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CURRENT INTERNATIONAL ISSUES

The Foundation has been engaged in a continuing series of studies of international transactions concerned with the significance of industrial property and related rights in the past development and in the current operation and future course of the world enterprise systems. In earlier issues we have published articles, reports and notes on this topic. At present the Foundation is concentrating in the European Economic Community area on the affects of developments in the European Common Market on American industrial property interests, and is engaged in a series of exploratory studies on industrial property in Latin America. In view of the imminence of Great Britain's joining the Common Market, the first two papers in this section on Current International Issues are devoted to Great Britain and the Commonwealth countries. We believe our readers will find them a useful contribution to the information available in these areas. As the Foundation is alert to the nature of and changes in the industrial and related property systems of the U.S.S.R. and other Iron Curtain countries, the third article on "Innovator's Payment Determination in the U.S.S.R." is included to supplement the spectrum of information already made available to our readers in previous issues of the Journal.

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Industrializing Latin America: A New Frontier for Industrial Property Transactions

L. JAMES HARRIS *

NEW OPPORTUNITIES

A NUMBER OF STRIKING EVENTS TAKING PLACE IN THE WORLD point up certain attractive economic opportunities unfolding in Latin America. Historically, American entrepreneurs and investors have played a large part in organizing the Latin American market. Since World War II the United States has supplied on the average over half of their imports—while less than a third has come from Europe, and about 2 percent from Asia. Moreover, from 1938 on, the United States has provided more and more people and money to carry on technical and scientific assistance programs [1] there. It would seem natural, therefore, for us to want to join more fully with Latin America in developing its new frontier. The Patent, Trademark and Copyright Foundation has followed these emerging opportunities, and now deems it appropriate to study [2] the practices and problems of our southern neighbors with respect to industrial and related properties [3] so that sound and timely decisions can be made for future wholesome development.

Although United States foreign trade has been increasing, our share of world trade has been declining. Such factors as economic aid, military spending, private investment and tourist spending have been responsible

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* Executive Director of the Foundation.

[1] George Wythe, "Latin America—Economic Factors," *Encyclopedia Americana,* Volume 17, 1962 edition, pp. 14-19.

[2] "Mr. Moscoso said the biggest obstacle to the program has been that Latin American nations do not have sufficient trained technical personnel to diagnose their troubles and prescribe where to apply aid funds.

'It is like coming to the rescue of a person crying for help and his not being able to tell you immediately what he needs,' Mr. Moscoso said. 'Planning for help is the most important preliminary step there is. An aid plan can be successful only to the degree of preparation." "Inter-American Bank Seeks Latin Export Aid," *The Washington Evening Star* (April 27, 1962).

[3] *"intellectual property.* Intangible creations of the mind, including inventions, useful "know-how," technical and ornamental designs, and literary, art and other products of man's ingenuity." *Patents, Research and Management* edited by Howard I. Forman, Central Book Company (1961) p. 569. The term industrial property is sometimes used interchangeably with intellectual property. Generally, however, industrial property is limited to intellectual property other than literary or artistic creations.

for an unfavorable balance of approximately $2.5 billion in 1961.[4] Our Asian trade balance is already highly favorable, our African trade relatively negligible and likely to remain so for years to come. The principal change will have to be made in our Latin American trade to offset the inevitable matching or even reversal of our now favorable trade relationship with Europe when the Common Market and associated European countries realize their fast growing potential as their economic and political alignment takes shape.

The outlook for accomplishing a sizeable increase of trade with Latin America is, of course, very promising—and, with this increase, the expansion of traffic in industrial property rights—despite competition from Japan, the Communist bloc and undoubtedly increasing competition from the Common Market. The Latin American countries, exhibiting an extraordinary rate of economic growth, have welcomed[5] foreign investment since World War II. There have been exceptions due, in part, to the understandable hesitation of foreigners to invest in certain politically charged sectors—and also due to the not too subtle "dissuasion" by the nationalists. Since foreigners were reluctant to invest in these long term growth industries, such as power and transportation, the Latin Americans have turned to the international lending agencies for assistance.[6] Perhaps even more important for expansion of our trade in this area is the timing: these countries are now dependent on foreign markets to a far greater extent than more developed nations. Thus, the present level of industrial development in Latin America may allow us to exercise a more profound effect in the long run if, with some imagination, we satisfy their fast growing demands compatibly with our own productive capacities.

It is well known that one of the major problems of most Latin American countries is their dependence upon a single crop for export,[7] and here there

[4] In 1961 the U. S. imported approximately $14.4 billion and exported approximately $20.1 billion. We exported in 1961 $3.6 billion to Common Market countries and $2.8 billion to the rest of Europe. Our exports to Latin America in 1961 were $2.2 billion and imports $3.2 billion. Our exports to Asia during the same period were much higher ($4.2 billion) and our imports lower ($2.6 billion). African exports ($0.8 billion) and imports ($0.6 billion) were relatively negligible. See chart entitled, "U.S. Trade—The Pattern and The Two Problems," *The New York Times* April 22, 1962), p. 12E.

[5] "Considerable money is being spent on campaigns carried on by certain foreign countries to "sell" themselves to the American public and enhance the current regime's image in the U.S." See Edmond K. Faltermayers "Propaganda Push," *The Wall Street Journal,* (May 8, 1962) p. 1.

[6] "The power industries in Latin America have expanded since World War II at an annual rate of about ten percent, in some cases even higher, but requests for new connections, as the result of rapid urbanization and industrialization, continued to exceed capacity for electric generation in most of the countries." *Op. cit., supra,* note 1.

[7] "The fundamental difficulty is, of course, that the overwhelming majority of the twenty Latin American nations remain to this day the slaves and victims of the system

is a special job for patent licensing and the export of know-how. When exports of the single crop decline or the price goes down and imports rise in price or quantity, the ability of these countries to finance diversification [8] and industrialization is adversely [9] affected. Here is an example of an area in which the Foundation can provide much needed enlightenment by a study of the role of industrial property in emerging industrial economies and suggest guidelines for utilizing these channels of technical progress to strengthen the nascent industrial sinews of these nations so that they might become more competitive in foreign markets.

SETTING FOR LATIN AMERICAN STUDY

It is desirable to examine plausible roles for industrial property, with respect to the economic and political context [10] of Latin America. Irving H. Siegel, a member of the Foundation's staff, remarked in a previous issue of the *Journal:* "As experience, 'scientific discovery' and 'invention' significantly affect and in turn are influenced by the larger cultural environment. A common mistake is to overlook their roles in the real world as 'effects' and to regard them as 'causes' only." [11] Another dimension of this proposition which should be of interest to students

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of monoculture of inadequate diversification of production. This means that most of them stake their livelihood on the exports of one or two commodities." Tad Szulc, "Latin Need For Trade," *The New York Times* (April 29, 1962) p. 4E.

[8] "But perhaps the worst part of such a scheme is that it encourages people to ignore the causes of the problem. Why have coffee prices fallen? Surely one explanation is that producers went on a planting spree. And however unpalatable it may be, the only remedy for a one-crop economy is not 'stabilization' but diversification.

"So we are inclined to agree with the Latin Americans' complaints, though not for their reasons. The Alliance aid may indeed be wasted if it becomes a vehicle for commodity stabilization. The only commodity that will stabilize is stagnation." "Confused Commodity Complaints," in "Review and Outlook," *The Wall Street Journal* (May 1, 1962) p. 10.

[9] "But, here again, Latin America runs into the vicious circle. The depreciation of her exports and the rising prices of the imported equipment, needed for the industrialization and to produce import substitutes, become a major obstacle in these plans to surge from economic colonialism to modern self-sufficiency." *Op. cit., supra,* note 7.

[10] See Harold E. Davis, *Latin American Social Thought Since Independence,* University Press, Washington, D.C. (1961); Drucker, "A Plan for Revolution in Latin America," *Harper's* (July 1961); Preston E. James, *Latin America,* Odyssey, New York (1959); J. J. Johnson, *Political Change in Latin America,* Stanford University Press (1958). ("Argentina, Brazil, Chile, Mexico and Uruguay . . . will set the pattern of tomorrow for the present feudally held Dominican Republic, socially retarded Paraguay, the poverty stricken Haiti, and the strife torn Venezeula."); Charles Orlando Porter, *The Struggle for Democracy in Latin America,* Macmillan Company, New York, (1961), William Whatley Pierson and Federico Gil, *Governments of Latin America,* McGraw-Hill, (1957).

[11] Irving H. Siegel, "Scientific Discovery, Invention, and the Cultural Environment," *PTC J. Res. & Ed.,* Vol. 4, No. 3 (Fall 1960) p. 233.

concerned with the nature and value of industrial property systems is that studies in Latin America will afford us an opportunity to examine the relationship between technological advances—including the systems devised to encourage and protect such advances—and social, economic and political institutions at different levels of development.[12] This first hand contact with emerging industrial societies may be a relatively fleeting opportunity as societies, in our age of rapid communication, become more and more alike.[13]

The endemic nationalistic[13a] uprisings of Latin America have been fused by the communists into generally controlled[14] political and economic[15] disturbances. In the countries affected a sufficient supply of internal and perhaps external, "idealists" has helped to force a change, whether or not accompanied by an actual overthrow of the government, that is equivalent to more nationalization. To the general problems implicit in communism and nationalization must be added the difficult realization that American

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[12] "If one does not know whether a system 'as a whole' (in contrast to certain features of it) is good or bad, the safest 'policy conclusion' is to 'muddle through'—either with it, if one has long lived with it, or without it, if one has lived without it. If we did not have a patent system, it would be irresponsible, on the basis of our present knowledge of its economic consequences, to recommend instituting one. But since we have had a patent system for a long time, it would be irresponsible, on the basis of our present knowledge, to recommend abolishing it. *This last statement refers to a country such as the United States of America—not to a small country and not a predominantly nonindustrial country, where a different weight of argument might well suggest another conclusion.*" (italics added) Fritz Machlup, "An Economic Review of the Patent System," Study of the Subcommittee on Patents, Trademarks, and Copyrights of the Committee on the Judiciary, United States Senate, Eighty-Fifth Congress, Second Session, pursuant to S. Res. 236.

[13] "Strengthening the Behavioral Sciences," Statement by the Behavioral Sciences Subpanel, The Life Sciences Panel, President's Science Advisory Committee, The White House, Washington, D.C. (April 20, 1962).

[13a] "Latin American nationalism has been largely 'anti-imperialism.' During World War I and the post World War I period, it centered on the struggle against United States interference in the internal affairs of the Latin American countries against United States invasion of Nicaragua, Mexico, the Dominican Republic, Haiti, and other countries, and against evidences of Latin American subservience to the United States, . . ." *Op. cit., supra,* note 15.

[14] "Mr. Arosemena's accession to the presidency in November saved the country from civil war and offered that 'constitutional solution' Latin Americans prize so highly when they are deposing presidents. But the former Vice President had no organized political support of his own. And he was deeply impressed by the capacity of the Communists and their cohorts in organizing the street riots which brought down Mr. Velasco." George Sherman. "Drift to Neutralism Ended, Ecuador on Reform Course," *The Washington Evening Star* (April 27, 1962).

[15] "The Latin American social revolution has had four basic components: nationalism, economic development, change in class relationship, and political democracy. The Communists have tried with greater or less success to use each and all of these factors in their propaganda and organization." Robert J. Alexander, *Communism in Latin America,* Rutgers University Press (1957), p. 6.

trade survival in Latin America has perpetuated—with a shift of emphasis [16]—the hostile [17] attitude of large blocs of the native population toward "those Yanquis." The communists continue [18] to be an important factor in politics and might have been even more successful had not movements of native Latin American origin existed in certain countries and prevented the communists from gaining control of the leadership of revolution.[19] Perhaps another influence against communism or dictatorship in Latin America has been the example of those countries which have installed one of these systems and those which have accepted some part of either of them.[19a]

With the increasing attention being paid to the technological aspects of national defense, the efforts to introduce new products for domestic consumption, the increased competition for markets,[20] the opportunity to study

[16] "With the Good Neighbor Policy and the agreement by the U.S. to recognize the juridical equality of all of the American nations, the emphasis shifted . . . to resisting . . . intervention by U.S. private business interests in the internal affairs of their nations." *Op. cit., supra,* note 15.

[17] See Note 13a.

[18] "Although the Communists at the start of the 1960's were not a major party in any Latin American country except Cuba they were a potential force of considerable importance in all of them. They played principally on the social and economic grievances of the lower classes of those countries, and the nationalists anti U.S. sentiment widespread in Latin America. Hence, the future of Latin American Communists tended to depend largely on the ability of democratic groups to raise standards of living to overcome social injustices and upon the United States to evolve policies to blunt the sharpness of Latin American anti U.S. feelings." John A. Houston, "Latin America—Communism," *The Encyclopedia Britannica,* Volume 13, 1962 edition, p. 744X.

[19] The Aprista movement restrained the Communists in Peru, the Democratic Action party checked them in Venezuela, the Liberación Nacional held them in Costa Rica, the Popular Democratic Party of Munoz Marin checked them in Puerto Rico, and the Peronista contained them in Argentina. There were rival movements in Guatemala and Chile, and by the late 1940's a strong Communist build up existed in the latter country. Dictator Anastasio Somoza of Nicaragua worked with the Communists in the middle 1940's. Also, there were official and unofficial Communist parties in Argentina, Peru, and Venezuela. See Robert J. Alexander, *Communism in Latin America, op. cit. supra,* note 15.

[19a] These examples provide excellent material for study of the effects of such doctrines . . . also they are generators of doubts among those in other countries threatening a takeover and even more so among those already taken. In these cases the burden is placed on the radicals to prove that they can actually accomplish all the miracles they promise. Nothing can do greater harm to the cause of the far left or the far right (See George Sherman, "Drift to Neutralism Ended, Ecuador on Reform Course," *The Washington Evening Star,* April 27, 1962), than their own performance, or lack thereof. The waste, inefficiency, maladministration, lack of choice, poor production (See Allen L. Otten, "Cuba's Plight," *The Wall Street Journal,* April 24, 1962.), the ambivalent attitude toward business enterprise—utilizing the business methods they decry—and above all the absence of the affluent life (without bankruptcy, e.g. Peron; see note 30) are well known. Objective research can document and dramatize these conditions for those who are interested.

[20] ". . . (W)e should note the insistent foreign bid for a larger share in United States

industrial property systems in emerging industrial societies, and our desire to assist our Latin American trading partners, it would seem most pertinent to familiarize ourselves with Latin American inventiveness and the means employed to encourage it. There is always the possibility that Latin Americans might rise to challenge us in some of their own [21] or even eventually our own markets . . . as the Europeans already have (e.g. compact cars).[22] The success and welfare of our country will, among other factors, depend upon our intangible assets of fully utilized creativeness and upon our knowledge of foreign discoveries and their applications.

Many of the inventions extensively used in the United States, such as the automobile, penicillin, the sulfa drugs, had their origin abroad [23] and were first produced on a large scale by American companies—due in part to the orientation of our businessmen to our high consumption economy. We cannot dismiss the possibility that potential economic gems might become ripe for commercial development in these rapidly developing "underdeveloped" countries. Latin America has been making progress in mathematics, physics and medicine [24]—though perhaps not yet sufficiently mature industrially to fully develop and exploit scientific advances—which may include military inventions or their antecedents.

Our studies should also be useful to those who concern themselves with the defense of the hemisphere. Examination of industrial property systems might not only assist in a bid for a larger share of the Latin American market [25] but also might surface information concerning licensing or

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markets as an emerging influence on our civilian technology. This challenge has already brought back the domestic compact car, has probably speeded the domestic development of transistorized radio and television receivers, and is hastening the adoption of steel-making techniques that utilize large quantities of oxygen." *See* note 23, p. 244.

[21] "Ultimately Mexico hopes to assemble all automobiles, trucks and buses she needs and to produce at least 65 per cent of all materials going into them. Behind this objective is the necessity to conserve on imports." *See* note 27.

[22] *Op. cit., supra,* note 20.

[23] See footnote 3, Irving H. Siegel, "Scientific Discovery, Invention, and the Cultural Environment," PTC J. Res. & Ed., Vol. No. 3 (Fall 1960) pp. 235-236.

[24] "Unquestionably, Latin America has renowned scientific institutions, researchers, of outstanding merit and a growing interest in the cultivation of the sciences—this is also the judgment of foreign scientists who have visited the region." Cortes Pla, "Latin America—Science," *The Encyclopedia Americana,* Vol. 17, 1962 edition, pp. 59-60.

[25] "Though it has been argued that licensing might not be desirable until exports fall off, there are those who assert that licensing has inherent advantages over direct sales. First, licensing is more flexible than exports in that the licensor's own product facilities are not tied up in anticipation of any given volume of sales. . . . Secondly, and as a collateral point, the licensee can get closer to the market being an old hand in the area and can determine its significant movements. . . . Thirdly, licensing avoids the problems stemming from trade barriers. . . . Fourthly, proceeds from exports are often restricted as to their convertibility, making it uncertain whether they will yield a profit." J. N.

production of industrial military instruments or equipment by antagonistic Latin Americans or their allies. It is no secret that avenues of technological information, such as the industrial property systems, are exploited by foreign countries to gather knowledge about the technological progress and operations of other countries. In this period of rising dependence on R&D for military hardware, the data gathered in Foundation studies may have useful national defense implications.

Nationalist obstruction to investment of foreign capital in activities related to natural resources, the reluctance of foreign capital to invest [27] in politically charged power and transportation industries when expropriation [28] is an ever-present possibility, combined with a constant demand for rapid industrialization despite the relatively small amount of capital domestic investors are able to afford,[29] has made it possible for the "idealists"—without major demands on the minds of the electorate—to accomplish an increasing amount of state intervention [30] in economic life.[31] Businessmen in the free world wonder how far such intervention will go,

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Behrman, "Advantages and Disadvantages of Foreign Licensing," PTC J. Res. & Ed., Vol. 2 No. 1 (March 1958) p. 145.

[27] "The greatest difficulty appears to be in obtaining sufficient investment of capital. Nationalization of the light and power industry and Mexicanization of the mining industry have been factors in causing a slowdown in foreign investment. Last year direct investments by American companies were estimated to have dropped to $50,000,000 from $100,000,000." Paul F. Kennedy, "Mexico Studying Brazil Car Pact," *The New York Times* (May 13, 1962) p. 44.

[28] "The most notorious leakage of United States assets abroad as a result of foreign expropriation is Cuba, where the losses ran to $1,000,000,000. More recently, Brazilian moves to take over private property owned by United States and other non-Brazilian corporations have raised misgivings as to the adequacy of compensation." Paul Hefferman, "Congress Acting on Expropriation," The New York Times (May 13, 1962) p. F1.

Robert J. Alexander in *Communism in Latin America* (*Op. cit., Supra,* note 15) refers to expropriation of U.S. agricultural and petroleum interests in Mexico, U.S. petroleum interests in Bolivia, and to the repatriation of British and French investments in public utilities and railroads of Argentina, Uruguay, and Brazil after World War I.

". . . there are outstanding many millions of dollars of defaulted foreign Government bonds that in themselves represent just as much of an expropriation, because they are not paying interest. The foreign Governments, because of their sovereign immunity, cannot be sued." Paul Hefferman, "Congress Acting on Foreign Aid As Expropriations Raise Its Ire," *The New York Times* (June 10, 1962).

[29] "The Government's favored formula is 51 percent Mexican capital and 49 percent foreign. This is known as Mexicanization. The difficulty is that Mexican capital demands high dividend return whereas foreign capital is content with lower returns but continued reinvestment." *Op. cit., supra,* note 27.

[30] See *The Evolution of Latin American Government* edited by Asher N. Christensen, Henry Holt and Company, New York (1951), for discussion of the rapidly expanding functions of Latin American governments.

[31] See J. J. Johnson "Latin America—The Postwar Years," *Encyclopedia Britannica,* Vol. 13 (1962), pp. 744 R- 744 T.

and whether and to what extent business will be permitted to function within countries affected. Although the reasons for the hostile attitude toward "Yanquis" may have largely disappeared, the elements of business success are so mixed, that communists [32] (or dictators) find little difficulty in equating the term "Yanqui" in the public mind with big business, exploitation of the native worker, foreign domination and control, and with most of the unfortunate byproducts of industrialization.[33]

The problems of Latin America are not only communist provoked (Cuba) or dictator inspired (Nicaragua) but also represent a combination of both extremes (Argentina). These problems have been aggravated by the necessary haste of the Government to find ways to speed the Latin American tax,[34] land [35] and other reforms so that we can provide, at long last, the huge funds we have appropriated. Paradoxically, this has caused even our friends [36] in Latin America whose hopes [37] had been raised by expectations of rapid assistance [38] to become somewhat disillusioned and critical of the evidence of reform required [39] before countries become eligible for financial assistance. Although the Latin Americans are far

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[32] "As the 1950's came to a close the Communists were gaining ground in Latin America. The friendly attitude of the United States toward various Latin American dictators during the late 1940's and the 1950's had aroused much bitterness, which the Communists were exploiting with more or less success in the nations freed from dictatorial control after 1955." *Op. cit., supra,* note 19.

[33] The Communists in Latin America have even accused the United States of deliberately retarding the economic development of the Americas. See Robert J. Alexander, *Communism in Latin America. Op cit., supra,* note 15.

[34] "She [Mrs. Elya Kybal] said local government in the Latin countries is weak because it does not have adequate tax authority 'and unless this is remedied the Alliance will not have the grassroots support it needs." Testimony before the Congressional subcommittee on Inter-American Economic Relationships, Richard H. Boyce, "Experts Criticize Alliance," *The New York World-Telegram and Sun* (May 11, 1962).

[35] "Raymond J. Penn, agriculture economics professor at the University of Wisconsin, spoke sharply of 'land distribution programs conceived in haste, and directed by slogans." He said present U.S. aid programs 'do not always help the Latin public express its interest,' which he said is the most important ingredient in economic development." *Op. cit., supra,* note 34.

[36] "In relating the Government's recent economic measures to the Alliance, Dr. Mejia [Finance Minister of Colombia] was clearly challenging the Alliance to make good on its promises of aid for countries making serious efforts toward reform." "Colombia Curbs Deficit Spending," *The New York Times* (May 20, 1962) p. 36.

[37] "Industrialization was a principal obsession of the peoples of Latin America after World War II and heavy industry became the symbol of national progress." *Op. cit., supra,* note 31.

[38] "The recommended remedy is that the Alliance for Progress provide a mechanism for stabilizing the prices and, clearly, it would be most welcome if the Alliance could also help to shoot them up again. Otherwise, it is said, the Alliance would be a failure." *Op. cit., supra,* note 7.

[39] ". . . (S)ome lawmakers hitherto friendly to U.S. aid efforts feel the Administration has not yet provided sufficient evidence that South American countries are carrying out the

ahead of Africa,[40] unfortunately they are not as ready as Europe [41] was for our aid.

Clearly, there has been much progress but even greater effort needs yet to be made. Latin America cannot hope to spring full-grown into the mid-twentieth century. In the words of Leroy S. Wehrle, Staff Economist, United States Council of Economic Advisors "Economic growth is not a trick, not a slight of hand. It does not consist in the discovery of some Northwest passage and subsequent smooth sailing to transistor radios and automatic transmissions. Also it is not something occult which white men have discovered with their special amulets. Mostly it is a matter of perspiration and brainwork and skills and time. The objective is to increase the supply of foodstuffs and goods desired by the people and to accomplish this by increasingly efficient use of labor so that a constant amount of labor purchases more and more goods." [42]

The enormity of the adjustments required can only be appreciated by an examination [43] of the economic [44] and political [45] institutions of these

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self-help reforms that Congress insists on as a condition of approving the alliance money. They say also that recent turmoil in Venezuela and Argentina point up the continuing instability of Latin regimes. Paul Duke, "Alliance for Progress Fund Faces Slashing in House Unit; May Fare Better in Senate," *The Wall Street Journal* (May 10, 1962) p. 6.

[40] "Labor legislation and trade unionism have been surprisingly advanced for the type of economy which Latin America has possessed." *Op. cit., supra,* note 15, p. 8.

"The growth of a strong middle class and working class had had profound affect on the social, economic, and political structure of Latin America. *Op. Cit., supra,* note 15, p. 8.

[41] "Mrs. Kybal said the 10-year Alliance plan is too short a time to expect real change. 'Even if we assume that by 1971 several Latin American countries will have reached the 'take-off' stage of economic development,' she declared, 'it is very probable that a substantial part of the area will not be able to attain or maintain unaided a steady rate of economic growth.'

"Several decades may be necessary, she said, before land reforms and taxation reforms 'are to be adequately implemented and not remain mainly on paper." *Op. cit., supra,* note 34.

[42] Leroy S. Wehrle, "The Role of the Government in Economic Development," *Federal Bar Journal,* Vol. 21 (Fall 1961) No. 4, p. 382.

[43] "To clarify the problems facing the United States in Latin America, a temporary Latin American Strategy Studies Group has been set up by Walt W. Rostow, chairman of the Policy Planning Council in the State Department. This group is engaged in preparing detailed studies of several Latin American republics." Tad Szulc, "U.S. Closes Rifts on Latin Policy," *The New York Times* (April 29, 1962).

[44] "Most of the population of Latin America is still 'out of the market'; that is to say, they receive little, if any, money income with which to purchase the output of manufacturing industries native or foreign." *Op. cit., supra,* note 15, p. 4.

"In Argentina credit has not been available to the man of modest means who would own even a simple dwelling. Back in 1946 the existing savings and loan associations were dissolved by the Peron government. The National Mortgage Bank took charge of extending credit for houses. But the results for the man of small means were disastrous. Credit was scarce, then not available." Edward C. Burks, "Argentina Faces Housing Trouble," *The New York Times* (June 10, 1962), p. 30.

[45] Until the last generation power has centered in the Executive branch of the govern-

countries . . . and their serious instabilities.[46] Although at certain times in the history of nations, social and political instability has resulted in rapid technological change (World War II),[47] stability has generally provided the conditions for technological and industrial development which in turn have encouraged social and political change.[48] However the reciprocal[49] relationships have not as yet been thoroughly analyzed[50] and the Latin American countries can provide additional information in this area, too.[51] Although it may be that the Government is seeking to avoid

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ment. Revolutions in Uruguay, Mexico, Argentina, Peru, Venezuela, Guatemala, Bolivia, and Costa Rica have brought social and economic reorganization. Dictatorships fell in the last half decade in Argentina, Colombia, Cuba, Guatemala, Panama, Peru, Venezuela, and the Dominican Republic. The remaining dictators are perhaps Stroessner in Paraguay, Duvalier in Haiti, and Somoza in Nicaragua (pp. 49-56) . . . and Castro in Cuba. "Deep currents of economic, social and cultural change, out of which the web of politics must necessarily be formed, point the way toward inevitable democratic growth in Latin America," (p. 57) R. H. Fitzgibbon, "Dictatorship and Democracy in Latin America," *International Affairs,* Vol. 36 No. 1 (January 1960) Royal Institute of International Affairs, London, pp. 48-57.

[46] "Competent observers believe that a steadily deteriorating economy and a harshly repressive government are adding strength to the opposition in Haiti. . . . No public criticism of the Government of President Francois Duvalier is permitted, . . . Although there are no statistics on unemployment, it is generally conceded to be increasing. A decline in the world price of coffee, Haiti's chief export, has seriously affected the economy. . . . Haiti's basic problem is overpopulation. . . ." R. Hart Phillips, "Discontent Rises Swiftly in Haiti," The New York Times (April 22, 1962) p. 24.

"Almost overnight Argentina has changed from southern kingpin of the inter-American Alliance for Progress to the newest problem child of the hemisphere. The downfall of President Arturo Frondizi last month was as great a shock to the Kennedy administration's Latin American strategists as to the people of Argentina themselves." George Sherman, "Upheaval in Argentina," The Washington Evening Star (April 25, 1962).

"Even many moderates among the politicians would like to see President Betancourt removed because numerous Venezuelans have not yet learned to have faith in their own democracy. The tradition of overthrowing of governments persists. And there are people who favor a coup d'etat without being quite sure what would follow." Tad Szulc, "Venezuela: Test Case for the Alliance," *The New York Times* (June 10, 1962), p. 6E.

[47] Norbert Wiener, *The Human Use of Human Beings* Houghton Mifflin Company, 1954. See also L. James Harris, "A Patent Guide for Inventors and Executives, and The Context In Which It Appears," *PTC J. Res. & Ed.,* Vol. 5 No. 4 (Winter 1961-62) pp. 310-327.

[48] Quincy Wright, "Inferences of Science and Technology for International Law," Vol. 4 *J. Pub. L.* (Fall, 1955). Page 358.

[49] *Op. cit. supra* Note 11. See Harris and Siegel, "Positive Competition and the Patent System," *PTC J. Res. & Ed.* Vol. 3 No. 1 (Spring 1959); Harris and Siegel, "Evolving Court Opinion on Patent Licensing: An Interaction of Positive Competition and the Law, "*PTC J. Res. & Ed.,* Vol. 5 No. 2 (Summer 1961).

[50] T. K. Derry and Trevor I. Williams, *A Short History of Technology, from the Earliest times to A.D. 1900* Oxford Univ. Press, New York (1961). Includes some illuminating discussion of these relationships.

[51] Louis H. Mayo, "The New Technology and Multi-National Cooperation," *Minnesota Law Review,* Vol. 46, No. 5 (April 1962).

another Cuban fiasco and perhaps is expressing an understandable wish to make up for lack of attention in the past,[52] the only sure way to democratize while carrying on this huge salvage, is to do so after study and with patience [53] and deliberation.[54] As Jefferson sagaciously said, ". . . the ground of liberty is to be gained by inches, that we must be contented to secure what we can get from time to time, and eternally press forward for what is yet to get. It takes time to persuade men to do even what is for their own good.[55]

Strong executive power and single parties [56] have tended to dominate in Latin America. However, although the tendency to concentrate power in the executive branch of government continues, it is important to note that the electorate is constantly expanding and the executive is backed by an ever-growing proportion of the people.[57] "Thus, if we can take advantage of the phenomenal democratic progress [58] of the post World War II era, certain countries can be saved as strong allies. Others will be lost no matter how much we are prepared to spend to impress a corrupt

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[52] See Laurence Duggan, *The Americas: the Search for Hemisphere Security,* Henry Holt and Company, New York (1949) for a consideration of our past neglect of new world problems. Mr. Duggan proposes a long term policy on a permanent non-political basis. He emphasizes the need for a clear understanding of the internal struggles of these countries.

[53] "Tom E. Davis, University of Chicago economics professor, said educational and technical assistance programs will raise the productivity of Latin American labor 'but these are expensive and slowyielding investments and call for 'much patience.'" *Op. cit., supra,* note 34.

[54] "Replying to these critics, Teodoro Moscoso, United States Co-ordinator of the Alliance for Progress, said in an interview that it is impossible to 'wipe out 400 years of structural imbalance—political, social and economic—in less than one year.'" *Op. cit., supra,* note 2.

[55] A letter to Reverend Charles Clay, written from Monticello, January 27, 1790, *The Papers of Thomas Jefferson, from 30, November, 1789 to 4, July, 1790,* ed. Julian P. Boyd, Princeton University Press (1961), p. 129.

[56] See note 30.

[57] Political party patterns have realigned and the base of government, even in the dictator countries, has broadened. See Christensen, op. cit., supra note 30 for discussion of the emergent political forces taking shape in the reform movements and the new power structures. Also see *Government and Politics in Latin America* edited by Harold Eugene Davis, The Ronald Press Company (1958).

"Yet President Betancourt must have derived considerable encouragement from the spectacle of peasants taking up their machetes to support the loyal forces in putting down the recent rebellions.

"This support, which is shared by 70 per cent of the unionized workers, stems from the fact that in its uphill battle for progress against the most formidable obstacles, the Betancourt regime has given the average Venezuelan hope that he never had before and quite a bit in terms of tangible achievements." Szulc, *op. cit., supra* note 46.

[58] *Government and Politics in Latin America* edited by Harold Eugene Davis portrays the dynamic developments in Latin American government and politics. Also see "Dictatorship and Democracy in Latin America," *op. cit., supra* note 45.

or stagnant or misguided government or controlling group. It is toward these latter Latin American countries, perhaps more than a few,[59] that we will have to look largely for our intangible exports through foreign licensing, when no other trade alternative is permitted, to pierce the curtain.

FOUNDATION REPORT ON FOREIGN LICENSING

Many American companies obtain foreign patents and trademarks [60] but they have not yet shown full appreciation of Latin American opportunities. Although one of the reports published by the Patent, Trademark, and Copyright Foundation in this *Journal* shows that most of the licenses for American-owned patents, trademarks, and know-how are granted in industrialized countries, Latin America has received about two-thirds of those in the less developed areas.[61] It appears that United States licensors prefer areas "where there are (1) no language barriers or great differences in customs, and (2) factors of geographic and market proximity which outweigh the absence of similar language or customs." [62] Our researchers found that in the number of licenses received from 100 American companies by foreign countries the first fifteen countries rank in the following order: United Kingdom, France, West Germany, Canada, Australia, Japan, Mexico, Brazil, Italy, Argentina, Belgium, South Africa, Netherlands, Sweden, and Switzerland—Mexico, Brazil, and Argentina in seventh, eighth, and tenth place, respectively.[63]

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[59] "The U.S. settled for a majority vote to expel Cuba from inter-American organizations.

"The decision to give up the fight for unanimous action against Cuba in the Uruguay meeting of the Organization of American States came after it became obvious that six nations would not back down from their demands for a softer approach to the Cuban problem than the U.S. had advocated. The resolution supported by the 14-nation majority would have Cuban communism declared incompatable with the interAmerican system." "What's News," *The Wall Street Journal* (January 31, 1962) p. 1.

Castro's presence in the Caribbean provides the Communists with great hopes (psychologically for perhaps an offensive military base) for a base for propaganda and internal subversion. Although the Punta del Este Conference of American Nations this past winter was primarily directed to neutralizing the propaganda and internal subversion affects of Castro's presence, the reluctance of a number of delegates to vote against Castro is an indication of the continued influence of the Communists in Latin America and the problems we face in the future.

[60] J. N. Behrman, "Advantages and Disadvantages of Foreign Licensing," *PTC J. Res. & Ed.*, Vol. 2 No. 1 (March 1958) pp. 139-141. Also J. N. Behrman, "Licensing Abroad Under Patents, Trademarks, and Know-How by U.S. Companies," *PTC J. Res. & Ed.*, Vol. 2 No. 2 (June 1958) pp. 186-187.

[61] J. N. Behrman and W. E. Schmidt, "New Data on Foreign Licensing," *PTC J. Res. & Ed.*, Vol. 3 No. 4 (Winter 1959) p. 371.

[62] *Ibid.*

[63] J. N. Behrman, "Licensing Abroad Under Patents, Trademarks, and Know-How by U.S. Companies," *PTC J. Res. & Ed.*, Vol. 2 No. 2 (June 1958) pp. 187-189.

The amounts involved in foreign licensing transactions by American companies are of considerable magnitude. According to a report of the Department of Commerce, royalties and fees received by 650 American licensors are estimated at 400 million dollars in 1957. The Foundation researchers noted, before the Commerce report was made public, that ". . . an estimate of $200 million may be close to the actual transfers—exclusive of cross-licensing. At a capitalized rate of 5 percent, this would mean a non financial investment valued at a minimum of $2.5 billion by American enterprise abroad, compared with outstanding direct private investment of $20 billion (gross). If the capitalized value of cross-licenses and royalties retained abroad are added, it is not inconceivable that the non-financial foreign investment of U.S. companies abroad equals $4-$5 billion." [64] Most of the companies queried regarded foreign licensing as profitable.[65]

As was to be expected, our researchers found royalties were the most important objective of foreign licensing.[66] However, one of the major incentives for licensing appeared to be the opportunity it provided to avoid the restrictions established by the governments of other countries with respect to trade and ownership by foreigners.[67] Of course, there were numerous other reasons submitted by the companies questioned for preferring to license abroad: avoids duty and transportation costs, helps to expand exports of component parts, avoids tying up licensor's production facilities, provides a protected position behind trade barriers without a large investment of capital, offers an entre for possible expansion later, etc.[68] With respect to Latin America, it is of interest to note that a number of the United States companies expressed a desire to assist in the economic development of foreign countries—a private Point IV program.[69]

LOOKING TOWARD A LATIN AMERICAN STUDY

The Foundation's studies of international transactions have concerned the significance of industrial property and related rights in the past development and in the current operation and future course of the world

[64] J. N. Behrman, "Advantages and Disadvantages of Foreign Licensing," *PTC J. Res. & Ed.*, Vol. 2 No. 1 (March 1958) p. 140.

[65] *Op. cit., supra,* note 63. pp. 242-244.

[66] *Op. cit., supra,* note 64, p. 141; *op. cit., supra,* note 63, pp. 195-201.

[67] *Op. cit., supra,* note 64, pp. 151-153.

[68] *Ibid.*, pp. 141-148; *op. cit., supra* note 63, pp. 244-248.

[69] *Op. cit., supra,* note 64, pp. 153-157; *op. cit., supra* note 63, pp. 190-195; and J. N. Behrman, "Foreign Licensing and Investment in U.S. Foreign Economic Policy," *PTC J. Res. & Ed.*, Vol. 4 No. 2) (Summer 1960) pp. 150-172.

enterprise systems.[70] The cachet of pioneer work in the international field was established with our first reports on foreign licensing.[71] Today these command wide attention. At present we are concentrating in the European Economic Community area on the effects of developments in the European Common Market on American Industrial Property interests.[72] Although the Industrial property problems of Latin America are not being resolved as breathlessly as those of the European Economic Community, it is our belief that they will be the focus of increasing attention. The Alliance for Progress—soundly planned,[73] cooperatively [74] carried out, and attractive to both the public and private sectors [75]—could be a force for genuine

[70] The Foundation's wide interests are acknowledged in the themes of the 1962 Annual Public Conference—"United States Industrial Property Systems in the Competitive World Context," "U.S.S.R.: A New Factor in International Patent Relations?" and "International Outlook on Industrial Property."

[71] "The best study of licensing practices which I know is one that was made about two years ago for the Patent, Trademark, and Copyright Foundation by Dr. Jack Behrman of the University of Delaware." Paul R. Porter, "Common Mistakes in Licensing," *Journal of the Patent Office Society,* Vol. 42 No. 2 (February 1960) p. 97.

[72] Gerard J. Weiser and J. N. Behrman, "The Convention for European Industrial Property Rights," *PTC J. Res. & Ed.,* Vol. 4 No. 3 (Fall 1961) p. 233-249.

[73] "Mr. Moscoso rejected the argument heard more and more frequently that this emphasis on government planning is still stifling the private initiative which the Alliance for Progress is supposed to bolster.

" 'We are talking about state planning in the public sector of the economy only,' he said. 'After all, poor countries must not build huge hospitals they cannot staff or roads they cannot use. Our big job is to bring private enterprise into this planning operation, so that they will see how it can help their businesses.' George Sherman, "Alliance for Progress Operation Plan Sought," *The Evening Star* (May 7, 1962) p. A-7.

". . . (P)eople must choose or be forced to save; people must submit to the discipline and regularity of the machine, they must gain skills and education, and resources must be efficiently allocated and financed. Governments can play more or less of a role in bringing about these developments." *Op. cit., supra,* note 42, p. 383.

[74] "I am not afraid to say it—our aim is the economic integration of Latin America," said Teodoro Moscoso, chief of the Alliance for Progress program in the Agency for International Development.

"Mr. Moscoso, a Puerto Rican and a former United States Ambassador to Venezuela, reacted strongly to growing criticism that the Alliance for Progress has no shape and is too much a government-to-government program centered in Washington.

"It is a very serious mistake to consider the Alliance for Progress exclusively a United States effort," he said in an interview. 'It is a cooperative effort of the hemisphere with our Government giving only marginal assistance.'

"He said the establishment of a co-ordinating body similar to the organization which operated the Marshall Plan in Europe is being studied." *Op. cit., supra,* note 73.

[75] "Mrs. Elva Kybal, an economist with the Pan American Union, declared that 'the increase in public funds moving into Latin America as a result of the Alliance for Progress has not offset the decline in the inflow of foreign private capital.'

"She said the Alliance 'cannot be a predominately government-to-government scheme' because governments alone 'will not bring forth the active participation of the population.' *Op. cit., supra,* note 34.

hemispheric progress, enhancing the possibilities of significant forward movement in general economic as well as industrial property and allied activities.

To assure sufficient research "lead time" the Foundation is now scheduling a series of exploratory studies on industrial property in Latin America. The studies will be inter-disciplinary and empirical in nature; the conclusions reached will be based on facts, revealing the actual operation of the industrial property and related systems.[75a] The Foundation will conduct these inquiries by going to the laboratory, to the factory, to the business executive, to agriculture, to labor, and to the consumer. An attempt will be made to strike a balance between authority and practice, to develop a coverage of all phases of the systems.

In view of the great differences in the institutions, traditions, and the social, economic, and political conditions of the Americas, it will be necessary to acquire a working understanding of the environment, including the educational level, the honesty and efficiency in government, and the possibility of social justice for the people[76]. . . without an appreciation of the context in which their industrial property systems function, it would be impossible to provide a meaningful perspective. Professor Galbraith pungently states that, "The best-considered forms of agricultural investment or the most sophisticated techniques of agricultural extension are worthless if the cultivator knows out of experience of the ages that none of the gains will accrue to him." [77]

Although Latin America is referred to generally as a single entity, like all communities, it is a complex of differences. To understand the nature of this community, a working knowledge must be obtained of twenty countries with different resources, racial composition, geography, social history, economic and political structures.[78] It is no strange paradox,

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". . . . The president told Congress:

" 'Private enterprise's most important role will be to assist in the development of healthy and responsible enterprises within the Latin-American nations. And, of course, the continued inflow of private capital will continue to serve as an important stimulus to development.' " Robert Metz, "Tax Bill Scored by Business Men," *The New York Times,* (June 10, 1962) p. F9.

"If investors are afraid to send private capital abroad in the future because of the expropriation threat, the Alliance for Progress would soon become a dead letter." Paul Hefferman, "Congress Acting on Foreign Aid As Expropriations Raise Its Ire," *The New York Times* (June 10, 1962).

[75a] L. James Harris, "The Research Program of the Patent, Trademark, and Copyright Foundation," *PTC J. Res. & Ed.,* Vol. 1 No. 2 (December 1957) pp. 175-184.

[76] John Kenneth Galbraith, *Economic Development in Perspective,* Harvard University Press, 1962.

[77] *Ibid.*

[78] See *The Evolution of Latin America* edited by Asher N. Christensen for a discussion

however, that there are important common characteristics [79] such as the civil law derived from Spain and Portugal,[80] single crop economies, predominance of raw materials and food stuffs in export, low level per capita income,[81] the derivative character of industrial development, a reverence for authority, and a tendency to conformity while striving for individual liberty.[82] Also the contemporaneous advances in similar types of science and technology in Latin America may be another indication of the common potential vigor of their society. Another common characteristic appears to be their apparent lack of a strong appreciation of the democratic principles we hold most significant—and a concomitant lack of understanding on our part of their type of pluralistic societies . . . within which the equality of the rights of many may also be respected. Their physical political structures may be different, their levels of social, economic and educational development may be different—and our methods of study as well as our assistance may have to be tailored to meet the needs of different countries.[83] But the significant fact remains that in a growing number of Latin American countries accountability to democratic principle is recognized and praticed in the spirit of their historical development and in the context of their indigenous institutions.

There are important questions the Foundation studies should attempt to illuminate. How far would the United States have to go in joining inter-American conventions and treaties on industrial and related properties? What is the significance of present treaties and conventions for United States interests? What is the significance of the present laws and practices in the individual countries for United States interests? What is the developing attitude and practice of these countries toward licensing United States companies in view of the hostility toward "Yanquis" and the competition of the communist bloc, the common market, and the Asian countries? What is the economic, sociological and political impact of

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of the ways in which geography, climate, colonial history and institutions, economic organization and problems have molded Latin American governments.

[79] In *Governments and Politics in Latin America, op. cit., supra,* note 59, the authors point out common characteristics of political processes and institutions, and *The Evolution of Latin American Government, op. cit., supra,* note 30, considers why these governments show common characteristics.

[80] "The Constitutions of the twenty Latin American states, on the other hand all reflect in varying degree the experience and the institutions of their three mother countries. These modern constitutions are, it is true, influenced by alien examples at one point or another but the core is inevitably Latin. More narrowly, the inspiration is Hispanic; and, still more narrowly, Spanish." *The Constitutions of the Americas* edited by Russell H. Fitzgibbon, University of Chicago Press (1948) p. 1.

[81] See Footnote 44.

[82] See *Government and Politics in Latin America* (*Op. cit., supra note* 57) and *The Evolution of Latin American Government* (*Op. cit., supra, note* 30).

[83] *Op. cit., supra, Note 76.*

R&D and industrial property developments in Latin America on the United States? Is there an emerging pattern of United States investment, export, and licensing activity in Latin America? Is there a regional bloc developing [84] in Latin America, and if so, what form is it taking?

The Economic Bulletin for Latin America observes with respect to the formation of a regional bloc: "Now that a common market has been formed in Western Europe, that the Scandinavian peoples are making efforts in the same direction and that the countries of Eastern Europe are apparently engaged in a process of integration, Latin America constitutes the only large population group in the world which, in a vast territory endowed with a wealth of natural resources, is wasting for want of economic integration (sic) the immense potential represented by modern technology." [85] And in another article in the same issue: "Since exports from EEC dependent territories, mainly from French and Belgium possessions in Africa, will have duty-free entry in the six countries, the possibility that this preferential treatment might displace imports from other areas, including those from Latin America, has aroused concern. The second reason is the stimulus that the European initiative has given to Latin America to go forward more rapidly with economic integration which has for some years been a part of economic thinking in this region." [85]

The Department of State, the Department of Commerce, the Agency for International Development, the Export-Import Bank, the International Bank for Reconstruction and Development are only a very few of the national and international agencies operating in this field—beside the agencies of the Latin American countries themselves. Relating these agencies to the opportunities available for United States and foreign interests will be part of the unique contribution the Foundation will make.

CONCLUSION

Research on the role of industrial property should contribute toward responsible economic development in Latin America with United States

[84] "Mexico is studying ways of splitting with Brazil the market for automobiles, trucks, and parts in the seven nations of the Latin American Zone of Free Commerce.

"Besides Mexico and Brazil, the nations of this Latin American common market are Argentina, Chile, Peru, Paraguay, and Uruguay.

"A committee, the Mixed Group for Industrial Cooperation, is proceeding in Mexico City and Sao Paolo to study in both countries. It is also studying the feasibility of producing uniform models for the common market, thus reducing production costs for the assembled units and replacement parts." *Op. cit., supra,* note 27.

[85] "The Latin American Regional Market, "Economic Bulletin for Latin America published by the secretariat of the Economic Commission for Latin America of the United Nations, Vol. 111 No. 1 (March 1958), Santiago, Chile, pp. 1-8, 3; "Latin America's Trade with the Common Market Countries of Europe," Ibid., pp. 9-50, p. 9.

cooperation, and should be of interest as a guide to private and public policy making. More specifically, the studies will seek to answer questions like the following: What is the *current* United States company activity in Latin America with respect to industrial property? (Patent licensing? Pooling with native companies? Trademarks, etc.) What United States company projects have been undertaken or are planned involving *future* utilization of industrial property in developing Latin America? What United States government programs have been undertaken or planned? (Role of patents, etc., if any) What is the outlook of "foreign" (e.g. European) competition for Latin American markets? What is the State of technical education [86] in Latin America? (e.g. native, United States aided, etc.)

Wehrle in discussing the human dimension says: ". . . a society must produce the skills of hand and mind necessary to produce the commodities needed, and to invent new and more efficient ways to produce existing and improved products. There must be rewards and penalties so that people invent, study, save, and work to produce the desired goods. This often requires radical changes in the social fabric of a country, especially a country that is not accustomed to change and experimentation." [87] The human dimension of the technical resources of these countries is as basic to their progress as it has been to our past development. This dimension includes the inventiveness that patent systems were founded to encourage.[87a]

The answers to questions like the above should help clarify the effectiveness of existing legal and economic arrangements with Latin America relating to the industrial property and related systems and publicly and privately sponsored research and development programs in promoting the technical progress factor of our respective economies—and may point to needed changes. Such changes might look toward strengthening the foundations and improving the viability of our business relations with Latin America; maintaining and invigorating the technological competitiveness of our respective industries; and expanding the opportunities for constructive technical relationships among the Americas.

Although illiteracy is high in Latin America, our credo should eventually fire these countries if we can properly communicate with them our faith

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[86] ". . . the tempo of change is so rapid and problems so great that research activity and the training of scientific personnel lag far behind the changes in the social scene . . ." Harold E. Davis, *Social Science Trends in Latin America,* American University Press (1950).

[87] *Op. cit., supra,* note 42, pp. 382-383.

[87a] Harris, *Op. cit., supra* note 47; L. James Harris, "Selection from a Talk on 'The Engineer, the Patent System and the Foundation," *PTC J. Res. & Ed.,* Vol 2 No. 2 (June 1958) pp. 312-317.

in social justice, in honesty and efficiency in public administration, in a skillfully formulated system of education directed toward definite goals,[88] if we can demonstrate—in terms they can understand—that their future lies with soundly planned [89] industrialization and diversification rather than export price maintenance of single crop economies . . . that awareness of the educational, social, political, and economic implications of their coming of age is most pertinent to the fulfillment of their long standing aspirations.

The results of the Foundation's studies should provide a better understanding of the functions performed in the sphere of the innovator, in the area of production and marketing, in the sectors where employment may be affected by new products or new production methods, and in the development of new sources of energy. The results should contribute toward the vitalization of existing institutions such as the industrial property and related systems in the Americas to fulfill most effectively their intended roles in an age of expanding international research and development activity.

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[88] *Op. cit., supra,* note 76.

[89] "The growing feeling here is, therefore, that while the Alliance does what it can to stabilize the coffee prices at the present levels—which is the best that can be done—it is the responsibility of the producing countries to cut plantings and diversify the economy.

"Though the United States is willing to help Latin American exports and to finance diversification policies, many officials feel that the hemisphere problem of trade will be lessened if new efforts are made to increase commercial exchanges among the Latin American countries, if better production and merchandising techniques are employed and if, above all, Latin America takes a more realistic look at the real value of her raw materials." *Op. cit., supra,* note 7.

Freedom of Competition in the European Economic Community: An Analysis of the Regulations Implementing the Antitrust Provisions

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SUMMARY

ON MARCH 13, 1962, the Regulations [1] implementing the antitrust provisions of the Treaty of Rome [2]—Articles 85 and 86, which regulate the

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[1] *Journal Officiel des Communautés Européennes* (hereinafter cited as *J'l. Off.*), *Règlements No. 17 du Conseil: Premier règlement d'application des articles 85 et 86 de Traité 204/62* (hereinafter cited as the Regulations).

For a more meaningful interpretation of the text of the Regulations, the writer has relied on the comparative meaning that he has derived from the first two official texts approved by the Council of Ministers of the EEC on February 6, 1962. These were the French and German texts which, in turn, provided the basis for the official Dutch and Italian translations. In this paper, references to the French and German texts are abbreviated as (Fr.) and (Germ.), respectively.

The Drafts antecedent to the present Regulations are used for comparison, when appropriate. The evolution from the prior Drafts is significant in the interpretative study of the Regulations. Main reliance is on the Draft of October 28, 1960 submitted by the Commission to the Council.

The Draft of the Regulations, hereinafter cited as Draft, is found in 1961 *Marché Commun No. 32,* 16; 10 *WuW* 856 (1960) and in *GRUR Ausl.* 6/1961 S. 284. Commentaries on the Draft were published by Plaisant, *La C.E.E. et le Projet de Règlement relatif aux Règles de Commerce.* 1961 *Le Marché Commun No. 32,* 13; Willemetz. *La mise en oeuvre des règles de concurrence énoncés par le Traité de Rome* 1961 *Revue du Marché Commun* 192; Seidl. Hohenveidern, *J. Bus. L.* 132, 1961.

For a brief and general analysis of the Draft, cf. the "Fourth General Report on the Activities of the Community," May 1961, hereinafter cited as 4th Report of the EEC, at 62, and Bulletins of the EEC (1961), No. 3, 11, No. 4, 43, and Nos. 7-8, 64.

[2] Treaty establishing the European Economic Community or Treaty of Rome, March 25, 1957, effective January 1958. 298 *U.N.T.S.* 14-94 (1958); 51 *Am. J. Int'l. L.* 865 (1957). The European Economic Community is cited, hereinafter, as EEC.

All citations to Articles 85 and 86 are to the EEC Treaty; citations to Articles 1 to 24 are to the Regulations.

The present analysis is generally confined to the Regulations. But, they must be understood and applied within the context of the articles of the Treaty regulating the freedom of competition and in the light of the extensive literature which has been published both in the United States and abroad.

A veritable treatise has been written on Articles 85 and 86 of the Treaty; the meaning of each section and of each word has been explored. See generally Riesenfeld, "The Protection of Competition, in II, American Enterprise in the European Common Market: A Legal Profile" 197 (Stein and Nicholson—University of Michigan ed. 1960) (herein-

freedom of competition—became effective. This paper attempts an analysis of some of their provisions. The Regulations, together with the Treaty, represent a most important legislative development in the field of restrictive trade practices. A new era in this field may be opening in Europe. The application of these laws is likely to have a very important impact on American business with commercial interests abroad. The handling of these laws may well be a true test of the maturity and soundness of the European Common Market in the field of freedom of competition.

THE BASIC PROVISION of the Regulations prohibits agreements, decisions, and concerted practices designated by Article 85, section 1, and any abuse of a dominant position on the market within the meaning of Article 86. Prohibited agreements are, therefore, those between enterprises which are apt to affect commerce between the Member States and which have as their object or effect the prevention, restriction, or distortion of competition within the Common Market. Also prohibited is the abusive exploitation of a dominant position within the Common Market, or a significant part thereof, by one or several enterprises to the extent to which such abuse may affect commerce between the Member States.[3]

The Regulations are stated to be binding in every respect and directly applicable to each Member State.[4] They are self-executory to the extent that they state that no prior decision is necessary to prohibit the agreements designated by Article 85, section 1, and abuses designated in Article 86. This provision is significant. It confirms the basic tenet of Article 85 that the Article is concerned with the prohibition of anticompetitive practices incompatible with the Common Market rather than effectuating some form of control of the abuse of such practices. Though the Regula-

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after cited as Stein and Nicholson); Buxbaum, "Antitrust Regulation within the European Economic Community." *Col. L. Rev.* 61:402 (1961); *ABA* Section Antitrust, Vol. 16, 118 (1960); and Hans von der Groben, *La Politique de la Concurrence dans la Communauté Economique Européenne.* Reprinted in French by the Commission, from the German as published in 6 *WuW* 376 (1961), and citations referred to therein.

