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Report on 1976 Activities of PIPA

Takashi Aoki
Ex-President of the Association

Williamsburg, October 12, 1977.

Mr. President, Distinguished Guests, ladies and gentlemen,

It is a great honour and real pleasure for me to see my friends here again in Williamsburg upon one year interval. It is my further pleasure to welcome both the American and Japanese members to the opening of the 8th International Congress of PIPA in this historical location. I am sure that the Williamsburg Congress will proceed smoothly with its well-prepared program and result in another success with fruitful exchange of the views as usual between the American and Japanese participants here. I wish to express my sincere thanks for each of my Japanese colleagues to all the efforts and the very time-consuming arrangements carefully made by our American friends for this Williamsburg Congress.

Now, I was given an opportunity to report you, according to the established tradition of PIPA, some of the 1976 main activities of PIPA. 1976 was an important year for the international patent law movement. There were several important international conferences. One of them will no doubt be the WIPO meetings for the Paris Convention. As you might know well, two congresses were held in 1976. First, in June, 1976 at Lausanne when the Third Session of Ad Hoc Group of Governmental Experts on the Revision of the Paris

Convention was held, where Mr. Adams and Mr. Matsui attended as the representatives of PIPA. Due to the decision made by the Paris Union Assembly thereafter, Preparatory Intergovernmental Committee for the Revision of the Paris Convention was established instead of the Experts meeting and its first conference was held in November, 1976 at Geneva when Mr. Adams and myself, Aoki attended the meeting as the PIPA representatives. The Second Session of Preparatory Intergovernmental Committee for the Revision of the Paris Convention was held in June / July, 1977 and the Third Session thereof will start soon in Geneva from November 21, 1977. The strong demand from the third world countries for new creation of non-reciprocal and preferential treatment in the Paris Convention for the first time in ~~the~~ history will not so easily be removed and PIPA should continue to send delegation to the Conference.

International tension in relation to the investigation of all possible measures for facilitating technology transfer to developing countries can not be loosened without serious and patient talks on modification of the present international patent system in various aspects.

I am certain that you have a chance to know more and actively discuss about these important international movement at this Congress.

Another important international development has been steadily proceeding through intensive preparations for enforcement of PCT in parallel with those of European Convention. The latter caused revision of national patent laws in many European countries.

We expect we may gather some actual experience of filing European Patent applications before the next PIPA international conference.

May I recall you that your Board of Governors expressed several times in the past the view that PIPA should develop actions to be taken by its various committees and attach greater importance to the daily activities to cope with dramatically changing international situation. This is still a subject we ~~expect~~ have to ~~achieve~~ develop through the efforts and cooperation of the American and Japanese groups.

It is with my great pleasure now to refer to the Seventh International Congress of PIPA which was held in Hakone in November, 1976 where a lot of interesting and impressive discussions had been so frankly exchanged by both the U.S. and Japanese members based upon many fine papers of outstanding quality. I clearly remember that we had some difficulty to allocate our limited time properly to a panel discussion and each of the interesting topics, while we never wanted to miss the splendid opportunity to enjoy a view of so glorious and colourful leaves of maple in the famous National Park, Hakone. We were really pleased to have many American friends there in such good season of the year and wish to say again "thank you" for your coming.

International cooperation in the field of industrial property right is now steadily moving into a new phase and PIPA activities in 1976 was a reflection of such steady movement. I would like to close my speech by saying that a greater expectation is given to the PIPA activities for this year and for these coming years

which are certainly making influential and meaningful contributions to the dramatically changing patent system in the world.

Thank you for your help for the 1976 activities of PIPA.

Thank you

By

W. C. Doud
Vice President
Commercial and
Industry Relations
IBM Corporation

PACIFIC INDUSTRIAL PROPERTY ASSOCIATION
OCTOBER 12, 1977

IT IS A GREAT PLEASURE AND OPPORTUNITY FOR ME TO MEET WITH YOU TODAY AND DISCUSS SOME OF THE MANY PROBLEMS WE FACE IN THE INTELLECTUAL PROPERTY ARENA TODAY. I REMEMBER WELL WHEN THIS ORGANIZATION WAS BEING FORMED SEVERAL YEARS AGO AND I AM PLEASED TO SEE THE VITALITY THAT HAS BEEN BUILT INTO YOUR GATHERINGS.

MEETING WITH YOU HERE TODAY AT WILLIAMSBURG GRAPHICALLY RECALLS TO MIND THE ORIGINS OF OUR COUNTRY. WHAT YOU SEE HERE AT WILLIAMSBURG IS AN ATTEMPT TO RECONSTRUCT, AND THUS TO RECAPTURE, THE PIONEERING FEEL AND SPIRIT OF OUR NATION IN ITS EARLIEST DAYS, DAYS IN WHICH, BY ANY STANDARD, WE WERE ONE OF THE MOST BACKWARD OF COUNTRIES. TODAY WE WOULD BE CALLED A "DEVELOPING NATION", OR "A MEMBER OF THE THIRD WORLD."

BUT OUR FOUNDING FATHERS WERE WISE ENOUGH IN THOSE DAYS TO SEE THE VALUE OF A PATENT SYSTEM AND THAT SYSTEM BECAME AN INTEGRAL PART OF OUR DEVELOPMENT PROCESS. THE KINDS OF TECHNOLOGIES AND THE KINDS OF INVENTIONS IN THOSE DAYS WERE, INDEED, RUDIMENTARY COMPARED WITH TODAY'S. YOU SEE SOME OF THEM IN THE EXHIBITS IN THE VILLAGE. THE MAIN THRUST WAS IMPROVED TOOLS OR METHODS OF FARMING, OF SPINNING

AND WEAVING, AND IN TRANSPORTATION OF GOODS TO THE MARKETPLACE. BUT FROM THOSE SIMPLE BEGINNINGS CAME THE INDUSTRIAL DEVELOPMENTS THAT CHANGED THE WORLD.

I THINK IT IS FASCINATING TO NOTE THE MUCH MORE RECENT, BUT HIGHLY SIMILAR, PHILOSOPHICAL DECISION OF THE NATION OF JAPAN TO EMBRACE AND UTILIZE THE PATENT SYSTEM TO THE FULLEST EXTENT, AS A MEANS OF ENCOURAGING THE INFLOW OF TECHNOLOGY SO URGENTLY NEEDED AFTER THE DEVASTATION OF THE 1940'S. IN DIFFERENT TIME FRAMES, AND IN DIFFERENT CIRCUMSTANCES, EACH OF OUR GREAT COUNTRIES HAS PROVIDED A STRIKING EXAMPLE OF THE VALUES AND VIRTUES OF THIS SYSTEM IN PROMOTING AND ACHIEVING PROGRESS.

YET, WE FIND OURSELVES TODAY IN CONFLICT WITH SCORES OF OTHER, NOW-DEVELOPING COUNTRIES WHO SEE IN THE PATENT SYSTEM JUST THE OPPOSITE OF WHAT OUR NATIONS SAW AND WHO SEEM BENT ON ITS DESTRUCTION. WHY THESE TWO GREAT EXAMPLES OF THE PATENT SYSTEM'S UTILITY HAVE BEEN LOST ON OUR FRIENDS IS A SUBJECT THAT URGENTLY NEEDS EXPLORATION AND IT IS THAT WHICH I WISH TO DISCUSS WITH YOU TODAY.

LET ME SAY AT THE OUTSET THAT I CANNOT HOPE TO DO JUSTICE TO SUCH A COMPLEX SUBJECT IN THE BRIEF TIME AVAILABLE TO ME TODAY. I CAN ONLY SET A TONE AND A DIRECTION. LET ME ALSO

ADD THAT I RECOGNIZE THE DANGER OF GENERALIZING ON ISSUES THAT HAVE SO MANY FACETS AND SO MANY VIEWPOINTS, BUT IT IS A STARTING POINT.

OVER THE PAST YEARS, WE HAVE SEEN CIRCUMSTANCES ARISE THAT WERE UNHEARD OF TEN OR TWENTY YEARS AGO. PERHAPS A CLASSIC AMONG THESE IS THE FORMATION OF THE DEVELOPING NATION BLOC. IT HAS REALLY BEEN ONLY DURING THE PAST TEN YEARS THAT THIS DEVELOPING COUNTRY SYNDROME, AS I CALL IT, HAS BECOME A VISIBLE AND SIGNIFICANT ISSUE IN THE WORLD. THIS IS NATURAL, I SUPPOSE, BECAUSE SO MANY OF THE NATIONS WHICH FORM THIS BLOC HAVE COME INTO EXISTENCE ONLY SINCE THE LATE 1940'S. THAT BLOC IS, OF COURSE, MORE POLITICAL THAN HOMOGENEOUS IN TERMS OF THE PROBLEMS AND NEEDS OF EACH OF THE COUNTRIES, BUT ITS POLITICAL IMPACT HAS BECOME SIGNIFICANT IN ITS ABILITY TO COMMAND UPWARDS OF 110 VOTES IN THE UNITED NATIONS ON THOSE ISSUES WHERE THE BLOC TAKES A UNIFORM POSITION AGAINST THE INDUSTRIALIZED NATIONS.

INCREASINGLY, THE FOCUS OF DEVELOPING COUNTRY PROPOSALS HAS BEEN ON THE FREE ENTERPRISE NATIONS, THE INTERNATIONAL TRADERS, TYPIFIED BY JAPAN AHD THE UNITED STATES, ALONG WITH OTHER INDUSTRIALIZED NATIONS. AND THE BATTLE LINE THAT HAS BEEN DRAWN BETWEEN THE DEVELOPED AND DEVELOPING NATIONS, INCREASINGLY SEEMS TO INVOLVE THE TREATMENT OF

INTELLECTUAL PROPERTY RIGHTS. THE DEVELOPING COUNTRIES VIEWS OF THE INTELLECTUAL PROPERTY ISSUE ARE SUCH THAT ONLY A CONFRONTATION OR IMPASSE COULD RESULT FROM THE PROPOSALS THEY HAVE PUT FORTH.

UNFORTUNATELY, AND PERHAPS UNWITTINGLY, THE INCREASING POLARIZATION OF THE DEVELOPED AND DEVELOPING COUNTRIES ON ISSUES CONCERNING INTELLECTUAL PROPERTY RIGHTS HAS CAUSED REPRESENTATIVES OF BOTH SIDES TO TAKE POSITIONS WITHOUT HAVING A FULL UNDERSTANDING OF THE VERY DIFFERENT PERCEPTIONS OF THE ISSUES BETWEEN INDUSTRIALIZED COUNTRIES AND THOSE OF NATIONS FORMING THE GROUP OF 77. THAT UNDERSTANDING IS NECESSARY IF WE ARE TO RESOLVE THE DIFFERENCES.

THUS, THERE IS AN URGENT NEED FOR ALL OF US TO STEP BACK AND TO ASSESS THE CAUSES OF THE REACTION AMONG THE DEVELOPING COUNTRIES: WHY DO THEY FEEL AS THEY DO; WHERE ARE THEY RIGHT AND WHERE ARE THEY WRONG; WHY DO THEY NOT SEE THE SAME VALUES IN THE PATENT SYSTEM THAT WE HAVE TRADITIONALLY SEEN. ONLY THEN, IN A MANNER BOTH PRAGMATIC AND DIPLOMATIC, CAN WE TURN TO THE TASK OF TRYING TO RATIONALIZE THESE VASTLY DIFFERENT POINTS OF VIEW IN ORDER TO HEAD OFF A BREAKDOWN IN THE WORLDWIDE INTELLECTUAL PROPERTY SYSTEM.

THE SEEDS OF THE PROBLEM APPEAR IN LARGE PART TO REST WITH THE DEVELOPING COUNTRIES' PERCEPTION OF THE TREMENDOUS GAP IN PROSPERITY AND GENERAL WELL BEING BETWEEN THEMSELVES AND THE INDUSTRIALIZED NATIONS. THIS GAP DOES, OF COURSE, EXIST. WE CAN'T DENY THAT. IN SOME AREAS IT APPEARS TO BE GETTING WORSE.

MANY OF THE DEVELOPING COUNTRIES SEEM TO HAVE CONVINCED THEMSELVES THAT THE PATENT SYSTEM IS A HINDRANCE RATHER THAN A HELP TO THEIR ASPIRATIONS. THEY BELIEVE THAT CONSIDERABLY MORE FREEDOM TO USE AND ADAPT TECHNOLOGY OWNED BY ORGANIZATIONS OF THE INDUSTRIALIZED WORLD WILL SOLVE MANY OF THEIR PROBLEMS AND CLOSE THE PROSPERITY GAP RATHER QUICKLY. YOU AND I SEE THIS VIEW AS TERRIBLY NAIVE, BUT IT IS TOTALLY LOGICAL IF YOU LOOK AT IT FROM THE END OF THE PIPE WHERE THE DEVELOPING COUNTRIES FIND THEMSELVES.

WHAT PERSON WHO IS A "HAVE NOT" DOES NOT HAVE A CERTAIN RESENTMENT TOWARD THE "HAVES" AND A FEELING THAT SOMEHOW THE SYSTEM WHICH BROUGHT IT ABOUT MUST BE WRONG AND NEEDS TO BE CHANGED. WE'VE SEEN IT IN OUR OWN COUNTRIES IN VARIOUS SEGMENTS OF SOCIETY.

IN THE INTELLECTUAL PROPERTY ISSUE, THE MULTI-NATIONAL COMPANIES HAVE COME TO BE VIEWED AS THE CULPRITS, AS THOSE WHO IMPOSE THE YOKE OF INTELLECTUAL PROPERTY RIGHTS ON THE

DEVELOPING COUNTRIES, AND AS THOSE WHO WITHHOLD OR DISPENSE THEIR TECHNOLOGY IN TERMS OF THE PROFIT THAT WILL BE YIELDED. THIS IS NATURAL, SINCE IT IS THESE COMPANIES WHO OWN THE BULK OF THE TECHNOLOGY WHICH THE DEVELOPING COUNTRIES SEEK.

THE PATENT SYSTEM IS REGARDED AS THE ALLY OF THE MNC'S BECAUSE OF THE PERCEIVED MONOPOLY EFFECT OF THE SYSTEM COMBINED WITH THE FACT THAT THE GREAT MAJORITY OF THE PATENTS ARE OWNED BY PRIVATE COMPANIES OF THE INDUSTRIALIZED WORLD. THE VERY MENTION OF THE WORD "MONOPOLY" IS ENOUGH TO RAISE THE HACKLES. LIKE A POOR CHILD, LOOKING AT CANDIES IN A STORE FRONT, THE DEVELOPING COUNTRIES SEEM TO WANT TO SMASH THE WINDOW, WHICH IS THE PATENT SYSTEM, AND GRAB THE CANDIES IN THEIR FRUSTRATION.

THE DEVELOPING COUNTRIES SEEM GENERALLY TO FEEL THAT THE INDUSTRIALIZED NATIONS AND THE MNC'S LACK UNDERSTANDING OF THEIR PROBLEMS AND MANIFEST VERY LITTLE INTEREST IN THEIR WELFARE. ON THE OTHER SIDE, THE DEVELOPED COUNTRIES, AND PERHAPS A NUMBER OF THEIR CORPORATIONS, PERCEIVE THE DEMAND FOR FREE ACCESS TO TECHNOLOGY AS AN ATTEMPT TO BREAK DOWN THE SYSTEM WITHOUT A RESULTANT BENEFIT TO THE RECEIVING NATION, MOST OF WHOM LACK THE TECHNOLOGICAL INFRASTRUCTURE TO UTILIZE IT.

IT IS THEREFORE OF THE FIRST ORDER OF IMPORTANCE THAT WE, AS REPRESENTATIVES OF THE INTELLECTUAL PROPERTY HOLDINGS

OF MAJOR U.S. AND JAPANESE COMPANIES STEP BACK AND CONSIDER AGAIN THE FUNDAMENTALS OF THE PATENT SYSTEM IN ORDER THAT WE MAKE SURE WE ARE HONEST WITH OURSELVES AND CONVEYING AN HONEST PICTURE TO OUR FRIENDS IN THE DEVELOPING NATIONS.

THE KEY POINT TO REMEMBER IS THAT THE PRIMARY OBJECTIVE OF THE SYSTEM IS TO PROMOTE THE ADVANCE OF TECHNOLOGY THROUGH PUBLICATION. WITH THAT COMES THE RIGHT OF THE INVENTOR TO CONTROL THE USE MADE OF HIS INVENTION IN ORDER TO MAXIMIZE HIS BENEFIT. THE PUBLIC INTEREST COMES FIRST. THE PRIVATE INTEREST FOLLOWS.

HAVE WE LOST SIGHT OF THIS? SOME MAY HAVE. WHAT WE NEED TO DO IS TO EXAMINE CLOSELY THE WAY IN WHICH EACH OF OUR COMPANIES IS UTILIZING THE PATENT SYSTEMS OF THE WORLD, BOTH IN TERMS OF PATENT PORTFOLIOS AND LICENSING PRACTICES. DO WE ALWAYS GIVE ADEQUATE CONSIDERATION TO THE PUBLIC GOOD OR IS OUR PRIVATE INTEREST THE ONLY CONSIDERATION? ARE WE CLOGGING THE SYSTEM WITH INCONSEQUENTIAL INVENTIONS SIMPLY TO TRY TO BETTER CONTROL THE MARKET? ARE WE MAKING FULL DISCLOSURES AND USING ALL MEANS AT OUR DISPOSAL TO DISSEMINATE THE KNOWLEDGE WE HAVE GAINED FROM OUR R & D? IN OUR LICENSING PRACTICES, ARE WE GUIDED BY THE PRINCIPLE OF ENHANCING COMPETITION AND PROMOTING TECHNICAL PROGRESS, OR ARE WE, PERHAPS INADVERTENTLY, ALLOWING OUR LICENSING PRACTICES TO UNNECESSARILY PROTECT MARKETS BY MAKING IT IMPOSSIBLE, OR ECONOMICALLY IMPRACTICAL, FOR NEW COMPETITORS TO ENTER?

BEFORE WE CAN GAIN CREDIBILITY IN THE EYES OF THE GROUP OF SEVENTY SEVEN, WE MUST SEE THAT OUR HOUSES ARE REASONABLY IN ORDER. WE MUST BE SURE THAT, WHEN REASONABLE PROVISION HAS BEEN MADE FOR THE REIMBURSEMENT OF RESEARCH AND DEVELOPMENT ACTIVITY, OUR INTELLECTUAL PROPERTY RIGHTS, OUR PATENTS, ARE NOT USED IN A WAY AS TO INHIBIT THE PEOPLES OF DEVELOPING NATIONS FROM USING THAT TECHNOLOGY TO ENHANCE THEIR ABILITY TO PARTICIPATE IN THE WORLD ECONOMY AND TO ENRICH THEIR LIVES.

AS WE DO THIS, AND AS WE FIND PRACTICES THAT WE MIGHT BE ABLE TO CHANGE, WE SHOULD MAKE IT TERRIBLY CLEAR TO THE DEVELOPING COUNTRIES THAT WE ARE INDEED MAKING THOSE CHANGES AND EXPLAIN WHY WE ARE DOING IT. MORE IMPORTANTLY WE NEED TO FIND WAYS TO EDUCATE THEM IN THE VALUE OF THE PATENT SYSTEM HISTORICALLY TO NATIONS WHICH LIKE THEMSELVES, WERE ONCE UNDER-DEVELOPED AND NEEDED INCENTIVES TO PULL THEMSELVES UP. THE PATENT SYSTEM IS JUST THAT -- A MECHANISM TO BRING OUT THE BEST IN PEOPLE. IT IS THAT, RATHER THAN A HAND OUT, THAT ADVANCES A NATION. THE U.S. USED IT EARLY IN ITS DEVELOPMENT. JAPAN TOOK ADVANTAGE OF THE SYSTEM IN ONE OF THE DARKEST PERIODS IN ITS HISTORY. BOTH NOW ARE TECHNOLOGICAL LEADERS WHO CAN GUIDE OTHERS TO THE SAME GOAL. HOPEFULLY THE DEVELOPING NATIONS OF TODAY CAN SEE IN OUR REFLECTION THE TRUE VALUE OF THE PATENT SYSTEM IN STIMULATING INVENTION,

IN ENABLING THE TRANSFER TO THOSE COUNTRIES, OF NEEDED AND USEFUL TECHNOLOGY, AND IN CREATING AN INCENTIVE TO INVEST IN NEW VENTURES.

THIS IS A GREAT CHALLENGE TO YOU WHO EARN YOUR LIVELIHOOD THROUGH THE ADMINISTRATION OF INTELLECTUAL PROPERTY. THE SYSTEM YOU HAVE BEEN A PART OF FOR SO LONG IS IN JEOPARDY OF BECOMING A VICTIM OF A NEW SOCIAL ORDER. THE WORK YOU DO HERE IN WILLIAMSBURG MAY HAVE A GREAT EFFECT ON ITS ULTIMATE FATE. GOOD LUCK!

DEVELOPMENTS IN THE FORMULATION OF AN INTERNATIONAL CODE OF CONDUCT FOR THE TRANSFER OF TECHNOLOGY

H. Dieter Hoinkes
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October 6, 1977

DEVELOPMENTS IN THE FORMULATION OF AN INTERNATIONAL CODE OF CONDUCT FOR THE TRANSFER OF TECHNOLOGY

I certainly appreciate the opportunity to share with you some of the highlights of the ongoing negotiations of the UNCTAD Code of Conduct for the Transfer of Technology. I do not want to bother you too much with a detailed account of ancient history, that is to say, how the developed countries, commonly known as Group B in U.N. parlance, actually got themselves into the position of having to negotiate a code whose aim it is to guide the conduct of technology suppliers when dealing with technology recipients. I think it might be easiest to pick up at the UNCTAD Conference, held in Nairobi in May of 1976, which was generally known as UNCTAD IV. Among the many resolutions passed by UNCTAD IV, one also dealt with the International Code of Conduct.

Thinking apparently that technology suppliers just could not await the conclusion of an international code which could possibly put them at a disadvantage vis-a-vis technology recipients, especially in developing countries, the drafters of the UNCTAD resolution recommended a time table for the completion of the

draft code by the middle of 1977. The resolution also established an Intergovernmental Group of Experts within UNCTAD in order to elaborate a draft during meetings in 1976 and 1977, to "formulate the draft provisions ranging from mandatory to optional, without prejudice to the final decision of the legal character of the Code of Conduct." Lastly, the resolution recommended that the United Nations, at its thirty-first session convene a U.N. conference under the auspices of UNCTAD by the end of 1977, in order to negotiate the final version of the Code and to take all decisions necessary for its adoption, including the decision on its legal character.

And so, the Intergovernmental Group of Experts met in November of 1976 and established three working groups which met simultaneously for about ten days. The mandate of Working Group I was to consider the Code's preamble, its principles and objectives, a chapter on definitions and scope of application, international collaboration and special treatment for developing countries. Working Group II was assigned the subject of restrictive business practices

and guarantees and responsibilities of source and recipient enterprises. Working Group III was assigned the task of dealing with national regulations of transfer of technology transactions, applicable laws and settlements of disputes.

As you all know, three country groups, that is Group B, the Free Market Economy Countries, Group D, the Socialist countries, and the Group of 77, that is, the developing countries are represented at the negotiations. And every group brought along a draft proposal of a code shaped essentially in its own image. Thus, after eleven meetings in the Working Group I a chapter on definitions and scope of applications emerged in a form, generally known as a "tentative composite draft text." Usually there is only one thing clear about a text blessed with this characterization -- it is at best unintelligible. Since each group basically wants to stick to the draft it has proposed for a specific section and since at the first go around no country group is willing to accept a compromise on the wording of the other two, quite often all three versions are included within brackets side by side to make up a composite text.

Of course one has to realize that it is often very hard to compromise or to accept another group's philosophical approach. For instance, in Working Group I discussions surrounded such lofty concepts as "technology is a part of the universal human heritage" and countries have an undeniable "right of access" to technology. As you can see, such discussions would make any technology supplier less than comfortable, especially if at the same time, technology recipient countries are insisting that a code should become mandatory and legally binding.

Working Group II did not engage in any drafting exercise at the November 1976 meeting. Group B had proposed eight restrictive business practices, while the Group of 77 had generously offered 40. After most of the proposed restrictive business practices had been subjected to gentle and cautious analysis for several days, the Group of Socialist countries introduced a document entitled "Exclusion of Political Discrimination and Restrictive Business Practices" and underlined that this document reflected the main views of Group D and Mongolia, although it recognized that the area of restrictive business practices was not completely covered. On this

note of upbeat and encouragement, Working Group II drew to a close and postponed its drafting activities to the next session.

Working Group III met but once in November, discussed its mandate and decided to commence work at the next session also.

In preparation for the second meeting of the Intergovernmental Group of Experts which was held from March 28 to April 5, 1977, Group B countries held two meetings under the auspices of OECD to coordinate its position. One point emerged clearer than ever at those meetings and that was the unacceptability of the legally binding code. It was also agreed that the code should remain universal in scope, that is to say, applicable to all countries and with a mutual benefit accruing both to technology suppliers and recipients, rather than tilting unilaterally in favor of developing countries. Also, at these two Group B meetings the original list of eight proposed restrictive business practices was expanded to twelve and somewhat reformulated in order to clarify their meaning.

The outline of the Code of Conduct, as proposed by the Group B countries for discussion at the March/April meeting of the Intergovernmental Group of Experts, is rather voluminous. Nevertheless, I would like to share with you its most important points. In its preamble, the Code of Conduct, as proposed by the Group B countries, recognizes the fundamental role of science and technology played in the economic and social development of all countries, and in particular, in the promotion of the development of the developing countries. The preamble is further cognizant of the benefits which can be derived from a universally acceptable Code of Conduct which sets forth general and equitable principles based on mutual respect for the legitimate interests of all parties to the transfer of technology. The preamble also states the belief that a Code of Conduct can create an environment which will assist developing countries in their selection, acquisition and effective use of technology appropriate to their needs, in order to develop improved economic standards and living conditions. Lastly, it recognizes that a code may help create conditions conducive to increased trade and investment, thereby promoting the international transfer of technology.

The first chapter of the draft code as proposed by Group B deals with definitions and the scope of application. In this vein, the term "international transfer of technology" is defined, as are terms like "recipient and supplying parties" and other terms. This specific chapter also refers to the universal character of the Code covering all specified acts or agreements comprising international transfer of technology on a commercial basis and the fact that the code addresses itself to all parties engaged in the transfer regardless of the type of economic and political system of the countries involved, or the level of development of the countries concerned.

The second chapter deals with objectives and principles. It recognizes that the objectives of the Code of Conduct are to encourage and facilitate access to an international flow of technology under fair, reasonable and mutually agreed terms and conditions and also recognizes that the code should contribute to the establishment of a just and mutually satisfactory basis for negotiations between parties to the technology transfer transactions. It also states as an object the identification of an appropriate set of responsibilities

for supplying and recipient parties and the identification of restrictive business practices which should be avoided where they adversely affect transfer of technology.

Among the stated principles upon which a code of conduct is to be based, the most important is that the code must be general and voluntary in nature and, therefore, does not derogate from the obligations of States under customary international law, or as set forth in treaties and other international agreements. Another expressed principle of the draft proposed by Group B recognizes the right of each government to employ all appropriate means of facilitating and regulating the transfer of technology with full and complete freedom of decision, including the right to legislate on the subject, within the framework of international law and with due recognition of existing rights and obligations. Flexibility in the technology transfer process is recognized as necessary and the freedom of parties to negotiate, conclude and perform agreements on mutually acceptable terms is asserted. The fact that mutual benefits must accrue to technology suppliers and recipients alike, in order to maintain and increase the international flow of technology, is also

specifically mentioned in the draft code proposed by Group B.

At the insistence of mainly the Nordic countries, who are also members of Group B, a chapter has been included in the Group B draft which deals with international collaboration and special measures for developing countries. The chapter is too long for detailed consideration here. Suffice it to say that governments of developed countries are exhorted to facilitate and encourage the growth of scientific and technological capabilities of developing countries in order to assist them in their efforts to fulfill their economic and social objectives.

And then there is a chapter dealing with restrictive business practices, a subject dear to my heart and one that is particularly important in light of its effect on patent, trademark and know-how licensing practices. One of the crucial aspects of this chapter is its introductory paragraph which, according to the Group B draft and in line with a strong recommendation by the United States, essentially notes that restrictive business practices can only apply to

independent enterprises, that is those which are not in a controlling relationship with each other. I should say at this point that this particular notion, although strongly proposed within Group B by the United States, the United Kingdom and Switzerland, did not meet with concentrated enthusiasm from countries like Sweden, Finland, Norway, Australia, France, Canada and others. Because this subject has not yet been resolved within Group B it was not formally raised during the second meeting of the Intergovernmental Group in April. Because quite a few Group B countries continued to display a strong case of nervousness when this introductory paragraph was rediscussed at regional group meetings during the third session of the Intergovernmental Group in July of 1977, the proposal has remained untabled. However, during a recent Group B meeting held in Paris from September 27 to 29, a new introductory paragraph was tentatively accepted for governmental consideration and possible official proposal by Group B at the upcoming fourth session of the Intergovernmental Group in November. It reads as follows:

> "Parties to a technology transfer transaction should refrain from the following restrictive business practices in licensing patents or know-how, or trademarks

associated with patents or know-how. Such restrictions should be deemed objectionable, however, only when they limit competition and are likely to unreasonably restrain international trade or adversely affect the transfer of technology. Such practices should be deemed unlikely to produce undue restraints or adverse effects when they occur in transactions between an enterprise and another enterprise it owns or controls or which are under common ownership or control, unless such restrictions have the intent and effect to injure substantially the competition of an enterprise outside the affiliated group, or abuse a dominant position of market power of the technology supplier in a relevant market".

It is interesting to note that at the Group B meeting in Paris only Finland, Canada and Australia continued to voice opposition. France and Japan reserved their positions, wanting to hold back the paragraph until it was clear that the Code as a whole would remain voluntary in nature. At any rate, the decision to propose this paragraph to the Group of 77 and Group D will be made just prior to the

November meeting. Suffice it to say, we will continue to press the issue within Group B with a view toward its adoption in some acceptable fashion. Of course, in light of the fact that the majority of transfer of technology transactions are undertaken between parent companies and their foreign subsidiaries, you can appreciate that if and when this subject will be raised in a full intergovernmental meeting in November, it will be received less than enthusiastically by the Group of developing countries. At any rate, that problem is yet to come.

I think the easiest way to discuss the subject of restrictive business practices would be within the context of what transpired during the sessions of Working Group II at the last two meetings of the Intergovernmental Group of Experts from March 28 to April 5, and from July 25 to August 2, 1977. At the March session, the Group of 77 presented its forty practices, Group B had its twelve, and Group D, the Socialist countries, had an undetermined amount which ran somewhat parallel in number to that of the developing countries.

In this context, Group B proposed that those practices be first discussed on which all three groups could have some agreement, leaving to one side the practices which were only advocated by the Group of 77. It should be noted that the Socialist countries, Group D, in many instances actually joined Group B and actively advocated its intent to continue to preserve the industrial property system. Thus, ten restrictive business practices were drafted at the March meeting, they are of course in the nature of "tentative composite draft texts", that is to say, to the casual observer each practice consists mainly of bracketed clauses side by side which in effect contain idealogically and often conceptually opposed statements. In order to identify which group proposed what, the clauses are sometimes underlined, sometimes in capital letters, sometimes in lower case letters, and sometimes double bracketed. The result is a stunning exercise in nonsequiturs. But, at least the subject matter of ten restrictive business practices was discussed and, however unintelligible, reduced to writing. Thus,

at the March meeting the following ten areas were dealt with:

1. Restrictions after expiration of arrangements.
2. Restrictions or obligations after expiration of industrial property rights.
3. Grant-back provisions.
4. Challenges to validity.
5. Sales arrangements related to competing technologies or products.
6. Restrictions on research.
7. Restrictions on the use of personnel.
8. Price fixing.
9. Restrictions on adaptation.
10. Exclusive sales or representation agreements.

At the third session of the Intergovernmental Group in July of 1977, three more restrictive business practices were identified, discussed and reduced to writing in tentative composite text form. They are:

1. Tying arrangements.
2. Export restrictions.
3. Cartels/patent pool or cross-licensing agreement.

To say that agreement on many of these restrictive business practices is still far away, is at best an understatement. Time does not permit me to discuss each and every one of the thirteen practices identified at the last two meetings but let me illustrate to you what a tentative composite draft text looks like. Taking the restrictive business practice dealing with challenges to validity, I quote:

> [unreasonably] [unconditionally] requiring the acquiring party [IN ANY FORM] to refrain [DIRECTLY OR INDIRECTLY] from challenging the validity of patents [OR OTHER INDUSTRIAL PROPERTY RIGHTS] involved in the transfer, or the validity of other patents [OR INDUSTRIAL PROPERTY RIGHTS] [owned] [CLAIMED OR OBTAINED] by the supplying party, [SUCH CHALLENGE BY THE ACQUIRING PARTY NOT CONSTITUTING A BASIS FOR THE UNILATERAL TERMINATION OF THE AGREEMENT BY THE SUPPLYING PARTY] [recognizing that the licensor may retain the right to terminate the agreement upon the initiation of a challenge to the licensed patent's validity].

Other differences of opinion may not be quite as obvious, although in actuality Group B and the Group of 77 are miles apart. Take for instance the clause dealing with restrictions after the expiration of a transfer of technology arrangement. The tentative composite draft text reads as follows:

> Restrictions [OR OBLIGATIONS] on the use of the technology after the expiration or termination of the arrangement, [[unless the technology is legally protected or has not entered the public domain independently of the licensee]] [AFTER THE KNOW-HOW HAS LOST ITS SECRET CHARACTER INDEPENDENTLY OF THE ACQUIRING PARTY].

The real bone of contention in this clause is the opinion of Group B that after a licensing arrangement, for instance, has expired the former licensee is not free to continue to use the formerly licensed technology if it is still legally protected. The developing countries, on the other hand, have seriously contended that technology which is protected by a patent with a term of, say, fifteen years and which

is licensed at the beginning of the patent term for a period of five years, may for the remainder of the ten year patent term freely be used by the former licensee. To do otherwise, say they, would make the license term a sham. The fact that their proposal would effectively reduce any patent term to the length of a licensing agreement, thereby moving patent protection into the realm of fiction is none of their concern. Needless to say, there cannot be any compromise in areas such as these.

I think that these examples provide at least some flavor of the discussions and negotiations which took place within all Working Groups of the Intergovernmental Group of Experts so far. Working Group I did not make any great headway either. It established a tentative composite draft text of a preamble consisting of some 14 clauses, eleven of which are either totally bracketed or contain bracketed language. The only clauses of the draft preamble which were generally agreed to, include references to the role of science and technology in development with particular reference to developing countries, a reference to relevent decisions of

United Nations bodies, and to promotion of cooperation in the field of transfer of technology. The bracketed clauses which are the result of the most difficult and serious differences of opinion, are those which reflect the insistence by developing countries of the right of access to technology based on their belief that technology is a universal human heritage, that there must be unrestricted flow of technological information and, of course, that the character of any code of conduct must be one of a legally binding nature.

A composite text on "Principles and Objectives" is similarly truncated for the time being. One of the more telling moments during the deliberations of Working Group I was, when the spokesman for Group B stressed that it was a matter of fundamental importance that mutual benefits accrue to technology suppliers and recipients alike, in order to maintain and increase the international flow of technology. The Group of 77 did not agree with this concept, since according to its spokesman a formulation of this nature "did not sufficiently take into account the obvious disparity in the bargaining position of the developed and the developing countries." As this point illustrates, in many

vital areas the different country groups are literally worlds apart.

Working Group III did not fare much better in its deliberations regarding a code chapter on "national regulation of transfer of technology transactions." The tentative composite draft text of six and one-half lines contains five lines of bracketed language.

It is within these tentative composite texts that the real problem is buried. So far, the Group of 77 has been completely unwilling to arrive at any substantively important language that could be agreed upon by all three country groups. As a matter of fact, to our total disbelief, it was flatly stated by the Group of 77 that time at these meetings was too valuable to negotiate because it should be used only for arriving at composite texts. Since their obvious ploy appears to be directed toward achieving on a political level at the U. N. Conference that which they could not obtain during negotiations on substance, the very success of a U. N. Conference has been seriously placed in doubt. Scheduled

for the fall of 1978, a U. N. Conference would follow on the heels of two more negotiating sessions of the Inter-governmental Group of Experts. As one can presently see, these two sessions cannot possibly bring together the diverse philosophies as expressed by the Group of 77, Group B, and Group D. The obvious consequence then would be that negotiations at the U. N. Conference would fail to arrive at a Code of Conduct. While this result may have been applauded by some countries, it could have rather disastrous effects. There has been talk that in case a U. N. Conference should fail to reach agreement, the matter would be taken up either by the next UNCTAD Conference or by the United Nations General Assembly itself. As you can well imagine, were this to happen, substance would probably have to yield to political considerations with foreseeably unhappy results. As a consequence, Group B is presently studying the possibility of postponing the convening of the U. N. Conference from its presently scheduled date of fall of 1978, to a time at which negotiations at the Expert level have led to draft texts of a code which are not a guilt of philosophically opposing clauses. Whether this will be possible will become apparent at the upcoming meeting of the Inter-governmental Group of Experts in November.

What the outcome will be in terms of the actual text of the Code as well as its legal character is yet too early to tell. Understandably, the group of developed countries which represents technology suppliers will continue to insist that the Code be voluntary in nature and that its basic provisions insure that any transfer of technology take place under mutually satisfactory terms and conditions between supplier and recipient. When you imagine that a basically self evident and reasonable condition of technology transfer such as this has to be fought for tooth and nails, you will understand how frustrating and often discouraging these negotiations are. Nevertheless, they will be continued, hopefully to a satisfactory conclusion.

ADDRESS BY BERNARD A MEANY, ASSISTANT COMMISSIONER FOR TRADEMARKS, PREPARED FOR DELIVERY BEFORE THE MEETING OF THE EIGHTH INTERNATIONAL CONGRESS OF THE PACIFIC INDUSTRIAL PROPERTY ASSOCIATION, FRIDAY, OCTOBER 14, 1977, AT 12:30 P.M., WILLIAMSBURG LODGE CONFERENCE CENTER, WILLIAMSBURG, VIRGINIA.

TRADEMARKS ACROSS THE INTERNATIONAL DATE LINE

Introduction

KOHN-NI-CHI-WAH, LADIES AND GENTLEMEN. I HAVE HEARD MUCH OF THE PACIFIC INDUSTRIAL PROPERTY ASSOCIATION OVER THE YEARS AND KNOW WELL THE CONTRIBUTIONS THAT YOUR ORGANIZATION MAKES IN IMPROVING THE CLIMATE OF INTELLECTUAL PROPERTY BETWEEN OUR COUNTRY AND YOURS. ALLOW ME TO USE THE TERM "INTELLECTUAL" RATHER THAN "INDUSTRIAL," BECAUSE MY REMARKS ENCOMPASS PATENTS, TRADEMARKS, COPYRIGHTS, TRADE SECRETS AND KNOW-HOW. I HAVE ENJOYED BEING WITH YOU HERE IN COLONIAL WILLIAMSBURG -- AN INSPIRATION I AM SURE TO

PEOPLE OF ALL COUNTRIES -- AND I LOOK FORWARD TO YOUR PEPPERING ME WITH OBSERVATIONS AND QUESTIONS UPON CONCLUDING THIS TALK.

I HAVE BEEN FORTUNATE OVER THE YEARS IN FOLLOWING, OR BEING INVOLVED IN, BUSINESS RELATIONSHIPS WITH YOUR AREA. MY LAST POSITION AT IBM AS PROGRAM DIRECTOR OF CONTRACTS AND LICENSING PRIOR TO THIS APPOINTMENT WAS ONE THAT BROUGHT ME INTO INTIMATE INVOLVEMENT WITH THE RELATIONSHIPS BETWEEN THE IBM COMPANY, IBM JAPAN AND MAJOR GOVERNMENTAL AND INDUSTRIAL ENTITIES IN YOUR HOMELAND. I WAS ALSO FORTUNATE IN WORKING DURING THAT PERIOD FOR JIM BIRKENSTOCK, WHO WAS A PIONEER IN ESTABLISHING SOUND BUSINESS AND TECHNOLOGICAL PRACTICES BETWEEN AMERICAN AND JAPANESE INDUSTRY. I HOPE TO COME TO KNOW ALL OF YOU AS WELL AS I KNOW JIM.

THE IMPORTANCE OF YOUR COUNTRY TO THE VIABILITY OF THE WORLD ECONOMY CANNOT BE OVERSTATED. IT IS A MATTER OF COMMON KNOWLEDGE. THE GREAT STRIDES IN TRADE TAKEN BY JAPAN AND OTHER COUNTRIES OF THE ORIENT HAVE BEEN REPORTED MANY TIMES OVER IN THE PRESS. SURPRISINGLY TO SOME, THE COUNTRIES ARE A MIXTURE OF WHAT THE UNITED NATIONS REFERS TO AS DEVELOPED AND DEVELOPING COUNTRIES. YET YOUR COUNTRY IS THE CLEAR LEADER!

TODAY, I WANT TO TALK TO YOU ABOUT SOME OF MY EXPERIENCES INVOLVING YOUR AREA OF THE WORLD AND THEN TELL YOU HOW WE PLAN TO MAKE THE OBTAINING OF A TRADEMARK REGISTRATION SOMEWHAT EASIER FOR NON-U. S. NATIONALS. I WANT TO DO THIS FOR A SPECIAL REASON -- AND IT DOES INVOLVE THAT INTERNATIONAL DATE LINE. LET'S BEGIN.

Mission to Taiwan

Perhaps the first part of my talk should be entitled Mission to Taiwan. The past year and a half has involved an extremely interesting special assignment over and above my regularly scheduled activities -- one that called upon my prior experience as a negotiator rather than as the administrator of our Trademark system -- that is, I served as head of a combined industry-government delegation to the Republic of China (Taiwan) to discuss and resolve problems of chemical patent practice that were seriously affecting the potential for future investment by U. S. industry in that country. Neal Willis, from Monsanto, touched upon this subject in one of your earlier presentations.

I am sure you recognize that the United States chemical industry has a large investment in Taiwan. Taiwan's economy has been such as to allow American companies (and companies of other nations) to establish manufacturing facilities there and then to market their products throughout the world. It was of more than a little concern to our companies and our Government when the Ministry of Economic Affairs promulgated new regulations holding in essence that new uses for chemical compounds would be unpatentable.

A SERIES OF DISCUSSIONS ENSUED BETWEEN ROC GOVERNMENT AND INDUSTRY, BUT IT BECAME APPARENT THAT THE TAIWANESE WERE GOING TO BE ADAMANT ON THE QUESTION OF NOT ALLOWING PATENTABILITY FOR THOSE ITEMS, WHILE THE AMERICAN PEOPLE COULD COME AWAY WITH NO REAL UNDERSTANDING AS TO THE REASON BEHIND THE ROC ACTION. I WAS ASKED TO PARTICIPATE IN THIS AND TO REACH AN ACCOMMODATION WITH THE CHINESE OFFICIALS -- ONE THAT WOULD BE BENEFICIAL TO OUR INDUSTRY, BUT MORE IMPORTANTLY, FAIR TO THE ROC.

I WON'T BORE YOU WITH ALL THE DETAILS OF PRELIMINARY MEETINGS WITH THE INDUSTRIAL REPRESENTATIVES AND SO FORTH -- BUT THERE WAS A NEED FOR AN IN-DEPTH REVIEW OF WHAT WAS GOING ON. I DO WANT TO MAKE CLEAR THAT OUR DIFFICULTIES WITH THE CHINESE OFFICIALS SEEMED TO BE BASED ON A LACK OF UNDERSTANDING ON OUR SIDE AS TO JUST WHAT THE PROBLEM WAS AND A LACK OF COMMUNICATION ON THEIR PART AS TO JUST WHAT THE PROBLEM WAS.

AFTER OUR FIRST SERIES OF MEETINGS WITH GOVERNMENT OFFICIALS IN TAIPEI, IT BECAME APPARENT THAT THEY WERE IN NO WAY DISCRIMINATING AGAINST THE CHEMICAL INDUSTRY, THE AMERICAN CHEMICAL INDUSTRY, OR ANYTHING OF THAT NATURE. RATHER, THEY SIMPLY HAD A REAL CONCERN FOR THE FURTHER DEVELOPMENT OF THEIR PATENT SYSTEM AND FELT THAT NEW WAYS

OF USING CERTAIN CHEMICAL COMPOUNDS JUST WEREN'T ENTITLED, OR SHOULDN'T BE ENTITLED, TO PATENT PROTECTION. IN OTHER WORDS, THEY JUST PLAIN WEREN'T GOOD ENOUGH FOR A PATENT. ONCE THAT POINT WAS CLARIFIED, WE WERE ABLE TO PROFFER THE SUGGESTION THAT THE UNITED STATES HAD FACED THE VERY SAME PROBLEM IN THE DEVELOPMENT OF OUR PATENT SYSTEM AND HAD OPTED TO USE THE CONCEPT OF OBVIOUSNESS AS A MEANS OF AVOIDING THIS PROBLEM. THIS IS FAMILIAR TO YOU -- IT'S THE SAME (IF ANYTHING IN PATENT LAW IS TRULY THE SAME) CONCEPT YOU HAVE IN JAPAN.

WE RETURNED TO TAIPEI A YEAR LATER AFTER MUCH SUB-GROUP WORKING AND SPENT SEVERAL DAYS WORKING WITH CHINESE BUSINESS AND LEGAL OFFICIALS DEVELOPING THE CONCEPT OF OBVIOUSNESS FURTHER AND PROVIDING ADDITIONAL BACKGROUND ON THE AMERICAN PATENT SYSTEM. I AM PLEASED TO SAY THAT THE U. S. PATENT AND TRADEMARK OFFICE JUST HAD A DELEGATION OF TAIWANESE OFFICIALS HERE WITHIN THE PAST MONTH AS A FOLLOW-ON TO OUR ACTIVITIES AND THEY ARE IN THE PROCESS NOW OF REWRITING THEIR ENTIRE PATENT AND TRADEMARK LAW TO REFLECT MANY OF THE PROVISIONS THAT WE NOW FEEL SO COMFORTABLE WITH HERE IN OUR LAW IN THE UNITED STATES. AND THEIR CHEMICAL PRACTICE APPEARS HARMONIOUS, TOO!

I MIGHT ADD ALSO THAT WHILE IN TAIPEI, I UNDERTOOK ADDITIONAL DUTIES AT THE REQUEST OF THE U. S. STATE DEPARTMENT AND TALKED WITH RESPONSIBLE OFFICIALS OF THEIR GOVERNMENT ABOUT THE EVER-INCREASING PROBLEM OF TRADEMARK AND COPYRIGHT PIRACY. TAIWAN, I AM SURE, RECOGNIZES THAT ITS FUTURE ECONOMIC DEVELOPMENT WILL DEPEND UPON ITS CONDUCTING ITSELF IN A FORTHRIGHT AND ETHICAL FASHION IN THE WORLD BUSINESS COMMUNITY. THE RESPONSE TO MY CONCERNS ABOUT TRADEMARK AND COPYRIGHT PIRACY WERE MOST GRATIFYING AND SOME OF THEIR PEOPLE HAVE SPENT TIME HERE IN THE UNITED STATES WORKING WITH THE JUSTICE DEPARTMENT AND THE FEDERAL TRADE COMMISSION TO BETTER UNDERSTAND SOME OF OUR COMMERCIAL PRACTICES AND WE ARE ALSO PROVIDING INFORMATION TO THEM ON OUR NEW COPYRIGHT LAW.

THERE ARE MANY OPPORTUNITIES FOR GOVERNMENT TO GOVERNMENT DEALINGS OF THIS SORT. THE PRESENCE OF A GOVERNMENT FIGURE CAN FREQUENTLY HELP TO CLARIFY AND RESOLVE MATTERS WHEN INDUSTRY REPRESENTATIVES HAVE BEEN DEALING ALONE WITH OTHER GOVERNMENTAL FIGURES. IT INTRODUCES A THIRD PARTY, ONE WHO CAN LOOK AT BOTH SIDES OF A PROBLEM, AND -- IF THE COUNTRIES TRULY RESPECT EACH OTHER -- ONE WHO CAN WORK OUT A SOLUTION TO THE MUTUAL BENEFIT OF ALL. AND, AFTER ALL, ISN'T THAT WHAT MAKES A "GOOD" DEAL?

Transition

The situation that I just described is somewhat of a one-on-one situation in the world arena. I am sure you recognize that there is much continuing activity in that arena where significantly more than two countries get involved at one particular time; witness the comments that Dieter Hoinkes had relative to the UNCTAD code of technology. Let me tell you a little bit about something else that may be of interest to you while you deal with your less developed neighbors in the Pacific.

WIPO Licensing

I THINK YOU ALL KNOW HOW VITALLY INTERESTED I HAVE BEEN IN THE CONCEPT OF PATENT LICENSING OVER THE YEARS. IT IS AN EXTREMELY CHALLENGING FIELD AND ONE THAT REQUIRES THE FULL UTILIZATION OF A PERSON'S TALENTS TO RESOLVE SATISFACTORILY OUTSTANDING PROBLEMS. HOWEVER, I RECOGNIZE THAT, ON CERTAIN OCCASIONS, THERE IS A DISPARITY IN BARGAINING POSITION BETWEEN THE PARTIES INVOLVED. WHEN THAT'S THE CASE, THE BIGGER PARTY HAS TO BE SURE THAT HE DOES NOT TAKE UNDUE ADVANTAGE OF THE SMALLER PARTY AND -- EVEN MORE IMPORTANTLY -- ON OCCASION HELPS THE SMALLER PARTY.

THE UNITED NATIONS, THROUGH ITS WORLD INTELLECTUAL PROPERTY ORGANIZATION AFFILIATE, HAS TAKEN STEPS TO SEE THAT THE DEVELOPING NATIONS OF THE WORLD GET A FAIR SHAKE IN THE FIELD OF TECHNOLOGY TRANSFER. SOME OF THESE STEPS ARE AGREEABLE; SOME OF THEM ARE NOT. I WAS INVOLVED IN THE LAST TWO YEARS IN A SERIES OF STEPS THAT I FOUND MOST AGREEABLE AND NONPARTISAN IN NATURE. SOMETHING OF A "PRO BONO" ACTION ON A WORLD-WIDE SCALE.

I REFER SPECIFICALLY TO MY ROLE AS THE U. S. REPRESENTATIVE TO THE WIPO SPONSORED CONFERENCES ON LICENSING GUIDELINES FOR DEVELOPING COUNTRIES. THIS WAS ONE OF THE

MOST INTERESTING EXPERIENCES IN MY LIFE, SINCE IT ENABLED ME TO SHARE SOME OF MY PRIOR EXPERIENCES -- TEST THOSE PRIOR EXPERIENCES AGAINST SIMILARLY EXPERIENCED PEOPLE -- AND THEN PARTICIPATE IN GENERATING A WORK PRODUCT THAT SHOULD BE OF VALUE TO MANY PEOPLE OF LESSER CIRCUMSTANCES AND MEANS THAN WE.

IT WAS AMAZING TO SEE THE COUNTRIES OF THE WORLD -- BOTH LARGE AND SMALL -- GATHER TOGETHER ON SEVERAL OCCASIONS IN GENEVA, SWITZERLAND TO ARGUE SO STRONGLY FOR THEIR RESPECTIVE INTERESTS. IT WAS EVEN HUMOROUS TO SEE HOW WE COULD GET SIDE-TRACKED ON ISSUES LIKE ANTI-TRUST CONCERNS FOR A VERY SMALL DEVELOPING COUNTRY.

MY OPENING STATEMENTS AT THESE CONFERENCES ALWAYS EMPHASIZED THE NECESSITY WITHIN OUR SYSTEM OF BEING REWARDED FOR ANY TECHNOLOGY THAT WAS TO BE TRANSFERRED. HOWEVER, DURING THE COURSE OF OUR DISCUSSIONS AND NEGOTIATIONS, I NEVER FAILED TO RECOGNIZE THE OBVIOUS NECESSITY OF SOMETIMES HELPING SOMEONE UNTIL THEY ARE IN A POSITION TO BE ABLE TO REWARD YOU FOR WHAT YOU HAVE TRANSFERRED.

THE WIPO GROUP GENERATED AN EXTENSIVE BOOK CONTAINING EXPLICIT DIRECTIONS ON HOW TO HANDLE ALL TYPES OF LICENSING TRANSACTIONS, FROM PATENTS TO TRADEMARKS TO COPYRIGHTS. WE ADDRESSED IT FROM BOTH PARTIES VIEWPOINT. THE BOOK CONTAINS

A HOST OF SAMPLE PROVISIONS AND MODIFICATIONS, ALONG WITH A DISCUSSION OF THE PRINCIPAL LEGAL SYSTEMS. WIPO HAS DONE A REAL SERVICE AND THE VALUE OF THIS SERVICE CAN BE MEASURED AS WE SEE LICENSING BECOMING MORE AND MORE OF A MEANS OF ESTABLISHING MORE MEANINGFUL COMMUNICATION BONDS BETWEEN DEVELOPING NATIONS AND DEVELOPED NATIONS.

TRANSITION

I SUPPOSE IF PEOPLE WERE ASKED TO DESCRIBE WHAT I HAVE BEEN TALKING ABOUT SO FAR, THEY PROBABLY WOULD RESPOND ALONG TWO LINES:

1) SOME PATENT PROBLEMS BETWEEN THE UNITED STATES AND A MAJOR PACIFIC ENTITY, AND

2) SOME WORK BEING DONE BY THE UNITED NATIONS TO MAKE PATENT LICENSING EASIER BETWEEN DEVELOPING AND DEVELOPED NATIONS.

RECALL, THOUGH, THAT IN TALKING ABOUT THE SITUATION IN TAIWAN, I MADE REFERENCE TO OUR CONCERNS ABOUT TRADEMARK AND COPYRIGHT PIRACY AND TO THEIR VERY RESPONSIVE ATTITUDE IN PROPOSING A REVISION OF THEIR PATENT AND TRADEMARK LAWS. NOTE ALSO THAT IN MAKING REFERENCE TO THE WIPO WORK, THE OUTPUT OF THAT WORK WAS DESCRIBED AS CONTAINING REFERENCE TO MOST EVERYTHING YOU WANT TO KNOW ABOUT LICENSING TRADEMARKS AS WELL AS TRADE SECRETS; IN OTHER WORDS, LICENSING INTELLECTUAL PROPERTY.

U. S. Trademark Procedures

Anyone active in this field has to recognize the ever increasing and burgeoning role that trademarks play in commercial development. Those of you who have heard me speak on other occasions perhaps recall my reference to acknowledging the commercial importance of patents, but making allusion to the fact that the wind has been blowing in a slightly different direction of late. That shift in direction has been one of emphasizing this trademark explosion as it were.

Certainly within our own country, the number of applications filed for registration has shown a marked increase of late -- approximating twenty percent annually -- twice the increase we had projected. However, we have not seen the same type of increase in those applications coming from outside the United States -- and particularly from the Orient. In 1971, as an example, applications for registration from Japanese nationals and companies accounted for only about one percent of our total and in 1976, the number is about the same.

One reason for this may well be the fact that the United States trademark registration system is based on a concept of use. One must use a mark in the United States

BEFORE ANY FEDERAL RIGHTS ACCRUE TO THAT USE. HOWEVER, OUR LAW SINCE 1946 HAS PROVIDED THAT WE CAN ALLOW A NON-U. S. NATIONAL TO REGISTER HIS MARK WITHOUT ASSERTING THAT HE HAS USED THE MARK SO LONG AS HIS COUNTRY PROVIDES THE SAME TYPE OF TREATMENT FOR OUR NATIONALS. THAT PROVISION OF OUR LAW HAS BEEN THE SUBJECT OF MUCH CONTROVERSY SINCE 1946, RESULTING IN CONFLICTING DECISIONS FROM VARIOUS ADMINISTRATIVE TRIBUNALS AND EVEN -- ACCORDING TO SOME, BUT NOT ALL LEGAL SCHOLARS -- FEDERAL COURTS (FOR EXAMPLE, THE MUCH TALKED ABOUT LEMON TREE CASE).

I HAVE PROPOSED TO BLOW THE CLOUDS AWAY ONCE AND FOR ALL BY AMENDING OUR RULES TO ADDRESS THIS SITUATION SIMPLY AND CLEARLY. THE CHANGE IN OUR U. S. PRACTICE NOW BEFORE THE PUBLIC IS SIMPLY THAT A NON-U. S. APPLICANT NEED NO LONGER PROVIDE SPECIMENS OF USE NOR NEED THERE BE ANY ASSERTION OF USE IN ORDER TO OBTAIN REGISTRATION HERE IN THE UNITED STATES. HOWEVER, SO AS TO ASSURE CONSISTENCY WITH THE UNDERLYING CONCEPT OF USE PRESENT IN OUR LAW, THE RULES WILL PROVIDE THAT THE APPLICANT MAKE A SHOWING OF INTENT TO USE THAT MARK FOR WHICH REGISTRATION IS SOUGHT.

WHAT WILL THIS MEAN? I DOUBT THAT IT WILL MEAN A DRAMATIC INCREASE IN THE NUMBER OF FOREIGN APPLICATIONS TO BE FILED HERE IN THE UNITED STATES TRADEMARK OFFICE, BUT

IT WILL BE FURTHER DEMONSTRATION OF ONE MORE STEP THAT WE ARE MAKING TO PARTICIPATE FULLY IN A WORLD TRADEMARK SYSTEM; A STEP IN ADDITION TO THAT OF HAVING SIGNED THE TRADEMARK REGISTRATION TREATY; AND A STEP CONSISTENT WITH ALL THE EFFORTS THAT WE SEE AROUND US TODAY IN THE BUSINESS COMMUNITY OF HARMONIZING COMPETING, AND EVEN CONFLICTING, INTERESTS WHERE AT ALL POSSIBLE.

Conclusion

I trust the title "Trademarks Across the International Date Line" has not confused you now that you have heard my remarks.

Some may have thought that I was going to describe trademark activity in the Asia-Pacific area. Wouldn't that be somewhat parochial of me, though? It presupposes that the <u>other</u> side of the international date line is <u>your</u> side. No -- I preferred to share with you some recent experiences wherein the international date line became simply a matter of adjusting my watch and accommodating my airline travel schedule. The problems are the same in Washington, Tokyo, Geneva and Taipei.

The point I want to leave with you is that the intellectual property of the world is a major resource and asset. It must be treated and developed carefully by all of us who have an interest in it.

Trademarks are becoming a bigger part of that intellectual property. We in the United States Patent and Trademark Office are trying to fit into the world-wide scheme of trademark affairs.

THE POINT THAT WE ALL SHOULD REMEMBER IS THAT AS PARTICIPANTS AND DIRECTORS OF INTELLECTUAL PROPERTY SYSTEMS, WE MANAGE A RESOURCE OF MORE VALUE TO MANKIND THAN THE OFT-MENTIONED ENERGY RESOURCE. OUR RESOURCE, INTELLECTUAL PROPERTY, IS THE WAY OF GETTING AT THAT ENERGY RESOURCE. IT ALSO ENABLES US TO TAP ALL THE OTHER RESOURCES OF SIGNIFICANT VALUE TO THE PHYSICAL NEEDS OF US ALL.

THANK YOU VERY MUCH. AH-RI-GAH-TOH GOH-ZAI-MAK-SU.

Message of Director General, Japanese Patent Office

Zenji Kumagai

It gives me a great pleasure to say a few words on the occasion of the 8th International Congress of PIPA.

I believe it very meaningful for the people concerned with industrial property rights in both countries which enjoy friendly relations across the Pacific to meet together to have a free exchange of views and opinions and to enhance mutual communication and friendship. I sincerely wish that this meeting will be a very successful one.

Let me avail myself of this opportunity of briefly introducing to you some of the important problems which our industrial property right system is facing.

Firstly, I would like to talk about the positive measures taken by our country in the face of various international developments. The industrial property right system is internationally oriented by its nature. Due to greater economic and technological exchanges across the border in recent years, the trend for internationalization of industrial property right system has become increasingly marked.

I had a pleasure of participating in WIPO Coordination Committee and Executive Committee of Paris Union which were held in Geneva recently representing the Japanese goverment. Through these meetings, I became Keenly aware of the fact that " the industrial property

right system is internationalized " and felt it necessary for our country to be responsive to the changing international environment thus promoting our international cooperation.

Since the accession to PCT (Patent Cooperation Treaty) is the matter of urgent importance for our country, we are actively making necessary preparations for it. More specifically, they are revision of related laws in Japan, selection of the government office to become in change of PCT, establishment of administrative procedure as an international examination office, and preparation of necessary documentation for examination. I hope we will be able to accede to PCT in the fall next year.

Secondly. talking about the Japanese domestic problems, we note that Japan ranks high in the world in terms of the number of patent application submitted annually. We still have a vast backlog of applications outstanding, and the work to clear and grant industrial patent right is lagging far behind.

The Patent Office has been trying very hard to raise the efficiency of examination through expanding the institutional and staffing capabilities and through automation of clearing procedures. In addition to this, the Patent Office has requested since last year the business circles and other parties concerned to cooperate in submitting only just and fair applications, because we

feel that a considerable portion of applications outstanding include those without sufficient prior study and those aiming at excessive protection.

I am convinced that we will be able to achieve speedy and efficient clearance procedure by increasing the examination capability of the Patent Office on one hand and by decreasing the number of applications on the other.

The reduction of the duration of examination is vital so that Japan can respond to PCT and other international developments in a meaningful way.

I have very briefly outlined the major problems Japan is facing both domestically and internationally.

In conclusion, I would like to wish you a big success in this meeting.

Thank you very much.

Committee Presentations
(Committee #1)

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° 1978 U.S.Patent and Trademark Office Rule Changes Relating to Patent Examination.
--- A.D.Lourie-------- 75

° Technical Scope Determination of Japanese Patent Considering its File History.
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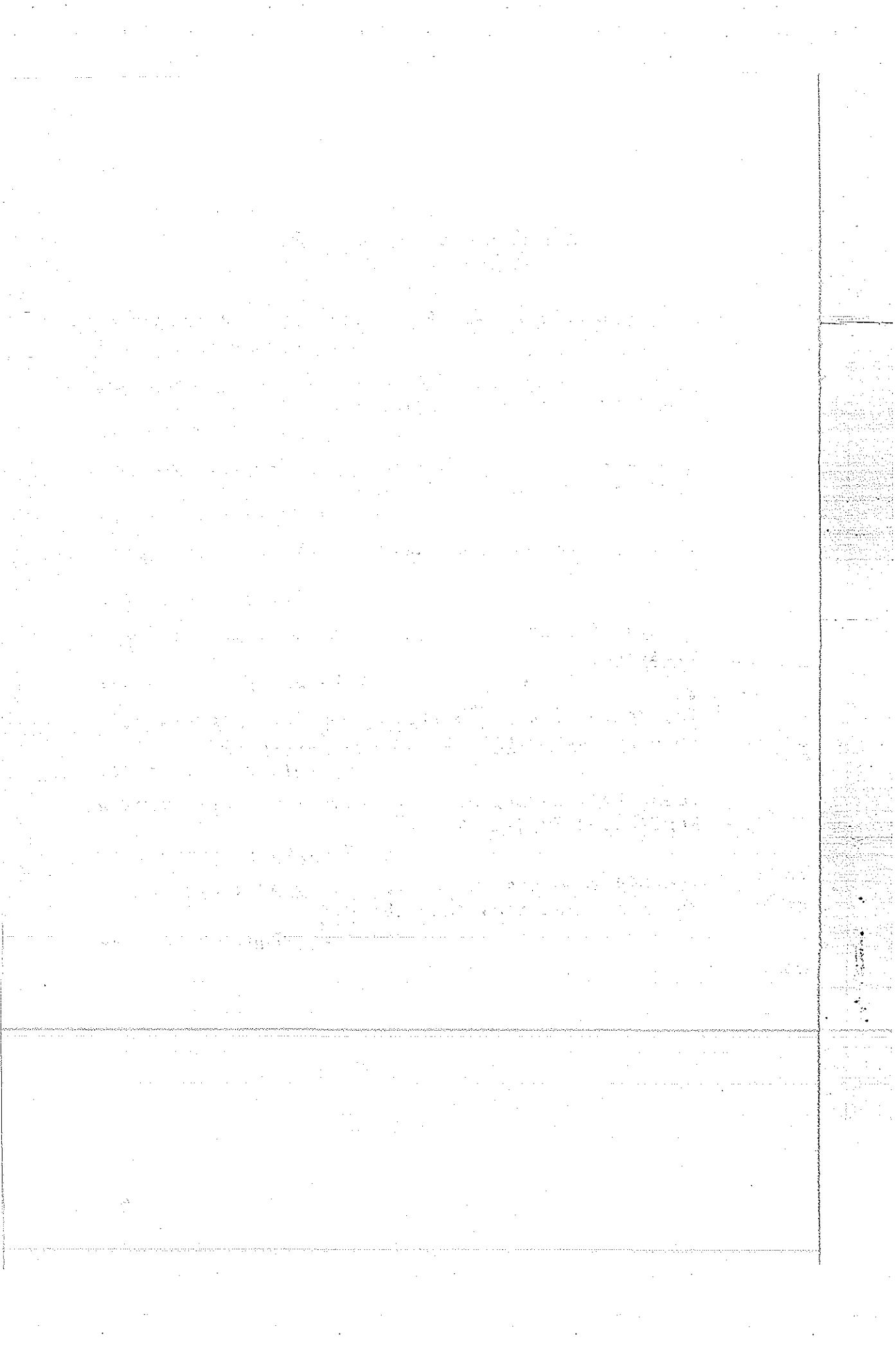
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October 12-14, 1977
Committee #1 (Japanese group)
Group 1; M. Ohiwa (Mitsubishi Electric Co., Ltd,) etal,
Speaker; S. Nakajima (Tanabe Seiyaku Co., Ltd,)

Examination Standard for "Division of Application"

1. The background facts that prompted the formulation of the Standard

The divisional application has been utilized as an important remedy for the applicants in Japan, as well as the convertion application, when their original applications for patents or utility model registrations were found to be defective. The numbers of total applications, divisional applications and convertion applications are shown respectively in Tables 1, 2 and 3.

In contrast to the fact that the total number of convertion applications has remained almost unchanged during the past ten years, the number of divisional applications has almost doubled during these years. These facts seem to show the greater utility value of the divisional application as compared to the conversion application.

In addition, it is supposed that the divisional application has been utilized, at least in some extent,

to attempt enlarging the scope of the application and achieving the similar effect as those of the continuation application, C.I.P. or reissne application of the United States. It has been considered, however, that unexpected utilization of the divisional application in this way should be avoided to promote the examination of the other normal applications.

On the other hand, the examination of dicisional applications have not always been uniform as to the allowalility of the division, mainly because there had been two conflicting interpretations of the meaning of "invention" in Article 44 of the Japanese Patent Law.

One of them recognized it as "the invention described in the specification", while the other interpreted it as "the claimed invention".
Thus, it had been awaited among the people concerned to establish an adequate standard for the sound utilization of the division of application.

Thus, the new Standard has been published recently which unified those divergent interpretations by proclaiming that the term "invention" as used in Article 44 of the Patent Law should as a rule be construed as meaning the "claimed invention".

2. Content of the Standard

According to the Paragraph (1), Article 44 (cf.

Attached sheet (a)) of the Japanese Patent Law, an applicant for patent whoes application comprises two or more inventions may divide his application and file a new application comprising a portion of said inventions. The division may be made when or within the time limit by which the specification or drawing can be amended. And if this new application fulfils all of the requirements, the applicant is entitled to the filing date of the original application also for this new application. [cf. The provisions for divisional application in Paris Convention; Article 4 G(1) (2)]

2.1 Requirements for the divisional application

The formal requirements which the divisional application must fulfils are as follows;

(1) The original application must be pending before the Patent Office at the time of division.

(2) The division of application must be made at the prescribed time or within the prescribed term when the amendments to the specification or drawing are allowable.

(3) The applicant of a divisional application must be the same as the applicant of the original application as of the time of division. (As a rule, the inventor must also be the same)

As to the Requirement (2), the existing Patent Law

of Japan has somewhat stringent provisions (Article 17, Article 17-2 and Article 17-3; refer the Attached sheets (b); therefore, the applicant should be careful in prosecution of the division of application in this respect.

In addition to the above formal requirements, several substantive requirements must also be met in order that a divisional application is considered to be lawful. In this connection, the Standard sets forth the following three requirements;

(4) Two or more inventions were described in the original application before the divison:

(5) The invention of the divisional application should be a portion of the two or more inventions described in the original application before the division:

(6) The invention of the divisional application should not be the same or should not contain the same part as the invention of the parent application after the division.

2.2 Examination of the divisional application.

Any divisional application failing to fulfil any of the above six requirements is considered to be unlawful and, if it is the case, the effective filing

date of the divisional application shall be the actual filing date of itself instead of the filing date of the original application. The Standard sets forth that, since the applications which fulfill the above Requirements (5) and (6) always satisfy the Requirement (4) as well, it is sufficient that substantive examinations be only made as to the Requirements (5) and (6).

