, or

--*design freedom*, freedom for the firm to continue conducting research and development in a particular field.

d. Litigation avoidance. A patent may be in the portfolio to be used in bargaining with potential litigants in order to prevent a trial or arbitration.

2. The patent's ability to exclude others

a. A patent may be able to exclude others from infringing on a firm's rights to practice R&D as well as to exclusively use the patented technology in the marketplace. Patents that can exclude virtually all potential infringers have high value for a firm. Patents with a limited ability to exclude others from practicing in a field have lower value.

3. The company's ability to detect infringement

a. The degree to which infringement of a patented technology can be detected is another measure of the value a patent may bring to its owner. It is difficult to detect infringement of a patented *process* because infringing applications are usually inside a machine or system. Infringement of *product* patents is often easier to detect because a product may usually be seen in the marketplace.

Patents whose infringement is easy to detect are more valuable than those whose infringement is difficult to detect.

Quantitative Measures of Value. A range of quantitative measures may be used to measure the value of intellectual capital, both money-based and not. Things to be measured are often stocks (the total amount of something) or flows (the change or rate of change of something). Exhibit 5 shows examples of quantitative measures of intellectual capital value.

Identification	Management	Extraction	Alignment and Systemization
• Definition of Assets: – # – Costs to Date – Forecast Costs – Subject/Techn. – Age – Remaining Life – Value Category – Rate of Addition – Rate of Deletion • Categorization of Assets: – # of Categories – # IA's in Category – # or % not in Category – Alignment with Vision	• General: – # Evals/Unit Time – # Techniques Avail. – # of Staff – Alignment with Vision – Skill Level of Staff – # Recc's Made – # Recc's Implemented – Quality of Evals – Backlog	• For each: – # of Innovations – $ Invested – $ Received – Forecast Income – Alignment with Vision	• Information Systems – % Coverage – % Complete – Accessibility – Completeness – Rate of Usage – Alignment • Decision Systems – Age – Coverage – Purpose – Comprehensive-ness – Connectivity – Alignment • Managerial Systems – Satisfaction – Rate of Usage

Exhibit 5. Examples of Quantitative Measures of Value

One final point concerning the quantification of value is the importance of the time dimension to value measurement. Some intellectual assets have current value to the firm, while others represent value to be realized sometime in the future. Intellectual capital management is the management of the firm's future. It largely deals with the

processes for creating and commercializing innovations that will account for the firm's future income stream. Current intellectual capital, or the current stock of intellectual capital, is sometimes of interest to the financial markets. For this reason there are several efforts afoot to create a reliable set of methods for capitalizing this set of intangibles in the form of an intellectual capital balance sheet.

The measures used to value intellectual capital depend on the purpose of measuring. Measurements of the current stocks of intellectual capital are of interest outside the firm. Of interest inside the firm are those measures that tell one of two things: (1) are the innovations being developed proceeding as planned? (2) what can each innovation be expected to produce in the form of an income stream, and what is the net present value of that income stream?

HOW IS VALUE CALCULATED?

A range of methods is available for quantifying value in terms of money. The method selected depends on the reasons the valuation is to be made and the degree of precision required. The most common reasons for a knowledge company to produce a money-based valuation of an intangible asset are: litigation; tax-related transactions; joint ventures; intracompany transfers; business decision-making; out-licensing/sale; in-licensing/purchase; R&D investment; portfolio management; in-kind contributions; exploitation potential; and initial estimate of value.

The precision required of a valuation may be determined by the relative importance of the result as well as the degree of scrutiny to which valuation will subjected. The amount of precision determines the amount of effort and resources

expended on answering the question, how much is it worth (what is its dollar value)? Exhibit 6 suggests a relationship between the reason for valuing, the expected degree of scrutiny, and the level of effort required to produce a valuation.

Reason for Valuation	Expected Degree of Scrutiny	Level of Effort Required
Litigation	Very High	High
Tax-related Transactions	High	High
Joint Ventures	High	High
Intracompany Transfers	High	High
Business Decision-making	Medium	Medium
Licensing	Medium	Medium
In-Kind Contributions	Medium	Medium
R&D Investment	Medium	Medium
Portfolio Management	Medium	Medium
Exploitation Potential	Medium	Medium
Initial Estimate	Low	Low

Exhibit 6. Relation between Circumstance, Scrutiny, and Valuation Effort

Valuation Methods

Value is quantified in monetary terms through one of the three classic methods:

- *Market method.* This method, probably the top choice of economists, uses the market price agreed upon by willing buyer and seller as the best dollar measure of utility.
- *Income method.* This method, usually used when there is not a market price available, involves calculating the future streams of income and cost and then discounting their sum back to present value.