[3] Article 85, section 1, refers to agreements between enterprises, decisions by association of enterprises, and any concerted practices. In this paper, the term "agreement" is used generically to cover decisions and concerted practices. The term "practice" used without "concerted," herein means agreements, as defined above, and the abusive actions contemplated by Article 86.

[4] This is pursuant to Article 189 of the Treaty that Regulations are binding in every respect and directly applicable to each Member State. But "competence as to forms and means is left to domestic agencies."

tions are directly applicable, there is left open the vexing controversy raised by the prohibition in Article 85, section 1, and the nullity clause of Article 85, section 2, that "agreements and decisions prohibited by the article are null and void."

Briefly, under one view, Article 85, section 1, sets forth a general prohibition with the grant of exemptions possible under Article 85, section 3; under such a view, the decision is of a constitutive nature. Under the other view, only those practices under Article 85, section 1, are prohibited while those coming under Article 85, section 3, were granted legal exemption, an administrative or judicial decision to that effect being unnecessary. And if such a decision were issued, it would be declaratory in nature, confirming the validity of the practice *ab initio*. Conflicting European legal concepts are interwoven in these views.[5] From these, the writers of the Regulations wrought out a compromise. It is now embodied in the Regulations in their retroactivity features. These vest in the Commission a discretionary power for special cases to make the effective date of its decision retroactive to January 1, 1958, the effective date of the Treaty of Rome, or to the date of the agreement.[6] This is a very important power because the decision not only determines the legality of the practice

[5] The first view was essentially that adopted by the German *Bundestag*. It took the position that Article 85, section 1, sets forth a general and complete prohibition and Article 85, section 3, allows for grant of exemptions. Accordingly, in accordance with this position, until a competent authority had declared Article 85, section 1, as not applicable and Article 85, section 3, as applicable, an agreement is, therefore, prohibited under section 1 and null and void under section 2. Accordingly, a decision by a competent authority would have constitutive character in that it would impart legality to the agreement. Advocates of this position construe Article 85, section 3, to require a decision that Article 85, section 1, is not applicable, hence, to validate the agreement. So construed, Article 85 of the Treaty of Rome is essentially parallel to Article 65 of the Treaty of Paris establishing the European Coal and Steel Community under which all agreements are prohibited pursuant to Article 1, whereas under Article 2, the High Authority has the power to legalize certain agreements by an authorization. Under the European Coal and Steel Community Treaty, the Transitional Provisions settled the similar question arising under its Article 65. The High Authority, by its decision No. 37/53, fixed August 31, 1953 as the date for the coming into effect of the prohibitions of Article 65 of the European Coal and Steel Community Treaty (1953) *J'l. Off.* 153.

The second view was especially advocated by the countries adhering closer to the Roman Law, such as France. Under this second view, agreements coming under Article 85, section 1, are prohibited and, therefore, illegal, whereas agreements coming under section 3 come under a legal exemption. No prior decision is needed under this view for validating or invalidating an agreement. Advocates of this view point out that the writers of the Rome Treaty had rejected the system of authorization of the Coal and Steel Community since, unlike Article 65 thereof, they did not use the term "authorization" in Article 85.

[6] The retroactivity features are clearly apparent for the first time in the text of the European Parliamentary Assembly, IV. Com. (60) 158. France and Italy considered their strengthening necessary. Germany considered them adequate. A compromise was worked out. *Europe, Euratom et Marché Commun,* 16 Nov. 1961.

under scrutiny, but also because it affects private contractual litigation. The retroactivity features make the Regulations a highly intricate legislative instrument to handle.

In a significant extension from the Draft, the Regulations now apply not only to agreements prohibited by Article 85, but also to practices prohibited by Article 86 abusing a dominant position.[7] Thus, the Regulations meet to some extent the criticism levelled at the Draft for totally ignoring the abuse of a dominant position under Article 86.[8]

JURISDICTION

Under the Regulations, a party appears to be offered, basically, two procedures for obtaining a ruling on the legality of his practice. A party can, pursuant to Article 2, a new provision non-existent in the Draft, request from the Commission a negative clearance[9] certifying that, in the light of the prohibition of Articles 85, section 1, and 86, there are no grounds for the Commission to take any action with respect to the practice in question. As a second procedure, a party can apply to the Commission for an exemption from Article 85, section 1, applying Article 85, section 3.[10]

In a partial erosion from the Draft which provided the Commission with exclusive jurisdiction, the Commission's jurisdiction is exclusive only with respect to the applicability of the exemption of Article 85, section 3. For decisions applying Article 85, section 1, and Article 86, the appropriate national authorities have jurisdiction concurrently with the Commission. A party would, therefore, appear to be able to apply for a ruling of non-applicability of Article 85, section 1, or Article 86 both from the Commission and from the national authorities. Indeed, it appears that various parties to an agreement may select each one a different procedure. This maintains, essentially, the situation described by Verloren Van Themaat that "complaints about restrictive practices can be submitted either to the Commission of the EEC in Brussels or to the competent administrative authorities of Member States because all of them have, or (in the case of Belgium, Italy, and Luxemburg) will obtain powers of investigation."[11]

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[7] Article 1.

[8] For instance, the Federation of Belgian Industries criticized the "flagrant discrimination" favoring the misuse of economic power. The European Parliamentary Assembly also urged extension of the Draft to include regulation of abuse of dominant economic power. *Europe, Euratom and Marché Commun,* Nov. 1961.

[9] (Fr.) *Attestations négatives* and (Germ.) *Negativattest.* A negative certification appears a satisfactory English rendition.

[10] Article 9, section 1.

[11] Verloren Van Themaat, "Competition and Restrictive Business Practices in the

It can be readily foreseen that considerable conflicts are likely to arise in the area of overlapping jurisdiction. Such difficulties have already been pointed out by Maitre LaGrange, the Advocate General of the European Court of Justice, in the *Bosch* v. *De Geus* case where he stated "that the difficulties might be considerably eased if there were a spirit of collaboration between the national and the Community authorities." [12] Perhaps, there is a practical basis for minimizing the problems. The Regulations require [13] the Commission to keep the state authorities fully informed of applications and of the proceedings. Though there are no similar formal provisions requiring the state authorities to advise the Commission, an informal consultation procedure has been agreed upon whereby the national officials consult the Commission before taking their decisions.[14] However, only the German authorities, the *Bundeskartellamt,* have an active record of initiating consultations in cases raising important questions under Article 85.[15] Yet, this framework for cooperation would not preclude each party from filing his case with the forum of his choice, be it the national authority or the Commission, or both. Nor do the new Procedural Regulations,[16] though they require that the party who files his case with the Commission must notify the other parties to the agreement to that effect. A most important question resulting from multiple filing of a case is the extent to which a national forum will be bound by a decision of the Commission, and vice versa, in a case filed with both authorities by the same or different parties. In the meantime, it is likely that a practice might develop of filing in a forum which the party believes is more likely to give him a favorable decision.

European Economic Community," 99, 116, Institute on Legal Aspects of the Economic Community. The Federal Bar Association, 1960.

[12] Case 13/61—*Kledingverkoopbedrijk de Geus et Uitden bogerd* v. *Robert Bosh.* In his conclusions to the Court on February 27, 1962, Maitre LaGrange, in considering the interpretation of Article 85 and seq., described their functioning as one of the nerve centers of the Common Market. He opined that there is a central weakness in the system brought about by the fact that the supervision system does not coincide with the actual legislation. Whereas the actual legislation is based on an obvious material connection between the rules defining the prohibited agreements (Article 85, section 1) and those defining the conditions under which the bans may be lifted (Article 85, section 3), the same authorities are not being given exclusive jurisdiction to examine the principle of the ban and the possibility of being lifted.

[13] Article 10.

[14] 4th Report of the EEC, 69. The Report also states: "The decision of the administrative authorities and of the courts brings out once again how necessary it is to ensure the uniform interpretation and application of Articles 85 and 86. This is the chief aim of the first implementing regulation pursuant to Articles 85 and 86, drawn up by the Commission."

[15] 1960 *Bundeskartellamt* Report, 345. (Hereinafter cited as *BKA* Rpt.) One of such cases was the "Terrazzo" case, August 23, 1960, reported in 10 *WuW* 805 (1960). For a discussion of cases which arose under Article 85, see 1960 *BKA* Rpt. 345.

[16] Implementing Regulations pursuant to Article 24 of the Regulations No. 17.

Possibly, some adverse effects of overlapping jurisdiction may be avoided since the State authorities only retain jurisdiction for the limited time that the Commission has not initiated any proceedings towards the issuance of a negative certification, ending any infringement or taking a decision applying Article 85, section 3.[17] How soon the proceedings of the Commission are likely to divest the state authorities of jurisdiction in any particular case remains to be seen. But, the construction and application of this clause could well play a major role in determining the area of residual jurisdiction left with the national authorities. And, noteworthy is that this determination will be, to a large extent, within the control of the Commission since it will be responsible for initiating the proceedings. It may well be, therefore, that the difficulties due to concurrent jurisdiction may gradually decrease with the evolution of antitrust law in the European Common Market.

Where, alternatively, a party, rather than applying for a ruling of non-applicability of Article 85, section 1, or Article 86, selects to request the Commission for an exemption under Article 85, section 3, the national authorities would have no jurisdiction, since here it is exclusive with the Commission. However, it would then appear that the party could claim for a negative clearance concurrently with his application for an exemption, arguing, in good faith, that if his practice is not outside of Article 85, section 1, altogether, it qualifies under the exemption of Article 85, section 3. This procedure would promote notification of agreements and shift to the Commission the burden of making the decision as to which clause to apply in genuine cases of doubt.

NOTIFICATION PROVISIONS

1) *The Classes of Agreements*

The pivotal provisions of the Regulations revolve around its features regulating notification of agreements and the effective date of a decision of the Commission.

Fundamentally, the Regulations distinguish between agreements for which notification is mandatory and a class of agreements for which it is optional; moreover, it distinguishes between agreements existing on March 13, 1962, or old agreements, and agreements effective after that date, or new agreements.[18]

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[17] Article 9, section 3—Fr. . . . *Aussi longtemps que la Commission n'a engagé aucune procédure en application des Articles 2, 3 ou 6* . . . Germ. . . . *Solange die Kommission kein Verfahren nach Artikel 2, 3 oder 6 eingeleitet hat* . . .

[18] Fr. . . . *intervenus après l'entrée en vigueur du présent règlement* . . . Germ. . . . *die nach Inkrafttreten dieser Verordnung zustande komme.* Literally, agreements which came into effect after the effective date of the Regulations.

Essentially, in one of its basic provisions,[19] the Regulations provide that for old agreements of the mandatorily registrable class, a request for exemption under Article 85, section 3, must be filed by August 1, 1962.[20] For new agreements of the same class, no decision granting the exemption can be given until the agreement is registered with the Commission.[21] A different type time-schedule is set up for a special class of agreements which is recognized to present a lesser immediate threat to the development of the Common Market.[22] For such a class of agreements, regardless of whether they are old or new, registration with the Commission is temporarily postponed, optionally.

The provisions making the distinctions between the classes of agreements and their respective registration schedules are tightly interwoven with the power granted the Commission to make its decisions retroactive since its discretion on this matter can only be fully exercized when a party has complied with the registration schedule. Because the effective date of the decision of the Commission determines the legality of the practice of the parties, the measure of the fines imposable by the Commission, and because it has such an important bearing on the private rights between the parties *inter se,* the interplay between these various provisions provides very strong incentives for cooperating with the Commission. To the Commission, the Regulations provide a very powerful regulatory device for promoting compliance.

Very noteworthy, indeed, is the evolution from the Draft to the present Regulations of the scope of the two classes of agreements: the optionally and the mandatorily registrable class of agreements, the latter class including all agreements that do fit the former. During the negotiations, essentially two positions emerged: one—that of the Commission—favored mandatory registration for all agreements except for a special class of vertical agreements for which it was to be optional; and the second position—essentially that of the French—favored optional registration for all agreements except for a class defined by the Commission.[23] The Draft provided for mandatory registration with a class of exceptions for certain verticle type of agreements. The Regulations now embody a compromise.

In a number of ways, the optionally registrable class is broadened. The Draft only included agreements placing restrictions on the exercise of the rights of a party acquiring or using patents, designs or trademarks.[24]

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[19] Article 5, section 1.

[20] Article 5, section 1.

[21] Article 4, section 1.

[22] Article 4 and Article 5, section 2. Also, see the Preamble of the Regulations, the 4th and 5th "Considerations" on which the Regulations are predicated.

[23] *Europe, Euratom and Marché Commun Bullctins* of Nov. 16, Dec. 4, and 11, 1961.

[24] Draft, Article 5, section 3(b).

The Regulations now also include agreements between two enterprises whose sole effect is to impose restrictions on a beneficiary of a contract involving a conveyance or the licensing of a manufacturing process or knowhow.[25] This is another step in the direction of recognizing a special position for agreements involving industrial property rights. This approach is consistent with recent developments towards the enactment of a European Convention, which appears to recognize the need for sound protection of industrial property rights,[26] thereby acknowledging its contribution to the promotion of technical or economic progress.[27]

A further broadening of the optionally registrable class includes agreements whose sole object is the development or uniform application of standards and types and joint research agreements where the results are freely accessible to the participants. Also, optionally registrable are agreements in which only two parties participate [28] and whose sole effect is to restrict the freedom of a vendee to set prices or business terms in the resale of goods which he obtained from the vendor. It is very dubious that this clause incorporates resale price maintenance arrangements in which more than two parties participate. The national laws vary on the treatment of resale price maintenance.[29] Where the arrangement extends to involve more than two parties, even though they may be "non-signers" of the vendor-vendee agreement, registration appears mandatory.[30]

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[25] Article 4, section 2(b). Fr. . . . *d'imposer des limitations dans l'exercice de ses droits à l'acquéreur ou au bénéficiaire de contrats comportant cession ou concession de procédés de fabrication ou de connaissances relatives à l'utilisation et à l'application de techniques industrielles.* . . . Germ. . . . *oder dem Berechtigten aus einem Vertrag zur Übertragung oder Gebrauchsüberlassung von Herstellungsverfahren oder von zum Gebrauch und zur Andwendung von Betriebstechniken dienenden Kenntnissen hinsichtlich der Ausübung dieser Rechte Beschrankungen auferlegen.* . . .

[26] Weiser, "The Convention for European Industrial Property Rights"—This *Journal*—Vol. 5, Fall 1961, No. 3, 233, 241-242.

[27] Treaty of Rome Art. 85, section 3, subsection 1.

[28] Fr. . . . *n'y participent que deux entreprises* . . . Germ. . . . *an ihnen nur zwei Unternehem beteiligt sind.* . . .

[29] The West German Law against Restraints of Competition (West German Law Against Restraints of Competition of July 27, 1957—(1957) 1 *Bundesgesetzblatt* 1081, effective January 1, 1958), section 15, generally prohibits such arrangements whereas section 16 makes an exemption for branded goods but requires their filing with the *Bundeskartellamt* for control of abuses. Under the French Law (Ordinance No. 45-1483, June 30, 1945, as amended by decrees No. 53-704, August 9, 1953, No. 58-545, June 24, 1958, and No. 57-1004, August 17, 1959), Article 37, section 4, the maintenance of minimum prices for goods is prohibited. As for exclusive dealing arrangements, they are generally legal in France so long as the parties place definite restraints on their own economic freedom. In Germany, exclusive dealing arrangements are allowable subject to invalidation by the *Bundeskartellamt* if they unduly restrain competition and have a substantial effect on competition.

[30] In exempting only agreements between two parties, it would make a distinction somewhat analogous to that existing in the United States after the Miller-Tydings amendment

But, the optionally registrable class is drastically cut down by disallowing exclusive dealing arrangements, which were allowed in the Draft,[31] whether for delivery or purchase and exclusive agency agreements for goods or services of an enterprise. Clearly now, mandatory notification applies to such arrangements. The reason underlying such change is probably because such exclusivity arrangements may approach division of markets or of supply when judged by their anticompetitive effect on the market.

Both the Draft and the Regulations recognize [32] that agreements must be registered, even though concluded within one member state, when they affect interstate commerce. Thus, the view is recognized that such agreements may have anticompetitive effects incompatible with the Treaty overflowing the national boundary.[33]

It is the limitation of the optionally registrable class to agreements between "two enterprises" which, probably, underscores the importance of the term "enterprise" most dramatically. An agreement in which more than two enterprises participate is not within the exempt class. Moreover, there is no agreement within the meaning of Article 85, section 1,[34] unless there are two enterprises. The term has particular relevance in deciding whether a subsidiary is an enterprise distinct from its corporate parent. The question may arise more subtly for a partially owned subsidiary. The term "enterprise" has been considered by the Court of Justice in cases arising under the Coal and Steel Community.[35] But these decisions must be taken with caution in view of the different environment within which they arose. The nature of the matters to be regulated will undoubtedly strongly emphasize the economic concept rather than its legal form.[36] It is suggested that where the economic practice giving rise to the anticompetitive effects under scrutiny is attributable to an independent business decision, the business structure where it originates may be designated

to section 1 of the Sherman Act and before the McGuire Act added "non-signer" clauses to the federal antitrust exemption.

[31] Draft—Article 5, section 3(c, d, e).

[32] Draft—Article 5, section 2. Regulations, Article 4, section 2, subsection 1.

[33] See for a further extension of this situation to agreements outside the Common Market. Cartel and Monopoly in Modern Law, International Conference on Restraints of Competition, Frankfurt on the Main (1960) (hereinafter cited as Cartel and Monopoly). Hug, *The Applicability of the Provisions of the European Community Treaties against Restraints of Competition to Restraints of Competition caused in Non-Member States, but Affecting the Common Market,* Vol. 2, 639.

[34] See Note 3, *supra.*

[35] For instance, *S.N.U.P.A.T.* v. *Haute-Autorité,* 5 *Recueil de la Cour* (hereinafter cited as Rec.), 277 (1958-1959) and *S.A.F.E.* v. *Haute-Autorité,* 5 Rec. 383 (1958-1959).

[36] Behr, *The Concept of Enterprise Under the European Economic Community, European Regional Communities,* Duke University (1961), 454, 462.

as an "enterprise." An even broader concept of this term would qualify as an enterprise any business structure capable of independent business decisions even though the practice under scrutiny was dictated by the corporate parent rather than originating from an intra-subsidiary independent decision.

The existence of a temporarily exempt class has already been criticized as "loopholes which will no doubt be exploited to the detriment of the millions of consumers of the Community." [37] This view appears rather premature. Rather, the incentives provided by the Regulations for timely registration of agreements, together with the shadow of possible adverse effects on the civil rights of the parties attendant failure of registering, seem to provide enough inducements for registering agreements which might appear on the borderline between the temporarily exempt and mandatorily registrable classes.

2) *The Notification Schedule for the Mandatorily Registrable Class*

The general rule provides that a request for exemption under Article 85, section 3, must be filed by August 1, 1962, for existing agreements of the mandatorily registrable class. For new agreements, a decision of applicability of the exemption can only be issued after registration; in effect, this appears to make registration necessary by the effective date of the agreement. It is in connection with the registration time schedule that the discretionary power vested in the Commission to make retroactive the effective date of its decision comes into play. The Draft already contained an inchoate form of retroactivity in its system of provisional authorization.[38] The retroactivity features assumed further shape in the text adopted by the European Parliamentary Assembly which provided the Commission with the authority to issue a favorable decision retroactively.[39] Now, the Regulations, as a first inducement for timely registration provide the general rule that the effective date of the Commission's decision granting an exemption under Article 85, section 3, can be made retroactive to the date of registration with the Commission.[40] A very special "legal bonus" is granted to existing agreements applying under Article 85, section 3, if notice is given by August 1, 1962. For such agreements, the Commission

[37] Cartel XII, No. 1, January 1962—Commentary.

[38] Draft, Article 4, section 1. This provision provided that if within six months after filing an agreement, the Commission raised no objections, the agreement was considered as provisionally authorized. This authorization could be effective at least to the filing date, if not earlier.

[39] *Europe, Euratom and Marché Commun Bulletins*, Nov. 16, 1961 and Europe "Documents" No. 110. Assembly's Opinion. Sections 1A and 1C.

[40] Article 6, sections 1 and 2.

is vested the discretion to declare an agreement within the exemption of Article 85, section 1, by a decision effective retroactively. Thus, the effective date of the decision can be the date of registration or as early as the effective date of the agreement, or January 1, 1958, the effective date of the Treaty, whichever is earlier. Accordingly, a favorable decision of the Commission may hold the agreement within the exemption *ab initio*. As a consequence, the validity of the agreement is strengthened. Such application of the retroactivity features is conducive to the settling of judicial and commercial uncertainty which now may enshroud some existing agreements.

On the other side of the coin, however, the Regulations appear to allow the Commission to give retroactive effect, not only to a favorable decision, but also to a decision adverse to the registrant holding Article 85, section 3, not applicable. Such application would not be needed as much under the "null and void prohibition" doctrine but it has a place under the "legal exemption" doctrine [41] to hold illegal *ab initio* an agreement erroneously assumed to be legal. Prior legislative history of the Regulations sheds very litle light on this aspect,[42] except that, because it appears to have been the subject of so little discussion, such a retroactive application might not have been intended. Moreover, since retroactivity is only applicable for the timely registrant, untimely registration would appear to provide insulation from such an adverse decision. This would be contrary to the purpose of the Regulations to promote registration. Perhaps, an adverse retroactive decision may be precluded on the basis that such a decision does not "apply" Article 85, section 3, since the practice does not come within its purview. Yet, the possibility of the Commission giving retroactive effect to a decision adverse to the registrant must be kept in mind. It is bound to have a deterrent effect on the practices inconsistent with Article 85, section 1.

For existing agreements that may be of such grievous type that they are not expected to be able to qualify with Article 85, section 3, but come under the prohibition of Article 85, section 1, the Commission is again granted important discretion where registration is carried out by August 1, 1962 by cooperating enterprises. Registration may be carried out by January 1, 1964 for new agreements of the optionally registrable class. Where the enterprises agree to discontinue or to amend their practices as to take them outside the purview of Article 85, section 1, or within the exemption of Article 85, section 3, the Commission is granted the

[41] See Note 5, *supra*.

[42] Except, perhaps, the view of certain advocates of the "legal exemption" doctrine which seemed to propose that an agreement can be declared illegal retroactively to its effective date. This appeared to have been the point of view of the representatives of Italy, *Europe, Euratom and Marché Commun Bulletin* No. 6, 1961.

special authority to apply the prohibition of Article 85, section 1, for a period which it determines.[43] In effect, this gives the Commission the power to apply the invalidity of Article 85, section 1, for only a period limited to that preceding amendment or discontinuance of the infringing practice. Or, the Commission may declare a moratorium retroactive to the date of the agreement. Hence, here again there is a dual incentive: to correct the practice and to notify timely. Similarly to parties applying for the exemption, the purpose is the promotion of commercial and legal certainty in the relationship of parties. But, here the provisions giving effect to a favorable decision retroactively to a date prior to the registration date, appear of questionable legal soundness under the general prohibition view. To the extent to which the Commission would hold Article 85, section 1, not applicable, it would profess to validate a practice previously declared prohibited by that section. It is questionable that this is sound. On the other hand, no such question arises under the legal exemption view since there, the prohibition can be applied to prior practices for any determinable period. Perhaps this fact, together with the language of this clause which reads "apply" rather than "lift," suggests that the Regulations lend themselves better to adoption of the legal exemption, rather than the general prohibition, view.

Probably, the writers of the Regulations have recognized a delicate point involved in the retroactivity features applicable to objectionable practices corrected by cooperating enterprises. The Regulations appear to estop a registrant who has amended or discontinued his practice, from using a decision of the Commission as a defense in a suit by a non-registrant for damages resulting from the breach of contract involving the condemnable practice.[44] Hence, a decision by the Commission that the amended practice might have been legal after ammendment would be of no moment in a suit for damages by any non-registrant. Therefore, the Commission would be ruling on the legality of the practice, while, ostensibly minimizing the effects on the civil liability attendant the infraction. In this light, the provision appears sound.

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[43] Article 7, section 1.

[44] Article 7, section 1, last sentence. Fr. . . . *Une décision de la Commission en application de la phrase précédente ne peut être opposée aux entreprises et associations d'entreprises qui n'ont pas donné leur accord exprès à la notification.* Germ. . . . *Eine Entscheidung der Kommission nach Satz 1 kann denjenigen Unternehmen und Unternehmensvereinigungen nicht entgegengehalten werden, die der Anmeldung nicht ausdrucklich zugestimmt haben.* The Commission has been reported to be of the opinion that it does not have the power to choose between the two interpretations of Article 85, with respect to the view that agreements are either null and void since January 1, 1958 or from the moment of the decision that it comes under the prohibition of Article 85 (see Note 11, Verloren Van Themaat, at 112). Thus, it would appear that if the Regulations had not made the distinction proposed by the last sentence of Article 7, section 1, it would have legislated in effect respecting the civil rights of the parties.

3) *The Optionally Registrable Class*

For this class of agreements, new Regulations to issue by March 13, 1963 will govern their practice.[45] However, again incentives are provided for applying to the Commission for an exemption under Article 85, section 3, for existing agreements in the optionally registrable class by August 1, 1962 and of such new ones by the time they become effective. When filed timely, the Commission, similarly as for agreements in the manditorily registrable class, can make its decision retroactive to the date of the agreement or January 1, 1958. This, again, should contribute to greater commercial certainty. It is especially laudable here in application to a class of agreements which are recognized to have lesser anticompetitive evil tendencies.

In this context, the other side of the coin appears rather ironical. There again appears to be no express preclusion for the Commission for making retroactive a decision adverse to the registrant, thus holding Article 85, section 3, inapplicable and Article 85, section 1, violated. For a good faith applicant of an agreement presumably of lesser anticompetitive character, this appears to be a questionable result. At a minimum, a distinction should be made between the possibility of retroactive adverse decisions for the optionally and the mandatorily registrable classes so as to preclude its application to the former. No such distinction appears from the face of the Regulations to remedy this situation. It is hoped that great restraints, prompted by sound administrative judgment, will be exercised in applying such decisions adverse to the applicant, retroactively.

However, where parties elect not to register agreements in the optionally registrable class, they cannot use them as a shield for anticompetitive practices. As part of its power to make inquiries within certain economic sections,[46] the Commission can request any enterprise to disclose to it all its agreements for which registration is optional. Such threat of exposure is conducive to the continued proper management of such practices.

THE FINES AND PENALTIES

The Draft provided fines for failure to register agreements with the Commission.[47] Evidently as a price enacted by opponents of mandatory registration systems, the Regulations, unlike the Draft, make no provisions for fines for failure to register agreements with the Commission.[48]

[45] Article 22, section 2.

[46] Article 12, section 2.

[47] Draft, Article (a).

[48] This is the reason it is possible to say that the mandatorily registrable class of agreements is filed voluntarily!

As a counterpart, however, stiff fines are provided for violation of Article 85, section 1, or Article 86, and for infractions of the Regulations. These amount from one thousand dollars to the larger of one million dollars or ten per cent of the gross business income for the preceding year for each enterprise participating in the violation.[49] Interestingly, it is the member states and not the Commission which proposed these fines.

However, the Commission can impose fines from one hundred to five thousand dollars for supplying false or misleading information to the Commission and daily penalties ranging from fifty to one thousand dollars for forcing compliance with its decisions. When compliance has been obtained, the Commission may decrease the severity of the fine from the amount stated in the decision.[50]

Interestingly, the Commission cannot impose fines indirectly for failure to register the agreement by using its power to make a decision effective retroactively. For existing agreements which are registered timely, no fines can be imposed for practices which are within the scope of the registered agreement.[51] Hence, even if an adverse decision were applied retroactively, the fines can only be applied to acts carried out subsequent to notification. This limitation on the Commission's power appears rather limited since in determining the amount of the fine, the duration of the infringement should be considered in conjunction with its gravity.[52] Moreover, the full impact of the Commission's power can be felt where registration of the existing agreement is not timely or where the practices exceed the scope of the existing agreement: in such a case, no restrictions are imposed on the period for which fines are imposable. While this is another incentive for timely registration, it underscores the illusory character of any restriction on the Commission's power to fine. Moreover, whatever restrictions there may be on the fining power are discarded when, upon an interlocutory examination,[53] it considers the conditions of Article 85, section 1, met and an application under Article 85, section 3, unwarranted. When this occurs, no limits on the periods for fining apply.

For new agreements, no fines can be imposed for acts subsequent to the registration and prior to the decision.[54] Accordingly, acts carried out pursuant to an agreement entered after March 13, 1962 and before the

[49] Article 15, section 2(a).

[50] Articles 15 and 16.

[51] Article 15, section 2.5(b).

[52] Article 15, section 2.

[53] Article 15, section 6. Fr. . . . *qu'après examen provisoire elle estime que les conditions de l'article 85, section 1, sont remplies* . . . Germ. . . . *vorläufiger Prüfung der Auffassung ist, das die Voraussetzungen des Artikels 85 Absatz 1 des Vertrages vorliegen.* . . .

[54] Article 15, section 2.5(a).

date of registration, are subject to fines. This clause clearly promotes timely registration. Where the registration and decision dates are made to coincide by the Commission exercising its discretion to make the date of decision retroactive to the registration date, the acts vulnerable to fining are those in the period between the agreement date and registration date, if these two do not coincide. Where they do, no fine can be imposed. Where the decision inflicting the fine is subsequent to the notification date because it was not given retroactivity, again the same period from agreement date to registration is subject to fines, but this time the decision may affect the validity of the practice during the entire period from the agreement date to the decision date and, thereby, the rights of the parties *inter se.*

The interplay between the retroactivity power, that to affect the validity of a practice and the elasticity of the power to fine, gives the Commission a powerful instrument for the enforcement of the Regulations.

ENFORCEMENT OF THE REGULATIONS

The power of enforcement of the Commission is manyfold. Pursuant to the provisions of Article 89 of the Treaty, very powerful investigation powers are granted the Commission. These are probably the most extensive in the Western World.[55] They comprise the power to request all necessary information from Governments, State authorities or enterprises.[56] They also comprise broad powers for searching the business of the enterprises, examining business records, and taking oral depositions.[57] Yet, guarantees are provided for professional secret subject matter.[58] It can be foreseen that serious difficulties may arise in what subject may be given this label properly.

It is significant that the Commission may initiate investigations pursuant to its own motion and that the State authorities only need be advised in due time.[59] But, dependency by the Commission on the authorities of the states appears to increase as the enterprises become more

[55] For an interesting comparison of the right of information and investigation under the ECSC Treaty, see Spaak and Jaeger, The Rules of Competition within the European Common Market. Law and Contemporary Problems European Regional Communities, Duke University (1961), 484, 497. The right of investigation is more extensive than that of the Federal Trade Commission, the Department of Justice, greater than that of the *BKA.* Yet, broader are the powers given in the Belgian Act on protection against abuse of economic power of May 1960, Article 4, especially paragraph 3. *Moniteur Belge,* June 22, 1960.

[56] Article 11.

[57] Article 14, section 1.

[58] Article 20.

[59] Article 14, section 2.

recalcitrant to the investigation.[60] This probably cannot be avoided since Article 189 of the Treaty reserves to the domestic agencies competence as to forms and means. This Article appears to preclude legislative penetration into the states' provinces. In this area, conflicts with the national laws can be envisaged in the execution stages of the investigation powers. Possibly, recognizing such difficulties the Regulations now seem to provide, in a departure from the Draft, for the enactment of the necessary national laws by October 1, 1962 to enable the Commission to rely on the assistance of the states to carry out an investigation against an objecting enterprise.[61] The Commission must be consulted for the enactment of the new measures.

A supplementary investigating weapon of the Commission is directed against sectors of the economy as a whole. It permits the Commission to carry out inquiries into the business of enterprises located in that sector when there are indications, from the trend of trade between the Member States, that competition within the Common Market is being distorted or restricted.[62] These inquiries can be carried out to investigate any abusive exploitation of a dominant position within the Common Market as prohibited by Article 86. However, investigations by economic sectors against enterprises with dominant market power appear to be limited to enterprises which are located in the economic sector in which the effects of their anticompetitive conduct occur, such as inflexibility of prices or price movement. Effective application of these provisions appears to demand an elastic conception of the term "economic sector" to insure that it will encompass both the enterprise and its effects, regardless of their remoteness in the economic market.[63]

THE PROVISIONAL CHARACTER OF DECISIONS

Decisions of the Commission are granted for a specified period and may be renewed upon application. Also, they may be issued with stipulations and conditions.[64] Moreover, a decision can be revoked or modified by the Commission on four grounds.[65] Three of them are directed against improper acts performed by the parties, such as fraud. One ground is a factual change in the situation on which the decision is predicated, such as a significant change in the market situation. This latter fact may change

[60] Article 14, sections 5 and 6.

[61] Article 14, section 6.

[62] Article 12.

[63] For a discussion of related aspects, see Günther, The Relevant Market in the Law of Restriction of Competition. *Schriftenreihe der Jur. Stud. Ges. Heft 47.* Karlsruhe, Reviewed in 10 *WuW* 711 (1961).

[64] Article 8, sections 1 and 2.

[65] Article 8, section 3.

quite independently from the parties, especially in a dynamic economy, like that of the Common Market. If commercial certainty is to prevail, it should be the hope that decisions will not be unwisely opened on this ground. But, the provisional character of the decisions underscores the dynamism of the Common Market.

Again, in a striking and characteristic departure from the Draft, the Regulations provide the Commission with the power to revoke its decision with retroactive effect.[66] Yet, here the Regulations draw a sound distinction. No retroactivity is applicable where the reason for amending the decision is not attributable to improper acts of the parties, but is independent thereof, as where there is a change in the market situation. Had this not been the case, serious economic and legal uncertitude would have attached to a decision that is subject to being opened up by varying economic circumstances. Where improper acts of the parties are involved, the Commission has the power to declare, for instance, Article 85, section 3, inapplicable, and the practice improper under Article 85, section 1, with retroactivity. This is a powerful "sword of Damocles" which should have a strong, sobering influence on the parties in the accuracy of their statements in registering and in their compliance with decisions of the Commission.

STATE RESTRAINTS ON THE COMMISSION'S POWER OF DECISION

Possibly, this is the Achilles heel of the Regulations. The Draft provided that the Commission would only render decision after having had a separate opinion of the competent authorities of the Member States.[67] This, it seems, could have been crippling. Now, the Commission has somewhat greater independency. But, it must work with a new body proposed by the Economic and Social Committee: the Consultative Committee on Cartels and Monopolies.[68] It is to be constituted by qualified representatives from the States authorities and its work should concentrate on the economic and social aspects of the agreement under scrutiny. Before issuing a decision, the Commission is to consult the Committee in a joint session called by the Commission. And the Committee, even if incomplete by the absence of some of its members, may write an opinion. A consultation is thus provided; but, there appears to be nothing equivalent

[66] Article 8, last paragraph. Fr. . . . *Dans les cas visés sous b), c) et d), la décision peut aussi être révoquée avec effet rétroactif* . . . Germ. . . . *In den Fällen der Buchstaben b), c), und d) kann die Erklärung auch mit rückwiekender Kraft widerrufen werden.* . . .

[67] Draft Articles 7, section 2, and 8, section 1. This was essentially the position of France whereas the legal department of the European Community opposed state participation. The Commission favored a form of consultation with the State authorities.

[68] Article 10, section 3.

to a veto power. In some ways, this is akin to the role of the Advocates General who are attached to the Court of Justice.[69] The Committee could be a real impediment on the vigor of the decision-making power of the Commission. The members of the national authorities may unite to resist imposition of the supranational directives of the Commission; or, the differences may arise along national lines. Also, the restraints may arise just out of the mechanics of the existence of such a joint committee. Certainly, it could act as an inhibitor on the independence of the Commission's ability to act as an impartial arbitrator in the application of Articles 85 and 86. If this is the weakest link in the Regulation, it remains to be seen, of course, how weak it is. Notwithstanding these considerations, it would appear that such a centralized committee would increase the influence of the Commission. Moreover, the committee may well provide a crucible, further remote from the influence of national bodies, where pressures can be brought upon each other by all the members of the joint committee to mold a European approach to the control of restrictive trade practices. It is hoped, however, that the members appointed to the Committee will be individuals dedicated to translating the Regulations into an effective and dynamic competitive system in the EEC.

THE TRANSPARENCY FEATURES OF THE REGULATIONS

Perhaps, these features will act as somewhat of a deterrent to notification. The Regulations provide for transmission to the competent State authorities of requests and applications together with copies of important papers.[70] But, moreover, it provides for the publication of essential contents of an application or notification prior to issuing a negative clearance or a decision.[71] The purpose is to provide third parties of interest an opportunity to submit their views. This procedure is already subject to criticism.[72] As a palliative to abuse, there is specified, however, that only essential contents of applications or registrations shall be published and

[69] Justice Donner, President of the Court, The Court of Justice of the European Communities. Legal Problems of the EEC and the European Free Trade Association. International and Comparative Law Quarterly, Supp. Pub. No. 1, 66, 68 (1961).

[70] Article 10, section 1. Under the Procedural Regulations, seven copies of the documents must be filed in order to provide sufficient copies for the State authorities.

[71] Article 21, section 1.

[72] Verloren Van Themaat, answering this criticism directed at the publication features of Article 2, said that it aims at giving the parties the legal guarantee that their agreement is not forbidden; it thus promotes legal certainty. Since no negative clearance is possible without third parties having had an opportunity to present their views, the rule requires that the negative clearance must be published in the form of a draft. If an enterprise does not want its agreement to be known, it may ask the Commission for "advice"; this does not commit the Commission. Press Conference at La Hague, February 2, 1962, Verloren Van Themaat, Von der Groeben and Jaume. *Europe and Euratom et Marché Commun.*

that the business and professional secrets of the enterprises should not be divulged.[73]

Regardless, however, of the criticism, it can be seen that these publications should be of immeasurable help as harbingers to guide the management of enterprises in a manner consistent with the policy of the European Economic Community in the field of freedom of competition.

CONCLUSIONS

Upon analysis, the Regulations emerge as a powerful legislative instrument capable of great flexibility that should well meet the requirements of an "armory of sufficient flexibility . . . to be able to meet the varying situations." [74] If it is not a "rule of reason" which the European Economic Community will develop, it may be an "equitable rule" striving at a system of workable competition that will reserve to the public an equitable share of the benefits resulting from a stiffer and more dynamic competition. Its application is likely to be in the hands of administrative officials, both of the states and the Community, with whom differences should be negotiated skillfully.

The antitrust provisions of the Treaty of Rome, as implemented by the Regulations, are likely to have a significant impact on American interests. The importance of these recent developments in the European Community has been recognized on the American scene by The Honorable Lee Loevinger when, after discussing the antitrust laws of the Treaty of Rome, he stated:

"The laws of the countries of the Free World, and of the Communities and organizations of these countries, are now tending toward elimination and control of restrictive business practices and restraints of trade. Antitrust law is becoming a western world phenomenon, as the Free World increasingly recognizes that the maintenance of economic freedom is intimately related to the achievement and maintenance of political and personal freedom." [75]

Likewise, it has been noted that the antitrust vacuum existing in Western Europe has now been filled by the enactment of comprehensive antitrust regulations specifically discussing those of the Common Market.[76] And, in a review of the same provisions of the Regulations, it was sug-

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[73] Article 20 and Article 21, section 2.

[74] Von der Groeben, "The Cartel Legislation of the European Economic Community in the Light of Two Years' Experience." *1 Cartel and Monopoly,* 63, 68.

[75] The Honorable Lee Loevinger, Assistant Attorney General in charge of the Antitrust Division, U.S. Department of Justice: Antitrust Law in the Modern World, address before the New York State Bar Association, January 25, 1962.

[76] The Honorable Herbert Brownell: American Business in World Trade, a talk before the National Industrial Conference Board's Special Antitrust Conference—May 16, 1962.

gested that "presumably, this comprehensive new antitrust policy will be enforced, and would apply to any subsidiary or other business enterprise of U. S. origin that may be established or in existence in the Common Market area." [77] Furthermore, a modernization of our antitrust concepts to prevent conflict or duplication of the laws in Western Europe with our own antitrust laws, is being advocated.[78]

Concurrently with what a study of the antitrust provisions of the Treaty of Rome and the Regulations reveal, it is essential to keep in mind what is not spelled out by the Regulations: the consequences on the private rights of the parties *inter se*. Two decisions related to this question are revealing: in the first, the Court of Justice of the European Communities in the *De Geus* v. *Van Rijn and Bosch* case,[79] deciding the question submitted to it by the Court of Appeal of The Hague, held that Article 85 of the Treaty was immediately applicable law. Moreover, the Court held that agreements which are not registered timely, in accordance with the Regulations, are null and void from March 13, 1962. If registered timely, they can only be deemed null and void if the Commission holds that the exemption of Article 85, section 3, does not apply or that this agreement cannot be corrected to be compatible with the Treaty, or that national authorities held the agreement invalid as violating the Treaty.

The second decision may be even more significant because it involved a suit for a breach of contract between its parties. In its decision of May 4, 1961, the Court of Appeal of Paris in *Société de l'Alimentation* v. *Société de Fécamp,*[80] held invalid and unenforceable an agreement between two French enterprises. The initial agreement of July 1949 between the parties provided for a merger of production facilities, a joint distribution system and price fixing for a certain region of France. When, in 1955, the appellant (*Soc. de l'Alimentation*) rescinded the agreement on the ground that it was invalid since August 1953, (*Decrée 9 Aout 1953,* modifying Ord. 30 June 1945),[81] the appellee (*Soc. de Fécamp*) sued for specific perform-

[77] *Id.*

[78] *Id.* The problem of the application of our antitrust laws to American commerce in the European Common Market deserves renewed attention. For a study, see the Report of the Attorney General's National Committee to Study the Antitrust Laws, 1955, pages 65-109.

[79] See Note 17. *Europe, Euratom and Marché Commun*—Luxembourg—April 9, 1962 Bulletin.

[80] *Cour d'appel de Paris, 1re Chambre Supplémentaire, Juris Classeur Périodique, La Semaine Juridique, Sec. Jurisprudence,* No. 16, April 1962.

[81] *Guide to Legislation on Restrictive Business Practices,* Vol. 1, France, published by the Organization for European Economic Cooperation, Paris. A report of the work of the Commission Technique des Ententes is found in *WuW* 61, 861, *Die Jahresberichte der französischen Kartellbehörde (1954-1959).*

ance and for damages. Reversing the decision of the lower court, the Court of Appeal of Paris held the agreement invalid as a restraint on competition, which violated section 59, *bis* of the Ord. June 1945 in precluding, *inter alia,* a lowering of sale prices. Also very significant is the statement by the court that if:

". . . The *Société Fécamp* had considered the main object of the agreement as contributing to economic development and to improved distribution, it should have applied for a ruling to that effect from the *Commission Technique des Ententes;* requesting an exemption under 59 ter; and this, the party failed to do."

This decision is apparently the second decision reporting private litigation involving contractual right of the parties to an agreement dealing with restraints on competition.[82] These developments cannot be ignored as indicia of the evolution of antitrust philosophy in the Common Market.

"In appraising what will happen in Europe . . . , once it gains impetus and public favor, antitrust enforcement may spread like wildfire. It may be safe to say that there will be no Thurman Arnold in Europe for awhile, but it is only prudent to add that his European counterpart may well be waiting in the wings." [83] Moreover, as "The dusty corners of protectionism . . . are being ventilated, at least by the end of 1969, the wind of free competition should be fairly whistling!" [84]

And, now is the time to harken for the whistling in the wings!

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[82] In the first decision of the Court of Lyon, June 13, 1960, *Juris Classeur Périodique 1961 No. 68936,* The Court, apparently, instructed the parties to seek first a ruling from the Commission Technique des Ententes.

[83] Kelleher, The National Antitrust Laws of Europe, 17 A.B.A., Antitrust Section 506, 518.

[84] Dr. Walter Hallstein, President of the Commission of the European Economic Community, address delivered at Georgetown University, April 12, 1962.

The Developing Law of German Employee Inventions

JAMES W. BRENNAN *

SUMMARY

THE RIGHTS OF EMPLOYEE INVENTORS to share with the employer in the profits arising from their invention has evolved over a long period in Germany. The first comprehensive regulation in this field came about in the 1940's as an attempt to promote the making of employee-inventions to aid the war effort. These early regulations have been superseded by a statute enacted by the German Parliament in 1957. Although certain of the procedures to be followed by the employer and the employee under the new statute may be criticized as unduly complex, no fundamental change in existing substantive law has been made. German employers, especially larger companies, have encountered no hardships in operating under the recent statute. It is difficult to determine if inventing by employees has been stimulated by the recent statute. Statistics regarding the filing of patent applications fail to show an increase in the filing of domestic applications. Inasmuch as the statute does not represent a fundamental departure from the previous regulations, a dramatic increase could not be expected.

PART 1

INTRODUCTION

THE GERMAN EMPLOYEE INVENTION STATUTE OF 1957, is the culmination of a half century of evolution of legal thought in Germany. The statute is one attempt to resolve the conflict between a fundamental principle of labor law which awards the fruits of an employee's labor to his employer and the principle of the patent law which provides for a limited monopoly to the inventor as a reward for his invention.[1]

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[1] Amtliche Begründung zum Regierungsentwurf eines Gesetzes über Erfindungen von

The question of the right of an employee to share in the profits arising from inventions made by him while in the employ of another is an extremely sensitive area of the law affecting the relationship between the employer and the employee, the relationship of the employer or employee vis-a-vis third parties and the promotion of the national economy through the patent system. Since more than eighty percent of the inventions made in Germany originate from employees,[2] this law is of particular economic and sociological significance.

The legislature characterized the statute as social legislation intended to protect the inventive employee;[3] the generous manner in which the employee is treated is proof of this intent. Some commentators on the law believe that an important purpose of the law, perhaps more important than the first, is to promote and foster the economic development of Germany by presenting to creative employees incentives to invent.[4]

This statute is of interest in the United States for two reasons; first, because American companies having subsidiaries or branches in Germany may have to operate under this statute and second, because the German law presents a good model which may be used by those in the United States interested in determining if such a system can be adapted to the U.S. industrial-patent complex. In recent years, proposals have been made that there should be Federal legislation which would equitably divide the profits of an invention between the inventor and his employer. Some authors have with good reason selected the German statute as an example.[5]

Unfortunately, most of the publications in the English language are based solely upon a discussion of the text of the statute. It is the purpose of this paper to discuss the law, taking into consideration the opinions of German lawyers who have worked with the law, the German commentaries on the law and the few decided cases which have been published. An

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Arbeitnehmern und Beamten von 19 August 1955 (Drucksache des Deutschen Bundestags Nr. 1648)—"Allgemeines"; reprinted in "Gesetz über Arbeitnehmererfindungen mit Nebengesetzen und Materialen"—Dr. Kurt Haertel und Albrecht Krieger—Karl Heymanns Verlag K. G. Köln/Berlin 1957. Nachtrag-Durchfuhrungsverordnungen und Vergutungs rechtlinien 1959.

[2] Haertel and Krieger, p. VII.

[3] Schriftlicher Bericht des Ausschusses für gewerblichen Rechtsschutz und Urheberrecht (17 Ausschus) über den Entwurf eines Gesetzes über Erfindungen von Arbeitnehmern and Beamten (Drucksache 1648) "Allgemeines" reprinted in Haertel and Krieger. cf "Gedanken zur Neuregelung des Rechts der Arbeitnehmererfindungen"—Alfred Hueck —J. C. B. Mohr (Paul Siebeck Tübengen).

[4] "Arbeitnehmererfindungsgesetz" commentary by Bernhard Volmer—C. H. Beck'sche Verlagsbuchhandlung Munich/Berlin, 1958, p. 21; Reimer's "Das Recht der Arbeitnehmererfindung" 3rd. Aufl. bearbeitet von Dr. Hans Schade and Dr. Helmut Schippel—Erich Schmidt Verlag, Berlin, 1958, p. 23.

[5] "Division of Rights Between the Sponsor and the Originator of an Invention" W. R. Maltby, 21 *FBJ* 258 (1961).

attempt has been made to be as specific as possible, but a paper of this size cannot exhaustively treat a subject of the scope and complexity of this German law.

In order to appreciate the impact of the current statute, it is necessary to return to the Patent Law of 7 April 1891 and to investigate to some extent the evolution of the philosophy of both the Patent Law and the Labor Law.

GROWTH OF THE LAW IN GERMANY

The Law Prior to 1936

The Patent Law was based originally on the so-called application principle (Anmeldeprinzip). Inasmuch as a patent served the public interest by making the invention known and after fifteen years (the term of the patent in 1891) freely available to the public, it was granted not only to the inventor but also to the first applicant who offered to the public the fruits of the inventive activity of the inventor.[6] If the first applicant were a thief then the true inventor had a remedy at law under the proper circumstances.[7] Apparently, third parties could not use as a defense in an infringement suit the fact that the patentee was not the true inventor; the right of action could be exercised only by the inventor according to Sections 3 and 11 of the Patent Law.

Furthermore, the courts distinguished between the right in the invention and the patent right. With the making of an invention an absolute right arose in the inventor when he obtained a patent, this right disappeared, replaced by the patent right. Since this right to the invention was considered a property right, it could be disposed of by the inventor.

Consequently an employee could enter into a contract with his employer whereby the employer obtained title to the inventor's right in the invention the instant it was made.

The employer could file a patent application without naming the inventor in the application or, indeed, without his knowledge of the filing. The only judicially imposed requirement for validity of such a contract was that the invention had to be specified before hand. A contract of employment identifying the field in which the employee was to work and stating that all inventions made by him in that field became the property of the employer was held to be sufficiently definite.[8]

Although most of the contracts of employment with scientific personnel

[6] "Das Patentgesetz vom 7 April 1891." Commentary by Dr. Paul Kent, *Heymanns Verlag 1906,* Vol. I, p. 41.

[7] 1892 RGZ 29, 49 (Decisions of the Imperial Court in Civil Cases, vol. 29, p. 49, 1892).

[8] 1911 RGZ 75, 225.

contained provisions granting immediate title to the invention to the employer, this was in the nature of added protection for him, since he had a right to inventions of his employees made during working hours with his facilities. The contract provisions gave rights in inventions made by the employee after working hours so that the employer had rights to inventions regardless when they were made.[9]

As might be expected, the lack of recognition of the right of an employee to be noted as the inventor led to disputes, especially when the employee had no scientific training and his duties were not that of a scientific investigator.

The situation was first considered by the legislature at about the turn of the century. In the stenographic report of the proceedings in the German Parliament as reprinted in *GRUR,*[10] Representative Potthoff described an incident in which an employee, not a trained scientist, made an invention which the employer patented in his own name and in the course of ten years, saved 300,000 R.M. (German Marks). The employee received no extra compensation for the invention nor did his name appear on the patent. Sometime later the employee made a second invention but refused the employer's request to describe it in sufficient detail to permit the filing of a patent application and refused to do any such work for the employer which lay outside of his assigned duties.

Dr. Pottoff, concerned at this disruption of the relations between employer and employee and the loss of invention to Germany, suggested that the patent law be amended to follow the example of the U.S.A. in providing that the patent be applied for in the name of the true inventor or, at least, that the employee making the invention be recognized as the inventor except where the contract of employment specified otherwise.

The first change in the law came, not from the legislature, but from the courts.

In 1907, the Reichsgericht decided that an invention made during the course of employment belonged to the employer only if this was specifically agreed in the contract of employment, or if the invention was made pursuant to the instructions of the employer or lay in a field of duties especially assigned to the employee. This remained the law until 1942.[11]

In 1913, a bill was submitted to the legislature providing the recognition of the right of the inventor to his invention and guarantying the employee-inventor some reward from the employer, with provision that, if it was

[9] Volmer, 26, Arbeitnehmererfindugsgesetz C. H. Beck'sche Verlagsbuchhandlung, Munchen und Berlin 1958.

[10] *Gewerblicher Rechtsschutz und Urheberrecht* vol. 7; Munich (*GRUR*) 1905, p. 206. (Periodical.)

[11] Volmer 27.

impossible to credit any single employee with the invention, then the enterprise itself would be regarded as the inventor. World War I and the opposition of certain segments of industry prevented this from becoming law.[12]

After World War I, the Angestelltenverbände entered into collective agreements with employers governing invention rights. According to one author, there were 4,000 such agreements in the 1920s.[13] Incidentally, this subject today is governed by collective agreement in France. (It should be borne in mind that scientists and engineers in Germany have traditionally been more strongly unionized than their U.S. counterparts. Interestingly, patent counsel for large German firms have indicated in private discussions that the important inventions come from those employees who are not "union oriented".) One of these agreements, the "Reichstarifvertrag für die akademische Angestellter der chemischen Industrie" of 27 April 1920 provided principles upon which later legislation was based.[14]

At about this time, the courts began to segregate inventions into three categories, Betriebserfindung, Diensterfindung and freie Erfindung, defined as follows:[15]

> Betriebserfindung: If so much of the employer's suggestions, know-how, prior work in the field of special tools are used that the completion of the invention requires no more than the usual professional skill then the invention belongs to the employer and the employee has no claim to be named as the inventor in a patent application. The same applies if it is impossible to determine which of several employees was the inventor.
>
> Diensterfindung: If the inventive activity is related to the duties of the inventor or the use or exploitation of the invention falls within the sphere of commercial interest or activity of the employer, he may take title and the employee receives compensation. It was also common for companies to name the inventor of a Diensterfindung in the patent itself.[16]
>
> Freie Erfindung: All other inventions are free, the property of the employee.

The legislature also made sporadic attempts to solve the problem. These attempts were made more difficult by the fact that the leading scholars could not arrive at a unified concept of invention and the ownership of invention.

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[12] *Ibid.* 30, 31.

[13] *Ibid.* 31.

[14] Decision of the Federal Labor Court of 1 November 1956; reported in *"Blatt Für Patent—, Muster—, Und Zeichenwesen"* (*Blatt*) vol. 59, p. 133 (1957) (Journal of the German Patent Office).

[15] Amtliche Begründung, "Allgemeines."

[16] 54 *GRUR* 67 (1952) "Gedanken eines Praktikers zur Regelung des Rechts der Angestelltenerfindung," Mediger.