The Standard provides that, unlike the identity interpretation between the claimed inventions among the different applications, it is only sufficient, for the finding as to the Requirements (5), to find out whether the inventions claimed in the divisional application are substantially identical with the inventions described in the original application. Besides, this finding should not be affected by whether the division was made before the ruling to publish the original application or after the ruling.

Consequently, in order to find out whether the Requirement (5) is fulfilled, it seems to be sufficient to find out whether the divisional application claims the same inventions as those described in the original application or whether the divisional application claims at least the identical part with the inventions described in the original application.

Contrary to the case for the Requirement (5), the identity under the Requirement (6), namely the identity between the claimed inventions in the divisional application and in the parent application after the division should be judged in accordance with the general Examination Standard for the Identity of Inventions under Article 39 (First-to-file rule), (This Examination Standard has already been promulgated by the Patent Office.)

2.3 Additional requirements for the divisional application filed after the ruling to publish the original application.

One of the most important point which has determined in present Standard is that, if the division was made after the ruling to publish the original application, the claim of a divisional application should also be subject to the limitations stipulated for the amendment under Article 64 of the Japanese Patent Law. [cf. Attached sheets (c)]

In case where a divisional application was made before the ruling to publish the original application, the divisional application is found to be lawful as far as the claimed invention in the divisional application was described in the specification and drawing of

the original application even if it was not claimed in the original application. Nothing dubious in this connection, for this practice is quite the same as the practice which have been accustomed to for many years.

In contrast, if a divisional application was filed after the ruling to publish the original application, the invention which can be claimed in this divisional application is limited to those extent which were appeared in the claims of the parent application at the time of division. Any unclaimed matter that has been merely disclosed in the specification or drawing cannot be a subject matter of the divisional application.

This is proclaimed in the Standard and, because of its practical importance, must be particularly heeded to by the applicants.

2.4 Amendment and withdrawal after the division of application.

The standard also set forth the effect of the amendment which is made to the parent application after filing a divisional application.

Namely, even if the situation was defective because the claimed invention of a divisional application was not sufficiently different from those claimed in the

parent application at the time of division, it can be remedied by amending the parent application so properly that the difference between the claimed inventions in both applications becomes apparent, for example by deleting the duplicated part from the claim of the parent application after the division.

However, you should remember the existence of another provision in this standard which provides that, if the whole of the parent application was cancelled by withdrawal, abandonment or nullification of the parent application after the filing of a divisional application, the defect of the divisional application on the ground of the identity with its parent application can not be overcome.

It is apparent that, if the duplication of subject matters between the parent application and its divisional application can be deleted by the amendment of the divisional application, the only amendment of the divisional application will be sufficient remedy.

2.5 Miscellaneous

In addition, to the foregoings the Standard includes some other provisions as well. The speaker will mention further some of them briefly as far as the time will allow.

One of them is the provision relating to the situation in which a matter deleted once from the claim of the original application before division, has been made the subject matter of the divisional application later. Here, different practices will be applied in this situation depending upon whether the division has been made before or after the ruling to publish the original application. If a divisional application was filed before the ruling to publish the original application, the divisional application is safe. But when the filing of the divisional application occurred after the ruling to publish the original application, the divisional application can not be awarded the benefit of the filing date of the original application.

What happens when a divisional application is filed at the same date as the date of withdrawal or abandonment of the original application? The Standard sets forth that such a case shall be uniformly dealt with "as if the division had been made during the pendency of the original application".

As to the permissible period for the amendment of the specification or drawing of the divisional application, the Standard decided to treat uniformly that the filing date of the original application shall be

applied for every divisional application regardless the allowability of the division. This is intended to avoid the problems that would arise from the unstableness of the effective filing date depending upon the permissibility of the division.

As to the permissible content of the amendment to the divisional application, it is limited again to those extent which were appeared in the claims of the original application at the time of division, if the division was made after ruling to publish the original application.

A divisional application may be further divided. The filing date of such sub-divisional application may retroactively go back to the filing date of the original application or the filing date of the first divisional application, depending on the extent to which the prescribed requirements are satisfied. Of course, there are certain instances in which no retroactive shift of the filing date is allowable at all.

Some other minor provisions are also contained in the Standard but the speaker will not deal with them, but would like to introduce a representative Trial Board decisions relating to divisional applications.

3. Representative decisions of the Patent Office Trial Board

3.1 Decisions relating to the limitation to the subject matter claimed in a divisional application (Trial Case No. 4435/1967 & Trial Case No. 4842/1971)

The Trial Board's dictum is that, except the filing of a new separate application, a division of application should be considered to be a kind of amendment of the specification. It is, therefore, reasonable to construe that any divisional application to be filed after the ruling to publish the original application should also be subject to the same limitations as those applicable to the amendments under Paragraph 1, Article 64 of Japanese Patent Law. Thus, the invention not claimd in the parent application at the time of division cannot be a subject matter of the divisional application.

3.2 Decision relating to the division of once deleted subject matter (Trial Case No. 8083/1965)

In this case, the original application has included two inventions but the Claim 1 for one of them was later cancelled by an amendment in the procedure. After the ruling to publish the application, a divisional application was filed claiming the above once deleted

invention. The Board found that it no longer be able to be a subject matter of a divisional application, since the subject matter of the deleted Claim 1 was not a claimed invention of the parent application as of the time of division.

3.3 Decision relating to the effect of withdrawal of the parent application (Trial Case No. 534/1972)

Since the claimed invention in the divisional application was found to be substantially identical with the invention remaining in the claims of the parent application, the parent application was withdrawn after the division. The Board ruled that the later act of withdrawal would not have any retroactive effect and, therefore, the defect of the divisional application in issue could not be required by this later act.

4. Recommendations to applicant

The characteristic point of this Standard is that, according to this Standard, the substantially different practices will be employed respectively for the examination of a divisional application depending upon whether the division is made before or after the ruling to publish the original application. Therefore, it may be advisable for the applicant to heed the following.

(i) In filing an application, claims should be drafted to adequately cover the respective embodiments.

(ii) At an early time after the filing of an application, within the period in which the amendment is allowable, the specification and drawing should be examined carefully again to find if there is remaining any subject matter which should be incorporated into additional claims or a divisional application.

In concluding my speech, I should like to poing out that this Standard is nothing more than a guideline for the routine examination and, therefore, should the applicant has a different opinion from this Standard, it is needless to say that he can fight in the proceedings before the Trial Board and the Tokyo High court.

We hope this short review will be of some value to you.

Table 1. Number of Applications in Japan

Year	Patents				Utility Models			
	Private Person	Juridical Person	Government	(Foreigner) Total	Private Person	Juridecal Person	Government	(Foreigner) Total
1967	17,220	61,938	1,206	(23,643) 85,364	46,555	64,165	340	(1,906) 111,060
1968	17,702	77,598	1,410	(25,597) 96,710	41,992	72,436	357	(2,034) 114,785
1969	18,039	85,908	1,639	(28,454) 105,586	41,222	82,481	467	(2,463) 124,170
1970	20,345	108,583	1,903	(30,309) 130,831	43,125	98,399	542	(2,369) 142,066
1971	16,893	87,518	1,374	(27,360) 105,785	37,105	85,257	481	(1,942) 122,843
1972	18,722	110,100	1,578	(29,072) 130,400	43,676	104,368	566	(1,975) 148,610
1973	17,793	125,176	1,845	(29,593) 144,814	34,885	112,571	458	(1,978) 147,914
1974	17,215	130,131	1,973	(27,810) 149,319	35,946	121,120	525	(1,910) 157,591
1975	18,743	138,417	2,661	(24,703) 159,821	43,517	136,499	644	(1,668) 180,660
1976	16,312	142,023	2,681	(25,254) 161,016	37,663	140,465	714	(1,456) 178,842

Table 2. Number of Divisional Applications in Japan

Year	Patents				Utility Models			
	Private Person	Juridical Person	Government	(Foreigner) Total	Private Person	Juridical Person	Government	(Foreigner) Total
1967	213	1,406	5	(772) 1,624	172	442	7	(23) 621
1968	238	1,454	4	(708) 1,696	186	460	1	(29) 647
1969	240	1,631	11	(817) 1,882	168	490	3	(43) 661
1970	296	1,906	17	(860) 2,222	193	589	0	(24) 782
1971	254	1,899	26	(872) 2,179	168	531	5	(23) 704
1972	271	1,979	19	(780) 2,269	159	756	2	(14) 917
1973	274	2,309	30	(616) 2,613	181	840	1	(23) 1,022
1974	247	2,085	26	(632) 2,358	141	806	1	(20) 948
1975	317	2,157	22	(490) 2,496	159	996	3	(15) 1,158
1976	249	2,393	32	(521) 2,674	151	1,246	2	(13) 1,399

Table 3. Number of Convertion Applications in Japan

Year	Patents				Utility Models			
	Private Person	Juridical Person	Government	(Foreigner) Total	Private Person	Juridical Person	Government	(Foreigner) Total
1967	106	154	1	(5) 261	1,046	3,709	26	(1,138) 4,781
1968	124	203	0	(11) 327	1,082	4,025	42	(1,204) 5,149
1969	117	234	0	(11) 351	1,051	4,151	59	(1,454) 5,261
1970	102	288	1	(18) 391	872	3,914	32	(1,332) 4,818
1971	120	282	2	(9) 404	877	3,622	36	(1,145) 4,535
1972	147	381	2	(22) 530	842	3,787	49	(1,162) 4,678
1973	143	401	0	(29) 544	635	3,309	75	(1,031) 4,019
1974	167	412	1	(13) 580	705	3,795	57	(893) 4,557
1975	153	477	3	(29) 633	527	3,476	83	(791) 4,086
1976	132	579	0	(35) 711	545	3,643	98	(583) 4,286

Attached Sheets

(Excerpt of the Japanese Patent Law)

(a) (Division of patent applications)

Article 44. – (1) An applicant for a patent may divide a patent application comprising two or more inventions into one or more new patent applications only at the time when or within the time limit by which the specification or drawings attached to the request may be amended.

(2) In such a case, the new patent application shall be deemed to have been filed at the time of filing of the original application. However, this provision shall not apply where the new patent application is either "another application for a patent" as referred to in Section 29^{bis} or an "application for a patent" as referred to in Section 3^{bis} of the Utility Model Law (Law No. 123 of 1959) for the purposes of those sections and of Sections 30(4) and 43(1) and (2).

(b) (Amendment)

Article 17. – (1) A person who is proceeding before the Office may make amendments only during the pendency of the case before the Office. However, subject to Section 17^{bis}, 17^{ter} or 64 [including its application under Section 159(2) and (3) (including its application under Section 174(1)) and under Section 161^{ter}(2) and (3)], he may not make amendments after the expiration of one year and three months from the filing date of a patent application [or — in the case of a patent application claiming priority by virtue of Section 43(1) — from the filing date of the first application or the application considered to be the first application in accordance with Article 4C(4) of the Paris Convention (meaning the Paris Convention for the Protection of Industrial Property of March 20, 1883, as revised at Brussels on December 14, 1900, at Washington on June 2, 1911, at The Hague on November 6, 1925, at London on June 2, 1934, at Lisbon on October 31, 1958 and at Stockholm on July 14, 1967 — hereinafter referred to as "the Paris Convention") or from the filing date of an application recognized as the first application in accordance with A(2) of said Article — hereinafter referred to as "the filing date of an application" in Sections 17^{bis} and 65^{bis}(1)], after the transmittal of the ruling that the application is to be published or after the transmittal of the ruling that a demand for a trial for correction is to be published.

(2) The President of the Patent Office or the trial examiner-in-chief may invite amendment, designating an adequate time limit, in the following cases:

(i) when the requirements of Section 7(1), (2) or (3) or 9 have not been complied with;

(ii) when the formal requirements specified in this Law or in a order or ordinance thereunder have not been complied with;

(iii) when the fees to be paid under Section 195(1) or (2) have not been paid with respect to a procedure.

(3) Any amendment under the two preceding subsections (except in the case of the payment of fees) shall be submitted in writing.

Article 17bis. – An applicant for a patent may, after the expiration of one year and three months from the filing date of a patent application but before the transmittal of the ruling that the application is to be published, amend the specification or the drawings attached to the request only in the following cases:

(i) where the applicant makes a request for examination and amendment is made simultaneously with such request;

(ii) where the applicant has received a notification under Section 48quinquies (2) and amendment is made within three months from the receipt of such notification;

(iii) where the applicant has received a notification under Section 50 [including its application under Section 159(2) (including its application under Section 174(1)) and under Section 161ter(2) – referred to in this paragraph as "Section 50"] and amendment is made within the time limit designated in accordance with Section 50;

(iv) where the applicant demands a trial under Section 121(1) and amendment is made within 30 days of such demand.

Article 17ter. – (1) When demanding a trial under Section 121(1), an applicant for a patent who has received after publication of the application the examiner's decision that the application is to be refused may amend the specification or the drawings attached to the request with respect to the matters mentioned in the reasons for the examiner's decision but only within 30 days of such demand, provided however that the amendment is limited to the following:

(i) the restriction of the claim or claims;

(ii) the correction of errors in the description;

(iii) the clarification of an ambiguous description

(2) Section 126(2) and (3) shall apply mutatis mutandis, respectively, to the case under the proviso to the preceding subsection and to the case under paragraph (i) of the preceding subsection.

(c) (Amendment after ruling for the publication of applications)

Article 64. – (1) Where an applicant for a patent has received a notification under Section 50 after the transmittal of the ruling that the application is to be published or after opposition to the grant of a patent has been filed, he may amend the specification or drawings attached to the request with respect to the matters mentioned in the reasons for the refusal or in the grounds for the opposition but only within the time limit designated in accordance with Section 50 or 57, provided however that the amendment is limited to the following:

(i) the restriction of the claim or claims;

(ii) the correction of errors in the description;

(iii) the clarification of an ambiguous description.

Alan D. Lourie

PIPA - Oct. 1977 Williamsburg Meeting

1978 U.S. PATENT AND TRADEMARK OFFICE RULES CHANGES RELATING TO PATENT EXAMINATION

For a number of years the U.S. patent system has been subjected to serious criticism. Approximately 50% of the patents litigated in the district courts in recent years have been held invalid and one of the reasons for this result is said to be the disparity between the limited amount of prior art available to the patent examiner when he examines an application and the larger amount available to a well-financed challenger to the patent in court. The U.S. courts have therefore imposed a duty on patent applicants and their attorneys to be completely candid with the patent office and to disclose all prior art and other facts relevant to patentability. Failure to do so has led to judicial findings of inequitable conduct, or fraud, resulting in invalidity or unenforceability of the patent with the additional possibilities of antitrust damages and ultimately disbarment of any attorney or agent found guilty of fraud.

Drafts of proposed legislation have attempted to deal with the problem of disclosure to the patent office, most of them containing considerable "overkill". Thus far no such proposal has been enacted into statutory law. However, the U.S. Patent and Trademark Office (PTO), under the leadership of recently retired Commissioner Dann, has now acted, within

existing law, to promulgate rules governing the duty of disclosure. In addition, a new reissue procedure has been instituted by the PTO which permits the citation of prior art after issuance of a patent and provides an opportunity for the examiner to consider the relevance of this previously uncited prior art. Most American attorneys consider this administrative definition of the duty of disclosure and the reissue procedure to be important developments in U.S. patent practice; I shall therefore discuss them in greater detail.

Rule 56 imposes a "duty of candor and good faith" on the inventor and on each attorney or agent who prepares or prosecutes the application and on every other individual who is substantively involved in the preparation or prosecution of the application and who is associated with the inventor or assignee. This duty is to disclose to the PTO information they are aware of which is "material" to the examination of the application. Information is defined as "material" if there is a substantial likelihood that a reasonable examiner would consider it important in deciding whether to allow the application. The penalty imposed by the PTO (Rule 56(d)) for fraudulent conduct or for a violation of the duty of disclosure through bad faith or gross negligence is that the application be stricken from the files.

One of the benefits of this definition is that it obligates only individuals who are involved with the patent application of whom it is reasonable to require that they disclose relevant information, whereas some statutory proposals imposed a duty of disclosure on the corporation, which can include many individuals at many locations, some of whom are not at all involved with the patent application. The new rule will therefore be more workable than the other proposals and still be useful in protecting the public interest in issuing only valid patents.

Some changes in the rules respecting oaths have been made. Rule 65(a)(1), which states the requirements for an oath or declaration, now includes a statement that the inventor acknowledges a duty to disclose information he is aware of which is material to the examination of the application. Rule 69 provides that if an individual making an oath or declaration cannot understand English, the oath or declaration must be in a language he understands and must state that he understands the documents to which the oath relates, e.g. the patent application. A foreign language oath must be in a form approved by the PTO or else be accompanied by a verified translation. The PTO has stated its intention to print sample oaths in a variety of foreign languages.

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These rules are obviously intended to ensure that foreign inventors know what it is they are signing. Statements signed by inventors and others are not just "formal" documents to be signed unconsciously, but are serious representations on the basis of which applicants wish the PTO to grant exclusive rights. They must, therefore, be believed to be true and accurate.

A voluntary, but, in my opinion, highly desirable, method of complying with the duty of disclosure is provided for in Rule 97 in the form of a "prior art statement". Such a statement, to be filed at the time of filing the patent application or within three months thereafter, either incorporated within the body of the application or in a separate paper, is intended to serve as a representation that the prior art listed therein includes the closest prior art of which the person filing it is aware. This presumably means both the inventor and the attorney. The statement is not, however, to be construed as a representation that a search has been made or that no better art exists.

The statement should include a listing of each piece of prior art and a brief explanation of its relevance. A copy of each piece of art should also be included, accompanied by a translation of pertinent portions of foreign language prior art if it is readily available. The prior

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art statement should be updated prior to issuance of the patent if the applicant believes that additional patents or publications should be brought to the attention of the PTO.

In my judgment, the PTO has taken a constructive step forward with the promulgation of these rules. The courts have in the past used widely varying language to define the duty of disclosure;this has made it difficult for patent applicants and attorneys to know by what standard they will be judged. In contrast, the new definition of the duty by the PTO is a single fair and reasonable standard which patent applicants and their attorneys should find understandable and capable of being met. Hopefully the courts will adopt it, thereby eliminating the multiplicity of standards which now exist.

Problems of judging "materiality" and of determining who is "substantively involved" in the preparation and prosecution of an application will exist, but we cannot avoid the need to make discretionary professional judgments. What the new rules do, however, is to limit the duty to those who are involved in the preparation and prosecution of the application, in contrast to the earlier broader legislative proposals, and to impose penalties only on those who commit fraud, bad faith, or gross negligence. By implication, it should be clear that mere errors of judgment, inadvertent failures of disclosure, or even ordinary negligence do not constitute fraud, at least in the opinion of the agency to whom the disclosure is to be

made. Many courts have held similarly, but not all; the new rules should help to establish this as a general and reliable rule of law.

The other important rule change relates to the requirement for filing reissue applications. In the past, it has been possible for patent owners to file reissue applications in order to reissue patents which they believe are wholly or partly inoperative or invalid. However, if the patent owner did not believe his patent was inoperative or invalid, he could not file the required reissue oath. Thus, there was no way for him to have his patent reexamined in the light of newly-discovered prior art.

Under the new rule, an applicant can file a reissue application when he knows of relevant prior art not previously considered by the PTO which might affect the validity of the claims. This procedure can be utilized by an applicant when he discovers or learns of relevant art by himself, when he hears of it from an opponent in a negotiation, or even when it is asserted against the patent in litigation. The new procedure will provide a record of the PTO's views concerning the relevance of this prior art. If the art is such as to render any of the claimed subject matter unpatentable, the appropriate claims will be rejected and

the patent will be either reissued with any unaffected or amended claims or it will be totally rejected over the art. The patentee will then have either a new patent more likely to be valid over the reference or will retain his original patent, the validity of which will be highly dubious in view of the record which will now show that the PTO considers the subject matter unpatentable over the new reference. This procedure is a lot simpler, faster, and less expensive than having to find out in litigation that one's patent is invalid.

If the PTO believes the reference does not affect the claims of the patent, the reissue application will be rejected because the statutory requirement for a reissue, viz. that the patent be deemed inoperative or invalid, will not be met, but the original patent will remain, having been strengthened by the PTO judgment that the subject matter is patentable over the reference. Of course, even if the PTO finds the subject matter to be patentable over the newly cited reference, a court can disagree and later invalidate the patent. However, the chances of the patent later being invalidated over the reference are much diminished if the PTO has considered the reference and found it harmless.

It should be noted that the reissue procedure will be made known to the public and anyone will be able to present comments and citations which will be considered by the examiner.

The usefulness of this new rule should be obvious and, in fact, a large number of reissue applications has already been filed. It will now not be necessary to expend large sums of money and wait several years for a determination of the effect of uncited prior art on the validity of an issued patent.

The new rules do not, however, solve all problems which serious students of the patent system feel exist. For example, they do not permit third parties on their own initiative to institute reexamination by citation of new prior art. New Rule 291 does permit protests and citations of prior art by the public; if they are timely filed relating to a pending application, the examiner is expected to consider them. However, once the patent has issued, the public cannot provoke a reexamination by the reissue procedure and many people consider that this constitutes a gap in the present system. In addition, the prior art statement is less than many serious observers felt was required. It is voluntary rather than mandatory and it does not require a detailed argument for patentability (a so-called "patentability brief") which was originally proposed.

In my judgment, however, these new rules relating to the duty of disclosure and reissue are constructive attempts to improve our patent system. I believe patent applicants would be well advised to utilize the new prior art statement to satisfy the duty of disclosure. It is especially important

that applicants from foreign countries understand the seriousness with which American applicants and attorneys consider the problem of citation of prior art. If such applicants are to obtain valid patents to protect their inventions, either for marketing by themselves in the U.S. or for outlicensing, they must meet the same exacting disclosure requirement as U.S. applicants. I also believe that if patent owners, either domestic or foreign, discover uncited prior art relevant to the validity of an important issued patent, they should seriously consider the possibility of utilizing the new reissue procedure as a relatively fast and inexpensive method of determining the effect of that prior art on the validity of the patent.

federal register

FRIDAY, JANUARY 28, 1977

PART VI

DEPARTMENT OF COMMERCE

Patent and Trademark Office

PATENT CASES

Examining and Appeal Procedures

Title 37—Patents, Trademarks and Copyrights

CHAPTER 1—PATENT AND TRADEMARK OFFICE, DEPARTMENT OF COMMERCE

PART 1—RULES OF PRACTICE IN PATENT CASES

Patent Examining and Appeal Procedures

On October 4, 1976 notice was given in the FEDERAL REGISTER (41 FR 43729) of a proposal to amend sixteen sections of Title 37 of the Code of Federal Regulations relating to patent examining and appeal procedures. Interested persons were invited to comment on the proposal by December 7, 1976. One hundred seventy-five written letters and statements were submitted. A hearing was held in Arlington, Virginia on December 7, 1976 at which 21 persons testified orally. Careful consideration has been given to all comments received, and the proposal is being adopted with certain changes.

The regulations adopted involve all sections that were proposed to be revised, amended or added—namely, §§ 1.11, 1.14, 1.52, 1.56, 1.65, 1.69, 1.97, 1.98, 1.99, 1.109, 1.175, 1.194, 1.196, 1.291, 1.292, and 1.348. Amendments also are being made in two sections which were not included in the published proposal—§§ 1.51 and 1.176. Since amendments to these sections are closely related to the substance of matters which were contained in the published proposal, separate notice and public comment on these amendments are deemed unnecessary.

In addition, amendments are being adopted which were published for comment in two earlier, much less extensive proposals that concerned availability of certain files for public inspection. A notice of a proposed amendment to § 1.14(b) was published on June 4, 1974 (39 FR 19786). A notice of a proposed amendment to § 1.11(a) was published on September 17, 1974 (39 FR 33376). No negative comments were submitted with respect to either of these proposals and both are being adopted without change.

The text of the rules will be reproduced in the Patent and Trademark Office Official Gazette in about a month with additions indicated by arrows and deletions indicated by brackets to help readers identify the changes. A transcript of the hearing, the letters and written statements received, and a summary and analysis of the comments are available for public inspection in Room 11E10 of Crystal Plaza Building 3, 2021 Jefferson Davis Highway, Arlington, Virginia.

PURPOSE OF RULES

The purpose of the rules that are being adopted is to improve the quality and reliability of issued patents by strengthening patent examining and appeal procedures. It is desirable that patents be as depeadable as possible, so as to enhance the incentives provided by the patent system to make inventions, to invest in research and development, to put new or improved products on the market, and to disclose inventions that otherwise would be kept as trade secrets. It is believed that the rules being adopted will help to maintain strong patent incentives.

The rules afford patent owners an opportunity, through the filing of a reissue application, to obtain a ruling from an examiner on the pertinence of additional prior art after a patent has been issued. The rules also broaden the public's opportunity for participation in the patent examining process, consistent with the limitations of statute, the protection of trade secrets, and the need to avoid making it unduly expensive to obtain a patent.

The rules set forth the duty of candor and good faith which applicants have to the Patent and Trademark Office and encourage them to provide information about the prior art in a way that will make it more useful to examiners. A provision for foreign language oaths by individuals who do not understand English is intended to make them more aware of their representations and of their obligations.

Under the rules more Patent and Trademark Office decisions that could have important precedent value will be available to the public, and some additional files will be available for inspection. Proceedings before the Board of Appeals are modified to help avoid the issuance of invalid patents. The rules encourage examiners to see that persons inspecting the file history of issued patents will be able to tell why the case was allowed.

REISSUE APPLICATIONS

Amended § 1.175 permits a patent owner to have new prior art considered by the Office by way of a reissue application without making any changes in the claims or specification. It is adopted with no change from the proposal. The requirement for an oath or declaration alleging that the reissue applicant believes "the original patent to be wholly or partly inoperative or invalid. . . ." is dispensed with in § 1.175(a)(1) unless the applicant believes that to be the case. Section 1.175(a)(4) recognizes that reissues may be filed to have the patentability of the original patent considered in view of prior art or other information relevant to patentability which was not previously considered by the Office.

Thus, a patentee may file a reissue if he believes his patent is valid over prior art not previously considered by the Office but would like to have a reexamination. The procedure may be used at any time during the life of a patent. During litigation, a federal court may, if it chooses, stay proceedings to permit new art to be considered by the Office.

If a reissue application is filed as a result of new prior art with no changes in the claims or specification and the examiner finds the claims patentable over the new art, the application will be rejected as lacking statutory basis for a reissue, since 35 USC 251 does not authorize reissue of a patent unless it is deemed wholly or partly inoperative or invalid. However, the record of prosecution of the reissue will indicate that the prior art has been considered by the examiner.

A substantial majority of the comments received favored amended § 1.175 as a means for improving the reliability of patents and avoiding unnecessary litigation costs. The negative comments generally questioned the statutory authority of the Commissioner to adopt this section. Authority for § 1.175 is believed to exist in 35 U.S.C. 6, which is the Commissioner's rulemaking authority, and in 35 U.S.C. 251. The latter section of the statute requires that the patent be deemed wholly or partly inoperative or invalid before a reissue may be granted, but does not require such a belief by the patentee before a reissue application may be filed. The case law does not suggest that the approach of new § 1.175(a)(4) is inconsistent with 35 U.S.C. 251.[1] Inasmuch as 35 U.S.C. 251 is a remedial provision,[2] it is believed that a liberal interpretation is justified and that adequate authority exists for the amended section.

Amended § 1.11(b) opens all reissue applications to inspection by the general public. Section 1.11(b) also provides for announcement of the filings of reissue applications in the Official Gazette. This announcement will give interested members of the public an opportunity to submit to the examiner information pertinent to patentability of the reissue application. The announcement will include at least the filing date, reissue application and original patent numbers, title, class and subclass, name of the inventor, name of the owner of record, name of the attorney or agent of record, and examining group to which the reissue application is assigned. Section 1.11(b) is amended from the proposal to so indicate. Reissue applications already on file on the effective date of the section will not be automatically open to inspection and will not be announced in the Official Gazette. However, a liberal policy will be followed in granting petitions for access to individual applications already on file.

In order that members of the public may have time to review the reissue application and submit pertinent information to the Office before the examiner's action, § 1.176 is amended to provide that reissue applications will not be acted on sooner than two months after the Official Gazette announcement of filing.

A substantial majority of the comments received favored adoption of § 1.11(b). The only opposition was based upon a suggestion that no statutory authority exists. However, since reissue applications contain no new disclosure, and therefore no trade secrets or confidential information, they are considered to present a "special circumstance" within the meaning of 35 U.S.C. 122.

[1] See *In re Clark*, 522 F.2d 623, 187 USPQ 209 (CCPA 1975), at footnote 4 where the court declined to decide whether it is proper to seek reissue merely to disclose uncited prior art. See also *In re Altenpohl*, 500 F.2d 1151, 183 USPQ 38 (CCPA 1974).

[2] See *In re Oda*, 443 F.2d 1200, 170 USPQ 268 (CCPA 1971).

The insertion of "all" as the fifth word of the first sentence of § 1.11(b) is for clarity. The word "furnished" is changed to "obtained" in § 1.11 for clarity.

PROTESTS AND PUBLIC USE PROCEEDINGS

Amended §§ 1.291 and 1.292 give greater recognition to the value of written protests and public use petitions in avoiding the issuance of invalid patents.

A substantial majority of the comments favored these sections and viewed them as improving the quality of issued patents. Entry of protests has been upheld in court.[3]

Section 1.291(a) provides that public protests against pending applications will be entered in the application file and will, if they meet stated requirements, be considered by the examiner. To guarantee consideration by the examiner, protests must be accompanied by copies of prior art documents relied upon, although protests without copies will not necessarily be ignored. This is similar to the requirement of new § 1.98 that copies of patents and publications accompany prior art statements. Section 1.291 does not contemplate permitting a protester to participate as a party in further proceedings. In the case of applications available to the public, such as reissue applications, the protester may file papers rebutting statements made by the applicant. The examiner at his discretion may request a protester to submit additional written information or may provide extra time for comments by a protester to be filed.

To ensure consideration by the examiner, all protests must be timely submitted. Protests will generally be considered timely submitted if they are filed before final rejection or allowance of the application by the examiner. The consideration given to protests filed after final rejection or allowance of the application by the examiner will depend upon the relevance of the prior art documents submitted and the point in time at which they are submitted. Obviously, if the prior art documents anticipate or clearly render obvious one or more claims they will not knowingly be ignored. It must be recognized, however, that the likelihood of consideration by the examiner decreases as the patent date approaches. Accordingly, protests must be filed early in order to ensure their consideration.

The first sentence of § 1.291(a) is deleted as unnecessary. Section 1.291(a) also is changed from the proposal to make clear that it applies to pending applications and that all protests will be referred to the examiner having charge of the subject matter involved.

Section 1.291(b) incorporates the existing Office policy of permitting persons to submit prior art citations or copies of prior art after a patent has been granted. The section is changed from the proposal by the addition of the words "any papers related thereto" to recognize that statements as to the pertinence of prior art may be submitted. Both the citations and the related papers are to be entered without comments. The material submitted is not examined by the Office but is available to members of the public inspecting Office records.

Some suggestions were received for major modifications of § 1.291. It was suggested that an advisory opinion of the examiner be placed in the patent file when protests were received after issuance of the patent. Several persons supported a suggestion for examiners to state whether a "new issue" was raised by prior art cited by a protester. Another suggestion was that a procedure similar to that used in the recent Trial Voluntary Protest Programs[4] be adopted on a continuing basis. These suggestions were carefully considered, but are not adopted. The suggestions extend substantially beyond § 1.291 as proposed, and their benefits do not appear sufficient to justify the added cost at this time.

Materials submitted to the Office under §§ 1.291 and 1.292 are to be served upon the applicant, patentee, attorney or agent when possible. The term "patentee" is used in its ordinary sense as defined in 35 USC 100(d). If service is not possible, materials are to be submitted in duplicate so that the Office can attempt to send the duplicate copy. The proposal is changed by adding the words "with the Office" after "filed" in §§ 1.291(c) and 1.292(b) for clarity.

In § 1.292, the requirement that petitioner bear the Office's expenses in conducting the public use proceeding is deleted. Section 1.292 is also amended to ensure that the existence of public use proceedings is recorded in the application file wrapper. Notice of a petition for a public use proceeding will be entered in the file in lieu of the petition itself when the petition and the accompanying papers are too bulky to accompany the file. Any public use papers not physically entered in the file will be publicly available whenever the application file wrapper is available.

DUTY OF DISCLOSURE

Amended § 1.56 defines the duty to disclose information to the Office and the criteria for striking an application when that duty is violated. The wording of the section is changed in several respects from the proposal, but the purpose and general scope are the same as in the proposal. The section codifies the existing Office policy on fraud and inequitable conduct, which is believed consistent with the prevailing case law in the federal courts. The expanded wording of the section is intended to be helpful to individuals who are not expert in the judicially developed doctrines concerning fraud. The section should have a stabilizing effect on future decisions in the Office and may afford guidance to courts as well.

A majority of comments received favored § 1.56 as proposed or with modifications. Persons opposed expressed concern over the imprecise definition of the duty of disclosure and the possibility that the proposal would substantially increase the burden on patent applicants. Some stated that there would be increased litigation as a result of the proposal. Several suggestions were received on better ways to define the individuals who should disclose information and the kinds of information that should be disclosed.

The first sentence of § 1.56(a) is changed from the proposal by adding the word "substantively," so that individuals having a duty of disclosure are limited to those who are "substantively involved in the preparation or prosecution of the application." This change is intended to make clear that the duty does not extend to typists, clerks, and similar personnel who assist with an application. This phrase, when taken with the last sentence of § 1.56(a), is believed to provide an adequate indication of the individuals who are covered by the duty of disclosure. The word "with" is inserted in the first sentence of § 1.56(a) before "the assignee" and before "anyone to whom there is an obligation to assign" to make clearer that the duty applies only to individuals, not to organizations.

Numerous comments concerned the term "relevance" that was used in the proposal. In response to the comments, language is substituted in § 1.56 and related sections which is believed to establish a clearer standard for determining whether information need be disclosed to the Office. "Relevant" is replaced by "material" because the latter term connotes something more than a trivial relationship. It appears to be more commonly used in court opinions. In addition, the third sentence of § 1.56, which defines materiality, is rewritten. The sentence now states that information is material "where there is a substantial likelihood that a reasonable examiner would consider it important in deciding whether to allow the application to issue as a patent." The sentence paraphrases the definition of materiality used by the Supreme Court in its recent decision in *TSC Industries v. Northway*.[5] Although in that case the court was concerned with rules promulgated by the Securities and Exchange Commission, the Court's articulation of materiality is believed consistent with the prevailing concept that has been applied by lower courts in recent patent cases.

The definition of materiality in § 1.56 will have to be interpreted in the context of patent law rather than securities law. Principles followed by courts in securities cases should not be translated to patent cases automatically. It is noteworthy, however, that in formulating the definition of materiality in *TSC Industries* the Supreme Court considered some of the same matters over which concern was expressed in the public

[3] *International Paper Co. v. Fibreboard Corp.*, 63 F.R.D. 88, 181 USPQ 740 (D. Del. 1974).

[4] 923 O.G. 2; 930 O.G. 1464; 938 O.G. 945

[5] 426 U.S. ——, 48 L. Ed. 2d 757, 96 S. Ct. 2126, 44 U.S.L.W. 4852, decided June 14, 1976.

comments on proposed § 1.56. The Court noted that the standard of materiality should not be so low that persons would be "subjected to liability for insignificant omissions or misstatements," or so low that the fear of liability would cause management "simply to bury the shareholder in an avalanche of trivial information—a result that is hardly conducive to informed decision making."[6]

Although the third sentence of § 1.56 (a) refers to decisions of an examiner, it is intended that the duty of disclosure would apply in the same manner in the less common instances where the official making a decision on a patent application is someone other than an examiner—e.g., a member of the Board of Patent Interferences or the Board of Appeals. This is implicit in the duty "of candor and good faith" toward the Office that is specified in the first sentence of § 1.56(a).

Comments and questions were received concerning the term "information" used in the second and third sentences of § 1.56(a) and elsewhere. It means all of the kinds of information required to be disclosed under current case law. In addition to prior art patents and publications, it includes information on prior public uses, sales, and the like. It is not believed practicable to define information in the text of the rule at this time. However, the rule is not intended to require disclosure of information favorable to patentability—e.g., evidence of commercial success of the invention. Neither is it meant to require disclosure of information concerning the level of skill in the art for purposes of determining obviousness.

Several comments were received concerning the duty to disclose information the patent applicant regards as confidential, including information the applicant has received from another party under an injunction of secrecy. This problem has existed prior to amendment of § 1.56. The Patent and Trademark Office, of course, keeps information disclosed by applicants confidential until a patent is issued. It has been suggested that the Office should develop a mechanism for continuing to hold information in confidence after issuance of a patent if in the judgment of the examiner the information is not material to the examination of the application. The feasibility of offering a rule for public comment on this topic at a later date will be considered.

New § 1.56(b) is added to make clear that information may be disclosed to the Office through an attorney or agent of record or through a pro se inventor, and that other individuals may satisfy their duty of disclosure to the Office by disclosing information to such an attorney, agent or inventor. Information that is not material need not be passed along to the Office.

Proposed sections 1.56 (b) and (c) have been revised and shortened and appear at §§ 1.56 (c) and (d). The proposal was criticized for leaving it open to the Office to apply a different standard of materiality from the one set forth in § 1.56.[7] Section 1.56(d) as adopted states that an application "shall" be stricken when the criteria set forth are met. Thus § 1.56(d) as adopted establishes a single standard for striking applications.

The term "inequitable conduct" is dropped from § 1.56(d) as covering too great a spectrum of conduct to be subject to mandatory striking. Inequitable conduct that is equivalent to fraud is intended to come within the definition of fraud. The Court of Customs and Patent Appeals already has interpreted "fraud" in existing § 1.56 to encompass conduct of this sort.[8] Moreover, § 1.56(d) as adopted calls for striking an application either for fraud or for a violation of the duty of disclosure.

In § 1.56(d) "bad faith" is substituted for the term "deliberate" that was used in the proposal. This change is to make clear that an intent to deceive (or gross negligence equivalent to such an intent) must be shown before an application will be stricken. Bad faith is not present if information is withheld as a result of an error in judgment or inadvertence.

Several comments concerned whether attorneys and agents could represent their clients' interests and at the same time comply with § 1.56. Similar comments were directed to §§ 1.97 to 1.99. It is of course in the interest of the client to have a valid patent and this cannot be obtained without disclosure of known material facts. It is not inconsistent for an attorney or agent to fulfill his duty of candor and good faith to the Office and to act as an advocate for his client. The submission of information under § 1.56 does not preclude the submission of arguments that such information does not render the subject matter of the application unpatentable.

In § 1.65 a new third sentence is added to require the patent applicant to acknowledge the duty of disclosure. The language is changed from the proposal to be consistent with changes made in § 1.56. To allow time for the Office and applicants to revise printed oath and declaration forms now in use, the mandatory acknowledgement of the duty of disclosure in amended § 1.65 does not become effective until January 1, 1978. Applicants at their option may include the new language in oaths and declarations filed prior to the effective date. The Office will publish a separate notice in the FEDERAL REGISTER adding a sentence acknowledging the duty of disclosure to appropriate forms in 37 CFR Part 3, "Forms for Patent Cases."

The word "statement" is deleted from the title of § 1.65 to avoid confusion with the prior art statement of §§ 1.97 through 1.99.

Amended § 1.346 emphasizes that there must be a reasonable basis to support every allegation of improper conduct made by a registered practitioner in any Office proceeding. The language that was proposed is clarified in the section as adopted. Although § 1.346 is limited to papers filed in Office proceedings, the amendment to § 1.346 is not intended to imply that disciplinary action never will be taken against a registered practitioner under § 1.348 for a groundless allegation of improper conduct in a court proceeding.

PRIOR ART STATEMENTS

New §§ 1.97, 1.98 and 1.99 deal with prior art statements and provide a mechanism by which patent applicants may comply with the duty of disclosure provided in § 1.56. The sections have been substantially changed from the proposal, in response to comments received.

Unlike the corresponding part of the proposal, the sections as adopted are not mandatory, though applicants are strongly encouraged to follow the procedures described in them. Applications will be examined whether or not a prior art statement is filed and whether it complies with the rules or is defective. It is nevertheless believed that applicants will find that the use of prior art statements complying fully with the requirements of §§ 1.97 through 1.99 will be the best way to satisfy the duty of disclosure. The Patent and Trademark Office cannot assure that prior art disclosed in other ways will be considered by the examiner.

Sections 1.97 through 1.99 do not prescribe the content of what materials should be submitted in the prior art statement; this is for the applicant and the attorney or agent to decide in the light of the duty of disclosure expressed in § 1.56. The only criterion contained in §§ 1.97 through 1.99 as to content of the art cited is in § 1.97(b). This subsection indicates that the statement will be construed as a representation that the prior art listed includes what the submitter considers to be the closest art of which he is aware. The submitter need not decide which particular items of prior art are the closest or identify any items as such; the representation is simply that he is not withholding known prior art which he considers closer than that which is submitted. Section 1.97(b) makes clear that the prior art statement is not a representation that a search has been made or that no better art exists.

In § 1.97(a) the time for filing the prior art statement is extended from the two months of the original proposal to three months. In most cases prior art submitted within three months will be available to the examiner before he takes up the case for action, though it will be helpful if citations are made as promptly as possible.

Section 1.98 lists the elements of the prior art statement: a listing of the art, a concise explanation of the relevance of each listed item, and copies of the art or the pertinent portions thereof.

The prior art statement resembles somewhat the "patentability statement"

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[6] 426 U.S. at ——, 48 L. Ed. 2d at 765, 96 S. Ct. at 2132, 44 U.S.L.W. at 4855.

[7] See discussion accompanying proposed rules in FEDERAL REGISTER of October 4, 1976, page 43731, first sentence.

[8] *Norton v. Curtiss*, 433 F. 2d 779, 792, 167 USPQ 532, 543 (CCPA 1970).

of the proposal and the "patentability brief" proposed elsewhere.[1] The name has been changed to reflect a change in the requirements of § 1.98(a). Unlike the proposed version of this paragraph, which called for an explanation of why the claimed invention is believed patentable over the cited art, the paragraph as adopted calls only for a concise explanation of the relevance of each listed item. This may be nothing more than identification of the particular figure or paragraph of the patent or publication which has some relation to the claimed invention. It might be a simple statement pointing to similarities between the item of prior art and the claimed invention. It is permissible but not necessary to discuss differences between the prior art and the claims. It is thought that the explanation of relevance will be essentially as useful to the examiner as the formerly proposed explanation of patentability, and should be significantly less burdensome for the applicant to prepare.

Section 1.98 requires a copy of each patent or publication cited, including U.S. patents, to accompany the prior art statement. Several comments questioned the need for burdening the applicant to supply copies of materials that are present in the Office's files. However, substantial time and effort often is needed to locate a document in the Office's files. Since the person submitting the prior art statement generally has available a copy of the item being cited, it is believed that expense and effort can be minimized by having that person supply the copy in all cases. Consideration has been given to proposals to allow the applicant to submit an order for copies of the patents along with his statement instead of actually submitting copies. This will be further studied, but to date no way has been found to assure that the copies will be available to the examiner by the first action unless the applicant submits them with the prior art statement.

Other changes to §§ 1.97 through 1.99 from the proposal eliminate unnecessary language and clarify the requirements.

A notice published in 1974 [2] contained guidelines for the citation of prior art by applicants. Many of those guidelines are repeated or superseded by §§ 1.97 through 1.99. In order to allow applicants, attorneys and agents time to adjust their procedures to comply with the requirements for prior art statements, the effective date of §§ 1.97 through 1.99 will be July 1, 1977. Until these new sections become effective, applicants should continue to follow the 1974 guidelines. Issuance of a revised notice, to take effect July 1, 1977, is under study.

A survey conducted by the Office in 1976 concludes that many applicants have not been citing prior art to the Office.[3] It is hoped that with the duty of disclosure expressly set forth in § 1.56, applicants will perceive that it is to their advantage to use the procedures of §§ 1.97 through 1.99.

Section 1.51 is amended by designating the existing rule as § 1.51(a) and adding new § 1.51(b) which contains a reference to §§ 1.97 through 1.99.

Foreign Language Oaths

Amended § 1.52 and new § 1.69 are adopted as proposed.

Section 1.69 requires that oaths and declarations be in a language which is understood by the individual making the oath or declaration, i.e., a language which the individual comprehends. If the individual comprehends the English language, he must use it. If the individual cannot comprehend the English language, any oath or declaration must be in a language which the individual can comprehend. If an individual uses a language other than English for an oath or declaration, the oath or declaration must include a statement that the individual understands the content of any documents to which the oath or declaration relates. If the documents are in a language the individual cannot comprehend, the documents may be explained to him so that he is able to understand them.

The Office will provide approved translations for as many of the oath or declaration forms which appear in Part 3 of Title 37 of the Code of Federal Regulations as practicable, and in as many languages as practicable, probably using a side-by-side English/foreign language format. The availability of the foreign language forms will be announced in the Official Gazette at a later date.

The change in § 1.52, providing for an exception to the requirement that oaths and declarations be in the English language, is necessitated by the adoption of § 1.69.

Although very few persons opposed §§ 1.52 and 1.69, several suggested that the philosophy behind the change be extended to the specification, requiring the specification to be in a language which the applicant understands, accompanied by an English translation. This suggestion was not considered feasible because of the obvious burdens on the applicant and the danger to the applicant and the public if the translation is not literally correct. Also, if a large number of applications were filed in a foreign language, there would be significant administrative burdens on the Office. Attention is directed to the Manual of Patent Examining Procedure, § 608.1, which permits non-English language applications to be filed in certain limited circumstances.

Other suggested modifications of the proposed rule included: (1) using an English language oath or declaration with one additional clause in a language understood by the person making the oath or declaration, the clause stating that the person understands all the documents to which the oath or declaration relates; and (2) extending the two month grace period for filing an English translation of an oath or declaration filed under § 1.65.

After due consideration, suggestion (1) was believed not to accomplish the objectives of the rule as well as the adopted rule. Suggestion (2) would cause unsatisfactory delays in the initial processing of applications.

Decisions and Files Made Public

Section 1.14(d) makes more explicit the conditions under which significant decisions of the Patent and Trademark Office will be made available to the public, and includes reference to decisions of the Board of Patent Interferences, in addition to decisions of the Board of Appeals and the Commissioner.

A large majority of the comments received were favorable. Several commentators felt that more decisions would be made available as a result of the proposed section and that it would assist in publicizing aspects of Office procedure which may not have been available previously.

Some negative comments were based on the view that the Freedom of Information Act [4] required all decisions of the Office to be made publicly available. A greater number of those opposing the proposed section, however, felt that applicants should have an absolute right to have their applications maintained in confidence and that no information should be made public without specific authorization from them. One commentator felt that rulemaking on this subject should be deferred until currently pending litigation [5] under the Freedom of Information Act was finally resolved.

The section as adopted is applicable to decisions deemed by the Commissioner to involve an interpretation of patent laws or regulations that would be of significant precedent value, where such decisions are contained in either pending or abandoned applications or in interference files not otherwise open to the public. It is applicable whether or not the decision is a final decision of the Patent and Trademark Office.

The parenthetical phrase in the first sentence of the proposed section, which cited other provisions of the rules under which decisions are open to public inspection, is deleted as unnecessary and possibly confusing. Also, in view of several comments received, the period of time during which an applicant or party in interest may object to having a decision made public is extended from one month to two months. At least twenty days is given to request reconsideration and seek court review before a decision is made public over an objection.

Section 1.14(d) is considered to place a duty on the Patent and Trademark Office to identify significant decisions and to take the steps necessary to inform the public of such decisions, by publication of such decisions, in whole or in part. It is anticipated, however, that no more than a few dozen decisions per year will be deemed of sufficient importance to warrant publication under the authority of this section.

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[1] E.g., Federal Register of September 9, 1968, 34 FR 14178, 866 O.G. 1402; S. 2255, 94th Congress, § 131(b).

[2] Notice of August 12, 1974, 926 O.G. 2.

[3] BNA's Patent, Trademark and Copyright Journal, No. 301, October 28, 1976, page D-1.

[4] 5 USC 552.

[5] *Irons v. Gottschalk*, Slip Opinion, No. 74-1365 (D.C. Cir., October 21, 1976).

Amended § 1.14(b) allows public inspection of abandoned applications referred to in defensive publications. The comments received on the proposed amendment on this topic in 1974 expressed no opposition and the proposal is adopted without change.

The amendment is intended to encourage use of the defensive publication program provided under § 1.139. The objective of that program is to make available to the public the technical disclosure of applications in which the owner prefers to publish an abstract in lieu of obtaining an examination. Existing §§ 1.11(b) and 1.139 open the complete defensive publication application to inspection by the general public upon publication of the abstract. With the amendment, an abandoned application referred to in a defensive publication application will likewise be open to public inspection, avoiding any need to repeat its contents in the defensive publication application. Thus, public availability of the applications involved should be of benefit both to the applicant and the public.

A suggestion was made that the section be extended still further to include abandoned applications referred to in foreign patents. This suggestion, however, goes too far beyond the proposal that was published and has too uncertain an impact to be adopted at this time.

Amended § 1.11(a) provides earlier access to the file of an interference which involved a patent or an application on which a patent has issued. All comments that were submitted on the 1974 proposal on this topic were favorable and two commentators felt the proposal should be extended further. The proposal is being adopted without change.

Under present practice, access to the file of an interference is not permitted until judicial review of the decision of the Board of Patent Interferences has been exhausted. The amended section allows access to the file after final decision of the Board of Patent Interferences if that decision is an award of priority as to all parties. It is believed that such earlier access will be of benefit to members of the public by making available information relevant to the issuance of the patent whether or not the interference decision is still being adjudicated.

PATENT APPEALS

Section 1.194 clarifies the circumstances in which oral hearings should be requested, provides for oral arguments by or on behalf of examiners in certain appeals, and reduces the time permitted for oral arguments.

Comments relating to this section were favorable by a very substantial majority, although there were several reservations to the effect that § 1.194(a) tended to discourage or downgrade oral arguments. Participation by examiners was considered to be desirable not only from the standpoint of improving the overall presentation of the argument, particularly in complex cases, but also for the educational and experience benefits to the examiners themselves.

The only opposition to the section was based on the feeling that oral hearings would be discouraged. The rule is intended to discourage oral hearings only to the same extent as the Office's 1975 Official Gazette notice on the subject.[14] Section 1.194(a) indicates that oral hearings should not be requested as a matter of course in every appeal, but only in those circumstances where the appellant feels that such a hearing will be of material assistance to the proper presentation of the appeal. The section expressly provides that equal consideration will be accorded in deciding all appeals, whether or not an oral hearing is held.

In appeals where the appellant has requested an oral hearing, § 1.194(b) provides for oral argument by, or on behalf of, the primary examiner, if such argument is considered to be helpful by either the primary examiner or the Board. This provision incorporates the present practice of permitting examiners to present an oral argument before the Board.[15] It gives the Board additional discretionary authority to request presentation of an oral argument by, or on behalf of the examiner to ensure that all issues are fully and accurately presented.

Section 1.194(c) provides, as does existing § 1.194, that appeals will be assigned for consideration and decision without an oral hearing where none has been requested by the appellant. Where an oral hearing has been requested, a day of hearing will be set, and both appellant and the primary examiner will be notified. A provision for notice to the examiner is added to the proposed version. Additionally, § 1.194(c) reflects the present practice of limiting oral argument on behalf of the appellant to twenty minutes.[16] The time permitted for argument by the examiner has been shortened from twenty minutes, as proposed, to fifteen minutes. The examiner, unlike the appellant, will not ordinarily need time to present the facts of the case or for rebuttal.

In any appeal where oral argument is to be presented by, or on behalf of, the primary examiner, the appellant will be given due notice of that fact.

Proposed § 1.196(b) would have authorized the Board of Appeals to reject allowed claims, in cases before it, whenever the Board had knowledge of grounds for so doing.

While a majority of those commenting on this section favored in principle the concept of allowing the Board to have this right, significant concern was voiced that there was no statutory authority for the Board to actually reject allowed claims. Further, the question of proper authority for judicial review of such action by the Board was a matter of concern. Other reasons advanced in opposition to the section were that applicants would be inhibited from appealing by the risk of having allowed claims rejected and that the proposal would create a higher presumption of validity in cases reviewed by the Board. A significant number commented that it would be more appropriate for the Board to remand the case to the primary examiner for consideration of the grounds raised by the Board. This would afford the applicant an opportunity to demonstrate the patentability of the claims and would remove any question as to statutory authority.

In view of the comments received, existing § 1.196(b) will not be modified, but a new § 1.196(d) is added providing express authority for the Board of Appeals to include, in its decision, a statement of any grounds for rejecting any allowed claim that it believes should be considered by the primary examiner. Section 1.196(d) provides that the Board may remand the case to the examiner for such consideration, and that the applicant shall have an opportunity to respond to the grounds set forth by the Board prior to consideration by the examiner. If the previously allowed claims are rejected by the examiner, the rejection may be appealed to the Board.

The new section further provides that a decision of the Board which includes a remand will not be considered as a final decision in the case, but that the Board, following conclusion of the proceedings before the primary examiner, will either adopt its earlier decision as final or will render a new decision based on all appealed claims, as it considers appropriate. In either case, final action by the Board will give rise to the existing alternatives available to an appellant following a decision by the Board.

In situations where the primary examiner concludes after consideration of all the evidence and argument that the remanded claims should be allowed, the new rule dealing with reasons for allowance (§ 1.109) provides an appropriate mechanism for him to explain, on the record, his reasoning for coming to this conclusion, notwithstanding the grounds set forth by the Board in its statement.

Promulgation of new § 1.196(d) does not affect the Board's existing authority to remand a case to the primary examiner without rendering a decision in appropriate circumstances. Section 1.196(d) is not intended as an instruction to the Board to reexamine every allowed claim in every appealed application. It is, rather, intended to give the Board express authority to act when it becomes apparent, during the consideration of rejected claims, that one or more allowed claims may be subject to rejection on either the same or on different grounds from those applied against the rejected claims.

REASONS FOR ALLOWANCE

New § 1.109 is intended to emphasize and formalize the examiner's authority to state his reasoning for allowing a claim or claims. The authority is discretionary with the examiner and is only to

[14] See notice of March 20, 1975, 933 O.G. 1010.

[15] MPEP, § 1208.

[16] See notice of March 20, 1975, 933 O.G. 1010.

be used when the record does not otherwise reveal the reasons for allowance.

A majority of the comments received favored the rule as proposed because it would tend to provide courts and others who were reviewing the patent with a clearer record. Those who opposed the rule most often gave the reason that the examiner might fail to state all the reasons or the strongest reasons why a claim was allowed, which could place unnecessary limitations on the claims or create an estoppel in subsequent litigation or licensing.

To help insure that the examiner's statement of his reasoning in allowing a claim will not unnecessarily limit the claims or create an estoppel, a final sentence is added to the proposal which states that failure of the applicant to comment upon or rebut the examiner's reasoning "shall not give rise to any implication that the applicant agrees with or acquiesces in the reasoning of the examiner."

Several commenters suggested that stricter enforcement of §§ 1.111 and 1.133 would eliminate the need for a new rule concerning reasons for allowance. Situations exist, however, where a statement of reasons for allowance could be helpful, for example when an examiner withdraws a rejection for reasons not suggested by the applicant; when an applicant submits several arguments for allowing a claim and the examiner finds not all of them persuasive; when an examiner allows a claim on the first Office action after citing very close prior art; and when the examiner allows a claim after remand from the Board of Appeals (see new § 1.196(d)).

The first sentence of the proposed rule is changed to define more precisely the circumstances in which an examiner's statement is appropriate, as well as to define more precisely the content of the statement. The statement will include the examiner's "reasoning." The examiner may state his reasoning whenever he "believes that the record of the prosecution as a whole does not make clear his reasons for allowing a claim or claims."

Several persons commented that the rule should provide a procedure for appeal from the examiner's statement of his reasoning. The rule does permit applicants to comment upon the examiner's reasoning. If the applicant does not wish to comment, he may reserve for a later proceeding, without prejudice, any rebuttal.

TEXT OF RULES ADOPTED

After consideration of the comments received and pursuant to the authority contained in § 6 of Title 35 of the United States Code, Part 1 of Title 37 of the Code of Federal Regulations is amended as set forth below.

1. Section 1.11 is revised to read as follows:

§ 1.11 Files open to the public.

(a) After a patent has been issued, the specification, drawings, and all papers relating to the case in the file of the patent are open to inspection by the general public, and copies may be obtained upon paying the fee therefor. After an award of priority by the Board of Patent Interferences as to all parties, the file of any interference which involved a patent, or an application on which a patent has issued, is similarly open to public inspection and procurement of copies. See § 2.27 for trademark files.

(b) All reissue applications and all applications in which the Office has accepted a request filed under § 1.139, and related papers in the application file, are open to inspection by the general public, and copies may be obtained upon paying the fee therefor. The filing of reissue applications will be announced in the *Official Gazette*. The announcement shall include at least the filing date, reissue application and original patent numbers, title, class and subclass, name of the inventor, name of the owner of record, name of the attorney or agent of record, and examining group to which the reissue application is assigned.

2. In § 1.14 paragraphs (b) and (d) are revised to read as follows:

§ 1.14 Patent applications preserved in secrecy.

* * * * *

(b) Except as provided in § 1.11(b) abandoned applications are likewise not open to public inspection, except that if an application referred to in a U.S. patent, or in an application which is open to inspection pursuant to § 1.139, is abandoned and is available, it may be inspected or copies obtained by any person on written request, without notice to the applicant. Abandoned applications may be destroyed after 20 years from their filing date, except those to which particular attention has been called and which have been marked for preservation. Abandoned applications will not be returned.

* * * * *

(d) Any decision of the Board of Appeals or the Board of Patent Interferences, or any decision of the Commissioner on petition, not otherwise open to public inspection shall be published or made available for public inspection if: (1) The Commissioner believes the decision involves an interpretation of patent laws or regulations that would be of important precedent value; and (2) the applicant, or any party involved in the interference, does not, within two months after being notified of the intention to make the decision public, object in writing on the ground that the decision discloses a trade secret or other confidential information. If a decision discloses such information, the applicant or party shall identify the deletions in the text of the decision considered necessary to protect the information. If it is considered the entire decision must be withheld from the public to protect such information, the applicant or party must explain why. Applicants or parties will be given time, not less than twenty days, to request reconsideration and seek court review before any portions of decisions are made public over their objection. See § 2.27 for trademark applications.

3. Section 1.51 is revised to read as follows:

§ 1.51 General requisites of an application.

(a) Applications for patents must be made to the Commissioner of Patents and Trademarks. A complete application comprises:

(1) A specification, including a claim or claims, see §§ 1.71 to 1.77.

(2) An oath or declaration, see §§ 1.65 and 1.68.

(3) Drawings, when necessary, see §§ 1.81 to 1.88.

(4) The prescribed filing fee. (See 35 USC section 41 for filing fees.)

(b) Applicants are encouraged to file a prior art statement at the time of filing the application or within three months thereafter. See §§ 1.97 through 1.99.

4. In § 1.52 paragraph (a) is revised to read as follows:

§ 1.52 Language, paper, writing, margins.

(a) The specification and oath or declaration must be in the English language except as provided in § 1.69. All papers which are to become a part of the permanent records of the Patent and Trademark Office must be legibly written or printed in permanent ink or its equivalent in quality. All of the application papers must be presented in a form having sufficient clarity and contrast between the paper and the writing or printing thereon to permit the production of readily legible copies in any number by use of photographic, electrostatic, photooffset, and microfilming processes. If the papers are not of the required quality, substitute typewritten or printed papers of suitable quality may be required.

* * * * *

5. Section 1.56 is revised to read as follows:

§ 1.56 Duty of disclosure; striking of applications.

(a) A duty of candor and good faith toward the Patent and Trademark Office rests on the inventor, on each attorney or agent who prepares or prosecutes the application and on every other individual who is substantively involved in the preparation or prosecution of the application and who is associated with the inventor, with the assignee or with anyone to whom there is an obligation to assign the application. All such individuals have a duty to disclose to the Office information they are aware of which is material to the examination of the application. Such information is material where there is a substantial likelihood that a reasonable examiner would consider it important in deciding whether to allow the application to issue as a patent. The duty is commensurate with the degree of involvement in the preparation or prosecution of the application.

(b) Disclosures pursuant to this section may be made to the Office through an attorney or agent having responsibility for the preparation or prosecution of the application or through an inventor who is acting in his own behalf. Disclosure to such an attorney, agent or

inventor shall satisfy the duty, with respect to the information disclosed, of any other individual. Such an attorney, agent or inventor has no duty to transmit information which is not material to the examination of the application.

(c) Any application may be stricken from the files if: (1) Signed or sworn to in blank, or without actual inspection by the applicant; or

(2) Altered or partly filled in after being signed or sworn to.

(d) An application shall be stricken from the files if it is established by clear and convincing evidence that any fraud was practiced or attempted on the Office in connection with it or that there was any violation of the duty of disclosure through bad faith or gross negligence.

6. In the heading preceding § 1.65 "STATEMENT:" is deleted.

7. In § 1.65 the heading and paragraph (a) are revised to read as follows:

§ 1.65 Oath or declaration.

(a) (1) The applicant, if the inventor, must state that he verily believes himself to be the original and first inventor or discoverer of the process, machine, manufacture, composition of matter, or improvement thereof, for which he solicits a patent; that he does not know and does not believe that the same was ever known or used in the United States before his invention or discovery thereof, and shall state of what country he is a citizen and where he resides and whether he is a sole or joint inventor of the invention claimed in his application. In every original application the applicant must distinctly state that to the best of his knowledge and belief the invention has not been in public use or on sale in the United States more than one year prior to his application or patented or described in any printed publication in any country before his invention or more than one year prior to his application, or patented or made the subject of an inventor's certificate in any foreign country prior to the date of his application on an application filed by himself or his legal representatives or assigns more than twelve months prior to his application in this country. He must acknowledge a duty to disclose information he is aware of which is material to the examination of the application. He shall state whether or not any application for patent or inventor's certificate on the same invention has been filed in any foreign country, either by himself, or his legal representatives or assigns. If any such application has been filed, the applicant shall name the country in which the earliest such application was filed, and shall give the day, month, and year of its filing; he shall also identify by country and by day, month, and year of filing, every such foreign application filed more than twelve months before the filing of the application in this country.

(2) This statement (i) must be subscribed to by the applicant, and (ii) must either (a) be sworn to (or affirmed) as provided in § 1.66, or (b) include the personal declaration of the applicant as prescribed in § 1.68. See § 1.153 for design cases and § 1.162 for plant cases.

* * * * *

8. Section 1.69 is added to read as follows:

§ 1.69 Foreign language oaths and declarations.

(a) Whenever an individual making an oath or declaration cannot understand English, the oath or declaration must be in a language that such individual can understand and shall state that such individual understands the content of any documents to which the oath or declaration relates.

(b) Unless the text of any oath or declaration in a language other than English is a form provided or approved by the Patent and Trademark Office, it must be accompanied by a verified English translation, except that in the case of an oath or declaration filed under § 1.65, the translation may be filed in the Office no later than two months after the filing date.

9. The heading "PRIOR ART STATEMENT" is added following § 1.95 and preceding § 1.97.

10. Section 1.97 is added to read as follows:

§ 1.97 Filing of prior art statement.

(a) As a means of complying with the duty of disclosure set forth in § 1.56, applicants are encouraged to file a prior art statement at the time of filing the application or within three months thereafter. The statement may either be separate from the specification or may be incorporated therein.

(b) The statement shall serve as a representation that the prior art listed therein includes, in the opinion of the person filing it, the closest prior art of which that person is aware; the statement shall not be construed as a representation that a search has been made or that no better art exists.

11. Section 1.98 is added to read as follows:

§ 1.98 Content of prior art statement.

(a) Any statement filed under § 1.97 or § 1.99 shall include: (1) A listing of patents, publications or other information and (2) a concise explanation of the relevance of each listed item. The statement shall be accompanied by a copy of each listed patent or publication or other item of information in written form or of at least the portions thereof considered by the person filing the statement to be pertinent.

(b) When two or more patents or publications considered material are substantially identical, a copy of a representative one may be included in the statement and others merely listed. A translation of the pertinent portions of foreign language patents or publications considered material should be transmitted if an existing translation is readily available to the applicant.

12. Section 1.99 is added to read as follows:

§ 1.99 Updating of prior art statement.

If prior to issuance of a patent an applicant, pursuant to his duty of disclosure under § 1.56, wishes to bring to the attention of the Office additional patents, publications or other information not previously submitted, the additional information should be submitted to the Office with reasonable promptness. It may be included in a supplemental prior art statement or may be incorporated into other communications to be considered by the examiner. Any transmittal of additional information shall be accompanied by explanations of relevance and by copies in accordance with the requirements of § 1.98.

13. Section 1.109 is added to read as follows:

§ 1.109 Reasons for allowance.

If the examiner believes that the record of the prosecution as a whole does not make clear his reasons for allowing a claim or claims, the examiner may set forth such reasoning. This shall be incorporated into an Office action rejecting other claims of the application or be the subject of a separate communication to the applicant. The applicant may file a statement commenting on the reasons for allowance within such time as may be specified by the examiner. Failure to file such a statement shall not give rise to any implication that the applicant agrees with or acquiesces in the reasoning of the examiner.

14. In § 1.175 paragraph (a) is revised to read as follows:

§ 1.175 Reissue oath or declaration.

(a) Applicants for reissue, in addition to complying with the requirements of the first sentence of § 1.65, must also file with their applications a statement under oath or declaration as follows:

(1) When the applicant verily believes the original patent to be wholly or partly inoperative or invalid, stating such belief and the reasons why.

(2) When it is claimed that such patent is so inoperative or invalid "by reason of a defective specification or drawing," particularly specifying such defects.

(3) When it is claimed that such patent is inoperative or invalid "by reason of the patentee claiming more or less than he had a right to claim in the patent," distinctly specifying the excess or insufficiency in the claims.

(4) When the applicant is aware of prior art or other information relevant to patentability, not previously considered by the Office, which might cause the examiner to deem the original patent wholly or partly inoperative or invalid, particularly specifying such prior art or other information and requesting that if the examiner so deems, the applicant be permitted to amend the patent and be granted a reissue patent.

(5) Particularly specifying the errors or what might be deemed to be errors relied upon, and how they arose or occurred.

(6) Stating that said errors, if any, arose "without any deceptive intention" on the part of the applicant.

* * * * *

15. Section 1.176 is revised to read as follows:

§ 1.176 Examination of reissue.

An original claim, if re-presented in the reissue application, is subject to reexamination, and the entire application will be examined in the same manner as original applications, subject to the rules relating thereto, excepting that division will not be required. Applications for reissue will be acted on by the examiner in advance of other applications, but not sooner than two months after announcement of the filing of the reissue application has appeared in the Official Gazette.

16. Section 1.194 is revised to read as follows:

§ 1.194 Oral hearing.

(a) An oral hearing should be requested only in those circumstances in which the appellant considers such a hearing necessary or desirable for a proper presentation of his appeal. An appeal decided without an oral hearing will receive the same consideration by the Board of Appeals as appeals decided after oral hearing.

(b) If appellant requests an oral hearing, an oral argument may be presented by, or on behalf of, the primary examiner if considered desirable by either the primary examiner or the Board.

(c) If no request for oral hearing has been made by the appellant, the appeal will be assigned for consideration and decision. If the appellant has requested an oral hearing, a day of hearing will be set, and due notice thereof given to the appellant and to the primary examiner. Hearing will be held as stated in the notice, and oral argument will be limited to twenty minutes for the appellant and fifteen minutes for the primary examiner unless otherwise ordered before the hearing begins.

17. Section 1.196 is amended by adding new paragraph (d) to read as follows:

§ 1.196 Decision by the Board of Appeals.

* * * * *

(d) Although the Board of Appeals normally will confine its decision to a review of rejections made by the primary examiner, should it have knowledge of any grounds for rejecting any allowed claim that it believes should be considered, it may include in its decision a statement to that effect and remand the case to the primary examiner for consideration thereof. In such event, the Board shall set a period, not less than one month, within which the applicant may submit to the primary examiner an appropriate amendment, or a showing of facts or reasons, or both, in order to avoid the grounds set forth in the statement of the Board of Appeals. If the primary examiner rejects the previously allowed claim or claims on the basis of such statement, the applicant may appeal to the Board of Appeals from the rejection. Whenever a decision of the Board of Appeals includes a remand, that decision shall not be considered as a final decision in the case, but the Board of Appeals shall, upon conclusion of the proceedings before the primary examiner on remand, either adopt its decision as final or render a new decision on all of the claims on appeal, as it may deem appropriate.

18. Section 1.291 is revised to read as follows:

§ 1.291 Protests and prior art citations by public.

(a) Protests against pending applications will be acknowledged and referred to the examiner having charge of the subject matter involved. A protest specifically identifying the application to which the protest is directed will be entered in the application file and, if timely submitted and accompanied by a copy of each prior art document relied upon, will be considered by the examiner.

(b) Citations of prior art and any papers related thereto may be entered in the patent file after a patent has been granted, at the request of a member of the public or the patentee. Such citations and papers will be entered without comment by the Patent and Trademark Office.

(c) Protests and prior art citations by the public and any accompanying papers should either (1) reflect that a copy of the same has been served upon the applicant or patentee or upon his attorney or agent of record; or (2) be filed with the Office in duplicate in the event service is not possible.