- *Cost method.* Perhaps the least preferred by economists, the cost method calculates the costs required to duplicate (create an exact copy of) or replicate (to create the functional equivalent of) an intangible.

Exhibit 7. lists some of the advantages and disadvantages of the classic and other frequently used methods for valuation of intellectual assets.

Method	Description	Advantages	Disadvantages	When Used
Market (classic)	• The economist's basic valuation method	• Best match with • Economist's definition of value	• Difficult to find comparable Ips	• Litigation • Licensing Transaction
Income (classic)	• A basic technique on which many variations are based	• Considers all factors associated with value • Considered best alternative if market approach is unavailable	• Difficult for layman to calculate	• Litigation
Cost (classic)	• A calculation of the cost to replicate or reproduce	• A third approach used when the market income approach is not available • Good method for brand-new technology	• No measure of utility or market value • Overhead allocations difficult to make/justify	• Litigation
Technology Factor	• Devised by Dow, a good method for internal valuation	• Builds political consensus • Methodical/systematic • Gook workbook	• Requires assembly of many people • Many assumptions underlying method	• For internal use only
Probability-Adjusted Expected Value	• Method for valuation under uncertainty	• Allows for quantification of elements of risk • Models the development process	• Can be costly if done to meet high precision standards	• Where "strategicness" is important
Risk/Hurdle Rate	• Financially focused method	• Quantifies risk • Mathematical analysis	• Intensive calculation • Not for the faint-at-heart	• Financial Investment
Return on Sales	• A calculation of royalty based on net sales	• Quick • Take advantage of industry norms	• Difficult to allocate profits between 2 parties • Value could be different from one company to another • Requires agreed sales	• N/A

			forecasts	
Sullivan 's Method	• A quick method with a basis in theory and a coupling with judgment	• Quick • Based on business knowledge • Order-of-magnitude results	• Accurate to ±25% • Requires some market knowledge • Uses average exhibits	• Initial Estimate
Make Me an Offer	• Just what it says	• Good approach when no valuation information is available	• Leaves money on the table	• All circumstances
25% Rule	• A rule of thumb	• Simple • Provides an agreed (if not accurate) value • Used only when nothing else is available	• No basis in theory • Not necessarily accurate or representative	• Initial Estimate

Exhibit 7. Table of Example Valuation Methods

A comparison of Exhibits 6 and 7 reveals that valuation requires a high level of training and experience.

HOW DO INTELLECTUAL ASSETS AFFECT THE VALUE OF A FIRM?

The Relationship Between IC and the Dollar Value of a Firm

There are many skeptics when it comes to determining the value of a firm's intangible assets. This is often frustrating to the IC faithful. One of the difficulties with determining the value of intellectual assets is that a large portion of the kind of value it may produce is in an indirect form. Indirect value (e.g.: strategic positioning, reputation, image) is difficult to quantify in dollar terms and thereby to put into a form that satisfies the skeptics. Yet another problem with valuing intellectual assets is that it is sometimes difficult to know what people in an organization hold to be of value. We have all

observed that an idea that is held to be of little value in one organization may be of great value in another. This is because the two organizations value different things

The Relationship Between Intellectual Assets and the Dollar Value of a Firm

Intellectual assets are important because they create the future products and services of the firm. In other words, intellectual assets create the firm's future cash flows. We also know that the dollar value of a firm is generally thought of as being comprised of the sum of two of its financial parts: the dollar value of its tangible assets and the present value of its future cash flows. If this is true then it follows that Intellectual assets are linked to the dollar value of a firm! The degree to which intellectual assets link to future revenues is the degree to which they have an impact on the firm's dollar value; and on its market value (or stock price)!

We know that the stock market values companies, in large measure, by their ability to produce revenue, cash flow and profits. The degree to which intellectual assets are an integral part of creating revenue, cash flow or profits is the degree to which it impacts the dollar value of the firm and its stock price.

Summary

This paper has discussed a number of key questions surrounding the valuing of intellectual assets. The paper has reviewed how intellectual assets bring value to a firm, how the value of firms having such assets may be calculated, as well as how individual intellectual assets may be valued. Finally, the paper has discussed how the value of a firm may be effected by the value of its intellectual assets.