The Patent Statute of 1936

The 1936 Patent Statute brought about an innovation. According to Section 3 of the Statute the applicant was required to be the inventor or one deriving his rights from the inventor (Erfinderprinzip) and the applicant who was not the inventor had to state how he derived his rights to the invention; failing this, the application was rejected.[17]

With the change from the Anmeldeprinzip to the Erfinderprinzip, it was no longer consonant with the principal of the patent law for the employer to acquire title to the invention the instant it was made. The employer could however obtain title to the patent. Furthermore, it was uncertain whether the Betriebserfindung concept could raise title in the employer to an invention made jointly by several of his employees since Section 3 of the Patent Law recognized a joint invention. The courts divided on this issue, some holding that the Betriebserfindung still existed, other holding to the contrary.[18]

The Regulations of 1942

The legislative climate had gradually become more in tune with the demands of the employee organisations and in the late 1930's, a bill regarding employee rights in inventions was sent to Hitler for approval. He rejected that law as being too complicated and unclear. Upon the outbreak of World War II, the Oberkommando of the Wehrmacht ordered that work on the law be suspended for the duration.[19] As the war continued, it became apparent that it was to be a war of technology and that Germany had fallen behind the Allies in many technical fields, notably radar. Accordingly, in 1940 the Oberkommando not only withdrew the order that the regulation be held in abeyance but urged speedy passage of suitable regulations.

Since the body responsible for the Four-Year Plan of 1936 was given unlimited power under the plan for the enactment of regulations regarding the economy, it was unnecessary for these regulations to be enacted by the legislature to become effective.[20] On 22 July 1942, a decree governing the treatment of inventions of Gefolgschaftmitgliedern [21] was published and on 16 April 1943 implementing regulations were published.[22] "Gefolg-

[17] "Das Patentgesetz Commentary" by Krause, Katluhn, Lindenmaier 1958, *Carl Heymanns Verlag* p. 374, notation 21.

[18] Volmer 39.

[19] *Ibid.* 40.

[20] *Ibid.* 41.

[21] "Verordnung über die Behandlung von Erfindungen von Gefolgschaftmitgtiedern vom 12 Juli 1942" (*Reichsgesetz Blatt* I. S 466); reprinted in Haertel and Krieger.

[22] Durchführungsverordnung zur Verordnung über die Behandlung von Erfindungen von

schaftsmitglieder" is a word coined during the National Socialist period and connotes a following of the leader by the workers. In this field of law it is exactly coextensive in meaning with the word "Arbeitnehmer" (employee).[23]

The decree of July 1942 contained only four clauses. The second clause expressed the spirit of the regulation: "Every employee is obliged to place at the disposal of his employer inventions made by him if they have arisen from his work in the employer's enterprise. The employer shall pay suitable compensation for these inventions."

The implementing regulations provided that:

> The decree applied to Government employees as well as employees in private enterprise.
> The employee was obliged to fully report all inventions made by him during his employment whether or not the employer was entitled to rights in them.
> The employer could take title to an invention which the employee made in performance of his assigned duties. There was no provision for taking only a license.
> If the invention was patentable and the employer took title, he must compensate the employee. The amount of compensation was based upon (a) the utility of the invention, (b) the degree of inventive genius involved, (c) the wages of the employee, and (d) the duties of the employee.
> The employer was entitled and obliged to apply for domestic patent protection except where his interests required that the invention not be published, in which case he could admit patentability to the employee and not file an application.
> The rights and duties under the regulations were not affected by dissolution of the employment relationship and the regulations could not be altered to the detriment of the employee by previous agreement.

On 5 December 1944, further regulations governing the compensation for employee inventions were published.[24] These regulations took into account such factors as the manner in which the problem was presented to the employee, the manner of solution of the problem, the employee's position in the company and the value of the invention.

Although the regulation of 1942 had been criticized as took quickly enacted and not well thought out,[25] it and its supplementary regulations remained in force (insofar as they did not depend upon administrative machinery peculiar to the National Socialistic State) until the Statute of 1957 was enacted.[26] The provisions of these regulations as enumerated indicate that there has been no revolutionary change in existing law brought about by the current statute. Thus the experience gained by

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Gefolgschaftmitgliedern vom 20 Marz 1943 (Reichsgesetz Blatt I. S. 257); reprinted in Haertel and Krieger.

[23] 62 *GRUR* 487 (1960).

[24] Richtlinen für die Vergütung von Gefolgsschaftmitgleidern; Fassung vom 10 Oktober 1944 (Reichsanzeiger Nr. 271 vom 5 December 1955; reprinted in Haertel and Krieger.

[25] 54 *GRUR* 67; Mediger.

[26] Bundesarbeitsgericht, 1 November 1956; reprinted at 59 Blatt 133 (1957).

German corporations operating under the Regulations of 1942 affords them advantages over foreign corporations who have set up branches in Germany since the end of World War II.

PART II

THE STATUTE OF 1957

During the early 1950's, the efforts were resumed to legislate in this field. In the period preceding passage of the Statute, one point was vigorously debated. This point was whether the basis of the law should be the so-called monopoly principle or the exceptional performance principle. According to the monopoly principle, the basis for compensation lies in the fact, that because of the employee's invention, the employer is able to exclude from competing with him in practising the invention.[27] Under the exceptional performance principle, the employer would be required to compensate an employee who makes a special achievement. This principle would enlarge the scope of the law to include innovations not protectable under the statutes for the protection of industrial property and would extend the law to cover such things as beneficial suggestions. In spite of the preference expressed for the exceptional performance principle by Dr. Reimer, the late President of the Patent Office, the legislature adopted the monopoly principle.[28]

The current statute was enacted on 25 July 1957 and went into effect in August of that year and regulations concerning computation of the compensation due to employee-inventors were issued on 20 July 1959. The statute itself is divided into four parts and one of these is subdivided into six parts.

SCOPE AS TO PERSONS

Employees

All employees are protected by the provisions of the statute. This includes employees of local and federal governments and soldiers as well as employees of private firms. The term employee is not specifically defined in statute but is determined according to the principles of Labor Law.[29]

"Employees" include those persons who stand in legal relation to an employer and are required to perform services as designated by the employer at the time and place required by him. It is not necessary that the employee be paid wages or that he work any minimum time. The concept

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[27] Schade/Shippel 30.

[28] Schriftlicher Bericht des Ausschusses, "Allegemeines."

[29] Amt'l Begr, to § 1 (of the law as enacted; not of the bill).

embraces seasonal workers, apprentices and students who work for an employer a few hours a week as part of their educational training.[30]

The legal representative of a company is not an employee [31] nor are those persons employees who, although they perform certain work for another, have the freedom to choose their own place or times of work. Thus, a university professor who acts as consultant to a chemical company is not its employee nor is a free-lance engineer generally an employee of his clients.[32]

Loaned Employees

Interchange of scientists and engineers is not uncommon between German domestic firms or foreign firms. When Firm A loans one of its employees to Firm B for the purpose of working on a particular project for Firm B or for broadening the employee's background in a special field, the employee is generally considered to remain in A's employ if he continues to pay his wages.[33] This causes difficulties since inventions made by the employee at Firm B invariably relate to matters of interest to that firm. Firm A may not have the ability to realistically determine the value of the invention to Firm B. If an invention of interest to B is inadvertently released to the inventor by Firm A, it could result in considerable embarrassment to both firms. One large company has solved this problem by assigning its rights in any inventions by a loaned employee during the period of loan to receiving company. This works in both ways and has been found to be completely satisfactory.[34]

Application to Non-employees

Regardless of whether the putative employee is covered by the law, the parties may agree that the statute will govern innovations made during the "relationship," although they cannot confer jurisdiction on the Arbitration Board if a true employer-employee relation does not exist.[35] Many employers insert a proviso into consultation contracts to the effect that all inventions and improvements arising from the work under the contract will be treated as though they were inventions of an employee. This simplifies the administrative work of the employer since inventions of the consultant can be processed in the same manner as employee inventions and also benefits the consultant who has made an invention jointly

[30] Schade/Schippel 59.

[31] "Entscheidung der Schiedestelle of 29 October 1958," reported at 61 Blatt 16 (1959).

[32] Volmer 68, 69.

[33] Volmer 67

[34] Private discussions with industrial patent attorneys in Germany, May-July 1961.

[35] "Entscheidung der Schiedestelle of 29 October 1958," *61 Blatt 16,* 1959.

with one of the firm's employees and consequently owns rights to the invention jointly with the employee. Unless the consultant is protected by agreement, the firm could use the portion of the invention belonging to its employee upon payment of compensation to him only. Furthermore, the fact that the employer has the license from its employee to practise the invention would make it difficult for the consultant to sell or license his portion of the invention to others.

Government Contracts

The Department Of Defense has promulgated regulations relating to the division of rights between it and its contractors when, under an R&D contract, an invention is made jointly by employees of the contractor and by the Department Of Defense. The regulations provide that the contractor may demand an assignment of the Government's rights in the joint invention upon grant of suitable compensation.

SCOPE AS TO SUBJECT MATTER

The statute concerns inventions and proposals for technical improvements. The word "inventions" means innovations which may be protected in Germany by a utility patent or a registered design (Gebrauchsmuster).[36] Innovations protectable by a design patent (Geschmackmuster) are not included. While the inclusion of the registered design is an extension of the Regulations of 1942, a greater extension of the previous law is the inclusion of proposals for technical improvements (PTI).

The PTI are defined as proposals for technical innovations which are not protectable by patent or registered design. The employer must compensate the employee for "qualified" PTI's which place the employer in a position similar to that which he would enjoy if he had a legally protected right.

Qualified PTI's afford the employer advantages similar to those enjoyed by owners of patents and registered designs but for some reason, the improvements are not susceptible to such protection. For example, the owner of a secret non-patentable process may be able to exclude others from practising the process by maintaining its secrecy. Furthermore, some technical improvements may be of such a nature that they can be protected by a design patent or copyright giving the employer a legal monopoly.

The obligation to compensate the employer exists only if the qualified

[36] "Gebrauchsmuster" has been rendered in English as "Registered Design" throughout this paper despite the U.S. preference for "Utility Model" or "Petty Patent" in conformity with the definition given in Wörterbuch Handels —. *Finanzrechtssprache,* vol. II, Robert Herbst Verlag Thali A.G. Luzerene, Switzerland, 1959.

PTI is used by the employer and only so long as the use and the position similar to a legally protected monopoly co-exist.[37]

The PTI must be technical in nature. Such things as organisational improvements, e.g., suggestions for an improved accounting system, are excluded. Patent counsel for some corporations feel that this is inequitable since some non-technical improvements are of great importance to the employer and require a high degree of inventive genius.

The administration did not include coverage of PTIs in the proposed legislation. It was stated that the government policy was to foster private agreements between employers and employees regarding improvement proposals and that to treat one type of improvement proposal differently from others would serve no useful purpose and would adversely affect the employee suggestion systems already in effect in many companies in Germany.[38] The legislature, nonetheless, inserted the provision for compensating qualified PTIs. The reason given was that the law should be as comprehensive as possible within the framework of the monopoly principle. Inclusion of PTIs could be accommodated within this framework; proposals for other types of improvements could not.[39]

TERRITORIAL APPLICATION OF THE STATUTE

As a rule of thumb, this statute applies whenever the German Labor Law applies. An employee of a foreign company who is sent to Germany for a specific purpose or for a limited time has sufficient contact with Germany for this statute to be applied.[40] If a foreign firm has a branch office or a subsidiary in Germany, a prior agreement by the firm with its employees that the foreign law governs employee inventions rather than the German law is ineffective as contrary to the economic purpose of the law (stimulation of invention in Germany), the sociological purpose of the law (protection of inventors), and forbidden by Section 21 of the Statute.[41]

When a German employer hires a German employee to work for an indefinite period in a foreign country, the foreign law will be applied if the regular place of employment is in the foreign country. However, the parties may agree to apply German law in the event that it is not against the public policy of the foreign country. If the employee is in a foreign

[37] Schrift'l Bericht to § 20.

[38] Amt'l Begr. to § 20; cf Die Vergütung für Erfindungen von Arbeitnehmern im Privaten Dienst H. G. Heine and H. Rebitzke Verlag Chemie Weinheim 1960, p. 198.

[39] Schrift'l Bericht to § 20.

[40] 1956 *GRUR* (Ausl.), 99, "Die deutsche Arbeitnehmererfindung im Konzern mit Ausländischer Leitung"—H. R. Weiss.

[41] Volmer 77.

country for a limited purpose, then the German law applies. Thus, a German construction firm building a structure in France must conform to the principles of the statute if one of its German employees make an invention while temporarily in France for the purpose of assisting in the construction.[42] If a German employer employs foreign workers in Germany, that statute applies.[43]

SERVICE INVENTIONS

A service invention is one in which the employer has certain rights as distinguished from a free invention which can be disposed of by the employee with but few restrictions.

In the explanation of the bill submitted to the legislature, the administration indicated that two approaches may be taken in differentiating between a service invention and a free invention. One approach, the one which the statute follows, is based upon the premise that the extent to which the employer assisted the employee in making the invention determines the character of the invention. In the other approach, the deciding factor is not the contribution of the employer but whether the resulting invention is useful to the employer in his business. According to the second approach, an invention which is usable by the employer is a service invention. The administration's reasoning, accepted by the legislature, was: "the fact, therefore, that the company had contributed a decisive part in making the invention without which the invention would not have been made by the employee justifies the awarding of a legal right to the employer to claim the invention.[44]

In section 4 of the Statute, a service invention is defined as an invention which is made:

1. During the duration of the employment relationship and
2. While the inventor is performing his assigned duties or is based to a considerable degree upon the experiences (know-how) or work of the company. All other inventions are free.

Employment relationship

The phrase during the "duration of the employment relationship" defines the time during which the inventor is an employee and does not refer to time actually spent on the job. Therefore, an invention made at home or on vacation may be a service invention if the other requirements of the statute are met.[45] The burden of proof rests with the em-

[42] *Ibid.* 80.

[43] *Ibid.* 78.

[44] Amt'l Begr. to § 4.

[45] Schade/Schippel 72.

ployer to show that the invention was made during the existence of employment relationship.[46] The legislature rejected a provision originally included in the bill which provided that, if the employee applied for a patent within six months after termination of employment, it would be presumed that the invention arose during the employment relationship. The legislative committee felt that this would appear to be discriminatory against the employee and that the situation was amply provided for by the decided cases.[47] Under certain conditions, there arises a presumption that the employee actually made the invention during the employment relationship. This is based, not upon the statute, but upon these decided court cases.

If the employee terminates the contract of employment just prior to the making of an invention for the purpose of insuring that the invention will be a free invention, the employer may assert a claim to the invention which cannot be defeated by the sharp practise of the employee.[48] None the less the employer must prove his case and produce evidence to show that the employee is merely evading his duties under the statute.

Experience of the Employer

The invention not made in performance of assigned duties must utilize the work experience of the employing enterprise to qualify as a service invention. The experience and work of the enterprise does not have to be that type of experience or work directed towards a specific goal to which the invention also is directed. If the employee utilizes any experience, including information exchange within the company, so-called negative experiences (information that one process does not work or complaints of customers regarding a particular defect or feature of a company product), or any work of the company which significantly contributes to the making of the invention, then it may be a service invention. This is true whether or not the experience, information or work was intended originally to aid the employee in making the invention.[49]

"Hint" Invention

Under the regulations of 1942, a service invention also included "hint" inventions, i.e., inventions made by an employee after receiving some hint from the company which aided in the making of the invention. The hint invariably was vague. The theory behind the hint invention was that,

[46] Amt'l Begr. to § 4.

[47] Schrift'l Bericht to § 26.

[48] Volmer 113.

[49] Amt'l Begr. to § 4.

had the employees not been so employed, he would not have received the hint and, consequently, would not have made the invention. For example an employee working in Department A and having no knowledge of the work done in Department B, notices a machine as he passes through Department B on his way to lunch. From this observation of the machine he invents improvement for the machine. The administration felt that, to accord substantial rights in the invention to the employer because he provided the mere opportunity to look at the machine, would be inequitable.[50] More is required by the present law. The invention must be based upon the experience of the firm to a "considerable" degree. If, in the fore-going example, someone in Department B had explained to the employee of Department A how the machine worked and what were its shortcomings, then the invention would be more than a hint invention and the employer might have rights to it.

REPORTING AND ACKNOWLEDGING

The employee is required to report a service invention to his employer without undue delay. The report must contain a complete description of the invention including drawings necessary for understanding the invention. The report must also describe the technical problem and its solution. It must indicate the circumstances surrounding the invention and the contributions of the employer in the form of know-how, work, experiences, and it must name the co-workers who assisted. It must state what the reporting employee regards as his contribution to the invention.

Incomplete report

If the report omits any of the foregoing, it does not have to be considered as a complete report by the employer. If, within two months, the employer indicates to the employee that it is defective and specifies what is necessary to complete it, the report has no legal effect and the employee must supply the omitted details. If the employer merely states that the report is incomplete without specifying in what respects, the employee may disregard the objection and the employer must elect to take rights in the invention within the four-month statutory period following receipt of the report or forfeit his rights in the invention.

This proviso may work hardships on small employers who are unfamiliar with the requirements of the law. The reporting and acknowledging have been criticized by the courts as unduly complicated.

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[50] *Ibid.*

Undue complexity

According to one criticism,[51] the prescribed form for reporting the invention, for acknowledging the report of the invention and for indicating to the employee in what respects the invention report requires completion, are based to a large degree upon the requirements and experiences of large industrial organizations and disregard the small and middle sized companies. The complexity of the reporting requirements has tended to so discourage some employers that they disregard the law completely and risk the danger of permitting valuable service inventions to be unintentionally released to the employee.

The extent to which the employer may be leaving himself open to dangerous loss of rights in an invention of his employee is indicated by the following case. An employee submitted a report of an invention to his employer which was incomplete in that the technical problem, its solution and the making of the invention were not described. The employer replied in writing to the employee that the report was "not complete and, therefore, not accepted as an invention report." After four months, the employee claimed that he had full title. The Arbitration Board held that it was incumbent on the employer to specify to the employee in what respects the report was deficient and, since he had not done this within the two-month period provided by that statute, the employee could treat the invention as a free invention.[52]

The employee submitting a report cannot hide facts in order to influence the employer's decision to lay claim or not lay claim to the invention. Only so much of the invention which is specifically reported is included in a release obtained by the employee. The invention cannot be expanded to include things that a man skilled in the art would infer from the disclosure. The employee obtaining the release of an invention, either by the employer's failure to respond or by a specific release, obtains title to only the invention actually disclosed.[53]

Oral Reports

The report of the employee must be in writing. If he merely discusses an invention with his employer and indicates that he regards the invention as a free invention and plans to exploit it and applies for a patent in his own name, he does not thereby acquire rights in a service invention. The employer can assert rights in such an orally reported invention, in the Patent Office without previously having laid claim to the invention.[54]

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[51] 62 Blatt 279, 280 (1960) *63 GRUR* March 1961.

[52] "Einigungsvorschlag der Schiedestelle," 62 Blatt 282 (1960).

[53] "Urteil des Oberlandesgerichts," Dusseldorf 8 November 1957, reported at 60 *GRUR* 435 (1958).

[54] "Entscheidung des Beschwerdesenats 21 January 1959," 61 Blatt 115 (1959).

When an invention is reported to the employer and the employer by his actions indicates to the employee that he is taking complete title to it, the employee may, by his silence, assent to the fact that the employer has taken title. It appears, however, that the employer must do more than make an oral declaration that he is taking title. If the employer files a patent application and begins to exploit the invention then the continued silence of the employee in these circumstances may show his assent.[55]

Independent Inventors in a Company

The reporting of a service invention under the statute is similar to the filing of an application under the patent law. If two employees in a firm independently make identical inventions, the employee who first reports it to his employer will be accorded rights under that statute regardless of who was the first inventor.[56]

Employer Acknowledgment Procedures

The patent attorneys for large companies indicate that they find little problem in adapting their internal procedures to comply with the requirements of the new statute. Some of the smaller companies, in some cases those which are "patent conscious" and have a relatively strong patent position in the industry, have disregarded the spirit of the regulations and have instituted simplified internal procedures for the processing of employee inventions. Upon receipt of an invention disclosure which the employer believes is important, a form letter is sent to the employee indicating that the company takes complete title to the invention and will file an application. Accompanying this notice is an offer to pay the employee a fixed (usually nominal) compensation. The employee is not obliged to agree to an arrangement which does not accord him fair compensation; nonetheless, he generally does. Technically this procedure may be permitted by the statute since the employee and employer are permitted to enter into an agreement concerning the invention after it is reported. The Arbitration Board does not approve of this practice and has cautioned employers against taking away by devious means the rights which the statute has granted to employees as the weaker party.[57]

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[55] "Aus der bisherigen Praxis der Schiedestelle für Arbeitnehmererfundungen in München," by Senatespräsident Dr. Hans Schade printed at Mitteilungen der Deutschen Patentanwälte vol. 50, p. 253 at 256 (50 Mitt 253) (1959); cf Einigungsvorschlag der Schiedestelle 62 Blatt 279 (1960).

[56] "Aus der bisherigen Praxis" 50 Mitt 253, 256.

[57] "Einigungsvorschlag der Schiedestelle," 62 Blatt 180 (1960).

ASSERTING CLAIM TO A SERVICE INVENTION

The employer may claim full title in a service invention or he may claim only a nonexclusive license. This decision must be made within four months after receipt of a valid report of a service invention. Upon taking title to an invention, the employer must give the employee suitable compensation and is obliged to apply for patent protection in Germany. If the employer does not file a patent application, the employee may set a time limit in which he must do so. The emloyee is entitled to apply for a patent in the name of the employer and at his costs if the employer has not filed a patent application at the end of the time set for him by the employee.

An exception to the duty to file patent applications arises when the legitimate interests of the employer require that the invention remain secret. The employer can then refrain from seeking patent protection provided that he acknowledges that the invention is patentable. If he does not believe that a reported invention is patentable but desires that it remain secret, he is obliged to file the application but is entitled to withdraw it after a determination by the Patent Office that the application appears to be patentable and will be laid open for public inspection. The parties are bound by decision of the Patent Office regarding patentability. Questions arising as to whether a reported invention is registrable as a registered design may be resolved by the Arbitration Board since there is no provision in the German law for the examination of a registered design prior to publication.

In order to protect the rights of the employee, the employer must give him an opportunity to assume prosecution if the employer intends to discontinue prosecution of the patent application and the employee has not yet been fully compensated. Similarly, the employer must afford the employee an opportunity to take over a patent if the employer intends to allow it to lapse. Fees in arrears on the date of the offer must be paid by the employer; fees due in the future are the responsibility of the employee taking over the patent.[58]

Foreign Applications

The employer who has taken complete title to an invention may apply for patent protection in foreign countries but is not obliged to do so. In those countries in which he decides that he does not desire to obtain patent protection, he must release the service invention to the employee to permit him to file patent applications in those foreign countries. The release of these rights to file foreign applications should take place seasonably

[58] "Aus der bisherigen Praxis" 50 Mitt 253, 257.

so that the employee may file for foreign protection within the priority date. However, unless the employee can show that he is actually damaged by a tardy transfer of rights to file foreign applications, he has no claim to compensation against his employer. The fact that a year's time has elapsed between the filing of the patent application in Germany and the release of foreign rights does not, in itself, give rise to a claim for damages on the part of the employee [59] since the foreign patent rights are not necessarily merely lost because of the loss of the international priority date.

In releasing rights to the invention in foreign countries, the employer may retain for himself a nonexclusive right of use of the invention and can demand that the employee take into regard obligations of the employer which were in effect at the time of the release of the rights of the foreign patents. These obligations of the employer may include patent interchange contracts and contracts to deliver the patented item in a foreign country. The employer must compensate the employee if he reserves for himself any rights under foreign patents applied for by the employee.

Duties during Prosecution

The employee is required to assist the employer upon request in the proceedings before the Patent Office and, conversely, the employee is entitled to be kept informed of the progress of the patent application in the Patent Office. This right of the employee to be kept informed and to inspect the records of the prosecution of a case subsists after the employment relation is ended.[60]

Nonexclusive License

The Regulations of 1942 permitted the employer only the choice between full title and no rights. The current statute permits the employer to take limited rights, if he so desires. The Administration indicated that, in many cases, this would be more suitable for both parties.[61] When the employer takes only a license, the compensation generally is less than if he takes title and he is not obliged to file a patent application even if in Germany. Nonetheless, little use is made of this provision. If the invention is sufficiently valuable to the employer, he generally will claim full title. A nonexclusive license only rarely provides the protection for which the employer would be willing to pay compensation to the employee or expend further funds to commercially exploit the invention.

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[59] "Beschluss der Schiedestelle," 62 Blatt 315 (1960).

[60] Entscheidung der Beschwerdesenats, 60 Blatt 190 (1958).

[61] Amt'l Begr. to § 6.

Compensation

The employee's right to compensation for a patentable invention arises when the employer takes full title in the invention. The duty to compensate the employee for PTIs and in the case of taking a license under a service invention, arises when the employer uses the "invention".

If the employer and employee cannot agree upon suitable compensation, then the employer is entitled to fix an amount which he deems proper. This must usually be done within three months of the granting of a patent in the case the employer asserts unlimited title and, in the event of a license or qualified PTI, within three months after the use commences.

After the employer has set the compensation, the employee is entitled to submit a written protest asserting that the compensation is inadequate. If this is not done within the two-month period then the compensation determined by the employer is binding. The employee need specify no grounds for his disagreement with the amount set by the employer. Furthermore, the employer must pay the employee the fixed amount, even though this amount is contested and may be increased in further proceedings. In the event that the employer fails to set compensation within the statutory period, the employee can request the Arbitration Board to set the compensation and if the employer and employee do not agree with the amount set by the Board [62] recourse may be had to the courts.

In the case of joint invention, the employer is obliged to set the compensation for each of the coinventors separately, bearing in mind the contribution of each to the invention and the position of each in the firm. Thus, if a laborer and a leader of an experimental laboratory each contributed one-half to the making of the invention, the laborer should receive the higher compensation. On the other hand, two engineers of approximately equal rank would share in the compensation in the same ratio as their respective contributions.

Inequities of Compensation in Practise

Although, in theory, the more lowly employee receives greater compensation for an invention than a highly paid scientific employee of the company would receive, in practise the more highly paid employees tend to be better compensated for inventions than the law requires.

In Germany, it is not uncommon for key employees to receive an annual bonus which depends upon their contribution to the company's success and the profits of the company for that year. These bonuses are taxed as ordinary income. Under the provisions of the Regulations of Taxation of Compensation Received for Employee Inventions of June 1951, the

[62] Amt'l Begr. to § 12.

tax on compensation received for employee inventions is approximately fifty percent of what the tax would be on a bonus.[63] Accordingly, if a key employee submits an invention to the company for which he would ordinarily receive 1000 D.M. (German Marks) and his annual bonus would be 5000 D.M., the company may decide to award him a 3000 D.M. as a bonus and 3000 D.M. as an award for the invention. This costs the company nothing additional and the employee receives more favourable tax treatment. It is interesting to note that, although directors of a company are not considered to be employees for the purposes of this statute, they are employees for the purposes of the tax law.[64]

There are provisions in the tax law for audit of employee invention awards made and, in the event they are excessive, the excessive amounts are treated as ordinary income. The employer is none the less allowed to exercise a certain amount of judgment which permits him to shift a portion of the annual bonus to compensation for inventions. It appears that the smaller companies tend to use this method of compensating their employees because they must compete salarywise with the larger companies and this presents an inexpensive method of giving productive scientific personnel extra compensation without extra cost to the company. The larger companies find that strict adherence to the procedures set up by the statute is more suitable for reasons of company morale and because of the image which the company must present to the public.[65]

FREE INVENTIONS

The employee is required to notify the employer of all inventions made during the employment relationship even those which are free inventions belonging to the employee. This provision for notification of the employer serves two purposes, the first is to promote good relations between the employer and the employee and the second is to protect the employee. In some cases, it would be impossible for an employee to know with certainty that an invention made by him is, in fact, a free invention. If by mistake, he should treat a service invention as a free invention and sell it to a third party, he may be liable for the damages caused to his employer or to the third party. The notification provision enables the employer to disagree with the employee's view at an early stage and in the event of disagreement, recourse may be had to the Arbitration Board.

The obligation to "notify" the employer does not require the same amount of detail as does the "report" of a service invention. The notifica-

[63] "Verordnung Über Die Steuerliche Behandlung Der Vergütung Für Arbeitnehmererfindungen" von 6 Juni 1951 (Bungesgesetzblatt I. S. 388).

[64] Amt'l Begr. to § 1.

[65] Private discussions.

tion is satisfactory if it indicates facts sufficient to enable the employer to determine whether the invention is free. The notification must be in writing.[66] Only in the case in which the free invention obviously is not a subject which relates to the employer's business is the requirement for notification omitted.

The employer is entitled to dispute the fact that the invention is free within three months after receipt of notification. If he does not notify the employee in writing within three months that he considers the invention to be a service invention; the invention is treated as a free invention.

Free Inventions Relating to Employer's Business

Although the employee is allowed more latitude in dealing with a free invention he must first offer the employer an opportunity to use the invention if it is connected with the scope or prospective scope of the business of the employer. The right of the employer to use the invention does not necessarily include the right to license others and is closely related to a "shop right" in the U.S. law. Of course, the employer must pay the employee suitable compensation for a free invention which he uses and, since the invention is free, there may be no decrease in the royalty payments because of the employment relationship.[67]

The question of whether an invention falls within the prospective scope of the employer's business is at times difficult to resolve. It has been stated that tentative probing of the market by a market analysis would be insufficient to qualify the field investigated as lying within the prospective scope of the employer's business.[68]

Inventions Becoming Free

In addition to statutory free inventions, a service invention becomes free if the employer releases it in writing or if he takes only a license (subject to the right of use of the employer), or if the employer does not assert title within four months of receipt of report of a service invention.

If the employer has taken a license in an invention and the employee proves that his exploitation of the invention is made "unreasonably" more difficult because of the existence of the employer's right of use then the employee may demand that the employer either take complete title

[66] Bundesgerichtshof reported at *60 GRUR* 334 (1958); but see Die Wechselbeziehungen zwischen Erfindungen und Technischen Verbesserungsvorschlägen unter dem Aspekt des Gesetzes über Arbeitnehmererfindungen vom 25 Juli 1957, H. Danner, 51 Mitt. 171, 175 (1960).

[67] Amt'l Begr. to § 19.

[68] Volmer 308.

to the invention or release it. If the employer does not reply within two months, then the invention becomes free.

The employee must show that his exploitation is made "unreasonably" more difficult. It is recognized that the existence of a nonexclusive right of use burdening a patent makes it less valuable and the fact that the employee cannot obtain as much for his invention as he would if the nonexclusive right of use in the employer did not exist, is not in itself such an unreasonable burdening of the invention which would give a right to the employee to make the demand of the employer.

Volmer suggests [69] that the profits the employee enjoys from his invention (revenue from the employer combined with revenue or anticipated revenue from third parties) should be compared with the amount the employee would receive if he were able to grant an exclusive license to third parties; if the discrepancy is very large then the employee would be justified in requesting that the employer take title or release the invention. The question is almost academic since most employers either take complete title or release the invention. This is undoubtedly true where competitors would be willing to pay substantial sums for licenses.

THE ARBITRATION BOARD

Jurisdiction

With few exceptions, all cases arising under this law must be first presented to the Arbitration Board at the Patent Office before proceedings may be commenced in the ordinary courts of law. A complaint asserting rights arising out of an agreement which has already fixed compensation must be asserted initially in the courts since it deals with a matter of contract law over which the Board has no jurisdiction.[70] In other cases, if six months has elapsed since the Arbitration Board has been petitioned or, if the employee has left the service of the employer or if the parties so agree, proceedings before the Board may be omitted.

Duty of the Board

The duty of the Board is to attempt to lead the parties to a peaceful settlement of differences between the employer and the employee. The decisions of the Board take the form of a "proposal" which is not binding upon the parties unless both accept it. A party dissatisfied with the proposal for agreement need only signify in writing to the Board that he does not agree with it within one month after receipt of the agreement proposal. Either party may refuse to submit to arbitration by refusing

[69] P. 175.

[70] Beschluss der Schiedcstelle, 62 Blatt 316 (1960).

to answer the petition of the opponent. No costs are assessed in the proceedings before the Board and the procedures are as simple as possible consonant with the Board's duties. It was hoped by the framers of the law that it would thereby be possible to create such a friendly atmosphere in the proceedings that neither party would consider these proceedings as adversary but as an attempt by the parties to reach an agreement aided by an impartial advisor. It was believed that the proceedings could thus be carried out with the least friction or disruption of company morale. The statistics of the Arbitration Board indicate that employees are none the less unwilling to bring the case to the Board while they are employed. The bulk of controversies brought before the Board concern cases in which the employee has left the services of the employer and avails himself of proceeding before the Board despite the fact that, according to the Statute, he could then appeal directly to the courts.[71]

Composition of the Arbitration Board

The Arbitration Board has been established at the site of the Patent Office although it may conduct hearings outside the Patent Office if it is deemed necessary. The Chairman of the Board is selected by the President of the Patent Office at the beginning of the calender year and for the duration of that year. The Chairman must have the capability to be a judge, that is to say, he should be a person who has passed both parts of the State examinations given to qualify persons for the practise of law in Germany (Volljurist).

In addition to the Chairman, two other members are appointed to the Board from the members of auxiliary members of the Patent Office. These members of the Board are appointed for a single case because of their special capability in the field of technology to which the invention or PTI relates. In addition to the three members, the composition of the Board may be expanded upon request of either party by the addition of one representative each from the ranks of the labor organizations and employer organizations. These representatives of management and labor are selected for the case by the President of the Patent Office from a proposed list of candidates submitted by each of the top labor and management organizations. The President of the Patent Office generally selects as the extra member a person on the list submitted by the same organization to which a party belongs, if membership in the organization is brought to his attention.

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[71] "Aus der bisherigen Praxis" 50 Mitt. 253; "Methode zur Ermittlung des Lizenzfactors als Basis fur Bemessung der Vergütung von Arbeitnehmererfindungen" H. Danner 50 Mitt. 23 (1959).

Procedure

A written petition is necessary to invoke the jurisdiction of the Arbitration Board. With the petition should be included a request in writing that the Board include extra representatives of management and labor, if this is desired. If this is not done by the petitioner, the respondent has an opportunity to do so within two weeks after receiving notice of the petition.

The Arbitration Board, upon receiving the petition, notifies the opposite party and requests that he reply to the petition within a set time. If he does not reply, the proceedings are terminated.

The Board is empowered to swear witnesses and to take testimony and to use the testimony of expert witnesses in formulating a proposal for agreement which it presents to the parties. The proposal for agreement is usually in the form of an opinion giving reasons why the suggestion is made by the Board. Although the parties do not have to accept the Board's suggestion, the court deciding the subsequent case respects the expert opinion of the Board and generally tends to follow its suggestion, especially when it favors the employee.[72] About two-thirds of the suggestions of the Board are accepted by the parties (Appendix). The suggestions of the Board are not usually published and persons not parties to the proceedings may not inspect the records. Only because of the confusion which has attended the determination of compensation under the statute, has the Board published selected proposals to educate employers and employees on the basis used by the Board in arriving at suitable compensation for an employee invention.

Appeal

The party dissatisfied with the result of the arbitration may appeal to the courts. Insofar as the controversy relates to inventions, the court of jurisdiction is that court having jurisdictions for patent matters according to Section 51 of the Patent Law. In questions regarding PTIs, the Labor Courts have jurisdiction.[73]

Abrogation of Employee Rights

The statute provides that any agreement between the employer and the employee which abrogates the rights of the employee under the statute is null and void if entered into before an invention is reported. There cannot be a provision in the employment contract which provides an extension of the time during which the employer may lay claim to the

[72] Private discussions.

[73] Amt'l Begr. to § 39; Schrift'l Bericht to § 39; Schade/Schippel 269, 270.

invention or which allows the employer to claim free inventions or to decrease or eliminate the compensation to be paid.[74] The parties are free to enter into such an agreement only after the invention is reported to the contractor.

Section 23 of the statute prohibits agreements, even after the invention is reported, which are unfair to a considerable degree. The time for complaining about the unfairness of such agreements expires six months following the termination of the employment relationship. The employees who complain invariably do so after they have left the service of their employer; relatively few employees petition the Board while they are employed.[75] Prior to this, the employee who anticipates promotion in the company because of his inventions or technical ability is reluctant to make known the fact that he feels the company's arrangement regarding his compensation is unfair.[76]

Rights and Duties Arising from the Employment Relationship

According to Section 25 of the statute, the general rights and duties of employees and employers arising from the employment contract are not altered by the statute. The employer remains obligated under the general labor law statutes to provide for the welfare of his employee and the employee has a duty of loyalty to the employer. When the employee attempts to sell his invention he must refrain from publishing the internal state of the art within the company insofar as it is not shown by the invention itself. He is forbidden from competing against his employer in the exploitation of the invention or producing the subject matter of the invention and selling it in direct competition with the employer. For those inventions to which the employer has taken complete title, the employee is forbidden to compete in any way regardless of whether the employer has obtained patent protection for the invention or not.

The employee cannot use a free invention to build up a competing business while he is employed. He however is entitled to license others to make an invention which is free or has become free. Even this right to license others has been questioned by one authority when the license is to a particularly strong competitor who has the power to inflict economic damage of the employer.[77]

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[74] Amt'l Begr. to § 22.

[75] "Aus der bisherigen" 50 Mitt. 253; "Methode zur Ermittlung" 50 Mitt. 23.

[76] Private discussions.

[77] Schade/Schippel 229.

Termination of Employment

The rights and duties under the statute are not affected by the termination of the employment relationship. The fact that an inventor quits the employ of the company does not justify a decrease in the compensation awarded to him on a running royalty basis.[78] If the employer seeks to decrease compensation after the employee has quit, it may be an indication that the original compensation for the invention included an additional portion which was salary or bonus in disguise.

University Professors

The inventions of a person employed in the capacity of a professor, associate professor, or scientific assistant, at a university or scientific school are treated in a different manner than those of an ordinary employee. These inventions are considered to be free inventions and are not subject to the requirements of the statute which provide that the inventor must offer his employer a nonexclusive license to a free invention lying within the scope of the employer's business. The only duty imposed upon a professor is that if the employer (the university) has expended monies in purchasing or making available special equipment to the employee, then he is obliged to notify the employer if he exploits the invention and to inform the employer of the amount of compensation received as a result of the exploitation. Special equipment does not include equipment that can be found in the usual laboratory but only such equipment which was placed at the disposal of the employee for his specific research purposes. The employer may claim a fair share of the receipts but only up to the amount expended for the special equipment. The special provisions apply only to professors and teachers but not to persons that they may hire to help them with their research work, e.g., laboratory technicians.

The provisions prohibiting employers from entering into agreements with their employees prior to the reporting of the invention also do not apply to professors so that they may enter into contractual obligations with the employer provided that it is not grossly unfair to them. This provision has been criticized by one commentator[79] who feels that the legislature has removed the special position of university professors by permitting them to enter into pre-invention agreements with their employers. The argument that university professors do not need the protection of this says the critic applies only to a small group who are internationally recognized, not to the majority of professors.

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[78] "Aus der bisherigen" 50 Mitt. 253, 257.

[79] Volmer 526.

Civil Servants

The second special provision of the law relates to employees in the public service. The public administrations are permitted to claim a certain portion of the income arising from a service invention rather than to claim rights in the invention itself if this is agreed upon prior to the making of the invention. The degree of participation in the receipts must also be agreed upon beforehand. If the employee cannot agree with the employer, then the employer may determine the amount.

Governmental agencies thus have three options; they may take complete title, limited title, or a right to share in the profits from the exploitation of an invention.

The governments agencies are also permitted, under the statute, to set up their own procedure for arbitration and are entitled to publish regulations in the public interest which may restrict the manner in which an employee can exploit the invention. The Defense Department has promulgated such regulations governing persons to whom the employee may license his invention to assure that there will be no conflict of interest.

PART III

REGULATIONS GOVERNING COMPENSATION

The regulations for the Compensation of Employee Inventions of 20 July 1959 were established by the Federal Minister of Labor and Social Welfare (Bundesanzeiger No. 146 of 18 August 1959). They applied initially only to employees in private service. On 1 December 1960, the regulations were also adopted for compensation of employees in the public service (Bundesanzeiger No. 237 of 8 December 1960). These regulations are not binding rules but serve as a guide in determining the appropriate compensation for service inventions and qualified PTIs. If the employer has a private system for determining compensation which would result in a higher award to the employee, the regulations should not be seized upon by the employer in order to decrease the employee's compensation.

There may be instances in which the employer arrives at a compensation figure which is less than that, according to the regulations. In itself, this does not mean that the compensation is unsuitable but the employer must show that the circumstances justify a departure from the regulations.[80] The employer may also be called upon to prove that compensation determined without regard to the regulations is suitable if it is so high that a suspicion exists that the employee is being paid a portion of his wages or bonus disguised as compensation for invention.

[80] Heine and Rebitzki 45, 46.

In determining compensation suitable under the circumstances, the regulation provides that the value of the invention (economic utilizability) shall be first determined then an appropriate deduction made because the inventor is not a free inventor but an employee. The deduction takes into consideration the factors set forth in the statute: the contribution of the employer to the invention, the position of the employee in the enterprise, and the duties of the employee. The deduction is provided for generally by a percentage which, when multiplied by the value of the invention, yields a net value. The regulations are divided into three parts. The first part relates to computation of the value of the invention, that is, the amount the employer would have had to pay for the invention if he were dealing with a free inventor.[81] The second part is concerned with the deduction to be made from the value of the invention because it is a service invention and the third part deals with the computation of the compensation.

VALUE OF INVENTION

The regulations have been written to cover almost every conceivable situation. In determining the value of the invention, different rules are applied according to whether it is patentable, registrable, or a PTI. In dealing with a patentable invention, separate provisions are made to handle the case in which the invention is exploited by the employer and the case in which it is not exploited. Exploitation may be by actual production or use of the subject matter of the invention, licensing, sale, patent exchange, or its use as a blocking patent.

The value of the invention may be determined by a license analogy, by the ascertainable profit to the employer, or failing these two methods, the value of the invention may be estimated.

Which of the three methods is to be used is decided by the facts of the individual case. In industries in which many firms are accustomed to license or sell inventions and the employer is acquainted with the customary royalty rates paid in similar circumstances, the license analogy is preferred.

In those cases in which the invention is of particular type which results in material savings for the employer or is an improvement invention and the improvement is not of a type which would increase the production of one of the employer's products, or the invention is used as a production aid by the employer and no basis for the compensation can be found in the sales turnover, the determination of the value of the invention according to the ascertainable profit method is used.

The value of the invention should be estimated only when it is im-

[81] Schade/Schippel 117.

possible, without excessive expenditures, to determine the value according to the other two methods.[82] This may be the case for example where the inventions relate to a safety device used in the employer's factory but not suitable for industry-wide use.

The employer is not bound to employ a particular method of computation; if the customary license rate and the sales turnover figures are easily available, he may use the license method despite protests of the employee.[83] Schade/Schippel recommend [84] that, when possible, the license method should be used because the production and turnover may be more easily extracted from the company books and given to the employee or his accountant to audit.

License Analogy

In the license analogy, an attempt is made to ascertain the usual royalty that would be paid by the employer to a third party for a license to practise a similar invention. The amount of this license is taken as the value of the invention. The license rate may be expressed as a percent of the value of the sales turnover or as a set amount per unit sold. An analogy to a lump sum price that would be paid for the invention may also be used if the employer is to pay the employee a lump sum instead of a running royalty.

In applying the license analogy method, the changes brought about by using the invention in the following factors are usually considered: ease of operation or construction, weight, space requirements, production, precision, and safety. The affect upon pre-production costs and production costs are other factors. The scope of the patent protection granted for the invention may also be considered along with the employer's costs in obtaining patent protection insofar as these costs are generally borne by the free inventor in exploiting his patent. The regulations state that the higher royalty is usually agreed upon with a small licensee than with a larger firm because greater production and turnover may be expected from the larger firm. In other words, all factors are considered which in practice affect the royalty rate between an inventor and his licensee.

In determining the value of the invention, the same royalty base must be used for the service invention and the comparable free invention. The most customary method in Germany of computing license fees is by a

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[82] "Richtlinien für die Vergüting von Arbeitnehmererfindungen im Privaten bienst of 20 July 1959 (Bundesanzeiger Nr. 156 vom 18 August 1959) paragraph 5, reprinted in Heine and Rebitzki."

[83] Schade/Schippel 441.

[84] *Ibid.* 442.

percentage of the sales turnover, that is generally the ex-works value of the equipment produced and delivered under the license.

A special problem is encountered when the invention relates to a part of a machine. The determination of the value of the invention may be based upon the value of the entire machine or upon the part which is influenced by the invention, depending upon the customary practise in the industry concerned. The choice is usually dependent upon whether the use of the invention results in a perceptible change in the value of the entire machine or merely to the part affected. If the employer generally computes the costs of the part of the equipment separately, then it should be used as the royalty base.[85] When the entire equipment is used as the basis of computation, the value of the hypothetical royalty is of course proportionately less.

The sales turnover forming the basis of computation must be caused by the invention and not other conditions. When dealing with an entirely new product made possible by the invention, the problem is not difficult since it can be assumed that the entire sales turnover is due to the invention. When the invention relates to an improvement in an existing device, it is difficult to determine what portion of the increase in sales of the device is attributable to the invention.[86] If the sales, in fact, decrease or remain the same, it is difficult to determine to what extent sales would have decreased save for the invention. Generally, however, the employer must show that a portion of an increase in sales turnover of his product was probably due to causes other than the invention. Otherwise, he should attribute the entire increase in sales turnover to the invention. Where there is no increase in sales, the burden is presumably on the employee to show that, had it not been for his invention, the sales would have been decreased.

The regulations specify certain starting points for the determination of a license fee in particular branches of industry. The following general percentage of sales turnover are indicated by the regulations as the usual license rates in the respective industries.

Electrical Industry	½- 5%
Machine and Tool Industry	⅓-10%
Chemical Industry	2- 5%
Pharmaceutical Field	2-10%

Since these rates are influenced by various special circumstances, the inclusion of these typical rates as guideposts has been criticized as leading to misunderstanding on the part of employers and employees. Lüdecke

[85] *Ibid.* 447.

[86] *Ibid.* 457, 458.

characterizes them as mere theories and schoolbook wisdom foreign to the facts of life.[87]

Additional provisions are made in the regulations to decrease the royalty rate as sales turnover increases. As a sales turnover of 20-40 million D.M. (5-10 million dollars), the license rate (the value of the invention) is decreased by seventy percent for the amount exceeding 20,000,000 D.M.

Ascertainable Profit

The determination of the value of the invention according to this method is preferred when the invention is such that it provides internal savings to the employer, or in the case of improvement inventions, if the improvement is of the type that sales turnover of the improved product cannot serve as a basis for computation. It can also be used when the invention concerns machines, apparatus, or processes used only within the company and for which the sales turnover does not present a sufficient basis for computation. Determining the value of the invention according to the ascertainable profit is difficult. The difference in profit made possible by the use of the invention is the primary base. "Profit" as used in the regulation does not relate only to the profits of the undertaking, determined by an audit of the books, but also to decrease in losses. The determination of the value of the invention is made according to customary industrial accounting procedures which allow deductions for the costs incurred in putting the invention into practise, for calculated risks and, if necessary, a calculated payment to the entrepreneur. Costs incurred prior to the completion of the invention are not deductible since they are taken care of in that portion of the regulations relating to the deduction made because of the contribution of the employer to the invention.

Estimation

If it is impossible to determine the value of the invention according to the preferred methods, then the value of the invention may be estimated. This occurs chiefly in those areas relating to safety devices and measuring and testing devices where similar improvements would generally be purchased from a supplier. This is especially true where the cost of the equipment is not great and invention is a rather small improvement. Only in rare cases would an employer take a license on an improved thermometer used by him in this production process and manufacture it himself; he would generally buy the thermometer from an instrument firm. Generally, the price paid for such inventions that cannot be evaluated according to the

[87] Heine and Rebitzki 100 citing Lüdecke, *Lizenzgebühren für Erfindungen* (Fachverlag Dr. N. Sloytscheff, Darmstadt, 1955).

first two methods will be rather low. Experience has shown that these inventions are generally superseded by other improvements in a few years.[88]

License, Sale and Exchange Contracts

If an invention is licensed to a third party, then the value of the invention is equal to the net royalty rate, that is, the gross royalty rate minus the cost of developing the invention. Costs prior to the reporting of the invention are treated in that section of the regulations dealing with the contributions of the employer to the making of the invention and are not deducted from the gross rate. Deductible costs include all costs incurred in reducing the invention to practise or refining the invention provided that these costs are incurred after the invention is reported to the employer. Costs which the employer has incurred in selling the invention (including costs of unsuccessful attempts to sell), as well as reasonable estimated future costs which may arise under the license contract, are also deductible.[89]

Since such costs are difficult to determine, the regulations provide that they may be estimated and that, generally, the net income from a license is equal to twenty to fifty per cent of the gross income and, in exceptional cases, may be seventy-five per cent or higher.

Often, more especially in Europe than in the United States, the licensing of a patent also includes the necessary know-how of the licensor which will enable the licensee to most effectively practise the invention. The portion of the gross value of the license attributable to the know-how of the employer may also be deducted from the price if this know-how cannot be regarded as a qualified PTI of the employee.[90] The regulations specifically provide that in the case of the grant of know-how, along with the license, the actual facts shall govern the relative worth of the know-how and it shall not be left to a mere declaration between the licensee and the employer.

Blocking Patent

If the invention relates to a device or process, the subject matter of which is covered by an existing patent, the employer may wish to obtain patent coverage for the second invention although he does not intend to exploit it by production. A blocking patent (Sperrpatent) is one which is maintained only to prevent competitors from using the invention and thereby competing with the patent owner's existing or anticipated production. When an invention is already being used by an enterprise and a

[88] *Ibid.* 122.

[89] Schade/Schippel 456-457.

[90] *Ibid.* 457, 458.

second invention is made by means of which the patent for the first invention may be circumvented, the value of the first invention forms the basis for computing the value of the second. The regulations provide that in some cases the value of the first invention and the second invention may be greater than the value of the first invention alone. At least one commentator feels that this is not possible.[91]

Since the second invention indicates that the scope of the first is not as broad as previously thought, the total value of both inventions is generally equated to the originally computed value of the first invention. A deduction is made from this originally computed value to reflect the fact that the scope of its patent protection is not sufficiently broad to exclude those who would have rights to practise the second invention. The second inventor receives the compensation deducted from that of the first inventor. (The statute allows changes in compensation when the circumstances controlling for the original determination of the compensation materially change. Discovery of an unknown defect in the scope of the patent for the first invention justifies such a decrease in compensation.)

Even when it is decided that both inventions are of equal value, it is equitable to pay the second inventor less than the first if the first invention is being exploited commercially.

Patent Complex

In the case that several inventions form a patent complex directed to a single process or product, the value of the entire patent complex is first ascertained and a portion of this value assigned to each invention of the complex.

Inventions not Exploited

The blocking patent is considered as an exploited patent since it provides additional protection for the manufacturer's product. In other cases, the invention is not exploited. Reserve patents (Vorrats-patent) and development patents (Ausbaupatent) are not presently exploited but will probably be exploited in the future. These patents are held in reserve, as it were, until such time as the circumstances become favorable for their commercial exploitation. Their value must be estimated. However, when these inventions are later exploited by production or licensing, the previous estimates of the value may have to be revised by employing the license analogy or the ascertainable profit method.

The regulations also provide for those inventions which are not exploited and have no future possibilities of exploitation. The mere fact

[91] Heine and Rebitzki 142.

that the employer has obtained patent protection does not indicate that such inventions are commercially practicable. The test for patentability involves novelty and inventiveness but not the commercial potential of the invention or its practical usefulness in industry.

The regulations state that the employer who does not use an invention "should" release the invention to the employee. This is merely a suggestion and not an absolute requirement.[92] The employer is nonetheless required periodically to review the invention to determine whether its value has increased in the interim. This duty to constantly recheck provides a stimulus to release worthless inventions. As a practical matter, the employer will not pay the progressively increasing fees to maintain a patent which is valueless.

It should be pointed out that if the employer does not use an invention it does not release him from the duty to compensate the employee if it is commercially exploitable, as shown by expert testimony.[93] However, when the invention is not fully used even though it could be, there may be certain conditions which excuse the employer from using the invention. It cannot be demanded that the employer exploit the invention in foreign countries or that he expend large sums to increase production when the investment conditions are unfavorable. It cannot be expected that a small firm give a license to a larger competitive firm which could exclude the smaller firm from the market.[94]

So long as the economic utilizability is not determined and the employer is still investigating, compensation need not be paid. The regulations specify that this period of evaluation generally should not exceed three to five years following the grant of the patent despite Section 12(3) of the Statute. After this time, a presumption arises that the employer is maintaining the patent although he does not use it, because it has some value to him, either as a blocking patent or a development patent. If the employee is satisfied, however, that the employer is making a bona fide attempt to evaluate the invention, he may agree to the non-payment of compensation for an extended time by an agreement as permitted by Section 22 of the Statute.

Limited Title in the Employer

The foregoing discussion of the method of evaluating the invention relates to the case in which the employer takes title. The same rules of

[92] Schade/Schippel 467.

[93] Urteil des Landes Arbeitsgericht Frankfurt, 9 May 1960 reported at 63 *GRUR* 131 (1961).

[94] Schade/Schippel 469-470, cf. Heine and Rebitzke 160-162.

compensation apply when the employer takes a nonexclusive right of use for the invention except that he must use the invention before he is required to compensate the employee. Generally, the value of a nonexclusive license is less than that of an exclusive license so that the compensation may be lower to reflect this difference in value. An invention to which an employer has only a nonexclusive right of use cannot be considered a development patent or a blocking patent and the employee has no claim to compensation merely because of the naked right to use of the employer.

Moreover, the employee, in many instances, may have taken advantage of the knowledge and techniques known to him by virtue of his employment. If this knowledge or technique is embodied in the invention and the employee licenses others to use the invention, then the employer may, in certain circumstances, make suitable deductions from his payments to the employee. Some commentators feel that the mere right in the employee to grant licenses to third parties, which embody contributions of the employer to the invention, gives the employer the right to make such a deduction. Dr. Schade, states that the employee must exercise the right before this deduction may be made.[95]

Deliveries in Foreign Countries

The fact that a product made in Germany is shipped to a foreign country does not relieve the employer from compensating the employee.[96] For a device produced in a foreign country by the employer, he must compensate the employee only if his production in the foreign country is protected under the laws of that country.[97] This is in accord with the monopoly principle upon which the statute is based. If the invention is practised in a foreign country and no legally protected rights have been secured in that country, the employer need not compensate the employee for the foreign use.

Company Secret

Inventions for which patent applications are not filed because the employer wishes to maintain company secrecy are compensated according to the rules for inventions for which applications have been filed, taking into regard the disadvantages occurring to the employee because of the fact that the invention must remain secret. A specific disadvantage stated in the regulations is that the employee does not enjoy the professional prestige of being named as the inventor. If the invention is patentable, the claim

[95] Schade/Shippel 471.

[96] Heine and Rebitzki 177; cf Schade/Schippel 472.