19. In § 1.292 paragraph (b) is revised to read as follows:

§ 1.292 Public use proceedings.

* * * * *

(b) The petition and accompanying papers should either (1) reflect that a copy of the same has been served upon the applicant or upon his attorney or agent of record; or (2) be filed with the Office in duplicate in the event service is not possible. The petition and accompanying papers, or a notice that such a petition has been filed, shall be entered in the application file.

20. Section 1.346 is revised to read as follows:

§ 1.346 Signature and certificate of attorney.

Every paper filed by an attorney or agent representing an applicant or party to a proceeding in the Patent and Trademark Office must bear the signature of such attorney or agent, except papers which are required to be signed by the applicant or party in person (such as the application itself and affidavits or declarations required of applicants). The signature of an attorney or agent to a paper filed by him, or the filing or presentation of any paper by him, constitutes a certificate that the paper has been read; that its filing is authorized; that to the best of his knowledge, information, and belief, there is good ground to support it, including any allegations of improper conduct contained therein; and that it is not interposed for delay.

Effective date: These amendments become effective on March 1, 1977, except for §§ 1.51, 1.97, 1.98, and 1.99 which become effective on July 1, 1977, and §§ 1.65 and 1.69 which become effective on January 1, 1978.

Dated: January 18, 1977.

C. MARSHALL DANN,
Commissioner of Patents and Trademarks.

Approved: January 19, 1977.

BETSY ANCKER-JOHNSON,
Assistant Secretary for Science and Technology.

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Technical Scope Determination of Japanese Patent Considering its File History

Committee 1
Group 2
Chairman: Naoki Kyomoto
Speaker: Yukihiro Yamada

1. Introduction

As the speaker of our nine-member study group, it is my great pleasure to present this report on its study.

Our study subject is determination of the technical scope of a Japanese patent considering its file history. Under this theme, our group studied court decisions in relevant cases in Japan, the opinions of courts of justice on such cases and recent trends in court decisions. We attempted to compare them with the doctrine of file wrapper estoppel in the United States.

2. Relationship between the Interpretation of Article 70 of the Japanese Patent Law and the Consideration of File History

We understand that the United States is a country of case law and interpretation of claims by a court of justice is regulated by legal doctrines established through the accumulation of many cases in the past. We are aware that the doctrine of "file wrapper estoppel" in the United States, together with "the doctrine of equivalents," is an important doctrine concerning the interpretation of claims which is almost completely established in the United States.

However, Japan is a country of written law and, although there have emerged views identical with or similar to file wrapper estoppel in the United States, they are yet to be established as a legal doctrine.

Article 70 of the Japanese Patent Law provides for the interpretation of claims. The article reads that "The technical scope of a patented invention shall be determined on the basis of the description in the scope of demand for patent in the specification attached to the application document."

When a Japanese court tries a case of infringement to determine whether the accused product belongs in the

technical scope of a patented invention, it needs to determine the technical scope of the patented invention as an important part of the examination before giving a decision.

Determination of the technical scope of a patented invention can be regarded as determination of the scope of protection of the patented invention. Since such determination is made on the basis of the description of"the scope of demand for patent," namely, the claim, the claim language is the first consideration in determining the technical scope of a patented invention. There is hardly any divergence of opinion on this point.

However, in determining the technical scope of a patented invention, what else should or can be considered in addition to the description of the claim is a matter of interpretation of Article 70 of the Patent Law-- a problem that requires the assistance of theories and cases.

Consideration of "the detailed description of an

invention" and "necessary drawings attached," as data to understand the claim clearly, in addition to the description of the claim, is an established principle adopted by the Japanese court of justice as a way to determine the technical scope of the patented invention.

However, concerning determination of the technical scope of a patented invention, there are various views, including negative ones, as to whether the prior art at the time of filing should also be considered as a matter of course, or supplementally.

Similarly, there are various opinions, including negative ones, as to whether recorded proceedings in the Japanese Patent Office during the prosecution of a patent application should be considered as a matter of course, or supplementally, in determining the technical scope of a patented invention. This is a difficult question.

Recorded proceedings in the Japanese Patent Office during the prosecution of a patent application generally include (a) specification as filed, (b) amendments

(amended specification and drawings), notice of rejection, remarks, opposition and reply to the opposition, and (c) documents of the first application in a Convention priority application. (Note 1)

However, our study group has decided to introduce cases that considered the contents of amendments, remarks and replies to the opposition made by applicants to obtain the allowance, from the standpoint of considering them in comparison with file wrapper estoppel in the United States.

3. File Wrapper Estoppel in the United States

Before introducing cases in Japan that considered recorded proceedings in the Japanese Patent Office during the prosecution of patent applications, I would like to touch briefly on the doctrine of file wrapper estoppel in the United States as understood by our

(Note 1) As for the question whether the foreign application which forms the basis of priority, should be considered in case the claim of an application in Japan is not clear, there are many cases that reject it for reasons of the principle of mutual independence of patents.

study group.

If we understand it correctly, file wrapper estoppel in the United States has the following two types of applications.

One can be called file wrapper estoppel in a narrow sense. This is the typical file wrapper estoppel. The other is file wrapper estoppel other than the first one. File wrapper estoppel broadly includes both types.

(A) Typical file wrapper estoppel

This is the type of file wrapper estoppel that comes into play when a patentee attempts to prove an infringement of his patent by relying on the doctrine of equivalents, when the accused product is outside the coverage of the claim language, but the file history shows that the original claim was narrowed to avoid the prior art cited by the examiner. Our study group calls it typical file wrapper estoppel for convenience' sake.

(B) Other type of file wrapper estoppel

This is the type of file wrapper estoppel other

than the typical one and our study group calls it the other type of file wrapper estoppel for convenience' sake.

An example of this type of file wrapper estoppel is that the patentee's arguments presented to the Patent Office to avoid the prior art create material limitations. Namely, the patentee is estopped to accuse others of infringement in terms of the claim language when the definition affecting such claim language is found in the file wrapper.

We, therefore, understand that file wrapper estoppel in a broad sense, which includes both the typical file wrapper estoppel, and the other file wrapper estoppel, is in fact a doctrine that works to prohibit a patentee from making a narrow interpretation of his invention before the Patent Office and a broad interpretation before the courts.

4. Introduction of Cases in Japan

Now, let me introduce some Japanese decisions on

cases of infringement that considered file history.

4.1 29th Civil Affairs Division, Tokyo District Court

Case No. (Wa)1536 of 1968

Decision given on January 31, 1972

-- Insecticide Compound Case --

This case concerned a dispute over a carrier used by the defendant that allegedly was the equivalent of one of the five carriers for a patented insecticide compound.

The claim as filed read "solid retardative insecticide compounds that contain dimethyl-2,2-dichlorovinylphosphate (DDVP) in a state of mixture in solid-state organic macromolecules." It was found that the solid-state organic macromolecules mentioned above had been definitely limited by amendment to "solid as well as nonwater-soluble plastic macromolecules with a molecular weight of more than 1,000 that are selected from among polyvinyl chloride, polymethacrylate, polystyrene, styrene-arylalcohol-copolymer resin and disacrylic

resin" and that substances other than the five had been deliberately excluded from the claim although a broader expression could have been used during the prosecution of the application. Therefore, it was judged that the chlorinated polyethylene used by the defendant could not be recognized as the equivalent of the patented carriers.

In short, this case is an example in which the claim as filed was narrowed too much in order to obtain the allowance and the patentee's subsequent attempt to interpret it in a broad sense by claiming equivalence was rejected in the light of file history. We consider it a Japanese case that corresponds to typical file wrapper estoppel in the United States.

4.2 21st Civil Affairs Division, Osaka District Court

Case No. (Wa)4888 of 1975

Decision given on March 2, 1977

-- Onion Net Case --

This was a case of knit onion nets made of polyethylene filaments in which the dispute concerned the

claim language of a utility model right that recited "polyethylene monofilaments having a thickness in the neighborhood of 400 deniers (400 denier "CHUSHIN" in Japanese)." The claim as filed recited "synthetic resin monofilaments of suitable thickness." In the amendment made after receiving a notice of rejection, the claim was amended to limit the filaments to "polyethylene monofilaments having a thickness in the neighborhood of 400 deniers." Further, in his remarks, the applicant argued that "the point of this utility model is in the selection of the most suitable filaments from among publicly known polyethylene monofilaments at the time of filing, by considering four items, namely, the thickness of filaments, the width of machinery, the number of needles and texture." It was noted that the utility model had thus been registered.

It was judged that the meaning of the expression "in the neighborhood of " be interpreted in a narrow sense and, although the thickness of the filaments was not required to be exactly 400 deniers, the tolerance limits were about 10 per cent more or less and, therefore, accused filaments of 300-350 deniers were not included.

In this case, the claim as filed was later amended to limit its scope to avoid prior art and the dispute concerned whether the accused product infringed the amended claim. This is not an instance insisting on equivalence, but an instance in which the scope of the amended claim was determined narrowly in the light of file history. We regard it as an instance similar to the other type of file wrapper estoppel in the United States.

4.3 29th Civil Affairs Division, Tokyo District Court

Case No. (Wa)3746 of 1964

Decision given on March 25, 1970

--- Vinyl Cloth Case ---

The dispute concerned the top coat stage described in the plaintiff's claim whereby "specific cloth is laid on one side of a plastic resin film just produced by the calender method." The defendant used readymade polyvinyl chloride resin films in the top coat stage.

The plaintiff argued that the two methods mentioned above were equivalent. However, the judge gave the

following decision. The use of just produced plastic resin films in the top coat stage was a main element of composition of his invention as argued by him in his reply to the opposition to the patent and reply to the trial for invalidation, and it excluded laminating and splitting methods using ready made films. It was clear therefore, that the top coat stage of the patented invention was limited to the stage of using just produced films by the calender method.

In this case, there was no amendment to the claim and the patentee tried to interpret his claim broadly by insisting on equivalence. However, the decision did not allow an expanded interpretation in the light of its file history which showed that, in order to avoid the prior art cited, the patentee had argued the exclusion of the part for which he was now claiming equivalence was a feature of his invention. This case can be regarded as corresponding to file wrapper estoppel in a broad sense in the United States.

The above-mentioned cases Nos. 4.1～4.3 are all examples in which the consideration of file history

directly affected the interpretation of claims
The following two cases are different from the above-mentioned three cases in that the consideration of file history played a supplementary and not a decisive role.

4.4 29th Civil Affairs Division, Tokyo District Court

Case No. (Wa)9786 of 1971

Decision given on February 15, 1974

-- Cigarette Lighter Case --

The dispute concerned the portion of the claim of the plaintiff's utility model right that "the container of the flint is supported on the supporting axis("SHIJIKU NI JIKUSETSU " in Japanese) of the circular flint fitted in the upper part of the lighter." The plaintiff argued that ingenuity was not required of one of ordinary skill in the art to choose either a rotatable or non-rotatable container relative to the supporting axis and, therefore, the two containers were equivalent. On the expression "supported on the axis," the judge hold that an axis "generally implied the revolution of a rotating body and, therefore, it suggested that the container could turn on the supporting axis of the

circular flint. He also said that the detailed description of the invention contained an expression to prove it and that there was no expression to include a non-rotatable container. Moreover, the judge noted the plaintiff's assertion in his remarks submitted in reply to the notice of rejection that "the container in the invention is rotatable and the flint can be replaced with ease by simply removing it sideways, whereas the product cited is non-rotatable and its flint cannot be changed easily " and judged that the non-rotatable product of the defendant was not included in the claim of the plaintiff.

4.5 29th Civil Affairs Division, Tokyo District Court

Case No. (Wa)1457 of 1972

Decision given on June 23, 1975

--- Expandable Wig Case ---

The claim of the plaintiff's utility model right covered "the structure of the expandable wig made of hair planted in a netlike wig base of expandable threads knitted or woven." On the other hand, the wig of the defendant was made of a head-gear-like wig base

made up partly of expandable threads and partly of non-expandable threads both knitted or woven. The plaintiff argued that his right was not limited to wig bases made of only expandable threads.

However, the judge said that the plaintiff's argument was not sustainable in the light of the detailed description in the specification.

Moreover, the judge concluded that, in the light of the plaintiff's argument in his remarks on the notice of rejection, the netlike wig base was made highly expandable by using freely expandable threads like rubber threads so that it could fit the size and shape of the user's head and stick fast to it. He thus rejected the plaintiff's demand for damages.

The above-mentioned two cases -- Nos. 4.4 and 4.5 -- are examples which show that while the claim can be interpreted from the claim language and the detailed description in the specification, the propriety of the interpretation can be confirmed by considering its file history. They are typical

examples of consideration of file history in Japan.

It is a very interesting and noteworthy fact that views identical with or similar to file wrapper estoppel in the United States were reflected in some cases in Japan, as is evident from the examples already mentioned.

5. Our Study Group's Comments

Japanese courts tend to consider file history in determining the technical scope of patented inventions.

Our study group, therefore, would like to make the following comments.

5.1 Matters to be noted by applicants

In Japan, as it may be the case in the United States too, an applicant tends to limit his claim more than is needed to make a clear distinction between his invention and the prior art cited by the examiner in the notice of rejection, or the prior art cited by

the opposer, in his eagerness to obtain a patent. Also, he tends to overemphasize the features of his invention to distinguish over the prior art in his detailed description of the invention or in his remarks or reply to the opposition. All this has the danger of providing a ground for narrowing his invention, by interpretation, to cover only the embodiments described in the specification.

In infringement cases, there is much fear in Japan, as in the United States, that the defendant's argument relying on file history may lead to a court decision unfavorable to the patentee.

5.2 Matters to be noted by parties concerned

In case of an infringement case in Japan, it will be helpful for the defendant to study thoroughly the file history of the patent involved in order to find out estoppel on the part of the applicant and cite it positively in court as a defense.

We also think that it is worth considering for

parties concerned, including competitors of the applicant for a patent, to take preventive or offensive steps in advance so that a court will consider file history and will not allow the patentee to interpret his claim in a selfish manner in case of a possible dispute.

As you know, in Japan, there is a system for publication of applications and opposition, and it is possible to take steps in advance by taking full advantage of this system so that the claim of a competitor's patent will be interpreted in a narrow and limited sense. In the opposition procedures, the applicant usually attempts to impress the examiner with the features of his invention by submitting an amendment or reply to the opposition in order to overcome the prior art cited by the opposer. Therefore, it will serve to prevent a patentee's possible attempts in the future to stop the production and sale of product of a competitor by interpreting his right in a broad sense, if the competitor thus causes estoppel to occur during the prosecution of the patent application by means of fair but skillful tactics by taking

this kind of psychology of an applicant into consideration.

6. Conclusion

As I have reported, the view that an attempt to interpret the claim of a patent narrowly before the Patent Office and broadly before the courts is an insincere and intolerable attitude has been gaining support gradually in Japan. There is now a tendency to consider file history when a court determines the technical scope of a patented invention, that is, in the interpretation of its claim.

I would like to repeat that, in Japan, there is no established legal doctrine for consideration of file history. There are cases that show a negative view on consideration of file history. (Note 2)

(Note 2) Toyama District Court, Case No. (Wa)30 of 1966. Decision given on September 7, 1970
-- Melamine Resin Case --

29th Civil Affairs Division, Tokyo District Court, Case No. (Wa)10375 of 1971. Decision given on September 18, 1972
-- Golf Glove Case --

It is expected that a doctrine of considering file history will become established in Japan in the future through the accumulation of cases that considered file history. Therefore, our study group will continue to watch the trends.

I hope that our report will be of some use to you. Thank you for your kind attention.

THE CORPORATE PATENT LAWYER IN AN INTERNATIONAL ENVIRONMENT

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AS FORTUNE IS VARIABLE AND MEN FIXED IN THEIR WAYS, MEN WILL PROSPER SO LONG AS THEY ARE IN TUNE WITH THE TIMES AND WILL FAIL WHEN THEY ARE NOT.

Machiavelli
"The Prince"

The serene years immediately following World War II, when the practice of patent law in a corporate setting was a relatively tranquil exercise, have long since passed. The corporations which we serve have expanded their interests and their influence throughout the non-Communist world to a point where their patent law staffs are as deeply involved in the conduct of affairs outside their native countries as they are locally and in many cases, more so.

The economic success of the multinational corporations has brought with it the challenge of managing industrial property rights on an international basis, a task which is intimately interwoven with research and product development. With the increase in the number of far-flung subsidiaries and the growth of their autonomy have come problems of logistics in transfer of technology between parent and subsidiary and from subsidiary to subsidiary.

Superimposed on the difficulties of monitoring adequate coverage of corporate innovation worldwide have been the

increasingly strident calls from spokesmen for the underdeveloped countries demanding the abolition of all international barriers that hinder their access to the fruits of scientific and technological progress.

Thus, the corporate patent lawyer has been in a state of transition during the past decade. He has moved from the parochialism of his domestic habitat to the complexities of the international scene -- from the peaceful pastures of his own country and a legal system with which he is comfortable and familiar into an uncertain arena where he must not only guide the technology of his own company into safe legal harbors, but also cope with a belligerent adversary whose uncompromising objective is to destroy the very system which has done so much to aid world economy.

Times have changed, and with this change have come increased responsibilities and more demanding challenges. The awareness of change, its articulation to corporate management, its integration into company research and development, and its ventilation in suitable forums -- these are, or should be, the tasks of the corporate patent lawyer today.

Privately financed research and development spending in the three most highly industrialized nations of the world--Japan, Germany, and the United States--is increasing year to year. In the United States, for example, a recent BUSINESS WEEK survey of 600 companies shows spending at the $16 Billion level in 1976, an

increase of 11.6% over the previous year (1). Total United States R&D spending, industrial plus government, amounted to $38 Billion for the same period. Of that, industry's $16 Billion accounted for 43%, while government sources supplied 52%, or $23.6 Billion. Since 52% of government R&D is done by contractors, private industry performs about 70% of all R&D in the United States, equal to $26.7 Billion last year.

In 1977, according to the National Science Foundation, aggregate U.S. spending for R&D will come to $40.8 Billion, 9% above the 1976 level of $37.3 Billion (2). If one applies the 70% figure of 1976 to 1977, this means private industry in the United States will account for $28.5 Billion in R&D this year.

Are these increased appropriations correspondingly reflected in the number of patents issued to U.S. residents? Apparently not. Recent figures from the United States Patent and Trademark Office show that patents obtained by American inventors dropped from 54,960 in 1973 to 47,921 in 1976...a decrease of 12.8%. On the other hand, the number of patents obtained by non-citizens in the same period has increased from 23,344 to 26,789... a rise of 14.7% (3) -- mostly by citizens of Japan and Germany. The accelerated pace of patent acquisitions by the Japanese and Germans in the past decade has been nothing short of spectacular. In 1950, Japanese residents received fewer than 100 U.S. patents; in 1976 nearly one out of every 10 U.S. patents issued was granted to residents of Japan. Germany's resurgence has been equally

dramatic--its citizens hold the highest percentage of U.S. patents issued to any single foreign country. Taken together, the residents of Germany and Japan received almost one-fifth of all U.S. patents issued in 1976 (4).

It is being argued in some quarters (3) that the slide in the number of U.S. patents being issued to U.S. citizens shows that American research and development effort is moving downward. As proof, the example is given of five industries representing 81% of American industrial investment in technological information--electrical equipment and communications, aircraft and missiles, professional and scientific instruments, machinery and chemicals--which purportedly reflect drops in R&D intensiveness. Private investment in these five industries is drying up, the argument goes, and a way must be found to provide investment capital to support promising inventions and innovations and to solve the exceedingly difficult technical problems we are faced with today.

But other data (1) appear to show that the present rate of capital spending on R&D is adequate. American businesses in the above five industries spent, on the average, 10.3% more on R&D in 1976 than in 1975. The electrical and electronics industry alone accounted for a 13.1% upward change from 1975.

As for product innovation, it is well known (5) that organizational factors and cultural traits have given United States multinationals the lead in the delivery of higher technology from

the laboratory to the marketplace in such industries as pharmaceuticals, machinery, and office equipment. This is especially true with respect to overseas markets, where close ties between researchers and local managers have allowed scientists to follow their inventions from the bench through the pilot stage to market testing and ultimate commercialization.

Assuming that funding is adequate and that intracorporate transfer of technology is functionally effective, what then accounts for the drop in U.S. patent productivity by U.S. citizens? Are there any lessons to be learned from our Japanese and German colleagues who have consistently demonstrated the ability to produce an output of patents commensurate with rising R&D appropriations?

I suggest that the corporate patent lawyer, through front-line involvement in the research and development function, can contribute substantially to industrial patent output. By participating in the research program from its inception when it is first postulated and before effort is directed to its implementation he can, and should, make valuable suggestions on alternate courses of action, on variations to approaching the solution of problems, and on improvements to basic research proposals. In the usual case, several alternative routes are available to the researcher to attain his objective. Since it is impractical to test all conceivable approaches, a choice must be made (6). In making the selection several factors are taken into consideration -- for example, time, cost, and probability of success. An

added element is, of course, patentability and the collateral issue of infringement. It is far less rewarding to go forward with a research program which would lead to results that cannot be protected than with one which lends itself to patent coverage. Worse, it is calamitous to engage in costly research which when concluded yields products or processes which conflict with the patents of others.

Once a research program is elected, the presence of the patent lawyer throughout its course is an absolute desideratum. His participation is essential in the decision-making process regarding the solution of unexpected problems, shifts in research direction, expansion or reduction in the scope of projects, timeliness of filing patent applications, coverage of patentable subject matter, selection of countries for international filing, evaluation of coverage obtainable in countries outside his own, and adaptation of products and processes to the idiosyncracies and limitations of the foreign marketplace and local manufacture.

During the course of a given research program, the researcher has several alternatives available to him...some of which he pursues, others he tends to discard (6). The skilled patent lawyer will foresee the danger of abandoning alternates which could be used by competitors and will place patent obstacles on all collateral paths which may be appealing. He cannot do so, nor can he himself suggest viable patentable alternatives, unless he follows the research program from the beginning step by step.

Thus the patent lawyer must be at the core of corporate R&D activity, not at its periphery. He must be part of the research process, not a distant adjunct to it. He must share with research personnel the responsibility for timely research direction, not merely respond to mysterious, isolated questions posed to him in a vacuum. Ideally, if well informed and continuously involved, the corporate patent lawyer should anticipate problems, guard against imprudent courses of action, and obtain effective patent coverage on corporate inventions. His role in the research team should be that of a member rather than an invited guest.

Let us view the question of the significance of increasing numbers of U.S. patents being issued to non-residents from another attitude and assume that the trend is a measure of the increased technological confidence of foreign countries and is evidence of the conviction of other nations that a considerable market exists in the United States for foreign technology (7). It is significant that the two countries which are building such strong patent portfolios in the United States--Japan and Germany--have developed considerable skill in integrating their own technological strengths with imported technology and in coupling these technologies to their national economic systems. In effect, U.S. industry has fueled technological development in foreign countries with little return flow being evident.

Japanese industrialists have been extremely resourceful in realizing benefits from the importation of foreign technology.

For example, their success in consumer electronics is predicated on their importation from the United States over a period of many years the basic building blocks of these products--viz., solid state devices and integrated circuits (7). The Japanese objective was not the duplication of U.S. technology, but improvements upon it to realize successful innovations. Furthermore, Japan has had, and still has today, the highest portion of its R&D funded by private industry of any industrial country of the world (8). Recent figures show that nearly 25% of Japanese R&D on basic research is related to imported technology, compared to 15% in the United States (7).

Are there any lessons to be learned from the Japanese experience which has so neatly transferred foreign technology into commercially successful innovations, and can the corporate patent lawyer participate in this equation? I suggest to you that there are, and he can.

It has been argued that most U.S. multinationals are organized in such a way as to reflect an operational philosophy based on minimizing risk and increasing profits (9) and that, realistically, the performance of the industrial manager is measured against the return on investment achieved by his division. The typical U.S. manager, it is said, tends to shun risky ventures which do not offer the opportunity for a pay back within the reasonably near term because of his preoccupation with short-term gains. This dichotomy between short-term profits and long-term risks purportedly discourages technological innovation in the United States (10).

It may be timely, and indeed necessary, for American industry to strike a balance between short-term profits and long-term potential; to make investments in the future; to indulge in visionary management. The strategies of the Japanese who skillfully and ingeniously build upon basic technologies derived from countries foreign to their own are classic case book teachings, to be learned from and followed. Just as the outward flow of U.S. technology has improved and sharpened Japanese industrial competitiveness, the development of a technology feedback link into the United States would stimulate industry into upgrading its technological competitiveness and innovative skills (7).

In establishing such international links, it would behoove research managers, as well as generalists, to avail themselves of the skills of the corporate patent lawyer whose first-hand access to a vast array of international patent literature in the specialty assigned to him makes him peculiarly suited to advise management on early published foreign technology. In his role as a member of the research team, he can readily become part of a delivery system which translates international scientific and technological know-how into competitive goods and services.

Finally, I should address the issue of abrogation of industrial property rights, especially in the pharmaceutical field. For nearly two decades the drug industry has suffered an unmerciful pounding at the hands of well-meaning social revisionists seeking to remove classical barriers to technology transfer

which are the fruit of costly and risk-burdened research. In doing so, they have succeeded in abolishing or drastically weakening the legitimate exclusivity of patents and trademarks in various developing countries and in some industrialized nations (11). For example, Brazil abolished drug patents in 1971. In Colombia the general term of patents has been reduced to 8 years from grant, renewable once for 4 years if the invention is locally exploited. Italy has not had drug patents for humans since 1939, although this may change upon ratification of the European Patent Convention. In February, 1976 Mexico reduced the patent term to 10 years from grant and completely abolished patents on drugs, alloys, foodstuffs, herbicides, and nuclear energy devices. Canada has recently decried its patent law, and a proposal which would severely restrict patent protection in that country emerged from the Department of Consumer and Corporate Affairs. A spirited response from Canadian industry and bar groups prompted government proponents to reassess the matter and to back away from many of the more contentious issues, but some form of new patent legislation is expected to be enacted within two years.

On the international level, serious attempts are being made to emasculate the world patent convention by granting more favorable treatment to developing countries. These proposed revisions of the Paris Convention would grant citizens of developing countries preferential treatment over citizens of developed countries, would ease restrictions on freedom in the

national laws of the developing countries from those required by the Paris Convention, would accord inventors' certificates a status comparable to patents, and would impose on developed nations a code of conduct for transfer of technology to underdeveloped countries.

Attacks on national patent systems and international patent treaties are but part of a larger assault on multinationals by developing countries. No longer is the answer accepted that the power of industrial and commercial enterprises is producing a vast national benefit (12). Although multinationals have been extraordinarily successful in meeting the needs of people throughout the world, they have failed to articulate their contributions to national economies (13).

Intellectuals, distinguished members of the patent bar, academicians, and corporate patent lawyers are trying desperately to defuse the explosiveness attached to the issues, and to inject some objectivity into a controversy which at times appears to be somewhat lopsided in favor of radical change. It is essential to convince national and international bodies that a viable patent system is the ideal framework upon which to build a dynamic and orderly procedure for access to international technology, but movement in this direction has been neither impressive nor encouraging.

The time may be at hand to enlist the aid of those with whom we as corporate patent lawyers are involved in the practice

of our profession--namely, the scientists whose work product it is our duty to protect, and the managers who are responsible for profitably exploiting technological innovations. It is our task to keep corporate managers informed of our problems on a current basis so that they can readily appreciate the difficulties of dealing in these matters and to enable them to join the debate on their own level and in their own assemblies.

We have an obligation to apprise those who employ us of the dangers inherent in the destruction of the patent system. Corporate scientists should be encouraged to become more active in public forums, laying out the facts, and helping to formulate and clarify issues. Industrial managers should have an aggressive and clear-headed attitude toward patent legislation.

Assuming that management does take a positive attitude toward the patent system, it should follow developments not only of domestic laws but also of international agreements (6) to strengthen the patent system, to modernize it, to eliminate problems of procedure, and--most importantly--to moderate the excessive polemics of technocrats in underdeveloped countries aimed at an international convention which, on balance, has been economically beneficial to all.

A genuine effort must be made to attenuate extremist and discriminatory legislation. The corporate patent lawyer, together with his scientific and management colleagues, can make a meaningful contribution to the preservation of a system which has

been extraordinarily effective in creating a worldwide technological base from which future inventions and innovations can be derived.

We bear witness to difficult times in the field of industrial property rights. More than that, we are participants in a struggle for their survival. The task is not ahead of us, it is upon us. We can accomplish it by working together; by enlisting the aid of all who would pay attention to our warnings; and by engaging in fair and objective dialogue with those who would destroy this valuable international asset.

"The time is out of joint;
O cursed spite,
That ever I was born to set it right!
Nay, come, let's go together."

HAMLET
Act I, Scene 5.

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CHANGE OF GIST OF INVENTION IN AMENDMENT OF SPECIFICATION

Japanese Group, Committee 1, Group 3
Chairman: Yoshihiko Kachu
Speaker: Toshiharu Kawase

I. In Japan, the prior application principle is adopted. Accordingly, an applicant often is too hasty in filing a patent application, and a complete specification is not always prepared at the time of filing the application. Therefore, in Japan, the applicant often has to amend the specification voluntarily or under instructions from the Patent Office.

Amendments concerning the content of an invention will have great influences on third persons according to the time when the amendments are effected or to the natures of the amendments. Therefore, the Patent Law imposes restrictions on the time and content of such amendment.

Restrictions imposed on amendments differ greatly depending on whether the amendments are effected before despatch of a certified copy of decision of publication (amendments before decision of publication) or after despatch of such certified

copy (amendments after decision of publication).

More specifically, before decision of publication, an applicant is allowed to freely make amendments within the scope of the as-filed specification and drawing, and an amendment to expand, reduce or change the scope of the claim is regarded as not changing the gist of the specification (deemed to the equivalent to the gist of the invention).

On the other hand, after decision of publication, an applicant is allowed to make amendments only when the matter as mentioned in the following is an object:

(1) Reduction of the scope of the patent claim;

(2) Correction of a mistake; and

(3) Clarification of an ambiguous statement.

Moreover, such amendments should not be to substantially expand or change the scope of the patent claim. In case of an amendment (1), it is stipulated that an invention defined by the amended claim should be such as may be patented independently at the time of filing the patent application. This restriction is similarly imposed in an amendment trial instituted after a patent has been granted.

Similar restrictions are imposed on amendments of a utility model application according to the Utility Model Law, and explanations given hereinafter with respect to an invention will similarly apply to a utility model.

II. As the standard for judging whether or not an amendment made before decision of publication comes under the change of the gist of the specification, an examination standard entitled " CHANGE OF GIST OF SPECIFICATION " has been prepared and published by the Patent Office.

According to this examination standard, it is stipulated that in the case where an amendment of the specification or drawing exceeds the scope of the technical matter disclosed in the specification or drawing lodged at the time of filing the application (the as-filed specification or drawing), the amendment is regarded as changing the gist.

The above examination standard clarifies that the following matters are taken into consideration in judging whether or not an amendment comes under the change of the gist.

(1) The judgement is made only based on the

as-filed specification or drawing.

(2) Not only the matter literally described but also the matter obvious to those skilled in the art from the description of the as-filed specification is regarded as the matter described in the specification. Even when the description of the patent claim is not altered, if the technical matter set forth in the claim is substantially changed by an amendment made on the text of the specification, the amendment is regarded as changing the gist.

(3) Also with respect to an amendment of adding or changing the object, effect or use of the claimed invention, whether or not the amendment comes under the change of the gist of the specification is judged based on whether or not the technical matter set forth in the patent claim is substantially changed by the amendment.

A third person cannot know a specific judgement base relied on by the Examiner in judging whether or not an amendment effected before decision of publication comes under the change of the gist, unless the file history of the application is inspected. Moreover, if an amendment made before decision of

publication is judged as changing the gist, the applicant is allowed to file a patent application for the amended invention, and in this case, the date on which the amendment was effected is regarded as the filing date of the new application. Accordingly, the number of litigations instituted on amendments made before decision of publication is relatively small.

III. Severe restrictions as mentioned hereinbefore are imposed on amendments made after decision of publication. The term " change of the gist " is not used in the Patent Law as regards amendments made after decision of publication, but the concept of " change of the gist " adopted in connection with amendments made before decision of publication is similarly adopted also with respect to amendments effected after decision of publication. Of course, amendments allowed after decision of publication are limited to those reducing the scope of the patent claim.

Judgements by the Patent Office and Courts on amendments made after decision of publication typically appear in decisions rendered in amendment

trials and trials for revocation of rejection of amendments.

The objects of amendment trials are as follows:

(1) In order to cope with a demand for revocation of a patent, an applicant deletes or corrects defects appearing in the patent specification or the drawing or clarifies the gist of the patented invention and eliminates invalidation grounds by reducing the scope of the patent claim.

(2) In order for a patentee to clarify the technical scope of the patented invention and inhibit a third person from infringing the patent right, mistakes or ambiguous descriptions appearing in the specification or drawing are corrected or revised.

I have examined decisions rendered in these ten years in connection with amendment trials, and I will now explain contents of some interesting and typical instances of these decisions.

[Case 1] Appeal No. 2373/65

Amendments of " a manganous compound containing a reducing anion " and " a synthetic linear polymer " to -- manganous hypophosphite -- and -- a polyamide --, respectively, in the title of the invention, the claim

and the detailed description of the invention in the specification of Patent No. 241,388 entitled " LIGHT-RESISTANT MOLDED STRUCTURE OF SYNTHETIC LINEAR POLYMER " were allowed as reduction of the scope of the patent claim, correction of mistakes and explanation of ambiguous statements.

The combination of a polyamide with manganous hypophosphite is specifically disclosed in Example 2 of the patent specification. Accordingly, it is deemed that this decision is reasonable.

The decision made no particular comments on differences of the effects between manganous hypophosphite and other deleted manganous compounds and between the polyamide and other deleted polymers.

As is seen from this case, in general, an amendment of reducing the scope of the patent claim by deletion is allowed if the specification has a support therefor.

[Case 2] Appeal No. 1962/69

In the specification of Patent No. 492,007 entitled " NOVEL INSECTICIDE ", the patentee wished to restrict the scope of a compound represented by the general formula in the claim by inserting a

limitation concerning the combination of groups represented by alphabetic symbols, and this amendment was allowed.

In the original patent claim, in connection with the general formula, the following limitation was specified:

" wherein R_1 and R_2 stand for a member selected from hydrogen and methyl and propenyl groups, R_3 and R_4 stand for a member selected from hydrogen, saturated alkyl groups having 1 to 3 carbon atoms and unsaturated alkyl groups having 3 carbon atoms, X is a member selected from oxygen and sulfur, and Y_1 and Y_2, which may be the same or different, stand for a member selected from hydrogen, a methyl group and chlorine."

In the amendment trial, the scope of the compound represented by the general formula is reduced by adding the following description after the above quoted description:

" with the proviso that when one of R_3 and R_4 is hydrogen and the other is a methyl group and when X is oxygen and both of Y_1 and Y_2 stand

for hydrogen, both of R_1 and R_2 stand for hydrogen or one of R_1 and R_2 is a propenyl group and the other stands for hydrogen or a methyl or propenyl group."

It is deemed that the decision allowing this amendment is reasonable.

[Case 3] Appeal No. 3265/71

In the specification of Patent No. 469,304 entitled " HEAD FEED FRAME FOR CASTING MOLD FOR PREPARATION OF INGOTS ", the patentee wished to amend " magnesite " to -- magnesia -- in the claim and the detailed description of the invention, and this amendment was allowed as explanation of an ambiguous statement.

Scientifically speaking, there is a clear distinction between the term " magnesite " indicating magnesium carbonate and the term " magnesia " indicating magnesium oxide. One literature reference lodged by the patentee in the amendment trial teaches that magnesite includes lightly burnt magnesite and heavily burnt magnesite and the latter magnesite is a substance composed mainly of magnesia. Another literature reference teaches that a calcination product of

magnesite is not called " magnesia " but called " magnesite " in the Great Britain and the United States. Accordingly, it will be understood that the term " magnesite " does not always indicate magnesium carbonate but it often indicates magnesium oxide.

In the specification of this patent, it is disclosed that magnesite as well as other refractory materials is used for formation of an inner mold of a head feed frame and it has such an excellent thermal stability that it does not cause any chemical change even when exposed to high temperatures. Therefore, it is apparent that generation of gases is not intended at all. Further, calcined dolomite, which is recited as well as magnesite, is a substance obtained by burning dolomite and it is excellent in the thermal stability and does not cause any chemical change even at high temperatures. Moreover, it is taught that the intended effects of the patented invention cannot be attained unless a particle size is maintained within a specific range in the respective refractory materials. Accordingly, it is reasonable to understand that " magnesite " is not deteriorated by the pouring operation, and therefore, it is unwarrantable

to judge that the term " magnesite " indicates magnesium carbonate. In view of a possibility that " magnesite " is used idiomatically as the term indicating " magnesia ", it is reasonalbe to interpret that the term " magnesite " used in the specification of this patent means -- magnesia --. Accordingly, the above amendment is to clarify the significance of " magnesite " and does not violate the stipulation of the Patent Law at all.

[Case 4] Appeal No. 7921/71

In the claim of the specification of Patent No. 609,761 entitled " PROCESS FOR DESULFURIZATION OF FLUE GASES ", the patentee wished to amend " molten sodium formate or molten potassium formate " to -- sodium formate or potassium formate in the liquid state --. However, this amendment was dismissed not as correction of a mistake but as substantial expansion of the scope of the patent claim.

In the detailed description of the invention in the specification of this patent, it is disclosed that in practising the invention, sodium formate or potassium formate that is used should not necessarily be a pure compound but it may be used in the form of

a liquid at a temperature lower than the melting point of the pure compound, which is formed by mixing the pure compound with water or other solvent. Accordingly, it is construed that the patentee intentionally resigned a part of the matter to be covered by the patent claim. Accordingly, it is apparent that " molten sodium formate or molten potassium formate " is not a mistake and it is admitted that the amendment of including an aqueous solution or other solution of sodium formate or potassium formate in the scope of the patent claim is to expand substantially the scope of the patent claim. In view of the fact that in the detailed description of the invention in the specification, it is taught that it is not preferred to use a solvent in such a large amount that a solution of sodium formate or potassium formate is formed, it is apparent that even the feature that has not been intended or has been excluded by the patentee will be included in the scope of the patent claim if the above amendment be allowed.

[Case 5] Appeal No. 1791/62 (Appeal No. Gyo-Ke 159/64; Appeal No. Gyo-Tu 46/66)

In the claim of Patent No. 299,669 entitled " PROCESS FOR PREPARATION OF RICE CAKE CUBES ", the patentee wished to amend " 3 to 5°F. " to -- 3 to 5°C. --, but this amendment was rejected as changing substantially the scope of the patent claim. This decision made by the Patent Office was supported by the Tokyo High Court and the Supreme Court.

The claim of this patent reads as follows:

" A process for the preparation of rice cake cubes which comprises freezing a rice cake at 3 to 5°F. for about 3 days, cutting the cake into cubes, once drying the cubes, then irradiating the cubes with infrared rays for a short time, roasting the cubes, spraying thereto salad oil which has preliminarily been boiled for a short time, sprinkling table salt and condiments to the cubes and drying them again. "

After registration of the patent, the patentee found that the description " 3 to 5°F. " throughout the claim and the detailed description of the invention is a mistake for " 3 to 5°C. ", and therefore, he lodged an amendment trial for the purpose of correcting

" ^{o}F. " to -- ^{o}C. --. However, the Patent Office judged that the specification has no description indicating that " 3 to 5^{o}F. " means -- 3 to 5^{o}C. -- and this limited temperature has significant influences on functional effects on rice cake, and the Patent Office rendered a decision to the effect that the amendment should be dismissed.

The patentee lodged an appeal for revocation of this decision with the Tokyo High Court, but the Tokyo High Court supported the decision rendered by the Patent Office on the ground that the demanded amendment drastically changes specific numerical values.

The patentee further lodged an appeal with the Supreme Court, but the appeal was dismissed on the following grounds:

(1) The judgement as to whether or not an amendment comes under " substantial expansion or change of the scope of the patent claim " stipulated in Paragraph 2, Article 126 of the Patent Law should be made based on the description of the claim in the specification.

(2) The description " 3 to 5^{o}F. " appearing in the claim is quite clear by itself and is not a description such as can be understood only in the

light of other descriptions appearing in the specification.

(3) The amendment of " 3 to 5°F. " to -- 3 to 5°C. -- in the claim is prejudicial to profits of third persons who put confidence on the matter set forth in the claim of the specification, and is deemed to expand substantially the scope of the patent claim and hence, should be dismissed.

[Case 6] Appeal No. 492/64 (Appeal No. Gyo-Ke 11/65; Appeal No. Gyo-Tu 1/66)

An amendment of the description of the claim in the specification of Patent No. 270,224 entitled " PROCESS FOR PREPARATION OF PHENOTHIAZINE DERIVATIVES " was not allowed as substantially expanding the scope of the patent claim though it was admitted that the amendment is to correct a mistake. This decision was supported by both the Tokyo High Court and the Supreme Court.

The demanded amendment is one relating to the definition of a symbol appearing in the general formula representing the starting compound to be used for chemical reaction. More specifically, it was requested to amend " branched alkylene group " in the

claim so as to read -- alkylene group which may be branched --, which description appears in the beginning portion of the detailed description of the invention in the specification. Among 52 Examples given in the detailed description of the invention in the specification, 46 Examples disclose compounds which are not branched.

In the decision rendered by the Patent Office, it was admitted that the description of the claim involves a mistake, but in both the Tokyo High Court and the Supreme Court, it was decided that the requested amendment should be dismissed under Paragraph 2, Article 126 of the Patent Law as substantially expanding the scope of the patent claim. Grounds of this decision rendered by the Supreme Court are as follows:

In view of the stipulations of Paragraph 5, Article 36 and Article 70 of the Patent Law, the importance of the description of the claim cannot be regarded as being identical with the importance of the statement set forth in the detailed description of the invention or of the disclosure of the drawing, and therefore, whether or not an amendment comes

under " substantial expansion of the scope of the patent claim " stipulated in Paragraph 2, Article 126 of the Patent Law should be judged based on the description of the claim. In the present case, the state of affairs is as follows:

(1) The description " branched alkylene group " defines a matter indispensable for the structure of the invention.

(2) Although it is admitted by both the plaintiff and the defendant that the above description is a mistake for " alkylene group which may be branched ", the description per se is quite definite and clear and the meaning can be understood even without reference to disclosures given in the detailed description of the invention.

(3) The intended object can be attained by the invention defined by the unamended claim.

(4) In view of the facts (2) and (3) above, it cannot be deemed that those skilled in the art will easily understand that the above description is a mistake and should naturally means " alkylene group which may be branched ".

In view of the foregoing, it is deemed that

either formally or substantially, the requested amendment is prejudical to profits of third persons who put condifence on the matter set forth in the claim and expands substantially the scope of the patent claim.

It is construed that the foregoing grounds (2) and (3) are main grounds for rejection of the demanded amendment, and it can be said that even correction of an apparent mistake is not allowed if the structure of the invention defined in the unamended claim is definite and clear.

As will be apparent from the foregoing cases, in general, an amendment expanding or changing the scope of the patent claim is not allowed even if the amendment is correction of a mistake. Case 3 where the amendment changing the scope of the patent claim was allowed in the light of disclosures of the relation between the technical effect and the idiomatic usage of the term, which are given in known literature references, can be said to be a rare case.

Incidentally, even the above-mentioned amendments which were dismissed would have been allowed if they had been effected before decision of publication.

IV. The position of the Patent Office of Courts seen in the foregoing decisions rendered in connection with the amendment trials is substantially the same as the position taken on amendments effected before decision of publication, but an amendment expanding or changing the scope of the patent claim is allowed if the amendment is effected before decision of publication and is supported by the description of the text of the specification. Accordingly, it is construed that in each of the foregoing Cases 4 to 6, the amendment should naturally have been allowed if correction of an erroneous description had been made before decision of publication. Therefore, in drafting a patent specification, it is necessary to take sufficient precautions, and if defects are found in the already filed specification, it also is necessary to remove them by making amendments during a period where voluntary amendments are allowed (within 1 year and three months from the filing date or the Convention priority date in case of a Convention application, or at the time when an examination request is lodged.).

THE REACH OF THE U.S. STATE LONG-ARM STATUTES AS TO ALIEN DEFENDANTS IN PATENT LITIGATION

by

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THE REACH OF THE U.S. STATE LONG-ARM STATUTES AS TO ALIEN DEFENDANTS IN PATENT LITIGATION

The simple meaning of "venue" is the proper place to bring a legal action. The Federal Court system in the United States is divided into ten circuits and the District of Columbia. Each has Federal District Courts and each has a Court of Appeals to which decisions of the Federal District Courts are appealed.

There are two sections of the U.S. law applying to venue (or the place) where a legal action based on a U.S. patent can be brought. The first section states where an infringement action brought by the patent owner can be brought. This is Section 1400(b) of Title 28 of the Federal Code, enacted in 1897. It is simply called the "Patent Venue Statute". This statute clearly states where a legal action can be filed for infringement of a U.S. patent.

> Any civil action for patent infringement may be brought in the judicial district where the defendant resides, or where the defendant has committed acts of infringement and has a regular and established place of business.

Another party can bring under appropriate circumstances a legal action to have "declared" by a Federal District Court (1) that a U.S. patent is not infringed by that party's commercial process or product or (2) that the U.S. patent be declared invalid.

Proper venue for such legal action comes under another section of Title 28 of the Federal Code - Section 1391(c).[1] Section 1391 is referred to as to the General Venue Statute, which was enacted in 1789 (somewhat modified in 1875). Section 1391(c) reads as follows:

> A corporation may be sued in any judicial district in which it is incorporated or licensed to do business or is doing business and such judicial district shall be regarded as the residence of such corporation for venue purposes.

The courts have found that yet another section of the General Venue Statute applies to legal actions against alien corporations, such as Japanese, English, German and Canadian corporations. This section (enacted relatively recently, in 1948) is Section 1391(d) and it reads simply as follows:

> An alien may be sued in any district.

The question of long-arm statute comes up in connection with Sections 1391(c) and 1391(d). With regard to Section 1391(c) a party can bring declaratory judgment action in the state in which the patent owner or defendant corporation is incorporated. Many U.S. corporations are incorporated under the Law of the State of Delaware and therefore frequently declaratory judgment actions are brought in the Federal Court in the State of Delaware. The action of course, in accordance

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1. Also, Section 1391(b) can apply.

with the law, can be brought in a state in which the defendant patent owner is licensed to do business or is doing business.

The long-arm statute of the state can be used where a party wishes to bring an action for declaratory judgment of non-infringement or invalidity, or both, in a state where the patent owner is neither organized under the law of that state nor is licensed to do business under the law of that state.

Also, the long-arm statute can be used where the party against whom a legal action based on a U.S. patent is an alien corporation. I will discuss the meaning of long-arm statute shortly.

The question then is whether there is proper service of process. This simply means that the party being sued must be properly served with the complaint, stating the basis for the legal action, and notice of the action as required under American law. If there is such proper service, the Court has the power to hear and to decide the legal action. There must be such power or jurisdiction of the court over such party. The U.S. Federal Rule of Civil Procedure which applies to service of process is Rule 4. The particular portion thereof applying to legal action against an alien corporation is Federal Rule of Civil Procedure 4(e).[2] Rule 4(e) reads as follows:

> Whenever a statute of the United States or an order of court thereunder provides for service of a summons, or of a notice, or of an order in lieu of summons upon a party not

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2. Also, Rule 4(i) can be used under appropriate circumstances.

> an inhabitant of or found within the state in which the district court is held, service may be made under the circumstances and in the manner prescribed by the statute or order, or, if there is no provision therein prescribing the manner of service, in a manner stated in this rule. Whenever a statute or rule of court of the state in which the district court is held provides (1) for service of a summons, or of a notice, or of an order in lieu of summons upon a party not an inhabitant of or found within the state, or (2) for service upon or notice to him to appear and respond or defend in an action by reason of the attachment or garnishment or similar seizure of his property located within the state, service may in either case be made under the circumstances and in the manner prescribed in the statute or rule.

Federal Rules of Civil Procedure are simply rules which the U. S. Supreme Court says our Federal District Courts are required to follow in a trial of a legal action, such as a legal action based on a U. S. patent.

Now what is meant by the term "long-arm statute?" It simply has to do with the necessity of service of process in order to obtain power or jurisdiction over a defendant in a legal action. If a defendant company has a regular established place of business in the place where the legal action is filed, then service of process can be made at that place. If the company is licensed to do business under the state law, then the agent appointed by the company as required by law can be served. However, if the company is doing business or has the necessary minimum business contacts within the state where the court is located but the company is neither licensed under the law of that state nor has a regular established place of business within the state where the legal action has been brought, then it is necessary to "reach

out" beyond the boundaries of the state with a "long-arm" in order to make the necessary service of process. Thus, the name - "long-arm statute". The law of the state where the action is started (called the "forum state") applies to how the service of process can be made under the state long-arm statute. In some instances, proper service of process can be made on the official of the forum state called the Secretary of State and he in turn notifies the foreign or alien corporation. Other state statutes permit service of process by registered mail.

In order for such "long-arm statute" service of process to be legal and effective, it must comply with the "due process" provisions of our U.S. constitution. The U.S. Supreme Court has clearly spoken on when service of process by way of the long-arm statute complies with due process requirements of the U.S. Constitution.

In the case of International Shoe Co. v. State of Washington (1945), 326 U.S. 310, the Supreme Court stated at page 316 the following test for proper long-arm statute service:

> ... due process requires only that in order to subject a defendant to a judgment in personam, if he be not present within the territory of the forum, he have certain minimum contacts within it such that the maintenance of the suit does not offend traditional notions of fair play and substantial justice (Emphasis added).

In the International Shoe case, the court held that the following activities by defendant were sufficient "minimum contacts" to satisfy

the due process test of the U.S. Supreme Court: the regular and systematic solicitation of orders in the State of Washington by the defendant's salesman which resulted in continuous flow of defendant's product into the State.

Two additional U.S. Supreme Court decisions relating to the minimum contacts to satisfy the constitutional due process requirement are McGee v. International Life Insurance Co. (1947), 355 U.S. 220, and Hanson v. Denekla (1958) 357 U.S. 235.

The tendency of the cases is that the foreign or alien corporations can be given proper service of process where they have some sort of regular or systematic contact within the state even though the activity be of some special or restricted character.

Under the long-arm statute the service is frequently made on the foreign corporation by way of the Secretary of State in that particular state. Rather than the service to be made by the Secretary of State of the forum state, some states provide under their long-arm statutes that the service be made simply by mail to the party residing outside the state. The courts use a good amount of care in applying the test of "sufficient contacts" by such foreign or alien corporations within a state in order to permit the service being made under the long-arm statute.

Long-arm statutes vary a great deal within the fifty states,

although they are the same in principle.[3,4] Whether or not a long-arm statute service is proper depends upon the particular reading and the interpretation of the language of the particular long-arm statute by the courts. First of all the contact within the state upon which long-arm service is based must be one in which the state statute provides as a basis for such service.

Next, the non-resident foreign corporation must have the certain minimum contacts within the state to take such service outside the possibility or holding that the state does not violate due process under the United States Constitution.

The long-arm statutes normally provide that the contacts within the state which can be sufficient basis for application of the long-arm statute of that state include certain contract or tortious acts. Courts have held that where a product had been manufactured outside the state and has been shipped into the state, if such product results in certain damage to the declaratory judgment plaintiff it can be proper to provide service to that out of state producer under the foreign state's long-arm statute.

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3. A listing of the long-arm statutes appears as an Appendix to an article on the subject, "Declaration of Dependence on Long Arm 1976," by Edward Halle, APLA Quarterly Journal, Vol. IV, No. 1, 1976, page 7.

4. Title 35, Section 293, is beyond the subject of this paper; a paper on that subject entitled "Section 293: THE PATENT LONG ARM STATUTE", appears in Journal of the Patent Office Society, Vol. 53 (1971), at page 504, by RobertM. Rathbun.

Now, referring specifically to cases based on U.S. patents against alien corporations, the leading and controlling case is the 1972 U.S. Supreme Court case Brunette Machine Works, Ltd. v Kockum Industries, 406 U.S. 706 (1972), 174 U.S.P.Q. 1. Here the defendant Brunette was an alien corporation of Canada. Plaintiff Kockum alleged Brunette infringed its U.S. patent on a machine for removing bark from logs. Kockum brought action in the State of Oregon and service of process was made on defendant Brunette under the Oregon long-arm statute. Kockum alleged that general venue statute Section 1391(d) applied (which is the alien general venue subsection). The alleged infringement by defendant Brunette was by way of assisting two U.S. companies to make and sell infringing machines. Court held that Section 1391(d) was the appropriate venue section in an infringement suit against an alien corporation. Court held that the general venue statute Section 1391(d) was an exception to the patent venue statute Section 1400(b).

1972
Virginia

The long-arm statute of the State of Virginia - where we are having this meeting today, was involved in a 1972 patent infringement case: Marston v. L.E. Grant, Ltd. et al, 351 F. Supp. 1122 (E.D. Va., 1972), 176 U.S.P.Q. 180. One of the defendants, Okabe, a Japanese corporation, sought to have the action dismissed against it. Okabe made furniture in Japan which plaintiff Marston felt infringed its patent.

Okabe manufactured and sold in Japan to an independent Japanese exporter, who sold it to various distributors throughout the world, including some to the U.S. Okabe had no control over sales or methods of sales, no ownership interest in the exporters or distributors. Therefore, they were not agents of Okabe. Okabe did not ship goods into Virginia and did not direct shipment into Virginia. It had no contracts to supply goods and services into Virginia. The court said that there were no affirmative acts alleged or established which would amount to "active inducement" under 35 U.S.C. 271(b). However, it said if the record would show Okabe had knowledge that goods sold to exporters would be sold in the United States, that that would be enough for jurisdiction, if sales in Virginia could be shown to be sufficient to amount to "substantial sales." The court permitted Plaintiff additional time to perfect the record on such sales in Virginia.

The long-arm statute of the State of Illinois was involved in a 1973 case against a Japanese corporation - Yazaki, in Stewart-Warner Corp. v. Yazaki Corp., 179 U.S.P.Q. 467 (N.D. Ill., 1973). Plaintiff, Stewart-Warner, sued Yazaki Corp., a Japanese corporation, and American Yazaki Corp., an Illinois corporation, for patent infringement in the Northern District of Illinois. Yazaki claimed that there was not proper venue nor service of process. The court followed Brunette Machine Works in holding that venue was proper under 28 U.S.C. 1391(d) -- an alien may be sued for patent infringement in any district. In determining that service of process on American Yazaki Corp., Yazaki's wholly owned U.S. subsidiary and sales agent, constituted proper service on Yazaki under FRCP 4 and the Illinois statute, the court noted that Yazaki sufficiently controlled American Yazaki's operations with respect to the subject matter of the action to permit proper service of process on American Yazaki as agent for Yazaki, the Japanese corporation.

1973
Utah

The long-arm statute of the State of Utah was used in an action for patent infringement, Engineering Sports Products et al v. Brunswick Corp., et al, 362 F. Supp. 722 (D. Utah, 1973), 179 U.S.P.Q. 486. The patent was directed to an inner boot for ski boots, which became a successful product. Well known European ski boot manufacturers such as Raichle, Nordica, etc. transferred title to their boots including the inner boots in Europe to their agents. The boot manufacturers advertised extensively in the United States, sent officers to Utah for discussions with Plaintiff, etc. None of the defendants maintained offices or employed persons in Utah. The court found that there were sufficient contacts for proper service of process.

1974
Virginia

Again, in 1974, the Virginia long-arm statute was used to serve an alien corporation in an infringement case, Hauni Werke Koerber & Co. v. Molins, Ltd. et al, 183 U.S.P.Q. 168 (E.D. Va., 1974). The action was by Hauni against Molins Ltd. ("Molins, U.K.") and Molins Machine Co. ("Molins U.S.A.") for patent infringement of Hauni's patent on tobacco processing machines. Hauni is a West German corporation. Molins U.S.A. is a wholly owned marketing subsidiary of Molins U.K. engaged in the distribution of the products of Molins U.K. in this country. Molins U.K. moved to dismiss the complaint filed against it which alleged acts of infringement within the U.S. The Court first determined that venue was proper under 1391(d) based on Brunette Machine Works Supreme Court case. It then went on to discuss several theories under which Molins U.K. might be found liable. It noted that Molins U.K. gave technical assistance to its subsidiary in installing and maintaining the machines in question which arguably could constitute acts of inducement to infringe under the patent infringement statute Section 271(b). It also noted that it would be open to proof whether the sole purpose in founding the subsidiary was to distribute the parent's products and whether decisions to import and distribute the allegedly infringing products were controlled by the parent.

1975
Illinois

In a 1975 patent infringement case, the Illinois long-arm statute was used to serve a West German corporation, Honeywell, Inc. v. Metz Apparatewerke, 509 F 2d 1137 (7th Cir., 1975), 184 U.S.P.Q. 387. Honeywell had its principal place of business in Illinois and sued Metz and three others there for infringement of its patents covering electronic flash units. Metz produced the flash units in West Germany and shipped them to its defendant distributors EPOI, who sold them to defendant Bass Camera Company.

Metz moved to dismiss the complaint against it for lack of personal jurisdiction and the District Court agreed that there were insufficient minimum contacts with the State of Illinois to warrant the exercise of personal jurisdiction.

The 7th Circuit reversed, finding Metz amenable to process under the Illinois long-arm statute. It determined that induced infringement, such as that alleged by Honeywell, is a tortious act committed within the State of Illinois even though Metz may not have performed any specific act in the state. The court was persuaded by the facts that shipments were made to EPOI with knowledge of U.S. distribution, that instruction booklets were provided to EPOI in English, that Metz had the right to inspect and obtain information about EPOI's business affairs, that Metz agreed to indemnify EPOI for patent infringement claims, etc. The court determined that Metz met the "minimum

contacts" requirements of International Shoe and thus was amenable to personal jurisdiction. The court found that Metz purposely promoted American sales and ensured that infringement would take place, causing injury to Honeywell in Illinois. Further, Metz availed itself of the privilege of conducting activities in the state and enjoyed the benefits and protection of the laws of the state by injecting its products into the Illinois marketplace. In the courts view, it is not within the contemplation of due process to allow a wrongdoer to insulate himself from the long-arm of the courts by using an intermediary.

1975
Pennsylvania

The Pennsylvania long-arm statute was used in a 1975 patent infringement case, Crucible, Inc. v. Stora Kopparbergs Bergslags, 403 F. Supp. 9 (W.D. Penn., 1975), 188 U.S.P.Q. 182. The defendant, a Swedish corporation, moved to dismiss based on improper service of process under the Pennsylvania long-arm statute. Stora-Sweden sells its steel products to Stora-U.S., a subsidiary, who sells the products in the U.S., including Pennsylvania.

The court found jurisdiction under the "direct and indirect shipment" provision of the long-arm statute. The court noted that defendant had full knowledge that the products entered and were sold in Pennsylvania and clearly profited from the sale.

The Court also found that defendant did business and enjoyed the benefits and protection of the local law by entering into various license agreements under which it paid and received royalties, thus bringing it within the statute.

1975
Connecticut

In a 1975 case, a Connecticut corporation used the long-arm statute of that state to sue an English company for patent infringement of its patent and to seek a declaration of invalidity and non-infringement of defendant's patent, Cryomedics, Inc. v. Spembly, Ltd., 397 F. Supp. 287 (D. Conn., 1975), 188 U.S.P.Q. 255. The companies manufacture and sell surgical instruments and the patents are directed to surgical instruments. Spembly moved to dismiss for lack of jurisdiction. In determining that the court had proper jurisdiction, the court did not concern itself with Spembly's contacts with Connecticut alone. The court determined that since the alien defendant is being sued on claims arising out of federal law, jurisdiction may be determined on the basis of the alien's aggregated contacts with the United States as a whole, regardless of whether the contacts with the forum state would be sufficient if considered alone. The court held that if the defendant's contacts with the United States are sufficient to satisfy the fairness standard of the Fifth Amendment, then the only limitation on the place of trial would be forum non conveniens. It further held that Spembly has no reason based on fairness to prefer any one particular district to any other.

1976
Pennsylvania

In a 1976 patent action, an Italian alien corporation was served under the Pennsylvania long-arm statute, Knoll International v. Continental Imports et al., 192 U.S.P.Q. 644 (E.D. Pa., 1976). Two U.S. patents were involved, which were directed to executive office chairs. The alien corporation, Talin, manufactured the chair in Italy and sold it to the defendant Continental for resale in the United States. The court concluded that Talin indirectly pursued its business interests in Pennsylvania in the indirect shipment of its merchandise, thus falling within the intent and purpose of the long-arm statute. The court also found that active inducement of patent infringement may be found in events outside this country if they result in direct infringement within this country. The court found sufficient contacts for proper service although Talin had no officers, employees, bank accounts, telephone listings or other such business appearances in Pennsylvania.

1977
Illinois

Finally, in 1977, the Illinois long-arm statute was used to serve a Taiwan corporation in an action for infringement of a U.S. Patent on a foot exerciser sandal, Scholl, Inc. v. Glory Products Trading Co., 193 U.S.P.Q. 705 (N.D. Ill., 1977). The court found defendant within its long-arm jurisdiction by way of defendant's active inducement of patent infringement. It found that defendant, either by itself or with others, placed its infringing sandal products in the stream of commerce in the United States and within the forum state and that under such circumstances could anticipate injury through patent infringement within the forum. Therefore, the court held there was sufficient contacts by defendant corporation in the forum state for proper service of process under the Illinois long-arm statute.

In summary, service involving an alien corporation involving validity and infringement of U.S. patents is determined under Title 28, Section 1391(d). Federal Rules of Civil Procedure, Rule 4(e), permits service of process of such alien corporation defendant under the forum state long-arm statute. The courts require certain minimum contacts by the alien corporation defendant to fulfill "traditional notions of fair play and substantial justice". The courts do not require direct contact with the forum state or any great amount of contact with the forum state to find jurisdiction if the alien corporation has enjoyed the benefits and protection of the laws of the forum state.

Leroy G. Sinn
October, 1977

Identity Interpretation in Actual Use of Japanese Registered Trademark

- from standpoints of commercial enterprises -

Committee #1

Trademark Group

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Presented by:

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I. Introduction

In connection with the amendment of the Japanese Trademark Law made in 1975 concerning rigidifying of use requirements of registered trademarks, the subject matter has come to be much discussed as one of the important topics recently issued in Japan.

Prior to the amendment, the provisions were interpreted and actually practiced so that in case a trial hearing for the cancellation of a trademark registration on the ground of non-use was demanded, the demandant should bear the burden to prove that the registered trademark had not been used for more than three consecutive years before the registration of the demand of the trial hearing with respect to any designated goods. Therefore, there were quite few cases where registered trademarks were actually cancelled. It was also a usual practice that in case of filing of an application for renewal of the term of a trademark right, it was allowed without any examination of the state

of use unless the subject trademark found to be liable to disturb public interests or good morals.

However, after the amendment made in 1975, a trademark right owner has become more susceptible to receive a demand for a trial hearing for the cancellation of the trademark registration on the ground of non-use because the party who bears the burden of proof was changed from a demandant to a respondent, and further, under the rules of practice to be enforced as from June 25, 1978, an examination of the state of use of a registered trademark will be made at the time of the renewal. As the result, a trademark registration will be cancelled or an application for renewal of the term of a trademark right will not be allowed, unless the identity in the form is recognized between the registered trademark and the trademark in actual use, and the goods on which the registered trademark is actually used fall within the scope of the designated goods.

The reason why the subject matter is so much discussed in Japan is attributable to the fact that

since its establishment in 1884, the Japanese Trademark System has been consistently based on the principle that an exclusive right to use a trademark shall be effected only by its registration and not by its commencement of actual use by applying to goods for trade.

Under such a system, each Japanese enterprise used to file applications for registrations of trademarks with respect to the classes of goods related to its business, in anticipation of naming a new product, before actually applying an appropriate registered trademark to the product. Accordingly, the form of the registered trademark (lettering, design, etc.) to be indicated on the product is not decided yet at the time of filing of the application, but later decided at the time of actually naming the new product, taking into consideration its use, quality, selling point, manner of advertising, etc. This may possibly lead to inconsistencies between the registered trademark and the trademark in actual use.

Further, it might sometimes be necessary to change the form of a trademark applied on a product, which has been marketed under the same trademark for many years, due to various situations such as changes in the trend of the times and the tastes of dealers and consumers, etc.

Also, when a product is improved or attached with some additional parts or accessories or when it is planned to promote the sale of a new product by using an existing trademark, which has long been used, in order to make use of the goodwill of the trademark, it would be desired to change the existing trademark to some extent with some additions thereto. In such cases, if the change is remarkable, a problem would be caused as to the identity between the existing registered trademark and the new trademark in actual use.

Thus, a Japanese trademark right is effected only by its registration, and the scope of the registered trademark which the owner can enjoy based on the trademark right is limited to the scope of its identity and he can merely prohibit other person

from using a trademark which falls within the scope of similarity to the registered trademark. Under such circumstances, the problem of identity between the registered trademark and the trademark in actual use is deemed quite important in Japan.

II. Effect of Japanese Registered Trademark

As to the effect of a trademark right, it is specified in the Trademark Law, Article 25 that "A trademark right owner exclusively holds a right to use a registered trademark on designated goods." The scope of the registered trademark shall be decided on the basis of the trademark indicated in a paper attached to an application and the scope of the designated goods shall be decided on the basis of the statement of the application (Article 27).

Namely, to "exclusively hold a right to use" means that the use right of a trademark right owner is only warranted with respect to a trademark within the scope of identity with the registered trademark but that the trademark right owner merely holds a right to prohibit other person from using

trademark within the scope of similarity to the registered trademark.

In other words, it is broadly construed that, even if a trademark which is identical with or similar to a registered trademark happened to be owned by other person, the registered trademark right owner would not be demanded an injunction or a claim for damages by the person, in so far as he uses a trademark within the scope of identity with his own registered trademark on its designated goods.

On the other hand, the right to prohibit other's use may be excercised to a person who makes an unauthorized use of a trademark which is identical with or similar to the registered trademark with respect to its designated goods and similar goods. This is based on the Trademark Law, Article 25 from the standpoint of preventing an infringement of the exclusive right to use a registered trademark and based on the Trademark Law, Article 37 from the standpoint of preventing a confusion of the origin of goods.

The reason why the right to use a trademark, not having the identity, within the scope of similarity to a registered trademark is not admitted as the effect of the trademark right under the Trademark Law, is considered that, if the trademark use right were extended to such a scope, there would be created a confusion of the origin of goods and much more complicated provisions would be required to make adjustments among the rights. In the event that other person intentionally used trademarks within the scope of similarity to a registered trademark, thereby causing a misleading on the quality of goods or a confusion with goods relevant to the business of others, he would be demanded a trial hearing for cancellation of his registered trademark and he could not obtain a trademark registration again unless after the lapse of five years as from the final decision of the cancellation. The foregoing also applies to the case where the same situation as stated above is caused because the trademark right owner neglected an appropriate precaution to his licensee.

III. In what cases does the Problem of Identity between Registered Trademark and Trademark in Actual Use arise?

1) Trademark which has come to be distinctive by usage (Trademark Law, Article 3, Item 2):

A trademark indicated in the document for proving it to be a trademark which has come to be distinctive as the result of its usage should be within the scope of identity with a trademark applied for registration on the ground of its distinctiveness by the usage.

2) Citation of Registered Defensive Mark (Article 4, Item 1, No. 12):

An application for registration of a trademark which is identical with other person's registered defensive mark with respect to the same designated goods will be rejected.

3) Double Registration of Trademark (Article 1):

A trademark which is similar to a registered trademark and which is to be used on goods identical or similar to the designated goods relevant to said registered trademark or a trademark which is identical with a registered trademark and which is to be used on goods similar to the designated goods relevant to said registered trademark will be registered as an associated trademark. However, a trademark which is identical with a registered trademark and which is to be used on goods identical with the designated goods relevant to said registered trademark will be rejected as a double registration of trademark.

4) Supplement to Trademark Applied for Registration (Article 13):

A supplement which is recognized as preventing identity with a trademark applied for registration will be deemed to be a change of substance in the application and the written supplement shall be dismissed.

5) Explanation of Use of Registered Trademark at the Time of Renewal of Term of Trademark Right (Article 20, Item 2):

In accordance with this provision to be enforced as from June, 1978, an application for renewal of the term of a registered trademark shall be rejected unless the trademark in actual use is identical with the registered trademark.

6) Scope of Trademark Use Right (Article 25):

A trademark right owner has a use right only with respect to a trademark identical with a registered trademark, but not with respect to a trademark similar thereto. Similarly, he has the use right only with respect to goods identical to designated goods but not with respect to goods similar to designated goods.

7) Infringement of Trademark Right (Article 25):

An unauthorized use by others of a trademark identical with a registered trademark on designated goods will constitute an infringement of a trademark right. Under Article 70, the "registered trademark" in Article 25 includes a trademark which is identical with the registered trademark but differs therefrom only in colour.

8) Trademark Use Right by Prior Use (Article 32 and 33):

A use right based on prior use is warranted with respect to a trademark which is identical with a registered trademark of other person, if it has been used and come to be well-known prior to the filing of the application of said registered trademark and also warranted with respect to an invalidated trademark identical with a registered trademark, if it has been used and come to be well-known prior to the registration of the demand of invalidation by a trial hearing.

9) Trial Hearing as to Cancellation of Trademark Registration on the Ground of Non-Use (Article 50)"

A registered trademark will not be subject to cancellation if a trademark in actual use is so identical as to fall within the scope of the registered trademark but will be cancelled on the ground of non-use if a trademark in actual use contains such an additional indication or alteration that the identity with the registered trademark is not admitted.

10) Trial Hearing as to Cancellation of Trademark Registration on the Ground of Improper Use (Article 51):

While, in case an intentional use of a trademark which is similar to a registered trademark causes a confusion with goods relevant to the business of other person, the registered trademark will be subject to cancellation on the ground of improper use, it will not be subject to cancellation so long as a trademark

identical with the registered trademark is used, even if such use is to cause a confusion with goods relevant to the business of other person.

11) Registration of Defensive Mark (Article 64):

In case a registered trademark has been widely recognized as indicating the designated goods, the trademark right owner may obtain a defensive mark registration on a trademark identical with the registered trademark with respect to goods other than the designated goods if certain other conditions are satisfied.

12) Trademark Infringement on the Ground of Use of Registered Defensive Mark by other person (Article 67):

An unauthorized use of a trademark identical with a registered defensive mark by other person with respect to the designated goods is deemed to constitute an infringement of

the registered trademark which is the base of the defensive mark.

IV. Application with Sufficient Flexibility at the examination of identity

As stated above, the problem of identity between a registered trademark and a trademark in actual use has significant influences upon a trademark right. It is also warranted under the Paris Convention, Article 5, Item C (2) to use a trademark in a form differing in elements which do not alter the distinctive character of the trademark.

Therefore, in determining the scope of identity between trademarks, it would be desirable to be interpreted in line with the purpose of the Trademark Law and the purpose of legislation of the provisions.

The provisions under which the forms of trademarks should be strictly construed to be geometrically identical or similar involve the provisions such as (2) Citation of Registered Defensive Mark, (3)

Double Registration of Trademark, (4) Supplement to Trademark Applied for Registration, (7) Infringement of Trademark Right, (12) Trademark Infringement on the Ground of Use of Registered Defensive Mark by other person, and so forth.

Meanwhile, as the Industrial Property Council stated, in its report to the inquiry of the Minister of International Trade and Industry as to the interpretation of identity between trademarks in connection with the remaining ones of the above-mentioned provisions, that "Whether or not a trademark in actual use is so identical as to fall within the scope of a registered trademark should be determined not only based on a physical identity but also based on the idea generally accepted in the trading society, in view of the nature of a trademark which has its essential function in distinguishing trademarks from each other", it is desired that the Trademark Law provisions and enforcement rules would be applied and practiced properly with due regard to the generally accepted idea in the trading society.

Especially, the judgement concerning the identity between a registered trademark and a trademark in actual use in connection with the examination of an application for renewal of the term of a registered trademark would have quite a significant influence upon the commercial enterprises. Under the present situation where a large quantity of examinations are uniformly handled by each examiner with an authority given, it is desired that the Trademark Law would be applied with sufficient flexibility so that examination criteria would be standardized and the goodwill of a trademark which has been used for many years would be fully protected.

V. Judgement with due regard to generally accepted views in Trading Society

1) The following are some of the cases which are considered as use of registered trademarks, as stated in the report of the Industrial Property Council to the inquiry from the Minister of International Trade and Industry.

(Cases considered with sufficient flexibility as use of registered trademarks.)

(Registered trademarks) (Trademarks in use)

1. ヤシカ

[ya-shi-ka]

ヤシカ

2. 三陽 サンヨウ Sanyo



サンヨーレインコート



(Scope considered as use of registered trademarks)

1. 富士 ふじ
[fu-ji]

富士、ふじ、

ふじ 富ふ
富士 士じ

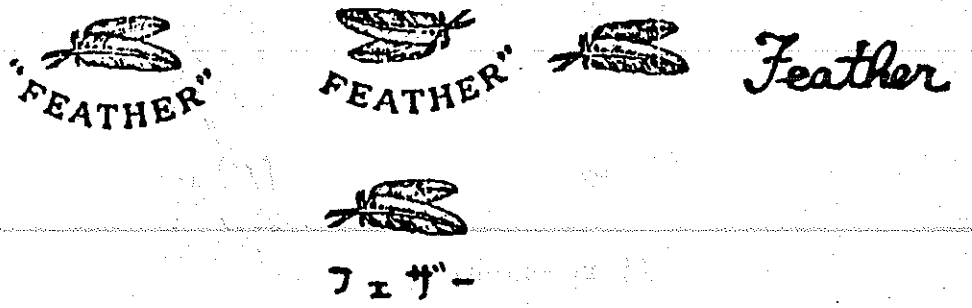
2. ライオン 獅子

ライオン、獅子、

ライオン
Lion

獅子 獅子ライオン
Lion

ライオン
百獣の王

3. 

2) In amplification of the above report, the following cases are considered as use of registered trademarks.

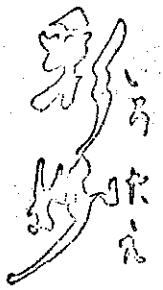
a) Conversion between styles of characters or letters of a registered trademark which consists of characters or letters only.

i) Conversion between running style and square style, between Gothic style and Italic style, and between script style and print style of the same characters or letters.

1. 彩

妙

[i-ro-ta-e]



2.

SILPALON Silpalon

ii) Conversion between normal style and simplified style of kanji characters and between capital letters and small letters of alphabets.

1. 櫻 桜

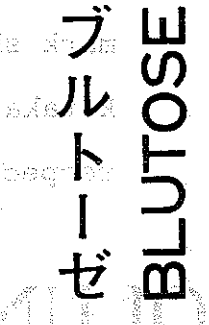
[sa-ku-ra]

2. VIVIAN vivian

iii) Conversion between vertically written characters or letters and horizontally written characters or letters of the same characters or letters.

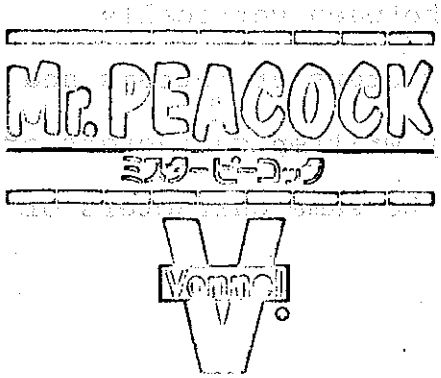


BLUTOSE



b) Separation of a distinctive portion of a registered trademark.

i) Separation of a distinctive portion of a registered trademark consisting of combined characters or letters and figures.



ミスターピーコック
Mr. Peacock

ii) Separation of one line of a trademark shown in two lines comprising katakana characters and alphabets, respectively.

SOLUNA
ソルーナ

soluna

iii) Replacement of an inseparable trademark shown in one line into two lines.

クークー
COUCOU

Cou Cou

c) Combination of a registered trademark with other characters, letters, figures, and/or simbols.

i) Addition of other characters, letters, figures and/or symbols to a registered trademark.

1. LUNAACE

ルナエース

ソルーナ

ソルーナ使用ふとんわた ルナエース マークII

2.

セファメジン Cefamezin

ii) Addition of indistinctive characters, letters, figures and/or symbols to a registered trademark.

1. ファイネル　　ファイネルF

[fa-i-ne-ru]

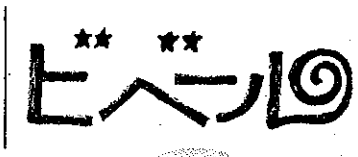
2. TIOCTAN　　TIOCTAN-S

d) Remarkable changes of a trademark comprising characters or letters only (designed characters or letters).

1.

ビベール

[bi-bē-ru]



2.

スピーネ

SPIENE



3) Cases which are not considered as use of registered trademarks.

a) Conversion between different kinds of characters or letters which compose a registered trademark:

i) Conversion between katakana characters and hiragana characters.

エルビット　　えるびっと

[e-ru-bit-to]

ii) Conversion between indications in the traditional use of kana characters and those in the modern use thereof.

てふ　てふ　　ちょう ちょう

[chō - chō]

iii) Conversion between alphabets and hiragana or katakana characters phonetically identical with the alphabets.

1. シンコーライト ShinkoLite

2. Soalon ソアロン

iv) Conversion between kanji characters and hiragana characters, katakana characters or alphabets phonetically identical with the kanji characters.

新光 シンコー

Shinko

b) Others:

i) Conversion between characters, letters or figures representing a certain idea and different characters, letters, or figures representing the same idea.



SnaKe

ii) Other remarkable changes in the form of a registered trademark.

マイニー
MYNY

MYNIE

PIPA EIGHTH CONGRESS
Williamsburg, Va.
October 12, 1977
US Group Committee #1
Karl F. Jorda

NEW DEVELOPMENTS IN THE LAW OF IMPORTATION OF FOREIGN INVENTIONS INTO THE U.S.

Introduction

As many of you know, I have been a prophet of importation for some years now. I have preached the gospel of importation of foreign inventions into the U.S. to neutralize Section 104 of the U.S. Patent Code in many a country (and in three languages), e.g., in Basle in 1970, in Stuttgart in 1971, in Toronto in 1972, in Mexico City in 1973, in Tokyo in 1974 and in London in 1975. And I have the impression that my missionary efforts are paying off and are bearing fruit.

To wit, in recent interferences - and only in recent interferences - in which we got embroiled and which also involved foreign applicants, notably, German applicants, acts of importation are being relied on by them in the Preliminary Statements. This hardly ever happened, in my experience, in earlier interferences. In such earlier interferences it was only we who often alleged importation of foreign inventions into the U.S. Also, in very recent times there has been an increase in interference cases pending before, or interference decisions handed down by, tribunals - and the momentum appears to be gaining. Therefore, it is very appropriate to revisit this subject and discuss new developments.

The Law of Importation

Before I embark on such a discussion, however, let me refresh your recollection in general terms and in summary form of what this is all about. When I spoke of importation of foreign inventions into the United States I referred to situations where knowledge of an invention made abroad is sent or brought here by foreigners and divulged to somebody in this country or is communicated to a U.S. citizen abroad who then brings it with him to the United States. This is tantamount to conception in this country on the day it is read and understood here by someone or brought in by someone capable of understanding it. Additionally and importantly, I referred to situations where also the physical object or embodiment of such an invention is sent here or brought here and is in somebody's possession here who fully understands its nature, its production and its use which may be or is tantamount to reduction to practice in this country.

While the law is well established that importation of a disclosure of a foreign invention is tantamount to conception in the U.S. (in fact, Rule 217 and Form 45 of the Rules of Practice sanction Preliminary Statements alleging importation of foreign disclosures), it is not nearly as well appreciated that importation of an embodiment of a foreign invention is tantamount to reduction to practice, especially with respect to chemical compounds and complex machinery. I have always maintained that it should be as it was simply and manifestly clear even from the few cases which are on the books that in proper cases, properly proven, importation of the physical object or embodiment of an invention made abroad, accompanied by full and clear disclosure of its nature and identity

and its mode of production and use, is tantamount to reduction to practice in the U.S. No separate and independent reconstruction, reidentification and retesting should be necessary in the U.S.

Another general comment or two about importation. Importation is a means to neutralize Section 104* in a perfectly legitimate way. In a manner of speaking, importation is another exception to Section 104. The best known exception and the one expressly covered in Section 104 is, of course, reliance on a foreign Convention application under Section 119. Under this Section the foreign applicant, however, can go back only up to one year. With importation he can go further back in time much like a domestic inventor can.

There are a number of situations and circumstances where importation is indeed advisable and can be of concrete value, e.g.:

1. When there is delay in filing a foreign priority application.
2. When the priority application is abandoned and refiled and a new priority year is started.
3. When a U.S. application is not filed under the Convention but a non-Convention application is filed later.
4. When Convention filing is missed.
5. When the foreign application has generally insufficient disclosure.
6. When the required certified foreign priority application is not timely filed.

In my talks and papers on importation, the last of which dates back to the Spring of 1975, I concluded, after an analysis

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* Section 104 - Invention made abroad

In proceedings in the Patent Office and in the courts, an applicant for a patent, or a patentee, may not establish a date of invention by reference to knowledge or use thereof, or other activity with respect thereto, in a foreign country, except as provided in section 119 of this title....

of at least the more significant "importation" cases (see Appendix for a comprehensive listing of "importation" cases), with an outline of a suggested procedure for legally and procedurally adequate and effective importation to eliminate the irony that while importation takes place often as a substantive matter, i.e., de facto, in this day and age of multinational or international industrial activity, it is not provable as an adjective matter, i.e. de jure.

My suggested procedure was the following:

1. A full disclosure as early as possible of the foreign invention in the United States, preferably in writing, including detailed information on the mode of preparation, the nature and constitution of the invention and its utility and accompanied, where feasible, by a model or sample or other embodiment of the invention.

2. Prompt and careful study and inspection of these materials upon receipt, preferably by two persons who are capable of understanding the invention and who master the language if a foreign language is employed. Each person dates and signs and annotates each page as having been read and understood by him.

3. Preserving these materials, including any sample or sub-sample or other embodiment carefully and keeping good records also abroad pertaining to the production and testing and importation of the invention.

4. Independent exploration of the nature of any embodiment of the invention, e.g., analytical structure corroboration in case of a chemical substance, as a desirable backstop. Immediate testing or use if possible to further strengthen the case for priority.

New Developments

A. Clevenger v. Kooi

As far as new developments and recent "importation" decisions are concerned, I refer of course in particular to Clevenger v. Kooi, 190 USPQ 188 (Bd. Pat. Intf. 1974) and Breuer et al v. DeMarinis, 194 USPQ 308 (CCPA 1977) and I want to examine primarily the question of whether these cases, or the

rather novel and almost startling principles enunciated in them, dictate any change, and in particular any simplification, in the procedure outlined above.

In Clevenger v. Kooi, involving Texas Instruments and U.S. Philips, it was held that the introduction into the United States of a copy of an original invention disclosure which was prepared by an interference party in a foreign country and which contained an enabling disclosure of the invention of the counts constituted a conception of that invention in the United States by that interference party and that it was not necessary that the disclosure in question be both communicated to and understood by someone in this country in order to constitute such conception.

According to this decision, importation of a disclosure of a foreign invention which is tantamount to conception in the US is established when a disclosure is received here and filed away without having been read by anybody, the only requirement being that it contains an enabling disclosure. This raises immediately the question of whether it was necessary to continue to "import" foreign invention disclosures by reading them and annotating them as having been read and understood by at least one person and preferably two persons capable of reading and understanding them.

My first reaction when I read this decision by Mr. Modance, the Board's Chairman, was that the Board had really gone out on a limb. I thought that this decision put foreign inventors in a better position than US inventors because a US inventor could not simply prepare a disclosure and have it filed away without anybody having read it. If this was possible why the universal and conventional practice of witnessing or even notarizing conception records or invention disclosures? I also thought that Mortsell v. Laurila, 133 USPQ

380 (CCPA 1962), did not support the position taken by the Board in Clevenger v. Kooi, because in the Mortsell case a disclosure from abroad, namely, a draft patent application was being translated in this country, revised and worked up into a final US text which is an entirely different situation from the one found in Clevenger where a disclosure was simply put away to collect dust.

Because of my bewilderment, I paid a visit to Mr. Modance after the decision came out last year to discuss this matter with him. Incidentally, Mr. Modance had already hinted that this was his position in the Modern Interference Practice Panel held in Cincinnati on September 25, 1975 by stating:

> "If, for example, you are dealing with a compound, let's say, and someone were to send a letter, from abroad to this country, describing a compound, the method of making it and the utility of it, in other words a complete conception, and if this letter were received by a stenographer or clerk in the United States, there is case law by our Board and also by the court that it wouldn't be necessary, to constitute proper conception, for the party receiving it to have understood it. See Mortsell v. Laurila, 133 USPQ 380, at page 384 (CCPA 1962)." (Transcript of the Proceedings, p. 44)

In my discussion with Mr. Modance he stated that Mortsell v. Laurila did support the proposition in question if the language in the Mortsell decision is taken literally which he does. Besides, Mr. Modance handed me an earlier (1967) but unpublished Board decision, Scheer v. Kincl (U.S. Pat. No. 3,390,157; Interference No. 92,644 involving Syntex and Johnson & Johnson). Here too, a Mexican invention disclosure was simply filed away after it was received in the US and here too the Board held that reading and understanding of the foreign invention disclosure was unnecessary.*

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* In spite of this holding, Syntex lost the interference however for lack of "attorney's diligence".

However, in spite of all this I am still very skeptical although I would like nothing better than that Clevenger v. Kooi reflected the state of the law. Then we would not have to go through our standard "importation" procedure or at any rate if we wanted to continue to read the foreign disclosures for informational purposes we could rely on Clevenger as a fall-back position.

On further reflection, I am convinced that Mortsell v. Laurila is being extended by the Board in a way unwarranted by its facts. Besides the Board relies too heavily on specific language of the CCPA which is dictum and not decision. Also, the cases relied on in Scheer v. Kincl do not support the Board in the position they take. This is especially true of the Levy v. Gould (32 USPQ 397) decision in which there was so much frantic activity by the inventor involving disclosures to elicit interest, witnessing and notarizing and whatnot so that the facts in that case are a far cry from the facts in Scheer v. Kincl where a Mexican disclosure was simply filed away in Palo Alto. Also, I am not sure that it is sufficient for a US inventor to simply hand his disclosure over to a third person who puts it away without even looking at it. At best, this is still an open unsettled question; at worst, the case law would seem to militate against such a rule. If pro cases exist, why didn't the Board rely on them; Mortsell is no authority, as explained above.

Needless to say, we have continued our established "importation" practice in spite of Clevenger v. Kooi and Scheer v. Kincl and, interestingly enough, Mr. Modance indicated in a more recent conversation with him that the precedent value of these cases is in doubt because if another case with this fact pattern came along one Board Member "would do differently" and he himself is not so sure anymore that Mortsell v. Laurila lends support. I would also like to think that the CCPA might not see eye to eye with the Board on this issue.

B. Breuer et al. v. DeMarinis

The other very significant "importation" case is Breuer et al. v. DeMarinis, supra, in which Squibb and SmithKline were the protagonists. In this case, the CCPA overruled the Board of Interferences, recognizing "the realities of technical operations in modern day research laboratories" and hence taking a "rule of reason" approach as they are wont to do nowadays in determining the type and amount of evidence necessary for corroboration. Specifically, the Court held, albeit in a Rule 204(c) context, that it would be "unreasonable" to require a second, domestic chemical analysis of a compound introduced into the United States by the junior party when, based on a previous analysis performed abroad (IR spectrum which the Court considered to be a "fingerprint"), professional researchers are able to state that the compound corresponds to the subject matter of the interference count. The Court stated (at p. 313):

> "Clearly, 35 USC 104 does not preclude using evidence of the inventor's knowledge from a foreign country for all purposes, but only where it is used to 'establish a date of invention.' See Hedgewick v. Akers, 182 USPQ 167 (CCPA 1974).* Here, the knowledge of the inventors, embodied in the Transmission Record, is admissible evidence to prove the chemical structure of the compound introduced into this country. Cf. Rebuffat v. Crawford. ... 20 USPQ 321, 324 ((CCPA) 1934)."

The Board had found that "no person analyzed the compound in the United States to determine or confirm its structure" as the subject compound and, citing Rochling et al. v. Burton et al., 178 USPQ 300 (Bd. Pat. Intf. 1971), held that "(i)nasmuch as applicants have failed to prove knowledge of the structure in the United States prior to patentee's filing date, they have not made out a prima facie case ...".

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* This case involved derivation issues and an originality contest.

It is interesting to recall in this context that in the Rochling case Shell had synthesized compounds in Germany and had sent them to California for testing but in an interference failed to prove priority vis-a-vis an earlier filed application of British origin. While they were able to establish herbicidal utility by virtue of the California tests, they "failed to establish the identity of any of the compounds tested" or rather "the identification of the compounds in question (was) dependent entirely on information allegedly obtained from the (German) inventors".

Noone in California who handled the imported compounds knew the chemical nature of the compounds other than the code numbers, no analytical data having been supplied by Germany, and the compounds were not analyzed before they were placed in the screens by anybody and there was no discussion of any specific compounds with one of the inventors while visiting in California. A deplorable de facto but not de jure case of importation! The Rochling case is overall readily distinguishable.

Here too, the question comes up as to whether or not we can now dispense with the structure corroboration work carried out in the U.S. in importation cases and here I am almost 100% sure, in my own mind, that this can be done. It really should be possible to eliminate this costly duplication on the authority of the CCPA even though only Rule 204 issues were involved. I should think, however, that on facts like those at bar the foreign applicant should be awarded priority if indeed he has the earlier date vis-a-vis his opponent's invention date rather than merely his filing date. Such a result would be eminently logical and sound.*

* Incidentally, Mr. Modance does not think the Breuer case can be considered as a landmark case as he feels that the Court went too far, the SmithKline attorneys conceded too much, the Court was wrong as regards the fingerprint holding inasmuch as not even NMR is a fingerprint (?!) and the Court was confused in its reference to Section 104.

Conclusion

None of these decisions deals with and decides the ultimate issue in the law of importation of foreign inventions, namely, whether introduction into the US of an embodiment or the physical object, e.g., by way of a sample or model or prototype, of an invention made abroad, especially, e.g. electronic apparatus or chemical compounds, is tantamount to reduction to practice in the U.S., where accompanied by a full and clear disclosure of its nature and identity and its mode of preparation and use but where no re-construction, re-identification and re-testing or other work took place in the U.S. This decision is still reserved for the future. It will come. Nonetheless, the Breuer case represents a most significant advance as it clearly enunciates the principle that no additional analytical work in the US is required if the foreign analytical data are adequate to identify the invention and to apprise R&D personnel in the U.S. of the identity of the invention. I think the Breuer case brings us very close to that ultimate decision since earlier cases already decided that no separate reduction to practice need be carried out in the U.S. The biggest of the remaining issues was the matter of proof of identity of the invention, especially of complex inventions that defy visual identification. And this the Breuer case has settled - authoritatively.

APPENDIX

Importation Cases

A. Importation of Invention Disclosures

Thomas v. Reese, 1880 C.D. 12

Harris v. Stern et al., 1903 C.D. 207

Gueniffett v. Wictorsohn, 1907 C.D. 377, aff'd 1908 C.D. 367

Winter v. Latour, 1910 C.D. 408

DeKando v. Armstrong, 1911 C.D. 413

Minorski v. Thilo, 16 USPQ 401 (CCPA, 1933)

Rebuffat v. Crawford, 20 USPQ 321 (CCPA, 1934)

Wilson et al. v. Sherts et al, 28 USPQ 379 (CCPA, 1936)

General Talking Pictures v. American Tri-Ergon et al, 36 USPQ 428 (3rd Cir., 1938)

Langevin v. Nicolson, 45 USPQ 92 (CCPA, 1940)

Mortsell v. Laurila, 133 USPQ 380 (CCPA 1962)

Scheer v. Kincl, (available in file of USP 3,390,157, Bd. Pat. Intf., 1967)

Lassman v. Brossi et al., 159 USPQ 182 (Bd. Pat. Intf., 1967)

Ex Parte Pavilanis et al., 166 USPQ 413 (Bd. App., 1969)

Justus v. Appenzeller, 177 USPQ 332 (Bd. Pat. Intf., 1971)

Clevenger v. Kooi, 190 USPQ 188 (Bd. Pat. Intf., 1974)

B. Importation of Embodiments

Swan v. Thompson, 28 USPQ 77 (CCPA, 1936)

French v. Colby et al., 64 USPQ 499 (D.C. Cir., 1945) cert. den. 326 U.S. 726 (1945)

Kravig et al. v. Henderson, 150 USPQ 377 (CCPA, 1966)

Andre v. Daito, 166 USPQ 92 (Bd. Pat. Intf., 1969)

Weigand v. Hedgewick, 168 USPQ 535 (Bd. Pat. Intf., 1970)

Rochling et al. v. Burton et al., 178 USPQ 300 (Bd. Pat. Intf., 1971)

Breuer et al. v. DeMarinis, 194 USPQ 308 (CCPA, 1977)

C. Diligence Re Foreign Inventions

Hall v. O'Connor, Intf. No. 51,743

Lorimer v. Erickson, 1916 C.D. 200 (App. D.C. 1916)

Wilson et al. v. Sherts et al., 28 USPQ 379 (CCPA, 1936)

Rosen et al. v. NASA, 152 USPQ 757 (Bd. Pat. Intf., 1966)

Newberry v. Klemm et al., Interf. No. 98,504 (Bd. Pat. Intf., 1977)

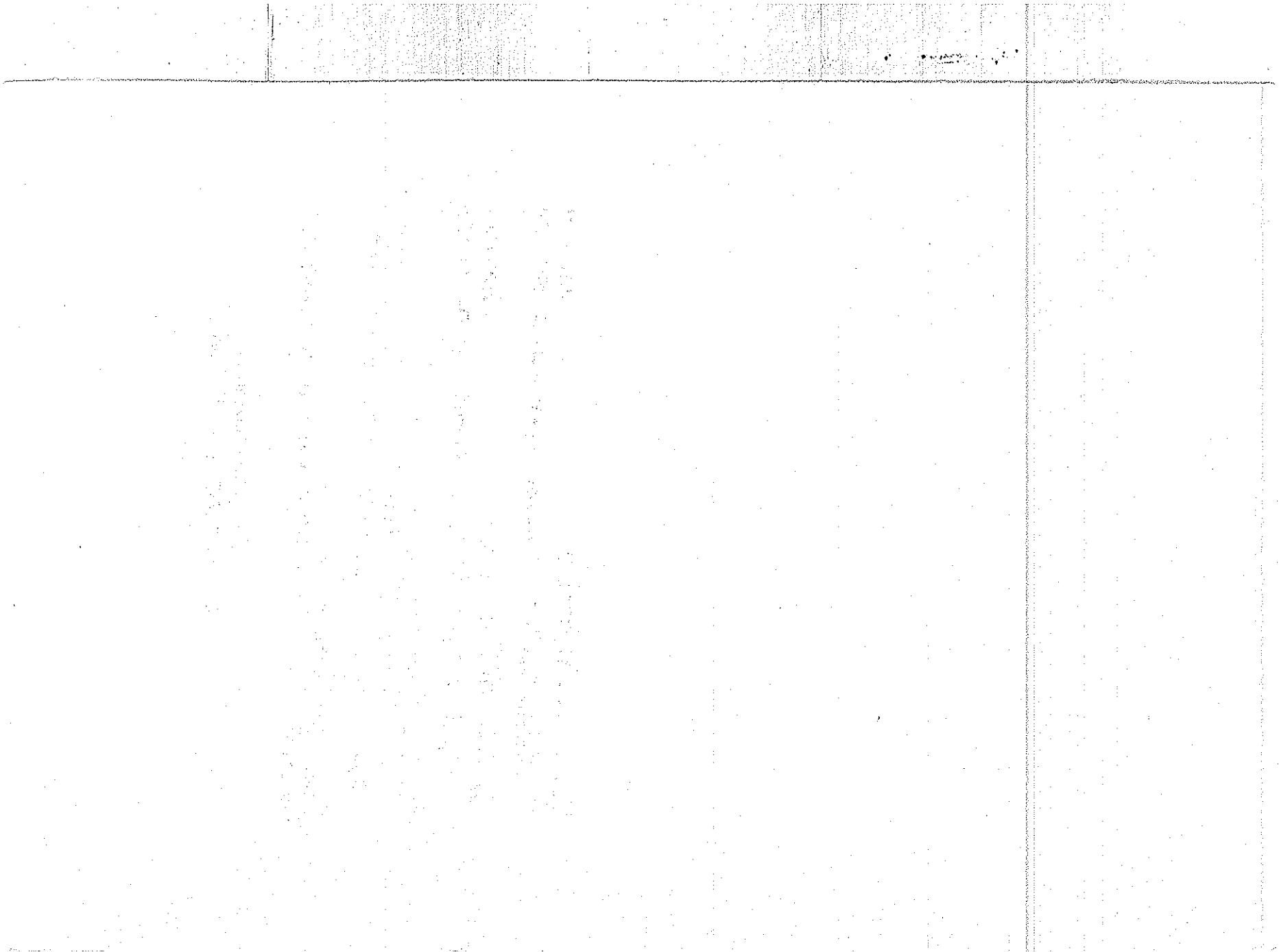
Committee Presentations
(Committee #2)

° Guidelines for International Licensing Operations.
--- R.H.Massengill---205

° Comments on the E.C.Commission's Draft of Regulations on Patent Licensing Agreements.
--- K.Takayanagi-----246

° Intellectual Property Problems Related to a Divesture.
--- W.E.Cleaver------260

° Outline of the Newly Amended Japanese Antimonopoly Act.
--- K.Kunieda--------280



SPEECH TO 8TH INTERNATIONAL CONGRESS OF
PACIFIC INDUSTRIAL PROPERTY ASSOCIATION

BY
ROY H. MASSENGILL
ALLIED CHEMICAL CORPORATION

Discussion of U.S. Department of Justice, Antitrust Trust Division's Antitrust Guide for International Operations

In this talk, I shall discuss,

I- The provisions of U.S. Antitrust laws that are likely to be applicable to international technology transfer;

II- The degree to which the developed law based on U.S. court decisions involving domestic licensing may be applicable to international licensing and technology transfer;

III- Consideration under the U.S. Antitrust laws of examples of territorial restrictions, either stated in a positive or negative manner, in international agreements; and

IV- The types of joint ventures or technology transfers that may be subject to attack under the U.S. Antitrust laws even in the absence of a specific unlawful clause.

I will be making reference to the January 26, 1977 "Antitrust Guide For International Operations"[1] ("the Guides"), and to examples discussed therein as "Case A", "Case B", etc. For your convenience I have attached these Guides so that you may make reference to them.

I. Most aspects of international technology transfer will be tested under the United States Antitrust laws under Section 1 of the Sherman Act[2] dealing with multi-party agreements,

combinations and conspiracies in restraint of trade. However, as illustrated in Case "A" of the Guides a parent company and its subsidiaries controlled are treated as a single entity which do not usually violate Section 1.

In addition, as particularly pointed out in Case B of the Guides, Section 7 of the Clayton Act[3] regarding asset acquisitions may occasionally apply to technology transfer, but generally the important test is still under Section 1 of the Sherman Act. A joint venture, such as set up in Britain in Case D might also be subject to scrutiny under Section 7 of the Clayton Act, as a stock acquisition or the like, especially if the venture is to be operated in the United States or to have substantial assets in the United States. Case E concerns a joint manufacturing venture and suits brought by the Justice Department that come to mind in this regard are the Mobay[4] and Hercules[5] Consent Decrees referenced in footnote 52 of the Guides and the Penn-Olin[6] case cited in footnote 53 of the Guides, all involving joint manufacturing, and not merely joint research.

Section 2 of the Sherman Act[7] deals with the monopolization, attempts to monopolize, and conspiracies to monopolize and is unlikely to apply to most technology transfers.

In passing, Section 3 of the Clayton Act[8] would apply to exclusive dealing arrangements, requirements contracts and tie-in sales in connection with a sale or lease. Similar exclusive dealing requirements and tie-ins in connection with a

license agreement are usually handled under Section 1 of the Sherman Act, but particular fact patterns may cause Section 3 to be invoked as well.

Probably, the broadest but least used antitrust enforcement law is Section 5 of the Federal Trade Act [15 U.S.C. 45 (1970)] prohibiting unfair methods of competition. Section 5 had been invoked in the Xerox case which was settled recently by a consent decree.

II. In the second part of my talk, I will consider how developed U.S. law relating to domestic licensing practices may be applicable to international licensing and technology transfers. Initially, I will briefly summarize certain types of restrictive clauses which have been inserted in a technology and patent transfer agreement and which were subject to attack under Section I of the Sherman Act as unreasonable restraints on trade.

The first group of restrictive clauses will normally be considered a per se violation if found in a domestic U.S. patent license, causing the U.S. patent to be unenforceable as being misused and setting up a possible antitrust violation. In this first group are tie-ins of unpatented products,[9] restrictions preventing licensees from dealing in competitive products,[10] mandatory package licensing,[11] mandatory total sales royalty computations,[12] restrictions on resale[13] (at least where the parties are in fact in a competitive or vertical position relative to

each other[14]) and, post patent expiration royalties.[15] These are the most common restrictive practices that have been held to violate the U.S. Antitrust laws and there may be others as well.

There are other types of similarly restrictive clauses that should be avoided even though some case law supports their use under proper circumstances. They are considered likely to be challenged and the benefits may not justify litigation. Examples of these types of clauses include price fixing restrictions[16] by the licensor and a licensee veto power over further licenses (but see the Morraine-ICI case),[17] provisions which the U.S. Justice Department has indicated would be attacked if the chance arises. To a lesser degree, requirements of grant-backs of an exclusive license or assignment[18] and quantity restrictions in licensing arrangements[19] are not frequently used because few business organizations would go to trial on the argument that such clauses are permitted under prevailing U.S. antitrust law.

Other kinds of license provisions less restrictive in nature are subject to a "Rule of Reason" test, which is sometimes applied more vigorously to certain types of restrictions, depending upon the suspected impact such restrictions have on competition. The most widely used restrictions and conditions of this type are as follows:

Field of use restrictions - a non-exclusive license that reserves an exclusive field for the licensor is apparently immune from attack under the antitrust laws so long as it is

within the scope of a patent monopoly such as found in the recent Ciba-Geigy case.[20] If the restriction controls use beyond a first sale of the goods, then the patent monopoly is said to be exhausted and either there is a presumption of illegality or some per se rule may apply.[21] In the case where there has been no sale of goods, but the restriction is nonetheless outside the scope of the patent claims, such as a restriction on the sale of a product made by a patented process, then the rule appears to be one of no patent immunity.[22] The Hercules and Stauffer aluminum trialkyls case that may have decided this point is apparently going to be settled by a consent decree,[23] although one defendant may go to trial.

As to exclusive field of use restrictions that give one or more licensees an exclusive field, the restriction is probably suspect as an illegal division of markets, but should be justified when an exclusive field is reasonably necessary for one licensee to create a market for the technology in a new field and the term of the exclusive field is reasonably related to the costs and risk involved.[24]

Territorial restrictions - there is a great deal of controversy regarding territorial restrictions, but probably such restrictions are acceptable if the only exclusive territory is the one retained by the licensor, and probably the arrangement is suspect if more than one licensee obtains an exclusive territory.[25]

Non-exclusive grantback clauses - are subject to a very generous rule of reason and are probably lawful in the absence of exceptional circumstances.[26]

Cross licensing arrangements and particularly patent pools may sometimes be justified, but are likely to be suspect in the absence of a showing of blocking patents or that a license is available to all in the industry.[27]

The above is only a summary of the more frequently questioned clauses, as you will realize of course that hundreds of domestic cases can be found on various issues of license clauses.

Now I shall discuss whether the above rules are enforced any differently in an international context than they would be in a purely domestic United States context. The Guides, especially in the introduction say generally not. But if the only commerce restrained does not substantially affect U.S. imports or exports, then there is no subject matter jurisdiction for application of the U.S. Antitrust laws. Looking at the introduction to the Guides and also the last paragraph of Case F, one must be careful to recognize that commerce in goods which are later resold to the United States, or which foreclose United States export opportunities can be said to have a "foreseeable effect on the United States commerce" and in those cases the Justice Department may well attempt to enforce United States law.

The Guides indicate that the Justice Department recognizes only relatively narrow exceptions for acts of state, acts under compulsion of foreign governments and other claims based on comity with foreign laws. One must also recognize however that if this is the only defense you have under United States law for the use of a particular restriction, then you would be well advised to look very carefully at any other national or international law that may be violated.

There may be a few per se violations in the domestic context that could possibly be justified in the international context,[28] especially when one considers why the restrictions were made per se violations in the domestic context. For example, tie-ins and compulsory package licenses are said not necessarily to be per se violations in Cases F and G, and likewise the exclusive distributorship discussion of Case G, but the rationale for these exceptions appears to be that the trade restrained has no substantial effect on U.S. commerce.

Nevertheless experience has shown that the Justice Department and the courts have not enforced the antitrust laws as vigorously in extraterritorial situations. One might expect a Government prosecution mainly in those cases where a real effect on the U.S. consumer[29] merits the expenditure of Government resources. Private plaintiffs who are injured by such restrictions may, however, attack these clauses in a variety of types

of cases and if successful they can recover three times their damages.

Another difference could be that the doctrine of immunity from attack based on the existence of patents may have a different application in the international context. I give little weight to this ground, however, since comity would cause a U.S. court to recognize rights under foreign patents the same way it recognizes rights under U.S. patents.[30] Furthermore, territorial restriction clauses for geographical parts of the U.S. have been arguably expressly approved in Section 261 of the U.S. Patent Law, but then again, in an international context, each patent law is expressly territorial as to scope. Logically, the grant of exclusive patent licenses or assignments in one country, but not in another, might be upheld in an international context under circumstances that may be more suspect in the domestic context.

III. The third area which I would like to discuss is consideration of territorial restrictions in international agreements expressed in a "negative" manner vis-a-vis a "positive" manner.

The only real distinction may be that I would place more value in expressing limitations as "positive" limitations, that is, granting licenses under some patents but not others; as compared to "negative" limitations, excluding certain territories to a license in an international context where, in a domestic context,

the distinction may be largely meaningless.[31] The use of positive language is likely to be of value in field of use clauses whether domestic or international.

The Justice Department has in the Guides taken the position that territorial restrictions, like field of use restrictions which have the effect of setting up an exclusive field or territory, even though subject to the rule of reason test, are in fact subject to the so-called doctrine of "ancillary" restraints. This doctrine requires (1) that the main purpose of the agreement is legitimate (usually to exploit the patented or secret technology for commercial purposes in a new territory or field), and (2) that the scope and the term of the license restriction should not be substantially greater than necessary to achieve this purpose, by which is usually meant to put the technology (or product) on the market in a new country or field. The Justice Department is likely to resist in the international context (as they have sometimes unsuccessfully resisted in the domestic context - see the Ciba-Geigy case)[32] a claim of immunity from antitrust attack based on the existence of a lawful patent monopoly. That is not to say the Justice Department gives no deference to the existence of a patent, merely that the Justice Department is unwilling to recognize much, if any, conduct beyond exclusively using the invention within its lawful patent monopoly as completely immune from antitrust scrutiny. If the conduct is not immune, then many restrictions

are viewed as per se illegal under Section 1 if "horizontal" (between competitors as in Topco)[33] or subject to a rule of reason test if "vertical" (cases typified by White Motors).[34] The U.S. Supreme Court's recent deviation from this rule in Schwinn to impose a per se rule in vertically imposed restraints after an article is sold has since been overruled by the Sylvania case.[35] This does not mean a patent monopoly can now justify a restraint after a first sale, but only that a restriction imposed by a non-competing seller is subject to a "Rule of Reason" approach and such restraint may be justified under proper circumstances.

The question that then arises is whether one can do any better than the "rule of ancillary restraints" for territorial restrictions, however worded, in an international context with or without non-U.S. patents and, if one can't do better, how the rule of ancillary restraints is likely to be applied. Let me present some examples:

1. First assume that the licensor has a patent on a product or process and places a restriction on his licensee on the location of manufacture of goods, but no restriction on the sale of such goods in a different country. I would say first that in the context of a unilateral license, a grant under patents in some countries, but not in others would be immune from attack.[36] Case D of the Guides presents this as lawful

under the facts with certain caveats, but I think that the decided U.S. cases[37] make this proposition somewhat broader.

The rule is probably different however where either (1) patents are initially exchanged two ways, (2) the initial recipient of a patent license grants back any exclusive rights to the original licensor, or (3) the scope or time of the agreement is broader than any one patent or distinct group of patents. In this context, you are going to have to make some showing of justification or show that because of a dominating patent or blocking patent, there is no anticompetitive effect. Non-exclusive grantbacks are much safer. Where the division is made by formation of a joint research venture as in Case D with no substantial input of secret technology or patent licenses from either party, then the licenses from the joint venture to the participants for their home territories are likely to be also immune or virtually immune. Where, however, the joint venture receives substantial expertise or background patents involving an entire industry from one and especially from both of the parties, the arrangement is much more subject to attack by the Justice Department as a type of patent pool.[38] There could be fact patterns where both parties are already in very competitive markets, that would justify exclusive grants from such a pooled resource joint venture to the participants, but the Justice Department may well attempt to attack such an arrangement as a per se violation.

In each of these contexts, I believe you are much safer with a "positive" limitation, that is, granting only some patent rights and not others rather than a "restrictive covenant" whereby one party undertakes not to practice the technology or infringe patents in another country. Another problem with a restrictive covenant is that violation of the restrictive covenant subjects a party to remedies for breach of the agreement which may be more drastic than available under the patent law that is violated.

2. Suppose that patents are transferred from A to B and a reciprocal restriction is placed on export to the other party's home country of products produced by the process covered by the patents. If the only patents involved are U.S. process patents, then under U.S. law it would not be an infringement to import into the United States a product of the process. Hence, as strongly suggested in the discussion of Case D in the Guides, the Justice Department would be likely to attack any license restraint on the import of the product into the U.S. A different rule may apply as to the enforcement of a non-U.S. process patent to exclude products made by the patented process in the United States. This point is not set out in the Guides, but it is probably lawful and immune from attack if within the rights granted by the foreign patent and not licensed to the U.S. manufacturer. I would think, however, that the imposition of a restrictive covenant wherein the U.S. manufacturer agrees not

to export products of the process to any country is more dangerous since (1) it subjects the U.S. manufacturer to the more drastic remedies of breach of agreement instead of merely patent infringement, and (2) there is the possibility that the restriction, even inadvertently, may someday restrict exports to a country where no patent validly covers such products.

3. The next situation is where only know-how is licensed (which usually relates to the manufacturing process and not to the product) and the restraint is against export of product to the licensor's home market.[39] Here the Justice Department would apply a rule of "ancillary restraints" as follows: (1) the know-how must be of substantial value and the purpose of the license must be to exploit the know-how and not to suppress it, and (2) the territorial restraint is no greater in scope or duration than necessary to prevent frustration of the underlying contract. Restricting imports to the U.S. is always fraught with risk unless under all the circumstances, the conduct would violate a valid U.S. patent. The Justice Department indicates in Case E that one measure to achieve this second point is to limit the duration of the restraint to the time it would take the licensee to independently develop the same or equivalent technology itself (called reverse engineering time). In many situations, this time may be hard to evaluate and even then, a Court would probably be more flexible than the Guides indicate.

At the very least, the following would appear reasonable. First, let's say it would take five years to develop the technology and three more for the licensee to build a plant, gain know-how and experience in his own country and achieve product reliability to the point where he would export the product in quantity to the licensor's country in competition with the licensor. It is submitted that an eight-year restriction on export to the licensor's country in this context would be upheld since no potential competition between the licensee and the licensor is restrained. The licensee is unfettered after eight years with substantial product experience and an established facility, which is how long it would take him to be in the same position without the license ("reverse engineering").

Let us say, however, that in the negotiations the parties decided, and perhaps the agreement recited, that ten years was determined to be the time for reverse engineering and building up sufficient experience for export. This would probably be acceptable if the ten-year figure were arrived at in good faith; the key is that the time not "substantially" exceed the reverse engineering period. If on the other hand, a 25-year limitation were set, it could be very difficult to justify.

Now let us assume that the licensed technology included independent processes for the manufacture of several different

products and say, one of them was subject to reverse engineering in a year or two, and that one would separately justify building a plant. Then a ten-year clause could be in trouble even if the other or others of the licensed processes could justify a ten-year term. If the one item was too minor to justify commercialization without the others, you should be all right.

It should be noted that in the Guides, the Justice Department leaves open the possibility of "necessity that might justify longer restraints" in the discussion of Case D after footnote 58; but it is hard to conceive what circumstances that would be for a major company with a significant portion of the market for the product in its own country.

4. Now, another example. A U.S. manufacturer licenses a patented process to a Japanese manufacturer permitting practice of the process only in Japan and in no other country in which a patent exists and places a restriction against export of the product of the patent to either North America or Europe, and similarly the licensor undertakes not to export products of the patent itself to certain countries in the Far East, including Japan. So far, the agreement is subject to Justice Department attack, particularly with regard to the foreclosure of exports both ways between Japan and the United States. But now suppose that the parties can establish that as a fact, goods made by the process in Japan could not economically be shipped to the

United States because of either transportation costs or some provision of U.S. law. In effect then, the only actual effect of the restriction on the Japanese manufacturer is to prevent sales from Japan to Europe. Here under the subject matter jurisdiction rule, it would appear that the U.S. Antitrust laws have not been violated, but various European laws would have to be examined and compared to the scope given any European patents, if any.

The restriction on export from the U.S. to Japan would also be subject to Justice Department attack unless it could be shown that in fact, the potential for such trade is illusory. A case in which economical or other impediments to U.S. export or import may have been the decisive factor is the Blohm and Voss case[40] in the District of Maryland, reversed on other grounds by the Fourth Circuit. The patentee in that case had separately licensed national patents on loading equipment to be installed on ships. A "Buy American Act" excluded such gear manufactured outside the U.S. for installation in all U.S.-built ships qualifying for a subsidy, substantially the entire U.S. market. And because of costs, such gear manufactured in the U.S. could not compete in price for installation in Europe or Japan. You might note that if the practicalities prevent certain exports, you are safer not using a restriction as there is no need for it.

5. Now take the hypothetical that a U.S. manufacturer exclusively licenses a state-owned enterprise in an Eastern European block country with a restriction forbidding export of products to Western Europe where he presently sells products manufactured in the U.S., and also a restriction against export to the U.S. The discussion of Case H in the Guides indicates that the restriction on export to Western Europe is probably O.K. since there is no adverse effect on U.S. commerce, but again you would want to check European Economic Community and national European laws. Regarding the restriction on export back to the U.S., which would almost certainly be unlawful if the licensee were a totally private concern, the discussion of the Guides questions whether the restriction would be justified. The argument would be that, since the state-owned enterprise is not subject to the same pricing considerations as a totally private enterprise would be subject to, then it might export to Western Europe or the U.S. at a predatory low price. The Justice Department suggests that less anti-competitive means exist, such as insuring a royalty return to the licensor or invoking of a countervailing duty provision under the U.S. Tariff Act or under the U.S. Anti-dumping Act, or some other provision rather than a territorial limitation. The Justice Department does, however, recognize that there may be extenuating circumstances here and hints that approval of such a clause

in such circumstances might be given under the Justice Department's business review procedure. I am not aware of any license agreement submitted under this procedure, but do have knowledge of proposed acquisitions that received favorable action.

IV. The fourth area I wish to address is whether from the Guides one can ascertain those circumstances under which a joint venture or technology transfer would be subject to attack even though no specific restrictive provision were used. None of the hypotheticals set forth in the Guides is said to be such an extreme case, but the Justice Department clearly hints that such cases may exist. First, where a U.S. party to a technology transfer is already at or near a monopoly position in a product line, then any arrangement he makes to receive technology that would enhance his monopoly position (and not be available to actual or potential competitors) might be subject to attack. Here, Section 7 of the Clayton Act dealing with asset acquisition and Section 2 of the Sherman Act dealing with monopolization and Section 5 of the FTC Act dealing with unfair competition are likely to be invoked. The same might be true where there are enough parties involved in the technology transfer to suggest a cartel, which, in the Justice Department's view should not be created at all. The Justice Department also looks for spillovers from exchanges of technology, information about pricing, production and the like that is monopolistic, price fixing or restrains trade. In Case C, the Justice Depart-

ment also looks to see if the joint venture is a "bottleneck monopoly" which is so important to those in the business that it must be opened to all on reasonable and non-discriminatory terms.

Finally, if the scope of the joint activity were so broad as to be beyond a recognizably distinct group of patents or area of technology, or could be said to involve joint activity broader in scope than the patents or technology transferred,[41] then the discussion of several cases makes it clear the Justice Department would feel free to attack such arrangements.

Even if an agreement to exchange technology or to participate jointly in research were justified as to the scope set forth, there is no question that the Justice Department would feel free to attack the operation of the venture if it were expanded to an unreasonable scope.

In summary, the U.S. case law reveals that the U.S. Government seldom attacks extraterritorial licensing arrangements except in classical cartel cases where patents and know-how of the parties contribute to the division of international markets in violation of the U.S. antitrust laws. The Guides can be useful in developing your policies governing the transfer of industrial property rights involving U.S. and foreign commerce. A realitic view that should be remembered is the limited factual scope of the hypothetical situations illustrated, and moreover, that future actions of the Justice Department are not bound by such illustrated examples.

1. Antitrust Division, U.S. Dep't of Justice, "Antitrust Guide for International Operations" (January 26, 1977), reproduced 314 Pat. Tr. & Cprt. J. E-1 (February 3, 1977).

2. 15 U.S.C.§2 (1970).

3. 15 U.S.C.§18 (1970).

4. United States v Monsanto Co., [1967] Trade Cases (CCH) ¶72,001 (W.D.Pa. 1967) (consent decree).

5. United States v. Hercules, Inc., [1973-1] Trade Cases (CCH) ¶74,530 (D.Del. 1973) (consent decree).

6. United States v. Penn-Olin Chemical Co., 378 U.S. 158 (1964).

7. 15 U.S.C. §2 (1970).

8. 15 U.S.C. §14 (1970).

9. International Salt Co. v. United States, 332 U.S. 392 (1947).

10. National Lockwasher Co. v. George K. Garrett Co., 137 F.2d 255 (3d Cir. 1943); Berlenbach v. Anderson & Thompson Ski Co., 329 F. 2d 782 (9th Cir. 1964) (patent misuse).

11. American Securit Co. v. Shatterproof Glass Corp., 268 F.2d 769 (3d Cir. 1959), cert. denied 361 U.S. 902 (1959) (patent misuse).

12. Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100 (1969) (so long as the licensor requires or "conditions" the license on a total sales royalty).

13. United States v. Glaxo Group Ltd., 410 U.S. 52 (1973).

14. It could be argued that Continental T.V. Inc. v. GTE Sylvania, -U.S.-, 53 L.Ed.2d 568 (1977) now requires a rule of reason test in a vertical setting.

15. Brulotte v. Thys Co., 379 U.S. 29 (1964).

16. Still viable under United States v. General Electric Co., Inc., 272 U.S. 476 (1926) under a single license. See Gibbons, "Price Fixing In Patent Licenses And The Antitrust Laws," 51 Va. L. Rev. 273 (1968).

17. United States v. Krasnov, 143 F. Supp. 184, aff'd per curium 355 U.S. 5 (1957); but see Moraine Products v. ICI America, Inc., 538 F.2d 134 (7th Cir. 1976). (held Licensee veto subject to Rule of Reason test).

18. Upheld by Transparent-Wrap Mach. Corp. v. Stokes & Smith Co., 329 U.S. 637 (1947): INCO v. Ford Motor Co., 166 F. Supp. 551, 555-66 (S.D.N.Y. 1958); but see Discussion of Case I and J. T. McCarthy, "Patent Grant-Backs," 2 APLA Quarterly J. 67 (Winter 1974).

19. Q-Tips Inc., v. Johnson & Johnson, 109 F. Supp. 657 (D.N.J. 1951), aff'd 207 F.2d 509 (3d Cir. 1953), cert. denied 347 U.S. 935 (1954).

20. United States v. CIBA GEIGY Corp., [1976-1] Trade Cases (CCH) ¶60,908 at 68,933 (D.N.J. 1976); see Ethyl Gasoline Corporation v. United States, 309 U.S. 436, 456 (1940).

21. [1976-1] Trade Cases at 68,958-59; Munters Corp. v. Burgess Industries Inc., 194 U.S.P.Q. 146 (S.D.N.Y. 1977); Ethyl Gasoline Corp., v. United States, 309 U.S. 436, 457 (1940).

22. United States v. Studiengesellschaft Kohle, 426 F. Supp. 143 (D.D.C. 1976). Contra Ethyl Corporation v. Hercules Powder Co., 232 F.Supp. 453 (D.Del. 1964) (involving the same agreement).

23. Chemical Week, August 24, 1977, page 22; 342 Pat. Tr. & Cprt. J. D-1 (B.N.A. Aug. 25, 1977) (proposed consent decree reproduced).

24. Field of use licenses resulting in only a royalty differential are approved in Ansul Co. v. Uniroyal, Inc., 306 F.Supp. 541, 565 (S.D.N.Y. 1969).

25. See Wheeler, "A Reexamination of Antitrust Law and Exclusive Territorial Grants By Patentees", 119 U. of Pa. L. Rev. 642 (1971); H. Marquis, "Limitation On Patent License Restrictions", 58 Iowa L. Rev. 41, 60 (1971); but see Dunlop Co., Ltd, v. Kelsey - Hayes Co., 484 F.2d 407, 417, (6th Cir. 1973).

26. Such as in United States v. General Electric Co., 82 F.Supp. 753, 815-16, 856-57 (D.N.J. 1949) (monopolization, patent pooling).

27. United States v. Birdsboro Steel Foundry & Mach, Co., 139 F.Supp. 244 (W.D.Pa. 1956) and Cutter Laboratories, Inc. v. Lyophile-Cryochem Corp., 179 F.2d 80 (9th Cir. 1949) are both examples of cross-licenses of blocking patents. Even patent pools with licenses granted to all comers have been attacked as reducing the incentive to invent. See United States v. Manufacturer's Aircraft Assn., Inc., [1976-1] Trade Cases (CCH) ¶60,810 (S.D.N.Y. 1975); United States v. Automobile Mfgrs. Assn., Inc., [1969] Trade Cases (CCH) ¶72,907 (C.D. Cal. 1969) (both consent decrees).

28. D. Baker, "Antitrust and World Trade," Corn. Intn'l L.J. 16, 21 (1974).

29. Insuring that the American consumer receives the benefit of import competition is said to be the first and foremost antitrust interest with respect to foreign trade. Ibid 22. Protecting export opportunities for U.S. firms is, however, also said to be a major interest.

30. Dunlop Co. Ltd. v. Kelsey - Hayes Co., 484 F.2d 407-17 (6th Cir. 1973) (licensees under a series of national patents upheld by citing 35 U.S.C. §261).

31. One author takes the position that such "limited licenses" should be perfectly legal in domestic licenses. G. Frost, "Patent License Provisions In General, Limitations vs. Restrictions," 2 A.P.L.A.Q.J. 21 (No. 1 Winter 1974).

32. Supra note 20.

33. United States v. Topco Associates, Inc., 405 U.S. 596

34. White Motor Co., v. United States, 372 U.S. 253 (1963); Continental T.V. Inc., v. GTE Sylvania, Inc., 53 L.Ed. at 585.

35. Supra note 14.

36. Adelman & Brooks, "Territorial Restraints In International Technology Agreements After Topco, "17 Antitrust Bulletin 763, 765-67 (No. 2 Fall 1972). The examples there are of unpatented technology.

37. See notes 25 and 28, supra. Courts are likely to scrutinize these divisions more carefully than were done in Dunlop.

38. This is the Justice Department's current theory in the Westinghouse - Mitsubishi case involving a long-term exchange of technology covering a broad area.

39. Adelman & Brooks at 768-70. The authors would condemn a reciprocal arrangement as per se illegal under United States v. Topco Associates, Inc.,405 U.S. 596 (1972). In Shin Nippon Koki Co, Ltd. v. Irvin Industries Inc., 186 U.S.P.Q. 296 (N.Y. Sup. Ct. 1975), such a restriction was upheld as "ancillary" without a thorough consideration of the term of the agreement or other circumstances.

40. Blohm & Voss A. G. v. Prudential-Grace Lines, Inc., 346 F.Supp. 1116 (D. Md. 1972), rev'd 489 F.2d 231 (4th Cir. 1973) (patent invalid).

41. It would appear that National Lead and Timken are appropriately placed in this class.

TEXT OF JUSTICE DEPARTMENT'S "ANTITRUST GUIDE FOR INTERNATIONAL OPERATIONS"

UNITED STATES DEPARTMENT OF JUSTICE
ANTITRUST DIVISION

ANTITRUST GUIDE FOR INTERNATIONAL OPERATIONS

January 26, 1977

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ANTITRUST GUIDE FOR INTERNATIONAL OPERATIONS

Part I. INTRODUCTION

Every year, American businesses enter into thousands of international transactions which raise possible antitrust issues. These include overseas distribution arrangements; overseas joint ventures for research, manufacturing, construction and distribution; patent, trademark and know-how licenses; distributorship contracts; mergers with foreign firms; and raw material procurement agreements and concessions. Likewise, American businesses frequently operate as foreign firms' distributors, licensees and joint venture partners in the United States.

Many of these transactions--indeed probably most of them--do not raise serious antitrust enforcement issues. Yet uncertainty on this score may sometimes cause businesses to abandon or limit unobjectionable transactions, or to embark upon unnecessarily restrictive transactions which would not be undertaken if the antitrust risk were more clearly perceived. 1/ Therefore, we try here to provide a working statement of government enforcement policy, illustrated by hypothetical case examples in several significant areas of business activity. This is intended to help businesses plan transactions which the Department of Justice is not likely to challenge, and to see which transactions are likely to require detailed factual inquiry by the enforcement agencies.

This paper is intended to be of assistance to--and not a substitute for--experienced private antitrust counsel. Nor is it a substitute for the Department of Justice Business Review Procedure (28 C.F.R. §506), under which the Department may issue a statement of enforcement intention with respect to a specific pending transaction. Use of the Business Review procedure is necessary if a firm expression of Antitrust Division views is desired in regard to particular transactions which pose close or difficult antitrust questions.

Applicable Antitrust Laws

The U.S. antitrust laws are the foundation of our broad national commitment to competition based on efficiency -- to providing consumers with goods at the lowest price that efficient business operation can justify, and to allowing enterprises to compete on the basis of their own merit. The most relevant provisions are still Sections 1 and 2 of the Sherman Act, enacted in 1890. Section 1 bars "every contract, combination . . . , or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations . . . ." 2/ Section 2 makes it a violation of law to "monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations . . . ." 3/ Certain types of agreements are regarded as illegal per se -- including, most notably, agreements among competitors to fix prices at which their offerings are sold, or to allocate territories or customers in order to avoid competing with each other. This is done because experience generally has established that such agreements' "pernicious effect on competition and lack of any redeeming virtue" makes an "elaborate inquiry as to the precise harm [that individual restraints] have caused or the business excuse for their use" generally not worth the effort. 4/

Most other restraints are tested by a full factual inquiry as to whether they will have any significantly adverse effect on competition, what the justification for them is, and whether that justification could be achieved in a less anticompetitive way. This test is the so-called "rule of reason" first enunciated by the Supreme Court in 1911. The rule of reason may have a somewhat broader application to international transactions where it is found that (1) experience with adverse effects on competition is much more limited than in the domestic market, or (2) there are some special justifications not normally found in the domestic market. 5/ Either circumstance could justify a fuller factual inquiry. We emphasize, however, that the normal per se rules will be applied fully to basic horizontal restraints designed to affect U.S. market prices or conditions or to divide the U.S. market from other markets.

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1/ At least two complicating factors may be present here. First, there is a relative lack of litigated antitrust cases in the area of foreign commerce as compared with the decisional law in domestic commerce. Secondly, purely domestic decisions may not be readily generalized to the international context.

2/ 15 U.S.C. 1. The Department also has brought actions under the Wilson Tariff Act for conspiracies in restraint of United States import trade. 15 U.S.C. 8-11. However, this statute almost totally parallels Section 1 of the Sherman Act which is the primary law against restraints of import or export trade or commerce with foreign nations, and therefore it need not be separately discussed here.

3/ 15 U.S.C. 2.

4/ Northern Pacific Railway Co. v. United States, 356 U.S. 1, 5 (1958). The list of restraints subject to per se rules in addition includes collective refusals to deal and tie-ins, both of which tend to restrict the ability of the disfavored businesses to compete effectively.

5/ See Brewster, Antitrust and American Business Abroad, 79-84 (1958).

The antiturst laws are very different in focus and technique from many of the other legal rules with which businessmen have to deal in international transactions. The United States antitrust statutes do not provide a checklist of specific, detailed statutory requirements, but instead set forth principles of almost constitutional breadth. This broad mandate frequently requires private parties, prosecutors and the courts to consider the overall purpose and effect of business arrangements in order to evaluate them under the antitrust laws. Terms of an agreement may be permitted, despite the fact that they restrict some competition, provided that the restriction is clearly ancillary to some legitimate purpose and is appropriately limited in scope.

Stated more broadly, the antitrust concern is very often not so much with the particular form of a transaction, but its surrounding circumstances. This point is frequently illustrated in the subsequent case discussions. For example, a limited noncompetition restriction in a single know-how license may be justified by a showing that it is reasonably ancillary to a legitimate technology transfer agreement. 6/ On the other hand, a broad pattern of such restrictions, covering a wide variety of different products and know-how of widely differing worth, may be quite objectionable because the overall effect is to create a broad territorial allocation between the parties. This suggests the key inquiries in regard to an international trade restraint of the rule of reason variety. First, is it an anticompetitive restraint which is ancillary to a lawful main purpose? Secondly, is its scope or duration greater than necessary to achieve that purpose? Thirdly, is it otherwise reasonable, either alone or in conjunction with other circumstances? 7/

A special antitrust exemption is provided under the Webb-Pomerene Act for acts of a collective export association of American producers, provided that the association does not (i) artificially or intentionally restrain U.S. domestic trade or affect U.S. domestic prices, or (ii) restrain the export trade of any U.S. competitor of the association. 8/ The Webb-Pomerene Act applies solely to the export of "goods, wares or merchandise" 9/ and, therefore, does not explicitly extend to service and licensing transactions. An association must be limited to domestic firms. In fact, the general policies discussed above are broadly consistent with the Webb-Pomerene Act, given its specific limitations. Therefore, we do not anticipate that transactions outside the coverage of the Webb-Pomerene Act will be subject to substantially different rules under the Sherman Act.

Enforcement Policy

Antitrust enforcement by the United States Government has two major purposes with respect to international commerce. The first is to protect the American consuming public by assuring it the benefit of competitive products and ideas produced by foreign competitors as well as domestic competitors. Competition by foreign producers is particularly important when imports are or could be a major source of a particular product, or where the domestic industry is dominated by a single firm or a few firms. An agreement or set of private agreements designed to raise the price of such imports or to exclude them from the domestic market raises most serious antitrust concerns. Antitrust enforcement can be expected against domestic firms and foreign firms subject to our jurisdiction for participation in such agreements. Moreover, the form of agreement is not controlling; an informal undertaking embodied in a single conversation may be just as punishable as the same undertaking contained in a complete contract. Any type of restraint which limits the competition offered by significant foreign competitors and products in our domestic market will be examined with great care by enforcement officials.

The second major antitrust enforcement purpose is to protect American export and investment opportunities against privately imposed restrictions. The concern is that each U.S.-based firm engaged in the export of goods, services, or capital should be allowed to compete on the merits and not be shut out by some restriction imposed by a bigger or less principled competitor. Often, the most objectionable private restrictions involve collective efforts by one group of competitors to exclude another from a particular market. 10/

The Department of Justice is and will continue to be strongly committed to these two policies. Their status as the cornerstones of our enforcement policy leads to the general conclusion that a very large proportion of international business transactions involving American firms and/or American markets usually will not involve violations of U.S. antitrust law because such transactions will not adversely affect U.S. consumers or competitors. This is especially true of those transactions which involve the development or expansion of export markets, whether this be through the formation of foreign subsidiaries, joint ventures, licensing arrangements or distributorships.

Questions of Jurisdiction

The application of U.S. antitrust law to overseas activities raises some difficult questions of jurisdiction. First, there is the question of subject matter jurisdiction: whether United States antitrust law applies to certain overseas acts which affect U.S. commerce. The acts of U.S. citizens in a foreign nation normally are subject to the law of the country where they take place. 11/ Yet U.S. law in general, and the U.S. antitrust laws in particular, are not limited to transactions which take place within our borders. 12/ When foreign transactions have a substantial and foreseeable effect on U.S. commerce, they are subject to U.S. law regardless of where they take place. 13/ Analysis of whether there is sufficient impact on U.S. commerce to confer jurisdiction generally involves the same practical analysis of purpose and effect discussed in the preceding section on enforcement policy. Accordingly, considerations of jurisdiction, enforcement policy, and comity often, but not always, lead to the same conclusion: the U.S. antitrust laws should be applied to an overseas transaction

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6/ See the discussion in Case E below, pp. 28-32.

7/ This type of formulation has been frequently used by the Department. See, e.g. Assistant Attorney General Richard W. McLaren, Licensing Patents and Technology Under the United States Antitrust Laws, 40 Antitrust L.J. 931, 936 (1971).

8/ 15 U.S.C. 61-65.

9/ 15 U.S.C. 61.

10/ See, e.g. Pacific Seafarers, Inc. v. Pacific Far East Lines, 404 F.2d 804 (D.C. Cir. 1968), a case which involved a conspiracy among the members of the conference of American flag steamship lines to drive another U.S. line (which was not a conference member) off a particular international route by the use of predatory price cuts and other coercive tactics. The trade involved was reserved by U.S. law for U.S. carriers.

11/ Restatement (Second) of Conflict of Laws § 9, Comment F (1971); Restatement (Second) of Foreign Relations Law §§20, 30 (1965).

12/ See W. Fugate, Foreign Commerce and the Antitrust Laws, 29 et seq. (1973).

13/ See Steele v. Bulova Watch Co., 344 U.S. 280 (1952); United States v. Aluminum Company of America, 148 F.2d 416, 444 (2d Cir. 1945), Continental Ore Co. v. Union Carbide and Carbon Corp., 370 U.S. 690, 704-05 (1962).

when there is a substantial and foreseeable effect on the United States commerce; and, consistent with these ends, it should avoid unnecessary interference with the sovereign interests of foreign nations. 14/

For example, to use the Sherman Act to restrain or punish an overseas conspiracy whose clear purpose and effect is to restrain significant commerce in the U.S. market is both appropriate and necessary to effective U.S. enforcement. 15/ By contrast, to apply the Sherman Act to a combination of United States firms for foreign activities which have no direct or intended effect on United States consumers or export opportunities would, we believe, extend the Act beyond the point Congress must have intended. This could encroach upon the sovereignty of a foreign state without any overriding justification based on legitimate United States interests. In fact, antitrust laws and enforcement programs various foreign nations have adopted (or could adopt) may offer a more direct means for redressing unreasonable trade restraints which have their primary impact on the residents of those jurisdictions, but have no significant impact on United Stares consumer interests and export opportunities. 16/

Subject matter jurisdiction may sometimes be challenged through affirmative defenses such as (i) the act of state doctrine; 17/ (ii) the doctrine of foreign governmental compulsion; 18/ and (iii) other claims based on consideration of comity. 19/ These defenses often are claimed much more broadly than seems appropriate if the Department is to carry out its essential function of protecting the competitiveness of U.S. markets and export opportunities. Therefore, we seek to explain their application in the factual settings which will be found in the case material which follows.

Second, there is the question of personal jurisdiction over those who would be charged with a violation of our law. The general trend of modern history has been to expand the personal jurisdiction of our courts to reach those who transact business in a certain place, even if they are not "found" there in a traditional jurisdictional sense. 20/ The Department will utilize these principles to seek to exercise the fullest permissible jurisdiction over those who illegally cartelize our markets.

Finally, the doctrine of sovereign immunity provides a defense to the personal jurisdiction of the U.S. courts, but we believe only for conduct of the sovereign acting in its "sovereign" capacity rather than in a "proprietary" capacity. 21/

Conclusion

The Department's most important concern is to protect the U.S. domestic market against restraints on competition -- restraints on entry, pricing and terms of sale. In carrying out this effort, no essential distinction is made between domestic and foreign firms. In general, foreign firms, including state-owned or controlled firms, will be expected to observe the prohibitions of our antitrust laws, and to benefit from the enforcement of those laws in the same manner as domestically incorporated enterprises.

Part II. ILLUSTRATIVE CASES

These selected cases illustrate how U.S. antitrust enforcement is likely to apply in some representative fact situations. Some cases involve quite clear and easy answers. In others, the analysis is complex and the answers depend heavily on surrounding circumstances. The case discussions make clear that antitrust analysis usually turns heavily on facts. We constantly ask the business reason why something is being done; what benefits are being produced; and whether less anticompetitive ways exist to achieve the same benefits.

Case A: A Multinational Operation

International Action Corporation (IAC) is a large, well-known multinational corporation headquartered in New York City. IAC manufactures printing machines in New Jersey, but it does not export them except to Latin America. It relies on overseas subsidiaries to manufacture and sell its products throughout the rest of the western world. Although IAC's patents on its printing machines expired years ago, the IAC group has retained a dominant position in most markets because of superior sales and service organizations, accumulated know-how, and low manufacturing costs.

The IAC system of management involves a strong "profit center" concept, and individual subsidiaries are measured in terms of their ability to develop sales in their own assigned territories. Normally when an order comes in to one subsidiary from the assigned territory of another, the recipient will send it on, or suggest that the consumer contact directly the subsidiary assigned to the territory.