[97] Heine and Rebitzki 178.

of the employee generally extends eighteen years from the time that the employer has laid claim to the invention. If it is only registrable as a registered design, the duration of compensation is only six years—corresponding to the duration of that protection in Germany. (See also "Mode of Payment" infra).

Registered Designs

Compensation for inventions which are registrable are determined in much the same manner as compensation for patentable inventions with the exception that license fees for such inventions are generally lower. However, if a patentable invention is made the subject of an application for a registered design, then the value of the invention must be determined in the same manner as a patentable invention considering only the shorter duration of legal protection.[98]

Proposals for Technical Improvements

PTIs, which afford the employer a position similar to that he would have if the proposal were legally protected, are compensated when the employer uses these proposals. The value is computed in much the same way as an invention. One interesting point, specifically provided for by the regulations, is that the PTI, as such, must be the reason for the "monopoly" position. If a PTI is related to a device which is patented, compensation is due only for that portion of the monopoly protection which is brought about by the TPI. Thus, if an employee suggests a rearrangement of parts in a patented device which leads to savings in the employer's production costs, he is not entitled to compensation since competitors of the employer would be able to copy the new arrangement save for the patent.

If, however, the employee suggests a different process for making the patented device, which is of such a nature that it cannot be discovered by inspection of the finished product, then the employee would be entitled to compensation provided the employer used the process and maintained its secrecy.[99]

The usual compensation for a PTI is a lump sum payment generally equal to about ten percent of yearly savings.[100] In some cases this sum may be so great that the employer may wish to compensate the employee periodically to protect himself in the event his competitors discover the improvement and it loses its unique value. The right of the employee to compensation ceases as soon as the proposal becomes generally known.

[98] Heine and Rebitzki 187-188.
[99] *Ibid.* 199.
[100] *Ibid.* 194.

COMPUTATION OF COMPENSATION

The value of the invention (economic utilizability) computed according to the regulations is that value which the employer would be obliged to pay a free inventor. The compensation due to an employee-inventor is generally a fraction of that value, determined by considering the following three factors;

1. The manner in which the task was presented to the employee,
2. The mode of solution of the task and,
3. The duties and position of the employee in the concern.

Each of these factors is treated separately and a certain number of points is awarded for each factor. A composite factor, arrived at by adding the value of each factor and employing a conversion table, results in percentage of the value of a free invention to which the employee is entitled.

The Assignment of the Task

The greater the initiative of the employee in setting for himself the task which ultimately led to the invention, the greater is his contribution to the making of the invention. Conversely the more specifically and circumscribed are his duties and the more specific the directions for performing these duties, the less is his contribution and the less is the degree to which he is entitled to share in the profits from the invention. The mode of assignment of the task which led to the invention is grouped as follows:

1. The company gave the employee a particular problem to solve and indicated its method of solution.
2. The employee was assigned a specific problem but the mode of solution was not given.
3. The company did not assign the problem to the employee but, as a consequence of his employment, he acquired knowledge of deficiencies or requirements which he himself had not ascertained.
4. The enterprise did not assign the specific problem to him but, as a consequence of his employment, he gained knowledge of deficiencies or requirements which he himself noted based on his personal observance.
5. The employee set a problem for himself within the general sphere of his duties.
6. The employee set a problem for himself outside the general sphere of his duties.

If the facts correspond to the factors stated in the first group, then the employee receives one point. If they correspond to those of the second group, he receives two points and so on. The employee receives a maximum of six points if the facts correspond to those set forth in the sixth group.

Where the employer set the task for the employee and subsequently indicated the mode of solution after the employee had started work on the task, the employee should be awarded two points if he had already started on the same mode of solution suggested by the employer prior to

receiving the suggestion. If he had not yet decided upon this mode of solution, he receives only one point.

If the task lies outside the employee's general duties, then an invention in groups 3 and 4 may be awarded more points.

If the problem is narrowly presented, the mere assigning of the task to the employee can indicate the mode of solution. On the other hand, a very general suggestion of the employer (e.g. to be on the look out for areas in which inventions could be made), is not regarded as an assignment of a problem.

If a machine delivered to a customer has a particular defect and an engineer receives a complaint from the customer, this would be considered as an assignment of the task to cure the defect and would not involve recognition of the defect by the engineer himself. Therefore, he would receive a value of one or two points depending upon the circumstances.[101]

If an engineer having charge of a production line decides that the production could be doubled by improving a certain machine and does so, he should be awarded five points if there existed no known deficiency in the machine since the engineer displayed a commendable desire to improve equipment thought to be satisfactory.[102]

The "1" value is the boundary between a service invention and no invention at all while a "6" value is the boundary between a service invention and a free invention. If the invention results from a task which is so narrowly defined that the employee is merely carrying out the instructions of the employer, it may be that he exercises no inventive skill and need not be compensated. If the task is foreign to his sphere of activity and he takes up the task for himself, it may be that it is a free invention.

Solution of the Task

The following three factors are considered in arriving at a value to be accorded for the solution of the task:

1. The solution was arrived at by employing the acquired knowledge and experience of the employee necessary for the completion of his duties.
2. The invention arose from the work or knowledge of the enterprise.
3. The enterprise supported the inventor with technical help; special equipment (not general laboratory equipment or other technical equipment usually provided by the employer) and the aid of other employees.

If all three of these factors are present, the employee is awarded a value of one; if none of these is present, he receives a value of six. Value between one and six are awarded according to the circumstances of the case.

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[101] *Ibid.* 204.

[102] *Ibid.* 205.

When a chemist working in a chemical laboratory employing a spectrometer invents and improves the mechanical or electrical construction of the spectrometer, it could not be said that this stemmed from the professional and educational abilities which qualify him for his job.

In some cases, a scientist employed in one section of a firm and dealing with one sub-branch of his scientific speciality may not reasonably be expected to make an invention relating to another specific sub-branch of his scientific speciality.[103]

The work or knowledge is the inner company experience, knowledge, suggestions, and know-how which led the employee to the solution of the task or made it easier for him to reach its solution.[104]

The support referred to in this portion of the regulations must have preceded the reporting of the invention to the employer. Expenditures for refining, improving and testing an invention after it is reported are considered in determining the value of the invention, they may not be again considered as support given to the employee in making the invention.

Duties and Position of the Employee in the Company

The greater the opportunity the employee has to inspect the production techniques and technical developments within the company, the higher his position in the company, or the greater his salary, the more it can be expected that he will participate in the technical developments of the company and the less will be his claim for compensation. The position in the company does not mean the nominal position of the employee but his actual position in carrying out his duties.

The regulations divide employees into eight groups:

1. Leaders of the research effort of the corporation and technical heads of large corporations.
2. The leaders of the development divisions and the group leaders in the research divisions.
3. The leaders of an entire production group, for example, technical division leaders and factory heads; the group leaders of development laboratories and engineers and chemists involved in research.
4. The leading persons active in the production group; group leaders (engineers and chemists who supervise other engineers or chemists); engineers and chemists involved in development.
5. Employees who have a higher technical education either in a university or a special technical college who are active in production. From these employees, an enthusiastic technical interest combined with technical ability, is expected so that they may solve problems of construction or process.
6. Persons who have some supervisory authority in the company, for example mastercraftsmen and mastercraftsmen supervisory or those who have a basic technical education, for example, technicians or chemical technicians. From

[103] Heine and Rebitzki 208.

[104] Richtlinien of 1959, par. 32.

these employees it is expected that they will make suggestions for improvements in the sphere of their duties and will be on guard for technical improvements of a simple nature.

7. Employees who have received a "manual" technical education, for example, special workers, laboratoriants, installers and draftsmen even if they have a slight supervisory capacity, for example, lead men, assistant masters, and foremen. It is expected that these persons will generally be able to complete their assigned tasks with a certain amount of technical competence. On the other hand, it must be considered that the employees in this group cannot be expected to solve technical problems of construction or processes.
8. Employees who have essentially no previous education which suits them for their duties on the enterprise, for example, laborers and apprentices.

Points equal to the group number are awarded to employees of each group.

Some of these designated jobs may have no exact counterpart in U.S. industry, nonetheless, the principle behind the method of separating employees into various categories is clear.

The table provides a basis for computation; individual factors of each case must be considered. In small companies it may often happen that the leader of the research department should not be considered in group 1 but in groups 2, 3 or 4, according to the circumstances.

The division as to whether the employee is active in production development or research is not alway correct. In many companies the workers engaged in development work are closer to inventions made within the company than those in research.

If an employee is in one of the above groups, the point value of his position may be increased or decreased according to his wages. An older employee having more experience in the company generally receives a higher wage than a younger employee who nominally carries out the same duties since higher achievement is expected from the older man because of his experience. In some corporations it is not expected that leading employees will delve into the details of technical problems. Especially in the larger firms, it is not uncommon that the leaders are further removed from details of the technical development than the development engineers.

A specific provision is included in the regulations to the effect that employees engaged in the business or administrative side of the company's activities and who have no technical education generally will be put in the lowest group since no technical improvement can be expected from them. However, those engineers and scientists who become technical sales people and the personnel in higher sales positions (leader of the sales department, administration and sales directors) may be inserted in one of the other groups to be determined on a case by case basis.

COMPUTATION

In computing "contribution factor" (contribution of the employee to the value of the invention), the regulations prescribe the following table:

a+b+c =	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	(20)
A =	2	4	7	10	13	15	18	21	25	32	39	47	55	63	72	81	90	(100)

Where:

a = the value assigned for the manner in which the problem was presented to the employee.
b = the value assigned for the solution of the problem.
c = the value assigned for the duty and position of the employee in the company.
A = the contribution factor.

The sum of a, b and c does not necessarily have to be a whole number but may be a fraction such as 3.5, in which case "A" would equal 3. The numbers 20 and 100 are set in parentheses because, in this case, the invention is a free invention.

If the contribution factor "A" is very low and at the same time the value of the invention is small, then the regulations permit the employer to refrain from compensating the employee, in other words reasonable compensation is nil. Both factors must be simultaneously low for this to occur.

In a proposal of the Arbitration Board in October 1958, it was suggested that the employee should receive an award of 50 D.M. ($12.50). In that case, the license value for a free invention was considered to be about 3-5 percent of the turnover and the value of the contribution factor "A" was 14%. The turnover was 1300 marks. The Arbitration Board said that the small amount should be paid because this amount resulted neither from low inventive achievement nor from a high contribution of the employer to the making of the invention but from the small turnover.[105]

One author has said, "It frightens the uninitiated when he hears for the first time that one can fit an inventive achievement into a formula and compute the value of the compensation according to this formula." [106] Frightening as this may be, the formulation of the compensation is found by employing the following formula:

$$V = E \times A$$
$$E = B \times L$$
$$V = B \times L \times A$$

Where:

V = compensation to be paid.
E = the value of the invention.
A = contribution factor (in percent).

[105] Eingungsvorschlag der Schiedestelle 16 October 1958, 61 Blatt 16.

[106] Heine and Rebitzki 232.

B = basis upon which compensation is computed, that is to say, it may be a money value if the compensation is based upon sales turnover or if the compensation is based upon the number or amount of items produced, it is the units produced.

L = the license rate.

The compensation can be a lump sum or for a certain periodically recurring time, e.g., one year.

Assuming a yearly turnover of 400,000 D.M. for which a license rate of 3% would be charged by a free inventor and a contribution factor of (a+b+c=8=) 15%, the following is to be paid:

$$V = 400{,}000 \times \frac{3}{100} \times \frac{15}{100} = 1800 \text{ D.M.}$$

If the license was based upon the quantity of the items produced, the following computation might be made. Production of 1000 items covered by the invention at a rate of 20 D.M. per item and a contribution factor of (a+b+c=6=) 10%, the compensation is:

$$V = 1000 \times 20 \times \frac{10}{100} = 2000 \text{ D.M.}$$

Based upon the results of the cases heard by the Arbitration Board, the general value of the contribution factor lies in the neighborhood of about 15 percent.[107] Coincidentally, the example included in the regulations is 15 percent. The Ministry for Labor did not indicate that it felt that the average employee's invention should be evaluated at 15 percent but the regulations were made after hearing the important labor and management groups and using the experience gained under the regulations of 1942. Assuming that most of the inventions which are reported under this law are made by engineers and scientists working in the development phase of activity, it would not be surprising if the 15 percent was initially taken as a good average compensation and the formula worked out from that. There is little question that 15 percent treats the inventor-employee generously as compared to the practise in the U.S.A. yet it seems to allow the employer to profitably maintain a staff of engineers and scientists for the purpose of research and development.

Proposals of the Board

The following are the results of some actual compromise suggestions made by the Arbitration Board:

1. A development engineer was given the task of improving a product but the method of solution was not indicated to him. He used his technical background and education and the technical assistance of the employer in making the invention. The Board held that the employee should receive 13 percent of that compensation which a free inventor would receive.[108]

[107] Schade/Schippel 487.

[108] 61 Blatt 15 (1959).

2. A technical draftsman was directly assigned to work on a problem but was not told what path he should take in pursuing its solution. The Board suggested an award of 17 percent of what a free inventor would receive.[109]
3. A production engineer set himself the task of improving a device based upon a requirement which he himself recognised. He was given the technical support of the employer and used his technical and educational background to solve the problem. The contribution was set at 20 percent.[110]
4. A production engineer, having no assignment to investigate a problem, independently noted the need for improvement as a consequence of his employment. The employer supported him with technical assistance and the invention made was based upon the employee's previous technical education and experience and his work in the firm. A compensation of 20-25 percent of what a free inventor would receive was suggested.[111]
5. A production engineer received an assignment to investigate a certain problem. The mode of solution of the problem was not given. With knowledge and education not required for his position in the department in which he was working and with the aid of technical support of the employer, he made an invention. The Board proposed that he receive 20 percent of what a free inventor would receive.[112]
6. A technical draftsman determined that a need existed; using the technical support of his employer he proposed a significant improvement. It was suggested that he be awarded 25 percent of what a free inventor would receive for the invention.[113]

MODE OF PAYMENT

If the compensation is dependent upon the turnover of items produced or by the ascertainable company profit, then the compensation should be paid periodically. The regulations recommend a yearly computation. This is the period generally employed by the larger firms since it is compatible with their book-keeping system and enables the patent attorneys, accountants and technical supervisors to get together at one time and dispose of all the awards for the preceeding year.

The regulations recommend a single lump sum payment under the following circumstances:

1. When the yearly accounting for the invention would not be possible without the expenditure of a great deal of extra effort and money by the employer.
2. When the service invention is exploited as a blocking patent or a development patent.
3. If the inventor is in such a position that he can influence the use of the invention or the development of further related inventions in the company. It is preferable to accord him a single lump sum payment and avoid the possibility of conflict between his personal interests with the duties which he owes the company.

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[109] "Aus der bisherigen Praxis" 50 Mitt. 253, 257.

[110] *Ibid.* 257.

[111] *Ibid.* 258.

[112] *Ibid.* 259.

[113] *Ibid.* 257.

As a practical matter, the case in which the employee has already left the company is a fourth instance in which he is paid a lump sum.[114]

In computing a lump sum payment, the employer is permitted by the regulations to take into consideration the fact that in Germany patents are usually maintained for about six years and then allowed to lapse for non-payment of fees.[115] He may, therefore, base his one time lump sum payment on the assumption that the patent will be allowed to lapse after six years. This does not apply if there exist well-founded reasons to believe that the patent will run more than six years. If, in retrospect it is found that the patent ran more than six years the employee will not generally be entitled to additional compensation since he enjoyed the benefits of an initial lump sum payment and the employer took the risk, that the patent would be allowed to lapse or be declared invalid prior to expiration of the six year period. Conversely the employer cannot request repayment of a portion of the lump sum if the patent is allowed to lapse or is invalidated before the sixth year ends.

Duration of Compensation

In the case of a running royalty, the compensation determines when the legal protection ceases. The regulations have provided that compensation may extend beyond the life of the patent when the invention is exploited only in the last years of the life of the patent and the patentee has attained a preeminent position in the market during the life of the patent which endured after the expiration of the patent (e.g. when secret know-how is required to practise the invention).

This provision in the law is striking since, if the employer were to pay a free inventor royalties on a patent after its expiration, it would probably be against the anti-trust laws of Germany and forbidden by Section 20 of the Law Against Restrictive Trade Practises. The provision was nonetheless inserted in this statute for the benefit of the employee.[116]

If the patent is declared invalid, then the employer's obligation to pay royalties to his employer ceases. This obligation remains in effect until the patent has actually been declared invalid or the invalidity of the patent is so notorious that others may freely infringe the patent.

PART IV

CONCLUSION

The legislation of 1957 represents no bold experiment in social legislation and effects no changes in the philosophy embodied in the regulations

[114] Schade/Schippel 493.

[115] Richtlinien of 1959, par. 41.

[116] Heine and Rebitzki 247.

of 1942. Experiences under the prior regulations form relevant guides for those expected to comply with the statute as well as those required to administer it. Doubtless, this experience is one reason why the transition to operation under the new legislation has been unspectacular, even dull. Since no basic changes in the rights of the employee or of the employer have been brought about by the statute, it is not surprising that no serious objections or bona fide cries of anguish have been raised against the statute by employer groups. The important effect of the statute is not the degree to which it provides greater rights to the employee than he previously enjoyed but the extent to which these legal rights given to creative employees under the statute or, indeed, under the regulations of 1942, are capable of translation into concrete benefits. Petitions to the Arbitration Board (Appendix) have been disappointingly few. Of these, a large portion, estimated at 75-85%,[117] have been filed by former employees who have quit their employer. Based on this estimate, only 15 of the 62 cases submitted to the Board in 1960, involved cases in which the complaining employee was still employed. It would be a remarkable testimony to the generosity of the employers if it could be believed that of an estimated 27,600 patent applications filed on behalf of German employees in 1960 (80% of the applications originating in Germany, Appendix), in only 15 cases was the employee not fully satisfied with the compensation granted by the employer. If the registered design applications are included in this estimate, the testimony becomes even more remarkable, and less believable.

To the extent that the employee is unwilling to assert rights granted by the statute, these rights have no real value to him, but this is not a failing of the statute. An employee is reluctant to jeopardize his position or prospects for future advancement in the company by petitioning the Board for redress of every inadequacy of compensation. The hope that employees would do this because the proceedings are inexpensive and informal was destined to be disappointed.

When the prospective rewards are sufficiently high, the employee may be more ready to assert his rights before the Board. The law in Germany thus provides the employee the right to participate in benefits arising from at least those inventions which ultimately prove to be of substantial commercial value. Compensation for the average invention will probably always remain low, in some cases nominal, but some inventors have already been accorded large awards under the statute.

The stimulation of invention provided by this right of the employee to participate in the fruits of the exploitation of his invention is difficult to

[117] Private discussions.

evaluate. During the period 1957-1960, the total number of German patent applications originating in Germany has remained virtually static and the percentage of cases filed at the German Patent Office which were of domestic origin has decreased somewhat (Appendix). It would however be unrealistic to expect an explosive increase in filing after the enactment of the statute since similar incentives have been presented to the inventor under the regulations of 1942.

To the American company contemplating establishment of operations within Germany, the additional costs incurred by the employee compensation provisions of the law should not be so great as to make research unprofitable or lead to substantial curtailment of R&D operations.

However the results of the German statute are assessed, the German experiences provide a valid guide for those in the U.S. interested in the problem of equitable division of rights between the inventor and his employee.

APPENDIX

Selected Statistics of the German Patent Office and Arbitration Board *

Year	Patent applns originating in W. Germany	Design applns	% of total filed pat. applns originating in Germany
1957	34786	39226	68.89
1958	35442	30811	68.13
1959	35236	39984	65.28
1960	34577	37907	63.83

Year	Cases submitted to Arbitration Bd.	Compromise proposals made	Proposals accepted	Proceedings terminated
1957	17	0	0	3
1958	41	12	12	23
1959	42	19	12	39
1960	62	22	14	49

* Compiled from statistics of Patent Office as printed in
61 Blatt 97 (1959)
62 Blatt 117 (1960)
63 Blatt 92, 101, 111 (1961)

Speedy Entry of Patented Inventions into Commercial Use

BARKEV S. SANDERS, Co-Principal Investigator *

SUMMARY

THIS INTERIM REPORT analyzes the time when patented inventions are first put to commercial use in relation to the date when application was filed for a patent and when the patent was issued. This analysis is confined to assigned patents only, since information on the date when the sampled patent was first put to commercial use was obtained from the assignee only.

The analysis of our sample for patents issued in 1938, 1948 and 1952 indicates that in all probability the assignees were far too generous in their estimation of patented invention, not in commercial use at the time, that would come into use in the near future. Perhaps no more than ten per cent of the patented inventions, reported as to be used in the future, will be used commercially.

Our best estimate is that of assigned patents issued in the forties and put into commercial use, about forty per cent were put to use for the first time before an application was filed. About fifty per cent were put to use for the first time while the patent was pending. Only about ten per cent of assigned patented inventions put to commercial use come into such use for the first time after the patent has been issued. There is some suggestion that the tendency for early use is becoming accentuated in most recent years.

Even though the proportion of mechanical, electrical, and chemical patents shows some variation in percentages used before application, after application and after issue from one another, these differences are not statistically significant and, therefore, they may not be real.

When companies are arrayed according to their size, it would seem the largest corporations have a greater propensity to put a higher proportion of their patented inventions into use before patent application, forty-nine per cent, in contrast to companies of intermediate size, which show the minimum, thirty-one per cent. Conversely the largest companies report the smallest proportion of patented inventions put to use for the first time while the patent was pending and after issue. These percentages for largest companies are forty-four and seven, respectively. Companies of

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intermediate size show the highest proportion of patents put to use for the first time after issue, fifteen per cent. Some of these differences are found to be statistically significant.

The proportion of patented inventions put to use after two or three years subsequent to issuance is extremely small. For 1938 patents, the only group in our sample for which enough time had elapsed for patents to expire, only two patents, less than three per cent, of all patented inventions put to use came into use for the first time after the third year after issue.

The rate of first utilization of patented inventions per unit of time is highest in the period prior to the patent application. It declines during the years when the patent is pending and drops very sharply after the year of issue. There is a sharp decline in probability of first use of patented inventions from the moment that the inventive act is completed, so much so, that if the incidence of first use is given a rate of 100 in the year immediately prior to filing, the comparable rate for the first year after application would be sixty-six to eighty-six, second year after application one to five, and third year after .4 to 1.8.

No association was found between use before application, after application but before issue, and after issue and the number of years that the patent remained pending, thus giving no indication of pressure by assignees to extend the period of enforcement for patented inventions that are in commercial use, compared to other patents.

The preapplication use of patented inventions is limited to corporations, and one of its consequences would be a drastic reduction of patent applications filed by corporations. Many potentially patentable inventions will not be patented if their preapplication use proves economically disappointing. This phenomenon alone could account for the marked decline in the number of patents per unit of population. This relationship gives an additional reason why the number of patent applications or patents issued is not a useful index of inventive effort of a nation.

INTRODUCTION

ANALYSIS OF THE TIME LAPSE from conception of the idea for an invention to the stage of development at which a patent application can be filed showed marked differences in the time reported by inventors of assigned patents and those of unassigned patents. Such differences were anticipated. But we did not anticipate the significant difference between the time lapse reported by inventors and assignees with respect to

a specific sampled patent which we discovered. At this stage we are not prepared to say how much of this latter difference is real and how much spurious, due to possible errors in reporting. In this interim report we shall not consider inventive time, we shall concern ourselves with the dispatch with which patented inventions are put to commercial use for the first time.[1]

Our measurement of time of use will be with respect to two pivotal dates: (a) the date when a patent was applied for, and (b) the date when the sampled patent was issued.

It is apparent that in this analysis, we are restricting ourselves to patented inventions that were used sometime or other, and in some measure also those patented inventions which were reported would be used in the future. Information regarding the time when use began, and the duration of such use were sought from assignees only. Therefore, the analysis is restricted to assigned patents. We assumed the information sought was such that it could not have been obtained from inventors, especially inventors of assigned patents.

WHEN ARE PATENTED INVENTIONS PUT TO USE FOR THE FIRST TIME?

Question 10 [2] in the assignee questionnaire asks for the date (year and month) on which the sampled patented invention was put to commercial use for the first time. We have related the date thus provided to the date of application and the date of issue both of which are given on the face of the patent letter.

Table 1 shows this relationship for all of the assigned sampled patents and sampled patents issued in each of the three years studied. The patented inventions for all the three years and for each year are divided into groups as follows:

a. Patented inventions the commercial use of which commenced prior to the filing of a patent application. These patents shall be referred to hereafter as *before application.*

b. Patented inventions the commercial use of which commenced after the date of filing of application but prior to the date of issue. These patents shall be referred to hereafter as *after application.*

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[1] We lack information as to the actual time lapse, if any, between the date when a patented invention was far enough developed so that it could have been put to commercial use, and the date when it actually was used. We assume the first of these dates, when the patented invention was ready for use, even though conceptually simple, may nevertheless be difficult to ascertain, even if we had sought such information.

[2] Question 10 reads: "If the sampled invention is or was ever used in production, what is the date when it was first used? (month and year)." *PTC. J. Res. & Ed.*, Vol. 1, No. 1, June 1957, p. 110.

TABLE 1

Number and percentage distribution of patented inventions according to the time when their commercial use began as reported by assignees, including and excluding inventions reported about to be used, by years of issue and for all three years combined.[1]

PRELIMINARY

Time when use began and inclusion or exclusion of "future use" inventions. (1)	Year of Issue: All three yrs. No. (2)	All three yrs. Per cent (3)	1938 No. (4)	1938 Per cent (5)	1948 No. (6)	1948 Per cent (7)	1952 No. (8)	1952 Per cent (9)
Total	292	100.0	78	100.0	75	100.0	139	100.0
Before filing patent application	96	32.8	27	34.6	25	33.3	44	31.7
After application but before issue	120	41.2	38	48.7	29	38.7	53	38.1
After issue	76	26.0	13	16.7	21	28.0	42	30.2
Excluding "future use" inventions								
Total	245	100.0	76	100.0	60	100.0	109	100.0
Before filing patent application	96	39.2	27	35.5	25	41.7	44	40.4
After application but before issue	120	49.0	38	50.0	29	48.3	53	48.6
After issue	29	11.8	11	14.5	6	10.0	12	11.0

[1] For 47 patented inventions in current use or used in the past the date when the use began was not reported.

c. Patented inventions the commercial use of which commenced (or may commence in the future) after the issuance of the patent. These patents shall be referred to as *after issue.*

The percentage distribution of all assigned used and to be used patented inventions in terms of the preceding three groups are (a) thirty-three for before application, (b) forty-one after application, and (c) twenty-six after issue. In this last group we have included patented inventions that had been put to actual use, and those for which the assignee indicated anticipated future use. We have no subsequent information whether any or all of these patented inventions which were reported about to be used were actually put to commercial use or not.[3]

It is also conceivable that a few of the "never used" patented inventions might also have come into use during the years that the patent will remain in force.[4]

[3] We are in the process of recircularizing the assignees of these "about to be used" patented inventions to determine how many of them did actually come into use. Of the 32 patented inventions for which follow-up questionnaires have been received, that were reported initially "future use," only 5 were actually put to use.

[4] We are also recircularizing assignees with regard to "never used" group of patented inventions to ascertain if any of these came into use in the intervening years despite the

Theoretically, at least, it is conceivable that the proportion of patented inventions which are put to commercial use after issue may become higher ultimately than twenty-six per cent shown in the upper portion of Table 1. If this were to occur, the percentages put to use before application and after application would be reduced correspondingly. Our analysis leads us to believe, however, that, in all probability, the assignees who reported patented inventions that were about to be used were being overoptimistic, that very few of the patented inventions that were believed would be put to use would actually be used (see footnote 3). This inference is based on the pattern of use for patented inventions issued in 1938 as compared with those issued in 1948 and 1952. For instance, Table 1 shows that even including the "future" used patents we get less than seventeen per cent of the patented inventions issued in 1938 put to use for the first time after issue. The corresponding percentages for 1948 and 1952 patents are twenty-eight and thirty respectively. It should be observed that at the time when our questionnaires were returned all of the patents issued in 1938 had expired. Of the seventeen per cent only a small fraction are patented inventions not used that are expected to be used in the future. But this is not true of patented inventions issued in 1948 and 1952. Of these, well over two-thirds (seventy-one per cent) of those considered used after issue are anticipated use. Thus, of the twenty-eight per cent of patented inventions issued in 1948 "used after issue," seventy-one per cent are anticipated use. Similarly of the thirty per cent of 1952 patents "used after issue" seventy-one per cent represents anticipated use. We have as of now (see footnote 3) no information on the extent to which these anticipations were realistic. On the basis of our analysis of 1938 experience we are led to believe the percentage of patented inventions in groups, (a) before application, (b) after application, and (c) after issue can be more closely approximated by ignoring all "future use" patents. These are shown in the lower band of Table 1. These percentages for the three years combined are:

a. Before application	39
b. After application	49
c. After issue	12

TIME OF USE ACCORDING TO CLASS OF PATENT

Our data indicate strongly that in the forties and fifties between thirty-five and forty per cent of patented inventions that were put to commercial

earlier assumption that they would not be used. Of the 168 patented inventions for which follow-up questionnaires have been received which were initially reported never used or no information was given regarding use 23 are reported used in the follow-up questionnaire. In all but one of these 23 the date of first use precedes the date when the initial questionnaire was filled out.

TABLE 2

Number and percentage distribution of assigned patents in broad classes according to the time when their commercial use first began in relation to the application date and date of issue by year of issue.[1]

PRELIMINARY

Class of patent and time when first used (1)	Year of Issue: All years No. (2)	All years % (3)	1938 No. (4)	1938 % (5)	1948 No. (6)	1948 % (7)	1952 No. (8)	1952 % (9)
Mechanical Total	164	100.0	46	100.0	37	100.0	81	100.0
Before filing	62	37.8	16	34.8	15	40.5	31	38.3
After filing	82	50.0	24	52.2	17	45.9	41	50.6
After issue	20	12.2	6	13.0	5	13.6	9	11.1
Electrical—Total	39	100.0	14	100.0	11	100.0	14	100.0
Before filing	15	38.5	5	35.7	4	36.4	6	42.8
After filing	17	43.6	5	35.7	6	54.5	6	42.8
After issue	7	17.9	4	28.6	1	9.1	2	14.4
Chemical—Total	42	100.0	16	100.0	12	100.0	14	100.0
Before filing	19	45.2	6	37.5	6	50.0	7	50.0
After filing	21	50.0	9	56.2	6	50.0	6	42.8
After issue	2	4.8	1	6.3	0	0.0	1	7.2

[1] For 47 used patents the date when the use began was not reported.

use were put to such use for the first time even before a patent application had been filed, that almost fifty per cent were put to use while the patent was pending, and only about ten per cent of patented inventions, not already put to use before the date of issue, came into use subsequently.[5]

Our finding that thirty-five to forty per cent of assigned patented inventions are put to commercial use for the first time before even the patent application is filed has been questioned by some. It is conceivable that in this respect different companies pursue markedly different policies. The analysis of our returns by class of patents, however, gives no indication that in this respect there is appreciable difference between mechanical, electrical and chemical patents as such. These comparisons are shown by Table 2.

In Table 2 we have restricted our analysis only to those patents which had been used for which the date of first use was reported. Inspection of column 3 indicates that for electrical patents the proportion put to use after issue is the highest, eighteen per cent, and for chemical patents the lowest, less than five. These differences, however, are not statistically significant; therefore, not much reliance can be placed on these differences, but they do seem to strengthen our confidence in the general pattern that almost forty per cent of patented inventions are put to use before applica-

[5] This pattern would be distinctly different for unassigned patents. Our information here is restricted to assigned patents issued in 1938, 48, and 52.

tion for a patent is filed, close to fifty per cent while the patent is pending, and only about ten per cent after the patent has been issued.[6]

TIME OF USE ACCORDING TO COMPANY SIZE

We also have analyzed the time pattern of first use by companies grouped according to their net sales. These relationships are shown in Table 3.[7]

Table 3 shows that, on the average, the largest corporations are more apt to use a high proportion of their patented inventions before a patent has been applied for. This difference, in comparison to smaller companies that are listed in Moody, is statistically significant.[8] The largest companies also tend to have the smallest proportion of patented inventions put to commercial use for the first time after issue.

The companies with smallest recorded sales (companies of intermediate size) have the smallest proportion of their patented inventions put to commercial use before a patent application has been filed, compared with the largest or the smallest companies (those companies not listed with respect to net sales). On the other hand, companies of intermediate size show the highest proportion of patented inventions put to use while the patent is pending, fifty-six per cent, compared to forty-four for largest and forty-seven for the smallest companies. This latter difference, however, is not statistically significant.

The largest companies have the smallest proportion of their patented inventions put to use for the first time after issue, while the smallest companies have the highest percentage, 7.5 and 14.6, respectively. But this difference too is not statistically significant.

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[6] We are inclined to feel a figure perhaps less than twelve is more likely than more than twelve. This despite the fact that unquestionably a few more patents (perhaps three or four) from those issued in 1948 and 1952 will come into use before the expiration date. We believe though this would be more than offset by the fact that the time of use was not reported for forty-seven patented inventions. We are inclined to believe that a larger proportion of these are patented inventions first put to use before application or before issue date. Therefore our best estimate of these percentages is, in round numbers, forty, fifty and ten for before application, after application, and after issue, respectively.

[7] In Table 3 we have divided corporations with sampled patents on which returns were made and with one or more used patents into three groups. The first two groups are companies listed in Moody or similar publications giving net sales for 1949. These companies were arrayed according to their net sales and divided into two groups so as to yield about an equivalent number of patents in each group. The first group with largest sales is the largest companies. Those in the second group are considered companies of intermediate size. The third group, which we regard as the smallest companies, is those in our sample for which no sales information was reported in Moody or other similar publications to which we referred.

[8] The standard deviation of the difference between these two percentages, 48.8 and 31.1 for the largest and intermediate companies, is 2.35 times the observed differences, which means the observed difference could have occurred by chance less than twice in 100 trials.

TABLE 3

Number and percentage distribution of assigned patents by size of assignee company in terms of net sales according to the time when the commercial use of the invention first began in relation to the date of application, and date of issue by year of issue.[1]

PRELIMINARY

Size of company [2] and time when invention first used (1)	All years		1938		1948		1952	
	No. (2)	% (3)	No. (4)	% (5)	No. (6)	% (7)	No. (8)	% (9)
Upper half of listed companies—Total	80	100.0	27	100.0	20	100.0	23	100.0
Before filing	39	48.8	13	48.1	11	55.0	15	45.5
After filing	35	43.7	11	40.8	9	45.0	15	45.5
After issue	6	7.5	3	11.1	0	0.0	3	9.0
Lower half of listed companies—Total	90	100.0	35	100.0	18	100.0	37	100.0
Before filing	28	31.1	10	28.6	7	38.9	11	29.7
After filing	50	55.6	19	54.3	9	50.0	22	59.4
After issue	12	13.3	6	17.1	2	11.1	4	10.9
All listed companies—Total.	170	100.0	62	100.0	38	100.0	70	100.0
Before filing	67	39.4	23	37.1	18	47.4	26	37.2
After filing	85	50.0	30	48.4	18	47.4	37	52.8
After issue	18	10.6	9	14.5	2	5.2	7	10.0
Non-listed companies—Total.	75	100.0	14	100.0	22	100.0	39	100.0
Before filing	29	38.7	4	28.6	7	31.8	18	46.2
After filing	35	46.7	8	57.2	11	50.0	16	41.0
After issue	11	14.6	2	14.2	4	18.2	5	12.8

[1] For 47 used patents the date when use first began was not reported.
[2] Data on sales are for 1949 taken from Moody. No sales were recorded for non-listed companies.

The differences are again such that they give no indication of incorrect reporting, despite the doubts that some companies have expressed in the validity of our findings, with respect to the time when patented inventions are put to use for the first time. It should be stressed that these findings are obtained by relating the date supplied by the assignee as to when the sampled patented invention was first put to use with the date shown on the face of the letter patent, giving the date of application and the date of issue. It is difficult for us to conceive that large numbers of assignees purposely or otherwise would give us incorrect dates; we do not know any other way that such error could occur if our findings do not accord with the facts—which, incidentally, no one knows at this time except for individual companies, which could differ widely from the general pattern.

THE PROPENSITY OF PATENTED INVENTIONS TO BE PUT TO USE SPEEDILY

The rapid decline of the probability of a patented invention, which has not been put to use, shortly after its completion is emphasized by Table 4.

Table 4 shows the time when the 149 patented inventions that were used

TABLE 4

Distribution of commercially used assigned patented inventions, the use of which began after the filing of application in relation to the year in which the application was filed as reported by assignees.

PRELIMINARY

Year in which use began in relation to the year in which application was filed (1)	Number of patented inventions put to use (2)	Percentage of patented inventions put to use		Comparative rate of use per year, with 100 for 0 year (5)
		Annual (3)	Cumulative (4)	
0 Year of application.....	50	33.6	33.6	100.0
1 Year after application.....	48	32.2	65.8	47.9
2 Years " "	20	13.4	79.2	19.9
3 Years " "	14	9.4	88.6	14.0
4 Years " "	4	2.7	91.3	4.0
5 Years " "	3	2.0	93.2	3.0
6 Years " "	4	2.7	95.9	4.0
7 Years " "	3	2.0	97.9	3.0
8 Years " "	0	0.0	97.9	0.0
9 Years " "	1	0.7	98.6	1.0
10 Years " "	0	0.0	98.6	0.0
11 Years " "	1	0.7	99.3	1.0
12 Years " "	0	0.0	99.3	0.0
13 Years " "	0	0.0	99.3	0.0
14 Years " "	0	0.0	99.3	0.0
15 Years " "	1	0.7	100.0	1.0
Total	149	100.0	—	—

after application or after issue were put to use for the first time in relation to the year in which the patent application was filed. Thus zero year represents the year in which each particular patent application was filed. Of the 149 patented inventions put to use for the first time after the patent was applied for fifty, or over one-third, were put to use in the year of application. Since applications were being filed throughout the year it follows that the average interval of time separating the date of application and the date of first use of these patents was about three months. Almost another third were put to use for the first time in the year immediately following the year of application, then the percentages drop off quite rapidly. By the end of the third year after the year of application almost ninety per cent of all the patented inventions put to use after application have been put to use (see column 4).

Column 5 depicts the rate with which the chance of first use diminishes for each year in comparison to the rate prevailing in the year of application for patents put to use after application. In the year of application the average time left for a patent to be put to use is assumed as six months.[9]

[9] If we assume the probability of a patent filed on any day is about the same, then the average time exposure of patents after filing in the year of filing would be six months.

TABLE 5

Distribution of commercially used assigned patented inventions, the use of which began after the issuance of patent in relation to the year of issue.

PRELIMINARY

Year in which the use began in relation to the year patent was issued (1)	Number of patented inventions put to use [1] (2)	Percentage of patented inventions put to use		Comparative rate of use per year, with 100 for 0 year (5)
		Annual (3)	Cumulative (4)	
0 Year of issue	18	56.3	56.3	100.0
1 Year after issue	3	9.4	65.7	8.3
2 Years " "	3	9.4	75.1	8.3
3 Years " "	1	3.1	78.2	2.8
4 Years " "	1	3.1	81.3	2.8
5 Years " "	1	3.1	84.4	2.8
6 Years " "	2	6.3	90.7	5.6
7 Years " "	1	3.1	93.8	2.8
8 Years " "	0	0.0	93.8	0.0
9 Years " "	1	3.1	96.9	2.8
10 Years " "	1	3.1	100.0	2.8
Total	32	100.0	—	—

[1] Three patented inventions are added as the estimated number of patented inventions issued in 1948 and 1952 that were not in commercial use when the questionnaires were being answered, that would have come into use by 1962.

Therefore, the average propensity of use, in uniform units of time, is at least twice that shown in column 3 for an annual rate. If we set this rate as 100, the propensity of use in the year following the year of application drops to less than half. In the second year after the year of application this rate is reduced to one-fifth, in the third year to one-seventh and in the fourth year, to one twenty-fifth, etc.

In Table 5 we show the time of first use in relation to the year of issue for patented inventions which were put to use after issue—including the estimated number of 1948 and 1952 inventions that would be put to use.

The Table again emphasizes the pressure for patented inventions to be put to commercial use as speedily as possible. Of the total which we estimate will be used after issue, more than half are put to commercial use for the first time in the same year in which the patent is issued. Six years after the year of issue over ninety per cent of the patented inventions that are put to use after issue have been put to first use. And, on the basis of our information, no inventions in our sample were put to commercial use after the tenth year after issue (this observation is based, at this time, entirely on the patents issued in 1938).

Since we are dealing with patented inventions put to use after filing, but within the year of filing, their average exposure would have to be less than six months, in fact if we assumed complete independence, it should approximate three months. Therefore six months tends to understate the rate in the year of issue in terms of a uniform time interval of one year.

The total of thirty-two was obtained by estimating on the basis of 1938 experience that only three patented inventions not put to commercial use before 1956, when most of our questionnaires were filled out and returned, would be put to use by 1962.[10] Twenty-nine of the thirty-two were patented inventions that had been put to use already, when the questionnaires were filled out by assignees.

Still another way to indicate the high propensity of inventions to be put to commercial use as speedily as possible is shown by Table 6, where we show the time of first use for all patented inventions actually put to use in relation to the year of issue. This is shown for the entire sample as well as for each year's patented inventions taken separately.

In Table 6 the first year of use of patented inventions are related to the year of issue. For the entire sample, irrespective of the year of issue, one invention was reported to have been put to use twelve years before the year of issue, two, eleven years before issue and so on. Seven per cent of all the patented inventions (column 4) put to use, were put to use seven or more years before the year of issue; twenty-three per cent five or more years before issue; nearly fifty-six per cent three or more years before issue, etc. Of all the patented inventions nearly ninety-six per cent were put to use in the year of issue or in prior years, actually twelve per cent (column 3) were put to use for the first time in the year of issue and over eighty-three per cent before the year of issue. Of all the patented inventions put to use less than 2 per cent were put to use three or more years after the year of issue.

Without knowing the time when a patented invention is technically ready for commercial use it is not possible to determine precisely the probability of use in the first year of such readiness, and in each subsequent year. Nevertheless, indications are, from Table 6, that the propensity of use is greatest at the very beginning, i.e. as soon as the invention can be made ready for use, and this probability tends to decline progressively and rapidly with the passage of time. This is suggested by column 5, and the corresponding columns 9, 13, and 17 of Table 6.

These columns give in index form the proportion of all patented inventions used that were used in a specific year before or after the year of issue. The proportion used in the year of issue is taken to be 100, and the relative frequency of use for other years is adjusted to this base. The composite index is very low for the eighth through twelfth year before the year of issue. We presume very few patented inventions have been developed so far ahead of the year of issue to be put to commercial use. But, starting with the seventh year the index climbs rapidly and attains its

[10] Our present recircularization of the assignees will enable us to check this shortly (see footnote 3).

TABLE 6

Comparative rates with which patented inventions are put to use in years preceding the year of issue, in the year of issue, and in years following issue, assigned patents for all years and for each year of issue.

PRELIMINARY

Year of first use (1)	All three years Per cent				1938 Per cent				1948 Per cent				1952 Per cent			
	No. (2)	Annual (3)	Cumu. (4)	Index (5)	No. (6)	Annual (7)	Cumu. (8)	Index (9)	No. (10)	Annual (11)	Cumu. (12)	Index (13)	No. (14)	Annual (15)	Cumu. (16)	Index (17)
12	1	0.4	0.4	3	1	1.3	1.3	8	—	—	—	—	—	—	—	—
11	2	0.8	1.2	7	—	—	1.3	—	—	—	—	—	2	1.8	1.8	20
10	2	0.8	2.0	7	1	1.3	2.6	8	—	—	—	—	1	0.9	2.7	10
9	1	0.4	2.4	3	—	—	2.6	—	—	—	—	—	1	0.9	3.6	10
8	1	0.4	2.9	3	—	—	2.6	—	—	—	—	—	1	0.9	4.5	10
7	10	4.1	7.0	33	1	1.3	3.9	8	5	8.3	8.3	62	4	3.7	8.2	40
6	16	6.5	13.5	53	2	2.6	6.5	17	5	8.3	16.6	62	9	8.3	16.5	90
5	24	9.8	3.3	80	6	7.9	14.4	50	6	10.0	26.7	75	12	11.0	27.5	120
4	35	14.3	37.6	117	8	10.5	24.9	67	8	13.3	40.0	100	19	17.4	44.9	190
3	44	18.0	55.6	147	10	13.2	38.1	83	17	28.3	68.3	212	17	15.6	60.5	170
2	39	15.9	71.5	130	17	22.4	60.5	142	5	8.3	76.5	62	17	15.6	76.1	170
1	29	11.8	83.3	97	14	18.4	78.9	117	5	8.3	85.0	62	10	9.2	85.3	100
0	30	12.2	95.5	100	12	15.8	94.8	100	8	13.3	98.3	100	10	9.2	94.5	100
1	3	1.2	96.7	10	1	1.3	96.1	8	—	—	98.3	—	2	1.8	96.3	20
2	3	1.2	97.9	10	—	—	96.1	—	1	1.7	100.0	12	2	1.8	98.2	20
3	1	0.4	98.4	3	1	1.3	97.4	8	—	—	—	—	—	—	98.2	—
4	1	0.4	98.8	3	—	—	97.4	—	—	—	—	—	1	0.9	99.1	10
5	1	0.4	99.2	3	—	—	97.4	—	—	—	—	—	1	0.9	100.0	10
6	1	0.4	99.6	3	1	1.3	98.7	8	—	—	—	—	—	—	—	—
7	—	—	99.6	—	—	—	98.7	—	—	—	—	—	—	—	—	—
8	—	—	99.6	—	—	—	98.7	—	—	—	—	—	—	—	—	—
9	—	—	99.6	—	—	—	98.7	—	—	—	—	—	—	—	—	—
10	1	0.4	100.0	3	1	0.3	100.0	8	—	—	—	—	—	—	—	—
Totals	245	100.0	100.0	—	76	100.0	100.0	—	60	100.0	100.0	—	109	100.0	100.0	—

summit at three years before the year of issue. For most patented inventions three years before issue would coincide with the year of application, when it might be assumed most inventions are far enough developed so that they could be available for commercial use. After the third year, the index tends to decline and after the year of issue it declines precipitously to one-tenth of what it was in the year of issue. By the third year after issue the index has dropped to what it was eight to twelve years before the year of issue, and it is about one-fiftieth of what it was at its peak.

Considering the pattern of use for patented inventions issued in each specific year, the 1938 figures are of special interest in view of the fact that these are the only group of patented inventions which has had time to expire. Of the patents issued in 1938 the earliest one put to commercial use was reported for 1926, the second in 1928 and the third in 1931. Then the number put to use in each subsequent year begins to increase reaching a peak in 1936. About twenty-nine per cent of the patents issued in 1938 had the application filed in 1935. For 1937 and 38 the number put to use for the first time declines somewhat and then drops very sharply after the year of issue. Percentagewise, over twenty-two per cent of the 1938 patented inventions put to use were put to use for the first time in 1936, the peak year, less than sixteen per cent in the year of issue and only about one per cent in the 1st year after issue, 1939. In terms of cumulative totals, about twenty-five per cent of the 1938 patents had been put to use by 1934 or sooner, close to eighty per cent had been put to use by the end of 1937 or sooner, and about ninety-five per cent had been put to use for the first time in the year of issue or sooner. Thus only five per cent were put to use after the year of issue, i.e. after 1938. None were put to use after 1948. The index in column 9 indicates the comparative propensity of use, in relation to the proportion used in the year of issue, which we have taken to be 100. The index for 1936, the peak year, is 142, and for 1939 only eight.

The pattern for patented inventions issued in 1948 is somewhat different. It appears clipped at both ends. World War II may account for this as a result of economic dislocations that took place before and during World War II, and also the effect that the War had on the operations of the Patent Office. The earliest first use for these patented inventions was in 1941, when five of the sixty for which we have information were put to use, another five for 1942, then the pace quickens, reaching a peak of seventeen in 1945, and declining after that. For the 1948 inventions over twenty-eight per cent were put to use in the peak year of 1945, and again this is the year in which the application for many of these patents was filed, twenty-seven per cent of all. Only thirteen per cent of 1948 issued patents were put to use for the first time in that year. Over two-thirds,

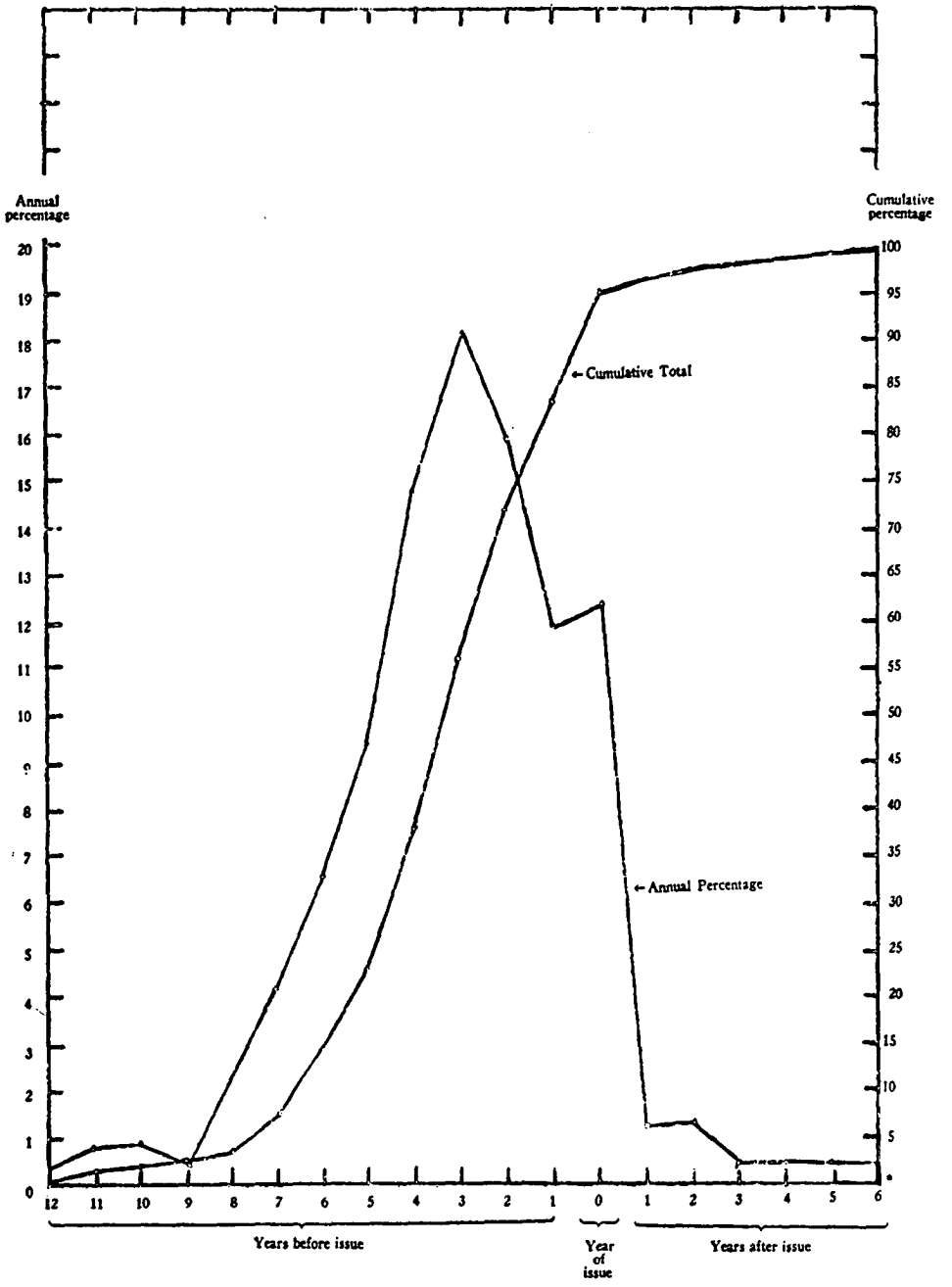
sixty-eight percent, of the 1948 patented inventions were put to use for the first time in 1945, the peak year, or earlier; eighty-five per cent before the year of issue or earlier, and over ninety-eight per cent in the year of issue or earlier. Thus, in the eight years intervening between 1948 and 1956, when our information was compiled, only one patented invention was put to use for the first time. That was in 1950. In light of this, it appears extremely unlikely that in the subsequent years anything like fifteen patented inventions would be put to use. These are the numbers reported by assignees to be used in the future. The utilization pattern for 1948 patented inventions appears to be truncated. This would suggest that the year of first commercial use might turn out to be a sensitive index of economic forces exerting influence on the effective exploitation of patented inventions. It is perhaps noteworthy that the percentage of patented inventions put to use is lowest for 1948 compared with the other two years. This relationship would suggest that major economic dislocations close to the time when an invention is completed or is almost to be completed could delay or destroy completely the prospects that the invention would be exploited commercially.

The time of first use for patented inventions issued in 1952 appears more like the pattern found for those issued in 1938. In fact, there is some apparent trend toward even earlier use. Thus, of the 1952 patents, over twenty-seven per cent were put to use for the first time five years or more before the year of issue. The corresponding percentage for 1938 patents is only fourteen. This stretching out perhaps indicates the effect of longer patent-pending time in the Patent Office. The peak year of first use for 1952 patents is 1948, four years before the year of issue. This peak for 1938 patents was only two years before. For all three years, the peak year of first use coincides with the year in which most of the applications for these used patented inventions were filed. The 1952 distribution of initial use is more flat-topped, that is, less peaked than the 1938 or the 1948.

The characteristic pattern of distribution of the year of initial use in relation to the year of issue may be seen more easily in Charts I, II, and III.

It should be observed that in the four to five years of observation, following 1952, about five per cent of the patented inventions issued in that year were put to use for the first time after the year of issue. It is probable that a few more may come into use in years following 1956 but not anything like thirty, as reported to us by assignees. As I have indicated, we are now getting information that will test the validity of this assumption.

CHART I. Percentage distribution and cumulative percentage of patents by year when the invention was first put to commercial use in relation to the year of issue—Composite for three years.



* One patented invention, 0.4 per cent of the total, was put to use for the first time the tenth year after the year of issue.

CHART II. Percentage distribution of patents issued in different years by year when the invention was first put to commercial use in relation to the year of issue.