One IAC subsidiary is International Action (U.K.) Limited, which manufactures IAC products and sells

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14/ Restatement (Second) of Foreign Relations Law §40 (1965); see also United States v. Field, 532 F.2d (5th Cir. 1976); cert. denied, 45 U.S.L.W. 3345 (Nov. 8, 1976); Timberlane Lumber Co. v. Bank of America, 797 A.T.R.R. G-1 (9th Cir. 1976).

15/ United States v. Aluminum Company of America, 148 F. 2d 416 (2d Cir. 1945).

16/ The U.S. Government is a party to voluntary guidelines which discourage participation by international businesses (including U.S. businesses) in anticompetitive trade practices wherever they occur. See Code of Conduct for Multinational Enterprises adopted by the Council of the Committee of International Investment and Multinational Enterprises of the Organization for Economic Cooperation and Development (June 1976). The United States is committed to a program of cooperation with foreign antitrust agencies, including joint efforts to improve the enforcement efforts of each participating nation under its own national law. See e.g., Agreement between the Government of the United States of America and the Government of the Federal Republic of Germany Relating to Mutual Cooperation Regarding Restrictive Business Practices, signed June 23, 1976. In addition, the Department of Justice has been, and will continue to be, quite active in urging governmental bodies to be less restrictive in regulating international trade where public goals can be served by less restrictive measures.

17/ American Banana v. United Fruit Company, 213 U.S. 347 (1909); see United States v. Sisal Sales Corp., 274 U.S. 268 (1927); Continental Ore v. Union Carbide & Carbon Co., 370 U.S. 690 (1962).

18/ Interamerican Refining Corporation v. Texaco Maracaibo, Inc., 307 F. Supp. 1291 (D.Del. 1970).

19/ Restatement (Second) of Foreign Relations Law §40.

20/ See e.g., Cofinco Inc. v. Angola Coffee Co., A.C., 1975-2 Trade Cas. Par. 60,456 (S.D.N.Y. 1975).

21/ Dunhill v. Republic of Cuba, 425 U.S. 682 (1976); Victory Transport, Inc. v. Comisaria General, 336 F.2d 354 (2d. Cir. 1964); United States v. Deutsches Kalisyndicat Gesellschaft, 31 F.2d 199 (S.D.N.Y. 1929). This doctrine has been codified in the Foreign Sovereign Immunities Act of 1976, 28 U.S.C. 1602 et seq. Pub.L. 94-583, Oct. 21, 1976, 90 Stat. 2891. Compare In re Investigation of World Oil Arrangements, 13 F.R.D. 280 (D.D.C. 1952). Since World Oil seems inconsistent with the later Dunhill case and the sovereign immunity statute, we do not rely on it in our enforcement actions. We recognize that drawing the line between what is "sovereign" and what is "commercial" may prove difficult in particular cases, which may turn in part on questions of foreign law, custom and practice.

them throughout the British Commonwealth, except Canada. This was a wholly-owned subsidiary when formed in 1954, but as a result of a 1964 public stock offering, 40 percent of the stock is now owned by the British public. IAC also has a wholly-owned Canadian subsidiary, Action, Ltd., which sells only in Canada.

International Action G.m.b.H., incorporated in the Federal Republic of Germany, manufactures and sells IAC products in the Common Market countries (other than Britain and Ireland) and it sells the machines in all other countries except members of the British Commonwealth, the United States and Latin America. This German subsidiary was acquired in 1951 from four large individual investors. IAC now holds 56 percent of the stock in the German company and the remaining 44 percent is evenly divided among the four original organizers.

IAC has received an offer for seven percent of the stock in the German subsidiary, which would leave it with a 49 percent stock ownership, but effective working control. Also IAC is negotiating to sell a 50 percent interest in its Canadian subsidiary to a Canadian government corporation which buys the stock of Canadian companies for investment.

Discussion

This case involves the antitrust status of territorial allocations and other practices by a fairly typical multinational corporation. It appears to be a worldwide leader in its field. It has structured its operations in such a way that each overseas subsidiary in effect has an exclusive sphere of operation.

This case involves some obvious factual parallels to the Supreme Court's important 1951 Timken Roller Bearing Co. decision. 22/ Yet, in the end, the situation here appears to differ in purpose and effect. Timken was a Sherman Act §1 case charging a whole series of agreements, going back to 1909, between American Timken and a major foreign competitor (originally part of the Vickers group) to limit their competition in the American and worldwide markets for antifriction bearings. British Timken had evolved between 1909 and 1928 as an enterprise jointly controlled by American Timken and certain British interests which acquired the rights from Vickers. French Timken was then organized by American Timken and the British interests behind British Timken. By 1948, American Timken owned 30 percent of the stock of British Timken and 50 percent of the stock of French Timken. The District Court found that the parties maintained tight exclusive territories, fixed prices, combined together to eliminate outside competition from each other's markets, and participated in foreign cartels which restricted exports by other U.S. producers. 23/ The Supreme Court sustained the finding of violation with the statement that "common ownership or control of the contracting corporations does not liberate them from the impact of the antitrust laws," 24/ but it reversed the District Court's order of divestiture.

The IAC arrangement is quite distinguishable from the Timken situation. IAC has unilaterally organized its worldwide activities by setting up various subsidiaries; Timken involved a leading American firm eliminating competition in the United States and elsewhere from its leading foreign competitor through an agreement, and ultimately binding up this agreement in a more permanent form through stock ownership. As Mr. Justice Reed said in his opinion,

> ... it may seem strange to have a conspiracy for the division of territory for marketing between one corporation and another in which it has a large or even major interest, but any other conclusion would open wide the doors for violation of the Sherman Act at home and in foreign fields. 25/

That is precisely the point. The preexisting territorial agreement between the Timken and Vickers interests was clearly subject to antitrust challenge, for it eliminated potential Vickers imports into the United States, while cutting down Timken's potential overseas markets. The agreement could not be saved by a subsequent stock affiliation.

The Department of Justice has consistently accepted the view stated in the 1955 Report of the Attorney General's National Committee to Study the Antitrust Laws: a parent corporation may allocate territories or set prices for the subsidiaries that it fully controls. 26/ The Department's test has generally been formulated in terms of whether the parent controls a majority of the voting stock of the subsidiary. However, the same reasoning may apply to a minority position where the U.S. firm maintains effective working control. 27/

Where majority stock control is not present, the Department may make a careful inquiry into the facts of the particular case.

Likewise, if the German subsidiary had been a major preexisting firm in the same field or a similar field, then the situation would require such factual inquiry. Such an acquisition could be challenged under Clayton Act §7 or under Sherman Act §1 if it eliminated the foreign firm as an important competitor in the domestic market, or if the foreign firm were a likely one among a small group of potential entrants into the concentrated U.S. market where IAC was a leader. This does not seem to be the case here. Potential competiton issues are discussed below in Case B, pp. 15-18.

The members of the IAC group do allocate territories and reinforce that allocation with a "profit center" concept designed to encourage each to develop fully its own territory. For the majority-controlled subsidiaries, no objection arises under U.S. antitrust laws. IAC and its majority-controlled subsidiaries are treated as a single enterprise for antitrust purposes, and the enterprise is left to carry on its pricing and marketing strategies based on its judgment of its own interests.

If IAC's position was reduced to that of a minority shareholder, then the Department would have to look carefully at the relationship between IAC and the other shareholders--especially if the other shareholders constituted some sort of independent competitive interest. The test is essentially one of continued control: does IAC in fact still control the company or is the arrangement some institutionalized market-sharing arrangement? On the facts given, it would not appear that a sale of an additional seven percent in the German subsidiary to an independent investor, or a sale of 50 percent interest in the Canadian subsidiary to a Canadian government holding company, would in fact change the essential

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22/ Timken Roller Bearing Co. v. United States, 341 U.S. 593 (1951).

23/ 83 F.Supp. 294 (N.D. Ohio 1949).

24/ 341 U.S. at 598.

25/ 341 U.S. at 602.

26/ Report of the Attorney General's National Committee to Study the Antitrust Laws, at 35. This would still allow use of the Sherman Act to reach coercive attempts by members of a corporate group to drive third parties out of business or out of markets.

27/ Cf. United States v. Citizens & Southern National Bank, 422 U.S. 86 (1975), which involved only a five percent holding by defendant bank in each of a number of affiliated banks. The Court was influenced by the fact that the defendant had been instrumental in organizing all but one of the affiliated banks, that parties friendly to defendant controlled much of the rest of the stock of the affiliated banks, that the affiliated banks had operated in close coordination with defendant, and that the defendant had been prevented by state law from controlling a larger interest in those banks. 422 U.S. at 111-116.

competitive situation. But such sales would cause the territorial arrangement to be more closely scrutinized by U.S. authorities, especially if it subsequently appeared that independent foreign exports into the United States were somehow being restrained.

Case B: A U.S. Firm's Foreign Acquisition

Razors, Inc. ("RI"), an American company, is the largest manufacturer of razor blades both in the United States and internationally, accounting for about half of all U.S. and world sales. RI proposes to buy Glint, a small German specialty manufacturer, which has developed a cadmium steel razor blade arguably superior to the traditional steel blades offered by RI and the other major companies here and abroad. Glint has started selling these blades in Germany (but on a low advertising budget) and still accounts for less than 1% of all razor blade sales in Germany. Its export sales to the United States are insignificant. RI independently possesses the technical capability to manufacture cadmium blades, but it has decided against doing so either in the United States or abroad.

Discussion

The basic U.S. antitrust merger provision is contained in Section 7 of the Clayton Act (15 U.S.C. 18). Section 7 bars corporate acquisitions which foreclose or eliminate substantial competition in any relevant market. The section applies to mergers between direct competitors, between potential competitors, and between customers and suppliers, among others.

It seems unlikely that Section 7 would apply here because there is no suggestion that Glint is engaged in making sales in the United States. A recent Supreme Court decision held that Section 7 requires that the acquired firm be "engaged in commerce"; it is not enough that the acquisition merely affects commerce. United States v. American Building Maintenance Industries. 28/ To be "engaged in commerce" a corporation must be engaged in the production, distribution, or acquisition of goods or services in commerce among the U.S. states or between the United States and a foreign country. The "engaged in commerce" limitation will prevent the application of Section 7 to those international acquisitions where, as here, the foreign party is small and not directly operating in the United States.

Section 7 contains another geographic limitation. The section bars any merger whose "effect in any line of commerce in any section of the country may be substantially to lessen competition or to create a monopoly." (Emphasis added.) The focus under Section 7 is on the effect of a merger on United States markets. Where an American firm seeks to buy a foreign company that already competes directly in the U.S. market, Section 7 applies and bars any merger which has any prohibited effect in any relevant U.S. market. For example, in United States v. Joseph Schlitz Brewing Co., 29/ the Department successfully challenged an acquisition by Schlitz, a leading American brewer, of a Canadian brewer which in turn controlled a California brewer that competed directly and substantially with Schlitz.

Acquisition of a foreign firm that is a major potential entrant in a U.S. market, can be challenged under the U.S. antitrust laws if the foreign firm is otherwise engaged in U.S. commerce. 30/ Here the inquiry will be whether (1) the U.S. market (or relevant local market) is highly concentrated; (2) the foreign firm is by virtue of its capability of entering the market one of a relatively small group of potential entrants; (3) the foreign firm has the incentives to enter the U.S. market; and (4) the foreign firm has the capability of entering the market or threatening to enter. If all these factors are present, a merger between such a firm and a leading American firm may well violate Section 7 of the Clayton Act--regardless of whether in form the American firm is acquiring the foreign firm (as in Schlitz) or the foreign firm is acquiring the American firm (as in British Oxygen).

In the instant case, we shall assume the relevant American razor market is indeed concentrated and potential competition might well be an important factor in present and future market structure and behavior. However, the acquired firm (Glint) does not appear to be a significant potential entrant into the U.S. market under our normal standards. It is not an industry leader abroad, and has limited size and resources. Even in its home market it has not engaged in the extensive product promotion so important to consumer products. All these factors weaken any suggestion that it has the capability to enter the U.S. market.

Glint's new product is the key factor which might separate this from the normal case. If Glint's new type of blade is shown to be clearly superior to blades now sold in the U.S., this raises some inference that Glint might enter the U.S. market to exploit the blade and that its entrance might have a significant procompetitive impact in the U.S. market. Absent such a unique asset or product, the acquisition of such a small foreign competitor would probably not be of concern to antitrust enforcement agencies.

This suggests one final variation. If Glint in fact holds U.S. patent rights to its new product, the patent might be considered an "asset" subject to Clayton Act §7, and business transactions dealing with Glint's U.S. patent might cause it to be regarded as "engaged in commerce." If this were so, RI's acquisition of Glint or Glint's patent could be subject to Clayton Act §7. However, it is more probable that, if Glint's only U.S. involvement were with its patent, the situation would be approached under Sherman Act §1, and the case treated as if Glint had assigned or granted an exclusive U.S. license to RI. 31/ Such a license or assignment would not be per se illegal, unless it were a part of a larger territorial allocation among significant competitors. That does not seem to be the case here. 32/

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28/ 422 U.S. 271 (1975). The Department of Justice supports legislation to reverse American Building Maintenance by making Section 7 applicable to the acquisition of a corporation whose activities affect the interstate or foreign commerce of the United States. The Sherman Act is not limited to firms "engaged in commerce," but applies to all activities which substantially affect interstate commerce. 422 U.S. at 278. Futhermore, a corporation which does not engage in transactions with parties in another state or country may nevertheless be "engaged in commerce" if it regularly participates through intermediaries in such transactions. 422 U.S. at 286 (White, J., concurring).

29/ 253 F. Supp. 129 (N.D.Cal. 1966).

30/ See, e.g., British Oxygen Co., Limited, Trade Reg. Rep., 1973-1976 FTC Complaints and Orders Par. 21,063 (F.T.C. 1975).

31/ This subject is more fully explained in Cases E and F below, pp. 28-36.

32/ Because RI has about 50% of the relevant U.S. blade market, it might well be subject to a charge of monopolization under Section 2 of the Sherman Act. The Supreme Court has stated that "The offense of monopoly under §2 of the Sherman Act has two elements: (1) the possession of monopoly power in the relevant market and (2) the willful acquisition or maintenance of that power . . ." United States v. Grinnell Corp., 384 U.S. 563, 571-72 (1966). Monopoly power may be inferred from RI's market share, and the requisite willfulness or intent may be found if it has bought up the offeror of a new competitive product for the apparent purpose of creating or maintaining that monopoly power.

The fact that Glint is of foreign nationality is of no special significance under U.S. antitrust law and enforcement policy. 33/ The Department's antitrust enforcement program does not discriminate against or in favor of business entities on the basis of their citizenship in this or any other antitrust situation. In U.S. antitrust enforcement, it is a firm's role in or effect on U.S. commerce that is of concern.

Case C: Joint Bidding

Several U.S. electrical equipment manufacturers and engineering firms have established a consortium for the purpose of submitting a bid on an extremely large hydroelectric project in a Latin American country. The consortium consists of the second, third, and sixth largest U.S. equipment manufacturers (the second largest being the smaller of the two U.S. hydroelectric generator manufacturers). The consortium also includes the United States' first, fifth, and eighth largest engineering firms.

The parties have formed the consortium because the project is too large for a smaller group to finance, and a smaller group would not have the technical capabilities necessary to carry out the project. Most of the manufacturers and engineers have tight capital situations and are already reasonably busy due to domestic demand and contracts made for sales and construction work in other countries. Since the project will take almost ten years to complete, the parties also are concerned with the long-run political situation in the host country.

The parties believe that they will be competing against similar consortia supported by the Japanese and British governments. Because they are anxious that U.S. firms not "cut each others' throats," several senior U.S. Government officials have been strong supporters of the proposed consortium.

The parties have not invited any other American or foreign firms to join the group; and they do not know whether other American engineering or equipment manufacturing firms know about it.

Discussion

The "joint venture" is a particularly common form of business organization in the international field, for a variety of entirely legitimate reasons. Some joint ventures are, as in this case, essentially "one shot" consortia engaged in a single venture limited in time and scope. Others may involve what are essentially permanent combinations for the production or distribution of products and services. Joint ventures may be designed for a variety of business reasons--e.g., to take advantage of complementary skills or large economies of scale, to spread large risks, or to give an international enterprise a "local" flavor. 34/ Giving a particular undertaking a "joint venture" label is not controlling for antitrust purposes. 35/ Rather, antitrust enforcers will be concerned with the reasons for a joint venture--and the availability of less anticompetitive alternatives--if the joint venture is among competitors or important potential competitors.

Any joint venture among competitors involves some antitrust risk that the cooperation may spill over into other areas. 36/ Accordingly the parties should use special care in policing the operations of a joint venture involving actual or potential competitors, to insure that the parties stick strictly to the joint venture's legitimate business. In some circumstances, such as an ongoing, long-term venture, it may be desirable that the venture have separate personnel of its own, to reduce day-to-day contact among officials of the competitor-members.

The antitrust inquiry into the legality of a particular joint venture generally involves three major issues. The first is whether the creation of the joint venture itself unreasonably restrains competition. The second is whether the joint venture has any unreasonable collateral restraints that must be struck down even if the venture is allowed. The third is whether the joint venture is in essence a "bottleneck monopoly" which is so important to those in the business that it must be opened to all on reasonable and nondiscriminatory terms.

The creation of a joint venture of the more permanent variety will in essence be looked at as if it were a merger between parties in the field covered by the venture. Where an overseas joint venture is involved, Section 7 of the Clayton Act frequently does not apply 37/ and the joint venture must be examined under Section 1 of the Sherman Act.

Normally, the Department would not challenge a merger or joint venture whose only effect was to reduce competition among the parties in a foreign market, even where goods or services were being exported from the United States. The rules are even less stringent where a limited "one shot" type of venture is involved creating a special limited competitor for a special limited purpose. Such short-term consortia are useful where large risks or dollar amounts are involved (as with a multiple bank loan or securities underwriting) or where complementary skills are required (as with the typical construction joint venture). 38/

The present joint venture seems typical and legitimate. Complementary skills are involved; the project is large; the firms lack capital to do it individually; and there appear to be some political risks. These considerations do not necessarily make the joint venture legal--but they tend to justify it to the degree that they are truly significant.

In this case, there is no reason to suspect that the joint venture either would eliminate competition in the domestic U.S. market or foreclose export opportunities for U.S. firms. The venture is creating a larger, and presumably stronger joint competitive effort. Its creation appears unobjectionable, and no impermissible collateral restraints are shown. 39/

33/ Under an arrangement with member nations of the Organization for Economic Cooperation and Development, the U.S. Government will give notice to member governments of the commencement of an antitrust investigation involving important interests of the member government. Investigations involving foreign firms such as Glint frequently lead to such notification. See Recommendation of the OECD Council Concerning Cooperation Before Member Countries on Restrictive Business Practices Affecting International Trade, October 5, 1967; reprinted in Fugate, Foreign Commerce and the Antitrust Laws, Appendix D.

34/ Sometimes joint ventures seem to have been used simply because that was the custom of the business (e.g., bank loan syndication, underwriting syndicates) even where one firm could have handled the task. This type of motivation is not entitled to any special antitrust consideration.

35/ Timken Roller Bearing Co. v. United States, 341 U.S. 593, 598 (1951).

36/ Judge Wyzanski alluded to this problem in his discussion of a foreign joint venture in United States v. Minnesota Mining and Mfg. Co., 92 F. Supp. 947, 963 (D.Mass. 1950): "The intimate association of the principal American producers in day-to-day manufacturing operations, their exchange of patent licenses and industrial know-how, and their common experience in marketing and fixing prices may inevitably reduce their zeal for competition inter sese in the American market." Such spillover effects are less likely in a one-shot joint venture than in an ongoing arrangement.

37/ See the discussion in Case B, pp. 15-18 above.

38/ E.g. United States v. Morgan, 118 F. Supp. 621 (S.D.N.Y. 1953) (securities underwriting).

39/ The venture is in fact somewhat similar to one recently approved by the Department, involving an American engineering firm (Burns & Roe) and three major U.S. industrial firms (General Electric Co.,

Nor does this venture appear to be an "essential facility," exclusion from which would impose a serious handicap on other members of the industry. In general the "essential facility" or "bottleneck monopoly" doctrine has been applied only to more or less permanent joint ventures -- such as those controlling a terminal railroad, a dominant national news gathering service, or a dominant stock exchange. 40/

We have not found any application of the doctrine to short-term consortia. It is unlikely that any particular short-term consortium is an "essential facility" necessary to continued competition in the business.

The present consortium, although important, does not appear to be essential for either the non-participating engineers or equipment suppliers. Indeed it appears possible that the remaining U.S. engineers and equipment suppliers could form another consortium, either alone or with a foreign interest, to bid on the particular project. This would argue strongly against applying the essential facility doctrine to require compulsory access. 41/

The informal encouragement from the senior government officials might assist the parties where their good faith is at issue, but it clearly is not controlling as a matter of antitrust analysis and would not convey any sort of antitrust exemption. 42/

Case D: Joint Research

RXI, the second largest of five producers of X-metal in the United States, has entered into preliminary discussions with British Metals Ltd., one of the largest X-metal producers in the Common Market, about a research and development joint venture for the development of a process for producing X-metal from materials other than X-ore. X is available in a variety of domestic shales, but nobody has found an economic way to recover it. Several X-metal producers, including RXI and British Metals Ltd., are trying some research at the laboratory stage, but so far none has been able to develop any workable process.

The parties will form a British company, in which each would own half of the shares and appoint half the directors. The parties agree that all their research operations in this area will be conducted through the joint company. The parties have agreed that if the joint venture's research is successful, the joint company will seek to obtain patents covering its processes. RXI would be given an exclusive license to all patent rights and use of know-how in North America, while British Metals Ltd. would be given similar rights to patents in the United Kingdom, other EEC countries, and all former British colonies and dominions except Canada.

Discussion

A joint research venture, as with any joint venture, raises three questions: (1) does its creation eliminate any significant existing competition between the parties; (2) are there any unreasonable collateral restraints; and (3) is the joint venture an essential facility that must be open to all on reasonable and nondiscriminatory terms? On the facts of this case, the third issue does not appear to present any problems.

Competition clearly is important to the development and delivery of new products. While most antitrust cases concern existing product markets, antitrust enforcement also is concerned with competitive incentives to develop new products. The creation of this joint venture would in essence eliminate competition between the two partners in the development of a process for producing X-metal from sources other than X-ore. This is clearly significant. Moreover, there is no per se rule applied to joint research agreements. One question is whether the parties would have undertaken the research on their own or whether the costs and risks are so large that the alternative to the joint venture is no research at all -- in other words, less competition. If the latter could be shown, there would be no antitrust objection to the formation of the venture. Nor would there be any antitrust objection in a case where two nondominant joint venturers were but two of a considerable number of firms with the incentive and capability to do the type of research involved, for then the elimination of competition between the two in research would not be substantial in relation to the total market.

The present case involves a combination between two of a relatively small group of X-producers. That being so, a factual inquiry will be necessary to determine whether the venture is likely to restrict long-run competition in the X-industry, focusing on the costs, scope and risks of the proposed venture. The narrower the scope of the venture, in both time and subject matter, the less likely it is to limit long-run competition in the X-industry. If the capital costs and risks were shown to be so high that the project could not be carried out without the cooperation of substantial competitors, then such a research-type venture might not raise antitrust objections even though it involves the second largest U.S. producer and one of the largest foreign firms. That would be especially true if there were evidence that, but for the joint venture, neither of the parties could or would have undertaken the development. The additional fact that other leading U.S. and foreign firms will continue to parallel the efforts of the joint venture seems to assure a competitive spur on the partners' research efforts and tends to reduce any inference that the venture is in reality a device for restraining competitive research. 43/

Based on the facts given in the problem, we believe it likely that the Department would not object to the creation of the RXI-British Metals joint venture. This would depend on a showing that (i) development costs and risks were high enough to make joint activity appropriate; (ii) the venture was not unduly broad in time and scope; and (iii) the venturers had continuing competitive incentives from others in the industry to develop an X-metal process on an independent basis.

Even where the creation of a joint venture is legitimate, collateral restrictions may be challenged under the Sherman Act if they unreasonably restrain competition among the parties to the joint venture. Thus, for example, while it may be legitimate for small-to-medium-sized

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Allis Chalmers Corp., and Westinghouse Electric Corp.) to provide turbine generators on a major Latin American project. See Department of Justice Press Release, May 10, 1976.

40/ United States v. Terminal R.R. Assn., 224 U.S. 383 (1912); Associated Press v. United States, 326 U.S. 1 (1945); Silver v. New York Stock Exchange, 373 U.S. 341 (1963).

41/ See Worthen National Bank & Trust Company v. National Bank Americard, Inc., 485 F.2d 119 (8th Cir. 1973).

42/ See United States v. Socony Vacuum Oil Co., 310 U.S. 150, 225 (1940):

> As to knowledge or acquiescence of officers of the Federal government little need be said . . . . Though employees of the government may have known of those programs and winked at them or tacitly approved them, no immunity would have thereby been obtained.

43/ This case is thus quite different from those brought by the Department in which industrywide research and patent-pooling joint ventures have been challenged essentially on the ground that their industrywide composition reduced the normal competitive incentive for innovation. See United States v. Automobile Mfrs. Assn., Civil No. 69-75 J.W.C. (D.C.Cal. 1969), consent decree, 1969 Trade Cas. Par. 72,907; United States v. Manufacturers Aircraft Assn., 5 CCH Trade Reg. Rep. Par. 45,072 at 53,464 (S.D.N.Y. 1972) (complaint).

grocers to form an association to obtain certain joint purchasing and marketing advantages, joint venture provisions which give each grocer-member an exclusive territory violate the Sherman Act. 44/ A restriction that is not per se illegal will be examined under the so-called "ancillary restraints" doctrine to see whether such restraint was reasonable in scope and truly necessary to the legitimate purpose of the joint venture. 45/ If such a restraint did not pass this test, it would violate the Sherman Act, §1.

In this case, the Department would focus carefully on the patent features of the joint venture, the overall effect of which is to give each party an exclusive "home" territory with respect to patents developed by the joint venture. A patent, being a grant of rights from a sovereign state, is necessarily territorial in scope, and, therefore, a territorial division created explicitly by such rights is not now regarded by the Department as being illegal in itself under the antitrust laws.

For example, if the holder of both U.S. and British patents on a particular product grants exclusive rights under its British patents to another company and retains its U.S. patent rights during the life of the patent, it legally may be able to protect the U.S. market from sales by its British licensee. If the licensee exports to the United States, the licensor can file a patent infringement action against the licensee or initiate proceedings before the International Trade Commission under the Tariff Act 46/ seeking exclusion of the patented article. Conversely, the British licensee can initiate legal proceedings in Great Britain to exclude articles manufactured under the United States patent whose importation into the United Kingdom would infringe on its rights under the British patents.

In the present case, if the product developed by the joint venture were itself patentable (which may be unlikely with a metal) the exclusive license grants from the joint venture to each joint venture partner would have the effect of creating exclusive territories for the sale of X-metal. Under the general rule noted above, this does not necessarily result in antitrust liability. However, inasmuch as the U.S. and foreign X-metal patents would be the consequence of joint collaboration among leading firms, there may be some circumstances when an exclusive license barring U.S. sales by the non-U.S. party would raise antitrust problems. The larger the period of exclusivity, the more serious these problems would become. 47/

In the present problem, the joint venturers hope to produce a process patent relating to the production of X-metal, not a product patent relating to invention of the product itself. Therefore, unlike holders of product patents, the joint venturers would not be able to effect a territorial division in the X-metal market solely by enforcement of their patent rights. It was established four decades ago that a process patent conferred no rights to restrict sales of the unpatented product produced by the patented process. 48/ Congress later enacted Section 337a of the Tariff Act, which explicitly allows exclusion from the U.S. of materials covered by a U.S. process patent on the same basis as a product subject to a U.S. patent. 49/ Section 337a provides only an administrative remedy, however. The item may be embargoed only after the International Trade Commission, subject to Presidential approval, makes a number of findings, including findings that importation of the article would be an unfair method of competition or an unfair act "the effect or tendency of which is to destroy or substantially injure" an efficient U.S. industry. 50/ However, Section 337a is limited to imports and would not apply to exports of X-metal from the United States to Britain. Even in situations where Section 337a arguably may be applicable, it does not confer antitrust immunity upon the private agreement between RXI and British Metals Ltd.

An additional caveat should be noted as to the application of U.S. antitrust law in this general area. While a patentee can maintain territorial exclusivity for a patent through exercise of its legal rights under patent law, it is not necessarily protected when it agrees to allocate or exchange patents (or other industrial property) with an actual or potential competitor to achieve the same result on a broader scale. Such cases will turn on their facts. The general rule is that aggregations of patents cannot be used to create broad territorial allocations going beyond any single patent or discrete group of patents. 51/

Finally, there is the problem inherent any time competitors collaborate: the spillover effect noted in Case C above. The Department obviously cannot police each research joint venture to ensure that production and marketing are not also discussed. Of course, in appropriate cases the Department may wish to make subsequent inquiries to confirm that the research collaboration has not extended into other areas.

Case E: Manufacturing Joint Venture and Know-how License

Hot Chip, Inc. is the third largest U.S. manufacturer of certain key transistor parts. It has about 22 percent of the domestic market. It has been unsuccessful in its attempts to market its transistor parts in Japan, one of the world's most important markets for the product. In order to surmount this difficulty, it has entered into a joint venture with Japan Manufacturing (JM), one of Japan's largest industrial combines. They will form a manufacturing joint venture, JZC, using Hot Chip know-how to produce completed transistors. Hop Chip will have 49 percent of the stock and half of the Board of Directors. JM will be responsible for the day-to-day operation of JZC. JM has not been in this particular field, but does manufacture a great deal of electronic equipment. Accordingly, the joint venture company will be operating on know-how licensed by Hot Chip.

Hot Chip is very concerned because JZC will have lower manufacturing costs than it has in the United States, and JM and JZC may be sources of disruption to Hot Chip's existing marketing arrangements in Australia, New Zealand, the Philippines, Europe, and the United States. Accordingly, Hot Chip has inserted into the agreement with JM a condition that neither JZC nor JM will export the transistors to the United States or other designated markets.

Discussion

The mere creation of this joint venture does not appear to violate U.S. antitrust law. The joint venture does not appear to eliminate any direct competition. Hot Chip and JM are not direct competitors in the relevant

44/ United States v. Topco Associates, Inc., 405 U.S. 596 (1972).

45/ See United States v. Addyston Pipe and Steel Co., 85 F. 271 (6th Cir. 1898), aff'd, 175 U.S. 211 (1899).

46/ 19 U.S.C. 1337, 54 Stat. 724 (1940).

47/ Many of the same considerations discussed in Case E are relevant here.

48/ In re Amtorg Trading Corp., 75 F.2d 826 (C.C.P.A.), cert. denied, 296 U.S. 576 (1935); see also Gummer-Graham Co. v. Straight Side Basket Corp., 142 F.2d 646 (5th Cir.), cert. denied, 323 U.S. 726 (1944).

49/ 19 U.S.C. 1337a, 54 Stat. 724 (1940).

50/ 19 U.S.C. 1337.

51/ See United States v. National Lead Co., 63 F. Supp. 513, 523-524 (S.D.N.Y. 1945), aff'd 332 U.S. 319 (1947); United States v. Timken Roller Bearing Co., 83 F. Supp. 184 (N.D. Ohio 1949), aff'd, 341 U.S. 593 (1951).

U.S. market because JM was not producing the product. 52/

The joint venture by itself does not appear to be any part of a broader arrangement to divide world markets between JM and Hot Chip, nor does it seem in any way to prevent JM from selling other products in the United States. It is, on its face, supported by a legitimate factual basis, established by Hot Chip's difficulty in exporting to Japan.

However, JM might be a potential entrant into the U.S. market by virtue of its size and experience in closely related electronic products. Thus, the joint venture might eliminate potential competition, which stems from the possibility that JM would develop the relevant transistor and then directly compete with Hot Chip in the United States. If Hot Chip's leading position in the concentrated U.S. market gives it a substantial degree of market power--the ability to control competitive parameters such as pricing in its market--fear of entry by a firm in the wings of the market may be a significant constraint on its abuse of that power. 53/ Therefore, elimination of one of a small group of potential entrants could possibly give rise to an antitrust violation under Clayton Act §7 if the jurisdictional requirements of Section 7 are satisfied. This, however, is not clear from these facts, and further inquiry would be necessary along the lines suggested above in connection with Case B. Whether JM was capable of developing the product and entering the U.S. market would be significant in determining whether the joint venture would substantially lessen competition. The fact that JM does not now make the product anywhere does reduce its significance as a potential entrant vis-a-vis any capable foreign firms that do make it, for it introduces another level of uncertainty into the possibility that it would enter.

The more manifest problem is with the collateral restraints imposed by the venture. The limitations on export by JZC and JM constitute a territorial allocation agreement, and this would be a matter of antitrust concern, at least as to exports back to the U.S. market.

The mere existence of a technology-sharing agreement between two firms is not by itself an antitrust defense to a charge that the firms have entered into a larger agreement with the purpose or effect of restraining competition. 54/ The courts generally will permit a moderate competitive restraint if the defendants can show that the main purpose of the agreement between the parties in some legitimate business objective (such as the transfer of technology), and the restraint is "ancillary" to that main purpose--that is, the restraint is reasonably necessary if the main purpose is to be achieved. 55/ This involves a balancing of the anticompetitive effects of the restraint (to be proved by the government or other antitrust plaintiff) against the business considerations which are alleged to justify the arrangement (to be proved by the defendant). 56/

In this case, the Department would be likely to challenge the open-ended restraint on selling transistors into the United States.

The agreement permanently precludes JZC and JM from exporting the relevant products to the United States. This exclusion probably is of substantial competitive significance because Hot Chip is a leading firm in the concentrated domestic market for the products associated with the license, 57/ and it is predicated on the fact that JZC will have lower manufacturing costs than Hot Chip. Such potential "disruption" from cost-cutting entrants is something which the antitrust laws are designed to preserve.

On the other hand, the antitrust laws permit reasonable ancillary restraints, as noted above. In order to establish that their territorial restraint is reasonably ancillary to their joint venture and licensing agreement, Hot Chip and JM must prove that the know-how being transferred is of substantial value, and that the territorial restraint is no greater in scope or duration than is necessary to prevent frustration of the underlying contract. 58/ One measure for insuring that the restraint is truly no longer in duration than necessary, is to limit an ancillary territorial restraint of this type to no longer than the time it would take for JM to develop equivalent know-how itself (the "reverse engineering" period). Where the restraint exceeds the reverse engineering period, a defendant must be prepared to bear the burden of proving the necessity of the restraint. The permanent restraint in this case would seem virtually impossible to justify. Where technology is changing as rapidly as it is in Hot Chip's field, only a short-term restriction would seem appropriate. JM's status as a very substantial firm which manufactures products technologically similar to those affected by the know-how license would be highly relevant to the determination of how much time it would require to develop equivalent know-how itself.

The fact that this is a joint venture is important to the foregoing analysis. As indicated above at pp. 10-14 in connection with Case A, there might be different

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52/ The situation is in contrast to that involved in two international joint venture situations in which the Department has brought suit under Sherman Act §1 and Clayton Act §7. In United States v. Monsanto Company, Farbenfabriken Bayer, A.G., et al, C.A. No. 64-324 (S.D. N.Y. 1964), the parties to the U.S.-based joint venture had both been engaged in selling the relevant chemical prior to the joint venture. The case was settled by consent decree requiring one party to divest its interest. 1967 Trade Cas. Par. 72,201. In United States v. Hercules Inc., Mitsui Petrochemical Industries, Ltd., et al., C.A. 4667-73 (D. Del. 1973), the foreign party had been licensing U.S. licensees to produce a product closely related to the one dominated by the U.S. party, and this form of competition was eliminated by the joint venture. This action was also terminated by a consent decree requiring divestiture. 1973 Trade Cas. Par. 74,530.

53/ United States v. Penn-Olin Chemical Co., 378 U.S. 158, 174 (1964).

54/ United States v. Imperial Chemical Industries, Ltd., 100 F. Supp. 504 (S.D.N.Y. 1951); United States v. Timken Roller Bearing Company, 83 F. Supp. 284 (N.D. Ohio 1949), aff'd, 341 U.S. 593 (1951); United States v. National Lead Co., 63 F. Supp. 513 (S.D.N.Y. 1945), aff'd, 332 U.S. 319 (1947).

55/ See United States v. Addyston Pipe and Steel Company, 85 F. 271 (6th Cir. 1893), aff'd, 175 U.S. 211 (1899); United States v. duPont & Co., 118 F. Supp. 41, 219 (D. Del. 1953), aff'd, 351 U.S. 377 (1956). The case law is reviewed in M. Adelman and E. Brooks, Territorial Restraints in International Technology Agreements After Topco, 17 Antitrust Bull. 763 (1972).

56/ The Supreme Court, dealing with a similar balancing process in a merger case, pointed out that defendants not only must prove that certain identified public interest factors outweigh the anticompetitive effects of their transaction, but also that other, less anticompetitive actions would not achieve the same public benefits. The Court indicated that without such a showing, "the benefits of competition . . . would be sacrificed needlessly." United States v. Third Nat'l Bank, 390 U.S. 171, 189 (1968).

57/ We are told Hot Chip is third in the market with a 22 percent market share. Thus, the top three firms must together have a market share in excess of 66 percent.

58/ See Assistant Attorney General Richard W. McLaren, Licensing Patents and Technology Under the United States Antitrust Laws, 40 Antitrust L.J. 931, 936 (1971).

considerations if JZC were in fact a majority-controlled subsidiary of Hot Chip.

Case F: Know-How License

Fast Technology, Inc. (FTI) is a small Massachusetts corporation which possesses valuable unpatented technology. It enters into a 20-year know-how license with Badische Maschinenwerke A. G., a major manufacturer located in the Federal Republic of Germany, pursuant to which FTI receives a royalty. FTI is a small but growing factor in the domestic market and heretofore has not been particularly successful in the export trade. One of the presumed advantages to FTI is that it will be able for the first time economically to export its domestically produced components and equipment by selling them to the German licensee for incorporation into the latter's product or for use in the latter's manufacturing process. The licensee is a large, well-financed international company fully capable of invading the United States market once it acquires the technology. Therefore, FTI requires that the following three provisions be included in the license:

(a) the licensee will not compete with FTI in the United States for 20 years in any product for which FTI technology is used;

(b) the licensee will purchase and use only FTI-provided components in executing the process; and

(c) the licensee will use the FTI trademark on all goods manufactured under the license, with appropriate quality control supervision by FTI.

FTI is also negotiating a similar agreement with a large Japanese manufacturer. The prospective Japanese licensee insists that the German licensee be barred from selling licensed products in Japan, Australia and East Asia.

Discussion

This case involves three types of know-how license restrictions: territorial allocation, product tie-in, and trademark use. Similar restrictions occur in connection with patent licensing. Because know-how licensing lacks the protections and legislative mandate of the patent system however, know-how licenses will in general be subject to antitrust standards which, if anything, are stricter than those applied to patent licenses.

The license in the instant case is subject to a number of informities. The first is the long-term territorial restriction preventing a major European manufacturer capable of entering the United States market from doing so. The fact that FTI is a small firm, and smaller than its licensee, may have made this particular provision slightly less objectionable than if the licensor were an industry leader, 59/ but this fact alone cannot save such an agreement. The territorial restriction here would likely be challenged if the length of the restriction (20 years) exceeded the time necessary for reverse-engineering of the technology, unless the parties could justify it as necessary to the technology sharing agreement.

If the time period were reasonable, this restraint itself would appear reasonable. It involves (i) a unilateral territorial restraint imposed by the licensor upon the licensee, (ii) a product that substantially depends upon the licensed know-how, and (iii) a single license of a specific piece of know-how. By contrast, where reciprocal territorial restraints are exchanged, where the licensing agreement is part of a continuing web of licenses and restrictions between the parties, or where the know-how is an insubstantial part of the product subject to the restriction, then the parties would have to bear a heavy burden of proof to show why such restraints were necessary. Experience has shown that reciprocal restraints, bundling of know-how licenses and continuing exchange of know-how development often encourage cartelization and permanent market division. 60/

The above discussion dealt only with the territorial restraint. The license also contains a requirement that the German licensee use FTI-manufactured components. Assuming this license is sufficiently valuable to confer monopoly power, it is a tie-in and would be illegal per se under the Sherman Act and Clayton Act if practiced in the domestic market. 61/ In the international context, the presumption against the legality of a tie-in may not necessarily be as absolute; and the Department may, in any event, be reluctant to expend resources on international tie-ins which do not have the types of effects on U. S. commerce discussed below. However, such tie-ins may be illegal, especially in the patent licensing context, under the laws of many foreign jurisdictions. 62/ From the standpoint of U. S. antitrust law, such a tying provision would be of concern if it foreclosed other sellers engaged in U. S. commerce from competing for the tied items. The exclusion of overseas suppliers of the tied items from overseas sales normally does not constitute U. S. foreign commerce, and hence, their exclusion is not prohibited by U. S. antitrust law. Therefore, FTI ordinarily should incur no U. S. antitrust liability if it required the German licensee to procure components from U. S. sources (as opposed to any particular U. S. firm). As a practical matter, this would enable FTI to compete on its merits with other U. S. firms having similar labor costs.

It is also possible that FTI could justify a complete tying restriction on the ground that it was necessary to protect its interest in the goodwill of the licensed technology. However, such claims are not allowed except on the basis of very clear factual proof that technical specifications alone will not suffice to protect goodwill. 63/ In any event, such a tying provision might be challenged if it extended beyond an equivalent of the "reverse-engineering" period. 64/ A longer period might be justifiable if smaller competitors were involved or particularly heavy investment were present.

The requirement in the license that the German firm use the FTI trademark might be part of an attempt to exclude goods from the United States market that are produced abroad under a foreign license of the mark. Section 526 of the Tariff Act of 1930 65/ provides such a right of exclusion even as to identical products where the U. S. trademark registrant and the foreign registrant of the same mark abroad are not in a parent/subsidiary or common control relationship. 66/ While the law in this

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59/ Cf. United States v. National Lead Co., 63 F. Supp. 513 (S. D. N. Y. 1945), aff'd, 332 U. S. 319 (1947).

60/ E. g., United States v. Imperial Chemical Industries, Ltd., 100 F. Supp. 504 (S. D. N. Y. 1951); United States v. Timken Roller Bearing Co., 83 F. Supp. 284 (N. D. Ohio 1949), aff'd, 341 U. S. 593 (1951); United States v. General Electric Co., 82 F. Supp. 753 (D. N. J. 1949); United States v. National Lead Co., 63 F. Supp. 513 (S. D. N. Y. 1945), aff'd, 332 U. S. 319 (1947).

61/ See e. g. International Salt Co. v. United States, 332 U. S. 392 (1947).

62/ See e. g. Federal Republic of Germany, Law Against Restraints of Competition §§ 20, 21; United Kingdom Patent Act § 57.

63/ Compare Dehydrating Process Co. v. A. O. Smith Corp., 292 F. 2d 653 (1st Cir. 1961), with Advance Business Systems and Supply Co. v. SCM Corp., 415 F. 2d 55 (4th Cir. 1969).

64/ Cf. United States v. Jerrold Electronics Corp., 187 F. Supp. 545 (E. D. Pa. 1960), aff'd per curiam, 365 U. S. 567 (1961).

65/ 19 U. S. C. 1526, 46 Stat. 741.

66/ See also 19 C. F. R. § 133. 21 (c) (2). This customs regulation adopts the reasoning of United States v.

area is very much unsettled, the Department would look with considerable suspicion upon the use of Section 526 to exclude identical German trademarked goods in this situation. FTI has not assigned the German trademark, relinquishing all control over it. Presumably, after the 20 years, the German firm loses any property right in the trademark, and the German trademark reverts to FTI. (This assumes, of course, that FTI has preserved its property right in the mark by maintaining adequate quality supervision.) Accordingly, there is a very real element of continuing control by FTI over the trademark rights in the U. S. and Germany. While this type of trademark licensing is not inherently illegal, as with other ancillary restraints it may become an antitrust violation where it has the purpose or effect of territorial allocation. 67/

The final paragraph of the example raises the issue of foreign market allocation in the form of a territorial restraint upon the German licensee at the request of the Japanese licensee. Such a restriction, which only bars the German licensee from Japan, Australia and East Asia, would not seem to come within the subject matter jurisdiction explained in the Introduction. The result might be different if the restriction barred a significant amount of imports into the United States, or if the overseas market allocation were part of a broader scheme affecting the U. S. market.

Case G: Tying of Licensed Technology

Big Wheels Corporation, a major U. S. manufacturer, desires to do business in Country X, a less developed country, but because of restrictive local laws and regulations, finds it impractical to export to that country. In lieu thereof, Big Wheels decides to license a local company in Country X to manufacture its product under its X Country patents and using certain of its know-how. In Country X, however, royalty rates are subject to government approval and are notoriously low. Central bank currency restrictions often further limit the basis on which royalties may be calculated for purposes of remittance abroad. Thus, Big Wheels concludes that to achieve an acceptable return on the technology, it will require two things from the licensee:

(1) A separate contract must require the licensee to buy exclusively from Big Wheels all components, supplies and equipment necessary to manufacture under the license (the components, supplies and equipment are unpatented and are sold by other manufacturers in the United States and other countries); and

(2) The license must cover certain patents which the licensee has no desire to have or intention of using.

Discussion

This case involves two different types of tying: tying Big Wheels' unpatented goods to the patent license, and tying other patents to the primary patent. Big Wheels is simply trying to increase its effective rate of return on the patent license -- and thereby reduce the impact on it of the exchange control system in Country X. In our view, such a motive does not justify the corporation in doing what would otherwise be illegal under U.S. antitrust laws.

The first aspect of the tying arrangement is exactly the same one discussed in connection with Case F at pp. 35-36. As noted there, such a tie-in would be illegal per se if practiced in the domestic market; but, in the overseas market, it is only objectionable under U. S. law to the extent that it unreasonably forecloses other U. S.-based sellers from making sales, or affects goods reexported to the United States. Of course, requiring purchase of the tied products from U. S. sources (the suggested solution in Case F) might not effectively serve Big Wheels' purpose here in increasing its effective rate of return. It can do so only through its own sales.

Yet, regardless of Big Wheels' motives, the effect of its action may be to exclude other American competitors from competing for sales of the tied product in Country X. The focus of the antitrust inquiry, therefore, must be on whether U. S. exports are possible. If they are not, no effective exclusion exists. If competing U. S. exports are effectively and unreasonably excluded, the tie-in would apppear to violate U. S. antitrust law.

Big Wheels' second proposal is, in effect, package licensing of a much larger package of patents than its licensee in X desires to have, again in the hope that the government of X will allow more total royalties (even at low rates) than would otherwise be the case. The normal domestic rule is that such package licensing of the broad package of unwanted patents is a per se illegal tie-in, because it forecloses U. S. customers' effective choice in selecting the package. In United States v. Loew's Inc., 68/ the Supreme Court prohibited an analogous package scheme for copyrighted movie films under Sherman Act §1. Lower courts have found mandatory package licensing of patents to be illegal in a variety of different cases. 69/ Package licensing which is limited to valid blocking patents, none of which can be used alone, may be more appropriately subject to something less than a per se prohibition. 70/

Because Big Wheels' package licensing requirement is imposed upon a foreign customer, the Department would be unlikely to seek to invoke U. S. antitrust enforcement jurisdiction absent a belief in the case that it had some significant effect on overseas licensing opportunities for other U. S. firms or some impact on sales in the United States. The requirement involves the use of X Country patents in X's territory, within which they provide monopoly privileges. It is not apparent that the package licensing requirement will have any material effect on U. S. exports or imports, or U. S. customers' choices. The conclusion might be different if, for instance, U. S. competitors of Big Wheels found their export markets foreclosed by Big Wheels' package licensing requirement, or if the package licensing requirement were to raise the price, quality or availability of goods exported from X to the United States.

It should be noted that even if Big Wheels' licensing arrangement passes muster under U. S. laws, it may violate the laws of X because many countries, particularly developing countries, impose more stringent requirements upon licensors of technology than does the United States.

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Guerlain, Inc., 155 F. Supp. 77 (S. D. N. Y. 1957), judgment vacated and remanded on government's motion sub nom. Guerlain, Inc. v. United States, Parfums Corday, Inc. v. United States, and Lanvin Parfums, Inc. v. United States, 358 U. S. 915 (1958), complaint dismissed, 172 F. Supp. 107 (S. D. N. Y. 1959).

67/ See e.g. United States v. Timken Roller Bearing Co., 83 F. Supp. 284 (N. D. Ohio 1949), aff'd, 341 U. S. 593 (1951).

68/ 371 U. S. 38 (1962).

69/ See American Security Co. v. Shatterproof Glass Corp., 268 F. 2d 769 (3rd Cir.), cert. denied, 361 U. S. 902 (1959); Rockform Corp. v. Acitelli Standard Concrete Wall, Inc., 367 F. 2d 678 (6th Cir. 1966); Hazeltine Research Inc. v. Zenith Corp., 239 F. Supp. 51, 77 (N. D. Ill. 1965), aff'd in part and rev'd in part, 388 F. 2d 25 (7th Cir. 1967), aff'd in part, rev'd in part and remanded, 395 U. S. 100, 133 -134 (1969).

70/ See Standard Oil Co. (Indiana) v. United States, 283 U. S. 163 (1931).

Case H: Licensing a Non-Market (State-Owned) Enterprise

An American company, FX Incorporated, has negotiated a license agreement providing for transfer of unpatented technology to an agency of X, a non-market economy country, for an extremely handsome price payable in dollars. The license covers know-how necessary to manufacture a special chemical compound. A state enterprise in Country X has exported to Western Europe automobiles manufactured under license from a Western European company which had expected (but not required) sales to be confined to Country X. Furthermore, the automobiles are rumored to have been sold at a noncompensatory price. Accordingly, FX writes into the license a prohibition against export to the United States or other Western Hemisphere countries of products produced under the license.

Discussion

The question presented by this case is the effect, if any, the fact that the licensee is a non-market, state-owned enterprise, has upon the analysis otherwise used in connection with restraints ancillary to know-how licenses. In some instances, such state-run enterprises may not include the true cost of capital or other production inputs in their pricing decisions. In others, pricing decisions may be entirely divorced from true costs. Furthermore, with significant state resources at their command, state-owned enterprises may be able to engage in predatory pricing practices in selling the fruits of licensed technology back in the licensor's home market, though evidence of this actually occurring is rare.

The focus of concern here is the prohibition on reexport back to the United States of licensed products manufactured in Country X. This prohibition does affect U.S. import competition. The prohibition on reexport to other Western Hemisphere countries does not directly affect U.S. commerce and therefore probably raises no objection under U.S. antitrust law.

The absence of patent rights makes this problem more difficult. Were FX Incorporated licensing under product patents, it might have no need for this type of restriction as far as the U.S. market is concerned. U.S. sales by a Country X manufacturer of patented products might infringe the licensor's U.S. patent rights and, therefore, the Country X goods could be excluded by means of an infringement action or use of Section 337 of the Tariff Act. 71/

Because only know-how is involved, we must face the same issues here as those discussed in connection with Cases E and F, pp. 28-36 above. A know-how license may contain a limited territorial restriction which is ancillary and limited in duration to the reverse-engineering period, or some other specific period which the parties can establish is justified by the facts of their situation.

We question, however, the permanent prohibition on sales into the United States. We believe the licensor may have alternative means available to protect it from the "unfair" advantage enjoyed by its state-owned, nonmarket licensee. For example, it might sometimes be able to structure a licensing arrangement which provides for an increase in royalties based on increased production and sales, thereby compensating FX Incorporated even if its products were to face competition in the United States from its licensee's products. Furthermore, under the countervailing duty provision of the Tariff Act 72/ and under the Anti-Dumping Act, 73/ as amended by the Trade Act of 1974, 74/ FX Incorporated will have available remedies if the licensee in fact is exporting its products into the United States at an unreasonably subsidized or discriminatory price, thereby injuring FX Incorporated's industry.

The availability or lack of effective alternative remedies and the degree to which a U.S. enterprise is in fact at an unfair disadvantage in dealing with a nonmarket enterprise may be important in determining the legality of any competitive restraint included in an agreement between a U.S. firm and a nonmarket enterprise. These considerations may of course be brought to the attention of the Department of Justice pursuant to the Business Review procedure.

71/ See Case D above, pp. 25-26.
72/ 19 U.S.C. 1303.
73/ 19 U.S.C. 160-171.
74/ Pub. L. 93-618, Jan. 3, 1975, 88 Stat. 1978.

Case I: Exclusive Grantback Licensing

American Company X has licensed a subsidiary in which it has 85 percent of the voting stock to practice certain patents and know-how in foreign Country A. X requires the foreign subsidiary to grant back title or an exclusive license on any new patents or know-how the foreign subsidiary may obtain or develop related to the licensed technology rights.

Meanwhile Company X grants a similar license (including the grantback) in Country B to a licensee in which X has a 30 percent voting stock interest, and the remaining stock is held by the public.

Finally, in Country C, X grants a similar license (including the grantback) to a leading local firm, which agrees to pay X a royalty.

Discussion

In the "Transwrap" decision of 1947, 75/ a narrowly divided Supreme Court held that exclusive grantbacks of improvements made by licensees were not illegal per se. The Supreme Court made clear nevertheless that an exclusive grantback device could raise antitrust problems:

> Conceivably the device could be employed with the purpose and effect of violating the antitrust laws. He who acquires two patents acquires a double monopoly. As patents are added to patents, a whole industry might be regimented. The owner of a basic patent might thus perpetuate his control over an industry long after the basic patent expired. Competitors might be eliminated and an industrial monopoly perfected and maintained. Through the use of patent pools and multiple licensing agreements the fruits of invention of an entire industry might be systematically funneled into the hands of the original patentee. 76/

In short, even under Transwrap, the use of exclusive grantback provisions can violate the antitrust laws if such use is part of a larger monopolistic arrangement.

The Department has made clear for a number of years that it questions the need for and appropriateness of exclusive grantback provisions; and it may in an appropriate case wish to assert that an exclusive grantback requirement involving independent parties is per se illegal. An exclusive grantback tends to perpetuate a monopoly of the licensor and may discourage innovation by the licensee. Of course the licensor has a legitimate interest in

75/ Transparent-Wrap Machine Corp. v. Stokes & Smith Co., 329 U.S. 637 (1947). The Court of Appeals had held, in an opinion written by Judge Learned Hand, that this practice enabled a patentee to extend its patent rights beyond the scope of its original grant and would therefore be illegal per se by analogy to the tying cases involving patents. 156 F.2d 198 (2nd Cir. 1946). The Supreme Court rejected this analogy in Transwrap, 329 U.S. at 640-646, but the force of its reasoning was somewhat weakened by its subsequent decision in Brulotte v. Thys Co., 379 U.S. 29 (1964), which reemphasized the importance of not extending a patent monopoly beyond the term of the grant.
76/ 329 U.S. at 646-647.

assuring that it has access to improvements on its patent, but this interest, we believe, can normally be satisfied by a nonexclusive grantback, at least in the case of a nonblocking patent. 77/

Two factors will probably influence the Department's decision whether to challenge any such exclusive grantback in a particular case. The first concerns the scope of the licensee's obligation to grant back; and the second concerns the competitive relationship between licensor and licensee.

Where the grantback obligation is narrowly defined, an exclusive grantback is in fact less likely to be anticompetitive. For example, an obligation to grant back an exclusive license on an improvement patent during the term of an original patent, where the improvement patent could not be used alone without infringing on the original patent, is unlikely to change the state of competition substantially during any period the original patent remains valid and in force. This is so because by definition the holder of the original patent has the right to block the use of the improvement, if the original patent is valid and fully blocking in scope. The other extreme, an obligation of the licensee to grant back to the licensor any new patent remotely related to the field of the original patent, would impose a broad restraint on competition between them. This restraint would be doubly broad if the obligation to grant back went beyond the term of the original patent. 78/ Such broad grantback obligations are likely to be challenged if the parties to the licenses could in any way be regarded as actual or significant potential competitors in the United States market.

The relationship of the parties may be important for enforcement decisions on international grantback obligations. A main thrust of U.S. antitrust enforcement in the international field is to make sure that leading firms do not carve out for themselves broad spheres of territorial and market exclusivity affecting U.S. commerce. An obligation to grant back a U.S. patent or give an exclusive U.S. license to the U.S. licensee may isolate the U.S. market from significant import competition from a leading foreign firm. A narrowly drawn exclusive grantback in the only license between an American licensor and a foreign single licensee is less serious in competitive effect than the same grantback clause which is one of many involving the two parties. It is also less serious than where similar clauses are involved in a multiplicity of other licenses from the licensor to other licensees in other countries, covering a variety of related areas.

As pointed out above, it is the Department's position that the foregoing problems and uncertainties could be resolved by having the grantback obligations nonexclusive.

The instant case involves three different grantback license arrangements between American company X and licensees in three different countries. In the case of Country A, the licensee is a majority-controlled subsidiary. In these circumstances, the Department would treat the two parties as a single enterprise (for reasons explained above in connection with Case A). The inclusion of an exclusive grantback to the American company is therefore entirely a matter of internal organization based on tax or other business reasons. The two firms are not substantial real competitors and there would be no objection to the scheme.

Although X only owns 30 percent of the licensee in Country B, the balance of the stock is publicly held, and in these circumstances it may be that X effectively controls this licensee. This is a question on which a very careful factual inquiry will have to be made (see Case A). If in fact X does have working control of this licensee, then again the exclusive grantback arrangement is not objectionable as a matter of U.S. antitrust law. In other words, because of X's control, the licensee is not a present or likely potential competitor--directly or through licensing--in the United States market.

The situation in Country C is quite different. Here the licensee is "a leading local firm" in which X has no preexisting stock interest. The situation is broadly analogous to Timken. If, as may well be the case, the licensee in C is capable of competing in the United States--directly or through licensing--then a broad exclusive grantback of "any new patents or know-how . . . related to the licensed technology rights" is likely to be per se illegal for the reason stated above. If the exclusive grantback were limited only to newly developed blocking patents, and the exclusivity did not extend beyond the initial patent, it would be less likely to be challenged. The safer course here would be a nonexclusive grantback which would permit the licensee in C to compete in the United States domestic and export markets after the expiration of the original licensed patent.

Case J: Exclusive Distributorship

USC and GAG are substantial, but not dominant, manufacturers of machine tools in the United States and the Federal Republic of Germany respectively. Neither now makes any substantial volume of sales in the home country of the other. Their proposal is that USC will appoint GAG as its exclusive distributor in the Common Market, while GAG will appoint USC as its exclusive distributor in North America. Both appointments will be for a period of five years. A few of their products are directly interchangeable in use, but most are complementary in the sense that they can be used in conjunction with each other or have significant special features.

The parties recognize that neither distributor is likely to "push" those imports which are directly interchangeable with his own products, but each believes that the total exports promoted by use of such well-established distributors will be greater than if independent distributors are used. Under the proposed plan each distributor will pay a predetermined price (based on factory costs) and will then be free to resell the imported products at whatever level it sees fit. Additionally, USC and GAG agree that each will prohibit the other 40 distributors of its products, worldwide, from reexporting their products into either the EEC or United States markets.

Discussion

The appointment of an exclusive foreign distributor by an American firm does not by itself raise U.S. antitrust concerns. 79/ That is essentially a customer-supplier relationship which does not necessarily have a direct impact on either the U.S. domestic market or the

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77/ See C. Kaysen and D. Turner, Antitrust Policy 165, 173 (1959).

78/ The Department of Justice has challenged exclusive grantbacks in at least one domestic licensing case. United States v. Wisconsin Alumni Research Foundation, C.A. No. 69-C-316 (W.D. Wisc.), filed Dec. 30, 1969. That case was settled by a consent decree containing a ten-year injunction against exclusive grantbacks in the field. 1970 Trade Cas. Par. 73,015 (1970).

79/ However, terminating a domestic distributor who resells to customers in the foreign distributor's territory may adversely affect the distributor's export opportunities and thus violate the U.S. antitrust laws under the rule in United States v. Arnold, Schwinn & Co., 388 U.S. 365 (1967). The Schwinn doctrine may be reconsidered this term by the Supreme Court in Continental T.V. Inc. v. GTE Sylvania, No. 76-15, cert. granted, 45 U.S.L.W. 3299 (U.S. Oct. 18, 1976).

export opportunities of other U.S. firms. 80/ However, the situation is quite different where the two parties to the agreement are both substantial manufacturers, for in these circumstances the exclusive territorial distribution agreement creates a territorial allocation between them. Each controls the local sales of its foreign competitor. This issue was involved in the Timken case, where, among other things, exclusive distributorship arrangements were used to create market allocations between American Timken, British Timken, and French Timken. 81/ The Supreme Court held such general territorial allocations among competitors to be per se Sherman Act §1 violations in Timken, and has reemphasized that holding since then. 82/

We believe that such a rule would be applied to the present facts, since each party is a substantial manufacturer who can (or could) compete in the territory of the other. The Department may recognize a limited exception for a short-term exclusive distributorship for a new manufacturer who could not otherwise distribute its products in a new market. 83/ This issue could be raised through use of the Business Review Procedure. The USC-GAG case, however, does not qualify for any such "infant industry" exception. Therefore, the fact that the USC-GAG arrangement is for only five years (in contrast to the long-term arrangements in Timken), would not protect it from the general per se prohibition.

This arrangement might be treated differently if the exclusive distributorship provisions were confined to those product as to which USC and GAG do not compete, and there were no express or implied agreements not to use or allow independent distribution arrangements for the competitive products. Then the scheme would look very much less like a territorial allocation scheme among competitors. A full factual inquiry would probably be required under the rule of reason to determine whether the effect of the arrangement was significantly to promote or limit (i) market competition in the United States or (ii) U.S. firms' ability to compete abroad.

A safer course would be for the parties to appoint someone other than a competing manufacturer as an exclusive foreign distributor. Where a foreign manufacturer is used, the Department will look with particular care at the impact on U.S. commerce. It is especially important that significant foreign products which could compete in U.S. markets not be confined to exclusive channels for distribution dominated by a directly competing U.S. manufacturer already well established in the field.

Another issue is raised by the agreement to restrict exports by other distributors of each party's products so that no American products will be reexported from third countries to Europe and no German products will be reexported to the United States. This would conflict with the rule in United States v. Arnold, Schwinn & Co., 84/ which holds generally that the first arms-length sale of a product exhausts the seller's right to restrain those to whom it may be resold. 85/ Therefore, this provision would violate the U.S. antitrust laws, if significant reexports to the U.S. were thereby restrained.

Case K: Price Stabilization

Sharp Oil Co., an independent U.S. refiner, purchases crude oil produced in Country A from several U.S. oil companies which operate in A. The government of A believes that Sharp's sales of various oil products in the U.S. and eastern Canada are disruptive because they are below the "going price." Accordingly, the government has issued a decree prohibiting any oil company operating in A from selling any A crude oil to this particular independent refiner.

O, a U.S. oil company, fearing the penalties A may impose, complies, without consulting any of the other oil companies. The company's lawyer in A advised that he was "at least 75 percent certain" that the decree in question is invalid under the law of A.

Additionally, government A requires O and its other distributors to United States markets to resell A's oil in those markets at a price established by A. A insists that each distributor police this requirement by monitoring the pricing conduct of its competitors and reporting price cutters back to A.

Discussion

The government of A has commanded O to take action which will have a direct anticompetitive effect within the United States.

A truly unilateral decision by O not to deal with Sharp would not violate the antitrust laws because there would be no agreement in restraint of trade between O and another person, and O is not a monopolist. 86/ But if O had entered into an agreement with its competitors, in response to the pressure of government A, not to provide oil to Sharp, O would be party to an explicit horizontal group boycott which is illegal per se. 87/ The facts here suggest an illegal boycott in which each distributor only deals directly as a boycott participant with A. Depending upon the totality of the circumstances, this may nonetheless constitute an illegal conspiracy among the distributors. While government A may be immune from antitrust liability as a sovereign, its immunity does not shield the

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80/ If the exclusive arrangement means not only that the American exporter will not appoint any other distributor in the territory, but that the foreign distributor will not import goods for any other American manufacturer, then a different case would be presented. It would be relevant whether the foreign distributor were such an important outlet in its own country that the product exclusivity feature of the agreement necessarily restricted in an important way the ability of other American firms to export to that market. The inquiry would cover (i) whether it was illegal under foreign law or was commercially impossible for the distributor to handle competing U.S. products, or (ii) whether any less restrictive alternative was available.

81/ A minor aspect of the case arose in Canada, which was a territory assigned to American Timken. At one stage, it was suggested that American Timken act as an exclusive distributor for British Timken rather than sell there directly, in order to take advantage of duty-free imports to Canada from England. The District Court found that the parties had "cooperated to protect each other's markets," a finding specifically noted by the Supreme Court in its affirmance. Timken Roller Bearing Co. v. United States, 341 U.S. 593, 596 (1951).

82/ United States v. Topco Associates, Inc., 405 U.S. 596 (1972).

83/ Compare United States v. Jerrold Electronics Corp., 187 F. Supp. 545 (E.D.Pa. 1960), aff'd, 365 U.S. 567 (1961).

84/ 388 U.S. 365 (1967); see fn. 79 at p. 46 above. See also United States v. Norman M. Morris Corporation, 1976-1 Trade Cas. Para. 60,894 (S.D.N.Y. 1976).

85/ Even in the absence of an explicit contract prohibiting or limiting resale, Sherman Act § 1 prohibits joint collaborative action by distributors or by a manufacturer and its distributors to limit the customers to whom or the areas in which the distributors sell. United States v. General Motors Corp., 384 U.S. 127, 140-143 (1966).

86/ United States v. Colgate & Co., 250 U.S. 300 (1919).

87/ Klors, Inc. v. Broadway-Hale Stores, Inc., 359 U.S. 207 (1959).

non-immune distributor co-conspirators for their activities in the United States. 88/

Nor may the distributors avail themselves of the act of state or sovereign compulsion defenses. The government-directed conduct here is within United States territory, not within the territory of A. 89/

The distributor's assets in A are put at risk by violating A's command as to a product which is exported from A's territory to the United States. 90/ Such a situation, where two sovereigns' directives to a private party are in direct conflict, frequently leads the courts to balance the interests of the two sovereigns in accordance with the principles of comity. Generally, when an unresolvable and direct conflict between the laws of two countries imposes substantial hardship upon the affected party, comity may indicate that the laws of the nation with the more important national interest at stake, based upon its own laws and policies, should prevail. 91/

We believe the United States antitrust laws represent a fundamental and important national policy. In this case, the purpose and necessary effect of A's "command"--to create a per se antitrust violation in U.S. markets--is contrary to that policy. Accordingly, we do not believe comity would require that the United States treat A's command as controlling here.

The fact that the "command" is probably illegal under the law of A also may be significant, because it reduces the "command" to what amounts to "informal encouragement" by the foreign governmental officials. While the legality under foreign law may not be controlling for U.S. antitrust purposes, it is an issue which can bear on the good faith of the defendants, and the weight to which the "command" is entitled in adjudicating private activity under it.

This problem is similar in many respects to Interamerican Refining Corp. v. Texaco Maracaibo, Inc., 92/ and much of the analysis here is inconsistent with the decision in that case. The Department believes the case to have been wrongly decided to the extent that it dictates a contrary result, and will pursue the position stated in this Case in making enforcement decisions.

Case L: Dealing With A Cartel

Offshore, Inc., a large multinational corporation, incorporated in Delaware, mines X-ore abroad and processes it into X-product which it sells in the U.S. and a number of other countries. Offshore owns 75 percent of a subsidiary which it organized in C to operate a large X-ore mine there.

Import Metals Company mines X-ore in five countries and it sells X-ore and X-product in a number of countries, including the U.S. Import Metals is 75 percent owned by the Natural Resources Group, a diversified investment company which appears to be mostly owned and controlled by the government of C, the Asian country where Import Metals and its parent are headquartered.

Vitamina is a European-based fruit company which sells large quantities of fruit juices in its own stores in the U.S. It recently discovered a very large X-ore deposit on one of its fruit plantations and has been selling X-ore abroad.

Import Metals, Vitamina and the four or five other foreign X-ore producers recently met in country C to form a cartel, and agreed on quotas and prices for all X-ore production. Import Metals is the only one of these foreign producers which sells X-ore or X-product in the United States, but the others all sell substantial amounts of X-ore to foreign brokers, who resell about 25 percent of world production in the U.S. The government of C has given notice that it wants Offshore to pledge to the cartel members that it will abide by the agreed-upon quotas and prices.

Discussion

This cartel agreement would be a clear violation under the U.S. antitrust laws unless defenses peculiar to the international situation apply to particular defendants. In view of the large portion of the world X-ore market which is imported into the U.S., it is reasonably clear that the foreseeable effect of the agreement is to restrict U.S. imports. Therefore, there is subject matter jurisdiction over the transaction under the Sherman Act. Offshore and its subsidiary are the most vulnerable of the above parties if they agree to participate in the cartel. They clearly are subject to personal jurisdiction because Offshore is doing business in the U.S.

Offshore may have a defense to a U.S. antitrust action under the act of state or foreign compulsion doctrines. These defenses are subject to important limitations, however. 93/ A major limitation is territorial. Although the U.S. courts will recognize an antitrust defense for actions taken or compelled by a foreign sovereign within its territory, 94/ such recognition will not be afforded with respect to an act inside the United States. 95/ The situation in third countries is less clear. 96/

A second limitation is that the act upon which the defense is based must be the act of a truly sovereign entity acting within the scope of its powers under the law of its nationality. The valid decree of a foreign government usually meets this requirement; the action of a nongovernmental agent of a foreign government does not, at least when it is not proved that such agent clearly was authorized to perform the alleged acts of state as a delegated sovereign function. 97/ Third, the act of state defense does not apply to the "commercial" actions of a foreign government or instrumentality, but only to its public, political actions. 98/ And underlying the foreign compul-

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88/ Cf. Farnsworth v. Zerbst, 98 F.2d 541 (5th Cir. 1938). See also United States v. Bechtel Corporation, Civil No. C7G-99 BNA Antitrust & Trade Reg. Rep. No. 747, p. D-1 (Jan. 20, 1976) (N.D. Cal., complaint filed Jan. 16, 1976).

89/ See generally Foreign Sovereign Immunities Act of 1976, 28 U.S.C. 1602 et seq., Pub. L. 94-583, Oct. 21, 1976, 90 Stat. 2891; Dunhill v. Republic of Cuba, 425 U.S. 682 (1976); Banco Nacional de Cuba v. Sabbatino, 376 U.S. 398 (1964).

90/ If A's command is illegal under its law, legal remedies against expropriation or other penalty under A's law may be available.

91/ See Restatement (Second) of Foreign Relations Law § 40. The Restatement also gives some weight to the nationality of the affected persons, and the territory within which the affected conduct takes place.

92/ 307 F. Supp. 1291 (D. Del. 1970).

93/ See generally, Foreign Sovereign Immunities Act of 1976, 28 U.S.C. 1602 et seq., Pub. L. 94-583, Oct. 21, 1976, 90 Stat. 2891.

94/ See Continental Ore Co. v. Union Carbide & Carbon Corp.; 370 U.S. 690, (1962), United States v. Watchmakers of Switzerland Information Center, Inc., 1963 Trade Cas. Para 70,600 (S.D.N.Y. 1962).

95/ See the indictment in United States v. AMAX, Inc. 76 CR 783 (E.D. Ill. 1976), BNA Antitrust & Trade Reg. Rep. No. 771, p. A-6 (July 6, 1976); see also Republic of Iraq v. First National City Bank, 353 F. 2d 47 (2d Cir. 1965), cert. denied, 382 U.S. 1027 (1966).

96/ See Banco Nacional de Cuba v. Sabbatino, 376 U.S. 398, 439, 445-450 (1964) (White, J., dissenting).

97/ Dunhill v. Republic of Cuba, 425 U.S. 682, 693-695 (1976).

98/ Foreign Sovereign Immunities Act of 1976, 28 U.S.C. 1605(a)(2). We recognize that separating what is "commercial" from what is "political" may be difficult unless the two sovereigns distinguish the two concepts in

sion defense is a balancing of the comity interests of Restatement § 40 99/ as well as the question whether the company is being reasonable in doing what it felt it had to do.

Offshore may have a sovereign compulsion defense if C, acting in conformity with its own law, requires Offshore to observe the terms of the cartel for its acts solely within C's territory. Offshore would not have such a defense if C purported to require such conduct in the United States, or if the requirement is not imposed by the government of C acting as a sovereign. 100/

This example clearly involves the possibility of conflict between the sovereign governments of the U.S. and C. In these circumstances, Offshore may find it advantageous to seek a business review. Even if a business review letter is not sought or issued, full and candid disclosure by Offshore of its activities in connection with the cartel may serve as evidence of its intent to comply with the law, and would substantially reduce the risk that it would be charged with criminal liability.

The above discussion of subject matter jurisdiction, the act of state defense and sovereign compulsion is equally applicable to Vitamina and Import Metals, but the personal jurisdiction requirements of the Sherman Act place them in slightly different situations. Vitamina, because of its juice business in the U.S., is subject to the personal jurisdiction of the U.S. courts even in connection with matters, such as the X-ore agreement, which are totally unrelated to its juice business. 101/ Thus Vitamina can be served immediately through its U.S. agent with a subpoena, complaint or indictment. 102/ Import Metals, which has no business activities at all in the U.S., may be more difficult to reach under the U.S. antitrust laws, but the Department will try to include all appropriate defendants in every case. If Import Metals has property in the United States, it may be seized under certain circumstances to induce consent to the jurisdiction of a U.S. antitrust court. 103/ Even if personal jurisdiction and venue requirements are lacking, the United States may file indictments or other process against an absent defendant, and hold them outstanding indefinitely, or until such requirements are met. In at least one instance, such an indictment has been served--years later. 104/

The fact that Import Metals apparently is controlled by the government of C would not provide it with a sovereign immunity defense to an American antitrust action. The sovereign immunity defense does not extend to "commercial" activity of a foreign state or of a business corporation partially or wholly owned by a foreign state. 105/

Case M: Political Risk Insurance

Six major oil companies (four based in the United States and two in Western Europe) operate oil concessions in an African country. The four American companies also operate major concessions in a Latin American country. The companies are concerned about the long-term stability of their operations in both countries. The companies are especially concerned about continued access to low-sulphur oil from the African country, because low-sulphur oil is required to comply with environmental standards in several large American cities, and substitutes are scarce.

The companies feel that their bargaining positions vis-a-vis both governments would be strengthened if they could assure some alternative sources of supply. Therefore, they propose a joint venture to deal with the situation. Three of the American members, however, are adamant about excluding the fourth American company, Maverick Oil Co., which has been an unpredictable factor in the industry and an important source of supply to independent refiners in the United States.

Ultimately, the three American companies (A, B and C) and the two European companies (D and E) agree to form a joint venture company, incorporated in the Bahamas and called Oil Guarantee Ltd. The three American companies each own 25 percent of the stock, while D and E each own 12.5 percent. Oil Guarantee Ltd. operates only with respect to the two concession countries. Its purpose is to arrange for back-up commitments of oil from its members and from outside sources. The agreement provides for a "pool" for producer-members in each country, and guarantees each producer-member a pro-rata share of that "pool" based upon prior production percentages.

The British Government owns 50 percent of the stock of D and 16 percent of the stock of E.

Discussion

One of the regularly accepted justifications for a joint venture is the sharing of large and unusual risks. 106/ The formation of Oil Guarantee Ltd. for this purpose seems within this traditional justification; and, as long as the joint venture sticks to its assigned role, it does not threaten unreasonably to restrain U.S. foreign commerce. Nor does it appear to involve any impermissible collateral restraints on any individual member's ability to compete on an entirely individual basis. Nevertheless, since it is a limited purpose joint venture, prudence would dictate that it be given a set termination date--rather than having it remain as a forum for cooperation among its competitor-members after its original purpose has passed. 107/

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a similar way. Cf. United States v. Deutsches Kalisyndikat Gesellschaft, 31 F. 2d 199 (S.D.N.Y. 1929).

99/ Restatement (Second) of Foreign Relations Law. See the discussion in Case K, pp. 51-52 above.

100/ For example, if the government of C in its capacity as majority shareholder in the Natural Resources Group required that company's management to organize a commercial cartel, this may be regarded as a "non-sovereign" act.

101/ 15 U.S.C. 22. For a recent statement of the breadth of personal jurisdiction under the antitrust laws, see, e.g., Cofinco Inc. v. Angola Coffee Co. A.C., 1975-2 Trade Cas. §60,456 (S.D.N.Y. 1975).

102/ Vitamina may also be subject to service abroad under the terms of Rule 4(e) of the Federal Rules of Civil Procedure, which allows service of process outside the United States under the provisions of various state "long arm" statutes. See W. Fugate, Foreign Commerce and the Antitrust Laws, § 3.7 (1973). In one recent instance, the Justice Department obtained an order, in response to an uncontested motion, authorizing appointment of a foreign person to serve a summons and indictment upon a foreign overseas corporate defendant in a criminal matter. United States v. De Beers Industrial Diamond Div. Ltd., 74 Cr. 1151 RJW (S.D.N.Y. 1974).

103/ See 15 U.S.C. 6, 11.

104/ United States v. Nederlandsche Combinatie Voor Chemische Industrie, BNA Antitrust & Trade Reg. Rep. No. 690, p. A-6 (Nov. 26, 1974).

105/ Foreign Sovereign Immunities Act of 1976, 28 U.S.C. 1602 et seq., Pub. L. 94-583, Oct. 21, 1976, 90 Stat. 2891. The statute defines "commercial activity" as "either a regular course of commercial conduct or a particular commercial transaction or act. The commercial character of an activity shall be determined by reference to the nature of the course of conduct or particular transaction or act, rather than by reference to its purpose." 28 U.S.C. 1603(d). See the discussion of this point above at p. 8.

106/ See C. Kaysen and D. Turner, Antitrust Policy 136 (1959).

107/ Cf. United States v. Morgan, 118 F. Supp. 621, 689-691 (S.D.N.Y. 1953) (emphasizing the limited nature of underwriting syndicates).

However, as noted in Case C, pp. 19-22 above, there is a third antitrust concern which applies when a joint venture is found to be an "essential facility" or a "bottleneck monopoly." The basic rule is that where a group of competitors form a joint venture which (i) is important competitively to the member-competitors and (ii) cannot be reasonably duplicated, then they must grant access to such an "essential facility" to all firms in the business. While this rule originated with joint ventures controlling a key physical facility, such as a railway terminal 108/ or a fish market 109/ the concept has been much more broadly applied as it developed. Perhaps the most useful illustration is the Associated Press, which was formed as a central news gathering service by a group of major newspapers in most leading cities. The Supreme Court applied the "essential facility" doctrine to this service, requiring fair access be extended to all newspapers. 110/ Although recognizing that some wire service alternatives were available to these newspapers, the Court held that the inability to buy news from the largest, and what many regarded as the best, news service necessarily restricted the publication of competitive newspapers. 111/

The question whether a particular joint venture is an "essential facility" is a fact question. The question may be phrased in terms of whether exclusion places the excluded firm at a serious disadvantage 112/ or whether a reasonably interchangeable alternative exists. 113/

In the instant case, the key issue is the exclusion of Maverick Oil Co. from Oil Guarantee Ltd. If the joint venture company is indeed an "essential facility," and exclusion of Maverick Oil places Maverick at a serious disadvantage in its efforts to import oil and compete in the United States, then this exclusion of Maverick from membership would constitute a violation of Sherman Act §1. The question whether Oil Guarantee Ltd. is an "essential facility" will depend on how much it adds to the members' ability to bargain with the foreign governments and to enter into firm (or relatively firm) contracts for delivery of oil to U.S. customers. There appears to be no immediately available alternative to the venture because the dominant oil companies in both concession countries appear to have joined it.

Moreover, if Maverick Oil were excluded as punishment for its independent competitive tactics in the past, this exclusion would be an additional relevant factor arguing in favor of giving Maverick compulsory access to the joint venture. Certainly this fact tends to negate any "good faith" defense on the part of the existing joint ventures. If Maverick Oil must be included, it should be included on equitable terms as compared to the other members, and, accordingly, it too would have to put up a fair share of capital for the enterprise.

The mere ownership by the British government of a stock interest -- even a controlling stock interest -- of two Oil Guarantee members does not in any way immunize the total venture from appropriate U.S. antitrust liability. It is not clear from the facts given whether D and E, or for that matter Oil Guarantee Ltd., are engaged in U.S. foreign or interstate commerce or are subject to U.S. personal jurisdiction through presence in the United States. Even if they are not, appropriate action could still be taken against the American parties -- which in fact seem to be responsible for excluding Maverick Oil -- for they have agreed among themselves on this policy of exclusion. Finally, the so-called "restrictive theory of sovereign immunity" employed by the United States would allow application of U.S. antitrust law to D and E's "commercial" activities despite the fact that a foreign sovereign is a major or controlling stockholder. 114/

Case N: Government-Imposed Restraint

A, a corporation organized under the laws of Country X, is a wholly-owned subsidiary of AUSA, a U.S. company. A manufactures and sells 25 percent of the widget market in Country X. Two of the other widget suppliers, B and C, are entirely locally owned and together account for about 20 percent of the market in X. The fourth supplier, D, is a majority-owned subsidiary of a manufacturer located in the Federal Republic of Germany, and accounts for about 30 percent of the market. The remaining 25 percent of the X market is accounted for by imports from U.S., Japanese and Swiss manufacturers.

B and C find the widget market in X unprofitable. The government of X asks A, B, C and D to form an advisory council to advise it on how to strengthen the local widget manufacturing industry. A joins B, C and D in advising the X government that the market in X is not large enough to sustain four local manufacturers plus substantial imports; and A, B, C and D suggest either a tariff increase or an embargo for a specified period. This action, if taken, would affect exports by a second U.S. manufacturer presently accounting for about six percent of the market in X. Officers of AUSA are advised of this action of A.

Discussion

The key restraint on U.S. export competition has been imposed by the government of X. A government imposition of protectionist tariffs and quotas is normally considered a sovereign function of the state within its own territory and therefore exempt from U.S. antitrust enforcement under the act of state doctrine, discussed above in the Introduction, pp. 7-8, and Case L at pp. 54-55.

In 1961 the Supreme Court enunciated another exemption to antitrust prohibitions, holding that "the Sherman Act does not prohibit two or more persons from associating together in an attempt to persuade the legislature or the executive to take particular action with respect to a law that would produce a restraint or monopoly." 115/ This has become known as the Noerr-Pennington doctrine. There is an exception to this rule when the collective activity, ostensibly intended to get the government to impose a restraint, is in fact a "sham" which conceals a direct restraint by the parties, such as a misuse of administrative procedures. 116/ There is another exception where private parties, at least in the regulatory context, collectively lie to the government and thereby cause

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108/ United States v. Terminal R.R. Ass'n of St. Louis, 224 U.S. 383 (1912).

109/ United States v. New England Fish Exchange, 258 F. 732 (D.Mass. 1919).

110/ Associated Press v. United States, 326 U.S. 1 (1945).

111/ 326 U.S. at 13.

112/ Associated Press v. United States, 326 U.S. 1 (1945).

113/ See Worthen National Bank & Trust Co. v. National Bank Americard, Inc., 485 F.2d 119 (8th Cir. 1973) (noting existence of two national bank card systems, and the possibility of new systems).

114/ See Foreign Sovereign Immunities Act of 1976, 28 U.S.C. 1602 et seq., Pub. L. 94-583, Oct. 21, 1976, 90 Stat. 2891. See also Dunhill v. Republic of Cuba, 425 U.S. 682 (1976); Victory Transport, Inc. v. Comisaria General, 336 F.2d 354 (2nd Cir. 1964).

115/ Eastern R.R. Presidents Conf. v. Noerr Motor Freight, Inc., 365 U.S. 127, 136 (1961); accord, United Mineworkers, v. Pennington, 381 U.S. 657 (1965).

116/ California Motor Transport Co. v. Trucking Unlimited, 404 U.S. 508 (1972).

it to impose a restraint. 117/ A similar exception might exist for conspiracy with a licensing authority, or bribery. 118/ None of these possible exceptions seems applicable here.

The only question here, therefore, is whether the Noerr-Pennington doctrine applies to efforts to cause a foreign government to impose restraints on U.S. commerce. While the Noerr case turns in part on U.S. domestic constitutional considerations, the Department does not consider it to be limited to the domestic area. 119/ The Supreme Court's discussion in Continental Ore Co. v. Union Carbide & Carbon Corp., 120/ implies as much. The Court there distinguished Noerr -- not on the ground that a foreign government was involved -- but rather on the ground that the private party was directly restraining commerce itself. 121/

Accordingly, we conclude that A's activity, joining B, C, and D in the making of a recommendation that the government of X exclude another U.S. competitor, does not violate U.S. antitrust law. The fact that this activity occurred in the context of an advisory council appointed by the government of X reinforces this conclusion, but the result would be the same even if A, B, C and D had jointly initiated the idea in an informal way. Under Noerr-Pennington, the collective exercise of the right of political expression is protected, even where its goal is highly anticompetitive.

117/ Woods Exploration & Producting Co. v. Aluminum Co. of America, 438 F.2d 1286, 1296-1298 (5th Cir. 1971), cert. denied, 404 U.S. 1047 (1972).

118/ California Motor Transport Co. v. Trucking Unlimited, 404 U.S. at 513.

119/ But see Occidental Petroleum Corp. v. Buttes Gas & Oil Co., 331 F. Supp. 92, 107-8 (C.D. Cal. 1971).

120/ 370 U.S. 690 (1962).

121/ 370 U.S. at 707-08.

-- End of Section E --

Comments on the E.C. Commission's Draft Regulation on Patent Licensing Agreements

October 16, 1977
PIPA Japanese Committee No. 2
Chairman: Mr. K. Takayanagi
Reporter: Mr. F. Uchimaru
Mr. I. Shimada

Summary

The international transfer of technology is becoming a subject of great importance to all countries. So far in Japan, the number of introduction of technology from developed countries is higher than that of export of technology to these countries, which, however, is gradually increasing. Therefore, any new development about regulation regarding technology transfer is our serious concern.

The present draft regulation should be welcomed for the reason that it will offer an unified view of E.C. Commission which seemed to have been somewhat comfused and also it will simplify the procedure of exemption since agreements will be automatically exempted if certain conditions are met. When we review this block exemption rules carefully, however, we have found some inappropriate points.

We would like to present a summary report of comments with respect to the items considered to be particularly important.

Comments

1. Exclusive Licenses for Manufacture

Under the draft regulation, block exemption is granted to an exclusive manufacturing license only if:

1) the licensed territory has population not exceeding 100,000,000; and
2) the licensor has the contractual right to terminate the agreement after no more than five years from the contract date in the event that the licensee has failed to exploite the patent or has done so inadequately.

The proposed draft EEC patent licensing regulation is not consistent with E.C. Commission's prior thinking. Firstly, according to the Christmas Message[1], grant of an exclusive license is legal without any condition. Secondly, E.C. Commission in its decision in 1972 for Davidson Rubber's case[2] has held exclusive license for manufacture and use as legal.

The limitation of population of 100,000,000 for area of exclusive manufacturing license is fairly low when we consider the approximate populations of the member States;

e. g.	West Germany	62 million
	France	52.9
	Italy	55.6
	U. K.	55.9
	Netherlands	13.6
	Belgium	9.8
	Denmark	5.1

This means that we cannot enjoy the privilege of group exemption for any exclusive manufacturing license for two or more of the major countries. We believe that any geographical restriction about exclusive right to manufacture will serve no practical purpose because there is no geographical restriction about exclusive sales right under the draft regulation.

Nowadays, it takes a long time and enormous cost to commercialize a new product in most of the developed countries. Many licensees would probably dare not to risk their time and money for development under a situation that their

patent licensing agreement may be terminated by the licensor after five years.

We understand that this provision of termination of agreement will be helpful to eliminate the case where one obtains the patent to let nobody practice the patent to produce a product which is in competition with his product but not for himself to practice the patent. Without doubt, this case has to be avoided. Nevertheless, we should not risk discouragement of so many honest licensees to go into exclusive license arrangements only to avoid such isolated cases.

Exclusiveness is one of the most important elements of patent right and, we are afraid that to require these limitations on exclusive license might impair the value and benefit to both licensee and licensor of exclusive license and hence the driving force for obtaining patent and going into exclusive licensing arrangement, thus inducing the stagnation in the inventive activities and technology transfer.

2. Exclusive Sales License

Patent licensing agreement including exclusive sales right is block exempted only:

1) for a period of 10 years from the date of application of the basic patent. This period cannot be extended by improvement or new use patents; and

2) in favor of an enterprise whose total annual turnover from sales and services for the preceding fiscal year did not exceed 100,000,000 units of account (US $100,000,000).

For purposes of this requirement, the gross revenues not only of the enterprise applying for exemption is taken account, but also those of its affiliates.

The first point, we would like to make about this provision is that the definition of basic patent is ambiguous. It is not clear from this expression whether basic patent means most basic patent among the patents licensed or most basic patent among the patents existing in the technical area now in question.

If the latter is the case, there will be a lot of argument about what is the basic patent since it is very difficult to draw a line between basic and non-basic, particularly in case where technical area is not well defined. Consequently, there may be a possibility that exclusive license agreement which should be group exempted is not exempted depending upon the interpretation by individual of the nature of the patent.

Even if basic patent is clearly defined, this provision has another problem. Relative number of basic patent as against improvement (or non-basic) patent is naturally, very small. Therefore, if the group exemption of exclusive sales right is limited only to basic patent, the number of agreements which can be group exempted is nothing but small fraction of total agreements, and this provision will be of no substantial help to reduce the work of E.C. Commission.

If the former is the case, we will not have this kind of problem. However, there seems to be loophole to this provision. One could have separate patent license agreements for each of the patents that one wants to license to the same company rather than he licenses multiplicity

of patents under one license agreement, only to entitle him to group exemption for each of the patents that he wants to license. This will even increase the number of agreements that E.C. Commission has to review, in quite contrary to the objective of the draft regulation. In conclusion, we believe it is better not to discriminate basic patent from non-basic patent.

The second point we would like to mention is that it is more appropriate to have the exclusive period be for ten years from the date of execution of the license agreement or life of (basic) patent, whichever the shorter rather than ten years from the date of application of the (basic) patent. Considering the most probable time schedule from application of patent to commencement of sales of the licensed product, that is,

from application to publication	1.5-2 years
from publication to execution of license agreement	1.0 year
from execution of agreement to commencement of sales	3-5 years

exclusive period will be at the longest 4 years after commencement of sales, under the proposed exclusive period,

which is much too short to be of any practical value to exclusive licensee. If the exclusive period is for ten years from execution of license agreement, the effective exclusive sales period will be 5 to 7 years, which will be more reasonable figure.

We believe that 100,000,000 units of account is relatively small since this figure is not only for the licensee itself but also includes the gross revenues of its affiliates. This seems to be like reverse discrimination of large corporation only because of its size.

EEC has already issued the notice regarding this subject on May 27, 1970.[3] According to this notice, agreements are classified in terms of market share of the product as well as gross turn over of the enterprise in question and agreements falling within certain range in these respects are classified as minor importance and are entitled to group exemption from application of 85(1). The present regulation is quite different from and much severer than this notice of E.C. Commission and also the present draft regulations introduces severer conditions than those of AOIP/Beyrard decision, E.C. Commission decision of December 2, 1975.[4]

3. Field of Use Restriction

Restriction to certain technical fields of application is exempted only if the licensor can prove that the licensee is not technically equiped to expoit the patent property in the excluded fields of application. If the licensee applies the patent in field other than those specified in the agreement, the licensor shall still be entitled to a corresponding increase in royalties payable under the license.

According to the guidelines of Japanese Fair Trade Commission, to grant license only for a limited area within the whole area covered by patent rights is regarded as proper exercise of right under the Patent Act. Further, the Christmas Message stated that field of use restrictions in patent licenses did not fall within Article 85 (1) category. Such restrictions have so far been deemed legal in ordinary licensing practice (Davidson Rubber decision, supra). In the United States, field of use restrictions based on the field of technology and not aiming at restriction of market is considered to be legal.[5)]

It is understandable that use restriction should not unconditionally be legal. However, criteria of determining whether or not patent licensing agreement should be entitled to group exemption shall not be limited only to technical capability but shall include other factor such as marketing capability, financial capability, organizational factors and more importantly licensee's choice to limit the licensed field to certain area in order to minimize royalty. There will be many cases where licensee wants to have license for only limited area although licensee has technical capability to exploit the patent in the excluded area.

In addition to this deficiency, the draft regulation has another drawback that there remains many question about actual way of <u>proof</u> by licensor. By these reasons, we are afraid that proposed draft regulation will not be workable and practical.

It is, however, against anti-trust regulation, if field of use of patent is restricted against will of licensee. It might, therefore, be one idea to entitle patent licensing agreement having field of use restriction to group exemption subject to declaration to E.C. Commission by licensee and

licensor that such restriction is based upon licensee's will but not forced by licensor.

4. Grant-back

The obligation to pass on experience and to grant licenses in respect of application or improvements of the original invention shall be exempted only if it is non-exclusive, if the licensor is bound by the like obligation and is authorized to grant sub-licenses to other licensees.

According to the guidelines of Japanese Fair Trade Commission, obligation on the part of licensee to grant-back its improvement is legal when the licensor bears similar obligations and obligation of both parties are equally balanced in substance. In the United States, grant-back itself is generally legal and considered illegal only when it will bring an undesirable effects for competition. When grant-back is utilized for the purpose of getting control of market, however, the validity of whole agreement is questioned as the violation of Sherman Act. The Christmas Message has held grant-back legal on condition that it is not exclusive and the licensor bears similar obligations.

Of the triple conditions that draft regulation sets:

1) grant-back be non-exclusive

2) Licensor is bound by the like obligation

3) Licensor is authorized to grant sub-licenses to other licensees

2) is in line with conditions of Japanese and EEC's regulations (Christmas Message) and we have no objection to this condition.

We believe, however, that even exclusive grant-back should be held legal, if the (original) license is exclusive, with respect to same geographical area, although we admit that grant-back shall be non-exclusive if the license is non-exclusive. Likewise, it makes no sense for licensor to have right to sub-license the improvement granted-back when the license itself is exclusive. Therefore, conditions 1) and 3) shall be subject to nature of original license and should not be absolute conditions for group exemption.

In essence, the proper condition for group exemption of grant-back shall be "If the licensor is bound by the like obligation and obligations of both parties are equally balanced."

5. Conclusion

To our regret, we have no sufficient time to refer to other items in question such as incontestability, minimum royalty or arbitration clauses other than four items mentioned above.

Since E.C. Commission has solicited comments from interested parties concerning the new draft EEC regulations, it will undergo further revisions before a final text is adopted, reflecting various comments and opinions of interested parties. The final draft, if completed, will become our important guide for drafting patent licensing agreements with European countries.

Today, know-how is as valuable asset as patents and licensing of know-how only or mainly know-how is becoming of great importance in the technology transfer. We hope, therefore, that the Commission will separately offer a clear and reasonable policy on the treatment of know-how licensing agreements.

References

1) Notice concerning license agreements, issued by the Commission, dated December 24, 1962. J. O. No. 139 December 24, 1962.

2) Davidson Rubber, E. C. Commission decision of June 9, 1972, J. O. L 143/31.

3) Notice concerning agreements of minor importance, May 27, 1970 1970 CMLR D 15.

4) AOIP/Beyrard, E. C. Commission decision of December 2, 1975, J. O. No. L6, January 13, 1976.

5) General Talking Pictures Corp. v. Western Electric Co., 304 U. S. 175, 1938.

INTELLECTUAL PROPERTY PROBLEMS

RELATED TO A DIVESTITURE

TO BE PRESENTED BY

WILLIAM E. CLEAVER

INTELLECTUAL PROPERTY PROBLEMS
RELATED TO A DIVESTITURE

Some time in late August, Bill Keating called me and asked if I would present a talk at this meeting on some interesting aspect of licensing. I told Bill that I did not believe that I had been involved in any unusual licensing experiences that would hold the interest of a PIPA meeting. The only activity in which I had been involved, in the past year, which might be of interest, had been my involvement in the intellectual property problems related to a business divestiture. Bill felt that this topic would be of interest and so I am here to share my experience with you.

Now let me pause for a moment. I hope our Japanese friends will forigve my school teacher tendencies, but if I recognize that I have used an English word which might not have a good Japanese translation, then I will say it some other way. A business divestiture, to which I just referred, is the act of selling all of a business activity or a part of a business activity. Hence the intellectual property problems which I am going to discuss with you are intellectual property problems relating to selling off a part of a business activity.

Before I discuss the problem in detail I should paint a cast of characters and a scenario of the condition which were peculiar to our particular divestiture and which probably gave rise to many of our problems. I want to make it clear, at the

outset, that this talk is not a general treatise on how to deal with intellectual property problems involved in a business divestiture. Indeed I have not had sufficient experience to be an expert. Rather I am going to tell you how we dealt with our problems. Some of our problems and solutions may be sufficiently general to a business divestiture to be helpful to you, if you should get involved in such a program.

Bill Keating told me that I had 20 minutes to be "on stage" and when I undertook the preparation of this talk, I realized that I could take all 20 minutes just describing the background. This of course would give me an excuse to go to Japan next year to finish the presentation. I sincerely considered that possibility but reluctantly abandoned the scheme at a later time in response to the strong urging of my boss.

Let me tell you that in the background scenario we find a multi-national company which I shall refer to as Company SR. Company SR had a first business activity which we shall call the AAA business activity. I chose to use letter designations throughout this talk instead of the real trademarks and trade names in order to protect the innocent.

Company SR had and has other business activities which we shall identify as the BBB business activity, the CCC business activity, and the DDD business activity. The AAA business activity was

located worldwide as are the others. For reasons, which were not discussed with me, I can assure you, Company SR decided to no longer engage in the AAA business activity. Having made that decision, Company SR had at least 3 possible courses of action. It could shut down all of the AAA business activity worldwide; or it could find an ongoing company, possibly one of its competitors in the AAA business, and persuade that ongoing company to buy the AAA business worldwide; or it could work out a plan to sell the AAA business to the employees who were at that time working in the AAA business of Company SR. There were of course other options but we need not consider any others.

If Company SR followed the first course, i.e., shutting down the AAA business worldwide, it would not have been a simple solution but would have given rise to many, many problems. For instance in many countries there is a redundancy payment, required under the law, for each employee who is terminated and such redundancy costs are very high. In addition, the trade unions of the AAA, BBB, CCC, and DDD activities, in many countries were interrelated. A mass termination, or a large employee layoff, would not only have resulted in high redundancy costs but would have created a general strike of the AAA through DDD activities. Further in addition a company such as Company SR, had commitments to many distributors and

would have been subject to litigation under one or more theories of tort, contract or statutory prohibition, if the AAA business activity had been shut down. Even further, in addition, there were the problems of legal obligations to supply parts for AAA products; the moral obligation to supply such parts; and the likelihood of a tainted image in the respective national communities for having terminated a large number of employees. Now actually Company SR never considered the first course of action. But I feel quite certain that if anybody had even so much as run the idea up the flagpole, perhaps in a brainstorming session, it would have looked frightening.

The second course of action, i.e., finding an ongoing company is a nice idea, but the facts of life are that there is not a long line of possible purchasers. However, if Company SR had found a possible purchaser by way of another multi-national company then even that could have been a problem. For instance the multi-national company, which might have purchased the AAA business, would have become the local hero in the respective national communities, having saved the jobs of the local employees. It follows that if Company SR were doing business in some other business area, in those local national communities, and the new purchasing company decided to compete, undoubtedly the new purchasing company would have been looked upon with favour.

If Company SR ever seriously considered the second course of action, it was soon abandoned.

Company SR, decided to follow the third course of action and attempt to sell the AAA business to the employees. Such a program has a great number of meritorious aspects, such as giving the employees an opportunity to continue their current jobs, such as giving a national company an opportunity to keep the profits at home, such as preserving Company SR's image in a foreign country where other SR businesses were being conducted. It also had a great number of trying aspects that Company SR did not contemplate as it launched on this endeavor.

As I relay my experiences, I am going to ignore many of the troublesome aspects of such a divestiture such as those related to taxes, labor, real estate, transfer of capital goods, inventory, prohibition against nonresidents investing in a local company, etc. I am only going to deal with the intellectual property problems.

After some analysis of the situation, it was decided that the European portion of the worldwide AAA business activity could be carved out and sold to the SR employees in Europe. The SR employees were advised of this opportunity and indicated a strong interest in acquiring the European AAA business of Company SR.

The contemplated sale was to be to the employees of the SR subsidiaries engaged in the AAA business activity located respectively in the countries of Ireland, England, Belgium, Holland, Germany, France, Switzerland, and Italy. In each of these countries there was an SR subsidiary, for at least Marketing purposes, and in Germany there was a Manufacturing company which manufactured AAA products. Each of the SR subsidiaries operated under an AAA trade name as well as under a second trade name the BBB trade name. Each subsidiary sold AAA products bearing the AAA trademark, and in addition these AAA products selectively bore other trademarks, which we shall identify as the H through P trademarks. The AAA trademark and the H through P trademarks were registered in all of the foregoing European countries. In addition of course there was a BBB trademark to accompany the BBB trade name related to the aforementioned BBB business activity. The BBB trademark was registered in all of the foregoing European countries as well. As will be discussed later the BBB trademark became involved although the business activity being sold was the AAA business activity. Some of the SR subsidiaries sold FFF and GGG products. Both FFF and GGG products were provided from OEM sources (not manufactured by Company SR) and the FFF products were sold under the AAA trademark while the GGG products were sold under the BBB trademark.

Before I go further let me point out that had the employees been able to ban together into a single integrated company, with subsidiaries of their own to effect a one-for-one replacement for that portion of Company SR's business, many of the concerns which I will discuss today may have been nonexistent. However, the employees from the various subsidiaries in the various countries did not know one another too well; the great money concern up until the time of the divestiture had been the responsibility of Company SR and not the great responsibility of the local employees; and finally it can be said that each national group knew its own territory and knew that they could make a success of selling AAA products, if assured a supply of such products. However each national group had some concern that the other national groups might not be able to carry their fair share of the load, if there were an integrated single company. Accordingly the AAA business of Company SR was separated into a plurality of small local companies in the various countries.

When I refer throughout this talk to a local company I will be making reference to a new "employee owned" company in one of the particular European countries mentioned earlier. For instance when I make reference to a French local company, I am talking about a new company, owned by the former SR French employees. Bear in mind further that Company SR per se did not have many of the problems resulting from its part in the

divestiture. However Company SR wanted the former employees to be successful so we undertook to prepare the contracts between the local companies, work out the best approaches to the problems created by the particular roles of local companies or the particular national laws related thereto, as well as prepare contracts between Company SR and the local companies.

Company SR initially proposed transferring each AAA activity in each country to the local employees with some arrangement, to be defined, whereby each local company would be assured of getting a share of the AAA products from the manufacturing plant. Further Company SR initially proposed a transfer of the AAA trade name, the AAA trademark, and the H through P trademarks to the respective local companies. Company SR did not propose transferring the BBB trademark or trade name for reasons that will be explained hereinafter. In addition it was proposed that the patents and patent applications related to the AAA products which had been issued, or had been filed, in the various countries would be transferred to the local companies thereof. Finally it was decided that the know-how of the manufacturing plant in Germany would be transferred to a new separate manufacturing company in Germany.

Certainly the foregoing did not seem like a monumental problem. However as we got into effecting agreements related thereto we started encountering concerns which made the project an interesting experience.

Although these concerns may not have occurred chronologically, as I am about to describe them, we find that first the former employee buyers wisely decided that there should be common administration, common direction and funding of a Research and Development effort, common acquisition of OEM products, and common ownership of the German manufacturing company. Heretofore the advertising, direction and funding of R&D and acquisition of OEM products had been under the auspices of Company SR. Accordingly, an administrative company was created which was owned by the local companies. The administrative company was chartered to own the German manufacturing company, and was chartered to provide a common advertising effort, a common acquisition of OEM products, and a common funding of research and development which would be helpful to all companies.

The foregoing philosophy having been decided, we undertook to discuss with European tax experts in what way the administrative company funding might best be effected. It was decided by European tax experts that while the funds, needed for the administrative company, could be raised through the transfer prices charged by the manufacturing company to the local companies such an arrangement would not be as good, from a tax standpoint, as having local companies pay royalties on patents, or trademarks, or trade names to the administrative company which could then fund its activities, including the research and development of the manufacturing company.

Royalties from patents did not seem to be attractive because of their limited time, and because of the "falloff problem" (i.e., the prohibition against collecting royalties on patents which are no longer viable), and because the art related to the AAA business did not lend itself to readily building up a patent portfolio. Trade names were initially difficult to deal with because very few attorneys in Europe understood the concept of trade names, as we understand it, or their licensability except in the sense of a franchise. Accordingly, it was decided that trademark royalties would be the vehicle by which money would be transferred from local companies to the administrative company to pay for the activities of the administrative company including the research and development effort of the manufacturing organization.

As I suggested earlier the initial plan had been to have each local company own the trademarks registered in the country in which it was located. However if such trademarks had been owned by the local companies then there would not have been any basis for paying royalties to the administrative company because the administrative company would not have owned the trademarks. As a result it was decided that the administrative company would have to own the trademarks and thereafter license the local companies in the various countries on a non-exclusive basis in order to provide a means for paying trademark royalties to the administrative

company. That decision presented two problems. If the administrative company owned the AAA trademark, for instance in France, and directed the manufacturing company to place the AAA trademark on the AAA products, as they were manufactured, then the trademark "use" of the AAA trademark would not be a "use" by the French company but would be a "use" by the administrative company. Such an arrangement would not provide a basis for the French company to pay royalties to the administrative company. To overcome this problem the AAA trademark and the H through P trademarks, which had been transferred to the administrative company were licensed on a non-exclusive basis from the administrative company to each of the local companies and as will be apparent monentarily, the license enables the local companies to "use" the trademarks and provides a basis for paying trademark royalties to the administrative company. Let me interject at this point that we had our contractual solutions reviewed constantly by local counsel to be certain that we did not violate any of the laws of the EEC.

Under the license, by way of example, if the French local company ordered AAA products from the manufacturing company, it ordered those products by number and directed the manufacturing company to place the AAA trademark (as well as some of the H through P trademarks) on the products so ordered. The act of the French company ordering the trademarks to be placed on the products constituted "use" by the French company of the AAA trademark in France. The "use" by the French Company gives rise to a basis for royalties and the royalties can be paid to

the administrative company. Actually an AAA trade name was also licensed to the French company (as well as the others), from the administrative company, and the royalty paid to the administrative company is based on products sold under the license while employing both the AAA trademark, the H through P trademarks, and the AAA trade name. We added the trade name license provision in response to advice of European counsel, who were never very certain that royalties on trademarks of the magnitude needed by the administrative company, would always be permissible but felt that licensing of a trade name (which they understood after we laboriously explained it) would lend weight to the property interest for which royalties were being paid.

Now let me digress for a minute. The description of my divestment experience is somewhat similar to writing a patent application on a computer system. The story can be started almost anywhere and there are a great number of pieces of the puzzle, all juggled simultaneously at the same time, that must be fitted into the narration in order to fully appreciate the overall arrangement.

I suggested that Company SR transferred the title to the trademarks and the trade names to the administrative company in order for the administrative company to be able to grant a license to the local companies. Actually it was not that simple.

Company SR owned title to the trademarks in each of the European countries, so transferring the same to the administrative company was not very difficult. However it was decided, with the help of local counsel, that there was a likelihood that the SR subsidiaries owned the property rights (or some of the property rights) to the trade names in each of their respective countries because the SR subsidiaries provided the "use" of the trade names which had established ownership and it was questionable whether such use had been provided by the parent company. Accordingly, we had to have the respective SR subsidiaries join with Company SR to transfer ownership of the trade names to the administrative company so that the administrative company could license both the trade names and the trademarks to the local companies.

I mentioned earlier that there were two concerns which arose when it was decided that trademarks would be transferred to the administrative company. I have discussed the first. The second was that in many countries (as is true in the United States) it is necessary to transfer a trademark with the business activity associated therewith. It was clear that the AAA business activity in Italy was being transferred to the Italian local company and therefore the law would seem to have dictated that the trademark could not be simultaneously transferred to the administrative company. We wrestled with

this problem, not recognizing that the Company SR activity in Italy, as related to the AAA and the H through P trademarks, was an activity of selling the AAA products, with trademarks thereon, to the Italian subsidiary and not to the Italian public. In other words, Company SR owned the manufacturing company in Germany. The SR Italian subsidiary ordered the AAA products, by trademark description, but did not order that trademarks be applied thereto. The manufacturing company put the trademarks thereon as part of its use and shipped the goods to the SR Italian subsidiary and thereafter invoiced the Italian subsidiary for the AAA goods. Hence if Company SR's business, i.e, selling to the Italian subsidiary (subsequently the local company), and not to the Italian public, was transferred to the administrative company then the Italian trademark related to that selling activity could also be legally transferred to the administrative company. This is the philosophy under which we transferred the AAA trademarks to the administrative company.

We had to provide in the license agreements that there would be quality control by the administrative company, or licensor, with respect to products sold by each of the local companies. The foregoing was a requirement of law in most of the countries in which the local companies were situated. The quality control aspect of the license caused us to focus on another concern.

You will recall that I mentioned that some of the SR subsidiaries sold FFF products which were OEM products, i.e., not manufactured by Company SR but sold by the SR subsidiaries under the AAA trademark to accommodate or fill out the AAA product line. The new local companies wanted to continue that OEM activity and possibly expand it. A provision was made in the license agreements, to the effect that permission could be obtained by the local company from the administrative company to sell OEM products, under the AAA trademark and trade name provided such products were presented to the administrative company for evaluation and provided that such OEM products came up to the standard of the other AAA products. This added a new duty to the administrative company but the provision seems to make everyone happy.

I also mentioned earlier that some of the SR subsidiaries sold GGG products as well as AAA products and said GGG products were sold under a BBB trademark. Some of the local companies wanted to be able to continue to sell the GGG products under the BBB trademark. Company SR was reluctant to grant permission to the local companies to use the BBB trademark because, among other reasons, the BBB business activity of Company SR was an ongoing activity of Company SR. It was the intention of Company SR to continue to sell BBB products, under the BBB trademark, and the GGG products were unrelated products although

they were sold under the BBB trademark. When I talk about unrelated products I mean that Company SR sold both electric shavers and OEM typewriters under the BBB trademark and trade name. It would appear that there might be confusion in the minds of the public if both the local company and Company SR were selling products under the BBB trademark and Company SR did not want to create this confusion.

To resolve this matter equitably, and being strongly motivated toward seeing that local companies did not fail, Company SR agreed to a limited BBB trademark license, along with a definite phase out program. Under this program, Company SR agreed to let a requesting local company use the BBB trademark for two years for use on GGG products, without a requirement that the local company use its own trademark in conjunction therewith. In the second step of the phase out program covering the third and fourth years, the local company would have to use its own trademark and have its own trademark placed in a more prominent position on the product than the BBB trademark. In the third step of the phase out program, taking place in the fifth year, the BBB trademark would no longer be used butthe local company could use an expression such as "formerly manufactured by BBB". At the end of the fifth year it was agreed that no reference to the BBB trademark would be used. The phase out program was acceptable to all parties and it appears to be equitable.

In Germany we had a peculiar problem in that under German law, according to German counsel, the trade name had to be licensed to the manufacturing company and could not be simply licensed to the German local company. Bear in mind that there was a local German company as well as a German manufacturing company. Inasmuch as the German local company wanted to be able to use the AAA trade name (as all of the other local companies had been able to do) we had to prepare, with the help of German counsel, a franchise agreement whereby the German manufacturing company which had a license from the administrative company would franchise the trade name to the German local company so that it could sell its AAA products under the AAA trade name. This was not a straight forward license arrangement with the administrative company as we had been able to provide to the various other local companies. With respect to patents and patent applications we simply made a straight forward assignment of the patents and patent applications to the administrative company and no license provision was made to any of the local companies.

There remain at least two other considerations worthwhile discussing. Company SR had to transfer the know-how related to the AAA products (which know-how resided in the SR subsidiary in Germany) to the German manufacturing company. Since these contracts would be carefully reviewed by the proper government

agencies in Germany we were convinced that we must be able to properly define the know-how which was being transferred. Accordingly, we made a trip to the German company and physically reviewed all of the documentation related to the know-how such as the prints for the products, the progress reports with respect to the products, process sheets with respect to the products, the tooling code numbers, as described in the process sheets, the vendor lists, the customer list, etc. Actually the German SR subsidiary had very good documentation and in response to some further requests from us we were able to compile a complete documentation of the know-how that was being transferred. Finally, and I am only stopping because I am running out of time we had to consider from the standpoint of company SR some indemnification against liability that might arise because a local company, and/or the administrative company, would be using the trademarks, which the public heretofore had associated with Company SR. We simply undertook to provide in the transfer of the title of the trademarks, a provision whereby the administrative company would hold Company SR harmless to claims of a third party arising out of any alleged infirmities, actual or implied, warranties or guarantees of any of the products marketed under the AAA trade name or the AAA trademark or trademarks H through P.

Now if I can slip in one more item before I close this talk I

would point out that actually the agreements were drawn and signed by the local companies before we ever transferred our right, title and interest to the administrative company. Again, on advice of European counsel, we provided in each of the licenses an agreement by the licensee that it would not object to an assignment, to a third party, of the license agreement in which such provision was made. Our European counsel pointed out to us that even though the license agreements were made assignable that there had been cases wherein the licensee was permitted to object, but if in the license a recitation is provided to the effect that the licensee does not object to a proposed assignment, then this is good assurance that the license can be assigned without problems.

Now if you have any questions I will be happy to answer the same.

OUTLINE OF THE NEWLY AMENDED JAPANESE ANTIMONOPOLY ACT

Japanese Group
Committee 2 (Licenses)
Reported by
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Summary

The Antimonopoly Act of Japan was substantially amended for the first time in 24 years last June on the 30th anniversary of its enactment.

Within several years after its enactment, the Act was amended twice to relax controls since priority was being given by the Government to industrial development measures instead of antitrust policy administration. However, the harmful effects of such measures reached the extent where they could no longer be ignored.

To rectify the situation, tightening of controls, regulatory controls over market structure, and especially measures for elimination of monopoly situations, were introduced in the 1977 amendment in contrast to the earlier amendments.

At present, work to adjust the previous regulations and guidelines is underway.

Development of consumer remedy measures and guidelines for control of corporate mergers which were not covered in the present amendment are problems for the future.

Mr. Chairman and distinguished guests and members:

I am Kou Kunieda, and I thank the Chairman for his kind introduction. It is my great honor to speak today at this PIPA Congress. The subject of my presentation is the outline of the newly amended Japanese Antimonopoly Act which I will cover in the following order:

I. Background of the present amendment

II. Main points of the amended Act

III. Conclusion

I. Background of the Present Amendment

The Antimonopoly Act of Japan was enacted 30 years ago in 1947. The Sherman, Clayton and FTC Acts - U.S. antitrust legislation - served as the principal legal source. Initially, the Antimonopoly Act was enacted to serve as an economic constitution to ensure free competition, and thus measures exercising control over private monopoly and unreasonable restraint of trade and unfair business practices were the objectives.

Ref: The three points in which the Japanese Antimonopoly Act was considered more stringent than the above-mentioned American legislation were the following:

a) Total prohibition of cartel acts except for cases where the impact is insignificant (prohibition of unreasonable restraint of trade); and

b) Stipulation of the elimination of unreasonable disparity in business capacity (prevention of excessive concentration of economic power -- prevention of private monopoly); and

c) Stipulation of drastic restrictions on combination of enterprises (prevention of private monopolization); especially, severe limitations on intercompany stock holdings and concurrent service as an officer.

The severity of the regulatory controls of the Antimonopoly Act initially is demonstrated by the fact that 20 cases of foreign technological induction agreements were brought to judgment. This is in sharp contrast to only one case of judgment from 1952 until the present.

However, influenced by a shift in American policy toward Japan, amendments of the Act in 1949 and 1953 resulted in a relaxation of controls, with the result that the Government's antitrust policy retreated and industrial development policy took precedence. As a result before long, the Japanese economy entered upon a period of high growth. A number of abuses hindering free competition however became evident and could not be disregarded. Such abuses included formation of monopolies through stock acquisition and the like, problems over control of enterprises, and the contributors to spiralling prices such as administered prices, price cartels, coordinated price increases, etc. The economy of Japan has now undergone a structural change from a state of high to low growth and is plagued with stagflation similar to the U.S. and Europe. The antitrust policy is now being looked to as a means of curbing consumer price increases. I will now talk about the reasons for the present amendment.

Ref: Main points of the 1949 amendment of the Antimonopoly Act -
a) Relaxation of total prohibition of stockholdings by companies with such holdings banned only in cases of material reduction of intercompany competition.

b) Easing of company mergers from the existing system of Fair Trade Commission (FTC) approval to a notification system.

Ref: Main points of the 1953 amendment of the Act -
a)-1 Relaxation of controls on cartels resulting in approval of recession cartels and business rationalization cartels.
a)-2 Easing of controls over unreasonable restraint of trade and deletion of general prohibitive provisions covering specified joint acts (cartel acts).
a)-3 Creation of a resale price maintenance system.

b)-2 Relaxation of controls on monopolization and corporate combinations and a further easing of restrictions on stock ownership, concurrent service as an officer, etc. with these not subjected to regulatory control unless there was a material restraint of competition.
b)-2 Deletion of provisions covering elimination of unreasonable disparity in business capacity (orders to monopolistic enterprises for a business transfer).

1) Advance of oligopolization

Entering into the 1970's concentration and oligopolization of production developed as shown in Table 1.

2) Rampancy of administered prices

With oligopolization, in a highly oligopolistic industry, pricing was established by administered prices determined independently of the market by the industry price leader, and the phenomenon of a so-called coordinated price increase became rampant whereby other enterprises followed the price leader and raised their prices in similar amounts or at the same ratios at generally the same time.

Table 1 Change in No. of Oligopoly Items (1965 - 1974)

	'65	'66	'67	'68	'69	'70	'71	'72	'73	'74
No. of items surveyed (A)	163	163	163	163	163	163	163	163	163	163
Degree of concentration of top 3 companies - 60% or more of no. of items (B)	66	64	61	65	70	73	79	75	76	76
Ratio (B/A)	40.5%	39.2	37.4	39.9	42.9	44.8	48.5	46.0	46.6	46.6
Degree of concentration of top 3 companies - 70% or more of no. of items (C)	45	44	45	49	45	49	51	53	49	52
Ratio (C/A)	27.6%	27.0	27.6	30.1	27.6	30.1	31.3	32.5	30.1	31.9

Source: FTC - Survey of degree of production concentration

Note : The 163 items surveyed accounted for approx. 30% of the total value of shipments in the manufacturing industry in 1972.

3) Rapid increase in cartels

With the development of oligopolization, came a noticeable trend toward the formation of cartels for cooperative purposes as indicated in Table 2.

Table 2 Trend of Cartel Violation Cases (1965 - 1975)

	'65	'66	'67	'68	'69	'70	'71	'72	'73	'74	'75
No. of judgments	27	17	12	31	32	44	37	34	69	60	34
No. of cartel cases	14	13	7	20	21	42	35	25	67	41	20

Source: FTC Secretariat
Note : Virtually all of the cartel cases involved price cartels.

Ref: In February 1974, 12 oil distributing companies and the Japanese Petroleum Association which had been involved in price-raising of petroleum products and imposition of restrictions on crude oil were indicted together with their officers on a charge of cartel actions.

In particular, from 1970 on successive price cartel violations occurred. The FTC had a problem in that even though it caused the relevant cartel agreements to be annulled, a price once raised could not be restored to the price level formed in the competitive market, so that it was previously impossible to prevent repeated violators of the Antimonopoly Act from carrying out cartel actions.

4) Increase in stock holdings by companies

Table 3 Change in Stock Holding Ratios by Owner

(Unit: %)

Owner	1950	1955	1960	1965	1970	1971	1972	1973	1974	1975
Individuals	61.3	53.4	46.6	45.0	40.1	37.4	32.9	32.8	33.5	33.5
Corporations	35.5	46.2	53.2	54.8	59.6	62.4	66.9	66.9	66.2	66.2
Breakdown										
Financial companies	24.5	31.5	34.3	34.8	33.5	35.4	36.9	36.6	36.7	37.4
Business firms	11.0	13.2	17.8	18.4	23.1	23.6	26.6	27.5	27.1	26.3
Foreign corporations	0	1.5	1.1	1.6	3.0	3.4	3.4	2.8	2.4	2.5
Governmental & local public entities	3.1	0.4	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2

Source: Ministry of Finance's national survey of stock exchanges

Note : 1. Survey covered nation-wide stock listed companies.
2. Finance companies include securities firms.

Please refer to Table 3 which shows the increase in stock holdings of financial companies and business firms. This indicates the group alignment of enterprises and formation of company groupings through stock acquisitions. The main causes for these were as follows:

1) the above-mentioned companies became institutional stockholders solicited for the purpose of securing stable stockholders as a measure against capital liberalization and 2) stock holdings were carried out to secure customers in 1971 - 1972 when an abnormal surge of prices occurred.

These were problems which could not be neglected in terms of antitrust policy.

5) Tightening of antitrust policies of the major overseas countries

It must also be cited that the major overseas countries such as the U.K., West Germany, etc., including the U.S., were striving to strengthen their respective antitrust policies.

The principal items noted in these legislative examples are:

i. Strengthening of controls over concentration and monopoly in enterprises.

ii. Abolition of exemptions concerning the maintenance of resale prices and tightening of controls.

iii. Creation of provisions for consumer remedy and expansion of scope of control.

iv. Extension of legal application to the service trade, including individual enterprises.

v. Tightening of penalties.

vi. Revamping of antitrust law enforcement agencies and strengthening of their authority.

Prior to the foregoing, in December 1971 the OECD Council adopted the "Counsel's Recommendation on Measures Against Inflation in the Field of Competition Policy." This led to a tightening of the respective countries' antitrust laws.

II. Main Points of the Amended Act

The present amendment of the Antimonopoly Act covers the following 10 items:

1) Surcharge on unreasonable restraints of trade (illegal cartels).
2) Measures against past illegal acts.
3) Measures against a monopoly situation.
4) Collection of reports on coordinated price increases.
5) Restrictions on total amount of stock holdings of business firms.
6) Restrictions on stock holdings of financial companies.
7) Measures for elimination of unfair trade practices.
8) Notification to informers concerning facts of violation.
9) Adjustment of provisions covering judgment procedures and suits.
10) Tightening of penalties.

Because of time considerations, among the above I will explain mainly about the cartel and oligopolization measures.

1. Cartel Measures

A surcharge system and measures against past violations were established as cartel measures.

1) Surcharge on illegal cartels

Aided by loopholes in the elimination measures, there was no end to illegal cartels centering on price cartels. Accordingly, it was determined in the present amendment to impose a surcharge on profits acquired by any illegal cartel for payment into the

National Treasury.

1)-1 Nature of the surcharge

The surcharge is a penalty imposed on an enterpriser by the FTC as an administrative disposition. From the essential nature of administrative dispositions, the FTC has no discretionary power to decide whether to cause a surcharge to be paid or to determine its amount.

1)-2 Cartels subject to surcharge payment

Cartel acts related to the raising and maintenance of prices or any cartel act which influences prices by materially restricting the amount of supply of merchandise are subject to a surcharge. However, cartels other than those involving prices are not subject to any surcharge because illegal acts can be dealt with by elimination measures.

1)-3 Surcharge calculation method

The amount obtained by multiplying the turnover during the period a cartel is in effect by a fixed rate is taken as the profit realized through the sale of the merchandise involved in the cartel. Fifty percent of such amount is considered as the profit resulting from such a cartel and set as the surcharge amount. The fixed rate multiplied by the turnover is 3/100, although it is 4/100 for manufacturing, 2/100 for a retail trade and 1/100 for a wholesale trade. The multipliers are based on the average rate of ordinary profit to sales.

In general, this surcharge has a considerable deterrent power. Also, since the surcharge is not recognized as a deductible expense in terms of the tax law, any payment thereof is subject to corporation tax.

1)-4 Business association cartel

Member enterprises of a business association who have gained economic profits are made to pay a surcharge.

Ref: Foreign examples of surcharge system
a) U.S.A.: No surcharge system but extremely strict control exercised over cartels.
b) West Germany: A non-penal fine of not more than 100,000 DM or an amount three times that of the profit gained by the illegal cartel, whichever is greater, is imposed on such cartel by administrative disposition.

2) Measures against past violations

The second cartel measure provides for elimination action against past violations. Previously, where no violation actually existed at the time of an elimination action, no action could be taken even though free competition had not been completely restored. Under the present amendment, the FTC, when considered particularly necessary, even in the above instance can order an enterpriser who is the violator to make it fully known to his customers that the violation no longer exists within one year after the said violation has ceased.

2. Measures against oligopolization

The second major aspect of the amendment is a tightening of measures against oligopolization. This consists first of the establishment of measures against a monopoly situation and second of a system to collect reports on coordinated price increases.

1) Measures against a monopoly situation

As mentioned earlier, industrial oligopolization has advanced, and if left unrestrained, there is the concern that fair and free competition will not be conducted. With the previous Antimonopoly Act, however, action to restore free competition could not be taken even if normal business activities resulted in an increased market share and created a monopoly situation with an unfavorable impact on the market.

Under the current amendment, in addition to control previously in existence over private monopolization, it has become possible to order such measures as partial transfer of business to restore competition where a monopoly situation of restraint of competition with adverse impact on the market actually exists.

Further, this provision also intends it to be a preventive measure in expecting any monoplistic enterprise to endeavor to avoid the abuses of monopolization.

1)-1 Requirements for invoking elimination measures

The FTC may take elimination measures only when the following three positive requirements have been all met and

provided there is no conflict with two negative conditions.

Positive substantive requirements	Negative substantive conditions
1. The market share of a single company is more than 50%, and the share of 2 companies is in excess of 75% in a market where domestic sales totalled 50 billion yen over the past 1-year period.	1. When it is recognized that the elimination measures will lead to the business concerned being curtailed to such an extent that supply expenses for the merchandise involved will increase substantially, accounting will become unsound and maintenance of international competitiveness will be difficult.
2. Any new entry is extremely difficult.	2. Existence of alternative measures to restore competition.
3. Existence of the abuses of monopolization is seen in the market such as prices remaining at high levels, acquisition of exceptionally large excess profits or disbursements of extremely large amounts of selling, general and administrative expenses.	

The FTC is now hurrying the preparation of guidelines covering the interpretation of terminology concerning the said provisions.

1)-2 Procedures for measures against a monopoly situation

For the FTC to take the above measures, it must conduct an examination ex officio and go through judgment. The problem here is that before following these procedures, the competent Minister must be notified in advance to hear his opinion or seek his consultation on each such occasion and also to hold a public hearing. Therefore, for the FTC to actually invoke the said measures, prior consultation and the like constitute considerable obstacles and invocation is considered extremely difficult.

1)-3 Measures to restore competition

The FTC after going through judgment procedures can order the monopolistic enterprise involved to transfer a part of its business or assets, dispose of its stock holdings, open up its distribution system, grant patent licenses, etc. for the purpose of restoring competition.

Action can be instituted in the Tokyo Court of Appeal to set aside a decision within thirty days after rendering of same. Incidentally, an enterprise which has been ordered to transfer a part of its business is not relieved of its responsibility to comply with the decision even if an affirmative resolution of the general meeting of shareholders cannot be obtained. On the contrary, it can be charged with a penal responsibility for violation of the decision.

Ref: Foreign examples of measures against a monopoly situation

a) U.S.A.: Although there is no express provision stipulating an order for breakup of an enterprise, judicial precedents have been established which permit issuance of orders to any enterprise that has violated Section 2 (Monopolizing Trade; Penalty) of the Sherman Act for dissolution of a holding company, divestiture of stock, transfer of assets, etc. Since the enactment of this Act, there have been 27 cases up to now.

b) U.K.: A monopoly situation is considered to exist if a single enterprise or a group of enterprises hold a market share of 25% or more, and the applicable Act provides for breakup to be ordered of the enterprise concerned if its sales activities are against the public interests. So far, however, there has been no actual instance of such an order.

c) Canada: A monopoly can be ordered dissolved should there exist an actual state of business control.

Ref: Business areas where market share of a single corporation exceeds 50% or that of two corporations 75% (annual shipment value in excess of 50 billion yen) are as follows:

Business Area	Production Item	Shipment Value (in billions of yen)
Beer brewing	Beer	637.2
Whisky distilling	Whisky	259.5
Production of chemical seasonings	Monosodium glutamate Chemical seasoning complex	103.4
Plate glass manufacture	Ordinary plate glass Fancy " " Polished " " Laminated " " Tempered glass	243.6
Tinplate manufacture	*Tinplate	196.3
Production of cans for canned provisions	Cans for canned provisions	185.4
Piano manufacture	Pianos	66
Watchmaking	Wristwatches/watches	162.7

Source: Survey by FTC Secretariat - Journal of Fair Trade, Page 36, June '77 issue

Note: 1. *Indicates market share of one company alone is less than 50%, but that of two companies exceeds 75%.
2. Shipment values based on 1973 industrial statistics table.

2) Establishment of collection of reports concerning coordinated price increases.

In a highly oligopolistic type of industry, there is no aggressive price competition. The situation there is such that price hikes in generally the same amounts or at similar ratios can easily be effected in a short period of time. Similar to a price cartel this cannot be neglected.

Under the present amendment, in case of a coordinated price increase, the FTC will have the enterprise concerned submit a report on the reason for the hike, and by presenting an annual report to the Diet outlining the same, disclose it to the public. The objective here is to have the people understand pricing decisions by monopolistic enterprises as well as to cause the enterprises to be prudent in their pricing actions.

2)-1 Requirements for collection of reports

Under the following situations the FTC may require reports to be submitted giving the reasons for any price increases irrespective of the existence or nonexistence of any mutual understanding among the companies concerned.

i) The market shares of the three leading companies exceed 70% in a trade where the annual sales of the same kind of merchandise are more than 30 billion yen.

ii) Two or more major companies, including the top firm, have raised within a three month period the standard transaction price (market price) for the same type of merchandise the same or a very similar amount.

2)-2 Investigations for the collection of reports

In principle, the FTC ascertains facts of coordinated price hikes by discretionary checks of newspapers, trade journals, published documents of the companies concerned and other sources.

2)-3 Outline report to the Diet

In its annual report to the Diet, the FTC will give an outline of the reasons for coordinated price increases. This outline report will not refer to each individual case but the FTC does plan to cover the subject to the extent that the actual price increase conditions will be known.

Meanwhile, since trade secrets of the enterprises concerned will be excluded from the items to be published, the extent of open publication will pose a problem in the future.

Ref: Foreign examples of coordinated price increases

a) West Germany: The Cartel Office can order the withdrawal of a price increase in case monopoly enterprises (where their market shares are single company, 1/3 or more; 3 companies, 1/2 or more, and 5 companies, 2/3 or more) have raised prices not justified in relation to cost.

b) U.K.: Price reductions can be ordered if an increase by an enterprise with a market share of 25% or more acts against the public interests.

Ref: Actual instances of price raises in oligopolistic industries

	Beer (Ordinary large bottle, Standard retail price per bottle)	Piano (Upright type U3 BL61 Standard retail price)	Photo film (General color roll, 20 exposures, 35 mm, Standard retail price)
1972			
1973	Oct. (Co's A,B,C) ¥160 (14.3%)	Mar.(A) ¥350,000 (18.6%) Apr.(B) ¥350,000 (16.7%) Dec.(A) ¥430,000 (22.9%) " (B) ¥400,000 (14.3%)	
1974	Jan. (D) ¥160 (14.3%)	July (B) ¥450,000 (12.5%) Aug. (A) ¥470,000 (9.3%)	Jan. ¥480 (14.3%) Aug. (A) ¥490** Oct. (B) ¥490** (** New product introduced)
1975	Mar.(A) ¥180 (12.5%) Apr.(B) ¥180 (12.5%) July (C) ¥180 (12.5%) July (D) ¥131.8* (8.2%) Aug.(B) ¥131.8* Sept.(A,C) ¥131.8* (*Producer's price)		Apr. ¥550 (12.2%)
1976	Jan. ¥146.8* (* Producer's price)		

	Plate glass (Ordinary plate glass, 7 plates, 3-mm each Manufacturer's shipment price	Cheese (Processed, 225g, Standard retail price)	Butter (Carton, 225 g, Standard retail price)
1972		Apr. (A) ¥200 (11.1%) July (B) ¥200 (17.7%) Aug. (C) ¥200 (17.7%)	
1973	Apr. ¥4,200 (5%) Nov. ¥5,250 (25%)		Aug. ¥220 (10%)
1974	Aug. ¥6,050 (15.2%)	May (B) ¥270 (35%) June (A,C) ¥270 (35%)	Oct. ¥290 (31.8%)
1975	Nov. (A,B) ¥7,200*(28.6%) Dec. (C) ¥7,200*(28.6%) (* Shipment price based on lot package)		Sept. (A) ¥315 (8.6%) Oct. (B,C) ¥315 (8.6%)
1976			Aug. (A) ¥330 (4.8%) Sept. (B,C) ¥330 (4.8%)

	Powdered milk (Powdered milk preparation, Standard retail price)	Monosodium glutamate (For business use, 20 kg Standard retail price)	Mayonnaise (In polyethylene container, 1 kg; Standard retail price)
1972		July (A) ¥8,000 (2.6%) July (B) ¥8,000 (9.6%) July (C) ¥7,400 (-1.3%)	
1973	July (A, 1,350g) ¥1,100 (14.6%) Aug. (B, 1,200g) ¥1,000 (13.6%) Aug. (C, 1,550g) ¥1,250 (13.6%)	Apr. (A) ¥8,800 (10%) May (B) ¥8,400 (5%) May (C) ¥8,400 (13.5%) Oct. (A) ¥9,800 (11.4%) Oct. (B,C) ¥9,400 (11.9%) Dec. (A) ¥11,600 (18.4%) Dec. (B,C) ¥11,600 (23.4%)	Nov. ¥420
1974	May (A, 1,350g) ¥1,430 (30%) May (B, 1,200g) ¥1,300 (30%) May (C, 1,550g) ¥1,630 (30%)		Apr. ¥520 (25.8%) Sept. ¥620 (19.2%)
1975			
1976			

	Dailies (4-major newspaper co's, Monthly subscription, Morning/evening editions)
1972	
1973	July ¥1,100 (22.2%)
1974	July ¥1,700 (54.6%)
1975	
1976	

Source: Survey by FTC Secretariat: Journal of Fair Trade, June 1977 issue, Page 36 - 37

3. Tightening of controls over stock holdings

1) Restrictions on the total amount of stock holdings of business firms

In recent years, large corporations have increased their stock holdings, and trends are evident in the formation of business groups and strengthening of controls over other companies.

In the past stock holdings of business companies were allowed as long as no restraint of competition occurred. Under the current amendment, to prevent the concentration of business control power beyond the present level, a maximum limit was established to preclude the possibility of any large enterprise (a potential nucleus of a business group) increasing its stock holdings with borrowed money.

1)-1 Conditions applicable to control of holdings

In principle, a corporation (excluding a financial company) with a capital of 10 billion yen or more, or net assets totalling 30 billion yen or over is not allowed to hold stock in excess of its capitalization or net assets value, whichever is greater in amount. Excluded, however are stocks of a state policy corporation, resources development company and overseas business concern.

1)-2 Interim measures

Stock holdings exceeding the above limit will be permitted up to a period of ten years only from the date of enforcement

of the amendment. Presumably, this is to seek a smooth introduction of the stock holding limitation system while avoiding any confusion in the stock market, etc.

2) Tightening of restrictions on stock holdings of financial companies

Since 1960, the stock holding ratio of financial companies has shown gradually increasing trend to a level of more than 30% (refer to Table 3). Pursuant to the present amendment, the upper limit of the holding ratio of another company's outstanding stocks was reduced from 10% to 5%, which means that this limit has been restored to the initially regulated ratio of 5% in the Antimonopoly Act. Incidentally, financial companies also have been allowed the ten-year period mentioned previously, within the limit of the number of stocks actually held.

III. Conclusion

I regret very much that I have been unable to give you the full picture of the amendment because of time limitations.

Many problems remain such as adjusting government ordinances, regulations and guidelines, but at any rate the Japanese Anti-monopoly Act as amended has materialized after two and a half years.

In enforcing the amended Act, as indicated by the Diet's passage of an additional resolution, harmony between the antitrust and industrial policies and strict observance of corporate trade secrets with regard for the social position of enterprises, are hoped for.

Next, what are the main points aimed at by the amendment? They are measures for elimination of a monopoly situation, tighter controls over stock holding restrictions, collection of reports covering coordinated price increases, namely, strengthening of so-called market structure controls in parallel with regulation of market actions as seen in the surcharge system against cartel acts.

Hereafter, amidst a world-wide tendency of a stronger antitrust policy, tighter guidelines will be adjusted concerning merger controls as a part of business structural controls. Also, it is believed that consumer remedy measures which are not covered by the amendment will also be developed.

Incidentally, in viewing the amended Act from the viewpoint of licensing which is the theme of the Second Committee, there is no direct effect on licensing activities per se.

However, should any stipulation be made aimed at a price cartel, coordinated price increases and concentration of economic power on a specific enterprise attendant upon a licensing agreement, such stipulation will naturally be unlawful.

I would add that the guideline covering agreements on introduction of foreign technology enacted in 1968 was not revised in conjunction with the present amendment, and that it apparently will not be revised in the future, either.

I would like to conclude my presentation by thanking my audience sincerely for listening patiently to my poor English over such a lengthy period of time.

Thank you very much.