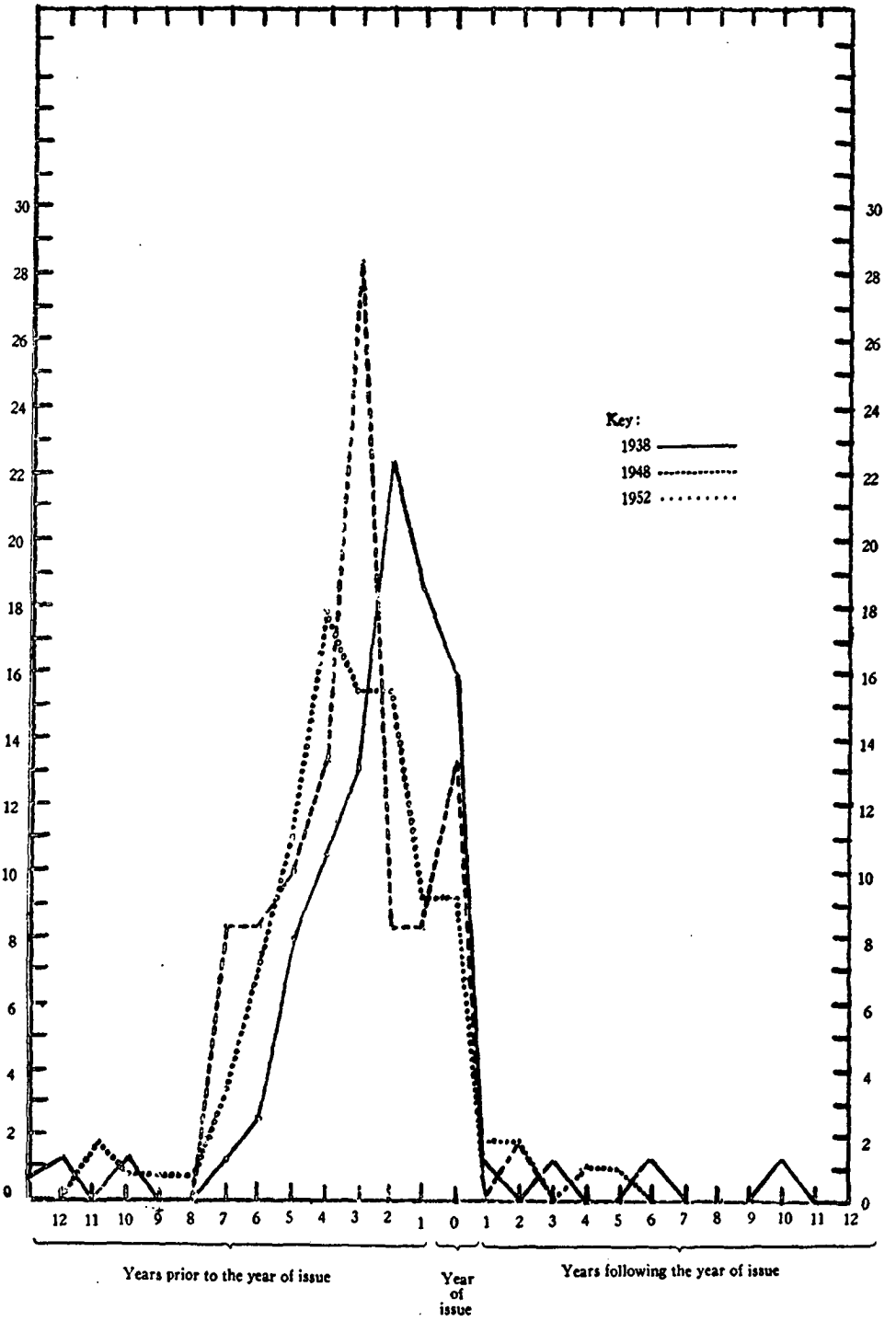
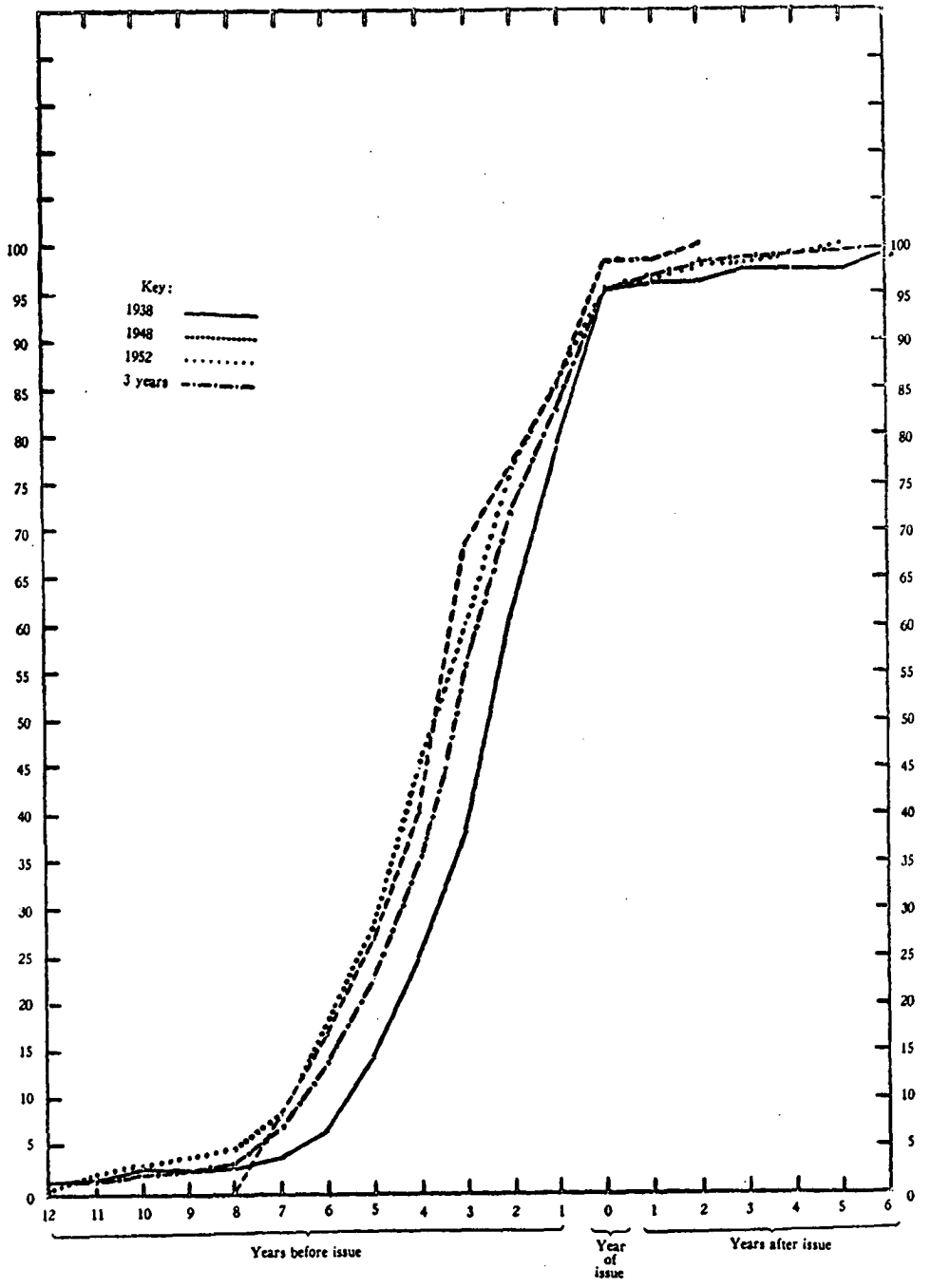


CHART III. Cumulative percentage of patents issued in different years by year when the invention was first put to commercial use in relation to the year of issue for each year and for the three years combined.



* One patented invention issued in 1938 of which the first use did not begin until the tenth year after the year of issue.

INTERRELATIONS BETWEEN YEAR OF APPLICATION, YEAR OF FIRST USE AND YEAR OF ISSUE

As would be expected, there is a very close relationship between year of application and year of first use of patented inventions, since by law an invention which has been in commercial use for more than a year is not patentable. Therefore, the pattern of time of first use for inventions put to use long before the date of issue coincides closely with the date of application preceding the date of issue. This is demonstrated by Table 7 showing the date of application for commercially used inventions in relation to the year of issue.

The close parallelism between these distributions and those shown by Table 6 should be apparent. For the entire sample, irrespective of the year of issue, this close parallelism is illustrated by Chart IV.

The base line of Chart IV shows years before issue and those after the year of issue. The zero year is the year of issue. The solid line represents the number of patented inventions put to use for the first time in specified years before the year of issue, during the year of issue and after the year of issue. The broken line shows the number of used inventions by years before the year of issue in which the application was filed. It is seen that in the earliest years the two curves either coincide or the date of initial

TABLE 7

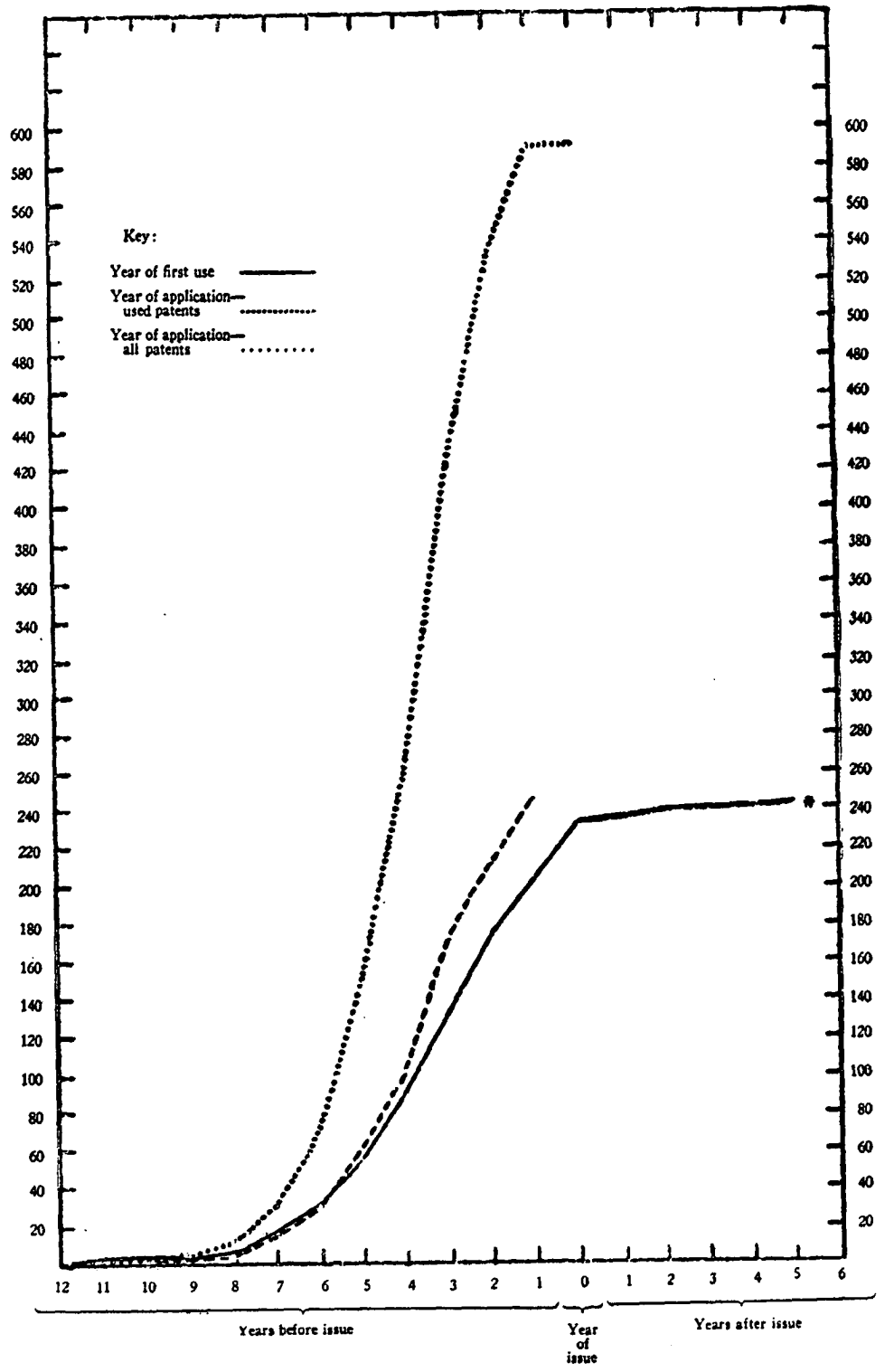
Number and percentage distribution of assigned patented inventions used commercially by year of application related to the year of issue for the three years combined, and for each year.

PRELIMINARY

Year preceding the year of issue	Three years			Year of Issue								
				1938			1948			1952		
		Per cent			Per cent			Per cent			Per cent	
	No.	Annu.	Cumu.	No.	Annu.	Cumu.	No.	Annu.	Cumu.	No.	Annu.	Cumu.
	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
0[1]	—	—	—	—	—	—	—	—	—	—	—	—
1	32	13.1	100.0	21	27.6	100.0	4	6.7	100.0	7	6.4	100.0
2	42	17.1	86.9	12	15.8	72.4	12	20.0	93.3	18	16.5	93.6
3	68	27.8	69.8	22	29.0	56.6	16	26.7	73.3	30	27.5	77.1
4	42	17.2	42.0	9	11.9	27.6	12	20.0	46.7	21	19.3	49.5
5	30	12.2	24.9	6	7.9	15.8	12	20.0	26.7	12	11.0	30.3
6	16	6.5	12.7	2	2.6	7.9	3	5.0	6.7	11	10.1	19.3
7	9	3.7	6.1	1	1.3	5.3	1	1.7	1.7	7	6.4	9.2
8	2	0.8	2.4	1	1.3	3.9	—	—	—	1	0.9	2.8
9	1	0.4	1.6	—	—	2.6	—	—	—	1	0.9	0.9
10	2	0.8	1.2	1	1.3	2.6	—	—	—	1	0.9	0.9
11	—	—	0.4	—	—	1.3	—	—	—	—	—	—
12	1	0.4	0.4	1	1.3	1.3	—	—	—	—	—	—
Total ...	245	100.0	—	76	100.0	—	60	—	—	109	100.0	—

[1] Year of issue.

CHART IV. Number of assigned patents and number of those put to commercial use relating the year of application to the year of issue and, for used inventions, the year of first commercial use to the year of issue, composite for three years.



use precedes the date of application. However, after the sixth year before the year of issue, the number of inventions applied for in each year exceeds the number put to use for the first time in that year. The peak for both distributions occurs in the third year before the year of issue (the inflection point of the curves). By definition an application must precede the date of issue. In our series of 245 assigned patents put to commercial use, none was filed in the same year in which the patent was issued. They were all filed before the year of issue. The close parallelism between the date of application before the year of issue and the date of initial use for the earliest used inventions is demonstrated by Tables 6 and 7 and Charts I through IV.

These relationships suggest that the specific pattern of year of first use is influenced materially by the operation of the Patent Office in handling applications.

From our data it appeared that patent applications which remained pending the longest were more apt to be for inventions that had come into early use. Even if this were to prove true, one could not be certain whether these inventions presented special circumstances, or whether the prolongation was brought about by the assignees desiring to extend the period of protection. With this latter possibility in mind, the relationships between the mean pending period of patented inventions used before issue, those used after issue, and those that are not used were compared. Table 8 shows the mean pending periods, in months, for assigned patents in these different categories.

The mean pending time for all the used patented inventions is about the same as for the unused patents: about forty-two months for the three years combined. For individual years the comparative duration of pending time is also not significantly different for used and unused inventions. With respect to time of use for the three years combined, the inventions put to use while the patents were still pending show the highest mean duration, not those for which the use began before issue. Besides, other things being equal, one would expect that with longer exposure time a higher proportion of the inventions would be put to use. Most important of all, the differences are not large enough to be statistically significant. Therefore, there is no indication, whatsoever, of any bias in favor of inventions put to use early to be kept in pending status longer, so as to prolong unduly the life of the patent protection period. This conclusion is borne out by the experience of individual years. Just as prolongation of pending time will tend to increase the proportion of patented inventions that are put to use while still pending, the contraction of this time for any reason whatsoever, other things being equal, would tend to shift the time of first use in the post issue period. Therefore, even if there were some

TABLE 8

Statistics on duration [1] that patents were pending in the patent office for used and unused patents and for used patents according to the time of first use for the composite three years and for each year separately.

PRELIMINARY

Type of patent (1)	3 years combined				Year of Issue: 1938				1948				1952			
	Med. (2)	M. (3)	S.D. (4)	No. (5)	Med. (6)	M. (7)	S.D. (8)	No. (9)	Med. (10)	M. (11)	S.D. (12)	No. (13)	Med. (14)	M. (15)	S.D. (16)	No. (17)
Commercially used	38.9	41.9	21.72	245	35.0	36.1	22.95	76	41.5	41.7	16.80	60	41.8	46.1	21.54	109
Use began before application	38.8	40.8	22.95	96	30.5	35.0	27.12	27	44.5	47.1	16.13	25	37.3	40.8	22.51	44
Use began after application	40.7	44.3	20.09	120	36.0	37.1	21.10	38	39.5	39.5	16.60	29	47.5	52.0	20.28	53
Use began after issue.	32.5	35.9	19.27	29	30.5	35.4	25.14	11	29.0	30.3	11.42	6	39.0	39.1	15.06	12
Unused	40.8	42.5	19.18	298	30.0	32.4	15.34	90	44.0	43.4	18.26	86	48.2	49.3	19.25	122
Grand Totals [2]	39.9	42.2	20.40	543	32.0	34.1	19.84	166	43.2	42.7	17.74	146	44.1	47.8	20.45	231

[1] Duration in months: Table is limited to patents assigned to corporations. Med. stands for median, M. for mean, S.D. for standard deviation, and No. for the number of patents.

[2] From these are excluded the 47 patented inventions that were used commercially but the time of such use was not reported.

excess of patents with short pending periods which were put to use after issue, the mechanism would be the result of expediting by the Patent Office rather than the reverse, a procrastination on the part of assignees to prolong the life of the patent by trying to delay the date of issue. The absence of any significant bias is all the more impressive, indicating that assignees, at least in this respect, do not appear to be self-seeking.

DIMINISHING PROBABILITY OF COMMERCIAL USE OF PATENTED INVENTIONS WITH PASSAGE OF TIME

Earlier in this report we have stressed the evidence of there being a marked tendency for patented inventions that are to be put to commercial use to come into use early in the life cycle of the invention.

In Chart II we showed that for each year the peak of the number of patented inventions put to use for the first time coincides with the year before issue in which most of the applications for patents were filed. Chart IV shows that for the longest pending patented inventions—the years preceding the year of issue—the proportion of inventions put to use in these early years actually exceeds the number of applications filed. This is not unreasonable, since we have shown that for almost forty per cent of patented inventions that are put to commercial use, such use begins before the patent application has been filed. We find, therefore, that among the longest pending patents those in commercial use actually exceed the total number of applications filed. However, on the average, by about the ninth year before the year of issue, the application curve overtakes the first-use curve (see Chart IV). This early use of inventions often before even a patent application is filed and the sharp gradient of decline in the probability of first use with passage of time after application, appears totally incompatible with some of the criticisms of the patent system regarding the purposive shelving of patents by companies to delay their use or prevent it entirely. On the contrary, the evidence would seem to indicate great pressure to develop the invention for the earliest possible use before it becomes eclipsed by newer developments and becomes worthless. We have demonstrated this in several ways.

One might hypothesize four or five types of patentable or potentially patentable inventions. Type A are the commercially usable inventions that are put to use without delay, many of them before a patent application is filed. The use demonstrates the worthwhileness of these inventions and they are patented. Type B represent also promising inventions which are put to use before filing of a patent application. The commercial value of these prove disappointing, so no application is filed and the invention does not become recorded. Type C may represent promising inventions that

becomes obsolete aborning. Early commercial use of the invention would accelerate and enhance the chances for such obsolescence. Thus, B and C types of inventions, which at one time would have given rise to patent applications, and many of them are eliminated today as a result of pre-application use of many inventions. Then there may be a D type of inventions which at the time of patent application is potentially of commercial value but because of untoward circumstances their use is delayed, with progressive delay their potentiality for commercial use decays through obsolescence and otherwise. If there are such inventions, their identification and relative number, if assessable, may give some clue to the economic, organizational and other factors which may account for the complete or partial loss of these potentially valuable inventions to the economy. Finally, there may be the E type of patented inventions which were failures from the start. If there is merit to this speculation, the relative efficiency of a patent system might be measured in terms of the comparative size of these five categories of inventions. Possibly a close delineation of the probability of inventions, completed in a given year, being put to use within t_i time, where i represents units of time such as the 1st, 2nd, 3rd. . . n th month after the time of invention, may prove a criterion of the relative effectiveness of a patent system. This possibility gives additional rationale for a study of this probability function over time not only in the United States but under other patent systems as well. Since we do not know the year of invention, we may use the year of application as an approximation of it. This substitution should not cause too serious a distortion, since by law the use of a patentable invention cannot predate a patent application by more than one year.

On this basis, I have developed an approximate measure of the probability function of patentable inventions being put to commercial use for the first time preceding or following the time of patent application. It would seem such a function, based on properly selected and validated samples of inventions issued in different years, should help us better to understand the dynamics of the patent system, and its reciprocal interaction with other forces shaping the American economy.

The crude probability measure was derived from our data for the three years combined, with uniform weights for a composite function and also for each of the three sampled years.[11]

[11] The procedure used was as follows: for each year our sample of inventions was distributed by month in relation to date of application and the date on which the invention was put to commercial use for the first time (eliminating, of course, those inventions put to use prior to the patent application). The expected propensity of use for the first month was obtained by dividing the number of patented inventions used in that month by the total number of those not used by the date of application, assuming an average exposure for ½ month. For the second month, the inventions put to use were divided by those not used at

The proportion of patented inventions put to use in each specific year was divided into two components, those put to use before application and those after. The latter were prorated over the years by the functions the derivation of which is explained in footnote 11. These results are summarized in Table 9.

Table 9 shows the probability rates of a patentable or patented invention being put to use within a specified time interval before or after application and also certain related functions.

The first entry (entering the Table at the top) is the probability p of a patented invention being put to commercial use (future use is excluded). The second entry is the p value for those put to use before application. Thus the overall average probability of an assigned patented invention being put to commercial use for the three years is .45102.[12]

The probability of use before application is .17680 or, as we have seen earlier, thirty-nine per cent of the total put to use (shown in column (2)). Of the less than sixty-one per cent of patented inventions for which the use began after application, fifty-seven per cent, or ninety-four per cent of this total occurs within the first twelve months after the application is filed. Following the year of issue the probability of first use approaches the zero limit most rapidly, it is only .00336 or less than one per cent of the total in the third year following the date of application. If one could assume that patented inventions which are put to commercial use before the date of application have a maximum period of one year, as required by law, then the average exposure time for use before application may be considered as half a year for these inventions. On this basis, the propensity for use in the year before application is somewhat higher than in the first twelve months after the application date. This is shown by column (4) of Table 9, the average for the three years. The general pattern of the sharp decline in this propensity holds true for each of the three years studied. The sharpness of this decline in the approximate value of p is demonstrated by the logarithmic Chart V.

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the end of first month, assuming a time exposure of 1.5 months and so on. When this process was completed, the months were grouped into twelve monthly units. The functions thus obtained for each of the three sampled years were averaged to obtain a composite index.

[12] This value of p is restricted to those patented inventions for which the date of first commercial use was reported. Of course, a more precise approximation of p of commercial use of patented inventions issued in 1938, 1948 and 1952 owned by American Corporations that had been put to commerical use by 1956 or earlier is .495—292 used patented inventions out of a total of 590 on which questionnaires were received from assignees.

TABLE 9

Probability [1] of an assigned patented invention being put to use for the first time in a specified year before and after the date of patent application.

PRELIMINARY

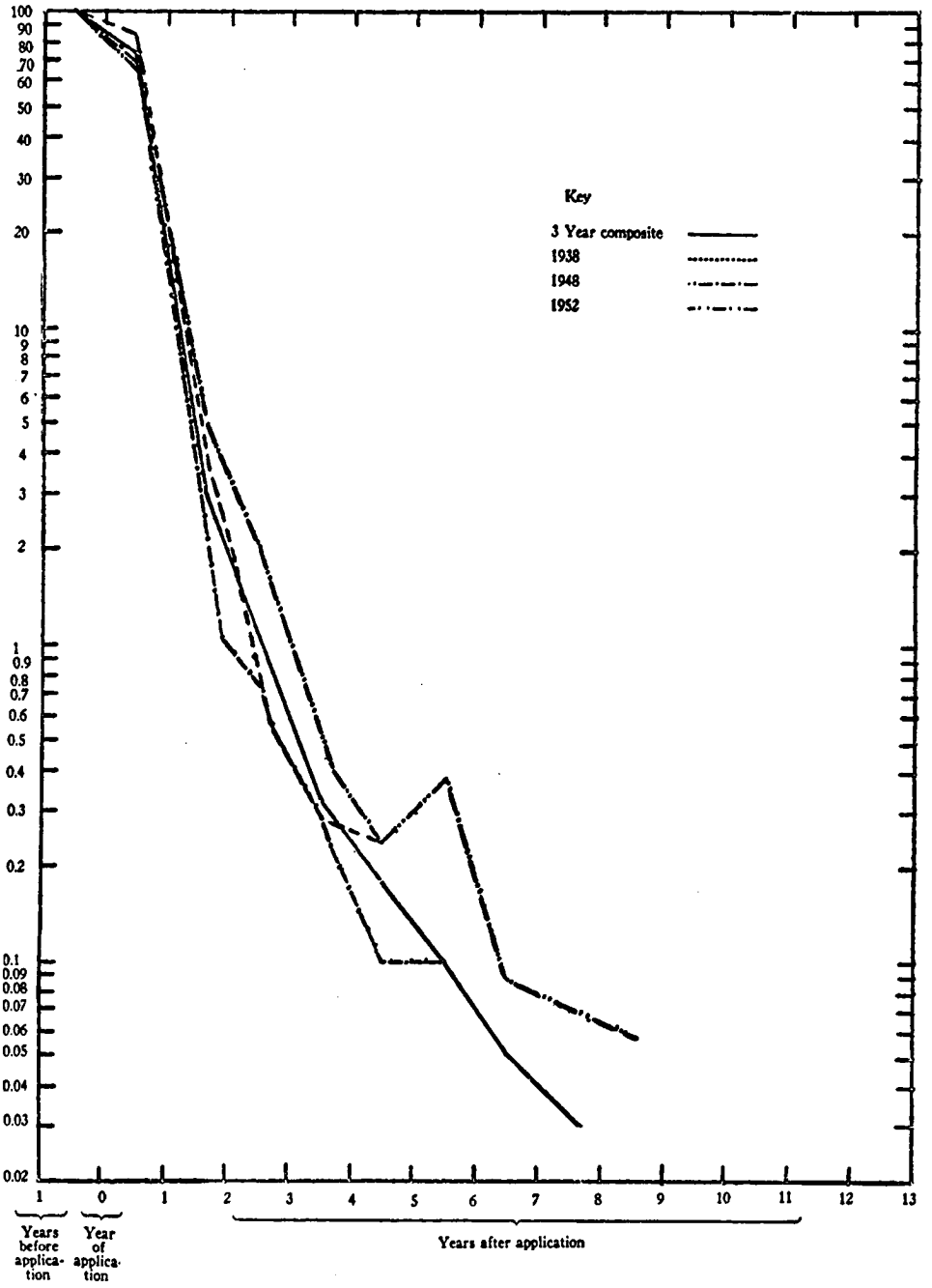
Time invention first used commercially (1)	3 Years			Year of Issue: 1938			1948			1952		
		Index [2]			Index			Index			Index	
	p (2)	p (3)	Adjusted (4)	p (5)	p (6)	Adjusted (7)	p (8)	p (9)	Adjusted (10)	p (11)	p (12)	Adjusted (13)
Probability of use [3]	.45120	100.00	—	.45783	400.00	—	.41096	100.00	—	.47186	100.00	—
Before application	.17680	39.18	100.00	.16265	35.53	100.00	.17123	41.67	100.00	.19047	40.37	100.00
After application	.27440	60.82	—	29518	64.47	—	.23973	58.33	—	.28139	59.63	—
First year	.25798	57.18	72.97	.27992	60.99	85.83	.23215	56.49	68.61	.24989	52.96	65.59
Second year	.01053	2.33	2.97	.01192	2.60	3.66	.00389	.95	1.15	.01940	4.11	5.09
Third year	.00336	.74	.94	.00166	.41	.58	.00240	.58	.70	.00703	1.49	1.85
Fourth year	.00117	.26	.33	.00092	.20	.28	.00098	.24	.29	.00181	.38	.47
Fifth year	.00061	.14	.18	.00071	.17	.24	.00031	.08	.10	.00089	.19	.24
Sixth year	.00035	.08	.10	.00000	.00	.00	.00000	.00	.10	.00148	.31	.38
Seventh year	.00016	.04	.05	.00024	.05	.07	.00000	.00	.00	.00033	.07	.09
Eighth year	.00007	.02	.03	.00000	.00	.00	.00000	.00	.00	.00030	.06	.07
Ninth year	.00007	.02	.03	.00000	.00	.00	.00000	.00	.00	.00026	.05	.06
Tenth year	.00000	.00	.00	.00000	.00	.00	.00000	.00	.00	.00000	.00	.00
Eleventh year	.00005	.01	.01	.00015	.03	.04	.00000	.00	.00	.00023	.05	.06
Twelfth through fifteenth year	.00000	.00	.00	.00000	.00	.00	.00000	.00	.00	.00000	.00	.00
Sixteenth year	.00005	.01	.01	.00011	.02	.03	.00000	.00	.00	.00000	.00	.10

[1] The p value was first obtained by determining for each month after the application the probability of patented invention being put to use for the first time in a month, taking into consideration the number of months of exposure. The proportion of patented inventions put to use was prorated over the probability values thus obtained.

[2] The composite was obtained by giving each year's experience a weight of 1.

[3] This is limited to patented inventions put to use for which the time of use was reported. The "true" p for our entire sample is .495 and correspondingly higher for each year than the figures shown.

CHART V. Comparative annual rate of initial use of patented inventions before and after the time of patent application.



IMPLICATIONS OF THESE FINDINGS

If these findings can be confirmed, they would have wide implications in many spheres. First of all, they give a death blow to the temptation to regard a patent as a uniform quantum of inventiveness.[13]

Machlup [14] reproduces the evidence, which Shmookler has compiled to prove association between technological workers and inventive activity prior to 1940, to demonstrate a lack of association between the increase of technological workers, as potential inventors, and patent applications. In addition, Machlup proceeds to show an absence of parallelism between the rate of increase in the number of scientists and patented inventions, in general population and patented inventions, and finally in research and development expenditures and patented inventions. Apparently, neither author appreciates what may seem obvious, that some patents may represent one quantum of inventiveness, while other patents may represent millions of quantums. Therefore, there is no logical necessity that the number of patents or patent applications should parallel these various series. An increase or decrease in inventiveness as such cannot be assessed from the number of patents. There is no reason to assume that the inventive content of a sample of patents or patent applications today is equivalent to that of another sample of patents issued twenty or thirty years ago. Thus, a sample of 1,000 United States patents today may be no more equivalent to a sample of 1,000 United States patents in 1923 than 1,000 German Marks today are equivalent to 1,000 German Marks in 1923. Consequently, a decline in the number of patent applications per se is no evidence of a decline in inventiveness.[15]

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[13] Shmookler, J., "The Level of Inventive Activity," *Rev. Economics and Statistics* 36, 186 (May 1954). In this and in a large number of other articles, Shmookler has advanced the idea that the number of patent applications prior to 1940 might be regarded a reliable index of inventive activity in the United States. About the only evidence which he offers in defense of this idea is the general parallelism between American patent applications between 1870 and 1940 and the number of technological workers in the United States. At best the association is very general, as one is apt to find in many time series data, and if one took the time, I am sure by trial and error one could find many economic series which may appear to be correlated with number of patents as well as and better than the number of technological workers. Such a correlation in time series is no indication of any causal relationship; especially when it is appreciated that, of the millions of technological workers, those with patented inventions probably at no time have represented more than one percent. It should also be appreciated that the fit between the two series is at eight points since data on technological workers are obtainable only from the decennial censuses of the United States. And patent applications are averaged for ten years centering on the census year.

[14] Machlup, Fritz; "Patents and Inventive Effort. The evidence is insufficient to prove or disprove the claim that patent protection promotes inventive effort," *Science*, Vol. 133, No. 3463, May 12, 1961, pp. 1463-1466.

[15] Sanders, B. S.; "Some Difficulties in Measuring Inventive Activity," *The Rate and Direction of Inventive Activity, Economic and Social Factors, A Conference of the Universities*—National Bureau Committee for Economic Research, 1962, pp. 53-77.

If, as our evidence indicates, a large proportion of inventions are put to commercial use before a patent application is filed, it becomes inevitable that many potential patent applications are not being filed for today. Since this phenomenon is restricted to assigned patents owned by corporations, which in 1900 accounted for only seventeen per cent of our patents,[16] while today they account for over seventy [17] per cent, the apparent decline in the number of patent applications could perhaps be accounted for by this single practice which had not been known or suspected until it became apparent by the Foundation's study of Patent Utilization.

There is no way one could calculate what proportion of patent applications are lost today as a result of this widespread practice by corporations. Nor is there definitive evidence to what extent this practice of preapplication use has become more widespread in recent decades without more extensive studies.

But in view of the fact that today over seventy per cent of the patents granted are assigned to corporations, and if we assume a comparable proportion of the applications are filed by corporations, one can surmise that well over 50,000 potential applications per year could be lost as a result of the current practice of preapplication use of inventions leading to their abandonment if they become obsolete or prove commercially disappointing. Therefore, the apparent decline in patent application may have no significance whatsoever.[18]

In an earlier interim report the present author expressed a surprise why the decline in the proportion of individually filed patents had not been more drastic in view of the progressive dominance of corporations in our economy.[19] The preapplication use of patents could explain this; that is, corporations may be filing today only for one-half or even lesser fraction of patentable inventions developed by their employees, while individual inventors, as far as we know, continue to file whatever they deem might be new and possibly profitable.

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[16] *Historical Statistics of the United States, A Statistical Abstract Supplement, Colonial Times to 1957,* Series No. 66-76, p. 607.

[17] Communication from the United States Patent Office for 1960, 59 and 58.

[18] *The Impact of the Patent System on Research,* Study No. 11 of the Subcommittee on Patents, Trademarks, and Copyrights of the Committee on the Judiciary, U.S. Senate, 85th Congress and Session, 1958.

[19] *PTC J. Res. & Ed.* Vol. 3, 1959, Conference Number, p. 57 "What is most surprising is that within this time the total self employed diminished from 11 million to less than 8 million, while the total corporate employment increased from some 25 million employees to something over 56 million. What our research really does is reverse the question from how much ground have individual inventors lost to what is keeping the springs of invention high among individual inventors despite their progressive diminution in the labor force. And I think finding the answer to this may prove highly significant." The growing practice of preapplication commercial use of potentially patentable invention might be the desired answer.

Other things being equal, the preapplication use of invention might mean a loss to the nation, in that the patent, among other things, serves as a conduit of information which could stimulate other inventors toward new achievements. Therefore, in the long run the practice which reduces the number of patents may have a depressant effect on overall inventiveness. This is a matter that deserves further study and appraisal.

Increasing commercial use of inventions prior to application would tend to raise the proportion of patented inventions in commercial use, since many of the inventions which prove commercially a flop are eliminated from the universe of patents completely. Our evidence on utilization tends to validate this inference.[20]

The inventors in our sample were asked to indicate what number of all the patented inventions issued to them had been put to commercial use. Of the more than 10,000 inventions made by responding inventors of assigned patents the proportion reported put to use was less than 4,400, giving the percentage of patented inventions put to use less than forty-two, appreciably below the percentage of patents utilized in the 1938, 1948 and 1952 sample of patented inventions.[21]

There appears to be evidence, therefore, as far as assigned patents are concerned, that there has been a progressive up-grading of such inventions. This inference is in accord with some letters that the Foundation has received from the patent departments of large corporations commenting on Mr. Frank Howard's paper.[22] These communications state that while the number of disclosures per engineer employed has not diminished materially, the number of patent applications has declined very sharply. Therefore, there is little doubt that there has been progressive up-grading of inventions which are patented today in comparison to the recent past, and the practice of preapplication use of such inventions provides the acid test for selecting the most promising inventions for patenting.

Table A in the appendix shows the utilization rates of patented inventions assigned to private corporations based on replies received from inventors, and utilization for unassigned patents as well. The cumulative

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[20] There is some evidence of upgrading of inventions that are patented by individual inventors as well. The patent utilization rate for unassigned sampled patents is about 43. The corresponding percentage of all the patents issued to the inventors who returned our questionnaires is 30 per cent only. This difference suggests a progressive upgrading of inventions that are patented by independent inventors.

[21] The percentage of patents in current use and those used in the past reported by inventors of assigned patent for the sampled patents was 57 for the 3 years combined. The percentage of patents used in 1938 was 55 while the corresponding figure for 1952 is 62 and this percentage may still be increasing.

[22] Frank H. Howard; "Patents and Technical Progress," *PTC J. Res. & Ed.* Vol. 4, 1960 Conference Number, pp. 57-66, and 109-110.

TABLE A

Percentage of assigned and unassigned patents by utilization status at the time of response by year of issue and assignment status. Information one use based on inventor's replies.

PRELIMINARY

Utilization status (1)	All three years No. (2)	All three years % (3)	1938 No. (4)	1938 % (5)	1948 No. (6)	1948 % (7)	1952 No. (8)	1952 % (9)
			Assigned patented inventions					
Total used	385	56.9	85	55.2	87	51.5	213	61.9
In current use	260	38.4	42	27.3	56	33.1	162	47.1
Past use	125	18.5	43	27.9	31	18.3	51	14.8
All others [1]	282	41.7	69	44.8	82	48.5	131	38.1
Grand total	677	100.0	154	100.0	169	100.0	344	100.0
			Unassigned patented inventions					
Total used	103	42.7	19	44.2	27	45.8	57	41.0
In current use	76	31.5	11	25.6	22	37.3	43	30.9
Past use	27	11.2	8	18.6	5	8.5	14	10.1
All others [1]	138	57.3	24	55.8	32	54.2	82	59.0
Grand total	241	100.0	43	100.0	59	100.0	139	100.0

[1] Includes any reported "future use," the "never used," the don't know, and those who returned the questionnaire but failed to answer this question on use.

inventions of nonassigned patents issued to inventors in our sample who responded indicate a utilization level of 30.4, as compared with forty-three per cent for sampled unassigned patents.

STUDENT PAPER

By making available student papers, students will receive an incentive and our readers will appreciate the evidence of scholarly development in the fields of interest. These papers are carefully reviewed by the Editorial Committee and other specialists, and helpful suggestions are made to the students as part of the educational function of the *Journal.* The Foundation invites educational and research institutions to submit informative student manuscripts on the patent, trademark, copyright, and related systems.

Small Composer Representation and Remedies in ASCAP

RICHARD HARRIS *

> All the brave doctrines of our day cannot veil the fact that the composer of the modern era lives in exceptional servitude to two strong agents, the means and the market.
> Lazare Saminsky, *Music of Our Day*

I

Founding and Early History of ASCAP.—Those whose lot it is to chronicle the happenings of that American institution known as "show business" seem fond of describing the more signal events of that realm by way of anecdotes and stories, many of them probably apocryphal. There seems to be no reason to depart from that tradition now, and so the story goes that Victor Herbert was dining one evening in 1913 at Shanley's restaurant, just off Times Square and around the corner from the theatre where his latest musical "Sweethearts" was playing. Herbert had suffered five straight flops [1] and he was, perhaps, contemplating his chances for success with his latest effort when the band began a rendition of a song from the show. Despite his recent theatrical casualties, the

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[1] Spaeth, *A History of Popular Music in America,* (1948), p. 328.

composer was less than pleased at this evidence of public acceptance of his work, for he had not been paid for the right to perform the song. Confronting the proprietor, Herbert was told that since the restaurant charged no admission the performance was not for profit and so was not protected by the copyright law.[2] Herbert filed suit for infringement and when an association of hotel and restaurant owners supported Shanley's defense he realized that music writers too needed the strength of unity to protect and enforce their copyrights. In 1914 Herbert, his attorney Nathan Burkan, and a group of composers including John Phillip Sousa and Gus Kahn founded The American Society of Composers, Authors and Publishers. Thus ASCAP was born.[3] Herbert's suit came up in the district court before Learned Hand. Judge Hand, later lauded for his perspicacity in copyright matters,[4] turned out to be wrong this time. He held that the performance of music in the manner at issue was not within the protection of the copyright act.[5] The court of appeals affirmed,[6] but the Supreme Court reversed. Mr. Justice Holmes wrote:

> If the rights under the copyright are infringed only by a performance where money is taken at the door they are very imperfectly protected. . . . If music did not pay it would be given up. If it pays it pays out of the public's pocket. Whether it pays or not the purpose of employing it is profit and that is enough.[7]

This was the most significant legal victory in ASCAP's history. In subsequent years it was followed by decisions holding that public performance for profit under the copyright act took place when music was performed on the radio,[8] in dance halls,[9] and in motion picture theatres.[10]

One further episode worthy of note in this brief early history of ASCAP

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[2] The copyright act of 1909, 35 Stat. 1075, 17 U.S.C. § 1(e) (1958), had granted the copyright holder the right of public performance for profit of a musical composition.

[3] This account of the founding of ASCAP is borne out by many authorities. See e.g., Allen, "The Battle of Tin Pan Alley," *Harper's Magazine,* CLXXXI (1940) 514, 516; White, "Musical Copyright v. The Antitrust Laws," 30 *Neb. L. Rev.* 50, 51 (1950). Oddly enough there seems to be some confusion about just who the founders of ASCAP were. Some authorities do not include Sousa or Kahn. See e.g., Goldberg, *Tin Pan Alley,* (1930), p. 312.

[4] See Caracs, "Judge Learned Hand and the Law of Copyright," *7th ASCAP Copyright Law Symposium* 55 (1956); "Judge Learned Hand and the Law of Patents and Copyrights," 60 *Harv. L. Rev.* 394 (1947).

[5] *Herbert* v. *Shanley Co.,* 222 Fed. 344 (S.D.N.Y. 1915).

[6] *Herbert* v. *Shanley Co.,* 279 Fed. 340 (2d Cir. 1916).

[7] *Herbert v. Shanley Co.,* 242 U.S. 591, 594-95 (1917).

[8] *Witmark* v. *Bamberger,* 291 Fed. 776 (D. N.J. 1923); *Remick & Co.* v. *American Automobile Accessories Co.,* 5 F. 2d 411 (6th Cir. 1925); *Buck* v. *Jewell-LaSalle Realty Co.,* 238 U.S. 191 (1931).

[9] *Dreamland Ballroom* v. *Shapiro, Bernstein Co.,* 36 F. 2d 354 (7th Cir. 1929).

[10] *Witmark & Sons* v. *Pastime Amusement Co.,* 298 Fed. 470 (E.D.S.C. 1924), aff'd 2 F. 2d 1020 (4th Cir. 1924).

is the 1940 dispute between ASCAP and the radio broadcasting industry. When radio appeared in the early twenties and was struggling for financial stability, ASCAP gave fledgling stations free music licenses. But when the broadcasting industry began to show a profit, ASCAP demanded its members' share for music performed on the air. The station owners were incensed at the idea that after having purchased sheet music they would have to pay the composer again in order to perform it. The dispute crystallized during negotiations for a new contract with the broadcasters in 1940. The negotiations deadlocked and on midnight December 31, 1940, radio ceased playing ASCAP music.[11] For ten months the stations broadcast public domain music almost exclusively and it is reported that "Jeanie With the Light Brown Hair" almost died of overexposure. The dispute became so bitter that at one point the president of ASCAP was arrested, at the instigation of the broadcasters it was charged, and held overnight in a Phoenix, Arizona jail.[12] After ten months of boycott, ASCAP capitulated, lowered its demands, and a contract was signed. Two developments which resulted from this dispute continue to affect the music industry. To compete with ASCAP, Broadcast Music Incorporated (BMI) was formed. It is still in operation and while smaller than ASCAP does provide substantial competition.[13] Also during this period the broadcasters lobbied extensively for state legislation curbing ASCAP's activities. Such legislation was enacted in many states,[14] but has since been repealed in all but two, and ASCAP has complied with the laws in those jurisdictions.[15] Having seen ASCAP through its precarious youth, its present structure, magnitude and mode of operation will be examined.

What is ASCAP and How Does It Work?—ASCAP is an unincorporated association of lyricists and composers (generally referred to collectively as writers) and music publishers.[16] Membership in the Society has

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[11] ASCAP apparently misjudged its adversary on this occasion. The chairman of the administrative committee of ASCAP wrote in October of 1940, "[The] networks have publicly announced a boycott of ASCAP music. . . . It will, of course, never be put into effect. It is merely one more 'bluff,' and it will be called." Mills, "The ASCAP-NAB Controversy, The ASCAP View," 11 *Air L. Rev.* 394, 397 (1940).

[12] Allen, *supra* note 3, at 520. This article contains an interesting account of the ASCAP-radio "war." And see White *supra* note 3, at 53-5; Comment, "Music Copyright Associations and the Anti Trust Laws," 25 *Ind. L. J.* 168, 171-2 (1960).

[13] See discussion in text *infra* at note 22.

[14] For a discussion of this legislation see Warner, *Radio and Television Rights*, (1953), p. 375; Cohn, "Music, Radio and the Sherman Act," 29 *Geo. L. J.* 407, 416 (1941); Note, 53 *Harv. L. Rev.* 458 (1940).

[15] Finkelstein, "Public Performance Rights in Music and Performance Rights Societies," CCH, *Seven Copyright Problems Analyzed* 69, 85 (1951).

[16] There are two other such organizations operating in the United States. BMI has already been mentioned. The Society of European Stage Authors and Composers

grown from 116 writers and 18 publishers in 1914 [17] to a present membership of approximately 5,300 writers and 1,100 publishers.[18] In addition, ASCAP has agreements with 29 foreign societies to license their music in the United States [19] adding 45,000 foreign writers to ASCAP's roster.[20] The influence and control exercised by ASCAP in the American music industry is no doubt great, although the extent of this influence is somewhat difficult to estimate. In 1958 ASCAP's general counsel testified before a subcommittee of the House Committee on Small Business that the Society's repertoire contains eighty per cent of all copyrighted popular and classical music in America.[21] However it appears that recently much, perhaps most, commercially successful music is from the BMI catalogue. On the *Billboard-Music Week* "Hot 100" list of the most successful popular recordings in the United States for the week ending December 31, 1961, nine of the top ten records are licensed by BMI and only forty of the 100 records listed are in the ASCAP cataogue.[22] In considering these figures it should be noted that the success of a piece of popular music is today largely determined and reflected by its performance on the broadcast media, and that BMI is owned by broadcasting interests.

The commodity ASCAP deals in is the so-called "minor" or performing right in copyrighted music first granted by the copyright act of 1897.[23] This right is, of course, far from minor in commercial importance. It is

(SESAC) is a privately owned corporation and licenses music of foreign and American writers, primarily what is known as "country and western" music from the latter group. Finkelstein *supra* note 15, at 75. These organizations are not to be confused with general authors' and artists' protective societies which do not license performance rights of any kind. For a discussion of these organizations see Klein, "Protective Societies for Authors and Creators," CCH, *Copyright Problems, Analyzed* 19 (1953).

[17] *The Story of ASCAP An American Institution,* 10 (pamphlet issued by ASCAP, 1945).

[18] *Brief for Appellants,* p. 6, *Sam Fox Publishing Co.* v. *United States,* 366 U.S. 683 (1961).

[19] Howard & Bellows, *A Short History of Music in America,* (1957), p. 399.

[20] Allen *supra* note 3, at 514. Note that this is a 1940 figure.

[21] Testimony of Herman Finkelstein, Hearings Before Sub Committee No. 5, of the Select Committee on Small Business, House of Representatives, 85th Cong., 2d Sess., 16 (1958) hereinafter cited as ASCAP hearings. Writing in 1954, Timberg estimated this figure to be 85 to 90%. Timberg, "The Anti Trust Aspects of Merchandising Modern Music; The ASCAP Consent Judgment of 1950," 19 *Law & Contemp. Prob.* 294, 297 (1954).

[22] See *Billboard-Music Week,* Dec. 25, 1961, p. 2. On the "Honor Roll of Hits," *id.* at p. 8, BMI again has nine of the top ten records and 17 of the top 30 on that list. Both these charts are based on record sales at retail, disc jockey plays, juke box plays, and volume of business done through record distributors. The "Hot 100" is apparently a current rating while the "Honor Roll" reflects a more sustained commercial success.

[23] 29 Stat 481. The source of the present statutory language is the Copyright Act of 1909, *supra* note 2.

to be distinguished from the "major" right of dramatic performance of a composition,[24] the right to print sheet music,[25] and the right to produce phonograph records.[26] These rights are all severable. ASCAP members assign their performance rights to ASCAP who in turn licenses its entire repertoire to music users for a fee calculated either on the basis of the gross receipts of the user, or on the basis of receipts from the individual program on which ASCAP music was used.[27] For reasons of convenience the former "blanket" license is the more common. By far the biggest of ASCAP's customers is the broadcasting industry which accounted for 88.41 per cent of ASCAP's revenue in 1957.[28] ASCAP maintains a force of "song policemen" to detect infringements. If an infringing music user refuses to purchase a license the Society will sue.[29] ASCAP's success is attested by the fact that in its early days as many as 600 suits would be pending at one time while recently there have rarely been over twenty in progress.[30] ASCAP is a non-profit organization and distributes all its income after expenses to its members. The Society did not break into the black until 1921 [31] but has been quite successful since then. Its financial statement for 1960 shows gross receipts of $32,344,135 and distributions to members of $26,212,689 after deduction of $6,131,445 expenses and $850,716 due to foreign societies.[32] In addition to its principal marketing function, ASCAP also provides charitable relief for indigent writer members,[33] licenses its music free of charge to non-profit, non-commercial organizations,[34] and sponsors the Nathan Burkan Memorial Competition for law student papers on copyrighted law.[35] A general idea of ASCAP's structure having been gained, it is now time to examine the principal internal problems which plague the Society.

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[24] Timberg, *supra* note 21, at 296.

[25] *Interstate Hotel Co.* v. *Remick Music Corp.*, 157 F. 2d 744 (8th Cir. 1946), *cert denied*, 329 U.S. 808 (1946).

[26] *Irving Berlin* v. *Diagle*, 31 F. 2d 832 (5th Cir. 1929).

[27] Finkelstein, *supra* note 14, at 76.

[28] ASCAP hearings 542.

[29] "ASCAP: Collecting for the Pipers Tune," *Business Week*, Oct 10, 1953, p. 136.

[30] *Ibid.*

[31] *Ibid.*

[32] *Variety*, Mar. 8, 1961, p. 57, col. 4.

[33] *Ind. L. J.*, *supra* note 12, at 169 n. 8.

[34] "The Story of ASCAP," *supra* note 17, at 6.

[35] See pamphlet issued by ASCAP describing the Nathan Burkan competition. See Carpenter, *Music an Art and A Business*, (1950), p. 116, where the author takes a rather skeptical view of ASCAP's eleemosynary activities. Chapter VI of the Carpenter book, devoted to ASCAP, contains the most vitriolic attack on ASCAP's aims and operations appearing in print.

ASCAP's internal problems.—ASCAP has been aptly described as "an emotionally precarious alliance between the creators and the promoters of popular and classical music, cemented together by the hard realities of business self-interest." [36] The bones of contention may be divided into three classes: (1) eligibility for membership in ASCAP and rights on resigning; (2) standards and formulae for distribution to the members of ASCAP's profits. This is the thorniest problem that faces the Society. It is easy to see why when it is recalled that ASCAP licenses its entire repertoire to music users for a flat fee which does not in any way depend upon which or how many songs are actually performed, nor the occasion or mode of performance. Yet the net proceeds must be distributed among a diverse group of writers and publishers, some of whom have been in ASCAP since its inception and have added many famous and profitable hits to the ASCAP catalogue, while others are newcomers with only one commercial song to their credit. Distribution must be made to classical and rock-and-roll writers alike; to writers of standard ballads, background and hillbilly music. Some standard must be used to evaluate each member's relative contribution to ASCAP's repertoire. The devices which have been evolved to meet this problem will be examined in more detail below. A dispute over revenue distribution caused the first schism within ASCAP in 1936. A group of publisher members walked out taking about twenty per cent of ASCAP's music with them. They returned to the fold after seven months of independent licensing.[37] The third internal problem concerns allocation of votes to members for purposes of election of ASCAP directors. This difficulty arises from the threat of clique control by a few of the larger publishers and most successful writers who might then act to the detriment of less influential members. Balanced against this consideration is the right of those members who have contributed the most to ASCAP's success to have a proportionately larger voice in the management of the Society.

Timberg has called non-discrimination and impartiality the *"sine qua non* of ASCAP's existence." [38] Although it has been stated that "no one close to the Society can remember an open attack on its honesty" [39] serious charges have been made concerning abuse of power by the managers of ASCAP.[40] This paper will explore some of the methods of preserving internal equality in ASCAP.

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[36] Timberg, *supra* note 21, at 311.

[37] Shafter, *Musical Copyright,* (2d ed. 1939), p. 317.

[38] Timberg, *supra* note 21, at 297. Finkelstein has written that "as a matter of policy, the Society must remain neutral between all members" CCH, *Seven Copyright Problems Analyzed supra* note 15 at 83.

[39] *Business Week, supra* note 27, at 144.

[40] See generally ASCAP hearings especially testimony of Hans J. Lengsfelder at p. 55

ASCAP Organization Prior to the Consent Decrees.—Originally, and song writer who had commercially published five or more works with a substantial number of performances was eligible for ASCAP membership.[41] Charges were made that young composers were unable to gain admission to the Society,[42] and it will be seen that the entrance requirements were subsequently relaxed. The original articles of association provided that royalties were to be distributed one-third each to composers, authors and publishers.[43] In 1921 this was changed to a fifty-fifty distribution between writers (authors and composers) and publishers.[44] This formula still obtains and it is the one aspect of revenue distribution about which there has been little dispute.[45] Initially, distribution to individual members was based upon the number of times each composition was played. But the high cost of survey and tabulation was draining away ASCAP's profits.[46] In 1921 a new method was adopted. A committee of twelve writers and twelve publishers rated the works of publishers and writers on the basis of popularity and prestige, merit, seniority, and number of performances. A dissatisfied member was given the right to appeal a rating of his work.[47] The original articles of association established an eighteen-member board of directors to govern the Society.[48] The number was increased to twenty-one in 1919 and to the present twenty-four members in 1920.[49] Provisions were and are still made for representation of the different factions, i.e., publishers and writers, on the board. The board was self-perpetuating electing its own successors after initial election by the membership.[50] Until 1941 the articles of association limited members to no more than one vote.