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(Committee #3)

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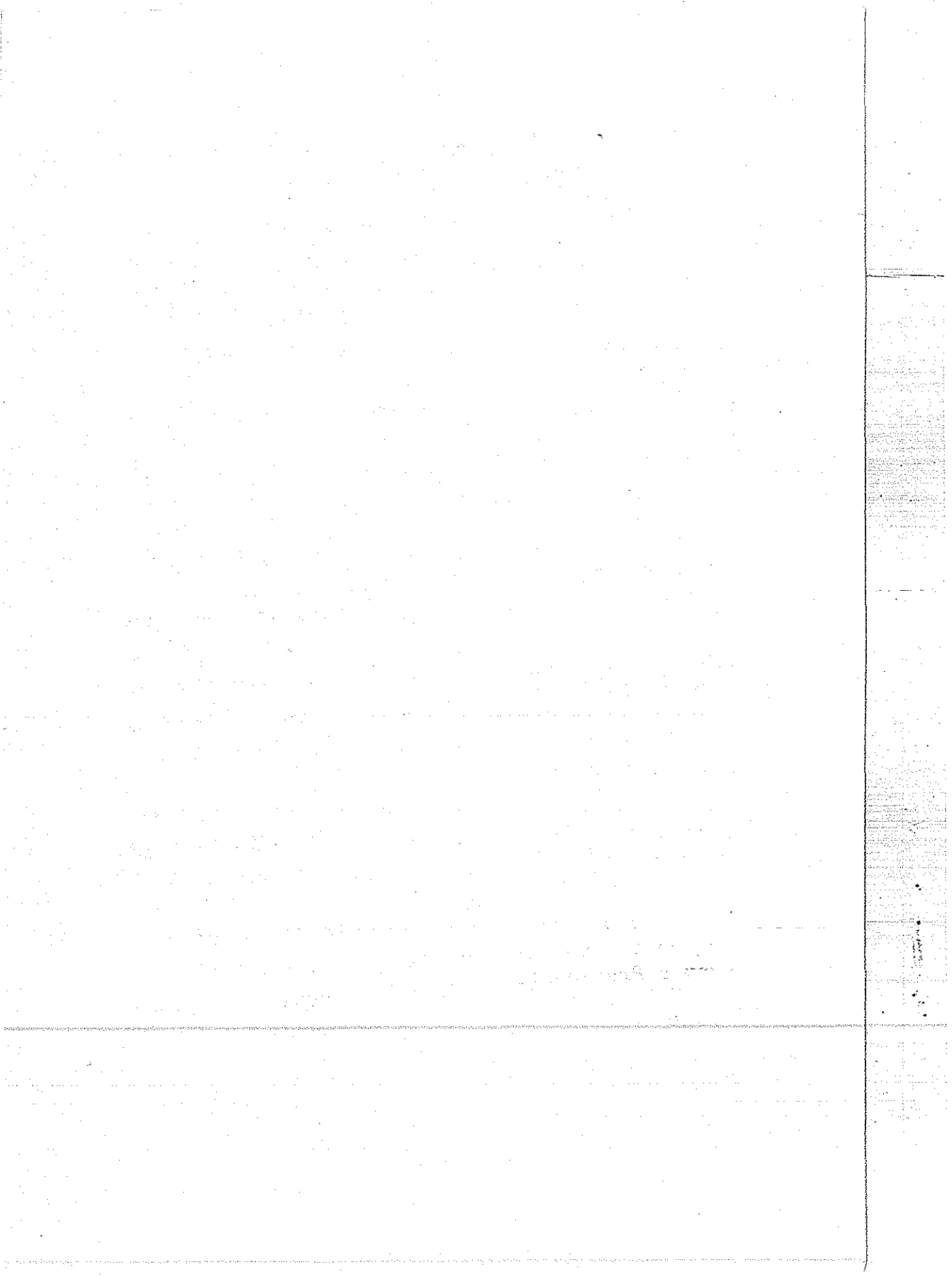
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PIPA Participation and Positions Taken at WIPO Meetings for Revision of the Paris Convention

E. W. Adams, Jr.

When PIPA was formed, its Constitution emphasized that one of the purposes of the Association was "to bring to focus expert opinion regarding treaties, laws, regulations and practices and proposals for such measures relating to industrial property and to present resulting observations to national and international bodies and participate in discussions and meetings and otherwise cooperate with such bodies".

PIPA's self-imposed obligation has been largely delegated to the Committee on International Law and Practice and in the way of background for our discussions at this Congress I should like to present a brief outline of PIPA's participation in this area.

Some of you will recall that PIPA was founded in 1970, the year of the Diplomatic Conference held in Washington for the final negotiation of the Patent Cooperation Treaty. PIPA was represented throughout the month-long conference and filed observations which appear in the conference record. These observations were the result of positions agreed to before the conference, which positions also formed the basis for intervention by PIPA's representatives during the conference.

Following negotiation of the Patent Cooperation Treaty, the Secretariat, as required by the Treaty, convened Interim Committees to plan implementation of the Treaty. PIPA representatives attended the first meetings of these committees in 1971. Also, in connection with the negotiation of the Patent Cooperation Treaty, the U.S. Department of State created an Advisory Committee on International Industrial Property. PIPA has been and continues to be represented on this committee.

PIPA from the outset favored negotiation of the Patent Cooperation Treaty and urged U.S. ratification of the negotiated Treaty in a communication to the U.S. Patent and Trademark Office.

In 1973, a Diplomatic Conference was convened in Vienna to consider a draft trademark registration treaty (TRT). Here too, PIPA was represented although, because of wide differences of opinion in the United States concerning the draft treaty, no PIPA position was advanced.

Also, in 1973 additional meetings of the Interim Committee for planning the implementation of the Patent Cooperation Treaty were held in Tokyo, where PIPA was ably represented by members of the Japanese group.

Other activities in the international field included:

--communication to the President of the Phillipines requesting time for hearings in connection with a proposed presidential decree modifying the Phillipine patent law;
--response to a questionaire from the Word Intellectual Property Organization concerning specific types of industrial property for facilitating the transfer of technology;
--a communication to the appropriate authority in Mexico commenting on the proposed drastic revision of the Mexican law to exclude from patentability a wide range of subject matter; and
--a letter to David Bond concerning the proposed revision of the Canadian patent law.

More recently, the program of the developing countries for revision of the World Intellectual Property Systems has resulted in a great number of meetings which may be grouped into three major categories.

The first of these involves revision of the Paris Union for the protection of intellectual property and has so far been discussed at WIPO in three Ad Hoc Meetings of Experts and two meetings of a Preparatory Intergovernmental Committee for Revision of the Paris Convention. With the exception of the first of these meetings, which was largely

in the nature of an organization meeting, PIPA has been represented by one or more observers.

The second category involves the revision of the WIPO Model Law by a group of experts appointed by WIPO and PIPA has been represented at substantially all of the meetings of this group which have extended over a period of several years. Incidentally, Mr. George Clark, a member of PIPA, serves as the expert on behalf of the United States in these meetings.

The final category involves the negotiations for an International Code of Conduct relating to licensing practices for intellectual property. These meetings were held under the sponsorship of UNCTAD and non-governmental organizations are not invited as observers. PIPA has, however, through its participation in the State Department Advisory Panel mentioned previously and in response to written inquiries from the U.S. Patent and Trademark Office, commented upon various proposals in this category.

Additional meetings in all three of these categories are scheduled and it is expected that PIPA's participation will continue.

I should like to emphasize the value of such participation by particular reference to the Paris Union

Revision meetings. At these meetings, PIPA representatives have emphasized that Revision of the Paris Convention as proposed by the developing countries can only reduce the incentives needed to obtain transfer of privately owned technology. Further, PIPA has pointed out that incentives rather than disincentives are of fundamental importance. Our representatives have met with other non-governmental observers in an effort to insure continuation of the right of observers to be heard and have joined in a statement by a spokesman for all observer groups which pointed out that exclusion of the observer representatives from discussion would deny the delegates access to those having the most experience in the field of technology transfer.

Two interventions by PIPA deserve special mention. One of the major issues has been the question of whether revision of national patent systems, usually in the direction of reducing the rights of the patentees from other nations, can succeed in forcing the transfer of technology to developing countries. At the request of various delegates from several governments to the Ad Hoc Committee meetings, PIPA prepared a statement outlining the Japanese experience following World War II in attracting new technology to Japan. The first of these

efforts involved a statement by Mr. Matsui which could not be delivered at the meeting because of lack of time but which appears in full in the records of WIPO. The second, covering essentially the same question, was presented from the floor by Mr. Aoki and was well received by the market economy delegations and, at the same time, clearly understood by delegations from the emerging countries.

It is obvious that PIPA has become a respected international non-governmental organization which is regularly invited to international meetings where its comments are welcomed.

I have outlined only the highlights of PIPA participation in international treaty and convention matters and have done so to emphasize the importance of the subjects which are to be presented by members of Committee No. 3 during the next two days.

THE STATUS OF THE TRADEMARK REGISTRATION TREATY

BY

EDWARD H. VALANCE

PAPER TO BE PRESENTED TO THE

PACIFIC INDUSTRIAL PROPERTY ASSOCIATION

MEETING

OCTOBER 12-14, 1977

WILLIAMSBURG, VIRGINIA

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THE STATUS OF THE TRADEMARK REGISTRATION TREATY

All of you are no doubt familiar with the development of the Trademark Registration Treaty (TRT). It is the result of an effort begun almost a decade ago to simplify and save costs in the process of filing many trademark applications for registration overseas.

As you know, the Madrid Union is the present most widely used convention for the international registration of trademarks. That treaty is closed to the United States principally because adherence to this treaty would require a most fundamental change in present U.S. law, namely the requirement that a trademark be actually used before it can be registered and protected. Now we in the U.S. have within our grasp the opportunity to simplify our international trademark filings and enjoy substantial savings as well. TRT is a special Agreement under Article 19 of the Paris Union Convention. It is a filing system which will use the World Intellectual Property Organization to file both domestic and foreign trademark applications.

This paper is not intended to be an exposition or analysis of the provisions of TRT. The purpose of these brief remarks is to bring you up to date on where TRT stands in the U.S.

As you are aware, the 1973 Diplomatic Conference in which the United States was represented unanimously adopted TRT. However, TRT is not a self-executing treaty and enabling legislation must be passed by the U.S. Congress before the U.S. can ratify the treaty.

In order to give you an unofficial, but definitive picture of the status of TRT, inquiry was made to the Office of Legislation and International Affairs of the United States Patent and Trademark Office within the past three weeks. The following was learned from this office:

1. The Treaty was signed by President Ford in 1975 and forwarded to the Senate with the notation that there was a need for the enactment enabling legislation.

2. Enabling legislation has been prepared and is presently under consideration by the Office of Management and Budget (OMB).

3. The Department of Commerce of the State Department has approved the treaty, but the Justice Department has taken an adverse position. Presently, no one is "pushing this Treaty."

4. No country has as of yet ratified the signed treaty, but the office has just heard unofficially from David Allen, the United States Patent Office representative to the World Industrial Property Organization (WIPO), that the Congo has recently deposited the appropriate ratification documents.

That is the present status of TRT in the United States. Beyond this summary, what else is there to say? Well, you may be interested to know what is the attitude of Mobil toward TRT. Frankly, I voted against TRT in the poll taken by the U.S. Trademark Association. My main reason was my reluctance to tamper with the use requirement of present U.S. law. I am sure our Japanese colleagues can appreciate that lack of this use requirement can open the flood gates of trademark applicants which can engulf the Patent and Trademark Office with an enormous backlog which will slow down the process of granting registrations and increase the cost of examination as well as

force the filing of many more oppositions to the registration of other's trademarks.

Nevertheless, if the U.S. ratifies TRT and if there are savings to be realized by using TRT I am sure Mobil Oil Corporation will make use of TRT. However, the European Trademark Law appears to be close to becoming a reality and if it is adopted by the European Economic Community, the direct filing and renewal of trademark registrations in Europe would seem to offer advantages over indirect filing through TRT, if indeed that were practical.

One other recent development should be discussed before concluding this paper. I am sure you are all familiar with the famous "Lemon Tree" case. The final decision in Lemon Tree has resulted in a proposed ruling by the U.S. Patent and Trademark Office. Briefly, this proposed rule would give to foreigners seeking to register trademarks under the Paris Union a privilege which is not available to U.S. citizens. That is,such foreign trademark applicants need not allege use of their trademark nor furnish specimens of use when they apply for registration based upon foreign priority applications under the International Convention of the Paris Union. Of course, this is clearly based upon section 44 of the Lanham Act, but it has taken over thirty years for the courts to bring about acceptance of this by the U.S. Patent and Trademark Office. For reference I am attaching pages 2-4 of vol. 962 of the Trademark Official Gazette wherein the proposed rules are set forth. There will be a hearing at the Patent Office on October 26, 1977 to consider these new rules.

It is my belief that if these new rules are adopted, it will strengthen the position of those who support TRT and the enabling legislation which is required to ratify TRT. After all, why should U.S. citizens be treated less

favorably than foreigners? If a U.S. citizen wishes to register a mark without use, should he not be entitled to do so when a foreigner can do so under the rule of the Lemon Tree case?

If the U.S. adopts TRT and changes its laws to permit registration of trademarks without actual use it will no doubt increase the burden on the Patent and Trademark Office but I expect we will all survive nevertheless.

Thank you.

REPORT ON THE RECENT PARIS UNION REVISION AND MODEL LAW MEETINGS AT GENEVA

PIPA MEETING OCTOBER 11-14, 1977
WILLIAMSBURG, VIRGINIA

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This is the second time that I have the honor of appearing before you and reporting on the current status of the revision of the Paris Convention. Some of you may recall that two years ago at the 1975 Boston meeting I sounded the alarm that the Paris Convention -- which is, after all, the "Constitution" for decent international behavior in the field of industrial property protection -- was in grave danger. The tone of my presentation at that time, when I commented on the WIPO analysis with respect to the 14 demands presented by the developing countries, might have seemed to some of you unduly alarmist, and the future I traced unduly pessimistic.

I regret to report to you now, two years and several WIPO meetings later, that it does seem that my pessimism was justified. My report this time will be brief. It will be limited to only the last of the Preparatory Paris Convention revision meetings which took place in Geneva, June 29 - July 8 of this year. I shall try to avoid too many details, but I will try to give you a little of the flavor of the meeting as seen by an observer from industry. I recommend, however, that you obtain and read the Report of the meeting prepared by the WIPO secretariat, Document PR/PIC/II/13.

The atmosphere and the modus operandi at this meeting were markedly different from previous meetings. The plenary sessions were frequently interrupted or postponed by special meetings of the three major country groups -- Group B, Group D and the Group of 77 -- as well as the Working and Drafting Groups set up to consider

Article 5A and the Inventors' Certificate issues. These special meetings were closed and the observers were not permitted to participate.

Let me at this point briefly outline to you how the first, and one of the most important agenda items -- namely, the Revision of Article 5A of the Convention (see attached Annex II of the WIPO Report) -- was handled. The Working Group, consisting of representatives from 16 countries of which only 6 could be considered to belong to Group B (the industrialized market economy countries) prepared the draft, which was distributed to the attendees at the plenary session just minutes before it convened. After a brief introduction by the chairman of the drafting group (Brazil) the Working Group spokesmen for Group B (U.K.); Group of 77 (Cuba); and Group D (USSR) expressed general satisfaction with the text. Thereafter, the chairman of the plenary meeting, Mr. Ekani of Cameroon, asked the observer delegations to state very briefly and in general terms their views on the draft. Due to lack of time to study the text, our comments were indeed brief and limited to only a few points.
It was expected that the proposal thereafter would be discussed intensively and in detail during the plenary session. There was no such further discussion and after a few minutes of adjournment the chairmen of the three country groups indicated their approval of the draft for consideration by the Diplomatic Conference.

While the WIPO Report, in paragraph 32 labelled "Conclusions", seems to offer the opportunity for reconsideration of certain of the most controversial draft provisions, I am convinced that unless interested circles in industry and industrial and professional organizations are able to impress upon their Government representatives

the dire consequences of some of the most radical provisions of the draft, the debate will not be reopened and the draft will form the basis for discussion at the Diplomatic Conference.

Most controversial is the proposal in paragraph (6) of the draft concerning the possibility of the grant of exclusive compulsory (or, using the newly-adopted term, "non-voluntary") licenses in special cases for a period of years to be determined -- 6 years being proposed by the developing countries, and 3 by Group B. Dispossession of the patentee by virtue of an exclusive non-voluntary license is an anathema, since it is widely recognized that non-working by the patentee is not an abuse per se and consequently compulsory licenses were always regarded as an auxiliary measure giving an opportunity to a third party to work the patent locally if the patentee was unwilling or unable to do so and no voluntary agreement between the two parties could be concluded.

The purpose of providing for exclusive compulsory licenses is clearly to put the licensee in the shoes of the patentee and to shield him from any competition -- which would mean that the patentee would be excluded from marketing the product of his own invention in the country. All this amounts to a virtual expropriation. The most elementary fairness dictates that such licenses be non-exclusive and the patentee not be precluded from marketing his patented product nor from working the invention himself (or through a voluntary licensee) should he at any time desire to do so. Some recognition, after all, must be given to the fact that it was he, the patentee, who created the invention.

Admittedly, the text refers to "special cases where exclusive licenses are necessary to ensure local working" which is, of course, meaningless and not a limitation of significance, particularly when the Report also states that such "special cases" could, for example, include cases in which the non-voluntary licensee is required to make a particularly substantive investment for working the patented invention.

It is important to keep in mind that the right to grant exclusive non-voluntary licenses under national law is available to any member country of the Paris Union according to the proposal, whether industrially developed or not. The proposal of the Federal Republic of Germany to limit this right to developing countries only (see footnote to Annex II) received no support in the Working Group nor in the brief discussion at the plenary meeting. Such a limitation would have at least blunted the impact on industry of this radical proposal. I must add that according to most recent information, Germany intends to again raise this issue, and time will tell if it will get better support from the developed countries.

You will perhaps recall that two years ago, when stating my deep concern about conceding or compromising on the issues demanded by the developing countries in connection with the Convention, I expressed my fear that we might see the relationships among the industrialized countries deteriorate or be affected by such concessions. I now see such a danger looming on the horizon with respect to proposed new Article 5A. Even if most of the developed countries refrain from granting exclusive compulsory licenses, some of them might, and the larger developing countries certainly

would. Since a compulsory license is only attractive when the invention has been fully developed by the patentee, who has also succeeded in creating the market for it, it is obvious that a compulsory licensee would move in at the most opportune moment, take over the market, exclude the patentee, and establish itself as the sole supplier of the patented goods. By taking over all of the fruits of the patentee's endeavor for the price of some royalty, the licensee would reap a windfall. The chances for the patentee to recapture at least a portion of the market after the expiration of the exclusive license are remote indeed.

One should also consider that such a licensee would not only obtain a monopolistic position in the country which granted the license, but would have an additional advantage over the patentee in that it would not be subjected to absorbing the considerable research, development and, in most cases, also the market introduction expenses incurred by the creator of the invention. Operating out of a "safe patent haven" such a licensee would have a competitive advantage over the patentee also in such foreign markets where the invention is not patentable or the patentee had not secured a patent or where the judicial system is such that the enforcement of the patent rights is highly questionable.

Keeping these possibilities in mind, one must wonder whether the obtaining of exclusive non-voluntary licenses would not also become attractive to multinational and/or State-controlled enterprises. If the practice became sufficiently widespread, the international patent system based on mutual respect for industrial property rights by the patentees might come to an end, signalling also the demise

of the Paris Convention whose raison d'être is, after all, to assure equitable treatment of patentees in the member countries and to secure their proprietary rights with respect to their creations.

Additional paragraphs in new Article 5A which are particularly objectionable will only be mentioned briefly due to time limitations. Thus:

Paragraph 5 gives the right to any country to provide for the "exploitation" of the patented invention (which presumably also includes the right to import) in the public interest by the government or a third party authorized by it.

Paragraph 7 does not provide for judicial review with respect to the various sanctions to which a patentee can be subjected but calls for a review "at a distinct higher level according to national law." This "distinct higher level" could be no more than just a supervisor of the government authority which made the decision.

Paragraph 8 provides for special provisions with respect to "developing countries" in the area of compulsory licenses and forfeiture. Subparagraph (b) is particularly objectionable since it provides for forfeiture or revocation without a prior grant of a compulsory license as provided in Article 5A(3).

The French introduced a proposal providing for the "suspension" (i.e., non-enforceability) of the patent rights during the period of non-working with the possibility of reinstatement of the patent when the patentee commences working -- pointing out that forfeiture is an unjust and ill-adapted penalty for non-working since the

destruction of the exclusive right would limit the possibility of later working when economic conditions justified it. Unfortunately, this sensible proposal received only little support and it is disappointing that, according to the Report it was only considered as an alternative instead of as a replacement for the harsh forfeiture provisions of Paragraph 8(b). (See attached Annex III of the WIPO Report.)

With respect to amending Article I of the Convention in order to accomplish the Assimilation of Inventors' Certificates to Patents, a complete impasse occurred on the two main issues: (a) the "free choice" principle with regard to subject matter, and (b) the issue of duration, i.e., that Inventors' Certificates have a limited duration preferably the same as patents. In view of this impasse, the proposed text which appears in Annex IV of the WIPO Report is subject to the reservation by the Group B countries that their agreement to any part of the text was conditional upon a satisfactory solution of the whole question of Inventors' Certificates.

Additional items of the agenda, such as Preferential Treatment Without Reciprocity with respect to fees and priority period; the question of whether Article 5quater should be retained, and the issues relating to Article 4bis ("independence of patents") were, after some discussion, referred to a new working group called the "Working Group Entrusted with Questions of Special Interest to the Developing Countries" which is essentially the same working group that drafted the new text for Article 5A.

Whether the time-honored rule of unanimity with respect to amending the Convention should prevail at the Diplomatic Conference or be replaced by a qualified majority rule, was also unresolved.

The industrialized Group B countries generally favored unanimity or a highly-qualified majority rule, for example, 9/10; while the developing countries and the Socialist Bloc preferred a majority rule of 2/3 or 3/4. It seems that this vital point will probably only be resolved at the Diplomatic Conference.

Further Procedures and the agenda items to be discussed at the November 1977 meeting of the Preparatory Intergovernmental Committee are lengthy and somewhat complicated. In order to save time I have reproduced and attached to the written text of this speech pages 20 and 21 of the WIPO Report.

With respect to the Diplomatic Conference, the official position is still to have it held, probably in Bucharest, the latter part of 1978. This time-table does not seem to be realistic and it is probable that it might not take place earlier than 1979.

I believe that few of you would disagree that we are rapidly approaching a stage where we, who are the creators of technology, are being maneuvered or forced into accepting compromises which would shake the fundamentals of the international system of industrial property protection and might easily throw us back to where we were 100 years ago when an inventor was only protected in his own country, by his own government, unless some bilateral agreement with another government was in existence with respect to his rights. Should this happen, we would end up asking ourselves -- how could we have let ourselves be put in this position by a vocal group of countries whose citizens, as far as one can ascertain, have contributed virtually nothing to the technological advancement of mankind?

I am convinced that it is essential that this trend be halted and reversed. Industry must be able to convince its government representatives that the granting of concession after concession will do irreparable harm without benefitting anybody. A much firmer stance in these negotiations by the representatives of our governments is sorely needed. Should it prove impossible to change the minds of the developing country bloc, I see lesser harm in limiting the member countries of the Paris Convention to those who are willing to accept its time-honored rules -- instead of diluting the Convention just to make it appetizing to every nation worldwide.

I was also asked to report on the status of the revision of the Model Patent Law. I can do that in just a few words. The preparatory meetings, at which PIPA has always been represented in an observer capacity, have come to an end and a consolidated draft is expected to be presented before the end of 1977 to governments for comments. One must remember that this Model Law is an in-house project, and the WIPO secretariat reserved to itself the right to draft it. There is little doubt that this Model Law will contain many provisions which have been objected to very seriously by committee members from the industrialized countries and by observers representing private industrial organizations. Considerable restrictions will be placed upon the patentee's rights, including length of protection, working, compulsory licensing, licenses in the public interest, forfeiture, etc. Specifically, it will also contain a section with respect to State control of license agreements and a list of clauses in such agreements which would be considered prohibited unless there were good reasons for their retention.

Restrictive business practices, which is a hotly debated issue in many international organizations, particularly within the framework of the U.N., is thus being introduced for the first time into a patent law, labelled as the "Model Law for Developing Countries." When the text becomes available, it should be studied by all of us carefully so that our views, criticisms and advice can be made available to our governments.

PR/PIC/II/13

ANNEX II

PROPOSAL FOR A NEW TEXT OF

ARTICLE 5A OF THE PARIS CONVENTION*

Article 5A

(1)(a) Any country of the Union has the right to require by its national law that the inventions for which that country has granted a patent, or in the case of countries providing for a deferred examination when a provisional protection has been granted, be worked in its territory by the owner of the patent or under his authorization.

(b) Importation of articles incorporating the patented invention or made by the patented process does not constitute working of the patented invention. However, any country of the Union has the right to regard the importation of articles incorporating the patented invention or made by the patented process as fulfilling the requirements of working the patented invention.

(2)(a) For the purposes of this Article, "non-voluntary license" means a license to work a patented invention without the authorization of the owner of the patent; it also means a license to work a patented invention given by the owner of the patent where the national law obliges him to give such a license.

(b) Any country of the Union has the right to adopt legislative measures to prevent abuses resulting from the exercising of the rights granted by the patent. However, importation into the country where the patent has been granted of articles manufactured in any of the countries of the Union shall not, in the absence of circumstances constituting abuse of the patent rights, entail forfeiture of the patent.

(3) Forfeiture of the patent shall not be provided for except in cases where the grant of non-voluntary licenses would not have been sufficient to prevent the said abuses. No proceedings for the forfeiture or revocation of the patent may be instituted before the expiration of two years from the grant of the first non-voluntary license.

(4) A non-voluntary license may not be applied for on the ground of failure to work or insufficient working before the expiration of a period of four years from the date of filing of the patent application or three years from the date of the grant of the patent, whichever period expires last; it shall be refused if the patentee justifies his inaction by legitimate reasons.

(5) Any country of the Union has the right to provide in its national law, where the exploitation of the patented invention is required by reason of public interest, in particular national security, nutrition, health or the development of other

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* The text herein reprinted was proposed by the Working Group on Article 5A of the Paris Convention. It appeared, together with the footnotes herein reprinted, in document PR/PIC/II/2.Rev.2.

The Delegation of Canada, speaking also on behalf of some Group B countries not represented in the Working Group, expressed reservations concerning paragraphs (3) and (4), in relation with their intention to see the scope of paragraph (8) generalized.

The Delegation of India expressed reservations concerning paragraphs (6) and (7).

The Delegation of the Federal Republic of Germany expressed the opinion that only developing countries should have the right to grant exclusive non-voluntary licenses.

vital sectors of the national economy, for the possibility of exploitation, at any time, of the patented invention by the government of that country or by third persons authorized by it.

(6) Any non-voluntary license shall generally be non-exclusive and shall not be transferable, even in the form of a grant of a sub-license, except with that part of the enterprise or goodwill which exploits such license. However, in special cases where exclusive licenses are necessary to ensure local working, such exclusive licenses may be granted for a period of up to [six]* [three]** years subject to the condition that the patent may not be forfeited or revoked for insufficient working for a further period of [one]* [two]** years after the expiration of the exclusive license.

(7) Any decision relating to the grant of a non-voluntary license or to exploitation in the public interest, including the amount of the just payment to which the patentee is entitled, or any decision relating to the revocation or forfeiture of a patent shall be subject to review at a distinct higher level in accordance with the applicable national law.

(8) Notwithstanding anything contained in paragraphs (3) and (4), developing countries have the right to apply the following provisions:

(a) Any developing country has the right to grant non-voluntary licenses where the patented invention is not worked, or is not sufficiently worked, by the owner of the patent or under his authorization in the territory of that country within [two]* [three]** years from the grant of the patent in that country, unless the patentee can satisfy the national authorities competent to grant non-voluntary licenses that there are circumstances which justify the non-working of the patent. Where the national law provides for deferred examination for patentability and the procedure for such examination has not been initiated within three years from the filing of the patent application, the time limit referred to in the preceding sentence shall be [four]* [five]** years from the filing of the said application.

(b) Any developing country has the right to provide in its national law that the patent may be forfeited or may be revoked*** where the patented invention is not worked, or is not sufficiently worked, in the country before the expiration of [three]* [five]** years from the grant of the patent in that country, provided that the national law of the country provides for a system of non-voluntary licenses applicable to that patent, unless the patentee has been able to convince the national authorities competent for forfeiture or revocation that circumstances exist which justify the non-working of the patent.

(9) The foregoing provisions shall be applicable, mutatis mutandis, to utility models.

[Annex III follows]

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* Proposal by the Group of developing countries.

** Proposal by Group B countries.

*** Certain delegations in Group B reserve the right to explain the significance of suspension as an alternative to forfeiture or revocation.

ANNEX III

ARTICLE 5A(8)(new)*

Proposal by the Delegation of France

1. Alternative to paragraph 8(b) of the proposal by the Working Group on Article 5A of the Paris Convention (document PR/PIC/II/2.Rev.2):

(8)(b) - Any developing country has the right to provide in its national law that the patent may be suspended where the patented invention is not worked, or is not sufficiently worked, in the country before the expiration of [three] [five] years from the grant of the patent in that country, provided that the national law of the country provides for a system of non-voluntary licenses applicable to that patent, unless the patentee has been able to convince the national authorities competent to order suspension that circumstances exist which justify the non-working of the patent.

- Once suspension has been ordered, the patentee may no longer claim his rights in infringement proceedings.

- The patentee shall recover his rights, subject to the acquired rights of third parties deriving from working during the period of suspension, when he is able to produce evidence that he is working the invention in the country or is taking genuine and effective measures to that end.

2. Adoption of this wording would require the words "and to the suspension" to be added after "to the revocation and forfeiture" in paragraph (7) of the proposal.

Observations

The Delegation of France has already set out to the Preparatory Intergovernmental Committee the economic reasons for its opposition to forfeiture in cases other than those where non-voluntary licenses are not sufficient to put a stop to possible abuses arising from the exercise of the rights under the patent (Article 5A(3)). The Delegation will therefore reiterate them very briefly.

The Delegation of France considers that failure to work a patent cannot in itself and in the absence of other circumstances be assimilated to an abuse. Therefore, where failure to work is not harmful to the economy of the country which has issued the patent, for example when, failing the possibility of working on the spot, the patentee supplies the market in a normal fashion, forfeiture would appear to be an unjust penalty.

Forfeiture also appears to be an ill-adapted penalty, since, by destroying the exclusive right, it considerably limits the possibilities for future working of the patent when economic conditions change.

It was probably felt that the threat of forfeiture would constitute an incentive for patentees to put in hand working that they would not otherwise have envisaged, with the resultant growth in the volume of technology effectively transferred to the countries in question. The Delegation of France doubts strongly whether the institution of forfeiture can have any other effect than to dissuade potential patentees from filing applications in those countries when they are not certain of being able to work on the spot. It is not possible to say for sure what the effect will be on the volume of technology transferred but it will certainly not grow.

* The text herein reprinted originally appeared in document PR/PIC/II/8.

The Delegation of France therefore proposes that, apart from forfeiture as currently set out in Article 5A(3), no penalty should be applied to a patentee who fails to work other than the "suspension" of the exclusive right.

Such "suspension" would replace forfeiture and revocation as provided for in paragraph 8(b) of the Working Group's proposal and would be subject to the conditions required by that paragreph. The effect would be to prevent the patentee, from the time his right was suspended until the time he recovered it, from entering into infringement proceedings against third parties working his invention.

This measure would therefore fulfill the basic objective of forfeiture, that is to say to reinstate a country's freedom of action as regards inventions protected by patents by enabling any interested party to work them without the risk of infringement proceedings.

It would also have the advantage of not definitively depriving the country of possible working of the invention by the patentee or his licensee when economic conditions permitted at a time between the suspension of the right and the expiring of the patent since the patentee would fully recover his exclusive right in the event of effective working of the invention.

The recovery of his rights by the patentee presents no problems in cases where there has been no working by third parties during the period of suspension. In other cases, it will be necessary to make allowance for the acquired rights of such third parties and to regulate the future situation in respect of the patentee. This type of problem already faces national laws and various legislations have found solutions to it. There would be no difficulty in adapting these solutions to the case in point.

[Annex IV follows]

IV. FURTHER PROCEDURE

154. Second Session of the Working Group Entrusted With Questions of Special Interest to Developing Countries. The Committee decided that the Director General should convene this session for November 14 to 18, 1977, at Geneva. For the same period, the Director General should convene all countries belonging to the Group of Developing Countries to allow them, if they so desire, to hold meetings. The Working Group will have the following items on its agenda:

(i) Preferential Treatment Without Reciprocity in Connection with Fees and Length of the Priority Period

(on the basis of documents PR/PIC/I/2 and PR/PIC/II/4, the discussions of the second session of the Preparatory Intergovernmental Committee (see document PR/PIC/II/13, paragraphs 41 to 71) and the (unrecorded) discussions of the first session of the Working Group)

(ii) Article 5quater of the Paris (Stockholm) Convention

(on the basis of document PR/PIC/II/5, the discussions of the second session of the Preparatory Intergovernmental Commitee (see document PR/PIC/II/13, paragraphs 72 to 84), the (unrecorded) discussions of the first session of the Working Group and a working paper to be prepared by the Director General (see document PR/PIC/II/13, paragraph 84))

(iii) New Provision on Furnishing Patent Information

(on the basis of a working paper to be prepared by the Director General (see document PR/PIC/II/13, paragraph 107))

(iv) Possible New Provisions on Development Cooperation Matters

(on the basis of a working paper to be prepared by the Director General which, in turn, will be based on the discussions of the second session of the Ad Hoc Group of Governmental Experts (see document PR/GE/II/13, paragraphs 133 to 148))

(v) Time Limit in Article 5C(1) of the Paris (Stockholm) Convention

(on the basis of a working paper to be prepared by the Director General which, in turn, will be based on the conclusions of the third session of the Ad Hoc Group of Governmental Experts (see document PR/GE/III/14, paragraph 27))

(vi) Conflict Between an Appellation of Origin and a Trademark

(on the basis of a working paper to be prepared by the Director General which, in turn, will be based on the conclusions of the third session of the Ad Hoc Group of Governmental Experts (see document PR/GE/III/14, paragraph 45))

(vii) Independence of Marks

(on the basis of a working paper to be prepared by the Director General which, in turn, will be based on the conclusions of the third session of the Ad Hoc Group of Governmental Experts (see document PR/GE/III/14, paragraph 67)).

155. Speaking on behalf of Group B, the Delegation of the UNITED KINGDOM said that, since items (iv) to (vii) referred to in the preceding paragraph were to be considered by the Working Group Entrusted With Questions of Special Interest to Developing Countries before all groups of countries had met, the conclusions that the Working Group might reach would be particularly tentative, since the members of the latter might have to reconsider their position after the discussions in the groups of countries.

156. Third Session of the Working Group on Inventors' Certificates. The Committee decided that the Director General should convene this session for November 14 to 18, 1977, at Geneva, if, by October 1, 1977, at the latest, the Spokesman of any of the three groups of countries requested him to do so and presented at the same time a written proposal on the provisions concerning inventors' certificates.

157. Speaking on behalf of Group D, the Delegation of the SOVIET UNION expressly confirmed the support of that Group for the procedure described in the preceding paragraph.

158. Speaking on behalf of Group B, the Delegation of the UNITED KINGDOM expressly confirmed the support of that Group for the procedure described in paragraph 156 and added that Group B assumed that any proposal presented under such procedure would be of substance and would not be a proposal on a merely formal matter.

159. Third Session of the Preparatory Intergovernmental Committee. The Committee decided that the Director General should convene this session for November 21 to 25, 1977, at Geneva. The said session will have the following items on its agenda:

(i) Items (i) to (vii) referred to in paragraph 154 above (on the basis of the conclusions of the second session of the Working Group Entrusted With Questions of Special Interest to Developing Countries or, where no such conclusions are reached, on the basis of the material referred to in respect of each item, in the said paragraph)

(ii) Inventors' Certificates

(iii) Consideration of the question whether, at a later stage, the proposals of Canada contained in document PR/GE/III/7 should be studied.

160. Speaking on behalf of Group B, the Delegation of the UNITED KINGDOM said, with respect to item (ii) referred to in the preceding paragraph, that Group B considered that any discussion of substance on inventors' certificates at the third session of the Preparatory Intergovernmental Committee would be dependent upon some positive recommendation from the Working Group on Inventors' Certificates but that, in the unhappy event that no such recommendation were made, such circumstance would not prevent any discussion at the third session of the Committee about future procedure concerning inventors' certificates.

161. Speaking on behalf of Group D, the Delegation of the SOVIET UNION stated that the question of inventors' certificates should be considered in any case at the third session of the Preparatory Intergovernmental Committee; the discussions should be based on the conclusions of the third session of the Working Group on Inventors' Certificates or on either the relevant material of all previous sessions or proposals by the Director General.

162. Program and Date of the Diplomatic Conference. The Committee decided that the substantive items to be considered by the Diplomatic Conference should consist of Article 5A (on the basis of the text contained in Annex II to document PR/PIC/II/13) and the eight items referred to in paragraph 159(i) and (ii) (to the extent resulting from the conclusions of the Preparatory Intergovernmental Committee yet to be reached) and possibly, depending upon the decision taken at the third session of that Committee, the proposals of Canada referred to in paragraph 159(iii) (to the extent resulting from the conclusions that would be reached at a later stage). Unless some important new question emerges in the future, no further items should be considered by the said Committee as far as the revision of the substantive provisions is concerned. The said Committee may still have to deal with the administrative clauses and will have to deal with at least some of the final clauses. Finally, it will deal, in its last session, with the Rules of Procedure of the Diplomatic Conference, particularly the question of unanimity or qualified majorities. The Executive Committee of the Paris Union, when it meets in September 1977, should deal with the question of the date of the Diplomatic Conference.

163. This report was unanimously adopted by the Committee in its meeting on July 8, 1977.

[Annexes follow]

JAPANESE PATENT LAW REVISIONS FOR IMPLEMENTING THE PATENT COOPERATION TREATY

- Focused on Incorrect Translation and Its Amendment -

October 20, 1977
PIPA Williamsburg Meeting
Japanese Group Committee No. 3
Reporters: Hiroshi Ono
(IBM Japan)
Takashi Okabe
(Nippondenso)

Abstract:

Among Japanese patent law revisions discussed and proposed by the Law Revision Committee under the Industrial Property Council for implementing Patent Cooperation Treaty, the issues concerning the treatment of translations to be submitted to the Japanese Patent Office under Article 22 of PCT and their amendments, both of which have been intensively studied and seem to be most important, are summarized and discussed in this report. Some of other important issues are also briefly touched upon.

1. Introduction

As to various activities for implementing PCT in Japan, Japanese Group Committee No. 3 made a report at Hakone Meeting last fall. Passing one year after that, the outline of the patent law revisions is becoming clearer based on the studies and discussions at the PCT Sub-Committee of the Law Revision Committee attached to the Patent Office. During the period of June last year thorugh July this year, the PCT Sub-Committee has met fifteen times and the Law Revision Committee published its iterim report on July 27 this year. As mentioned in the report at Hakone Meeting, the PCT delegation including some members of the Sub-Committee visited to the U.S.A. and European countries and completed its study report on PCT matters on May 1977.

It is scheduled that the interim report is open for opinions or comments from the public especially from associations and groups concerned until late this fall and will be submitted to the next Diet commencing in December 1977 after drafting the law revisions at the Legislative Office. After the legislation is completed, Japan will ratify the Patent Cooperation Treaty sometime in 1978.

Among the revisions suggested in the interim report of the Law Revision Committee, discussions in this report will be focused on the issues relating to the translation to be submitted to the Japan Patent Office under Article 22 of

PCT. Especially, treatment of the incorrect translation which is different from the original international application, amendments to such incorrect translation, the scope of protection in case a patent is granted on the incorrect translation and other related problems will be discussed in detail. And discussions in relation to the amendment of claims permitted under Article 19 of PCT will be also included.

Problems due to the incorrect translation arise when Japan is named as one of the designated states in an international application originated from a foreign country. In this sense, American group members in PIPA will have direct interests in this issue when they make an international application designating Japan, and it is hoped, therefore, this report will be of some help to American group members.

2. Legal Status of Translation

In Article 3 (1) of PCT, it is clearly stated that "Applications for the protection of inventions in any of the Contracting State may be filed as international applications under this Treaty." And it is also clear under Article 11 (3) that any international application fulfilling the certain requirements under the Treaty and accorded an international filing date shall have the effect of a regular

national application in each designated State as of the international filing date, which date shall be considered to be the actual filing date in each designated State. It goes without saying that it is one of the most important aims of the Treaty that a single international application designating several countries has an effect as a regular national application in each designated country. According to the provisions of the Treaty mentioned above, it must be a rationale that a national application in a designated country is considered to be made based on the contents in the original language not in the translation required under Article 22 of the Treaty.

However, the actual examination in a designated country is naturally to be carried out according to the translation submitted to the designated Office and the resulted patent is, of course, in the translated language.

Problems arise out of the contradiction between the rationale and the practise. This contradiction is common to all the contracting states of the Treaty. But, it seems to us that serious troubles may not arise from incorrect translations among the countries where the language used has certain similarity with each other. In Japan, this should be carefully considered and proper measures should be developed to cope with the problems because Japanese language

is quite different from western languages. It is supposed most of international applications designating Japan will be originated from the countries where English, German or French is used.

To cope with translation problems, "Notes on Article 46" was adopted at the diplomatic conference held in Washington in 1970. In the notes, it is clarified that no national office will be obligated, during the national examination procedure, to refer to the international application in its original language and the national office may base its examination on the translation only. It is also stated that if the translation is incorrect and narrows the disclosure as it appears in the international application, the translation may be considered by the designated office as constituting an irrevocable renunciation of any part of the disclosure not contained in the translation. However, it does not seem proper to construe that the notes intend to change the fundamental rationale of Article 11 (3) of the Treaty. It may be proper to consider the sole purpose of the notes is to merely provide convenience in practise. From this view point, notwithstanding the notes of Article 46, difficulties will arise if the translation is directly regarded as a formal application in a designated country. That is, it may not be proper for a designated national

office not to accept any amendment broadening the disclosure in the translation when such an amendment intends to recover the portion of the disclosure in the international application in the original language which has been missed because of inadvertently made incorrect translation and such inadvertence is reasonably explained by the applicant during the examination procedure. It is reasonable, however, that the portion of disclosure narrowed by an incorrect translation is regarded as irrevocable renunciation, in case the incorrectness is found after the patent has been granted or such incorrect translation is made intentionally.

When the rationale of the Treaty is emphasized, the content of the national application in a designated country should be regarded as the same as those of the international application in its original language. On the other hand, from practical view points it is convenient to consider the translation submitted under Article 22 as the formal national application in the designated country.

The interim report of July 27 aforementioned proposes to treat the translations and their amendments as follows: The examination in Japan will be made based on the translation submitted to the Patent Office by the expiration of 20 months period from the priority date of the international

application. If the translation narrows the disclosure in the original language, recovery will not be permitted in any case. If the translation broadens the original disclosure, it is contemplated that, for example, the application may be rejected by the public opposition procedure. And, the translation submitted to the Office may be substituted by an entirely new set of the translation until the expiration of 20 months from the priority date, insofar as a request for earlier examination has not been made. Fundamental concept of the interim report seems to be a compromise between the rationale of the Treaty and practise, judging from the fact that the translation is regarded as a formal national application in certain situations while the international application in the original language has an effect as the national application in other situations.

3. Incorrect Translation

It is a widely accepted theory and a background of patent systems that an applicant has to make his best efforts and be diligent in preparing an application as well as in its prosecution. It is true, therefore, that an applicant of an international application has an obligation to prepare a good and correct translation as far as he can when he seeks a patent protection in a designated country. If he broadens the original disclosure by its translation or

makes an incorrect translation with deceptive intention, no remedy to recover the original disclosure is necessary, instead, legal sanction may be imposed. On the other hand, a diligently made translation can be incorrect without any deceptive intention. The treatment of such incorrect translations will be discussed below in both situations where the translation broadens and narrows the original disclosure.

3-1 Translation broader than Original disclosure

According to the interim report, Japanese Patent Office will examine the application designating Japan based upon the translation submitted to the Office without referring to the international application in the original language. In this stage of examination, the fact that the translation includes broader disclosure than the original, if it is the case, will not be usually found by the examiner. After the application is published for opposition, no grounds of rejection having been found by the examiner, any person may file an opposition on the ground that the published application contains broader disclosure than the international application in the original language. Upon receiving a copy of the opposition, the applicant has a chance to file an amendment, narrowing down the disclosure and/or claims to

the scope of the original (Japan Patent Law, Article 64). If such an amendment is not made by the applicant within the prescribed period, the application shall be rejected on the ground of the opposition. Insofar as these procedures are concerned, there will be no difficulties because the contents of the original international application is regarded as those of formal national application. What has happened here is merely that the examiner has not referred to the original at the first examination stage because of convenience in practise. In order to implement these procedures, it is sufficient if a new ground of rejection for rejecting an application which broadens the scope of the original international application is added in the Patent Law Revisions.

Next, the situation where a patent is granted based on the incorrect translation which broadens the original scope, without having been screened by the opposition procedure, has to be considered. The provision of Article 46 of the Treaty allows the national authorities to retroactively limit the scope of such a patent to the scope of the international application in its original language. This is so called partial invalidity provision.

The present Japanese Patent Law provides nothing about so called partial invalidity, instead, it requires to invalidate a whole claim (including dependent claims thereon)

which includes a cause of invalidity. If such a whole claim is invalidated, there exists a clear violation of Article 46 of the Treaty. To cope with this problem, the interim report proposes to apply the presently existing two systems in combination without providing a new system in the Revisions. The one is the Invalidity Appeal (Japan Patent Law Art. 123) and the other is the Amendment Appeal (Art. 126). According to this proposal, in case it is found after a patent has has been granted that the scope of the patent exceeds the disclosure of the international application in its original language, the Invalidity Appeal will be filed by a third party and then the patentee will file the Amendment Appeal to eliminate the portion broadened by the incorrect translation from the issued patent. This is called the Linkage System. One of the difficulties in this Linkage System resides in that no third party is permitted to file the Amendment Appeal and the whole claim in question may be invalidated if the patentee does not file the Amendment Appeal after the Invalidity Appeal has been filed by a third party. The interim report, however, takes the position that there exists no problem since it is construed as an abandonment of a patentee's right that he does not file the Amendment Appeal. There is a different opinion against the position of the interim report, emphasizing inadequacies

both in theory and practise. Those who take this position propose to provide a provision in Article 69 of the Patent Law which give an authority to courts to declare partial invalidity on the claims (a kind of unenforceable) granted based on the broadened translation. This measure is similar to the one provided in Article 375 (b) of the U.S. revised Law. (P.L. 94-131)of the U.S. revised Law. (P.L. 94-131)

If the so called Linkage System proposed in the interim report is adopted, it is necessary to add a new ground that takes care of the broadened translation to the list of invalidity grounds as well as rejection grounds in the Patent Law.

3-2 Translation narrower than Original disclosure

In case the translation submitted to the designated office under Article 22 of the Treaty narrows the scope or disclosure of the international application in its original language, whether recovery is permitted to the applicant or not is the very important issue since this directly relates to the scope of protection to be given to the applicant of the international application. According to the interim report, as mentioned before, it is proposed to conduct the examination based on the translation and to regard the portion narrowed by the translation as irrevocable renunciation and accordingly not to permit any amendment aiming

recovery of the original disclosure after the expiration of 20 months period from the priority date. It is free for an applicant to amend the narrow translation submitted by means of substitution of an entire set, if this is done before the expiration of the 20 months period and a request for earlier examination has not been made yet. After the 20 months period, it is by no means possible to recover the original disclosure. According to the procedure of the interim report, the translation itself seems to be regarded as a formal national application. The interim report takes the position that this procedure is permissible in view of the notes on Article 46 of the Treaty.

It is true that the procedure proposed by the interim report offers a great deal of convenience to the practise of patent granting. That is, examination will be carried out strictly based on the translation without referring to the original language and judgement as to whether the amendments filed in the national stage present question of new matter or not will be made based upon the translation only. It is planned that the translation is published in Japan even though the international application has already been published by International Bureau in its original language. Since the procedure of the interim report does not permit amendments of the translation to broaden the scope, there is

no such danger to third parties that the scope of the published application is broadened later.

On the other hand, there is a possibility for an applicant to lose important portions of his right due to the incorrect translation which narrows the scope of the original even though it has been made diligently and without any deceptive intention.

Those who oppose the position of the interim report insist that contents of an international application in its original language should be regarded as that of a national application and the translation therefrom submitted to a national office should have a status of an amendment of the original, emphasizing disadvantages to the applicant when recovery of the original disclosure is not permitted and stressing the fundamental rationale of the Treaty. From this view point, they take the position that amendments of the translation aiming recovery of the broader original disclosure should be permitted at least in case where the applicant sufficiently and reasonably explains his inadvertence in making such an incorrect translation and the reason to amend the same, while recognizing the practical necessity to carry out the examination on the basis of the translation. However, they fully support the position that the amendments enlarging the scope of the protection should not be allowed

after publication for opposition purpose, since, under the current patent law, any amendment after said publication is very limited. More particularly, such amendments as enlarging scope of the protection after publication is completely prohibited.

Practically speaking, however, it would be very difficult to determine if an applicant diligently made the translation without any deceptive intention. Furthermore, it is understandable to take a position that the revision of the Patent Law or practise should be minimized. Because of these concerns, we do not hear, at present, substantial arguments against the principle described in the interim report.

4. Amendments at National Stage and under Article 19 of the Treaty

The national stage of an international application designating Japan will commence after the translation under Article 22 of the Treaty has been submitted to the Patent Office together with a national fee and a copy of international application when required and upon expiration of 20 months period from the priority date. According to the interim report, examination will be carried out based on the translation, and amendments at national stage will be

allowed, again based on the translation, to the extent that the Patent Law allows to a conventional national application. In other words, amendments before the notice to publish the application may be filed at the times provided in Article 17-2 of the Patent Law and amendments are entered insofar as no new matter is introduced to the translation originally submitted. If such amendments present new matter problem, Article 53 or 40 of the Patent Law is applied. Ammendments after the notice to publish the application are permitted within the frame of Article 17-3 or 64 of the Patent Law, and are treated under Article 42 or 54 if they do not meet the requirements of Article 17-3 or 64.

These procedures proposed by the interim report set up the amendment based upon the translation and, therefore, present the same controversies as mentioned above.

Next, the treatment of the amendment under Article 19 of the Treaty will be mentioned. This amendment has a status different from that of national stage since it is to be filed to the International Bureau during international stage and directed only to the amendment of claims. According to the interim report, the amendment under Article 19 of the Treaty has no effect, as far as Japan is concerned, unless the translation of such an amendment is submitted to the Patent Office before expiration of 20 months period from

the priorty date. The translation of the Article 19 amendment may not reach the Patent Office within the 20 months period in case the international search report is belatedly sent to the applicant because the period of two months for filing the amendment is counted from the date of transmittal of the search report. In this case, if the applicant still wishes to file such an amendment with Japanese Patent Office, he has to file a new amendment in Japanese language after national stage in Japan for that application has commenced. Insofar as he has a chance to file a new amendment in lieu of the translation of the Article 19 amendment, no difficulties or problems are expected.

Whether the Article 19 amendment is entered or not will be decided on the basis of the translation submitted under Article 22 of the Treaty. If the amendment includes new matter relative to the translation, its entry will be denied. On the contrary to the case of an amendment at national stage where a new application may be filed under Article 53 of Japanese Patent Law if the amendment has not been entered because of new matter, a new application under Article 53 is not permitted in case the entry of the amendment of Article 19 of the Treaty is denied. However, the applicant may file an appeal from such denial of the entry under Article 122 of the Patent Law. In addition, if a new

matter issue is raised as to the amendment of Article 19 of the Treaty after the patent has been granted, such patent is subject to the treatment under the Linkage System mentioned in item 3-1 above.

5. Other Topics on Interim Report

Three other topics on the interim report will be briefly discussed.

Firstly, the issue with respect to so called "Self-Designation" has to be mentioned. The so called Self-Designation denotes the situation where an international application for which the priority of one or more earlier applications filed in a country is claimed includes the designation of that country or where a later international application for which the priority of an earlier international application designating only one country is claimed includes the designation of that country. In case of Self-Designation, it is stated in Article 8 (2) (b) of the Treaty that the condition for and effect of the priority claim in the self-designated country shall be governed by the national law of that country. The interim report proposes that it would be proper to give no effect to the priority claim in case of Self-Designation because there is no provision to give the priority right of earlier national applications in

the present Japanese Patent Law. On the contrary, in the United States, there is a provision to accord the priority right of earlier national applications in 35 USC 120, and the priority claim in case of Self-Designation of an international application is also permitted under Article 365 (c) of the Revised Patent Law. (P.L. 94-131) In this case, the period for claiming the priority of national applications is different from that of Paris Convention and such priority claim may be made during the term of pendency of earlier applications.

If the proposal of the interim report giving no priority in case of Self-Designation is realized, one of the advantages of PCT will be lost for Japanese applicants. In many cases, after one basic national application is filed, improvement or related applications which can be grouped in a later international application together with the basic application will come out. If, subject to withdrawal of earlier national applications, the priority of Self-Designation is permitted, all contents of these earlier national applications will be put in an international application designating Japan among other foreign countries and a single national prosecution based on the international application can be conducted in stead of prosecuting several individual earlier applications. This procedure is advantageous not only to applicants and the Patent Office but also even to third parties.

However, it may be difficult to introduce a new system such as permission of the priority of earlier national applications into Japanese Patent Law at this time since it has been intended to minimize the revisions of the present Law. But, it is certainly hoped that proper measures will be taken to maximize the advantages of PCT in the near future.

Secondly, the idea presented in the interim report relative to international publications will be introduced. An international application originated in a foreign country and designating Japan will be published in the Japanese language based on the translation after the translation under Article 22 of the Treaty has been submitted to the Patent Office though its international publication in its original language has already been made. In other words, re-publication in Japan will take place. The right to request compensation under Article 65-3 of the Patent Law will be effective upon the date of the publication of the translation in Japan and based on the disclosure in it. And the scope of the right of prior applications under Article 29-2 of the Patent Law will be determined by the common disclosure both in the original language and the published translation.

Thirdly, the treatment of Abstract of an international

application will be reported. According to the interim report, the translation of the abstract is not required to be submitted to the Japanese Patent Office because there is no provision in the Patent Law to require the abstract for national applications. Since Article 3(3) of the Treaty states that the abstract merely serves the purpose of technical information and cannot be taken into account for any other purpose, there is no problem if the translation of the abstract is not required. For the benefit of the public, however, the abstract will be very helpful if published in Japanese. It is again hoped, therefore, the proper measures will be taken in the near future to realize the publication of the abstract in Japanese as well as to require the abstract in domestic applications.

6. Summary

Proposals for Japanese Patent Law Revisions, offered by the interim report prepared by the Law Revision Committee, for implementing Patent Cooperation Treaty were reviewed and discussed with a stress on the issues relating to the incorrect translation and its amendment. Opinions opposing the proposals were also introduced. Since it seems to us that the U.S. members are interested in considering problems which will be caused by the incorrect translation of the

international application designating Japan, we hope the U.S. members will give us their thoughts or comments in this regard.

EXPERIENCES OF A U.S. CORPORATION WITH THE INDUSTRIAL PROPERTY SYSTEM OF TAIWAN

A Patent Counsel for Monsanto Company was in Taipei when the communication from the Ministry of Economic Affairs (MOEA) to the National Bureau of Standards and dated 18 March 1976 was officially published with the directive that effective 1 May 1976:

> "...all patent applications, the purpose of which is to obtain protection for the specific use of a chemical compound irrespective of its expression in any form of mixture, preparation, composition, process or method, will not be considered as new inventions."

This directive caused concern within Monsanto Company because this company spends large sums of money on research to discover chemical compounds having unique herbicidal activity and the company must rely heavily upon herbicidal use claims to protect its inventions, particularly in those countries where compounds per se are by law expressly excluded from patentability. Prior to the 18 March 1976 directive of the MOEA an increasing number of patent applications of Monsanto Company directed to herbicide inventions had been refused by the Patent Office (I use the term "Patent Office" for convenience, however, the examination of patent applications is actually carried out within the National Bureau of Standards) for the reason that "chemicals" were not patentable by express provision of the Taiwanese law and therefore, claims to any use of a "chemical" were also unpatentable regardless as to whether the use claim was directed to a process or a composition and also, regardless as to whether the chemical compound was known in the prior art or was described for the first time in the patent application. Prior to the 18 March 1976 directive, appeals to the MOEA from such refusals by the Patent Office usually resulted in a reversal by the MOEA of the refusal by the Patent Office and a patent was granted in Taiwan with herbicidal use claims directed to a process or to a composition. The 18 March 1976 directive of the MOEA indicated that future appeals would be futile because in the directive the MOEA apparently had officially adopted the philosophy of the Patent Office in refusing the patentability of any claim directed to any use of a chemical.

During the latter part of March and the early part of April 1976, meetings were held with the U.S. Chamber of Commerce and the United States Embassy in Taipei for assistance in arranging a conference with governmental officials of the Republic of China and in particular, officials of the level of the Minister of Economic Affairs. There appeared to be a need for the interpretation of the directive as a hard literal interpretation did not appear to be realistic nor in the best interests of Taiwan. Furthermore, there was felt to be a need to discuss with appropriate governmental officials of the Republic of China the benefits to be derived by Taiwan from having a patent system that was comparable to the patent systems of the industrialized countries such as the United States, Japan and West Germany. As result of this effort, communications were established with the Ministry of Economic Affairs who expressed a preference for an initial conference with a qualified patent expert from the United States Government. An invitation to visit Taiwan and to confer with officials of the MOEA was accepted on behalf of the U.S. Patent Office by Mr. Bernard A. Meany, Assistant Commissioner. Mr. Meany suggested that on his visit to Taipei that he be accompanied by a small group of people representing U.S. industry and therefore the officials of the Republic of China could have the simultaneous benefit of expressions of opinions by representatives of the U.S. Government and also of U.S. industry. The Republic of China officials were gracious and agreed to Mr. Meany's suggestion. It also appeared that the MOEA delayed the implementation of the 18 March 1976 directive pending the visit by the patent expert from the U.S. Government.

Mr. Meany made the trip to Taiwan in June of 1976 accompanied by a U.S. Industry Delegation which consisted of three people representing the chemical and petroleum industries. The Hon. Y. S. Sun, Minister of Economic Affairs received Mr. Meany and the U.S. Industry Delegation and conferences were held over a period of three days during which the Republic of China participants included the Minister and Vice Minister of Economic Affairs, the Director and Deputy Director of the National Bureau of Standards, the Superintendent of Technology within the Ministry of Economic Affairs. Other participants in the conferences included representatives of the U.S. Embassy and the American Chamber of Commerce in Taiwan.

The U.S. Industry Delegation presented a prepared paper entitled "Possible Impact of Patent Practices on Agricultural Development in Taiwan", the principle thesis being that over the long term the maintenance of a strong patent system will hasten the further economic development of Taiwan by providing the necessary basis upon which foreign technology can be imported and developed and by providing

Taiwanese inventors with the incentive to develop indigenous technology. The MOEA directive of 18 March 1976 would have a particularly adverse impact on patent protection for the agricultural use of chemicals. Therefore, agricultural technology was used as the contemporary example of the high level of technology in Taiwan which has been brought about primarily by the introduction of foreign technology involving the use of agricultural chemicals, which are broadly classed as pesticides and include insecticides, herbicides, fungicides and plant growth regulators; and that the proposed elimination of patent coverage in this field could well bring an end to the development of new agricultural technology in Taiwan using chemicals. It was emphasized that Taiwan's agricultural yields are now among the highest in the world and that Taiwan is now able to maintain a positive balance of payments for the agricultural sector despite a decrease in farm population.

Considerable effort was expended to try to be certain that the officials of MOEA understood that while a particular chemical may be demonstrated to have herbicidal activity when applied to plants within the United States, a great deal of work and technical expertise is required to determine the local adaptability and practical use of the same chemical compound for agricultural use in Taiwan. This work can require as much as three to four years and the expenditure considerable sums of money before a positive decision can be made that the agricultural use is indeed adaptable to the conditions in Taiwan. Taiwan may be chosen or rejected for such development work depending upon whether the country offers a patent system which would justify and protect the investment required to establish the adaptability of a particular use.

Any change in the patent law which abolishes or diminishes the patent protection available lowers the incentive to commercialize the development of an agricultural chemical and this would be especially true in Taiwan. Many countries of the world do offer substantial patent protection for the development of the agricultural use of chemicals so that it is unnecessary to spend time and money in a country which does not offer that type of protection.

Excerpts from authoritative sources were presented to demonstrate that the estimated cost for the discovery and development of a single pesticide is of the order of $7.6 million which includes the cost of compounds which were made and tested but not commercialized--actually about 7,000 chemical compounds being tested for each one which became a commercial success. Furthermore, that the lapsed time from the discovery of the pesticidal activity of a chemical to actual commercial marketing varies within a period of from five years to as long as ten years with a reasonable expectation of about 80 months.

It appeared that as a result of these conferences, the MOEA officials accepted "non-obviousness" as a requirement for the patentability of inventions along with novelty and utility, and stated specifically that a "new use for a new substance, if non-obvious, will be patentable in Taiwan."

Procedurally, the 18 March 1976 directive of the MOEA will not be rescinded, but the allowability of claims to the uses of chemicals may be established by interpretation of that directive where the use meets the tests that the use is novel, useful and non-obvious.

The dialogue continued over the following months between Mr. Meany in Washington, D.C. and Vice Minister Chang of the MOEA in Taiwan, during which time Mr. Meany sent to the MOEA officials other papers prepared by the U.S. Industry Delegation, for example, a paper entitled "Patent Practice Relative to Economic Development in the Republic of China" which highlighted the role of patents in economic development; the importance of technology transfer to economic development; the responsibilities of private companies engaged in transferring technology; and, finally, specific patent issues relative to the Republic of China.

Assistant Commissioner Meany made a second trip to Taiwan in June of 1977, again accompanied by a U.S. Industry Delegation still representing the chemical and petroleum industries but with some changes in the personalities making up the U.S. Industry Delegation.

The continuing dialogue between Vice Minister Chang of the MOEA and Assistant Commissioner Meany of the United States Patent & Trademark Office (USPTO) had revealed that there was continued work in the MOEA on an overall revision of the patent law for Taiwan. At the invitation of Vice Minister Chang, the U.S. Industry Delegation presented prepared papers entitled "Comments on Patent Law Revision - Republic of China" and this led to a discussion of many aspects of patent law such as the reasonableness of pricing of patented products, exhaustion of patent rights, conformity between the Chinese specification and the original filed specification and compulsory licensing vs revocation, as a remedy for the failure of adequate working of patents. The officials of the MOEA reaffirmed positions which had been arrived at during the conferences a year earlier, namely that uses of chemicals could be patentable subject matter and that non-obviousness would be one of the bases for patentability in Taiwan including inventions dealing with the use of chemicals. Standards of patent examination may be developed to provide a basis

for the patentability of uses of chemicals and such standards could well require that the use be of "industrial value" as well as non-obvious.

It also appeared that the MOEA was favorably inclined to moderate its earlier position that a granted patent in Taiwan could be revoked if the invention had not been put into commercial practice within three years of grant. Each instance of a proposed revocation by the National Bureau of Standards would require specific approval by the MOEA before such revocation action is taken. The U.S. Industry Delegation felt that the proposed revision of the patent law in Taiwan will indeed favorably reflect the discussions that were participated in by the officials of the MOEA and Assistant Commissioner Meany and the U.S. Industry Delegation.

Following the June 1977 meeting, the MOEA appointed a delegation composed of upper level officials headed by Mr. Horng-Taur Jiang, Counsel and Executive Secretary of the Committee of Law and Regulations of the MOEA to conduct a research tour to the United States as well as to certain European countries. This delegation from the MOEA will study the patent laws of the U.S. and certain European countries in connection with its efforts to revise the patent and trademark laws of Taiwan. The desirability of such a research tour was brought about as a result of the conferences held in Taipei in June of 1976 and again in June of 1977. The delegation of the MOEA visited the USPTO in September of 1977.

Mr. Meany and members of the U.S. Industry Delegation feel that the MOEA will now proceed very carefully in any revision of the patent laws of Taiwan and will take into consideration the discussions that have taken place which are continuing to take place in Taipei, Washington, D.C. and other parts of the world. It is expected that Taiwan will have a patent law which is very compatible to the patent laws of industrialized countries such as the U.S. and the member countries of the European Patent Convention.

Neal E. Willis

PACIFIC INDUSTRIAL PROPERTY ASSOCIATION
EIGHTH INTERNATIONAL CONGRESS
WILLIAMSBURG, VIRGINIA, U. S. A.
OCTOBER 11 - 14, 1977

COMMITTEE #3

TWO VIEWS ON PREPARING FOR OPERATIONS UNDER THE PATENT COOPERATION TREATY AND THE EUROPEAN PATENT CONVENTION

THE BELL SYSTEM'S VIEW OF OPERATION UNDER THE PATENT COOPERATION TREATY AND THE EUROPATENT CONVENTION

R. C. WINTER
WESTERN ELECTRIC COMPANY, INC.

THE BELL SYSTEM'S VIEW OF OPERATION UNDER THE PATENT COOPERATION TREATY AND THE EUROPATENT CONVENTION

OVER THE PAST FEW YEARS, THERE HAS BEEN A GREAT ABUNDANCE OF ADVICE AND COMMENTARY CONCERNING INTERNATIONAL PATENT PROCUREMENT IF AND WHEN VARIOUS TREATIES AND CONVENTIONS ARE ADOPTED. AT THIS DATE IT APPEARS THAT ONLY TWO OF THEM WILL BE OF INTEREST TO US IN THE NEAR TERM, NAMELY, THE PATENT COOPERATION TREATY (PCT), AND THE EUROPEAN PATENT CONVENTION (EPC).

PATENT ATTORNEYS IN THE BELL SYSTEM ARE FOLLOWING THESE DEVELOPMENTS CLOSELY. IN FACT, MANY OF THEM HAVE BEEN ACTIVELY PURSUING THE ADOPTION OF PCT SINCE IT WAS FIRST SUGGESTED MORE THAN TEN YEARS AGO. WE WOULD HAVE WELCOMED IT THEM; AND TODAY, IN COMBINATION WITH EPC, WE WELCOME IT EVEN MORE. TOGETHER THEY OFFER ADVANTAGES WE HAVE LONG DESIRED FOR OUR EXTENSIVE FOREIGN PATENT PROCUREMENT PROGRAM; NAMELY, FLEXIBILITY, UNIFORMITY AND ECONOMY ... FLEXIBILITY IN THE FOREIGN FILING DECISION MAKING PROCESS; WORLDWIDE UNIFORMITY IN THE FORM AND CONTENT OF THE PATENT APPLICATION; AND ECONOMY THROUGH DEFERRAL OF PRIMARY EXPENSES AND CONSOLIDATION OF SEARCH AND EXAMINATION ACTIVITIES.

AN UNDERSTANDING OF WHY FLEXIBILITY IS AN IMPORTANT ADVANTAGE TO THE BELL SYSTEM REQUIRES SOME INSIGHT INTO OUR APPROACH TO FOREIGN PATENT PROCUREMENT. THE BELL FAMILY COMPRISES THE AMERICAN TELEPHONE AND TELEGRAPH COMPANY WHICH IS RESPONSIBLE FOR TELEPHONE OPERATIONS THROUGHOUT THE UNITED STATES; THE WESTERN ELECTRIC COMPANY WHICH MANUFACTURES TELEPHONE EQUIPMENT FOR THE BELL SYSTEM; AND BELL TELEPHONE LABORATORIES WHICH CONDUCTS RESEARCH AND DEVELOPMENT IN TELECOMMUNICATIONS.

A NUMBER OF PEOPLE IN EACH OF THESE BELL SYSTEM COMPANIES CONTRIBUTE THEIR LEGAL, TECHNICAL AND BUSINESS JUDGMENTS TO THE DETERMINATION OF WHETHER OR NOT TO SEEK PROTECTION ABROAD FOR A BELL SYSTEM INVENTION, AND IF SO, IN WHICH FOREIGN COUNTRIES. THIS FOREIGN FILING REVIEW PROCESS IS COMPLICATED BY THE FACT THAT THE COMPOSITION OF THE REVIEWING GROUP IS DIFFERENT FOR EACH INVENTION CONSIDERED, AND THAT THE INDIVIDUAL REVIEWERS WHO COMPRISE EACH GROUP ARE AT LOCATIONS SCATTERED THROUGHOUT THE COUNTRY. IN ADDITION, PATENT APPLICATIONS ON BELL SYSTEM INVENTIONS ARE ALWAYS FILED FIRST IN THE UNITED STATES. THUS OUR FOREIGN FILING REVIEW PROCESS MUST IN EVERY CASE BE COMPLETED SOON AFTER THE U. S. FILING IN ORDER TO PROVIDE AMPLE TIME FOR TRANSLATION AND ACTUAL FILING IN THE DESIGNATED FOREIGN COUNTRIES BEFORE THE SO-CALLED CONVENTION YEAR EXPIRES.

IT IS APPARENT, THEREFORE, THAT IMPLEMENTATION OF THE COMPLEX BELL SYSTEM REVIEW PROCEDURE PRIOR TO FOREIGN FILING REQUIRES PRECISE TIMING AND COMPLETE COOPERATION OF THE REVIEWING PARTIES. DESPITE OUR BEST EFFORTS, HOWEVER, THERE IS A PRESENTLY UNFULFILLED NEED FOR REFLECTION ON THE MANY DIVERSE OPINIONS AND CHANGES IN STATUS OCCURRING DURING THE CONVENTION YEAR. ALSO, OVERSHADOWING ALL OTHER CONSIDERATIONS IS THE NEED TO IRRETRIEVABLY COMMIT THE PREDOMINANT EXPENSE OF FOREIGN PROCUREMENT, NAMELY, THE COST OF TRANSLATION, AT OR BEFORE THE EXPIRATION OF THE CONVENTION YEAR.

THUS, FOR THE BELL SYSTEM AT LEAST, THE FLEXIBILITY OFFERED BY PCT AND EPC IS WELCOME INDEED. WITH PCT WE CAN EXTEND THE TIME LIMIT FOR TRANSLATIONS BY EIGHT MONTHS, AT THE NOMINAL COST OF A DESIGNATION FEE IN EACH SELECTED COUNTRY, WHENEVER SUCH ACTION IS DEEMED TO BE NECESSARY FOR A THOROUGH FOREIGN FILING REVIEW. DURING THIS EXTENDED PERIOD, WE WILL HAVE AS A BONUS THE BENEFIT OF AN INTERNATIONAL SEARCH AND AN OPPORTUNITY TO AMEND THE CLAIMS BEFORE THE ACTUAL FOREIGN FILING. AT THE LEAST, THIS WILL PERMIT REFINEMENT OF THE SPECIFICATION AND CLAIMS IN REGISTRATION COUNTRIES WHERE NO OPPORTUNITY CURRENTLY IS AVAILABLE TO AMEND AFTER FILING. OF EVEN GREATER IMPORT, HOWEVER, IS THE OPPORTUNITY THIS ADDITIONAL

INTERVAL AFFORDS TO DETERMINE WHETHER FOREIGN FILING SHOULD INDEED BE PURSUED AT ALL, AND TO DO SO BEFORE ANY SIGNIFICANT EXPENDITURE OF FUNDS IS REQUIRED TO COVER TRANSLATION AND FILING COSTS.

EPC ADDS ANOTHER DIMENSION TO THIS BENEFICIAL RESULT. THE TIME FOR REFLECTION, AT LEAST WITH RESPECT TO DESIGNATED EUROPEAN COUNTRIES, IS EXTENDED TO THE TIME OF PATENT GRANT. THUS, THE REVIEWER WILL BE ABLE TO CONSIDER FACTS WHICH COME TO LIGHT OVER A MUCH LONGER PERIOD OF TIME. THESE MIGHT INCLUDE, FOR EXAMPLE, CHANGES IN THE COMMERCIAL OUTLOOK AND THE DIRECTION IN WHICH THE TECHNOLOGY INVOLVING THE INVENTION IS MOVING.

WE IN THE BELL SYSTEM EXPECT TO TAKE FULL ADVANTAGE OF THESE OPPORTUNITIES FOR INCREASED FLEXIBILITY. WE WILL MODIFY OUR FOREIGN FILING REVIEW PROCEDURE SO AS TO PROVIDE AN OPPORTUNITY FOR RECONSIDERATION OF THE DECISION TO PROCEED WITH A PARTICULAR FOREIGN FILING PATTERN WITHIN TEN MONTHS OF THE DOMESTIC FILING. THIS WILL ASSURE THAT EVENTS OCCURRING IN THE INTERIM WHICH MIGHT AFFECT THE FOREIGN FILING DECISION ARE NOT OVERLOOKED. IF SUCH RECONSIDERATION IS INCONCLUSIVE, THE PCT APPROACH MAY BE ADOPTED TO PROVIDE AN ADDITIONAL EIGHT MONTHS FOR REASSESSMENT OF THE INITIALLY APPROVED FILING PLAN. IF NECESSARY, OF COURSE, THIS TIME FOR REASSESSMENT MAY BE FURTHER EXTENDED WITH RESPECT TO EUROPEAN COUNTRIES BY DESIGNATING EPC. SUCH FLEXIBILITY

IN EXTENDING THE TIME AVAILABLE FOR COMPLETION OF THE FOREIGN FILING REVIEW SHOULD PROVE TO BE MOST BENEFICIAL IN OUR OPERATION, AND I'M SURE IN YOURS AS WELL.

UNIFORMITY IN PATENT SPECIFICATION AND CLAIMS WILL PROVIDE FURTHER ADVANTAGES. AT PRESENT, CONSIDERABLE TIME AND EFFORT ARE EXPENDED IN MODIFYING DOMESTIC PATENT APPLICATIONS TO SATISFY THE MANY DIFFERENT REQUIREMENTS OF FOREIGN PATENT OFFICES. COUNTRIES ADHERING TO PCT AND EPC ARE IN THE PROCESS OF CONFORMING THEIR REQUIREMENTS CONCERNING SPECIFICATIONS AND CLAIMS TO THE STANDARDS PROPOSED IN THE STRASBOURG CONVENTION ON SUBSTANTIVE LAW OF 1963, THEREBY MINIMIZING THE NEED TO MODIFY DOMESTIC APPLICATIONS IN THE FUTURE. OUR IMMEDIATE GOAL IN THIS REGARD IS TO ASSURE THAT ALL OF THE BELL SYSTEM PATENT ATTORNEYS ADOPT AND UTILIZE THESE STANDARDS WHEN PREPARING THEIR DOMESTIC PATENT APPLICATIONS. SUCH UNIFORMITY ALSO WILL IMPROVE THE QUALITY OF OUR FOREIGN FILING REVIEW, PARTICULARLY IN VIEW OF THE GREATER EASE IN PERCEIVING THE INVENTION FROM THE ACCEPTED UNIVERSAL CLAIM FORMAT.

THE ADVANTAGE OF ECONOMY RESULTING FROM THE DEFERRAL OF TRANSLATION COSTS WAS MENTIONED EARLIER. ALSO SIGNIFICANT IN THIS REGARD IS THE PROSPECT OF SUBSTANTIAL SAVINGS FROM THE USE OF THE LANGUAGE OF THE PRIORITY APPLICATION, BOTH IN THE PCT PHASE AND THROUGHOUT PROSECUTION BEFORE THE EPC OFFICE.

SINCE THE DISADVANTAGES OF THESE APPROACHES CANNOT BE ASSESSED WITHOUT EXPERIENCE THROUGH USE, IT IS OUR INTENTION IN THE BELL SYSTEM TO TAKE FULL ADVANTAGE OF ALL OF THE AVAILABLE OPTIONS, TAILORING OUR CHOICE OF THE ROUTE TO BE FOLLOWED IN OBTAINING FOREIGN PATENTS TO THE REQUIREMENTS OF EACH CASE. WE WILL TRY TO MAXIMIZE THE INVOLVEMENT OF ALL PARTICIPANTS IN OUR FOREIGN FILING REVIEW IN THIS RESPECT. WITH THESE ADVANTAGES OF FLEXIBILITY, UNIFORMITY AND ECONOMY, WE ARE CONFIDENT THAT SIGNIFICANT IMPROVEMENTS IN THE ACCURACY OF OUR CHOICES AND IN THE QUALITY OF THE ULTIMATE PRODUCT WILL BE REALIZED.

ONE VIEW OF THE PATENT COOPERATION TREATY IN THE LIGHT OF THE EUROPEAN PATENT

BY

EDWARD H. VALANCE

PAPER TO BE PRESENTED BEFORE THE PACIFIC INDUSTRIAL PROPERTY ASSOCIATION MEETING

OCTOBER 12-14, 1977

WILLIAMSBURG, VIRGINIA

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One View of PCT In The Light Of The European Patent

In the short time available it would be impossible to give a thorough analysis of PCT. In this presentation I simply wish to give you some points for discussion and explain my initial reaction to whether PCT will be used to any great extent by Mobil Oil Corporation in our International Patent program.

The Patent Cooperation Treaty represents an enormous amount of effort by many dedicated professionals and undoubtedly will be useful to a number of U.S. and Japanese citizens and firms in obtaining foreign patents. However, in administering the foreign patent program of a large multinational corporation such as Mobil Oil Corporation, I feel constrained to go cautiously and weigh the consequences of a new route to foreign patents which will result in substantial added costs with no added protection. Also, with the new European Patent Convention underway each one has to view his own pattern of foreign filing to determine whether the PCT route to the European Patent Office should be taken. The Patent Cooperation Treaty certainly affords an opportunity to file a single international application which may include a European patent application under the Paris Union to be filed in the European Patent Office for the various countries designated therein.

For the patent attorney representing a multinational enterprise such as Mobil whose home base is the United States, there is a superficial attraction in the PCT route to filing

in the European Patent Office. 1. By filing his European patent application through PCT, it would appear that yet another saving in time as well as a deferral of decisions and expenses could be achieved. However, it is my present feeling that such attraction is illusory and that upon careful consideration of what we know at this time the patent attorney representing Mobil would probably not wish to file his European patent application through PCT. As for other countries such as Japan and the Soviet Union, to name only two, it may be that the PCT route would offer some advantages. However, I do not see that those advantages would outweigh the disadvantages for most cases. 2. In this paper, I have been speaking of the "European Patent". Of course, I fully realize that the European patent when granted results in a bundle of national patents whose validity and scope remain to be tested in the national courts. However, I believe that most of my remarks in connection with the PCT throughout this paper would apply pretty generally to the Community Patent Convention which is expected to come into force within some years after inception of the European Patent Convention. Certainly the PCT could be used as a route toward filing a Community Patent Application when the Community Patent Convention is in operation, just as the PCT can be used as an alternate route to filing a patent application under the European Patent Convention.

As presently advised, I would hesitate to recommend that

patent applications be filed for a Community Patent using the PCT route. My reasons for going very slowly in recommending the use of PCT for Mobil will now be discussed.

First and foremost, I would observe that at least half of the Mobil foreign applications are now filed in Western Europe. Since such a great proportion of the Mobil patent applications will be filed eventually in the European Patent Office in a single application, it would seem to be really unnecessary and a needless multiplication of paperwork to use PCT with the possibility of bureaucratic bungling or other clerical errors. The PCT application would seem to be only interposing a further step and an unnecessary one in the process of filing an application in the European Patent Office. Furthermore, it is hard for me to justify the additional costs which would be incidental to the filing of a PCT application in order to achieve filing in the European Patent Office. Although we would be spared reproduction and mailing costs since getting copies of documents to the designated foreign patent offices is taken care of under PCT by the Receiving Patent Office, this saving is more than outweighed by the International filing fee plus the additional fee for each country designated under the PCT route. Since the PCT does not do the whole job of examining and processing the application, and merely defers the expense of retaining a foreign associate to prosecute the application it is really hard to see how any expense is saved

in the area of associate fees. For an associate to do his job properly, he must study the case. An associate who would prosecute an application either in a national patent office of Europe or in the European Patent Office will probably charge a representation fee for taking up the application just as he would have charged the same fee or a similar fee if the case had been initally filed with him in the first place. Translation charges are only deferred and are not saved by filing through PCT. As far as the search is concerned, while it is true that there may be some reduction in the cost of the international search when done at The Hague as a supplement to the initial international search done in the U.S. Patent Office as the Receiving and Searching Office, I think it is highly unlikely that those national patent offices with searching facilities will be satisfied even with the international search which is done by the U.S. Patent Office and will want to do their own searches or at least have a further search done at The Hague. Certainly the European Patent Convention provides for the generation of a supplementary search report on PCT applications filed in the European Patent Office. 3. The PCT seems to me to introduce a further complication into an already complicated picture and far from simplifying matters would seem to increase the costs and introduce the possibility of mistakes at an early stage when patent applications are being filed and priority dates claimed.

4. According to the PCT no less than 3 copies of the application are processed. First the international application must be sent to the receiving office, then copies are sent to the searching authority and to the International Bureau. Now, it is the responsibility of the receiving office, and this will be the U.S. Patent and Trademark Office, to transmit the search copy to the International searching authority and the record copy to the International Bureau. A third copy is retained in the receiving office. The U.S. Patent and Trademark Office has done much to improve its clerical procedures, but I am not sure whether it would be wise to file applications at the outset under PCT when this is not necessary. You may have heard of instances where papers have been lost or files misplaced, and the burden is on the applicant to prove that those papers were received in the U.S. Patent and Trademark Office. It seems to me that in the present circumstances it would be far more prudent to avoid having to assume that burden simply by filing our own applications directly in the European Patent Office and bypassing any possibility of "lost applications" or misplaced files. Likewise, if I were filing an application in Japan I would feel more comfortable sending it to my trusted Japanese patent attorney who has never failed to properly file our applications in The Japanese Patent Office. And if the Japanese Patent Office somehow were to misplace an application file I believe that it would be easier to remedy this situation with the aid of our Japanese Patent attorney. Should there be a clerical error or loss of file on this side in the

U.S. Patent office I fear it would be much more difficult to avoid loss of rights.

The conclusion drawn from this discussion is that little use of PCT is likely except in special situations, especially in filing outside of the European Patent Office.

I know that not all of you will share my views on PCT or indeed on the likely scope of use of the European Patent Office. However, I hope that this paper will bring about greater discussion and thoughtful consideration of these exciting developments in the international patent laws with which we are concerned.

Thank you,

FOOTNOTES

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2. Bailie, Iain, Journal of the Patent Office Society, "Where Goes Europe? The European Patent", pages 176-177; See also: Bailie, Iain, Bulletin of the American Patent Law Association, "The Increasing Cost of Foreign Protection", Pages 799-805, December, 1976.

3. "Convention On The Grant Of European Patents," Article 157, § 2(a), Munich, October, 1973.

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Problems on Industrial Property System in South East Asian Coutries

JAPANESE GROUP
COMMITTEE #3
REPORTER HIDEO OZAWA
FUJITSU LIMITED

Introduction:

Gentlemen,

I am very happy to have a chance this time to make a speech concerning problems on industrial property in South East Asian countries. PCT (Patent Cooperation Treaty) will be soon coming into effect and we are now in such a stage as the international industrial property system should be functioned effectively.

Moreover, the developing countries have already proposed various amendments of international industrial property system, asking for much conbribution of such system to industrial development in these countries. Tide of amending the Paris Conventions is one of such proposes.

In such a tide, each country has also individual intention to the industrial property system and I think there are problems to be noted in such intention of each country.

Here, I am going to think about the problems on the industrial property system and tide of it in the South East Asian countries, particularly in China, Korea Taiwan and Thailand, where the developed countries are showing considerable degree of advancement in

the commercial market.

Outlook and problems on Japan-China Trademark Registration Agreement:

We have been informed that twenty three countries (See the attached reference 1) have contracted a mutual agreement with China about trademark protection. As for Japan, five years have passed since restoration of diplomatic relation between Japan and China in Sept. 1972, we do not yet sign any agreement of industrial property, exceptionally in various developed countries. With drastic improvement since restroration of diplomatic relation between two countries, demand on agreement for protection of industrial property has been increased also in the industrial circle in Japan. Recently, negotiation for mutual protection of trademark has come to an end in its outline and agreement will be signed in near future.

Since China is not a member nation of Paris Convention, we must make an agreement in the form of individual treaty. However, industrial circle in Japan high evaluates this trademark agreement as a trigger of mutual protection for total industrial property.

But, there are many legal differences due to the difference in the social system and it is a very important problem to know what kind of protection is ensured for Japanese under the condition of Chinese Preferential policy.

Such problem will be introduced hereunder.

1) Relation with Paris Convention

Perfect protection based on the Paris Convention is certainly the most desirable for Japan. But, mentioned above China is not a member nation as of the Paris Convention. Therefore, we must make an individual agreement for a while.

When considering participation of China into the Paris Convention, in such a current situation that the developing countries are making severe push, saying that "provision for limitation of patent cancellation, article 5 of Paris Convention" is a large obstacle for industrialization in the developing countries, from the viewpoint of supporting the developing countries, China seems to be very critical to this Convention. China's attitude is much expected in future.

2) Role of trademark

Concerning the law of trademark in China, there is a regulation for trademark control set forth in April, 1963.

In this regulation, the article 1 says, "This regulation is set forth in order to reinforce the trademark control and guarantee and improve the quality of maker's products". In other words, this regulation is not aimed at protecting the trademark user, but is mainly used for guaranteeing the

quality of product.

In Japan, quality indication function of trademark means that the product given the same trademark always has the same quality, and any addition is no longer required. But in China, it is essential to positively improve the quality of product and if quality is degraded, registration of trademark will be cancelled by the Government. In addition, although concerning the domestic products, quality of product is supervised and controlled by the industrial and commerce governmental offices. For this purpose, products are checked by the Product Inspection Division, on the basis of the Product Quality Standard.
Where, this cancellation system is not adopted to the foreign manufacturers.

3) Trademark and property

In China, trademark is used for securing quality of product and is not established as the property. Therefore, exchange with money is not admitted and admitted is only the transfer without charge.
But, a registrant of the trademark has the right of possession. Thereby, it is prohibitted that the other person imitate the such trademark. In other words, it is admitted to reject infringement and claim compensation for damage. But, exchange with money between foreigners is admitted.

4) Problems on Procedure

(a) When using the trademark, it is required to make application for registration. There is no duty for foreigner, but it is recommended to register the trademark in question before the use.

(b) When making application from Japan, it is necessary that such trademark is already registered in Japan. Therefore, registration in Japan should be made in such a form as suitable for the application in China.

(c) In China, use of foreign letters is not admitted for the trademark. Therefore, trademark in question seems to be required to devise with expression using Chinese letters.

(d) Products are classified into 78 items and the application should include description of the kind of product, name of product, application and principal material. This means necessity of practically specifying the particular product. Therefore, it is forecasted that we may encounter unexpected difficulty at the time of application to China, unless the trademark in question is registered in Japan by practically specifying the particular product.

Recent Tide in Korean Patent Office in Relation with its Expansion

In Korea, the Korea Patent Bureau was promoted to the Patent Office in March 1977 with increase of staff members up to about 300.

With such expansion of organization, distinctive improvement in examination and judgement services can be expected. Reported here is the recent situation in the Korean Patent Office.

1) Examination condition in Korean Patent Office

In 1972, five years ago, number of patent applications in Korea was 1995 and 618 applications among those were made by foreigners. In the last year, 1976, it was changed up to 3,261 and 1,825 applications were by foreigners. Therefore, increase of patent applications in Korea seems to be almost equal to the increase of applications by foreigners.

On the other hand, in the past, number of patent registrations by foreigners was abnormally small as compared with the number of applications and number of applications/registrations by Korea people. This fact may prove that examination for patent applications by foreigners is particularly delayed. As the reasons why examination for patent applications by foreigners is delayed, following can be considered. The patent applications by foreigners have generally large volume and high grade contents but the Patent Office is

insufficient in the examination references, and examiners are also insufficient in number and capability. Thereby, examination of such patent application is delayed. Moreover, for the patent application by Korean people, examination must be performed after nine (9) months (seven (7) months in case of the utility model application) from the filing date as in the case of application submitted to the ordinary governmental organizations, in accordance with the instructions. Therefore, the patent applications by Korean people is likely to be examined preferentially. In addition to this, for the examination of patent applications by foreigners, extra time is required because approval by the director is necessary.

By the renewal of organization in this time, number of staff members above the officer is increased up to 78 and thereby delay of examination will be gradually compensated. But such delay may not be compensated easily because examination of paent applications by foreigners requires capability of languages and such application has large volume of specification. According to the news we have obtained, the patent applications by foreigners until the year 1973 seem to be examined during this year.

Patent application by Japanese to Korea has become possible since 1974 on the basis of the Mutual protection Treaty for Industrial Property. Therefore, the patent application by Japanese will be examined from the next year, namely, from 1978.

2) Korea's participation in Paris Convention

Korea's patent law admits the priority claim in the industrial treaties. But, the priority claim is not admitted between Japan and Korea.

On the other hand, Japan's patent law admits such priority claim only between the countries participating in the Paris Convention. Therefore, amendment is required for Japan's patent law if an individual agreement as to the priority claim is signed between Japan and Korea, who is not a member nation of Paris Convention. Thus, we think it is after Korea has participated in the Paris Convention that she admits the claim between Japan. Certainly, there is a view that Korea will become a member nation of Paris Convention within the next year, but we think Korea will not become a member of Paris Convention immediately when considering present background. Namely, Korea and USA have signed the mutual protection agreement covering entire field of the industrial property, but she does not still have a mutual protection agreement for design with many other countries including Japan. In other words, if Korea becomes a member nation of the Paris Convention, she must inevitably admit design application from Japan and other countries.

3) Revision of official fee schedule for patent applications and registrations

Moreover, the Korea's Patent Office has revised

variously the official fee schedule for patent applications and registration etc. since May this year. According to this revision, in case of the patent application, additional official fees are required when the specification exceeds the specified pages (20 pages), or in the case of trademark application, additional official fees increase according to the number of specified products when these exceeds a certain number. Such official fee schedule cannot be seen in any other countries.

Therefore, with such revision of the fee schedule, it is necessary to omit unnecessary specified products particularly in the new trademark registration application and registration application for renewal. Moreover, we also think that since the trademark application submitted before May, 1977 specifies all products as the "products specified in this application", unnecessary products must be abandoned before registration.

Problems on trademark in Taiwan

The Taiwan trademark law was amended on July 4, 1972 (herein-after referred to as the amended law, while the law before amendment, to be the old law). In this amended law, substantive enactment of approval condition for licensed use (article 26, article 27) is considered as the item to be noted particularly.

This amendment is considered to be based on the philosophy of protective policy such as promotion of industrial development in Taiwan or development of

foreign markets. When having thought of advancement in the market in Taiwan, we present you a trend of trademark problems in Taiwan. We are very happy if this paper will much contribute to you.

Concerning the amendment, substantive enactment of approval condition for licensed use of trademark, namely, as can be understood from the articles 26 and 27 in the amended law given in the attached sheet, in the old law, (1) guarantee of the same quality and (2) approval of the Trademark Authority are the approval conditions. However, in the amended law, it is required to satisfy the condition specified by the Economy Division on the basis of the demand of economical development in addition to the above conditions.

Regarding the point that the licensed use of trademark must satisfy the demand of economical development in Taiwan, approval examinations are executed in accordance with the following standard specified by the Economy Division.

(1) Product quality is certainly excellent.

(2) Relevant product should be necessary in the domestic and foreign market.

(3) Such license may promote industrial development in Taiwan or develope foreign markets.

The Central Standard Division examines applications for approval of licensed use based on the above approval standards, sufficiently considering the views of related governmental offices and the industrial

circles. In the both the trademark possessors (licensor) and licensee have the nationality of foreign countries, the license of use is generally approved. However, if the licensor has the nationality of a foreign country and the use of this trademark is granted to the licensee having the nationality of Taiwan, examination is very severe and approval has not been given in many cases. Namely, in case of licensing the use of trademark to the company established under the laws of Taiwan, it is difficult to obtain the approval, unless the use of trademark in question can contribute to the industrial development in Taiwan, on the basis of the abovementioned standards.

Some practical approval standards are as follows.

1) Licensed use of trademark concerning investment by foreigner and technical cooperation

A person who has obtained approval of investment by foreigner or technical cooperation is not always approved for the licensed use of relevant trademark. But in such a case, following approval standards are adopted.

a) When a foreign company has established under the law of investment by foreigner a company in Taiwan with the capital investment only by such relevant company, it is admitted that the company established in Taiwan uses with authorization the trademarks which the relevant foreign company has.

b) In case several foreign companies have established under the law of investment by foreigner a company in Taiwan by the joint capital investment, it is admitted the company established in Taiwan can use with authorization the trademark of the company having invested the largest amount of capital and having the contract of technical cooperation approved by the Government with the company established in Taiwan. Where, limitation is given to the term and products of approved technical cooperation.

c) Above two provisions are adopted even where the Government designated capital investment of the people in Taiwan from the political reason to the company described in item a) or b).

d) Concerning the trademark of the foreign company having obtained approval of technical cooperation although not participating in the capital investment, the use of such trademark by license in the cooperated company in Taiwan is admitted so long as specified in Article 1, item 1, No. 1 of the technical cooperation law as "a new product can be manufactured or produced". The term is limited within the term of technical cooperation.

2) Ordinal licensed use of the trademark not related to investment by foreigner or technical cooperation

Treatment is performed in accordance with the abovementioned provisions of the Economy Division.

In case the products having the trademark related to the licensed use are entirely or partly exported the licensed use of the trademark is admitted as a rule for the portion to be exported.

3) Re-application for approval of licensed use

When a renewal application for a trademark right is filed use of which has been licensed to the other person, a re-application for approval of the licensed use of the trademark for said person is also required.

This is based on the followings reasons. In the amended law, as a rule the owner of the trademark right shall not authorize the other person to use the trademark unless the owner shall transfer the trademark to him. Exceptionally, the licensed use is approved only on condition that excellent techniques shall be introduced into Taiwan under the necessity of economical development in Taiwan. Therefore, the licensed use must satisfy the conditions regulated in Articles 26 and 27 of the amended law, so that the technical improvement and the economical development in Taiwan shall be promoted.

4) Others

(a) Application for obtaining approval of licensed use is unnecessary when the branches use the trademark of head office.

(b) Concerning the licensed use of "service mark": The service mark symbolizes "service" and not

"manufacturing of product" and it is contrary to the provision of Article 26 of the Trademark Law. Therefore, the licensed use of service mark is not approved.

(c) When the trademark possessor changes within the effective term of the approved licensed use, such change does not mean that the licensed use by the licensee shall be invalid.

New Thailand Trademark Rule

According to APAA (Asian Patent Atorneys Association) News, the Thai Trademark Office introduced new rules of practice begining October 28, 1976.
The introduction is to speed-up trademark registration (it used to take an year or more to register a mark) and protect the public.

Of the changes one which we think problem is now explained. For the past 45 years, if a previously registered mark was cited against a pending application, the applicant could overcome the citation by obtaining a letter of consent from the registered owner.
However, letters of consent will no longer be accepted whether already on file with the Trademark Office but not yet considered or offered in the future, and the Trademark Office will not consider such consent even as evidence that the cited mark is not confusingly similar.

Thank you

Reference 1

Countries having Trademark Registration Agreements with China:

Great Britain, Italy, Iran, Australia, Canada, Greece, Switzerland, Sweden, Czechoslovakia, Denmark, West-Germany, New Zealand, Norway, Hungary, East-Germany, Finland, France, Belgium, Luxembourg, Thailand, Austria, Spain, Holland

Reference 2

Article 26: (License of use and its indication)

The proprietor of trademark cannot approve the use of this trademark to the others, except for the case of transferring this trademark. However, such licensed use is admitted provided that manufacture of product of other person is subject to the supervision of the trademark proprietor, the product can maintain the same quality as the product of the proprietor, and condition specified by the Economy Division based on the demand for economical development is satisfied, thereby the Trademark Authority has approved.

(2) The licensee of this trademark must give the indication of lisensed use on the relevant product.

Article 27: (Cancellation of approval of licensed use)

When the licensee infringes the provision of the previous article in use concerning the trademark approved for the licensed use, the Trademark Authority can cancell the approval of licensed use upon ex officio or the request of the interested persons.

THE ROLE OF PATENT PROTECTION IN TRANSFER OF TECHNOLOGY TO DEVELOPING COUNTRIES
-Report on WIPO World Symposium in Colombo-

Committee #3
Masaaki Suzuki

INTRODUCTION

World Intellectual Property Organization (WIPO) held a meeting in Colombo, Sri Lanka, from February 21 to 24, 1977, under the title "WIPO World Symposium on the Importance of the Patent System to Developing Countries."

Approximately 200 persons from about 40 countries attended the Symposium and heard 22 lectures given by ten lecturers from industrialized countries and twelve from developing countries. Each lecture was followed by an earnest and helpful discussion.

It was a great honor and pleasure for me to be able to attend the Symposium as a lecturer representing the Japanese industries at the request of WIPO through the Japan Patent Association.

The Symposium had first been scheduled to deal with various problems concerning the importance of

patents in developing countries such as for promoting the establishment of new industries, for the aquisition of up-to-date technology and know-how, and for the petrochemical, pharmaceutical, textile, mechanical and other industries.

Actually, however, participants from both industrialized and developing countries concentrated their discussion on the attitude to the transfer of technology and the relevancy of the patent system to the transfer of technology.

This could somewhat be expected prior to the Symposium from the recent world trend of reviewing national and international patent systems.

BACKGROUND FOR ORGANIZING THE SYMPOSIUM

In recent years, the usefulness of the legal protection of inventions, i.e. the patent system, for the economic and industrial development of developing countries has often been questioned in various circles. The WIPO Symposium was organized in order to examine and discuss such doubts.

For example, at the General Assembly of the

United Nations held in 1961, Brazil and Columbia submitted their draft resolution concerning the role of patents in the transfer of technology to developing countries. In this resolution, they pointed out that the patent systems should be reviewed on the international level to promote the effective transfer of technology to developing countries, and emphasized that the existing patent systems prevented the technological and scientific progress in developing countries and the payment of royalties to foreign patentees imposed a heavy burden on their poor foreign currency.

Then, at the General Assembly of the United Nations held in 1965, a resolution was adopted based on the report of the Secretary-General of the United Nations that studies should be continued to examine the propriety of the existing national and international practices in the transfer of patented and nonpatented technology to developing countries.

Further, on the basis of the resolutions adopted by the 1973 Conference of Heads of States or Governments of Non-Aligned Countries and by the Inter-Parliamentary Council held in 1973, the Working Group of the Pugwash Conferences on Science and World Affairs adopt-

ed in 1974 a draft Code of Conduct on Transfer of Technology. This Code provides the guidelines for general and fair conduct in the international technology market with a view to promoting the international trade related to exclusive technology, ensuring fair prices in the agreements for the transfer of technology and strengthening the technical ability of developing countries through the transfer of technology.

The General Assembly of the United Nations Conference on Trade and Development (UNCTAD) held in 1975 resolved to expedite the transfer of technology to developing countries under fair and reasonable conditions and to promote the improvement of technology and development of national technology in developing countries through the training of technical personnel and improved access to technical documents. They also resolved to assume the responsibility, with WIPO, for revising the Paris Convention in consideration of assistance to developing countries in the field of industrial property, and for drafting model patent laws for developing countries.

As you are well aware, revisions of Article 5A, Article 5quarter and Article 4bis of the Paris Conven-

tion, Preferential Treatment without Reciprocity in Respect of Fees and the Term of Priority, Inventors' Certificate, Unanimity or Qualified Majorities and others have been proposed.

These proposed revisions were discussed at WIPO's three meetings by the Group of Governmental Experts, followed by sessions of the Preparatory Intergovernmental Committee, of which the second session was held in Geneva on June 29 to July 8 this year and the third session will be held in November 21 to 25, 1977.

SUMMARY OF COLOMBO SYMPOSIUM

The Colombo Symposium was opened by an address by Mr. T. B. Ilangaratne, Minister of Trade of Sri Lanka, and closed by an address by Mr. Felix Bandaranaike, Minister of Finance and Justice of Sri Lanka.

At the Symposium, lectures were given by persons representing the industries from industrialized countries such as West Germany, Switzerland, Sweden, United States of America, Soviet Union, United Kingdom, Netherlands, France, Denmark and Japan. Other lectures were given by persons who are, for example, a cabinet

minister, a government official and a central bank man from developing countries such as Sri Lanka, Bangladesh, India, Indonesia, the Philippines and Malaysia.

Each lecture took about thirty minutes to one hour and a half and it was followed by a hot discussion and questions-and-answers for about the same period of time.

The lectures given by persons from industrialized countries may be classified into three groups.

The lectures belonging to the first group stress that the patent system stimulates industrial development and capital investment; that a strong patent functions as a safeguard for enterprises; that patent protection guarantees importation and exportation as well as transfer of excellent technology and related technical know-how; and further that the restriction of importation will not reduce the cost of patented products and the grant of compulsory licenses will not necessarily promote the working of patented technology in the country where it is granted, contrary to the opinion that such restriction of importation and grant of compulsory licenses can promote the working of

patented technology within the country concerned. The speakers of these lectures are of the opinion that patent protection under the traditional patent system which has been effectively utilized for many years is most effective for the promotion of the transfer of technology to developing countries.

The speaker of the second group lecture who is from the socialist bloc reported the examples of assistance to developing countries in the fileds such as petrochemistry, chemistry and metals. His lecture stresses that technology, know-how and facilities should be supplied to those countries, and that technical experts and skilled men should be sent for training technical people there to such extent that the operation by themselves becomes possible. According to this speaker, the patent policy of his country toward developing countries aims to give cooperation in their attaining economic independence and establishing the basic foundation for their own industries, and the patents granted in those countries serve to encourage their national industries as well as to protect the right of the licensees from being infringed by third parties.

The lectures classified into the third group stress that, in the course of technological development and commercialization, the policies should be determined in consideration of the utilization of the effects of the patent system; and also that, in the case where one has insufficient technology, the purchase of existing technology will enable earlier and cheaper commercialization with less efforts as compared with developing such technology by oneself. They further stress that in setting up a manufacturing facility for new products, the cycle of investment in research - development of technology - patent protection - investment in manufacture - production - sales - profits - investment in research again should always be kept in mind and reflected on the policies in business decisions; and that the technology suited to one's technical ability should be selected and transferred from others to be combined with one's own technology, and for this purpose proper evaluation of the technology and patents is required.

My lecture which belongs to the third group of lectures will be summarized below.

Japan decided to give up its national isolation policy in 1868, and then adopted various new policies such as establishment of the new legal system, reformation of the economic system and promotion of industries.

In 1885, our first patent law called "Patent Monopoly Act" was enforced.

Also, Japan was eager to introduce overseas technology, which contributed much to the Japan's rapid industrialization. For example, production of steel and synthesis of ammonia started, in 1901 and 1923, respectively, based on patented technology and facilities introduced from abroad, thus providing the basic foundation for such industries. Recently, the level of the national technology has been so raised that, for example, a method of collecting unburnt components in exhaust gases using the LD process for steel making and a method of synthesizing urea which combines an ammonia synthesizing process and a urea synthesizing process are even exported abroad. However, the amount of license fees

received from abroad in 1974 was only 35.7% (i.e. about 200 million dollars) of the amount paid.

Of the last one hundred years, Japan spent about 40 years for the introduction of excellent technology from abroad and its industrialization. The subsequent 30 years were used for the introduction of overseas technology, improvement of introduced technology and industrialization of improved technology. The progress of the Japanese industries attained during these 70 years owes much to overseas technology introduced under the protection of the patent system, as well as to inventions and research and development stimulated by the patent system.

Fortunately, the Japanese patent system has been, since its birth, a system that guarantees the patentee to exercise exclusive rights conferred by the patent which enabled the introduction of overseas technology most advanced at the respective periods together with the related know-how. A great deal of money had to be paid for the introduction of such technology and know-how. However, evaluating the technical foundation established

in the industries and increased abilities in research and development, Japan has achieved a great deal of benefit indeed.

During the last 25 years, the rapid progress of Japan's industrialization has been attained by combining new technology developed in Japan with most advanced technology introduced from abroad on the basis of the technical foundation then established in the Japanese industries.

Although, in Japan, the amount of license fees to be paid abroad exceeds the amount to be received, excellent technology and high production efficiency have enabled us to maintain the high gross national product and to gain confidence in products made in Japan.

Thus, the Japan's industrialization has been promoted with the aid of the patent system during these one hundred years. Nowadays, remarkable progress has been made both in communications and transportation and desired technical information and facilities are easily and rapidly available. Therefore, the industrialization to be

started now would be able to be accomplished only within 30 to 50 years rather than 100 years, by positively encouraging inventions and effectively utilizing transferred technology. For this purpose, the patent system is the most important tool.

This was the content of my speech, which received various comments. Many participants commented that my speech presented the analysis of the process of Japan's industrialization by raising many facts which helped them understand the contribution of the patent system to the development of industries. On the other hand, some were of the opinion that the Japan's case would not always be applicable to other countries in view of the education which had already prevailed to some extent in Japan, a certain level of technical abilities already attained and the diligence of the Japanese people.

The lectures given by persons from developing countries related to their governmental policies regarding transfer of technology rather than the opinions representing their industries.

The lectures by persons from developing coun-

tries may be classified into the following two groups.

The speakers of the first group lectures came from the countries such as India and the Philippines already having the industrial foundation in the fields of, for example, a typewriter and certain kinds of machine tools which have been developed in their own countries. This group is different from the second group in that, while they recognize the importance of the transfer of technology, they take much precaution against matters which would be against the interests of their technical foundation now existing.

The second group lecturers have the opinions almost common to developing countries that the patent system is useful because the patented inventions by foreign applicants serve to encourage their own research and development and to promote their industries. However, as to the relevance of the patent system to the transfer of technology, they point out that the technology granted in their country to foreign patentees only serves to guarantee the import of products from foreign countries. So, they desire to have the patent system which guarantees the working of patented technology within the country where it is granted and for

the same purpose to revise the Paris Convention.

GENERAL ATTITUDE OF DEVELOPING COUNTRIES

As already mentioned, the developing countries have been stressing before the public the importance of the transfer of technology and appealing the heavy burden of patent protection imposed on them in connection with such transfer of technology, on the occasions of the General Assembly of the United Nations and meetings of the organizations of the United Nations.

The problems common to developing countries are well expressed in the opening address by Mr. T. B. Ilangaratne, Minister of Trade of Sri Lanka, made at the Colombo Symposium, which will be cited here rather in detail.

> Developing countries can be persuaded to accept the usefulness of the patent system only if massive transfer of technology on adequate terms is assured to accelerate the development of developing countries.

The current exercise in revising the Paris

Convention will lead to positive results on these lines and during the discussions will emerge a series of general principles to govern the revision of the existing patent system.

The patent system has traditionally been regarded as playing a positive role in the fulfilment of a number of functions connected with social and economic growth. Also, the patent system, together with other legal systems, would promote the technological progress, transfer of technology and industrial development. However, the fact is that these objectives have hardly been achieved.

Foreign predominance in national patent systems cast serious doubt on the basic justification for regarding them as instruments to stimulate the development of local innovative ability.

The unequal share of the benefits of the patent system enjoyed by foreign enterprises reflects in part an inequality in basic technological strength.

The patent system has served to hamper

national activity of developing countries owing to various effects of its legal structure. However, of even greater concern is that the contribution being made by the patent system to the industrial development of developing countries is negligible because of failure to work patents there.

Almost all of the patents in foreign hands are essentially part of the strategy of multinational corporations which apply for them chiefly in order to protect local markets from domestic and foreign competition.

The present situation calls for a revision of the patent laws and administrative practices in developing countries so that these are compatible with other policy instruments for national development and also calls for a revision of the international patent system with the object that such reform should strengthen the sovereignty of developing countries in regulating the transfer of technology in accordance with their own laws.

TRANSFER OF TECHNOLOGY IN DEVELOPING COUNTRIES

As is apparent from above, developing countries wish the patented invention to be actually worked in the country where it is granted. In other words, they do not wish the patent right granted there to be exercised only for the benefit of importation of patented products under the protection of the patent.

Developing countries also criticize that in local working by subsidiaries of multinational corporations and joint enterprises, decisions as to the purchase of materials and facilities, loan of money, personnel affairs and so on are usually left to instructions from their head offices and the opinions of developing countries are not reflected, which prevents the patented technology from being locally worked in developing countries.

Therefore, they earnestly desire the adoption of Model Laws for the Industrial Development Patent (IDP) and other types of patents as well as the revision of the Paris Convention, both being under study by WIPO.

As to the transfer of technology, developing countries strongly desire the transfer of know-how along with patented technology for the effective working of such technology, and the adoption of the Code of Conduct for the purpose of their economic stability. Also, they adopt various national policies for protecting the interests of their own.

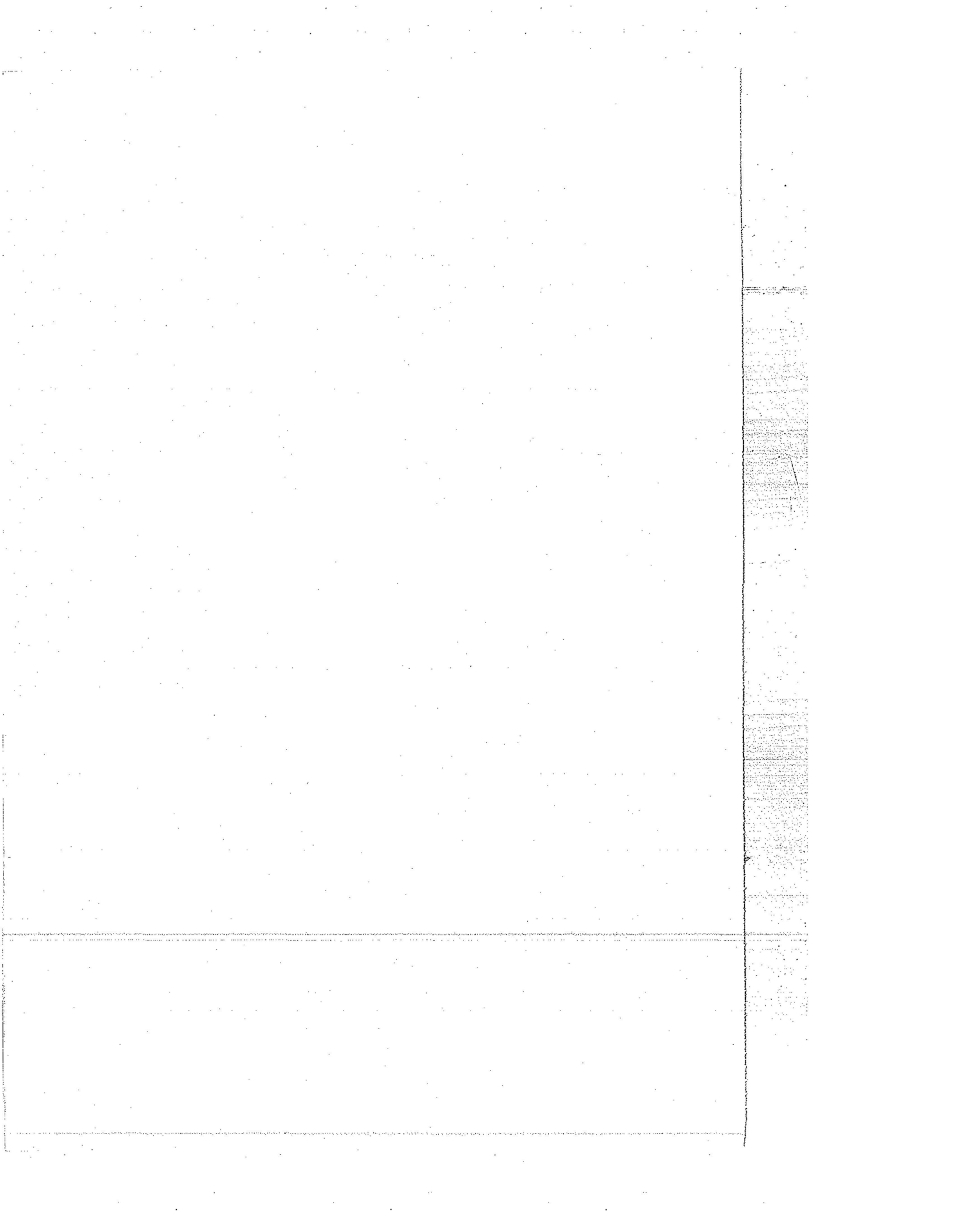
For example, in developing countries, registration is required in investment and licensing by foreignors; the investment for the purchase of existing companies or stocks in an amount exceeding the prescribed value is prohibited; licensing in a certain fields of technology is not allowed; different taxes are placed on royalties of not more than and not less than a certain proportion(e.g.2%); the remittance of royalties to foreign countries is restricted; and the employment of a native person as a manager is obligated.

There is no doubt that developing countries have, in common, an earnest desire for the transfer of technology for the purpose of their industrial development, although their policies are different in various countries. They say that the transfer of technology is important to them for the promotion of employment

(half of the educated people have no proper jobs), training of technical personnel and gaining of profits.

Committee Presentations
(Committee #4)

° East-West Arbitration and Conciliation Procedres.
--- G.Aksen---------409



OUTLINE OF PRESENTATION

TO

PACIFIC INDUSTRIAL PROPERTY ASSOCIATION

EIGHTH INTERNATIONAL CONGRESS

WILLIAMSBURG, VIRGINIA

OCTOBER 14, 1977

EAST-WEST ARBITRATION AND CONCILIATION PROCEDURES

I. ARBITRATION

. *Clauses are standard practice*

. *Institutions in place*
FTAC, ICC, AAA

. *U.S.-USSR Trade Agreement of 1972*

. *U.S.-Polish Trade Agreement of 1972*

. *Treaties - 1958 Convention of Recognition and Enforcement of Foreign Arbitral Awards*

. *Available Choices*

- *FTAC*
- *Country of defendant*
- *Neutral country*
- *Third country under institutional rules, eg. ICC, AAA*
- *No rules*
- *UNCITRAL Rules*

. *Choosing arbitrators*

- *number*
- *nationality*
- *tri-partite*
- *by appointing authorities*
- *expertise v. legally trained*

. *Use of Rules*

- *Institution v. "hotel room"*
- *Rules*
- *Time frames*
- *Administration*
- *Ex parte*
- *Substitute arbitrators*

. *Governing Law*

- *Laws of a country*
- *Principles of conflict of laws*
- *Customs of world trade*
- *"Material law"*
- *Substantive contract law*
- *Federal code of obligations*
- *Ex aequo et bono*
- *Equity and justice*

. *Technical or Engineering Disputes*

- *Speed*
- *Need for qualified experts*
- *Splitting issues*

II. *INTERNATIONAL CONCILIATION*

. *Reasons for use*

- *New trade with eastern bloc countries*
- *Lack of familiarity with customs and usage*
- *Advantages of non-binding decisions*
- *Language problems*
- *Difference in sophisticated technology*
- *Lack of competent, technical arbitrators - particularly in high technology subject matter.*

. *Conciliation procedures in place*

- *Romania*
- *Bulgaria*
- *Poland*
- *Hungary*

. *Role of U.S. Chamber of Commerce*

- *Joint Economic Councils*
- *Need for impartial conciliation*
- *Naming neutral administrator*

. *Optional Conciliation Rules*

- *Creating Conciliation Commission*

  Panel of joint conciliators

  Term of service

  Persons of judicial temperament

  Naming administrators

  . *Procedures for conciliation*

    - *filing papers, fees, number of copies, responses, extensions of time, location of meetings, oral hearings, representation, expert advice.*

. *Proposed Solutions*

- *In writing, time limits to accept or decline*
- *Draft protocol, fees for conciliators*

. *Failure to Conciliate*

- *Parties arbitrate or litigate*
- *Secrecy of conciliation procedures*
- *Conciliator cannot serve as arbitrator*

. *Costs*

- *$100 per party registration fee*
- *Conciliator per diem*
- *Deposit*

- *Optional Conciliation Clause*

"If a dispute arises out of or in connection with, or results from this contract, its application or interpretations, and if said dispute cannot be settled through direct discussions, the parties will address themselves to the Conciliation Commission established by the Bulgarian-U.S. Economic Council, in order to settle the dispute in an amicable manner under the Optional Conciliation Rules adopted by the Council, before having recourse to an arbitral or judicial procedure."

When drawing up a contract, the parties to the contract may, on mutual agreement, insert into said contract a clause reading as above.

BULGARIAN-U.S. ECONOMIC COUNCIL OPTIONAL CONCILIATION RULES

I

Conciliation Commission

1. Any business dispute of an international character may be the subject of a request for settlement by conciliation under the auspices of the Bulgarian-U.S. Economic Council (the "Council") in accordance with these rules, if the parties have so provided in their contract or if they subsequently agree to such procedures.

2. A Conciliation Commission shall be established in accordance with these rules from whose membership conciliators may be selected for the settlement of disputes.

3. The Conciliation Commission shall consist of six members, three Bulgarian and three American, appointed for a period of three years by the plenary session of the Council. The American members shall be nominated by the Chairman of the American section of the Council and the Bulgarian members shall be nominated by the Chairman of the Bulgarian section of the Council.

4. The members of the Conciliation Commission shall be persons of judicial temperament having a thorough knowledge of foreign trade and commercial matters. Members of the Conciliation Commission may be reappointed for additional three-year periods at the expiration of their periods of service.

5. The organization administering the conciliation will be--in the United States, the American Arbitration Association and, in Bulgaria, the Arbitration Court at the Bulgarian Chamber of Commerce and Industry--hereinafter referred to as the Administrators. The two secretariats of the Council will communicate to these Administrators the names, professions and addresses of the members of the Conciliation Commission.

II

Conciliation Panel

For each dispute, a Conciliation Panel shall be established, consisting of one conciliator chosen by each party from among the members of the Conciliation Commission. As an alternative procedure, both parties may, by mutual agreement, select one conciliator from among the members of the Conciliation Commission to serve as the sole member of the Conciliation Panel.

III

Request for Conciliation

1. The party making a request for conciliation shall apply to the Administrator of his choice (the "Competent Administrator"). The application shall include the name and address of the parties, the object of the dispute, the factual and legal grounds governing the dispute, the evidence upon which the party relies, and the name of its chosen conciliator. All relevant contracts and other documents shall be annexed to the application. Applications shall be submitted in four copies. The Competent Administrator will register the application, collect the conciliation fee in accordance with the schedule attached hereto, and submit to the applicant the information contained in Section II with respect to the members of the Conciliation Commission and the method of selecting conciliators.

2. After registration of a request for conciliation, the Competent Administrator will send a copy of the application to the other party, inviting it to participate and setting forth the applicable fee. The Competent Administrator will likewise submit to the other party the pertinent information with respect to the Conciliation Panel and conciliators.

IV

Response

1. The other party shall have thirty days from its receipt of the invitation from the Competent Administrator to file a response.

2. Such Response shall be submitted in four copies, shall list the name and address of the party, its view of the case, any evidence upon which it relies, and the name of its chosen conciliator. The Response shall be accompanied by the appropriate fee. Upon receipt of the Response, it will be registered by the Competent Administrator and a copy thereof shall be sent to the other party.

3. Any requests for extensions of time in filing the Response shall be directed to the Secretary of the Competent Administrator.

4. If the request for conciliation is rejected, or if the other party fails to reply within thirty days, as that period may be extended, the Competent Administrator shall close the file and make the necessary arrangements for the return of the fee and any documents to the applicant.

V

Actions of Conciliation Panel

1. Upon registration of the Response, the Competent Administrator shall transmit all relevant documents to each conciliator appointed by the parties.

2. The Panel, after consultation with the parties, shall fix the time and place of Panel meetings. If Bulgaria is chosen, the location will be the headquarters of the Arbitration Court in Sofia.

3. The Panel members shall acquaint themselves with the details of the case and shall request any additional information required from the parties.

4. The Panel shall hear the parties, if possible, and the parties may appear in person or be represented by duly authorized agents. The parties may also be assisted by counselors, solicitors, or other advisors.

5. The Panel may obtain any necessary expert advice concerning technical aspects of the dispute, provided the parties agree to share equally the expenses of such advice.

VI

Proposed Solution

1. After having examined the case, the Panel shall propose to the parties, in writing, a solution to the dispute. The parties are free to accept or decline the proposed solution. Within thirty days of receipt of the proposed solution, each party will communicate, in writing, to the Conciliation Panel, whether or not it accepts the proposed solution.

2. If the solution is accepted, the Panel shall draft a protocol, to be dated and signed by each Panel member and the parties, stating that the dispute has been settled in accordance with the solution. If the solution has been rejected, this fact shall be noted and a protocol shall be signed only by the Panel members. The protocol shall be drafted in three copies, one for each party and one for the Competent Administrator.

3. Upon receipt of the protocol, the Competent Administrator shall determine the fees due to the members of the Conciliation Panel.

VII

Rights of Parties if Settlement Not Reached

1. Should the conciliation solution be declined, the parties shall be free to refer their dispute to arbitration or to an action at law, unless they are bound by an arbitration provision in their contract.

2. Nothing that has transpired in connection with the conciliation proceedings is intended in any way to affect the legal rights of any of the parties to the dispute, whether in arbitration or in a court of law, and each party shall agree that no statement made by or on behalf of a party to the conciliation proceedings shall be utilized in any other proceedings without the consent of the party making the statement.

3. Any person agreeing to sit as a member of the Conciliation Panel for the settlement of a dispute shall agree that he will not accept appointment as an arbitrator for the same dispute.

VIII

Schedule of Conciliation Fees

1. Registration Fee

Each party to a dispute submitted to the Competent Administrator shall be liable for a registration fee of $100 and no application will be entertained unless accompanied by this deposit.

The registration fee is not recoverable and becomes the property of the Administrator with which it is filed.

2. Costs of Conciliation

a) The Competent Administrator will negotiate with the conciliator or conciliators and the parties a reasonable fee to be paid to the former by the parties. In the event no agreement can be reached, then the Competent Administrator shall fix a reasonable per diem for each conciliator between a minimum of US $100 and a maximum of US $300.

b) Before a disposition of the conciliation, the parties shall each deposit half of the fee covering the cost of conciliation and of any appropriate additional sums the Administrator deems necessary to defray the expenses of the conciliation. When the conciliation is concluded by settlement or terminates because the conciliation was unsuccessful, the Administrator shall render an accounting and divide any unexpended balance between the parties.

IX

Optional Contract Clause

When drawing up a contract, the parties to the contract may, on mutual agreement, insert into said contract a clause reading as follows:

> "If a dispute arises out of or in connection with, or results from this contract, its application or interpretations, and if said dispute cannot be settled through direct discussions, the parties will address themselves to the Conciliation Commission established by the Bulgarian-U.S. Economic Council, in order to settle the dispute in an amicable manner under the Optional Conciliation Rules adopted by the Council, before having recourse to an arbitral or judicial procedure."

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Arbitration

By Gerald Aksen

International Arbitration Received Favorably in U.S.

This column is written by members of the American Arbitration Association as a regular feature of the Law Journal. Mr. Aksen is general counsel of the AAA.

The single most important event in the development of international arbitration in this country was accession by the United States in 1970 to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards. In a sense, it was a "double barrelled" declaration of executive and legislative recognition of the enforceability of both agreements to arbitrate and of arbitration awards in the field of international commerce. Not only did the Government, through its treaty-making authority and procedures, declare such recognition to be a matter of United States public policy, but further Congressional support was afforded this country's adherence to the U.N. Convention by a new amendment to the United States Arbitration Act which added a separate chapter to deal expressly with arbitrations between nationals of the United States and all other countries which are parties to the Convention.[1]



It is not surprising, therefore, that recent federal decisions have fashioned a special place for international arbitration agreements and any resultant foreign awards. A brief review of some decisions will demonstrate the emerging United States attitude toward nondomestic arbitral law.

In theory, the U.N. Convention attempts to provide transnational arbitration clauses with the same presumption of validity as is found in domestic contract law. American lawyers are quite familiar with the concept that pre-dispute arbitration clauses in contracts are "valid, irrevocable and enenforceable". That language has been in the Federal Arbitration Act since 1926, when it was first enacted. In practice, however, the courts are moving toward establishing a standard even more favorable to arbitration when faced with construing arbitration clauses and enforcing awards that fall under the Convention.

High Court Ruling

Take, for example, the well established domestic rule that some questions are not arbitrable. In *Wilko v. Swan*,[2] the Supreme Court of the United States decided that a customer could sue his broker in court for damages under the 1933 Securities Act despite an arbitration clause in the margin agreement. In so deciding, the Supreme Court had to balance two policies that were "not easily reconcilable." On the one hand, the Federal Arbitration Act stresses the need for avoiding the delay and expense of litigation and directs that such agreements be specifically enforced. On the other hand, the Securities Act was "designed to protect investors" and to require "issuers, underwriters, and dealers to make full and fair disclosure of the character of securities sold in interstate and foreign commerce and to prevent fraud in their sale" by creating a "special right to recover for misrepresentation." Since the Securities Act also contained a "non-waiver" provision, the Court struk the balance in favor of litigation and held the advance agreement to arbitrate any subsequent securities dispute to be unenforceable.

More recently, in 1974, the Supreme Court departed from this nonarbitrability rule where an international transaction was involved. *Scherk v. Alberto-Culver*[3] involved a foreign business purchase by an American firm. The sale took the form of a stock transaction at the request fo the buyer, Alberto-Culver. The contract contained a broad arbitration clause a calling for arbitration in Paris. Nearly a year after the purchase, the buyer allegedly discovered certain trademark encumbrances that might restrict their use. Alberto-Culver then commenced an action in the Federal district court seeking damages and other relief. The complaint alleged that the foreign seller fraudulently misrepresented trademark rights and, in so doing, violated Section 10(b) of the Securities Exchange Act and Rule 10 b-5 promulgated thereunder.

Scherk, in essence, moved to stay the litigation pending arbitration pursuant to the parties' agreement. Both the District Court and the Seventh Circuit Court of Appeals refused to stay the suit. They relied entirely on *Wilko v. Swan*. The Supreme Court reversed and held that "the provisions of the Arbitration Act cannot be ignored in this case," where the contract is a "truly international agreement."

While the Court in *Scherk* did not rest its decision squarely on the U.N. Convention, it drew support from its adoption:

Convention Cited

"Our conclusion today is confirmed by international developments and domestic legislation in the area of commercial arbitration subsequent to the *Wilko* decision. On June 10, 1958, a special conference of the United Nations Economic and Social Council adopted the Convention on the Recognition and Enforcement of Foreign Arbitral Awards. In 1970 the United States acceded to the treaty, [1970] 3 U.S.T. 2517, T.I.A.S. No. 6997, and Congress passed Chapter 2 of the United States Arbitration Act, 9 U.S.C. Sec. 201 et seq., in order to implement the Convention. Section 1 of the new chapter, 9 U.S.C. Sec. 201, provides unequivocally that the Convention 'shall be enforced in United States courts in accordance with this chapter.'

"The goal of the Convention, and the principal purpose underlying American adoption and implementation of it, was to encourage the recognition and enforcement of commercial arbitration agreements in international contracts and to unify the

standards by which agreements to arbitrate are observed and arbitral awards are enforced in the signatory countries . . .

"Without reaching the issue of whether the Convention, apart from the considerations expressed in this opinion, would require of its own force that the agreement to arbitrate be enforced in the present case, we think that this country's adoption and ratification of the Convention and the passage of Chapter 2 of the United States Arbitration Act provide strongly persuasive evidence of congressional policy consistent with the decision we reach today."[4]

In fashioning a different rule for international arbitration the Court has elevated international clauses above domestic agreements and demonstrated the "good faith" of the United States in honoring its treaty commitments under the U.N. Convention.

Subsequent Federal court decisions have followed the *Scherk v. Alberto-Culver* lead in favoring enforcement of international arbitration agreements. Thus, the Second Circuit refused to permit a Pennsylvania company to renege on its arbitration agreement with an Italian corporation. The American sought to attach the foreigner's property in Pennsylvania as part of a court action seeking damages for alleged breach of an international distributorship agreement. Viewing the lawsuit as a violation of the arbitration agreement and as inconsistent with the purpose of the U.N. Convention and Chapter 2 of the U.S. Arbitration Act implementing it, the court ordered the attachment discharged and referred the disputed claims to arbitration.[5]

Boycott Case

Recently a Federal court had to balance the U.N. Convention against a possible "Arab boycott" charge. In *Antco Shipping Co., Ltd., v. Sidermar S.p.A.*,[6] one party sought to avoid arbitration where a contract of affreightment excluded Israel from Mediterranean loading ports. Thus, the argument ran, the entire contract, including the arbitration clause, was illegal and unenforceable because it contravenes the "public policy" of the United States, as embodied in its Export ..... Administration Act of 1969, which opposed discriminatory trade practices and boycotts against friendly countries. The other party denied any illegality and appealed to the "public policy" of the United States that encourages and enforces international arbitration agreements. In a well-reasoned opinion, Judge Haight found that the "excluding Israel" language in the contract did not offend the public policy of the United States for a number of reasons. Since the affreightment contract was between an Italian shipowner and a Bahamian charterer, it did not "in any meaningful sense" involve United States exports or exporters. But, going beyond this point, the court paid significant attention to the public policy attitude fostered by the U.N. Convention and recognized by the U.S. Supreme Court in *Scherk v. Alberto-Culver*.

In balancing that policy against this country's disapproval of Israeli boycotts, the court looked at the language of the Export Administration Act which states that: "It is the policy of the United States (A) to oppose restrictive trade practices or boycotts fostered or imposed by foreign countries against other countries briendly to the United States . . ."

In a bit of judicial philosophizing, the court stated: "The nation speaks in different tongues and at different times; cases arise where the determination of public policy must be a distillation of several government utterances." Judge Haight then found the policy favoring arbitration to hold sway under these circumstances. The U.N. Convention provision (Art. V, 2 (b)), which permits a court to refuse enforcement of an arbitral award if to do so "would be contrary to the public policy of the (forum) court," he declared was to be construec "narrowly."

Validity of Agreement

The court also faced the question of whether arbitration should be denied because the agreement was "illegal." Under the U.N. Convention a court must refuse to compel arbitration, if it "finds that the said agreement is null and void, inoperative or incapable of being performed (Art. II, 3). While the phrase "null and void" opens the door to an argument for nonenforcement based on illegality, the court construed this to mean that the "essence of the obligation or remedy is prohibited by a pertinent statute or other declaration of public policy." It found no such showing in the case at bar. Even "assuming arguendo that the exclusion (of Israeli ports) in some manner contravenes public policy as expressed in the Export Regulation Act, it still falls far short of entirely forbidding . . . performance under this contract."

Another example of favoring international arbitration over court proceeding was found in a recent case from the District of Columbia Court of Appeals[7] involving the determination of whether a claim arising from assignment of a patent was barred by a statute of limitations. The dispute concerned the assignment by French citizens to an American corporation of a patent for weaving hosiery. The patent expired in 1969, and in 1973 a question arose over royalty payments. The contract called for "all disputes to be arbitrated." When one party sought arbitration, the other sought declaratory relief in court. The Federal District Court held that any claim arising from the patent assignment was barred by the District of Columbia statute of limitations.

Upon appeal, the D.C. Court of Appeals reversed; citing *Scherk*, it found that Federal courts have recognized a strong Federal policy in favor of voluntary commercial arbitration. It also cited a previous Supreme Court decision leaving the question of laches to arbitration[8] and found no basis for treating a statute of limitations question differently. It concluded that "the strong policy in facor of arbitration, especially in international commerce" gave "legal force to the parties' arbitration agreement as it eocompasses the statute of limitations question."

Favorable Attitude

The cases treated so far indicate the current favorable attitude of United States courts in enforcing agreements to arbitrate international disputes since the adoption of the U.N. Convention. Equally compelling are recent Federal court rulings enforcing foreign arbitral awards. Although none has reached the Supreme Court, several Circuit Courts of Appeal have liberally interpreted the Convention to accord full recognition of international awards sent here for enforcement.

One of the most interesting cases involved construction by an American corporation of a paperboard mill in Egypt.[9] Work was interrupted by the Arab-Israeli War in 1967. The Egyptian government broke diplomatic ties with the United States and ordered all Americans expelled except those who would apply and qualify for a special visa. The American firm abandoned the project temporarily, regarding its action as excused by the "force majeure" clause in the contract. The Egyptian company disagreed and, following arbitration of the dispute, obtained an award from the International Chamber of Commerce. The award essentially granted damages for delay in performance beyond the period recognized as justified in the "force majeure" clause of the construction contract.

The District Court confirmed the award under Chapter 2 of the U.S. Arbitration Act. An appeal was taken on

five separate grounds, four of them derived from the express language of the U.N. Convention. The fifth was arguably implicit in the Convention. These were: 1) enforcement would violate United States public policy;[10] 2) award represents an arbitration of matters not appropriately decided by arbitration;[11] 3) arbitrators denied the party adequate opportunity to present its case;[12] 4) award is beyond the scope of the arbitration agreement;[13] and 5) award is in manifest disregard of the law.

Award Upheld

The court upheld the award against all these defenses, indicating that the U.N. Convention's "basic thrust was to liberalize procedure for enforcing foreign arbitral awards." What may prove most helpful to winning parties in international arbitrations is the court's indication that the U.N. Convention, unlike the 1927 Geneva Convention, clearly puts the burden of proof on the party seeking to upset the award.

The case should be read for its many ramifications concerning United States enforcement of foreign awards. However, the "standout" feature of the case is its statement that the U.N. Convention's public policy ground for refusing to enforce awards[14] "should be construed narrowly." Thus, the court stated that the appellant plainly missed the mark in equating national policy with United States public policy. A "circumscribed public policy doctrine was contemplated by the Convention's framers and every indication is that the United States, in acceding to the Convention, meant to subscribe to this supranational emphasis."

Still another recent case demonstrates that international awards covered by the Convention are also treated differently from domestic awards when one of the parties becomes bankrupt.[15]

Japanese Arbitration

In a dispute over allegedly defective cameras, a Japanese corporation, started arbitration proceedings under the rules of the Japan Commercial Arbitration Association against an American purchaser. Both parties participated in numerous hearings held in Japan. Before the final arbitration session took place, the American firm filed for bankruptcy before a bankruptcy court in the United States. The bankruptcy judge issued the usual order staying all proceedings by creditors, including arbitrations. The arbitrators nevertheless continued with the arbitration and rendered an award in favor of the Japanese party. The latter then filed the award as proof of claim in the bankruptcy proceedings. The referee held, however, that the bankruptcy court would have to reconsider the merits of the underlying dispute.

On appeal, the Federal district judge reversed the referee's order, ruling that the restraining order of the bankruptcy court had no extraterritorial effect as such; that the award, rendered in Japan after the stay of all proceedings, was a final judgment under Japanese laws; and that the U.N. Convention entitled the Japanese party to seek confirmation of its award as a judgment in the United States. The district judge further observed that an American corporation, facing unfavorable arbitrations abroad, may not file for bankruptcy arrangements in the United States to avoid final and binding arbitrable judgments abroad (which it could have done if the order staying all proceedings had had extraterritorial effect).

On appeal, the Second Circuit affirmed the District Court's decision. Neither the Convention nor the U.S. Arbitration Act, said the court, indicates what should be done in the event of the bankruptcy of one of the parties to an arbitration. The "public policy" limitation of the Convention is to be construed narrowly and to be applied only when enforcement would violate the forum state's "most basic notions of morality and justice." Thus, the Japanese party was permitted to seek confirmation of its arbitration award by judgment in the United States courts and, if successful, could thereafter file a proof of claim in the bankruptcy proceedings based upon the judgment so obtained.

There is also a side issue in the *Fotochrome* case that re-emphasizes different standards for international agreements. The award was made on Sept. 18, 1970. The United States did not accede to the Convention until a few months later. The question that immediately surfaces is whether the U.N. Convention has a retroactive effect on contracts and awards entered into prior to the accession date. This question now appears resolved both by this case and *Alberto-Culver*. In *Fotochrome* retroactive application was given the award and in *Alberto-Culver* retroactive effect was given the arbitration agreement entered into prior to accession. This result would not be possible under domestic law. The U.S. Arbitration Act explicitly states that "This Title shall not apply to contracts made prior to Jan. 1, 1926" — the effective date of the Federal Act.

Adherence to Concept

In conclusion, United States courts have clearly demonstrated to the world their full-fledged adherence to the concept and use of arbitration in the settlement of international disputes. Decisions have demonstrated the utmost "good faith" on the part of our courts in construing the terms of the U.N. Convention. Indeed, the courts will enforce arbitration clauses in international trade in circumstances where the same agreements would have been denied enforcement between purely domestic parties. The U.N. Convention's public policy grounds for refusing enforcement to foreign awards must be narrowly construed by the courts of this country if Americans are to be accorded similar treatment in foreign courts. Finally, the Convention's retroactive effect is consistent with the negotiating history of the Convention.

The U.N. Convention and Chapter 2 of the Federal Arbitration Act do not remove all obstacles to enforcement of foreign arbitral agreements and awards. The courts still reserve certain legal issues for legal interpretation and decision.[16] On balance, however, our Federal courts have afforded the U.N. Convention a healthy start. More than ever before we are seeing the groundwork of a truly international regime of arbitration based more broadly on the autonomous will of international contracting parties than on national statute or public policy.

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(1) Pub. L. 91 368 of July 31, 1970 9 USC Sec. 201-208.
(2) 346 US 427 (1953)
(3) 417 US 506 (1974)
(4) 417 US at pp. 520-521, n. 15, 94 S Ct at pp. 2457-2458.
(5) 501 F2d 1032 (3rd Cir 1974).
(6) 417 F Supp 207 (SDNY 1976).
(7) Hanes Corp. v. Millard, 531 F2d 585 (DC Cir 1976).
(8) International Union of Operating Engineers Local 150 v. Flair Builders, Inc., 406 US 487 (1972).
(9) Parsons & Wh. Ov. Co., Inc. v. Societe G. de L. du P. (Rakta), 508 F2d 969 (2d Cir 1974).
(10) Art V (2) (b).
(11) Art V (2) (a).
(12) Art V (1) (b).
(13) Art V (1) (c).
(14) Art V (2).
(15) Matter of Fotochrome, 377 F Supp 26 (EDNY 1973), affd 517 F2d 512 (1975).
(16) For recent international cases denying arbitrability in antitrust cases, see Hunt v. Mobil Oil Corp., 410 F Supp 10 (SDNY 1976); Sam Reisfeld & Son Import Co. v. S.A. Intego, 530 F2d 679 (5th Cir 1976). For an example of nonarbitrability of patent infringement and validity cases, see Hanes v. Millard, at n. 7, supra.

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