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et seq.; *Appellants Brief supra* note 18; Letter addressed to "American Music Lovers" from the National Association of Broadcasters published January 17, 1941.

[41] Comment, "ASCAP and the Anti Trust Laws. The Story of a Reasonable Compromise," 1959 *Duke L. J.* 258, 261.

[42] Allen, *supra* note 3, at 518; and see ASCAP hearings, testimony of Hans J. Lengsfelder at p. 55 et seq.; *Arnstein* v. *ASCAP*, 29 F. Supp. 388 (S.D.N.Y. 1939), plaintiff sued ASCAP alleging *inter alia* that ASCAP wrongfully refused him membership though he met the entrance requirements. The court decided against him, holding that ASCAP was a private association with "sole power to say who shall belong and who shall not." *Id.* at 393.

[43] Finkelstein, "The Composer and the Public Interest: Regulation of Performing Rights Societies," 19 *Law & Contemp. Prob.* 275, 287 (1954).

[44] *Id.* at 288.

[45] Timberg, *supra* note 21, at 261.

[46] *Ind. L. J., supra* note 12, at 169.

[47] *Ibid.*

[48] ASCAP hearings at 230.

[49] *Ibid.*

[50] *Ibid.; Duke L. J., supra* note 41, at 261.

In 1941 a weighted voting system was adopted whereby a member's votes were proportional to the amount of his payments.[51]

The Three Consent Decrees.—1934 saw the first government action against ASCAP for violations of the antitrust laws. The government wanted to break up the license fee arrangements and to set aside all agreements between ASCAP and its members,[52] which would have meant the virtual destruction of the Society. The case went to trial in June of 1935, but at the request of the government was adjourned after ten days to allow the parties to stipulate facts. It was never resumed.[53] Since 1941 ASCAP's internal and external affairs have been regulated by three successive consent decrees entered into in settlement of government antitrust actions against ASCAP. At this point it is fair to inquire by what means the government derives power from the antitrust laws to regulate the internal affairs of the Society. The original consent decree enjoined ASCAP "from combining to restrain interstate trade. . . ." and went on to list a number of restraining activities including: "electing its [ASCAP's] directors by other than a membership vote . . . distributing license income on [a] basis other than the number, character and popularity of members' compositions, and the time during which such have been a part of defendant's catalogue . . . requiring the regular publication of more than one composition as a condition of membership by a professional." [54] These pronouncements provide no indication of the specific rationale for government interference in ASCAP's internal affairs under the rubric of antitrust action. Likewise the original complaint filed in the action gives little help on this problem.[55]

In fact government regulation under the antitrust laws is susceptible of two explanations. First, it should be recalled that internal regulation has been effected through the medium of consent decrees. The provisions of such decrees are formulated through negotiations between the department of justice and the antitrust defendant, here ASCAP. Therefore the ambit of regulation under a consent decree can be as wide as the regulated party is willing to agree to. In the situation at hand ASCAP has been willing to submit to regulation of its internal affairs as part of the price for freedom from formal, and vastly more expensive, suits under

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[51] ASCAP hearings at 230.

[52] *N.Y. Times*, Aug. 31, 1934, p. 15, col. 3. The government charged that ASCAP forced music users to enter into agreements with it by threatening to prosecute under the copyright law.

[53] Allen, *supra* note 3, at 516.

[54] *United States* v. *American Society of Composers, Authors and Publishers*, 1940-43 Trade Cases ¶ 56, 104 (S.D.N.Y. 1940). The 1941 consent decree will be cited hereinafter only by section.

[55] See Note, "ASCAP and the Sherman Act," 12 *Air Law Rev.* 173 n. 5 (1941).

the antitrust laws. That is, the Society has chosen to accept internal regulation rather than to suffer the expense involved in litigating the proper scope of governmental regulation. In this regard, it is appropriate to consider whether, should ASCAP or a similar organization choose to controvert the government's assertion of power, the government could sustain its exercise of internal regulation under the antitrust laws.

In *United States* v. *Paramount Pictures, Inc.*[56] it was held that the practice of "block booking," whereby one feature movie or a group of them are licensed to an exhibitor on the condition that another feature or group of features also be licensed, violated the antitrust laws in that it enlarged the monopoly granted by the copyright law.[57] The analogy to ASCAP, which licenses its entire bundle of performing rights to each music user, is obvious. Yet while the *Paramount* decision furnishes authority for regulation of ASCAP vis-à-vis its customers, it does not suggest the legal basis for internal regulation. *Associated Press v. United States*[58] furnishes the required rationale. The Supreme Court there held that the by-laws of Associated Press, which imposed restrictions on membership in the association, were violative of the antitrust laws. The Court found that the pre-eminence of Associated Press in the news collection and distribution field coupled with its restrictions on membership resulted in the suppression of competition among newspapers. Associated Press's position was such that newspapers who were not allowed to become members were seriously disadvantaged.[59] The Court also held that the fact that there were other news associations was no defense to the Sherman Act charges.[60] Since the decision in *Associated Press,* other courts have found Sherman Act violations when associations in control of important marketing facilities have unreasonably denied membership to certain applicants.[61] This line of cases is definite and direct precedent for those provisions of the ASCAP consent decrees which assure fair and equal membership requirements. ASCAP is, in effect, a marketing facility which occupies a prominent position in the music industry. To preserve competition in this field it is imperative that access to the Society's services and facilities be available to all music purveyors on an equal basis. Moreover, as pointed

[56] 344 U.S. 131 (1948).

[57] 334 U.S. at 156-59.

[58] 326 U.S. 1 (1945).

[59] 326 U.S. at 14-23.

[60] 326 U.S. at 17.

[61] See *Gamco Inc.* v. *Providence Fruit and Produce Building, Inc.,* 194 F. 2d 484 (1st Cir. 1952) (defendant required to lease plaintiff space in a fruit and vegetable marketing terminal); *American Federation of Tobacco Growers* v. *Neal,* 183 F. 2d 869 (4th Cir. 1950) (marketing association required to admit plaintiff to membership and allow him to hold sanctioned auctions).

out by the Court in *Associated Press,* this requirement is not mitigated by the existence of other similar facilities when the organization in question occupies an important position in an industry. It would seem only a corollary from the foregoing that associations such as ASCAP must not only admit members on a reasonable basis but must afford them fair use of the association's facilities after admission. It would serve no purpose to assure free and equal access to a dominant marketing facility while allowing unfair discrimination among the members in their use of the facility. In the area of trade association and marketing facility cases, decrees which go beyond mere assurance of access to membership are not hard to find.[62]

It can thus be seen that regulation of ASCAP's internal organization is essential to preserve free competition in the music industry, to assure all music producers fair and equal access to a most important means of marketing their product. It may be added that regardless of one's opinion of internal regulation of ASCAP under the antitrust laws, such regulation is, at this date, a *fait accompli,* has seldom been questioned in the literature and could not now be profitably or persuasively attacked.

At the threshold of an examination of the substance of the decrees, one significant fact should be noted. While the first dealt mainly with ASCAP's relationships with music users and only in small part with internal problems, the latest decree deals solely with matters of internal organization. Internal problems are now apparently the most serious facing the Society.

The 1941 Decree.—On February 5, 1941, the government filed a criminal antitrust suit against ASCAP, its board members and some of the larger publisher members.[63] It will be recalled that this was at the height of the ASCAP-radio dispute. The defendants pleaded *nolo contendere* to the criminal charges.[64] A civil action, filed three weeks later, was terminated in a consent decree entered on March 4, 1941.[65] The decree touched all three aspects of ASCAP's internal organization. The membership requirement was reduced from five published songs to one.[66] Revenue could not be distributed on any other basis than the "number, nature, character and prestige [of a member's works] . . . length of time in

[62] See, e.g., *United States* v. *R. L. Polk & Co.* 1955 Trade Cases ¶ 67, 993 (E.D. Mich. 1955); *United States* v. *National Electric Sign Assn.,* 1954 Trade Cases ¶ 67,724 (N.D. Ill. 1954); *United States* v. *Providence Fruit & Produce Building, Inc.* 1954 Trade Cases ¶ 67, 872 (D. R.I. 1954); *United States* v. *Boston Market Terminal Co.* 1950-51 Trade Cases ¶ 69, 927 (D.C. Mass. 1951) modified 1952-53 Trade Cases ¶ 67, 611.

[63] *Broadcasting Magazine,* Feb. 10, 1941, p. 9.

[64] *Duke L. J., supra* note 40, at 263. Fines totalling $32,250 were levied against ASCAP and 45 members. *Wash. Post,* Mar. 14, 1941, p. 3.

[65] Warner, *op. cit. supra* note 13, at 383.

[66] 1941 decree § II.

which the works of a member have been a part of the catalogue of the Society and popularity and vogue of such works, all to be determined in a fair and non-discriminatory manner." [67] One need not be hypercritical to conclude that this formula was far from a solution to the revenue distribution problem, and indeed did not represent any real change from the method ASCAP purported to use prior to the issuance of the decree. The self-perpetuating board of directors was replaced with a board elected by the membership. The number of votes afforded each member could be keyed to his classification for revenue distribution purposes, planting the seeds of further internal strife. At least one-twelfth of the board was to be elected annually.[68] Scholarly comment on this first consent decree ranged from "significant internal changes" [69] to "the decree cannot be said to have much force as a judicial determination of the problem." [70]

The 1950 Decree.—In 1950 the government reopened the antitrust action and ASCAP consented to the entering of a new decree on March 14.[71] The "one published song" membership requirement was retained and a new clause added to ease publisher admission to the Society. "Any publisher whose publications have been used or distributed on a commercial scale for at least one year" could gain admission.[72] In addition to entrance rights, the 1950 decree established important rights relating to exit from the Society. Under the first decree objection had been registered because a resigning member could not withdraw rights assigned to ASCAP. Most assignments ran for a period of twenty-five years. The 1950 decree allowed any member to withdraw from the Society at the end of a fiscal year on giving three months advance written notice. His resignation was subject only to existing licenses with music users.[73] Licenses were limited to five-year terms,[74] allowing a resigning member to regain complete control of his rights at the expiration of that period.

Regarding the revenue distribution problem, the decree required distribution to be made giving "primary consideration to the performance of the compositions of the members as indicated by objective surveys of performances." [75] This was a return to the test originally used and

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[67] 1941 decree § II(10).

[68] 1941 decree § II(9).

[69] *Duke L. J., supra* note 14, at 263.

[70] Note, ASCAP and the Sherman Act, 12 Air L. Rev. 173, 174 (1941).

[71] The 1950 decree is printed in 1950-51 Trade Cases ¶ 62,595 and will be cited hereinafter only by section.

[72] 1950 decree § XV.

[73] 1950 decree § IV(G).

[74] 1950 decree § IV(D).

[75] 1950 decree § XI.

abandoned because of cost. It was probably asumed, no doubt correctly, that ASCAP could now afford the cost of music surveys. Thus objective factors rather than subjective evaluation became the primary factors determining revenue distribution. The general basis of classification for revenue distribution purposes was required to be set out in writing for the members' examination.[76] Members were given the right to appeal a revenue classification to an ASCAP committee as impartial arbiter,[77] and the basis of the decision on appeal had to be published.[78] Timberg reports that these provisions worked rather well.[79]

The 1950 decree also contained significant new rules pertaining to voting procedure. Directors were to be elected by the members and weight could be given to a member's revenue classification in determining his alloted number of votes. The entire board was to be elected annually or every two years, and the board "shall as far as practicable, give representation to writer members and publisher members with different participations in ASCAP revenue distribution." [80] This last provision was designed to meet the threat of clique control of ASCAP by a few publishers and writers. Timberg considered it effective.[81] However it will be seen that charges of control and its abuse by a minority of powerful members continue to be leveled at the Society even after the 1960 decree. Finally the 1950 decree gave members the right individually to grant non-exclusive licenses to perform their works while remaining ASCAP members.[82] Timberg observed that this right is of little commercial importance for the main purpose of ASCAP is to allow the music user to obtain performance rights without dealing with the individual composer.[83] The decree also gave the court the right to determine and set a reasonable license fee at the request of any music user.[84] In summary, the 1950 decree represented a more pervasive attack on ASCAP's internal problems based on nine years' experience operating under the first decree.

The 1960 Decree.—Recently, the latest modification of the ASCAP consent decree has been effected because "the antitrust purposes of the 1950 amended consent judgment were not being served." [85] The 1960 decree

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[76] 1950 decree § XIII(B).

[77] 1950 decree § XIII(C).

[78] 1950 decree § XIII(D).

[79] Timberg, *supra* note 21, at 319.

[80] 1950 decree § XIII(A).

[81] Timberg, *supra* note 21, at 315-16.

[82] 1950 decree § IV(B).

[83] Timberg, *supra* note 21, at 320.

[84] 1950 decree § IX.

[85] 1960 Trade Cases ¶ 69,612. The 1960 decree will be cited hereinafter only by section.

deals entirely with ASCAP's relationship with its members. The decree requires ASCAP to reconsider any application rejected after March 14, 1950, at the request of a rejected applicant. If the applicant meets the membership requirements and it is found that he met the requirements at the time of his original application he is to be admitted retroactively.[86] Just how retroactive membership is granted is not made clear by the decree. If retroactive payments are to be made there would be obvious difficulty in classifying the new member for a past period when ASCAP did not license his work, which consequently could not have appeared on music surveys of ASCAP performances. Retroactive payments would result in a writer being paid for rights not licensed by ASCAP and not used by ASCAP's licensees. Double payments would not result because an individual non-ASCAP member could not license his own music with any commercial success except through another performing rights Society and the retroactive membership provision is inoperative in such cases by the terms of the decree.[87] Perhaps a member is to be granted retroactive membership only for the purpose of seniority determination. The new decree requires ASCAP to publish invitations to join ASCAP twice a year in *Variety* and *Billboard*.[88] Where an applicant otherwise meets the requirements for membership he is not to be excluded because the ASCAP survey has failed to record a performance of any of his works. a rejected applicant must be informed of the reasons for his rejection.[89] The government charged that under the 1950 decree resigning members received little revenue from their works remaining in ASCAP's catalogue. The 1960 decree contains provisions to remedy this.[90]

By far the most significant feature of the 1960 decree is the detailed provisions for performance surveys and revenue distribution. A complex survey system is detailed to meet the charge that the surveys under the 1950 decree were unbalanced, giving undue weight to broadcasting network performances. Independent impartial advisors are provided for. The government is given express permission to seek additional relief with respect to the survey method within eighteen months.[91] The heart of the new decree is the distribution formula. The formula is complex and all-inclusive, and will not be set out in detail here. Generally, it tends to diminish seniority as a factor in distribution. It had been charged that the controlling group of older members was giving seniority too much

[86] 1960 decree § VI(A).

[87] *Ibid.*

[88] 1960 decree § VI(B).

[89] 1960 decree § VI(C).

[90] 1960 decree § I.

[91] 1960 decree § II.

weight to the detriment and discouragement of younger writers. Under the 1960 decree, a member is given the option to receive his payments on a basis disregarding seniority as a factor. Also covered are formulae for distribution of revenue for foreign performances and some other less important matters.[92]

Detailed provisions concerning voting rights are also set out. Most significantly, no member is allowed more than one hundred votes.[93] Under existing practice the publisher member with the most votes had 1,469 and the writer member with the most, 5,116.[94] Any group of publishers or writers who can muster a twelfth of the publisher or writer votes may elect a board member by petition.[95] Provision is also made for members to appeal their revenue classification.[96] The decree was made conditional on the members consent by majority vote.[97] The results of this vote, which approved the decree, will be discussed later, for they form, in part, the basis for the contention by some members that the decree is inadequate.

It is obvious that the latest consent decree is a pervasive, thoughtful response to ASCAP's internal problems. It is not the purpose of this article to suggest substantive solutions nor to examine the merits of ASCAP's internal disputes. The purpose is rather to demonstrate the existence of the problems and to propose and discuss possible legal remedies for their solution available to ASCAP members and the federal government. To this end the alleged inadequacies of the latest consent decree will be briefly discussed.[98] Objection is made to the survey procedure established by the decree in that it prescribes detailed statistical formulae for computing distributive shares from the raw survey figures but establishes no controls over the initial collection of data. This process, it is charged, is still under the control of the dominant board members and may not be carried out fairly. The other main criticism of the 1960 decree relates to voting procedure. The dissenters marshall a complex argument based on mathematics and the realities of the Society's internal politics to prove that the dominant members will still be able to control fifty per cent of the publisher vote in board elections. It is further claimed that the provision for one-twelfth of the votes electing a board member by petition

[92] See 1960 decree § III.

[93] 1960 decree § IV(A).

[94] Department of Justice news release, June 29, 1959, p. 3.

[95] 1960 decree § IV(E).

[96] 1960 decree § V.

[97] 1960 decree § VII.

[98] These are abstracted entirely from the Supreme Court brief of the small publishers who attempted to intervene in the proceedings. Intervention itself as a method of vindication of ASCAP minority rights will be discussed below.

will be ineffectual to assure minority representation. Here again the internal political atmosphere of ASCAP is cited. While two directors have been elected by the petition method, it is charged that their sympathies lie with the larger publishers and that it is extremely unlikely that a sufficient number of small publishers will ally to aggregate the requisite one-twelfth of the votes to elect a board member truly representing the small publisher position. The dissenters also argue that while the decree was approved by a majority of ASCAP members, forty per cent of the publishers who cast ballots were opposed to it as were thirty per cent of the writers. In evaluating these vote tallies it should be borne in mind that the percentage of members voting against the decree is by no means the same as the percentage of the ASCAP catalogue they have contributed. And, of course, some of those voting against the decree may have wanted less, not more, governmental regulation. Nevertheless the figures are impressive. It appears that a considerable number of ASCAP members are not happy with the 1960 decree. The objections raised by the small publisher members who attempted to intervene in the consent decree proceedings are serious ones. The interveners retained eminent and no doubt expensive counsel to represent their cause.[99] A glance back over the results under the previous consent decrees discloses that in the day-to-day operation of the Society they have often proved inadequate to achieve their intended ends. It can thus be concluded that, internally, real difficulties still face ASCAP if substantial equality is to be maintained within the organization.

II

The following discussion of possible means to assure internal equality in ASCAP will first deal with the means available to the individual aggrieved ASCAP member to better his lot within the framework of the 1960 consent decree and recent court decisions. Secondly, governmental action of a more expansive nature will be suggested as an alternative to regulation through successive consent decrees.

Justice Department Action at the Insistence of ASCAP Members.— As has already been noted, in 1958 a subcommittee of the House Select Committee on Small Business held extensive hearings on the policies of ASCAP especially as they affect the rank-and-file membership. The hearings comprise 732 pages of testimony and exhibits and amount to the most revealing exposé in print of an organization which has at times been accused of secrecy.[100] The report of the subcommittee indicates that the hearings were held in response to complaints of smaller ASCAP mem-

[99] The Washington law firm of Covington & Burling represented the intervenors in the person of well-known Washington attorney, Charles A. Horsky.

[100] See, e.g., Carpenter, *Music an Art and a Business,* (1950), p. 120-21.

bers.[101] The report concludes by recommending Justice Department action.[102] Justice Department action at the insistence of ASCAP members is thus one way of combating inequality within ASCAP. It has serious defects, however. For those who are still dissatisfied with the 1960 decree this method of attack will not again be available for some time. Certainly the Justice Department will not be persuaded to seek an amendment to the 1960 decree for at least a few years. It is significant, though, that in one key feature of the new procedures under the 1960 decree—the performance surveys—the Justice Department is given express permission to seek additional relief within eighteen months.[103] Of course delay is a disadvantage. The Justice Department has been criticized for not moving sooner to seek a new decree.[104] Two years elapsed between the House hearings and the 1960 decree. The main drawback to the device of successive consent decrees sought by the Justice Department, at least from the viewpoint of the dissenting members, is that consent decrees are formulated through a process of negotiation and compromise—in this case between the Department and ASCAP, represented by the very board of directors claimed by the smaller members to be treating them unfairly. These members feel that the ASCAP board certainly will not adequately represent them in these negotiations and that the government has not adequately represented them. In proof of this last allegation they argue the inadequacy of the 1960 decree. This position of the dissenting small ASCAP members under consent decree regulation of the Society has led to their earnest but unsuccessful attempt to intervene as parties in the antitrust action, seeking greater influence in the drawing of consent decrees. Intervention is, then, the second possible weapon available to the small ASCAP member.

Intervention.—During the 1960 decree proceedings, four small music publishers petitioned the district court to intervene as parties to the proceeding. The petition was denied by the district court judge on the grounds that the petitioners had been adequately represented by the government in the proceedings and because they were members of the Society and had consented to be represented by the Society.[105] An appeal was taken

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[101] H. R. Rep. No. 1701, 85th Cong., 2d Sess. 1 (1958).

[102] *Id.* at 9.

[103] 1960 decree § II(B).

[104] Taubman, *Copyright and Anti Trust,* (1960), p. 3.

[105] *United States* v. *American Society of Composers, Authors and Publishers,* 1960 Trade Cases ¶ 69,657 (1959). There had been two previous attempts to intervene in the antitrust proceedings. In 1951 an individual, non-ASCAP member petitioned to intervene charging ASCAP with song piracy. The district court denied the petition on the "easy" ground that it was not timely. *United States* v. *American Society of Composers, Authors and Publishers,* 11 F.R.D. 511 (S.D.N.Y. 1951). Again in 1956 an attempt was made to intervene in the proceeding this time by ASCAP members. The petition was denied by

to the Supreme Court which upheld the district court and denied intervention.[106] This decision forecloses, for all practical purposes, the right of individual ASCAP members to become parties to the antitrust action and thereby have a more direct hand in shaping the consent decrees. Henceforth they will be relegated to an *amicus curiae* position, one with which they are not all happy.[107] While a discussion of the right to intervene is now largely academic, it will nonetheless be dealt with briefly here, especially since it presents the question of third party intervention in an interesting context. Rule 24(a)(2) of the Federal Rules of Civil Procedure provides: "Upon timely application anyone shall be permitted to intervene in an action . . . (2) when the representation of the applicant's interest by existing parties is or may be inadequate and the applicant is or may be bound by a judgment in the action. . . . ." [108] The ASCAP members seeking to intervene alleged that they would be bound by the consent decree as members of ASCAP and thereafter would be unable to object to any ASCAP procedures sanctioned by the consent decree.[109] The members claimed that they were certainly not adequately represented by the Society's board of directors since the sole purpose of the proceedings was to curb practices by the board oppressive to petitioners and those similarly situated.[110] To support the claim that they were inadequately represented by the government, the members urged the inadequacy of the 1960 decree.[111] In dismissing the members' appeal from the district court ruling, the Court, speaking through Mr. Justice Harlan, held that they had a right to appeal for if they were entitled to intervene as of right the order denying intervention was appealable.[112] The Court then proceeded to the merits of their claim, considering first whether the government had adequately represented petitioners, and then whether the ASCAP board had. It is a bit strange that though there is much discussion throughout the briefs and opinions concerning petitioners' representation by the government and the ASCAP

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the district court on the ground that the petitioners were adequately represented by the government. *United States* v. *American Society of Composers, Authors and Publishers,* 1956 Trade Cases ¶ 68,524 (1956).

[106] *Sam Fox Pub. Co.* v. *United States,* 366 U.S. 683 (1961).

[107] *Appellant's Brief, Sam Fox Pub. Co.* v. *United States, supra* note 106. On the limitations of the *amicus curiae* position see *Denver* v. *Denver Tramway Corp.,* 23 F. 2d 287 (8th Cir. 1927); *Winterhaven* v. *Gillespi,* 84 F. 2d 285 (5th Cir. 1936); Note, 63 *Harv. L. Rev.* 319, 327 (1951). *Amici curiae* may not present evidence, take exceptions to the judge's rulings, take the case from one court to another by appeal or writ of certiorari or petition for rehearing.

[108] F. R. Civ. P. 24(a)(2) (1958).

[109] *Appellant's brief, supra* note 106 at 58-62.

[110] *Id.* at 28.

[111] See discussion in text *supra* at notes 98, 99.

[112] *Citing Southphen Estates* v. *United States,* 342 U.S. 19 (1951).

Board, no one seemed willing to meet the issue of just who should be representing the small ASCAP members in the proceedings. Yet the answer seems obvious. The new consent decree was sought at the insistence of the small members because of alleged abusive practices by the Board. The decree forced a fairer standard of management on the Board. Clearly the government, not the Board, was the party representing the petitioners, and any discussion of adequacy of representation by the board seems superfluous. Indeed the Court quickly admitted that the petitioners were not adequately represented by the ASCAP board.[113] Yet the Court held that this proved too much; for if the petitioners were not adequately represented they would not be bound and if they were bound they were adequately represented thus presenting them with a dilemma under rule 24. One is tempted to conclude that the Supreme Court's argument proves too much. If adequacy of representation under Rule 24 were the same as adequacy of representation for *res judicata* purposes, as the Court thought, then the inadequacy of representation clause in Rule 24 is surplusage for the requirement that an intervener be "bound" would encompass inadequacy of representation.[114] The requirement of inadequacy of representation under Rule 24 must be less stringent, calling for a realistic evaluation of the representative's performance.

In considering whether the members were adequately represented by the government, the Court, while expressing skepticism, declined to consider the merits of petitioners' claim that the decree was inadequate. It held instead that since the government is not bound by private antitrust litigation to which it is not a party, private parties are not bound by government litigation. This argument raises the issue of the meaning of the word "bound" in Rule 24. True, the petitioners weren't bound in the *res judicata* sense,[115] and if this is the meaning of the word then their petition to intervene was properly denied. There is persuasive authority for the *res judicata* view,[116] and it has seemingly been adopted by the Supreme Court in the instant case. Yet there is substantial authority for a more liberal construction of "bound." [117]

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[113] 366 U.S. at 691.

[114] See Note, 71 *Harv. L. Rev.* 874, 900 (1958); "The Supreme Court, 1960 Term," 75 *Harv. L. Rev.* 40, 162 (1961).

[115] But see *Sovereign Camp* v. *Bolin*, 305 U.S. 66 (1938), where what the Court referred to as a class suit was held to bind a party though the representative was asserting an interest contrary to that of the party bound.

[116] *Southphen Estates* v. *United States*, 342 U.S. 19 (1951); *Innis, Speiden Co.* v. *Food Machinery Corp.*, 2 F.R.D. 261 (D.S. Del. 1942); *Owen* v. *Paramount Productions*, 41 F, Supp. 557 (S.L. Cal. 1941); 7 *Cyclopedia of Federal Procedure* 24.16 (3rd ed. 1951); 4 *Moore's Federal Practice* 24.08 (2d ed. 1948).

[117] See *Kaufman* v. *Societé Internationale*, 343 U.S. 156 (1952); *Missouri-Kansas Pipe*

Indulging in more academic discussion, even if the petitioning members were over the "bound" hurdle, they would still have to show inadequacy of representation of their interests by the government. As already noted the Supreme Court declined to consider this question. That the allegations of inadequacy of the 1960 decree are at least plausible on their face has already been concluded. Yet it seems doubtful that any court would be willing to "second-guess" the Department of Justice in the absence of gross disregard of petitioners' interests or collusion between the parties to the consent decree.[118] Other factors which the courts have felt indicate inadequacy of representation include situations where the representative's interest is adverse to petitioner,[119] where representative's attorney is on unfriendly terms with petitioner,[120] or where the representative fails to take an appeal from an adverse judgment.[121] It is clear that the last ground is totally inapplicable to the consent decree situation and the other grounds would seem rarely, if ever, applicable to a proceeding where the government negotiates a consent decree. Petitioners would be hard pressed to show inadequacy of representation and so intervention would not be possible. The *Sam Fox* case drives the nail home. So long as consent decrees remain the mode of governmental regulation of ASCAP, the individual members will have to be content to assert their views as *amici curiae.*

Private Civil Suits.—In the light of the 1960 decree, it would appear that while ASCAP members are not foreclosed from seeking additional relief by way of private antitrust suits for injunction or damages, such suits would hardly seem promising.[122] Even if the 1960 decree were violated by ASCAP, the individual members, not being parties to the suit, would be limited to complaining to the Justice Department.

The New York Court of Appeals has already held that ASCAP's articles of association are the law of ASCAP and binding upon all its members.[123] This rule was applied in *Lombardo v. Adams.*[124] Plaintiff Carmen Lombardo, composer of "Seems Like Old Times," was dissatisfied

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Line Co. v. *United States,* 312 U. S. 502 (1941); *Kozak* v. *Wells,* 287 F. 2d 104 (8th Cir. 1960); *Textile Workers* v. *Allendale,* 226 F. 2d 765 (D.C. Cir. 1955); *Clark* v. *Sandusky,* 205 F. 2d 991 (6th Cir. 1950); *United States* v. *C. F. Lane Life Boat Co.,* 25 F. Supp. 401 (E.D.N.Y. 1938); *supra* note 114, at 162-63, (75 *Harv. L. Rev.*).

[118] See *Twentieth Century Fox Film Corp.* v. *Jenkins,* 2 F.R.D. 197 (S.D.N.Y. 1947), where the court found an "atmosphere of collusion." *Id.* at 198.

[119] See, e.g., *Teamsters* v. *Keystone Freight Lines Inc.,* 123 F. 2d 326 (10th Cir. 1941).

[120] See, e.g., *United States* v. *Lane Life Boat Co.,* 25 F. Supp. 410 (E.D.N.Y. 1938).

[121] See, e.g., *Wolpe* v. *Poretsky,* 144 F. 2d 505 (D.C. Cir. 1944), cert. denied, 323 U.S. 777.

[122] See *Sam Fox Pub. Co.* v. *United States,* 366 U.S. 683, 694 (1961).

[123] *Gem Music* v. *Taylor,* 294 N.Y. 34, 60 N.E. 2d 196 (1945).

[124] *N.Y. Law J.,* Mar. 10, 1958, S. Ct. Nassau Cty.

with the number of performance credits allotted for the use of the song as Arthur Godfrey's theme. The court held that by virtue of plaintiff's membership agreement and the ASCAP articles of association, plaintiff was bound by the decision of the ASCAP appeal board in the absence of bad faith or fraud. While some of ASCAP's more vocal smaller members have not hesitated to accuse ASCAP's management of bad faith and fraud,[125] such charges, even if valid, are notoriously difficult to prove. Suffice it to say that private civil suits do not appear to be a very promising weapon for the smaller ASCAP member.

Administrative Regulation of ASCAP.—ASCAP's position in the American music industry allows it to wield great power over those who create and purvey music and those who use it. And the Society provides an indispensable means for enforcing the individual member's copyright while allowing the music user to obtain performance rights from one source without dealing with many individual copyright holders.[126] It seems to be the policy of the government to tolerate ASCAP while keeping a watchful eye on it. ASCAP thus resembles the utility whose monopoly is tolerated because of its efficiency in bringing needed services to consumers. Utilities are regulated by governmental agencies, and such a mode of regulation has definite advantages over regulation by successive consent decrees. While in the past twenty-two years there have been three consent decrees

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[125] See e.g., ASCAP Hearings, testimony of Hans J. Lengsfelder. This witness charged, *inter alia,* that revenues were distributed "according to an inaccurate and distorted logging system" (*Id.* at 25); benefiting the larger, dominant members to the detriment of the smaller members (*Ibid.*); that the small dominant group had subverted ASCAP "into a device for acquiring dictatorial power over the economic life of competitors" (*Ibid.*); that the classification committee applied formulas most beneficial to themselves (*Id.* at 26); that the grievance machinery was operated to the financial gain of board members who served their own interests by deciding against appellants (*Id.* at 27); that the Society's proceedings were conducted secretly (*Ibid.*); that transcripts and documents were doctored (*Id.* at 28); that the distribution formulas were designed to "nullify the provisions of the consent decree of 1950" (*Id.* at 31); that the music surveys gave more weight to board member's songs than those of non-board members (*Id.* at 35); that "the board insures the rank and file shall not profit" (*Id.* at 38). Another witness, Guy Friedman, charged that his company had been forced out of business by the ASCAP "powerhouse" (*Id.* at 200); that the Society purposefully ignored performances of his songs (*Id.* at 201); that an "iron curtain" lies between a member and the records of ASCAP (*Id.* at 203); that the board was guilty of "arbitrary and calculated injustice" (*Id.* at 204); that the Society discriminates against serious music because the "powerhouse" owns very little of it (*Id.* at 207). Witness Ralph S. Peer testified that small publishers are not allowed to grow to importance (*Id.* at 322); that the survey system "satisfies the needs of the board" (*Id.* at 328). Frederick Fox alleged that he was removed from ASCAP board membership because he disagreed with the classification committee (*Id.* at 343); that his own publishing company's revenues from ASCAP were decreased in retaliation for his efforts on behalf of other publishers to obtain their rightful share (*Id.* at 348).

[126] But see the discussion *supra* in text at note 22 indicating the growing prominence of BMI as a licensing organization.

governing ASCAP's operations, abuses and unfair practices have built up in the periods between decree revisions, no doubt to the damage of music users and creators. Administrative regulation on a day-to-day basis can deal with complaints as they arise without resort to formal judicial procedure. The latest consent decree was preceded by long and costly congressional investigation into the operation of ASCAP. An administrative agency would have the power to require the periodic production of evidence of compliance with the law.[127] An agency could thus keep a closer watch on ASCAP and do it more cheaply and efficiently than the Justice Department.

In many foreign countries, performing rights societies are treated as utilities and regulated by governmental agencies, particularly as to rates.[128] This has been suggested in the United States; significantly, by ASCAP's general counsel.[129] Finkelstein has flatly stated, "The American Society of Composers, Authors and Publishers is willing to submit to regulation of rates by either the judicial or administrative branch of the Government. . . ." [130] In another article he suggests that such regulation might control internal affairs as well.[131]

Of course to shift to an administrative scheme of regulation would require the creation of a new agency or the assumption of new functions by a presently existing one such as the FTC [132] or the copyright office. Legitimate doubts can be cast on the advisability of this in the light of recent disclosures, especially by Landis,[133] that the agencies are presently understaffed, underfinanced, overworked and plagued with a variety of other ills. Students of government who are taking a close second look at the "headless fourth branch" might well advise against adding another arm now.

Writers on ASCAP, even the most critical, usually conclude by giving the devil his due, by admitting the necessity for ASCAP. Since this discussion began in a theatrico-literary tradition of sorts, it may as well

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[127] See *United States* v. *Morton Salt Co.*, 338 U.S. 632 (1950).

[128] See Shafter, *Musical Copyright*, (2d ed. 1939), pp. 324-25.

[129] See Finkelstein, "Anti Trust Laws and the Arts," University of Chicago Conference on The Arts, *Publishing and the Law* 55, 63 (1953); Finkelstein, "The Composer and the Public Interest—Regulation of Performing Right Societies," 19 *Law & Contemp. Prob.* 275, 289-91 (1954).

[130] Finkelstein, "Public Performance Rights in Music and Performance Right Societies," CCH, *Seven Copyright Problems Analyzed* 69, 85 (1951).

[131] Finkelstein, *supra* note 128 at 291.

[132] As to the desirability of resort to the FTC rather than the Justice Department, see Bok, The Tampa Electric Case and the Problem of Exclusive Arrangements Under the Clayton Act, 1961 Sup. Ct. Rev. 267.

[133] Landis, *Report on Regulatory Agencies to the President-Elect* (1960).

conclude that way. ASCAP is necessary to the music creator, publisher and user. Without ASCAP or some organization like it, the former two would be unable to enforce their copyrights effectively and reap financial benefit from their work. Without ASCAP, the latter would have to seek out each copyright holder individually in order to obtain a license to perform his work. ASCAP's existence is justified, but to quote Timberg again, "[T]he non-discrimination among its members is a *sine qua non* of ASCAP's existence." [134] If periodic consent decrees and conventional judicial remedies are insufficient to assure internal fairness the government must take a more active role in the regulation of ASCAP.

[134] Timberg, "The Anti Trust Aspects of Merchandising Modern Music: The ASCAP Consent Judgment of 1950," 19 Law & Contemp. Prob. 294, 297 (1954).

FORUM

Although the primary purpose of this *Journal* is to communicate the research work of the Foundation, it also serves as a vehicle for educational activities designed to exchange informed opinion and stimulate additional study. This section provides a medium for the presentation of papers and notes which do not necessarily rest as yet on a firm basis of empirical research. It is hoped that the material published in this section will stimulate researchers to undertake factual study of the issues.

Innovators and Patents*

JOHN T. CONNOR **

INTRODUCTION

FIRST AND FOREMOST, let me express appreciation to the New Jersey Patent Law Association for my selection as the 1962 recipient of the Jefferson Medal. I am deeply honored to have my name linked with those who have received this important award in past years.

As I reviewed that list, I noted that the Association has not previously awarded the Medal to one whose chief responsibility for many years has been on the general management side of corporate activities.

PATENT RESPONSIBILITIES OF MANAGEMENT

I firmly and deeply believe that people in the top management of corporations which aim to grow and make progress through research and development activities must include patents among their more important responsibilities. For one thing, we now realize that a successful research project is not complete until the appropriate patent protection both here and abroad has been applied for, obtained, and enforced against potential industrial pirates—those fellows who are always around looking for a free ride on somebody else's effort and risks. In addition, top management people must have a full realization that the technical knowhow and patents

* This address was delivered to the New Jersey Patent Law Association by Mr. John T. Connor, recipient of the 1962 Jefferson Medal.

** President, Merck & Co., Inc.

of a growth company constitute a most important form of industrial property, and must be managed and safeguarded in a manner which properly reflects that importance. I'm sure the members of this Association will understand if I make the observation that patents have become too important to remain in the exclusive domain of research scientists and patent lawyers.

In saying this, I have no intention of minimizing the contribution made by patent lawyers to a research-minded company. On the contrary, their work is so vital that they deserve attention and support and guidance from top management on a frequent and regular basis. At Merck, for example, we have a staff of eighteen patent attorneys and agents, working under the direction of our chief patent counsel, Mr. Louis Wolk. Last year they obtained eighty-two U.S. patents on new Merck compounds or processes . . . and I would like to take this occasion to salute them on behalf of our Company for their effectiveness in protecting the break-throughs made by our scientists.

PRESENT PATENT SYSTEM IDEALLY SUITED TO CHANGING CONDITIONS

The growing recognition by corporate management of the fundamental importance of patents to industrial growth is just one of the significant changes taking place today in the field of patents. Another is that the individual unaffiliated inventor is no longer the primary source of invention. Individual genius and inventiveness continue to be of vital importance, of course; but the traditional role of the individual inventor is being and must be filled by large research organizations wholly or partially supported by industrial, institutional, or government funds.

This necessary transition in how research must be conducted, as it grows ever more complex, has been a primary reason for renewed appreciation of patent laws and of patent rights stemming from these laws. Charges that the present patent system is inadequate or inequitable have come from scattered quarters, and it may be fruitful to examine those charges to see how valid they may be—and whether changes in our fundamental concepts about patents and patent rights are required.

It is my view that the patent system is showing itself to be ideally adapted to serve as the proper incentive for the large research organization as well as for the individual inventor. I further believe that because this is so, and can eventually be proved to be so, the patent system will be reinforced and supported, rather than weakened, by the changes which have taken place in the organization and financing of research. I say this in spite of many vociferous attacks to the effect that patents encourage monopolies and high prices, and that, consequently, all patent rights should

be "dedicated to the public." As a slogan for those who don't understand the nature of patents and their important functions in the public interest, "dedicated to the public" may have great political appeal. As a matter of economics, whether for the corporation or the individual, it's sheer nonsense.

In this increasingly technological age, we have seen the corporation provide a sound climate for research and invention by assuming the growing financial cost of the more complex technology. Business management has taken over the job of organizing the search, of allocating funds, and of providing the tools which invention requires. The incentive for making these investments of time, money, and effort is the reward given to those who make significant contributions to progress. In addition to responsibility for the efficient fusion of the elements of invention, management must see to it that the stockholders, who provide the necessary capital, receive an equitable return on their investment.

FALLACIES OF "PUBLIC DEDICATION" OF PATENTS

I think it is safe to say that a very large percentage of the research work now being supported by private corporate funds would be discontinued if the resulting patent rights on newly developed products were to be "dedicated to the public." In practice and in fact, "dedicated to the competition" would be a far more accurate slogan. Obviously, the average member of the public could not take advantage of any new invention—but the competitors of the innovating firm could certainly move in to make or sell the new product, unless prevented from doing so by the patent rights of the innovator.

And if competitors were free to move in on all important new developments, the number of such inventions would shrink rapidly. It would be foolish to support a research program for the benefit of your competitors—who could, indeed, render you non-competitive because you, not they, would have shouldered the extra burden of financing the research. It would be a curious incentive to progress were the people who go to the trouble and expense of making discoveries and inventions not able to get some tangible benefit from them.

It is obvious that the result of any "public dedication" or "compulsory licensing" would be harmful to research-minded firms and their employees, particularly scientists, technical people, members of the patent staff, and management, as well as stockholders. But the general public, to whom the invention would theoretically be "dedicated," would be harmed most of all—because they would not benefit from the continuing development of new products at anything like the present rate. And it's not too much

to predict that our national economy—and our very way of life—could not continue the kind of progress we need to meet the challenge of foreign competition and to survive in the cold war with the Communists.

PATENTS—INCENTIVE FOR RESEARCH ORGANIZATIONS

Rather than get bogged down with political, social and economic theories, however, let's take a look at the simple fundamentals. Assume that you own or manage a business. Naturally, you want to make it grow. How do you go about achieving that? One of the best ways is to support a research organization dedicated to uncovering new knowledge which sooner or later can result in new products for the firm to make and sell at a profit. Under the present patent and trademark laws in the United States, there is great incentive for owners and managers of businesses to support research scientists, just as the copyright laws make it possible for publishers and editors to support composers and authors while they are struggling with what they hope will be their masterpieces. The results of the research of scientists, in the form of inventions and discoveries, may be patent and trademark rights that substantially help the firm to pay salaries, wages, and attractive compensation benefits to the scientists, technicians, and the production, marketing and other employees who work with them; to pay for the many research failures; and to provide the profits which reward stockholders and make available the necessary funds to build new facilities for the growing business.

Now, would the same thing happen if the inventing firm could not ward off its competitors while a costly and hard-earned new product is getting a reasonable start in the market against the competitive products which had been sharing the business? Emphatically *not*. It just doesn't make good sense for business managers to spend the time, effort and money to develop a new product, only to see the market captured by imitator firms which can easily undersell the inventor because they don't have to recapture his heavy research and introductory expenses.

Some people seem to think, however, that the communization of research results is desirable. They even suggest that if private industry should no longer have the incentive to conduct extensive research programs at corporate expense, then the Federal Government should provide the necessary support. Of course, then there would be no further need for private patent rights, they say.

SHOULD THE FEDERAL GOVERNMENT SUPPORT ALL RESEARCH?

Let us examine this proposal that the federal government support *all* of the research work in this country, rather than "only" the two-thirds,

more or less, of the total research and development effort it now supports. Those who have been directly responsible for various phases of the federal government's research programs—and I am included in this category—are the first to point out the limitations, as well as the advantages, of federal support of research. Certainly the programs tend to become stereotyped; they are slow to shift direction in response to changes in science and in scientific objectives; and it is quite difficult—often impossible—to obtain timely and sensible decisions with respect to specific projects.

I think it is fair to say that there have been serious failures in federal management of research programs, and the potential for failure increases as the programs grow in magnitude, in scope, and in mechanisms for the support of research. Characteristically, federal activity in this field can be quite effective for short-term, emergency projects. But it remains to be proved that the government can efficiently manage a large and diverse research program for an extended period of time.

If support of research on an emergency basis is illustrated by our current space and missiles program, the issues in long-term federal support of research are nowhere better illustrated than in the burgeoning programs of the National Institutes of Health. They have grown from a few millions of dollars in the mid-1940's to more than three-quarters of a billion dollars today. Starting with the straightforward support of basic research, new programs have been added and new Institutes created, until today it is the dominating force in medical research in the United States . . . in the volume of such research, in the direction of such research, and in the development of research manpower and research facilities to carry out tomorrow's research effort in the government and university worlds.

I shall not here yield to the temptation to challenge the soundness of certain of these programs and the degree to which they represent the best way for the nation's taxpayers to reach for the twin goals of better health and longer life. I cannot refrain from noting, however, that the proponents of rapid growth and proliferation of these programs justify them on the grounds of the public interest . . . as if everything done by the government is automatically in the public interest. Those who promote and those who finance and those who manage these programs know they have troubles. Ultimately, the troubles will be aired and the issues resolved by those processes that, I am happy to say, continue to characterize our society despite attacks and encroachments from without and within.

NEED FOR BALANCE BETWEEN PUBLIC AND PRIVATE RESEARCH

I am concerned here tonight with developing one general and one specific point in connection with federal support of research.

The general point has to do with the balance between public and private support of research. I know "balance" is an ambiguous word. But it does suggest that there is a large component of weight on both sides of the scale. I'm afraid, however, that the net effect of rapid federal research expansion is progressive imbalance of the kind that threatens the very strength and vitality of research that is supported by private funds. Using medical research again as an example, it is perfectly evident that the proportion of the total national effort derived from private sources is diminishing . . . and this despite the fact that industry support has increased steadily in recent years. What this means, in cold, hard terms, is that federal funds are drying up private funds other than those invested by industry.

And where does this lead? Is government support of research going to continue to expand until it in fact represents the country's total research and development effort? If this were to happen, a very fundamental question would be posed. Can our form of government survive if U.S. industry no longer has the inducement to develop new products which enable it to pay corporate income taxes to keep the federal government in operation—and to pay good salaries on which federal personal income taxes are paid—and dividends to stockholders on which federal personal income taxes are also paid—and to be able to use the rest of that profit to support necessary expansions in facilities and personnel? If all that is no longer possible, how can our form of government survive?

Frankly, I don't think it could. Those in our midst who question the whole system whenever some sort of abuse shows up had better look long and hard at the alternatives. Russia has adopted one kind of alternative: the one they call "socialism on the way to pure communism," but which looks suspiciously like the older forms of state capitalism that were used to suppress individual liberties in the past. India is experimenting with another alternative: one in which Prime Minister Nehru contends that all important business and industrial activity should be conducted in the "public sector," meaning under complete government ownership and control.

I must say that after looking at such alternatives, I'm quite happy with our system. And I'm going to work as hard as I can to help preserve it, particularly by seeking ways to improve it when the need for improvement appears.

It is somewhat ironic that certain countries with systems diametrically opposed to ours have been taking long, hard looks at the alternative we have to offer them. A team of Russian patent experts recently visited our country to observe our patent procedures and to discuss patent problems—certainly that's an acknowledgement by the Russians that patents are

valuable property to be protected. Also, I read not long ago of Soviet concern over the fact that a substantial number of Russian patent applications are for previous inventions, already patented, because Soviet planning had made inadequate allowance for dissemination of scientific information. Apparently, however, the planners recognize their shortcomings and are looking our way to correct them. These and other events provide a good indication that Soviet scientific knowhow can no longer be dismissed lightly. There is real scientific and technological progress taking place behind the Iron Curtain—to the point where the Russians are willing to ignore or revise Marxist dogma so that the improvements necessary to continue their progress can be made by strengthening their patent system and scientific information practices.

PATENT RIGHTS IN GOVERNMENT-SUPPORTED RESEARCH

This leads me to my specific point about our federal government's involvement in research. I am referring to the impact of such research, and the policies that govern its support, on the patent system itself. The simple fact is that in certain federal agencies, and to an increasing degree in all federal agencies, patents in effect are ruled out or destroyed by the policy of vesting title to them in the government, or by granting the government power to take title, which usually has the same result.

It is axiomatic that the public interest must be protected when federal tax money is used. It should be axiomatic that the rights and equities of those who carry out the research under federal subsidy should also be protected. But they aren't. By adopting and extending policies that effectively destroy private rights in inventions and patents, the federal government, more and more, is communizing the accumulated research backgrounds and accomplishments of these individuals and organizations who engage in research activities for the federal government and are supported financially, in any degree, whether wholly or in part, in that effort.

Let's look behind that statement, looking first at research contracts per se.

First of all, in selecting a contractor, the government takes advantage of an already existing situation in most cases by turning to a contractor with accumulated experience, knowledge, and knowhow in a specific field —gained at the contractor's expense. Consequently, it can hardly be said that the government has borne the full cost of developing the invention, if one should emerge. And of what value to the government is the ownership of that invention—unless the government wishes to go into business in competition with private enterprise? The royalty-free, irrevocable

license the government used to be content with permits it to use the invention without further cost and through any private firm it chooses.

Then, as I have mentioned, not every member of the general public can make proper use of a new, patentable government-owned invention. Ordinarily only competitors of the innovating person or organization can do so. Now, should all foreign and domestic competitors be free to use his results, even if federal government tax money is used to finance his work? For example, should a Russian government agency competitor be free to use them, even in the United States? Should a citizen of Switzerland who has paid no U.S. taxes? Should a U.S. citizen who pays nominal federal taxes be entitled to the use of millions of dollars worth of research results? I don't have all the answers to these questions, but I haven't even heard the questions stated before. It seems to me that they deserve extended public debate and consideration, especially in view of the rising level of federal research expenditures, both quantitatively and relatively.

There must be a better answer than the destruction of patent rights by compulsory licensing or public dedication, which would destroy the incentive of any organization to invest substantial sums of money in production facilities and marketing programs that probably wouldn't be profitable. The paramount consideration, I should think, is the assurance that any invention resulting from a government contract be available for the public benefit. Unless national security considerations intervene, I suggest that this objective can best be served generally by leaving ownership with the contractor—with provision for the government to have the powers necessary to assure use of the invention in case the contractor neglects commercial development on a responsible basis.

NEED FOR FLEXIBLE APPROACH TO PATENTS

What is needed is a flexible approach which takes into account the various factors involved in any given situation, with particular emphasis on the contributions made to the invention by the contractor—without whose knowledge and experience it would probably not have been possible —and the willingness and ability of the contractor to produce and distribute the new product for the public benefit. In most cases, I am sure, ownership would remain with the inventor under these criteria. And if it did, a real incentive would exist for effective commercial development of the invention. This is the heart of the matter, of course. In some cases, it is heartening to note, agencies have made provision for a flexible approach which takes into consideration both public interest and the equities of the contractor. The National Science Foundation Act leaves the matter of title entirely to the discretion of the Director, to work out with

the contractor after considering the facts of the individual case, under the statutory provision that says:

> "Each contract or other arrangement . . . shall contain provisions governing the disposition of inventions produced thereunder in a manner calculated to protect the public interest and the equities of the individual or organization with which the contract or other arrangement is executed."

The patent policy adopted several years ago by the Department of Health, Education and Welfare with respect to cancer chemotherapy industrial research contracts offers some degree of flexibility to government officials. To quote the reason:

> "Because of the peculiar exigencies of this program and in order that the resources of pharmaceutical and chemical firms may be brought to bear with a minimum of delay, certain exceptions to general Department policy will be permitted in the negotiations of industrial contracts for this purpose."

Thus, here we have recognition of the value of incentive in a crash program where effective results are of overriding importance. The department has liberalized its overall policy, which requires the Secretary of HEW to control the disposition of patent rights, by permitting cancer chemotherapy contracts to contain "standard alternative clauses leaving the right to patent and exploit such inventions with the contractor, subject to certain limitations deemed necessary to protect the public's interest in the results of the contracted research." I can visualize this special approach as a blueprint for normal government policy across the board.

Such a system would provide some real incentives to go ahead and push a new product into the market, rather than sit on it with the realization that whatever progress is made must be shared with all U.S. and foreign competitors who have contributed nothing to the advancement of the art or science—and in many cases haven't even paid enough taxes to the federal government to entitle them to a voice in the determination of how the invention should be used.

PATENTS UNDER RESEARCH GRANTS

Let me add one final note on the patent aspects of federal support of research. Again I refer to the National Institutes of Health for illustration, but this time to their support of studies in medical schools and universities via the research grant mechanism.

All of us here know that a research grant is a contract of a sort. But the concept and philosophy of the research grant is quite different from the research contract. In the latter, the initiative is with the government. It wants a piece of work done, seeks out a contractor, and when the contract is signed—buys research. In a research grant, the scientist has some work he and his institution want to do. They seek support; and if the

reviewing authorities feel the scientist and his project have merit, it is financed. Implicit in the grant is the freedom of the scientist and his research team to pursue any and all leads, to depart from the originally defined project, to publish when and where they please.

There were some 14,000 research projects that were grant-supported by NIH alone last year, for a total amount of $273 million . . . about thirty per cent of the total spent for medical research in the entire nation in 1961.

Until very recently, the research grant policies under which this thirty per cent of the national medical research effort is administered have been quite general, emphasizing voluntary reporting of patentable discoveries or inventions. But the situation is changing. The Public Health Service now requires an "annual invention statement" from each grantee, listing inventions made in whole or in part with grant support or stating that none was made. I understand that there are some fifty such invention reports now before the Surgeon General, who must first decide whether the discovery is patentable and whether it is of substantial interest to the government. If the answers to these questions are yes, he must then decide whether the discovery should be patented and then licensed by the government or simply made broadly available by publication.

In making these decisions, the Surgeon General has a primary responsibility to act on behalf of the government and therefore the people he serves. There can be no quarrel on this score, nor can there be any dispute concerning his right and indeed his obligation to know what discoveries and inventions result from the expenditure of public funds through the agency he heads.

What is of deep concern to me and to all pharmaceutical companies, and to all of industry . . . and, indeed, to the entire scientific world and to the people who are the ultimate beneficiaries of scientific discovery . . . is how these and all other patent matters involving the government are handled. In a very real sense, in my opinion, the answer to the "public interest" in these matters will be found in a way of handling these matters that will strengthen incentive, increase competition, build industry, broaden instead of further restrict the interplay between industry and the other components of the society of which it is an essential, dynamic part.

SUPPORTING THE PATENT SYSTEM

On the one side, there are those around us in all walks of life who fail to understand that weakening our patent system can weaken us as a nation and a leader among nations. Unfortunately, there are some in the federal government who either from ignorance or by design are seeking to tamper with a system that is proving as sound for today's complex issues as it was

for yesterday's relatively simple ones. The patent system has helped make us strong. It should be supported, not undermined and maligned. And when we see the erosive processes at work, it is our responsibility—yours, and mine, and that of everyone who has faith in the system—to speak up, and to fight back, before it is too late.

There are hopeful signs that this is beginning to take place.

The move in the Senate Judiciary Committee to reduce exclusive patent protection on drugs from seventeen to three years has temporarily abated.

The Deputy Surgeon General, speaking a few weeks ago to a Congressional committee, acknowledged that each invention report presents a different problem and that "a decision has to be made as to the best disposition . . . whether by publication or the filing of patents, or by permission for the inventor to file some kind of a limited patent so we can induce more development on the part of the inventor or commercial interest."

Congressman Daddario, reporting last month on the work of a House Subcommittee on Patents and Scientific inventions, said that "the subcommittee's studies have shown beyond argument that virtually all of the National Aeronautics and Space Administration contractors and subcontractors could do their work in an atmosphere more conducive to creative effort, efficiency and dependability, if their relationship with NASA were not distorted by existing patent restrictions."

Furthermore, a very recent report by a National Research Council—National Academy of Sciences committee on the Role of Patents in Research, addressing itself to the White House, is most eloquent on the point of devoting efforts to the development of additional means of providing incentives, not to the limiting of existing incentives.

And President Kennedy at his press conference of May 9, 1962 indicated that any uniform government patent policy will take account of—and I quote him word for word—"the incentives to companies to spend their own funds in order to develop patents which will give them a return in other years."

These are, as I say, hopeful signs. But the war is barely begun. It will be a continuous one, with battles and skirmishes on many fronts. We will win it, because we must.

I leave you with a question. Shouldn't our system continue to reward the innovators who contribute to our literary, artistic, scientific, economic and social progress, rather than force them to turn over the benefits of their accomplishments to undeserving non-creative competitors?

Protection and Promotion of Products of the Mind Resulting from Research in a Technological Institute*

FREDERIC B. SCHRAMM **

INTRODUCTION

THE SO-CALLED COLD WAR is a grim race for survival, survival of nations, survival of a way of life, survival of human freedom. The race is being run in the arenas of economics and technology. Although the greater emphasis in the popular mind is upon technology, one cannot lose sight of the fact that the race is equally grim in the arena of economics and that economic strength determines the ability to compete in the arena of technology.

Our universities and scientific schools are in the forefront of the technological race. To keep ahead requires ever increasing effectiveness and efficiency in scientific and technological research. Under the grim circumstances, it demands also adequate attention to economics, or financial support.

Arrangements have been employed for tending to the economics and providing financial support for general or unsponsored scientific research conducted at engineering schools and scientific divisions of universities. One of them has been obtaining grants from an outside organization which supplies sufficient funds to get new research projects started and counts on recouping its advances and acquiring funds for future grants by the earnings of the research discoveries and patents resulting from those research projects. Such support can come, of course, only from the projects which have proved to have some commercial or financial value. Such an outside granting organization may be unable to foresee technical or commercial value in the products of research at any particular techno-

* Although the primary purpose of the *Journal* is to communicate the research work of the Foundation, it also serves as a vehicle for papers and notes by individuals to exchange information and stimulate additional study. Before publication in the *Journal* papers are reviewed and suggestions made by members of the Editorial Committee and others intimately concerned and competent in the aspects of the subject matter discussed therein. The author may include or reject their suggestions. If these suggestions are not accepted by the author, in whole or in part, the reviewer may, if he so desires, publish a comment on the paper or present his views in a subsequent article. As questions were raised concerning this paper by certain reviewers, an article presenting their position will be published in the Forum Section of a subsequent *Journal*.

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logical institute and therefore be reluctant or unable to support patenting and industrial promotion.

When grants from an outside organization are not available, some technological institutions may find it to their advantage or may find it desirable to attempt to develop a more direct and closely affiliated mechanism for evaluating, protecting, and promoting the products of unsponsored research and development. The term "unsponsored research" is used to apply to research other than applied research sponsored or paid for by an industry or manufacturing company to solve a specific problem or develop a particular product which becomes the property of the sponsor. Where a technological institution utilizes an outside granting organization for obtaining commercial outlets for developments which can advantageously be handled by such an outside organization, there may still be advantages in retaining the right to handle some of its developments individually and being relieved of exclusivity in the arrangement with the outside organization.

The major technological institutes have sufficient human and material assets available to carry the recommended concept of direct and closely affiliated control forward to an optimum degree which will prove mutually advantageous and beneficial to the institute, to the institute's alumni and to the community. This can be accomplished in a variety of ways, some of which have proved highly successful for similar institutions.

It is hoped that this paper will provoke sufficient interest in the problems involved to support additional analysis of existing procedures followed by our technical schools and their advantages and disadvantages and the possibilities in trying new procedures. It would be worthwhile to investigate to what extent possibilities of supporting teaching and research financially from the by-products of research have been lost by lack of suitable procedures, and to find out what percentage of ideas developed technological university laboratories could become real income producers.

Research and Patent Plan

In order to obtain full benefits from the research work done at an institute consideration must be given to the matter of processing the results of research work done at the institute's laboratories by members of the institute's faculty and graduate student body and employees, including the extent to which patents should enter into the program.

The matter may be considered under three heads. First, a brief summary of what has been done or considered by various institutions; second, desired objectives of the institute with regard to research and the utilization of the results of the research; and third, the extent to which the manner of operation of an outside research commercializing organization fits these objectives.

I. What Some Institutions Have Done

It has been said that patentable discoveries and inventions are usually fortuitous by-products of research, particularly with regard to research conducted on the university campus. Moreover, whether seeking a better understanding of the laws of nature or endeavoring to develop new products or improve old products or processes, many scientists working in university laboratories are content to pursue their investigations without giving much, if any, thought to the patentability of the results and often take the attitude that wide dissemination of the results through publication is preferable.

Nonetheless, very often new ideas, discoveries and inventions growing out of experiments and investigations undertaken with quite a different purpose in view may have valuable commercial application and require patent protection and control in the public interest. They may not only be essential to scientific and technological progress and to cultural and social advancement, but also contribute to industrial developments and expansion.

It has also been said that where the protection and control provided under the patent laws may have to be invoked to obtain the maximum public benefit and usefulness from these products of non-profit research, the universities and other non-profit research organizations have the responsibility to the public and to the inventors, to see that the discoveries and inventions are patented and are so administered and controlled that they will produce the greatest benefit to all concerned.

Universities, colleges, and technological institutes are primarily teaching institutions, but research is and always has been an integral part of the overall education program. However, there is much variety in the manner in which research results are handled in different educational institutions. Some eighty-five universities, colleges, technological institutions and professional schools have adopted general research and patent policies as a definite course of action formulated and expressed in systematic statements by the boards of control, state legislatures and other governing bodies of the institution. It is understood that Harvard University and Western Reserve University have formal research and patent policies with respect to inventions and discoveries primarily concerned with therapeutics or public health.

UNIVERSITY-AFFILIATED RESEARCH ORGANIZATIONS [1]

There are thirty-five or more special research institutions, foundations, corporations, departments and divisions established as units or affiliates

[1] See p. 27, *Patents and Nonprofit Research,* Study of the Subcommittee on Patents, Trademarks, & Copyrights of the Committee on the Judiciary, U.S. Senate, pursuant to S. Res. 55, Study No. 6, U.S. Gov't Printing Office 1957.

of educational institutions to handle for the respective institutions the administration and/or conduct of sponsored research under contract or grant and in some instances the co-ordination of all research activities of the institutions as well as the management of the patentable results of such research. An example is the Ohio State University Research Foundation.

UNINCORPORATED INSTITUTIONAL UNITS

In some cases sponsored research is conducted and/or administered under contractual arrangements made by unincorporated institutional units such as the Institute for Co-operative Research of Johns Hopkins University.

UNIVERSITY-AFFILIATED FOUNDATIONS

Where the educational institution has a substantial investment in the discoveries of inventions and in the patents obtained thereon and promotional effort is necessary to exploit the patents, there is the problem of additional investment in money and services being required to place the inventions, or the finished products based upon the inventions, in commercial production, introducing them to the public and gaining their acceptance. Very often these functions are performed on behalf of an educational institution by a separately incorporated non-profit patent management foundation affiliated with the institution. The oldest is the Wisconsin Alumni Research Foundation. This was established in 1925 and acts as the patent-management agent for the University of Wisconsin and for the faculty and staff of the University. The Purdue Research Foundation was created in 1930 and the Cornell Research Foundation in 1932.

At the present time there are more than 50 of these separately incorporated organizations with authority to perform patent management functions.

Although it is primarily a special research organization offering research and experimental engineering services to industry and government, the Armour Research Foundation is authorized to handle the management of patents for the Illinois Institute of Technology, with which it is affiliated, as well as patents on discoveries and inventions growing out of its own research activities and which the Foundation holds in its own name.

There are about sixty-nine colleges and universities which directly or through affiliated patent-management organizations enter into patent development agreements with research corporations.

LITIGATION AND OTHER EXPERIENCES

Educational institutions and other non-profit research organizations have kept relatively free of litigation and other controversial experiences relating to patents and inventions. Prior to 1945 the Wisconsin Alumni Research Foundation was involved in extensive infringement litigation over the Steenbock Vitamin D patents and the copper-iron patent. Although the Vitamin D patents were finally held invalid, a decision in the copper-iron patent favorable to the Foundation was accepted by industry.

The Rutgers Research and Endowment Foundation has been involved in two instances of litigation with respect to its streptomycin patent.

ROYALTY INCOME

The Wisconsin Alumni Research Foundation obtained a gross royalty income of $14,000,000 through 1946 from its Vitamin D patents and $1,734,000 from Warfarin through 1955. The expired copper-iron patent yielded $652,000 through 1952 and the stabilized iodine patent $450,000 through 1955. In some instances some other patents in the Foundation's portfolio brought in less than the expenses incurred.

The Rutgers Research and Endowment Foundation has received approximately $7,000,000 in royalties under the streptomycin licenses and $150,000 under those on neomycin, including both the domestic and foreign patents. Other university affiliated research foundations or the universities themselves have also received royalty income but in smaller amounts than the Wisconsin Research Foundation and the Rutgers Research and Endowment Foundation.[2]

Dr. Robert E. Wilson, winner of the Perkin medal, asserted:

> "A generation ago most research workers in the medical field and many of those in our universities felt that it was not quite ethical to patent their discoveries, particularly in matters relating to public health. During the past twenty years, however, there has been a growing recognition of three facts: (1) Failure to patent is more likely to delay than to encourage the development and marketing of new products especially if any substantial investment or advertising is required to get them started. (2) Failure to patent leaves new remedies open to widespread abuse by unethical manufacturers and promoters, whereas patenting permits a control of quality and marketing practices which is highly desirable in the case of many new drugs. (3) Failure to patent simply throws away a large potential income from those who benefit from new discoveries, which

[2] *Patents and Nonprofit Research, supra,* p. 59.

income might better be collected and used to promote further research in related fields. . . . This is a sound and socially desirable method of financing research work which would be lost if the value of patents were to be greatly reduced." [3]

II. The Research Objectives of a Technological Institute

Technological institutes and professional schools are primarily teaching institutions. Their principal objective, therefore, is effective teaching of engineering and science.

However, research is an essential adjunct of effective teaching. The research activities of the faculty and staff of the institute enable the institute to fulfill its function of extending the boundaries of human knowledge, of encouraging attitudes of scientific inquiry, of training students for scientific and technical pursuits, and disseminating scientific and technological information. Well organized research may, therefore, be considered another important objective of the institute, second only to its primary teaching function.

Another aspect of university research relates to providing experience in the actual carrying on of research techniques and procedures that can be obtained only through actual participation in experimental research.

However, carrying on research on the requisite scale to supplement the theoretical teaching function and to provide the training obtained in the actual research experience involves substantial expenditures both for equipment and for salaries of personnel. Sponsored research provides income for that portion of the research program, specifically directed in the fields authorized by the sponsors or relating to the solution of specific problems of the sponsors. However, to fulfill its function of extending the boundaries of human knowledge in every area relating to technology and physical sciences, the specific areas of sponsored research are inadequate to cover the field. The teaching budget cannot be depended upon to complete the areas in which research should be carried on.

A third objective of the institute's program should be to find ways and means of adequately supporting the research program. This should encompass making full use of all the assets available to the institute including its teaching faculty, members of its research staff, its superior undergraduate students, its graduate student body, the members of the corporate body, trustees or the like constituting and governing the institute, the entire alumni body in addition to the sponsors of specific research projects and the other organizations which are directly or indirectly supporting the institute in research programs, such as alumni organizations and community groups of manufacturers and local organizations.

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[3] *Industrial and Engineering Chemistry* 35, 177 (1943).

Any program is no better than the personnel which carries it out. Adequate support of the program of the technological institute, therefore, involves proper support of the personnel engaged in executing the program.

Wherever possible opportunities should not be neglected for deriving financial income from the research program through royalties and otherwise to provide funds for the requisite salaries and the equipment. With adequate equipment, the results may be accomplished from which personal gratification may come. Recognition to the personnel engaged in research will come in part from the publication of scientific articles and treatises.

Even from the standpoint of the general public the greatest benefit to the general welfare and the maximum improvement of the national economy may come, not alone from making public research findings and rendering them freely available in widely known publications and other media of dissemination, but from patent protection.

Karl T. Compton said in one of his annual reports while President of Massachusetts Institute of Technology:

> "Responsibility does not always end with the mere publication of a patentable scientific discovery or invention: the public benefits derivable from patent laws and contemplated by the framers of those laws should not be lost through a failure to solicit patent protection." [4]

Elihu Thompson declared:

> "Publish an invention freely, and it will almost surely die from lack of interest in its development. It will not be developed, and the world will not be benefited. Patent it and, if valuable, it will be taken up into a business." [5]

The patent system serves a dual purpose in supporting research activities. First, insofar as research work conducted at the institute may relate to or lead to discoveries of industrial value, the results of research may enable the institute directly, or through a research foundation, to augment the institute's income required for financial support of equipment and personnel and in providing financial incentives to personnel. Secondly, the issuance of a patent may provide a very meaningful stimulus in the form of official recognition following critical examination that the inventor has contributed to advance the sum of human knowledge.

It has been suggested that the academic person should not seek commercial gain from products of original research ostensibly undertaken to enhance knowledge in his academic field. The contradictions which are inherent in this view have been pointed out. Moreover, this view is not

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[4] 35 *Technology Review* (Dec. 1932), p. 101.

[5] 75 *Electrical World* (1920), p. 1505.

shared by many persons who have exhibited outstanding success in enhancing knowledge in their academic fields. While an exhaustive documentation could be prepared, the following tabulation of academic persons who have recognized the desirability of creating valuable rights in the products of their research is significant.

PROFESSORS, EDUCATORS, TEACHERS, WHO HAVE OBTAINED U. S. PATENTS

BARNES, John Landes, professor of engineering, UCLA, b. Oct. 16, 1906. Granted U.S. patent on Modulation system.—*WWE,* 1959.

CALLAN, John Gurney, university professor, b. Apr. 7, 1875, d. Dec. 30, 1940. Univ. of Wisconsin 1915-20; Harvard 1920—. Has taken out about seventy patents, principally in connection with steam turbines. —*WWWA,* Vol. I.

CARNELL, Paul Herbert, chemistry professor, b. May 7, 1917. Marietta College 1948-49; Albion College 1948-52; Chairman chemistry department, Albion College, 1952 to date. Nineteen U.S. patents. *Chemical Who's Who,* 1956.

COOKE, Hereward Lester (deceased), professor of physics, Princeton Univ., received patents on toothbrushes.

COPE, Arthur C., Bryn Mawr, Pa., professor of organic chemistry and head of the Department of Chemistry of Massachusetts Institute of Technology in 1945, holder of nine patents on barbiturics.

D'ALELIO, Gaetano F., professor and head, Department of Chemistry, Univ. of Notre Dame. b. Dec. 26, 1909. 315 patents, synthetic fibers, molding and laminating compositions, radar insulations, rocket launchers, etc.—*Who's Who in Engrg.,* 1954; *Chem. Who's Who,* 1956.

EINSTEIN, Albert, physicist and former patent examiner, Institute of Advanced Studies, Princeton Univ., Patent No. 1,781,541 on refrigeration system.

ERICKSON, J(ulius) L(yman) E(dward), prof. of organic chemistry, La. State U. b. Lake Charles, La. Oct. 8, 1901. Holds patents on macrocyclic musk compounds.—*Chemical Who's Who,* 1956.

FERMI, Enrico, b. Italy, Sept. 29, 1901, d. Nov. 28, 1954. Taught Univ. of Florence 1924-26; Univ. of Rome 1927-38; professor at Columbia Univ. 1939; Univ. of Chicago 1945. Ten or more patents in field of atomic energy—2,206,634, July 2, 1940—Process for production of radioactive substances, etc.

FISHER, Harry Linn, research chemist, b. Jan. 19, 1885. Professor of chemical engineering, Univ. of S. Calif. 1953-56. Holds fifty patents in organic chemistry and rubber technology.—*WWE,* 1959.

FULLER, Richard Buckminister, S. Ill. Univ., research professor, Geodesic Dome Patents—structures used in the Air Force's DEW and

in commercial structures and factories. Geodesic Domes use only 1% of the material utilized by conventional buildings to shelter the same number of square feet of ground.

GODDARD, rockets, Guggenheim Foundation, paid million to widow.

HAAS, Dr., head of chemistry department, Purdue University. (See McBee).

KARRER, Paul, professor of chemistry, Univ. of Zurich, Zurich, Switzerland, winner of the Nobel Prize in 1937 for sympathetic vitamin structure, granted ten U.S. patents for synthesis of vitamins B_2 and E.

LAWRENCE, Ernest O., professor of physics, Univ. of Calif., 1930 —. b. Aug. 8, 1901, d. Aug. 27, 1958. Invented cyclotron. Obtained U.S. patent No. 1,948,384, Feb. 20, 1934 for method and apparatus for acceleration of ions.—*WWE,* 1959.

LOF, George O. G., consulting engineer, b. Dec. 13, 1913, professor, Univ. of Colorado, 1940-47; Univ. of Denver 1948-52. U.S. patents No. 2,680,565, June 8, 1954 for Solar Heating Apparatus and Method; No. 2,909,171, Oct. 10, 1959—for Solar Cooker.

MCBEE, Dr., professor of chemistry, Purdue University. Has taken out large number of patents in the field of organic chemistry jointly with Dr. Haas.

PAULING, Linus Carl, professor of chemistry, Calif. Inst. of Tech. b. Feb. 28, 1901. U.S. patent No. 2,416,344, Feb. 25, 1947 for Apparatus for Determining the Partial Pressure of Oxygen in a Mixture of Gases. —*Chemical Who's Who,* 1956

PEARL, Irwin Albert, research chemist and professor, b. Dec. 25, 1913. Univ. of Wash. teaching fellow in organic chemistry, 1934-37; research assoc. 1938-40. Approx. 150 scientific papers and patents in the fields of synthetic organic chem., wood chem., etc.—*Chem. Who's Who,* 1956.

PINES, Herman, professor of organic chemistry, Northwestern Univ. b. Jan. 17, 1902. Over 125 patents in field of hydrocarbons, hydrogenation, alkylation, etc. —*Chemical Who's Who,* 1956.

RAMBO, William Ralph, professor electrical engineering, Stanford Univ. b. Sept. 3, 1916. Fifteen patents in electronics field.—*WWE,* 1959.

RUGE, Arthur C., Cambridge, Mass., research associate, professor of engineering seismology. Patents included twenty on strain gages and torque, fluid pressure and weight measuring and recording devices.

SALATI, Octavio M., asst. professor electrical engineering, 1948 to date, Univ. of Pennsylvania. Five U.S. patents. Microwave connectors. —*WWE,* 1959.

SZENT-GYORGYI, Albert, 1937 Nobel Laureate in the field of medicine and physiology, Woods Hole, Massachusetts, research biologist—Patent No. 2,834,541.

VAN ALLEN, James A., physicist, educator, b. Sept. 7, 1914. professor, Iowa State Univ. 1952 to date. U.S. patent No. 2,945,002, July 12, 1960, for 2.2′ -dihydroxy -4.4′ -dimethoxybenzil as an ultraviolet stabilizer.—*WWA,* 1960-61.

Moreover, if the research results are patented, knowledge thereof may spread far more rapidly to industry, the engineering profession, and other research scientists because the issued patents are classified with a high degree of subdivision so that information in specific narrow areas may readily be found when sought.[6]

In summary it is believed that the immediate objectives of a technological institute in support of its research program should be both to cause the research program to help to pay its way through royalties and other income under patent rights utilizing the various facilities and contacts which the institute has for bringing its inventions to industrial use, and to provide the institute's research workers with the maximum possible recognition including that represented by the issuance of patents.

III. An Individualized Research Promotion Program for a Technological Institute

An individualized research promotion program may prove advantageous because it may well be that some of the discoveries and inventions of the personnel of a technological institute which would have to be rejected by an outside organization might have been made the subject matter of patent applications to the advantage of the institute as a possible source of revenue or as an incentive to the personnel involved, enhancing the reputation of the institute in the scientific and industrial world or even among its own alumni.

Since various institutions have employed several different plans, different possibilities may be mentioned for the selection of a suitable plan. Such possibilities include (1) the establishment of a non-profit patent holding corporation, (2) the holding of patents by the technological institute, (3) an alumni-sponsored foundation to raise funds for research not covered by specific sponsors, (4) the establishment of a separate but affiliated research and development company, (5) the organization of an

[6] Simon M. Newman, "Classified Patent Search Files, a Proposed Base for Technical Information Centers" 43 *Journal of the Patent Office Society* 418 (June, 1961); Nathan Reingold, "U.S. Patent Office Records as Sources for the History of Invention and Technological Property," *Technology & Culture,* Vol. I. No. 2 (Spring, 1960) pp. 156-157.

actual profit-type manufacturing and marketing corporation to acquire developments from the institute and other sources and carry them through the pilot plant and market research stages before resale or spin off of newly developed industries and (6) various combinations of these plans.

A PRESENT AND IMMEDIATE BASIC PLAN

In order to progress as rapidly as possible to what may ultimately be considered the ideal plan without losing momentum while developing future plans, a technological institute commencing the evaluation of its research results will obviously utilize as much of the mechanism of its present practice as feasible in an immediate plan which will increase the incentive for the research workers of the institute to submit their ideas for legal evaluation and lift the status of the research of the institute and improve the results thereof.

Initially, the institute may hold the patents resulting from the institute's research in which sponsorship contracts do not require assignment to the sponsor. It is desirable to have an individual on the staff of the institute or connected with its faculty who can act as a research correlator and maintain close co-operation with the members of the faculty who have been authorized to direct the channels of the research activity of the institute. If the institute already has some funds available for research not limited to the work of specific sponsors the committee in charge of such funds can co-ordinate the research activities of the institute.

This committee should in effect serve those engaged in research at the institute by relieving the originator of research products from the business aspects of arranging for developments and exploitation of the research products. Thus, the committee should insure prompt and fair distribution of royalties or other monies received from sales of licenses of the products of research. It should also arrange for prompt publication of research results as soon as permissible including a systematic arrangement for publicizing these results, including patents and other forms of recognition in the alumni publication of the institute.

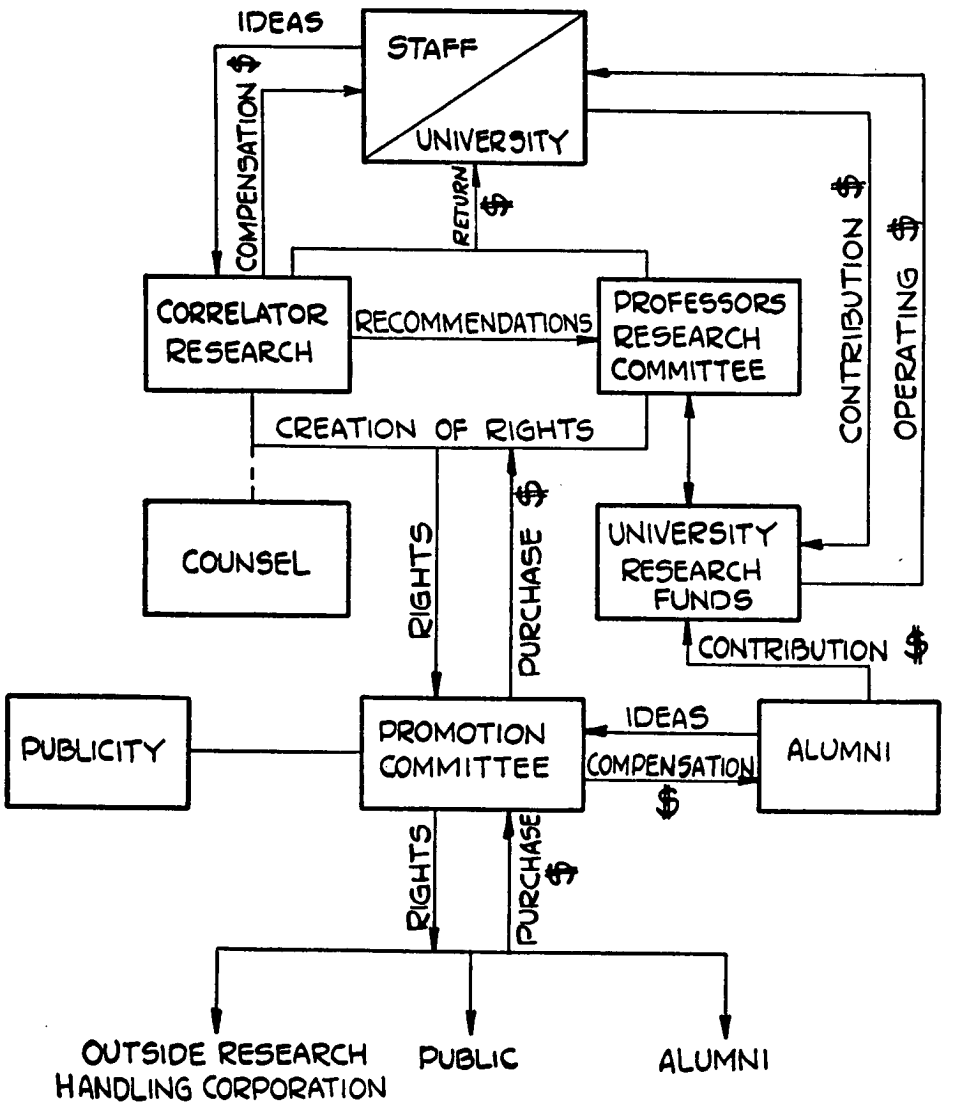
The committee should serve as a channel through which the faculty of the institute would be assured of recognition and enhancement of professional status for research work by the issuance and utilization of patents, by publication of results, by organization of new industries based upon research results, and otherwise, thus acting as a Promotion Committee.

While preserving to faculty and graduate students freedom in the selection of subjects for doctoral dissertations, the Promotion Committee should actively counsel and inform the administration of the institute of

open areas where research work could be fruitful, unexplored fields of science, unsolved problems of engineering and industry and industrial fields open for development. In some cases patent state of art searches and scientific literature searches should be made to find these open areas or the areas where problems exist in which research work could profitably be done by those associated with the institute.

In order to start the program, an institute research fund should be established. In the final analysis, the initial operation could take the optimum form illustrated in Chart I, where alumni contributions would

CHART I



be solicited for the institute or university research fund and in return the alumni would have access to the promotion and marketing facilities of the Promotion Committee for their own inventions. Suitable service or commission charges could be levied against the alumni using the facilities or other contractual arrangements made to enable the institute to share the value in any such alumni originated inventions. If the promotion effort were little more than publicity in the alumni publication of the institute, it would still provide a promotion facility not otherwise available to many alumni.

FUTURE RESEARCH PROGRAM

The foregoing expedient program is designed to accommodate the situation at an institute where no independent research staff and facilities are available. The research activity at technological institutes is often limited to that which can be accomplished by the faculty and the graduate students. There is often no other research staff or facility at the institute.

However, this interferes unduly with the teaching responsibilities of the faculty and it does not appear that the research objectives of the technological institute are being fulfilled to their optimum degree by this type of practice of limited utilization of research results, nor are the assets of such an institute being marshalled to their fullest extent in the aid of such fulfillment. Ideally, sufficient, unfettered funds and assets should be made available to support a full-fledged research program, the products of which can be utilized to support the primary educational objectives of a technological institute by providing the requisite funds or facilities to promote the institute and those associated with the institute and its program. Such a program should be an adjunct to the original research objectives for the faculty and graduate students at the institute in that it can carry forward and develop the products of original results in a manner most beneficial to the progress of science and the useful arts. It is within this frame and with this ultimate objective that the following general proposals may be considered.

As soon as practicable it is desirable to establish a non-profit patent-holding corporation with an administrator and a board of directors headed by the president of the institute, including representatives from the board of trustees of the institute or like governing body, the faculty of the institute and the alumni association of the institute. Such a holding corporation should take over the function of the temporary proposed promotion committee and provide management and marketing facilities for the products of research of the institute. Patents and other legal rights acquired and royalties earned should be held for the use and benefit of the institute and net earnings employed for supplementing funds available

for research and educational facilities and faculty salaries. Ultimate decentralization of the management and promotion function to the holding corporation is believed desirable for achieving greater efficiency and flexibility of operation.

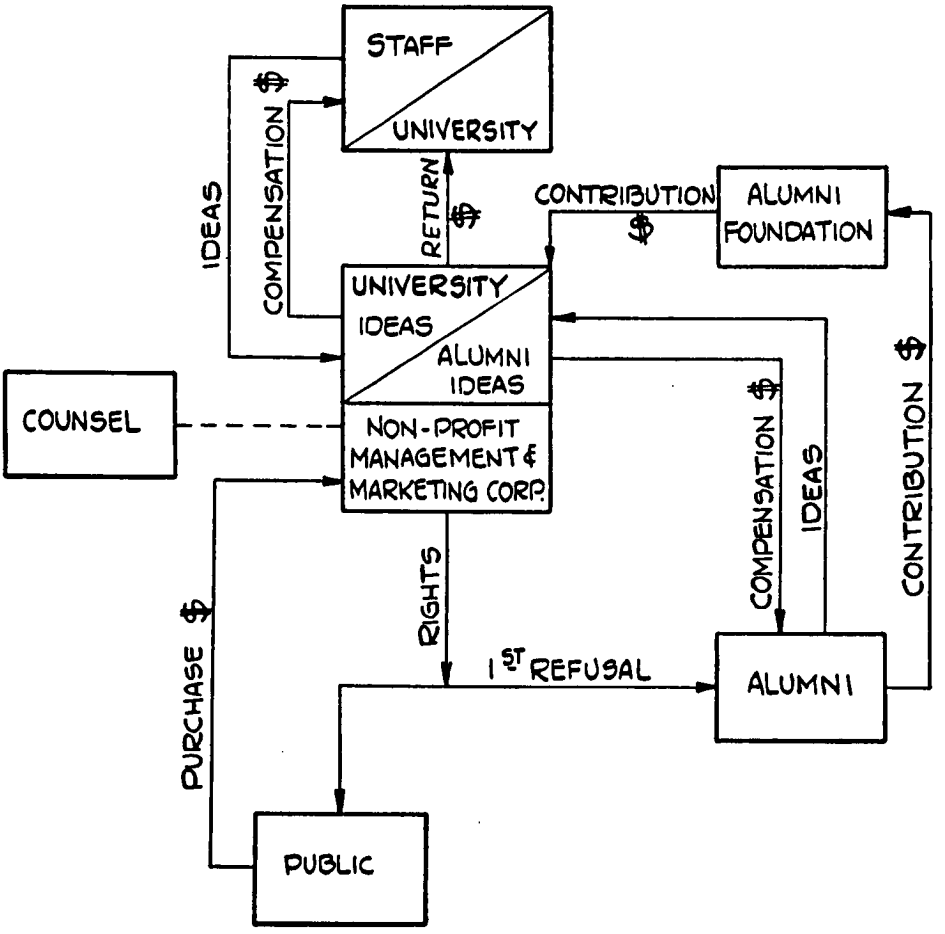
Supplementing the holding corporation it would be desirable to establish a foundation to raise funds for enabling scope of the institute's research work to be expanded and its quality increased. To this end there may be an alumni sponsored foundation in which the alumni would assume the responsibility for raising funds for the sponsoring of research generally to cover those areas not included in research supported by specific sponsors. Such a research supporting foundation would work closely with the holding corporation, with actual administration conducted by a director with the co-operation of the president of the institute.

In consideration of the funds raised, the alumni who sponsored the foundation would receive the right of first refusal to utilize any patents or inventions resulting from such research.

Operation under this first step in an augmented research program is illustrated diagrammatically in Chart II and includes the concept of consideration to the alumni in return for their contributions in the form of a right of first refusal to acquire and utilize the products of the research of the institute. Availability of such rights to the alumni could be publicized by means of the institute's alumni publication and, bidding, if any, would be limited to the alumni contributors to the foundation. The alumni would also retain the privilege of utilizing the management and marketing facilities of the patent holding corporation to promote their own development on a cost or other basis.

The next step in the program could be the formation of a non-profit research and development, incorporated organization, separate from the institute but affiliated with it, to complement and develop the research done by its faculty and graduate students. Whereas the original research conducted in the laboratories of the institute would be largely for scientific interest and teaching value, the separate but affiliated research company would intentionally look for profitable fields of research and direct its staff into those fields. As impending commercial development of a faculty member's research discovery placed too great demands upon his time and limitations upon his independence, the affiliated research company would take up the faculty member's discovery and carry it through to engineering and commercial completion to enable maximum possible revenues becoming available to the institute. The formation of such a research company would be a major undertaking involving the acquisition of land, laboratories and working capital, but would be a logical forward step.

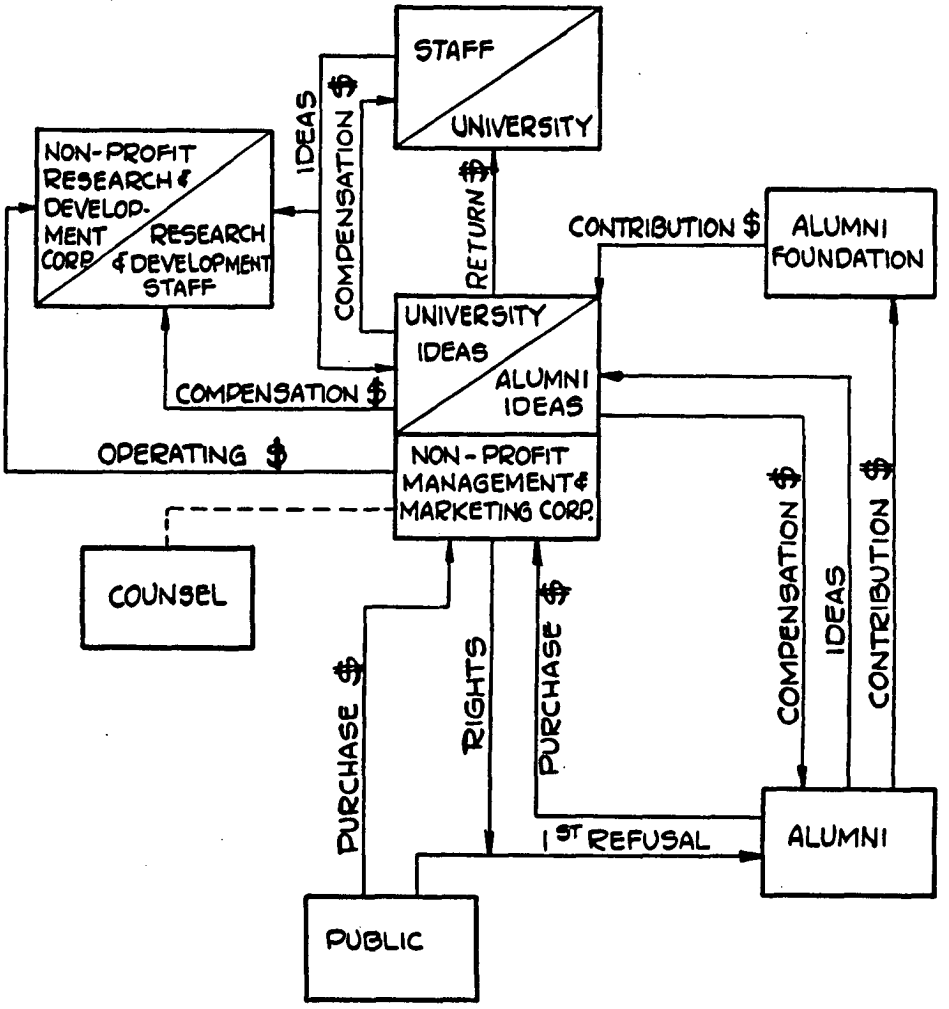
CHART II



Operation under this new step in a future research program is diagrammatically illustrated in Chart III where the research and development corporation is shown as an adjunct to the institute's staff in developing original research. The incentives in the form of compensation return for new ideas developed by either staff should be substantially the same in each case and may take the form of a percentage of royalties.

Finally, as an ultimate goal, one may envisage the alumni becoming so interested in the possibilities of the institute's research program and the profits to be derived from it as to form an actual profit-type corporation to acquire the products of research of the institute's staff, its research and development company, other alumni and their companies and employees. In view of the mutually preferential relationship between such a profit corporation on the one hand and the institute and its affiliated organizations on the other hand and the speed and flexibility of operation

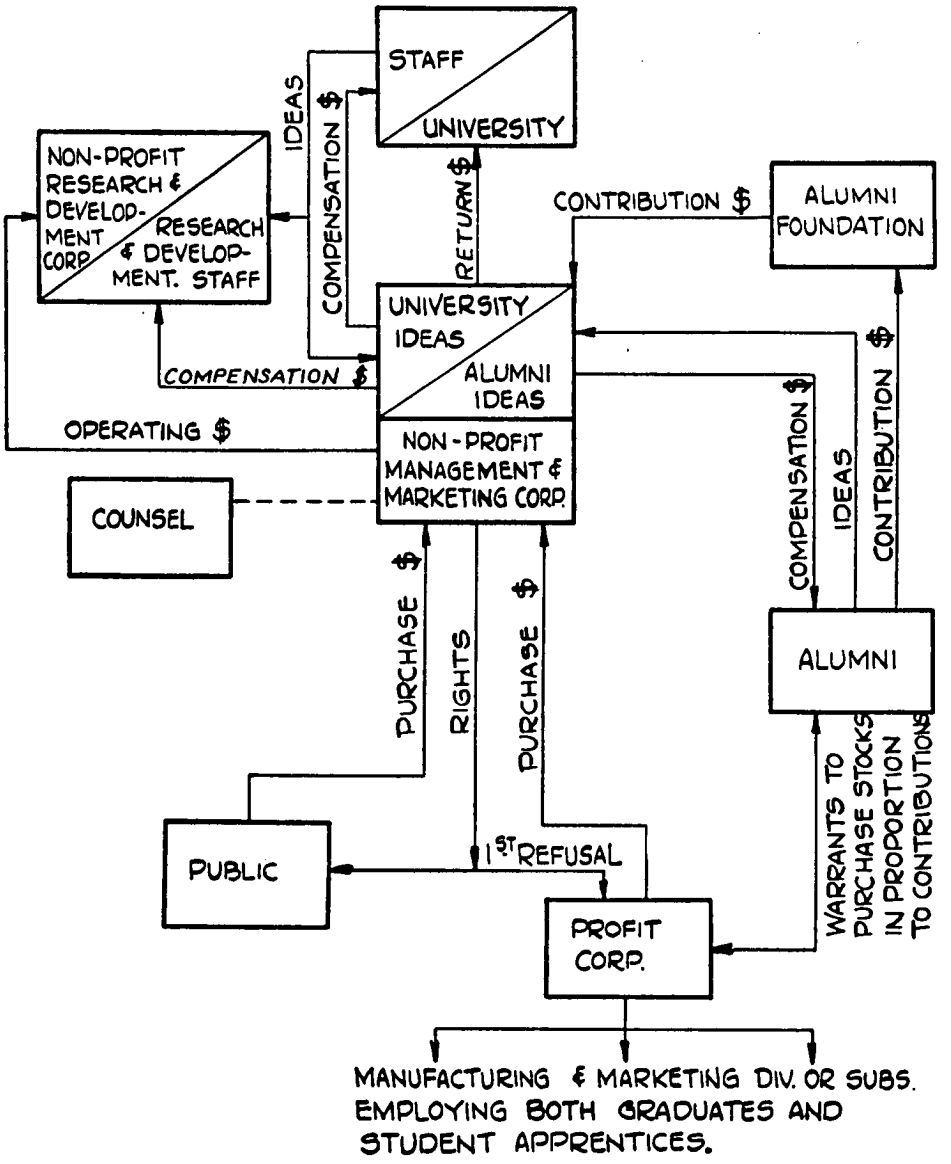
CHART III



made possible, it is reasonable to anticipate generous royalty income by the institute and an abundance of profitable developments acquired by the profit corporation. Such a corporation need not be limited in its activities. They would include acquisition of research discoveries, manufacturing, marketing, carrying discoveries through the pilot plant stage or further, market research and even the resale of patents, knowhow, trade secrets, or a subsidiary company to alumni or others, sale of services to alumni and others, and everything relating to science, engineering, and research that could be done in co-operation with the institute and publicized in the institute's alumni periodical.

Operation under this final phase is illustrated in Chart IV which shows that the right of first refusal is transferred to the profit corporation which

CHART IV



was capitalized by the alumni, each of whom received warrants to purchase stock in such corporation in proportion to their contributions to the foundation. It is contemplated that the profit corporation would develop manufacturing and marketing divisions or subsidiaries in connection with acquired products of research and development. These divisions and subsidiary companies could ultimately be integrated into an apprentice-educational program which would supplement the educational program at the institute.

Throughout all phases of the research programs there are opportunities for the institute and its alumni to be mutually helpful and to improve the alumni relations. Every research development by the institute, its affiliated organizations and by alumni reported in the alumni periodical represents an opportunity by other alumni to participate in the program, to acquire rights in new developments or to obtain an outlet for their own developments.

MARSHALLING THE ASSETS OF A TECHNOLOGICAL INSTITUTE IN SUPPORT OF RESEARCH

A technological institute or university science division has many assets and facilities which might be tapped for the support of an enlarged research program in the geographical area of the institute and employing the physical plant of the institute. Better established technological institutes and scientific schools are fortunate in already having alumni who have distinguished themselves in science and industry and in being the suppliers of scientific and technical personnel to many of the great and outstanding manufacturing and research laboratories. All these facilities and in addition the general body of alumni, the entire faculty, the staff, the graduate students, the subscribers to the institute's industry-sponsored funds and various other supporting funds, and the alumni magazine itself should be utilized in supporting and promoting the institute's research program.

Whatever type of organization is employed for administering the program, all of these facilities and assets should be employed in carrying on the research projects, in finding specific sponsors where sponsorship is still required, in disseminating knowledge of the availability of research results, in finding licensees where the research results are patentable, in supplying information as to patent recognition where patents have been issued and in increasing recognition by publication otherwise where the nature of the research is such that patent protection cannot be obtained.

A technological institute's alumni magazine usually reaches many of the outstanding industrialists and engineers of the nation and particularly of the industrial centers of the nation. Such a magazine could well be utilized in supporting the program by carrying a bimonthly or quarterly list of patents issued to the institute's faculty, students and staff, also alumni, and a column listing the outstanding research results or scientific discoveries for the period subsequent to the previous issue of the magazine, whether patented or unpatentable. This recognition in the alumni magazine would be concerned primarily with the unsponsored research, although the results of sponsored research could be included where approved by the sponsors.

Results of some of the institute's research projects such as those in astronomy and mathematics, for example, may not lend themselves to patent protection or to commercial utilization. On the other hand, in other departments such as mechanical engineering, electrical engineering, metallurgy and chemistry, and chemical engineering, a substantial proportion of the projects may have sufficient relation to industrial and commercial end uses to make valuable, even those patents applied for originally in large part to provide recognition to the inventor.

Even in the pure science research fields of astronomy, mathematics and physics there may be patentable by-products having valuable use also in industry. Apparatus and methods devised for research purposes may frequently be adaptable for use in industry to accomplish industrial production and control. Similarly, the "knowhow" involved in abstract concepts and techniques of pure science may be converted to material value by contractual arrangements even though the usual forms of statutory protection are not readily available.

It is quite possible that only one idea or less for each ten submitted will be patentable. Some may be susceptible of protection by other legal means such as contract, copyright, common law rights against misappropriation of intellectual property, etc.

In the relationship between the alumni and the research and patent development program of the institute, the scientific school or technological institute has the opportunity of pioneering an entirely new concept. Using the alumni to promote research and exploitation of patentable results of research—using the research and the patentable results to help the alumni —a unique plan for improving relations between a technology educational institution and its alumni. Many educational institutions have placement programs for employment of young alumni and older ones who need a change of employment, but none is known which has a continuous placement program for ideas of institute staff and alumni and development and manufacturing plant dollars of alumni and their companies.

Can an institute and relations with its alumni fail to benefit if the institute pioneers and brings together on a continuous basis the alumni money which the institute needs and the ideas and inventions and information as to manufacturing outlet which alumni and their companies need?

INITIATING A PATENTING PROGRAM

The professors of the institute and its research staff should be acquainted with the value of the patent system in advancing human progress by bringing knowledge of innovations to possible users, to other interested parties and to those who may be inspired to make improvements and

radically different substitutes, establishing new industries and opening up new avenues of research. It should be pointed out, furthermore, that patenting is not only entirely professional but fully in accord with the dignity of a scientist because patented ideas are more likely to become widely disseminated, to be developed and to go into use than those which are merely described in publications. Patents are read widely and by many who seldom see a scientific publication, because patents are well classified. Patented inventions are more likely to be extensively used than those described in publications but with no one having any financial or industrial incentive for undertaking the expensive investment for economical production and adequate commercial acceptance, and with no one having the right to exercise sufficient control to avoid having the idea employed by charlatans or contrary to the good reputation of the inventor.

CONCLUSION

The circumstances under which research work is done at a well organized technological institute give good prospects of original creative processes and apparatus developing which will include those that can go into commercial or industrial use and help support the program financially, possibly with good fortune, yielding enough revenue from some developments to build up the endowment for teaching salaries.

Moreover, in any event a consistent program of patenting even the more modest achievements will add to the recognition of faculty and research staff and bring knowledge of the institute's patentable developments before a widened circle of engineers and leaders in science and industry as well as enabling the institute to provide service to alumni which will bring to even higher levels the loyalty and support of the institute's alumni.

One may envision a new approach to the college research problem by welding together effective teaching, research integrated into the teaching program while contributing to advancement of science and the scientific method, and financial support for the research program. A technological institute's special facilities and industrial-connection assets enable the institute to marshal the power of its trustees, faculty, industrial sponsors and alumni in a program which will both provide incentive and recognition to its discoverers in research and insurance of retention of financial values of research to further the objectives of the institute.

ANNOTATED BIBLIOGRAPHY

Recently Published or Reported Material Relating to the Foundation's Work

BOOKS AND PAMPHLETS

Casey, William J. *Forms of Business Agreements with Tax Ideas.* New York: Institute for Business Planning, Inc. 718 pp.

Includes business agreements on a large number of subjects and checklists of legal requirements and negotiating points. The author, particularly interested in tax planning, also lists tax considerations involved in the business agreements. The book contains patent, trademark, and copyright forms.

Jones, Stacy V. *You Ought to Patent That.* The Dial Press, Inc., New York, 1962.

Addressed primarily to the "prospective inventor and patentee," the author tells in lay language what may be expected "not only as an independent but also as an employee of industry or government." Mr. Jones has published a patent column in the *New York Times* since 1952, and prepared pamphlet material for certain educational activities of The Patent, Trademark and Copyright Foundation directed to the lay public. The book is divided into three parts: The Inventor and the Process of Invention, The Inventor and the Patent System, The Inventor and the Market. The ten chapters and the numerous sections carry informative and colorful titles. An appendix of Practical Hints for Independent Inventors is also included. Simple newspaper prose and interesting anecdote make this book an unusually good choice for the general reader.

Knorv, K., and Baumol, W. J., eds. *What Price Economic Growth?,* Prentice-Hall, Englewood Cliffs, 1961.

A collection of papers by Princeton professors, including one by J. Markham, a member of the Foundation's research staff, on "Growth Incentives and Antitrust Policy," pp. 92-111.

NASA-Industry Program Plans Conference, July 28-29, 1960

A series of papers presented at the First NASA-Industry Program Plans Conference, covering administration, advanced research, launch vehicles, flight and life sciences. One paper, by G. D. O'Brien, refers to "NASA Patent Policy and Procedure," pp. 100-105.

The Rate and Direction of Inventive Activity: Economic and Social Factors, Princeton University Press, Princeton, 1962.

A volume comprising papers presented at a conference held in 1960 under the joint sponsorship

of the National Bureau of Economic Research and the Social Science Research Council. The papers are grouped under 6 headings: Problems of definition and measurement; theory and macroquantitative analysis; case studies; nonmarket factors; efficiency in research and development; and welfare economies and inventive activity. The Foundation's research staff is well represented among the contributors: B. S. Sanders, I. H. Siegel, and J. W. Markham.

Strengthening The Behavioral Sciences, Statement by the Behavioral Sciences Subpanel, The Life Sciences Panel, President's Science Advisory Committee (The White House, Washington, D. C., 1962). U. S. Government Printing Office.

The Statement consists of three parts: Introduction, Development and Present State of Behavioral Science, and Recommendations. The Introduction refers to the federal government's obligation to support and use "modern science in the national interest," and briefly touches on certain aspects of the behavioral sciences such as its "relatively recent development," its fundamental and applied aspects, the "enormous scope and variety of its problems and methods," the "impact of the behavioral sciences on our society," and the need to apply "the same policy guidelines that promote growth in any science."

To provide a background for more general discussion and for the recommendations the report (the second part) presents "a sequence of strategically located examples, illustrating, in active areas of behavioral-science research, both successes already attained and challenging problems that can be attacked now or in the near future." Recommendations include General Education on Behavioral Sciences, Specific Training of Behavioral Scientists, Systematic Collection of Basic Behavioral Data for the United States, Collection and Processing of Data on Other Societies and Cultures, Larger Units of Support for Basic Research. The subpanel consists of nine representatives from American universities, three Consultants and one Technical Assistant.

PERIODICALS

American Patent Law Association Bulletin (January-February 1962).

Includes an address by Commissioner Ladd on the "Proposed New Building for Patent Office" and a panel discussion "on the aspects of a trial in a patent case from the plaintiff's and defendant's point of view." Mr. Henry R. Ashton spoke for the plaintiff and Mr. John W. Malley for the defendant on "Pre-trial Discovery Under the Federal Rules." Mr. Carlton Hill spoke on "Selection and Effective Use of an Expert Witness for the Plaintiff" and Mr. Melvin R. Jenney considered the same topic from the point of view of the defendant. The final speakers were Mr. James M. Naylor and Mr. Arthur W. Dickey who were assigned "Briefing and Oral Argument." Mr. Naylor discussed the subject from the standpoint of the plaintiff and Mr. Dickey from that of the defendant. Also in this issue are notes on Local and Regional Patent Law Associations, Patent Office Affairs, Copyrights, and Foreign Practice.

American Patent Law Association Bulletin (March 1962).

Includes Association Committee reports and notes on Association

activities. The Bulletin also devotes separate sections to Local and Regional Patent Law Associations, Patent Office Affairs, Copyrights, Foreign Practice Notes, Editorial Notes, Legislation, and Positions Available. The President's Page is written by President John Rex Allen on the subject of amending APLA Canon 27, which permits the listing of APLA "members in classified telephone directories under the heading 'Patent Lawyers'. . . ."

Bamberger, Fred H., "The New German Patent Court and Its Functions," *Journal of the Patent Office Society,* Vol. 44, No. 3 (March 1962) pp. 176-183.

Six purposes and the legal means to be used in patent, utility patent and trademark matters are outlined by the author, particularly with respect to the new Federal Patent Court established in West Germany. This court has taken "over the functions of the Boards (or 'Senates') of Appeals and the Boards (or 'Senates') of Nullity of the Patent Office." A glossary is included.

Baum, Daniel Jay, "Truthful Disparagement under the Federal Trade Commission Act," *The Trademark Reporter,* Vol. 51, No. 11 (November 1961) pp. 1081-1096.

"Indeed, in accordance with the intent of Congress, the Act [Federal Trade Commission Act] has been broad enough to strike at those who have retreated under its initial onslaught to more subtle forms of deception: the *ad hominem* argument; the technical truth; the irrelevant comparison." The author discusses the "salient conditions that an advertiser must consider before he speaks to others of his competitors."

Beran, Martin J., "The 'In Commerce' Requirement in the Registration of Service Marks," *The Trademark Reporter,* Vol. 52, No. 1 (January 1962) pp. 1-12.

Points "out the scope of the requirement that services be rendered 'in commerce' under the present Patent Office practice." The author suggests "legislation defining use 'in commerce' as including the rendering of services solely within a local area, where services are advertised in interstate or foreign commerce, and where the recipients of the services are citizens and domiciliaries of other jurisdictions who travel, in interstate or foreign commerce for the purpose of receiving the benefits of the performance or rendering of the service."

Daedalus (Spring) 1962.

This issue of the quarterly journal of the American Academy of Arts and Sciences is devoted entirely to "Science and Technology in Contemporary Society." Among the major papers is one by L. S. Kubie on "The Fostering of Creative Scientific Productivity."

Davis, A. S., Jr. "The Patent Brouhaha," *International Science and Technology* (May 1962) pp. 60-65.

Discusses patent problems and proposed solutions.

Forman, Howard I., "Forgive My Enemies for They Know Not What They Do," by I. M. N. Invention, *Journal of the Patent Office Society,* Vol. 44, No. 4, pp. 274-282.

Argument in support of the patent system presented in the form of an allegory. The author writes the paper from the point of view of the invention . . . as though it were telling the story itself. The

paper includes a statement in support of two bills relating to inventions introduced (H.R. 6548 and 6532) in the 87th Congress in April 1961 that would "leave a defeasible title to the inventions in the contractors subject to the condition that the title-holders work the inventions within five years after patents thereon are issued, or within ten years after the inventions are actually reduced to practice, whichever comes first. Failure to acceptably work the inventions will cause the title to revert to the government, and then interested applicants will be given a chance to get the exclusive right to practice the inventions if they agree to work the new ideas."

Frayne, Gabriel M., "Report of the Meeting of the Executive Committee of the International Association for the Protection of Industrial Property (A.I.P.P.I.) in Ottawa, September 1961," *The Trademark Reporter*, Vol. 51, No. 11 (November 1961) pp. 1097-1102.

"The Executive Committee considered two broad categories of subjects: (I) the general direction and nature of the future work of the A.I.P.P.I., and (II) the specific questions which had been put by the London Congress on the Agenda of the Executive Committee meeting in Ottawa." Although the work of the A.I.P.P.I. has in the past been devoted to the evolution of the International Convention, the "Executive Committee . . . adopted a resolution affirming its interest in industrial property developments whether within or outside of the International Convention, and . . . drew up a ten-item Agenda for the next Congress, to be held in Berlin in May 1963."

Frishauf, Stephen H., "Facts and Fiction about Maintenance Fees," *Journal of the Patent Office Society*, Vol. 44, No. 4 (April 1962) pp. 219-226.

The author favors maintenance fees and offers suggestions "to overcome some of the difficulties inherent in a periodic maintenance fee system and to dispel some of the doubts and misconceptions which may arise as to the attorney's function under such a system." The author concludes: "Given the choice whether to spend more money at the time of filing (and possibly making a wrong decision not to file at that time) or spending money for maintenance fees after the patent had a possibility to prove itself, it is felt that the latter is of a greater advantage. The mechanics of periodic payments are simple—a card index is sufficient. . . . The decision as to whether to maintain or drop a patent can be made on the basis of inquiries reduced to routine questions circulated from time to time among appropriate personnel within the organization of the patentee, if the patentee or the patent attorney does not have sufficient personal knowledge to make, or recommend a decision himself."

"The Investigation into Administered Prices in the Nation's Drug Industry—Pro & Con," *Congressional Digest* (February 1962) pp. 35-64.

A discussion of the background, issues and positions based primarily on excerpts from statements made before the Senate Subcommittee on Antitrust and Monopoly and on majority and minority Subcommittee reports.

Jacobs, Morton C., "Abandoned Applications As References," *Journal of the Patent Office Society,* Vol. 44, No. 3 (March 1962) pp. 184-190.

The author states that Ex parte Lipkin 129 USPQ 427 "expands the use of an abandoned patent application as a reference for matters of public knowledge. The decision is especially significant in that it runs contrary to a Supreme Court decision, a C.P.A. decision, a previous Board decision, and a ruling in a Commissioner's Circular." Mr. Jacobs is of the opinion that the following from an Official Circular (Manual of Patent Examining Procedure Sec. 711.06) is the correct interpretation:

"If [the abstract is] properly prepared, it should not be necessary to refer to the complete application file, but in any case in which material in the application file is used as a reference, it should only be used as evidence of matters of public knowledge on the date of publication of the abstract."

The author distinguishes "evidence of matters of public knowledge" from the "absolute bar of 'public knowledge' itself."

"Laboratory Tests As a Reduction to Practice—*Elmore* v. *Schmitt* 125 USPQ 653," *Journal of the Patent Office Society,* Vol. 44, No. 2 (February 1962) pp. 91-95.

"Where laboratory tests are to be relied upon to show reduction to practice, this case seems to impose more stringent requirements than before."

McAuliffe, Jeremiah D., "Consideration of Inter-American Conventions," *The Trademark Reporter,* Vol. 52, No. 1 (January 1962) pp. 25-34.

Brief Historical examination of international industrial property laws, particularly those relating to trademarks. The provisions of the Inter-American Convention for Trademarks and Commercial Protection of 1929 are considered. The author states that the "terms of the 1929 Convention have been the most satisfactory for international trademark protection among the Americas to date." He believes that Dr. Ladas's suggestion "that national groups of the A.I.P.P.I. . . . formed in the Latin American countries . . . to . . . influence the respective Governments toward the adherence to the Paris Convention" is a good one and "more practical perhaps than many others."

Mann, John M., "Capital Gains Treatment of Patent Transfers," *Journal of the Patent Office Society,* Vol. 44, No. 2 (February 1962) pp. 97-115.

This paper was adopted from a more comprehensive paper presented at a Conference . . . at The John Marshall Law School in February 1959. The author considers the Law prior to and after 1954, particularly the effect of Section 1235 of the 1954 Code. He concludes that "the courts and Congress have to date favored the inventor and his 'buyer' with regard to the tax aspects of patent transfers. But the high costs of Government will make it increasingly necessary to restrict as much as possible exemptions from full taxation; . . ."

Mayo, Louis H., "The New Technology and Multi-National Cooperation," *Minnesota Law Review,* Vol. 46, No. 5 (April 1962), pp. 869-912.

Dean Mayo considers the effects of the advances in technology and science on international cooperation, the implications of such ad-

vances for world peace. He concludes: "This paper has focused upon modern technological innovations, requiring some degree of multi-national cooperation for their effective use, which might be employed to a fuller extent in furthering regional and international cooperation. Constructs of future developments have been emphasized as a means for defining those conditions under which the technological factor might act as a cohesive element in multi-national affairs, or contrarily, those situations wherein the technological factor may tend to produce tension and conflict. In the contemporary world, uncontrolled or misunderstood scientific and technological developments can invite chaos by encouraging arbitrary, uninformed decisions on complex matters of crucial importance. Hence, progress toward a peaceful world order requires that we condition our thinking to the major social movements and trends, including scientific and technological advance, if we are to formulate useful constructs of impending events and adopt appropriate future-oriented programs. A systematic model-projection approach should also lead to a more intelligent and creative application of the norms and principles of international law to the over-all strategy for advancing multi-national cooperative efforts.

Meller, Michael N., "Toward a Multinational Patent System," *Journal of the Patent Office Society*, Vol. 44, No. 4 (April 1962) pp. 227-273.

Paper presented in a seminar course on International Regional Organizations at The George Washington University. The author discusses the Common Market Plan, its problems, the problems of U. S. participation, including the Constitutional question. He concludes: "The Common Market planners consider their impending industrial property legislation necessary in order to advance the goals of the European Economic Community. Messrs. Herter and Clayton suggest that the United States must form a trade partnership with the European Common Market and take the leadership in further expanding a free world economic community. President Kennedy seems to agree, but appears to be willing to do so only gradually. If this is the trend of policy, then adjusting our industrial property legislation so that we may participate in a European patent may be an important step forward in our gradual economic participation in a wide-ranging Atlantic Alliance. This would be but one step, however, a very important one, in assuring the economic supremacy of the Western nations."

Miller, Alfred L., "The Patent: Chemical Literature," *Journal of the Patent Office Society*, Vol. 44, No. 2 (February 1962) pp. 133-141.

The author charges that patent claims are often "uncommunicative" and suggests a review of the style of writing them. Two examples of rewriting claims (as used in the Chemicals Research Division of Esso Research and Engineering Company) to improve communication are provided by the author.

Nelson, R. R., "Uncertainty Learning, and Economics of Parallel Research and Development Efforts," *The Review of Economics & Statistics*, Vol. 43, No. 4, (November 1961) pp. 351-364.

A discussion of advantages of pursuing multiple paths by different inventors in R&D effort. Also economics of scale in R&D.

Panel Discussion of the Institute of Trade Mark Agents, London "Brains Trust Meeting," *The Trademark Reporter,* Vol. 51, No. 11 (November 1961) pp. 1103-1128.

". . . a verbatim transcript of a panel discussion before The Institute of Trade Marks Agents . . . a few of the remarks may have reference to matters not entirely familiar to all of our American and foreign readers. The Editors believe that the entire discussion is of sufficient general interest to warrant full reproduction."

Prager, Frank D., "An Award and a Law Obtained by Caron de Beaumarchais," *Journal of the Patent Office Society,* Vol. 44, No. 3 (March 1962) pp. 147-174.

Primarily concerned with the priority action and award to Caron, a young watchmaker, by the French Academy of Science in 1753-54. An edited text of the Commissioners' Report, subsequently adopted by the Academy, is included in this paper. The success of Caron as inventor, author, merchant, and "fighter for intellectual property" is recounted. "By an act of 1793 it [the National Assembly] recognized the intellectual property of authors more broadly. . . .They [the acts] marked the end of the period when each kingdom and republic had successfully asserted a power to grant or withhold the various privileges as a matter of sovereign grace. . . . It is of course known that at substantially the same time a similar claim began to be recognized also in America, although the statutes of the Anglo-Saxon world continued for more than a century to imitate the former formulas about an applicant 'praying' that a patent be 'granted' and about an administration for which it is merely 'lawful' to make such 'grant'."

Schramm, Frederic B., "Bases for Protection of Intellectual Property Other Than Patents, Trademarks and Copyrights," *Journal of the Patent Office Society,* Vol. 44, No. 2 (February 1962) pp. 75-90.

"These other bases of protection for intellectual property include the areas of trade secrets generally, the protection of ideas by agreement by confidential relationship, and unfair competition protection more broadly." The author suggests that these other bases of protection may be significant in the case of joined counts and in counterclaims.

Seavey, Warren A., "The Restatement, Second, and Stare Decisis," *American Bar Journal,* Vol. 48, No. 4 (April 1962) pp. 317-320.

Professor Seavey discusses the objectives and history of the first and second Restatements. The first Restatement, according to the author, "was intended as a code, in the old form, a set of rules stated with little explanation. . . . But it [the second Restatement] was not to be a code—it was to be written, as are the best treatises—with the rules stated, but also with background, reasons, criticisms, and some references to current statutory material. In addition, the by-products were to be made available."

"Service Mark Registration and Anti-Dilution Protection in New York," *The Trademark Reporter,* Vol. 52, No. 1 (January 1962) pp. 13-24.

This paper, reprinted from the *St. John's Law Review,* Vol. 36, No. 1, (December 1961), discusses "Recent amendments to Article 24

of the New York General Business Law, effective September 1, 1961, [which] have incorporated two basic and important changes in New York's system of trademark registration. First, provision is made for the registration of service marks which previously were not registrable. Secondly, state registration has been definitively eliminated as a *sine qua non* for relief under New York's anti-dilution statute."

Westerman, Lt. Col. G. F., "An Introduction to the Law of Patents," *Military Law Review,* (January 1962) pp. 103-120.

A "rather brief summary of the main aspects of patent law" assigned to provide "sufficient understanding . . . to kindle an interest in patents."

Westerman, Lt. Col. G. F., "Patent Knowledge Viewed as Useful Tool for R&D Personnel," *Army Research and Development,* (December 1961) pp. 14-16; (January 1962) pp. 16-18; and (February 1962) pp. 16-18.

Similar in scope and largely similar in language to preceding item by the same author.

"Who Owns Inventions?" *Industrial Research,* (March 1962) pp. 38-40.

A brief survey of the Congressional debate on revision of Federal patent policy.

NOTES

Journal's New Format

We are pleased to bring the new *Journal* format to the attention of our readers. We are continually alert to improvements in the different elements of *Journal* make-up and content and have incorporated various changes since the first number was issued in 1957. To enhance readability, beginning with the last issue the type size was augmented from ten to eleven point. We are also introducing a new cover design with this issue. The glossy cover stock, another change, will increase durability. An abbreviated reference to major articles will continue to be carried on the cover. We hope you will find the changes add to the convenience and attractiveness of the *Journal*.

Foundation's Film Highly Acclaimed

A movie on the nation's patent system, "Fuel to the Fire," has been highly acclaimed by its users, recent surveys by an independent distributing organization reveal.

The film, which was produced by The Patent, Trademark, and Copyright Foundation of George Washington Univerisity in Washington, D. C., is available to educational institutions, television stations, businesses and other interested organizations.

In a two-month pilot survey, the independent distributor reported that "as an average the film gained higher acceptance from non-theatrical groups such as Lions, Kiwanis, Rotary, etc.," than over 1000 other films which the company distributes. The firm also reported an "almost 100% usage" for the film on television by program directors, while the normal average is a 33% turndown of such films.

The film was produced by the Foundation as a part of its public educational program. Previous research by the Foundation had revealed that the general public knows very little about the nation's patent system.

Lasting approximately a half hour, the film is designed to provide a clear and memorable impression of what our patent system is, how it came to be, why it is important, and what it means to the individual citizen.

Interested parties can obtain copies of the movie at a nominal rental by writing to The Patent, Trademark, and Copyright Foundation, The George Washington University, Washington, D. C.

New Advisory Council Members Appointed

W. Houston Kenyon, Jr. and Theodore O. Yntema have been appointed to serve on the Advisory Council of The Patent, Trademark, and Copyright Foundation. Mr. Kenyon is a partner in the firm of Kenyon and Kenyon, and Mr. Yntema is Vice President and Chairman of the Finance Committee of the Ford Motor Company. The Council consists of representatives from the fields of commerce, education, science, manufacturing, finance, labor and the professions for the purpose of insuring sound and effective advice based upon broad information and wide experience.

Advisory Council Members Appointed to Serve on Executive Committee

J. King Harness and David C. Minton, members of the Advisory Council, have been appointed to the Executive Committee of the Council. Mr. Harness is with the firm of Harness, Dickey, and Pierce, and Mr. Minton is Vice President of Battelle Memorial Institute. During the intervals between meetings, the Executive Committee performs the duties and exercises the powers of the Advisory Council.

English Edition of La Propriete Industrielle Introduced

Industrial Property, an English edition of *La Propriete Industrielle,* is being published monthly by the International Bureau for the Protection of Industrial Property, Geneva, Switzerland. This edition, begun in January 1962, will include texts of treaties, translations of laws, notices of international meetings and literature relating to industrial property. The subscription rate is 33 Swiss francs.

1962
ANNUAL PUBLIC CONFERENCE

To provide our readers who are interested with a copy of the agenda and names of participants, the following is a copy of the program of the sixth Annual Public Conference held June 14th and 15th, 1962, at the Mayflower Hotel in Washington, D. C.

Objectives of the Conference

The Conference is an occasion for the presentation and discussion of the research findings of the Foundation, and discussion of current issues important in the fields of the Foundation's interest from which the Foundation itself may derive guidance on the planning of its future work. The Conference also provides an opportunity for people from different branches of learning and fields of endeavor who have a common interest in the patent and related systems to meet and enlarge their perspectives by participating in the stimulating and productive exchanges and contacts of the Conference.

The research work of the Foundation represents the first university attempt at a comprehensive study of the patent, trademark, copyright and related systems in the United States. This study is systematically planned and coordinated, interdisciplinary in nature and utilizes a combination of specialties such as economics, statistics, psychology, sociology, and law; and empirical, that is, based on the facts gathered by the staff on the actual operation of the systems.

In attendance at this sixth Annual Public Conference devoted to the International Implications of Industrial Property will be key representatives from the different fields of activity throughout the nation: commerce, education, science, manufacturing, labor, finance, and the professions.

In keeping with the educational purposes of the Foundation, arrangements have been made for recording the Conference and for subsequent radio broadcast.

THURSDAY, JUNE 14

10:00 a.m.—1:30 p.m.

REGISTRATION

1:30 p.m.—5:30 p.m.

FOUNDATION RESEARCH REPORTS: UNITED STATES INDUSTRIAL PROPERTY SYSTEMS IN THE COMPETITIVE WORLD CONTEXT

Foundation Officers and Representatives

O. S. COLCLOUGH, Director, Moderator
L. JAMES HARRIS, Executive Director
ROBERT C. WATSON, Chairman Advisory Council
DAVID L. LADD, Commissioner of Patents, Ex Officio Member Advisory Council

KEYNOTE ADDRESS: S. CHESTERFIELD OPPENHEIM, Adviser on Research

PRESENTATION OF FINDINGS:

Research Staff Participants	*Areas of Interest*
JOSEPH ROSSMAN	Patent Policies for Employees
DONALD S. WATSON MARY A. HOLMAN	Government Patent Policies
BARKEV S. SANDERS	Trends in Invention Here and Abroad
GERARD J. WEISER	European Common Market: Patent and Antitrust Aspects
P. J. FEDERICO	Comparative International Patenting Statistics
IRVING H. SIEGEL	Competitiveness of Small Business in Foreign Markets
ROBERT B. BANGS JOHN F. CREED	Taxation of U. S. Income from Foreign Sources
GEORGE E. FROST	Competitive Research Activity: U. S. and Abroad
JESSE W. MARKHAM	Executive Decisions and Policies

U. S. S. R.: A NEW FACTOR IN INTERNATIONAL PATENT RELATIONS?

H. J. RAND, President, Rand Development Corporation
HERSCHEL F. CLESNER, Assistant Counsel, Subcommittee on Patents, Trademarks, and Copyrights, U. S. Senate Committee on the Judiciary
LEON M. HERMAN, Senior Specialist, Soviet Economics, Legislative Reference Service, Library of Congress

7:30 p.m.

RECEPTION

8:30 p.m.

DINNER, HONORING VANNEVAR BUSH, noted Scientist, Inventor and Public Servant the recipient for 1961 of "The Charles F. Kettering Award for Meritorious Work in Patent, Trademark, and Copyright Research and Education."

Presentation of the Award and Acceptance

FRIDAY, JUNE 15

9:30 a.m.—1:00 p.m.

CURRENT ISSUES PANEL: INTERNATIONAL OUTLOOK ON INDUSTRIAL PROPERTY

JOHN C. GREEN, Consultant to the Foundation, moderator

SPEAKERS:

Implications of the Common Market

PRIVATE PRACTICE: LEONARD J. ROBBINS, Langner, Parry, Card and Langner, New York, New York
GEORGE NEBOLSINE, Coudert Brothers, New York, New York

EUROPEAN ECONOMIC COMMUNITY: NORBERT KOCH, Member of Directorate-Générale de la Concurrence, Commission of the European Economic Community

FOREIGN GOVERNMENT: H. VAN BLANKENSTEIN, Economic Minister, Netherlands Embassy

Implications of the Alliance for Progress

PRIVATE PRACTICE: WALTER A. SLOWINSKI, Baker, McKenzie and Hightower, Chicago and Washington, D. C.

U. S. GOVERNMENT: JOHN M. CATES, JR., Deputy Director for Inter-American Regional Political Affairs, U. S. Department of State; Alternate U. S. Representative on the Council of the Organization of American States

INTERNATIONAL AGENCY: PEDRO IRANETA, Secretary, Inter-American Development Bank, Washington, D. C.

Implications of Programs to Expand United States Foreign Trade

U. S. GOVERNMENT: WILLIAM B. DALE, Deputy Assistant Secretary for International Affairs, U. S. Department of Commerce

FOREIGN ORGANIZATION: HAJIME WILLIAM TANAKA, Special Counsel, United States-Japan Trade Council

1:00 p.m.

ADJOURNMENT OF CONFERENCE

Price Fixing in Great Britain with Some American Parallels

MICHAEL BURNSIDE *

SUMMARY

THE LEGAL TREATMENT OF PRICE fixing both by individual suppliers and by groups of suppliers has evolved in a substantially different manner in Great Britain as compared with the United States. The development and present state of this branch of British law is explained in the present article as part of the general development of Anti-Trust law in Great Britain. Price fixing with respect to patented goods is considered separately and their special treatment in British law is explained. Parallels and contrasts are drawn with American law to emphasize the distinctions.

THE FOLLOWING TWO QUOTATIONS will provide an apt illustration of a fundamental difference between the development of British and United States law on the subject of price fixing.

"We recommend that no action should be taken which would deprive an individual producer of the power to prescribe and enforce resale prices for goods bearing his brand. . . . We therefore recommend that steps be taken to render illegal the application of sanctions which extend beyond the remedies open to an individual producer for any breach of resale price maintenance conditions." [1]

"It has been held too often to require elaboration that price fixing is contrary to the policy of competition underlying the Sherman Act and that its illegality does not depend on a showing of its unreasonableness, since it is conclusively presumed to be unreasonable." [2]

The first quotation is taken from the report of an official inquiry in Great Britain in 1949. The second is from a Supreme Court decision in 1956 and refers to a U. S. Statute of 1890. Both countries have considered the two broad propositions of horizontal or collective price fixing, that is agreements between suppliers as to the prices at which their goods are to be sold and vertical price fixing, that is the power of an individual supplier to control the prices at which his goods are eventually sold to the public. In the United States it has been held that as long ago as 1890

* Mr. Burnside is an associate of Langner, Parry, Card and Langner, New York, N. Y.

the Sherman Act [3] in Section 1 decided that horizontal agreements to prescribe and enforce prices were per se illegal.[2] Vertical price fixing was made most difficult by a series of Supreme Court decisions. Thus in 1911 [4] it was held that a supplier could not contractually engage his dealers as to the prices at which these dealers would sell to retailers. In the Colgate case [5] it was held that it was not objectionable for a supplier to announce, in advance, prices at which he wished retailers to sell his goods and to refuse to deal with dealers and retailers who did not conform to these prices. The effectiveness of this ruling was cut down by later decisions. Thus one held that if the supplier systematically policed his retailers by placing trap orders and using information from non-price cutting retailers this was not permissible.[6] Lately it has been said that a supplier may not cut off retailers by supplying to wholesalers the names of price cutters who should no longer receive the supplier's goods. This was an unallowable conspiracy with the wholesalers.[3]

Only statutory changes saved vertical price fixing in the form in which we know it today. Thus in 1937 Congress passed the Miller-Tydings Act [8] as an amendment to the Sherman Act. Broadly this held that if a State law permitted vertical price fixing in intra-state trade, this would also be permissible in inter-state trade.

The development of this branch of the Law in Great Britain has been quite different. Before 1956 sellers were free to arrange both horizontal and vertical price fixing schemes. There was no broad power to enforce such schemes through the Courts, but there was substantial freedom for private enforcement means. Such a big dissimiliarity in the development of the laws of two countries with a common legal tradition is quite surprising. This paper will survey the development of British law and compare and contrast it with the development of American law. Differences in basic thinking between the two countries will be pointed out. Provisions which give a patentee special rights will also be explained. As of the present time, there are still significant differences in the law of the two countries and it is open to debate as to which country is nearer to the ideal solution, if there be one.

It will be seen that in both countries the rights of a patentee are afforded special treatment. In which country a patentee has been better treated by the law is a question which might be answered differently depending on the time the question is asked. However, at the present time, a British patentee probably enjoys a more favoured legal position than his American counterpart.

The development of British law may conveniently be segregated into three periods of time—prior to 1948, 1948-1956 and 1956 down to the present day.

THE PERIOD PRIOR TO 1948

From the seller's point of view this was the period of freedom. Individual resale price maintenance agreements were valid as between the original parties to the sale of goods [9] although they were not generally enforceable, patented goods excepted, against anyone not a party to the agreement.[10]

In respect to patented goods it has been held as long ago as 1899 [44] that patented goods were a special class of chattels. In the normal sale of chattels any restrictions contractually agreed between a manufacturer and his immediate vendee, e.g. a wholesaler, are not binding on a purchaser from this vendee, e.g. a retailer. However, if the chattel were patented, a patentee might sell it with a license limited in the sense that he had fixed the price at which it could be offered to the public. Any intermediate vendee who sold it in breach of this condition was an infringer of the patent provided that he had notice of this limited license. This decision has been followed in subsequent cases.[45] In a very recent case [46] plaintiff tire company sold their tires to dealers. These dealers in turn sold tires to retailers. The defendant retailer bought tires from a dealer and then sold them to the public at a price below that fixed by the patentee who was the plaintiff tire company. The plaintiff had issued price lists setting forth prices at which his tires should be sold to the public and stating that the tires were manufactured in accordance with certain British patents. The price lists contained the warning that any sale below the list price was unauthorized and was an infringement of the patents. It was shown that the defendant was aware of the provisions of this price list. Accordingly the Court held that his sales at below list price were an infringement of the patent.

However, the fact that only a patentee could fix the price at which a remote vendee might sell his goods was not a significant disadvantage in many industries because there were few limitations on collective private enforcement means. Thus one seller could engage in joint action with other sellers of similar goods so that they could mutually agree on prices to be charged and on concerted action against a retailer who did not follow their command.[11] In other words, they were free to engage in horizontal price fixing schemes. These were broad freedoms. Thus a trade association could place a person on a stop list if he sold goods above or below a published list price and no other member of the trade association could thereafter supply goods to him.[11] Exclusive dealing, collective boycotts and aggregated rebates were not illegal. Official inquiries in 1920 and 1930 had both concluded that these types of practice were in the

public interest. Thus in 1920 an official inquiry [12] expressed its general conclusion:

> The system of fixing retail prices . . . is . . . to the advantage of the (public) in that (1) in times of scarcity it does in fact check the undue inflation of prices (2) in times of plenty it tends to ensure to all classes, including labor employed in manufacture and distribution, a fair rate of remuneration for the services respectively performed by them.

In 1930 [13] another official inquiry on the same subject stated among its general conclusions that they "did not regard the price maintenance system as free from disadvantages from the public point of view, but are not satisfied that if a change in the law were made there is any reason to think the interests of the public would be better served."

To American ears accustomed to such pronouncements as "Congress has not left with us the determination of whether or not particular price fixing schemes are wise or unwise. . . . The Sherman Act . . . establishes one uniform rule" [14] this may seem strange but the official inquiry of 1930 [13] had specifically noted as one of their general conclusions that they were not authorized to consider the wider problem of monopolistic combinations and trusts. Perhaps this was a pity. The type of trade practice that developed may be vividly illustrated by a short account of the activities of the British Motor Trade Manufacturers Association.[15] This trade association undertook to enforce prices laid down individually by its member motor vehicle manufacturers. A veritable Star Chamber procedure was provided. On notification to the Association that a retailer had departed from a fixed price, he was summoned before a Price Protection Committee. Proper notice was given and the offender could be represented by Counsel. If he were found guilty he could be fined or placed on a stop-list. The latter penalty was a very drastic one as no manufacturing member of the B.M.T.M.A. could thereafter supply goods to such a retailer. There was a right of appeal but this was only to another Committee of the Association. Great care was taken to see that the procedure was fair and as judicial as possible but there was thus provided a private Court regulating trade practices of an entire industry.

Various forms of tendering agreements were also legal. It is perhaps unnecessary to set out the different techniques used, but to give one example, members of a trade association might submit their bids for a job to the secretary of the association. This officer would then decide on an identical tendering price for all members or which member should submit the lowest bid.[16]

This was too good, or too bad, to last. Self-evidently the period prior to 1948 was a period of inquiry only. 1948-1956 was also basically limited to inquiries but the conclusions drawn were more radical and the wind of change was obviously rising.

1948-1956

This period commences with one Statute and one official report. The latter was entitled "Report of the Committee on Resale Price Maintenance" [1] and significantly for the first time in the British development of this subject drew a distinction between horizontal price fixing and vertical price fixing. In discussing the former the Report concluded that some trade associations "have turned price . . . maintenance . . . into a comprehensive scheme for regulating and policing entire industries" (para. 14). It recognized the interest of a producer in the final disposition of his branded products but could not see that this gave him any cause to complain of the way in which a distributor disposed of the products of another manufacturer (para. 143). Not surprisingly the Report concluded by recommending that no action should be taken to deprive an individual producer of his rights to fix prices vertically but that collective sanctions should be made illegal (paras. 163 and 167).

The Statute bore the title "Monopolies & Restrictive Practices (Inquiry and Control) Act, 1948." [17] This was the first British statute to deal generally with the problems of monopolistic control. As compared with American statutes it was a very weak one. The Statute authorized the appointment of a Commission which was purely an investigatory body having the power only to investigate whether monopolistic practices existed in an industry, what effect these had on the public interest (Secs. 3-5), and, if these practices were harmful, it had the power to make recommendations as to what remedy should be adopted. The Commission could only recommend, it could not order any one to desist from any course of action and it could not prosecute in the Courts. Between 1948 and 1955 numerous investigations were made and reports published.[18]

A discussion of many aspects of the work of the Monopolies Commission is beyond the scope of this paper. For our purposes the most significant report was the one entitled "Collective Discrimination: A Report on Exclusive Dealing, Collective Boycotts, Aggregated Rebates and other Discriminatory Trade Practices." [19] This showed that practices that American Courts had on many an occasion condemned, were widespread in British industry. Thus, in the words of the Report: "Smith and Jones agree to enforce collectively each other's resale prices. If Robinson now cuts Smith's prices, both Smith and Jones must refuse to sell to him." Compare this freedom to engage in a collective discriminatory trade practice with the U. S. viewpoint. Speaking in 1959, and reviewing established authority, the Supreme Court said "Group boycotts or concerted refusals by traders to deal with other traders have long been held to be in the forbidden category." [16a] The first case cited by the Court in support of this proposition was decided in 1913.[17a]

Detailed consideration of the conclusions of this last official inquiry is pointless in view of legislation that immediately followed. However, it is significant to record that only six members of the Monopolies Commission were against collective arrangements for the enforcement of resale prices and four were in favour of it. Certainly there was no overwhelming opinion that such arrangements were bad. After this Report was made public, the Government acted quickly. The Report was published in June 1955 and on August 2, 1956 the Restrictive Trade Practices Act 1956 [20] had become law. By this Act, collective enforcement of resale prices was made per se illegal in Great Britain. A comparison of dates may cause an American reader some surprise. There is a difference of sixty-six years between the Sherman Act in the United States and the first British Statute to correspond to it in any way.

RESTRICTIVE TRADE PRACTICES ACT, 1956

On certain issues the Act attempted to be clear, sweeping and succinct. By Section 24, collective agreements or arrangements to enforce resale prices were made illegal. By Section 25 an individual supplier was given power to fix resale prices for his goods and, for the first time, to institute proceedings in a Court for relief against any breach or threatened breach of such a fixed resale price by a retailer or other reseller who was not in contractual privity with him but merely had notice of the fixed or Fair-Trade price.

There is a shadowy ground between Sections 24 and 25. Thus it is still permissible for a trade association to notify retailers that individual members of the association sell their goods with restrictions as to the price at which they may be retailed and that details of these prices may be obtained from the member (manufacturer) concerned. An investigator of the trade association may then place a trap order with a retailer who is suspected of price cutting. The subsequent action can then be brought by the individual supplier [48] who can obtain relief in spite of the fact that the price cutter has received no communication from the individual supplier but is solely on notice because of the circular from the trade association. There is no requirement in Section 25 for privity of contract between the supplier and the retailer. As long as the retailer acquires the goods "with notice of the conditions" he is required to observe them.

There is an interesting parallel here with American law. The Miller-Tydings Amendment [8] to Section 1 of the Sherman Act became law in 1937. It had been thought this validated a supplier's attempt at vertical price-fixing, both when he had an actual signed contract with a retailer and when there was no contract but merely notice of the fixed prices.

However, in 1951 it was held that the non-signer clause of a Fair Trade law was unconstitutional.[21] To overcome this decision the McGuire Act was passed in 1952.[22] This validated the non-signer clauses of Fair Trade Acts, that is, it restored the legality of vertical price fixing where the retailer merely had notice of the fixed price.

The most significant distinction drawn by the Act was between collective (horizontal) agreements as to prices to be charged and collective agreements to enforce those prices. As just noted, the latter were declared illegal but the former were only presumed to be against the public interest. To explain the treatment of such collective agreements as to prices to be charged, it is necessary to discuss briefly some of the principal provisions of the Act.

This provided that certain defined types of agreements (Section 6) should be subject to public registration. Among these were agreements between two or more companies in respect of the prices to be charged, quoted or paid for goods. An obvious loophole was closed by treating agreements or recommendations by a trade association in the same category as agreements between the companies who were members of the trade association. Any such agreement was deemed to be contrary to the public interest [23] unless a Court could be satisfied of one of seven circumstances spelled out in Section 21, sub-section (1) of the Statute. In the cases that have arisen under the Act, the circumstance which defendants have most relied on is in Section 21 (1) para. (b): "that the removal of the restriction would deny to the public as purchasers, consumers or users of any goods other specific and substantial benefits or advantages enjoyed or likely to be enjoyed by them as such, whether by virtue of the restriction itself or of any arrangements or operations resulting therefrom." Other grounds set out in Section 21 were the need to protect the public against defective installation of articles (para. (1)a.); to protect the parties against the activities of a larger competitor who was hindering competition (para. (1)c.); to protect the parties against the dominant effect of a large buyer or seller (para.(1)d.); to protect against unemployment in the trade concerned (para. (1)e.); or to protect the export trade of Great Britain (para.(1)f.).

If the Court could not be satisfied on one of these grounds the Agreement was declared void and the Court could make an order restraining the parties to the agreement from giving effect thereto.

The favoured position of a patentee arises from an exception as to the type of agreement which had to be subject to public registration. Section 8, sub-section 4 reads as follows:

> This Part of this Act does not apply to any license granted by the proprietor or any licensee of a patent or registered design, or by a person who has applied

> for a patent or for the registration of a design, or to any agreement for such a license or assignment, being a license, assignment or agreement under which no such restrictions as are described in subsection (1) of section six of this Act are accepted except in respect of—
>
> (a) the invention to which the patent or application for a patent relates, or articles made by the use of that invention; or
>
> (b) articles in respect of which the design is or is proposed to be registered and to which it is applied, as the case may be.

In terms it will be noted that the quoted passage applies also to registered designs (design patents). There were similar exceptions in respect of know-how agreements, certification trademarks and registered user (license) agreements concerning trademarks (Section 8, subsections 5, 6 and 7).

The quoted statutory language is not the simplest to follow. However, as far as price fixing is concerned it means that an agreement between a patentee and his licensee as to, among other things, at what prices the licensee might sell patented goods was not subject to registration. It was not presumed to be against the public interest and the parties did not have to defend its validity before the Court. This favored position has limitations as will appear later.

Procedurally the Act provided for the appointment of a Registrar of Restrictive Trading Agreements. It was his duty to see that the defined types of agreement were registered and then to bring them before a newly constituted Court called the Restrictive Practices Court for consideration of their validity. The Registrar was given powers to cause compulsory registration of an agreement if registration was not carried out voluntarily (Sections 14-18). Thus his functions have some similarity to those of the Department of Justice under the Sherman Act and the Federal Trade Commission under the Federal Trade Commission Act.

It is self-evident that when a Statute explicitly declares that something is to be presumed to be against the public interest until the contrary is shown, the composition of the Court which has to construe the Statute is important. The point becomes even more significant when the Statute is the first in its field in a jurisdiction and there are no guiding precedents. In providing for the formation of a new Court there was a clear recognition that its decisions would involve matters of social and economic policy and that the lawyer would need assistance from the non-lawyer. Thus, although the Court is a judicial tribunal, it consists for any hearing of a presiding judge and at least two other members (Schedule, Rule 4). These other members are persons qualified by virtue of their knowledge and experience of industry, commerce and public affairs (Section 4). It is only on points of law that the opinion of the presiding judge prevails, otherwise any decision is a simple majority one (Schedule, Rule 5).

British corporations are thus more fortunate than their American counterparts. They can make collective agreements to fix prices and can then attempt to prove that these are in the public interest. Admittedly they are presumed to be guilty of an offense against the public interest unless they show the contrary, but contrast this with the position of a U.S. corporation as evidenced by the Supreme Court view on the subject of conscious parallelism, that is the practice by which one corporation copies the prices of another. Colloquially it may be called "follow-my-leader" pricing. The Supreme Court has said [24] that, as yet, conscious parallelism is not actionable under the Sherman Act. The crucial question is whether the identical conduct stems from independent decision, which is not objectionable, or from an agreement, tacit or express, which is objectionable.

Finally, although it can be argued that this is not an advantage, the Court that sits in judgment on them has deliberately been chosen in such a way that their arguments are considered by persons with experience of industry.

Six years is a very short time in the development of any field of law. The Restrictive Practices Court has summoned a number of trade associations before it to hear them defend their restrictive trade agreements. In nearly every case, restrictions dealing with prices to be charged have been found to be against the public interest and the parties ordered to desist. This in itself is not conclusive of the effect of the Act. The law reports show that some trade associations abandoned agreements before the cases went to trial.[25] There are no reliable figures of how many agreements were abandoned without even reaching registration. Only five years after the Act was passed, the Court could observe [26]: "If a restrictive agreement is such that it could be shown to have produced unduly high profits or high prices consequent on inefficiency, it is, perhaps, unlikely at this stage in the history of the statute and of this court that it would reach a full hearing."

It is interesting to analyze some of the cases to see the arguments advanced by the various Trade Associations and their treatment by the Court. As noted above, Section 21 (1) (b) has been most relied upon by defendants but all the other grounds detailed in this Section have also been brought into the picture.

CASES UNDER THE 1956 ACT

The Linoleum Manufacturers' Association [26] included among its members all the principal manufacturers of linoleum in Great Britain. These were parties to an agreement providing for, among other things, a system of common minimum prices. They defended this agreement on the

grounds that the public benefited because (1) removal of the price restrictions would create instability in the market and would lead to debasement of quality; (2) in times of high demand, the common minimum prices restrained an increase in prices; (3) manufacturers concentrated on quality and service because of the common minimum prices; (4) big fluctuations in price would discourage retailers from holding large stocks; and (5) this would restrict the customer's freedom of choice. They also alleged that removal of the restrictions would cause a drop in export earnings. None of these arguments satisfied the Court, although the opinion stated that there was no evidence that unreasonable profits had been made. Similar arguments have been advanced by similar trade associations with a general lack of success.

The Associated Transformer Manufacturers [27] had an agreement fixing minimum prices. One of the points made in its defense was that they needed protection against any unfair tactics in respect of competitive tendering of the predominant buyer of one class of goods—the nationalized Central Electricity Generating Board. The argument did not impress the Court. A similar point was raised in another case [28] and was also unpersuasive.

Two Associations of Master Bakers were equally unfortunate. In one instance [29] the Court found that a system of recommended maximum prices in effect operated as fixed prices as various manufacturers could sell at lower prices but did not. In another instance [30] the Court found that a system of recommended minimum prices was against the public interest and emphasized the affirmative burden on the trade association to prove its case. "It must always be kept firmly in view that it is to be presumed that freedom from the restrictions struck at by the statute is in the public interest."

Benefit to the public has been argued generally from the presence of price stability. However, this has been decisively rejected. The Court has clearly said that as a general rule price stabilization is not a benefit to the public when weighed against the advantages of a free market.[31] Thus attempts to argue that a system of recommended fixed prices for phenol [32] were in the public interest because there was a present excess capacity of production over demand were not successful. The Court was unimpressed with the proposition that if price control were removed there would be a drop in price, then a drop in capacity and then a rise in price when demand outstripped supply.

The possibility of serious unemployment in that part of the country where an industry is located is also not sufficient to find that a system of agreed minimum prices is in the public interest.[31] Vague arguments about a price war in an industry whose productive capacity was being fully

utilized, and where the demand was expanding, were rejected with little difficulty.[33] The Wholesale Confectioners' Alliance of Great Britain argued that their price recommendations benefited that portion of the population living in sparsely populated areas because otherwise prices in retailers' shops in such areas would be higher than in densely populated areas. The Court thought that there were too many wholesalers and that the more efficient ones would drive the less efficient out of business in competing for the trade of these retailers. Hence it was not shown that prices charged to them would rise. A comprehensive scheme by the British Motor Trade Association specifically designed to modify the industry's policy as described previously to conform with the provisions of the new Act was decisively rejected.[35]

The cases just discussed deal with industries representing a cross-section of the country's economy, automobiles, confectionery, bakery products, water-tube boilers, wire-nails, linoleum, transformers and phenol. In all instances it was concluded that the stimulus of competition was a benefit to the public. Strenuous arguments that competition would bring some disadvantages were unsuccessful.

While it is apparent that the British Courts have struck down price-fixing agreements with very few exceptions, these exceptions are very significant. Contrary to the American Courts, who at this day and age have no real say in the matter, the British Courts are still free to say that a particular horizontal price-fixing agreement is in the public interest. So far they have done this twice: the first time when considering nuts and bolts and the second time when they were considering cement.

The nut and bolt industry is a peculiar industry in the sense that nearly all its products are used industrially in other products. Very little reaches the public through retailers. A price-fixing scheme has been in operation among its members for many years. The Court [36] found that profits had not been excessive and "Although sheltered for twenty-seven years from the stimulating breeze of price competition, its plant has been modernized and kept up to date." Among other conclusions, they noted that there was little room for price reductions if there were free competition in price. There was an excellent degree of technical cooperation among different manufacturers and there was profitable sharing of know-how. Therefore the Court concluded the agreement on price-fixing could continue. Principally they appear to have been impressed by the absence of evidence of excessive profits, the modernity of the plant of the manufacturers and lack of evidence that price competition would bring any reduction in prices.

Mere mention of the phrase "basing points" may remind the lawyer working in this field, of cement. It has the same significance in the British cases. The Cement Makers' Federation defended their price-fixing scheme

before the British Courts and with complete success.[37] The members of the trade association consulted each other as to what prices to charge. On top of such base price a freight charge was added for a customer depending on his distance from the nearest basing point and this fixed the price.

Specifically the Court found that taking the trade as a whole, prices on balance would be substantially higher in the absence of a common price agreement. They also found that while some purchasers of cement might benefit from lower prices if the basing point system were removed, this was outweighed by the benefit to all purchasers looked at as a collective whole. The interesting point here was the procedure the Court adopted to set up a judicial watchdog to check if the cement manufacturers did not abuse the freedom thus given them. The Court obtained an undertaking from the trade that if, at any time, the Registrar of Restrictive Practices represented to them that he had reason to believe that there had been a material change in the relevant circumstances, they would supply such information as he requested to enable him to decide whether the trade agreement should be brought before the Court again.

A short note on the comparable American case, decided in 1947, is interesting for comparative purposes.[38] Here the Supreme Court considered and rejected a similar price-fixing scheme. They noted "The belief is prevalent in the industry that because of the standardized nature of cement, among other reasons, price competition is wholly unsuited to it. The belief is historic." They concluded that the basing point scheme was an attempt to promote uniform prices and they rejected the industry's contention that active competition was bound to produce uniform cement prices. This was not a Sherman Act prosecution but a suit alleging an unfair method of competition under Section 5 of the Federal Trade Commission Act. What the Court could not do was to examine the same arguments as the British Court did fourteen years later because the doctrine that horizontal price-fixing is only presumed to be against the public interest is not now part of U.S. law.

These cases under the Restrictive Trade Practices Act of 1956 have been discussed at some length. They illustrate the somewhat different approach of British law, as compared with U.S. law, to certain monopolistic practices and show how the new Statute has worked in practice. The discussion also provides a basis for explaining the limitations on the favoured position of a British patentee and what courses of action are legally permissible to him.

THE RIGHTS OF A BRITISH PATENTEE

As pointed out above in discussing the law prior to 1948, it has long been clear that he may fix the prices at which his goods are resold by a

remote vendee.[44] In other words he could impose restrictions on resale. Clearly there was no question that he could not fix the price at which his licensee sold. In the United States the position is different. It is clear that a patentee cannot fix the resale price of his remote vendee.[39] Whether he may fix the prices at which his licensee sells is debatable. The Supreme Court said he might in 1902.[40] This was approved in 1926.[47] However in 1948 the Supreme Court split four to four on the question [48] and subsequent decisions have hedged this privilege of the patentee with very many restrictions.

It is not within the scope of this paper to discuss the tying-in techniques by which a patentee requires a licensee to purchase from him non-patented goods for use in conjunction with the patented goods. However as failure to mention may mislead, it is briefly noted that this is illegal in both countries. In Great Britain this was forbidden by the Patent Statute as long ago as 1907, now Section 57 of the British Patents Act 1949.[49] In the United States the Supreme Court first approved the practice but later made it clear that it is not permissible.[50]

These rights of a British patentee are well established and quite clear. They existed before the Restrictive Trade Practices Act of 1956 and that Statute by virtue of the exception of Section 8 as quoted in full above did not affect them. What is more difficult to comment on is the present British law where a patentee has multiple licensees or a combination of patentees collectively grant licenses, such licenses being concerned with price fixing arrangements.

Where a party has multiple licensees the American cases find this objectionable when it leads to price fixing throughout a substantial part of an industry.[42] The British attitude to this practice can only be gathered by inference. Nothing in the Act of 1956 deals directly with the issue and there are no reported cases under the Act which are of any real assistance in deciding the point. The exception of Section 8 talks of an agreement between a patentee and his licensee. Thus if a patentee enters into a series of identical bilateral agreements with numerous licensees, by itself, each such agreement does not have to be registered. Will the Registrar of the Act, who is charged with deciding what agreements should be registered, look behind form to substance? The writer sees no reason why he should. As the Act gives any supplier a legally enforceable power of vertical price fixing, a patentee has the right, irrespective of his patent, to fix the prices at which sub-vendees sell the patentee-supplier's goods. Merely because he has defined these rights in a series of identical licenses should not make those licenses subject to special treatment.

Where several patentees combine and mutually cross-license each other this is a combination between patentees. The American cases hold the practice generally impermissible. Once again the exception of Section 8 of

the Restrictive Trade Practices Act does not specifically deal with it. Much may depend on the actual form of any agreement but it is fairly easy to see that the statutory language could be interpreted as not applying to an agreement which is between two patentees rather than between a patentee and a licensee. In such circumstances an agreement of this nature could be held registrable and hence presumed to be against the public interest unless the parties proved the contrary.

Any comment on multiple licensing or acts by combinations of patentees is incomplete without some discussion of background material. Earlier in this paper, in describing events in the period 1948 to 1956, mention was made of the work of the Monopolies and Restrictive Practices (Inquiry and Control) Act, 1948.[17] A number of the reports of the Commission made reference to the effect of patent pools or patent licensing. Thus in investigating the Electric Lamp industry,[41] there was an extensive description of a comprehensive patent pool with the possibility that members of the pool might use it to restrict production of patented goods and to prevent non-members of the pool from manufacturing patented items. The Report on Collective Discrimination [19] did not specifically mention patents. This report was followed by the Act of 1956 which, as we have seen, mentions patents but only in the sense that it exempts a simple patent license agreement from its operation. It can be concluded that these uses of patents are not thought to be so harmful, and possibly so widespread, as to call for special legislative mention.

CONCLUSION

Summarizing the comparative state of the law in the two countries it may be said that both permit, although through very different legal means, resale price maintenance, otherwise known as fair trade or vertical price fixing by an individual supplier. In Britain there seems little chance that this will be made illegal. In the United States, the U. S. Attorney General's National Committee to study the Anti-Trust Laws in 1955 recommended repeal of the Miller-Tydings and McGuire Acts, the basis of fair trade in this country. While no action has been taken on these recommendations, it seems clear that the legality of vertical price fixing in this country may one day be changed.

Both countries say, categorically, that horizontal or collective agreements among suppliers to enforce agreed prices are per se illegal. The only difference is with respect to horizontal agreements to prescribe or recommend prices. In Britain these are presumed to be against the public interest until the contrary is shown. In the United States the Sherman Act and subsequent judicial decisions have settled the law in a position where similar agreements are per se illegal.

In considering patented goods both countries have developed special rules because of the peculiar right given to the patentee from his patent monopoly. The British patentee can clearly fix the price at which his licensee can sell and can go beyond the licensee to the remote vendee. His American counterpart cannot reach the remote vendee and his price fixing power in respect of his immediate licensee is weak. Court decisions on the legality of patent pools or multiple licensing are conspicuous by their absence in Great Britain. The Statute law affords no real guidance. American patentees are by now accustomed to attacks on their monopoly because of alleged abuses on these grounds. It appears unlikely, at least for many years, that there will be similar attacks in the British Courts.

1. Report of the Committee on Resale Price Maintenance, 1949, London, H.M.S.O., Cmd. 7696.
2. U.S. v. McKesson & Robbins Inc., 351 U.S. 305 (1956).
3. 26 Stat. 209, 15 U.S.C. § 1 (1958).
4. Dr. Miles Medical Co. v. John D. Park & Sons Co., 220 U.S. 373 (1911).
5. U.S. v. Colgate & Co., 250 U.S. 300 (1919).
6. Federal Trade Commission v. Beech-Nut Packing Co., 257 U.S. 441 (1922).
7. United States v. Parke, Davis & Co., 362 U.S. 29 (1960).
8. Miller-Tydings Act 50 Stat. 693 (1937), 15 U.S.C. § 1 (1958).
9. Palmolive Co. (of England) v. Freedman (1928) Ch. 264.
10. Dunlop Pneumatic Tyre Co. Ltd. v. Selfridge and Co. Ltd. (1915) A. C. 847.
11. Ware & De Freville v. Motor Trade Association (1921) 3 K.B. 40; Thorne v. Motor Trade Association (1937) A. C. 797.
12. Sub-Committee on Fixed Retail Prices (1920).
13. Committee on Restraint of Trade (1930).
14. United States v. Socony-Vacuum Oil Co., 310 U.S. 150; apprd. United States v. Parke, Davis & Co., 362 U.S. 29 (1960).
15. See citation (1), Part II, Item 10, Motor Vehicles and Accessories.
16. Report of Monopolies Commission on supply of Insulated Wires & Cables.

16a Klor's Inc. v. Broadway Hale Stores, 359 U.S. 207 (1959).

17. 11 & 12 Geo. 6. c 66.

17a Eastern States Retail Lumber Dealers Assn. v. U.S., 234 U.S. 600 (1913).

18. See e.g. The Supply of Dental Goods, 1950; Supply of Electric Lamps, 1951; Supply and Export of Pneumatic Tyres, 1955.
19. 1955, London, H.M.O. Cmd. 9504.
20. 4 & 5 Eliz. 2. c 68.
21. Schwegmann Bros. et al v. Calvert Distilleries Corp. et al 184 F. 2nd 11 (5th Cir. 1950) revd. 341 U.S. 384 (1951).
22. McGuire Fair Trade Act, 66 Stat. 632 (1952), 15 U.S.C. § 45 (1958).
23. Agreement between the Members of the Chemists' Federation (1958) 3 All E. R. 448.
24. Theatre Enterprises Inc. v. Paramount Film Distributing Corp. 346 U.S. 539 (1954).
25. E.g. Wire Nail Manufacturers' Agreement (1961) 2 All E. R. 342; The Agreement between the members of the Reinforcement Conference (1961) 2 All E. R. 820.
26. (1961) 2 All E. R. 897.
27. (1961) 2 All E. R. 233.
28. Water-tube Boilermakers Associations Agreement (1959) 3 All E. R. 257; L.R. 1 R.P. 285.

29. Agreement between the members of the Federation of Wholesale & Multiple Bakers (Great Britain & Northern Ireland) (1960) 1 All E. R. 227.
30. Scottish Association of Master Bakers' Agreement, Wholesale & Retail Bakers of Scotland Association's Agreement (1959) 3 All E. R. 98; L.R. 1 R.P. 285.
31. Yarn Spinners Agreement (1959) 1 All E.R. 299; L. R. 1 R. P. 118.
32. Phenol Producers Association's Agreement (1960) 2 All E.R. 128.
33. British Bottle Association's Agreement (1961) 2 All E.R. 208.
34. (1961) 1 All E. R. 116.
35. Re Motor Vehicles Distribution Scheme Agreement (1961) 1 All E. R. 161.
36. Black Bolt and Nut Association of Great Britain Agreement (1960) 3 All E. R. 122; L.R. 2 R.P. 50.
37. (1961) 2 All E. R. 75.
38. F. T. C. v. Cement Institute, 333 U.S. 683 (1947).
39. Bauer & Cie v. O'Donnel, 229 U.S. 1 (1913).
40. Bement v. National Harrow, 186 U.S. (1902).
41. Report on the Supply of Electric Lamps, H.M.S.O., London, Cmd. 287, 1951.
42. United States v. New Wrinkle Inc., 342 U.S. 371; Newburgh Moire Co. v. Superior Moire Co., 237 F. 2nd 283 (3rd Cir. 1956); United States v. United States Gypsum Co., 340 U.S. 576 (1950), 333 U.S. 364 (1948).
43. Goodyear Tyre & Rubber Co. (G.B.) Ltd. v. Lancashire Batteries, Ltd. (1958) 3 All E. R. 7.
44. Incandescent Gas Company v. Brogden (1899) 16 R.P.C. 179.
45. National Phonograph Company v. Menck (1911) A.C. 336; 28 R.P.C. 248.
46. Dunlop Rubber Co. v. Longlife Battery Depot (1958) 3 All E.R. 197; (1958) R.P.C. 473.
47. United States v. General Electric Company, 272 U.S. 476 (1926).
48. United States v. Line Material Co., 333 U.S. 287.
49. Patents Act, 1949, 12, 13 & 14 Geo. 6. Ch. 87.
50. Northern Pacific Railway Co. v. U.S., 356 U.S. 1 (1958); International Salt Co. v. U.S. 332 U.S. 392 (1947).

The First Modern Common Market: A Reinterpretation of the [British] Commonwealth Experience in Industrial Property

L. JAMES HARRIS*

A USEFUL PERSPECTIVE

IN THE LAST ISSUE OF THE *Journal* we reviewed the emerging economic opportunities in Latin America and looked toward a series of studies by the Foundation concerning the practices and problems of our southern neighbors with respect to industrial and related properties.[1] This paper, dealing with different parts of the world already rich in technological experience, provides a valuable perspective for our undertaking. In the course of this examination, this paper reconsiders certain aspects of British Commonwealth economic, legal, and political history in an unfamiliar light—for example, the concept of a Common Market for knowledge that Commonwealth history so well illustrates is introduced and developed.

The imminence of Great Britain's joining the Common Market[2] makes this an appropriate time to review the background and status of the industrial property provisions and arrangements of the other members of the Commonwealth. Other considerations which prompt this writing are the growing world interest in and dependence upon invention, and the fact that the Commonwealth itself is the first modern Common Market.

This discussion will be limited to the more industrially advanced countries of the Commonwealth, namely, Australia, New Zealand, Canada, South Africa, and India.[3] Although South Africa has established an independent republic, this action is so recent[4]—and there have been vir-

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[1] L. James Harris, "Industrializing Latin America: A New Frontier for Industrial Property Transactions," *PTC J. Res. & Ed.*, Vol. 6, No. 1 (Spring 1962) p. 1.

[2] For a discussion of the current status of Britain's application to join the European Common Market and the world implications should the present negotiations be successfully concluded, see Edwin L. Dale, Jr., "Common Market Drastically Changing World Trade Patterns," *The New York Times* (August 5, 1962), p. E 3. See also Ray Vicker, "Selling the Plan at Home," *The Wall Street* Journal (August 6, 1962) p. 20.

[3] See chart, Appendix, p. 224.

[4] Union of South Africa disassociated herself as a member of the Commonwealth as of the 31st of May, 1961.

tually no changes in fixed ties with the Commonwealth nations and South Africa—that we may safely include this country in our consideration.

The Commonwealth System

The unique system of international relationships among the members of the Commonwealth has developed out of the British Empire. Four of the five countries we are presently concerned with developed from colonies originally settled by the British and other Europeans. India, already heavily populated, came under British control in the middle of the 18th century and remained a part of the Empire until the late 1940's.

Legally, there is no head nation in the Commonwealth. In fact, the equal status of the members has been stressed by leading statesmen in the member countries who meet periodically to discuss questions of common interest. Political, financial, and economic ties do exist but they vary among the members. All the members, except for Canada, belong to the sterling bloc, in which Great Britain serves as banker. The Commonwealth receives a large part of British exports [5]—Australia, United States, South Africa, Canada, New Zealand, and India receive the largest share—and Britain receives in return a large part of the Commonwealth's exports.[6]

Additionally, Britain has invested enormous sums in her former colonies and, perhaps even more meaningful for the long run, she has learned toleration and consideration—albeit sometimes slowly—and as a result of this conditioning has been able to provide a profound understanding of the needs of people in international relations. So much of historical literature has been devoted to the negative views of the "British experience in colonialism" and the "white man's burden" that the positive aspects [7]

[5] In 1960, exports from Britain to Australia amounted to 31 per cent of Australia's total imports of £A 1,037,040,000; to Canada, 11 per cent of Canada's total imports of $5,495,800,000; to India, 21 per cent of India's total imports of Rs 10,113,000,000; to New Zealand, 45 per cent of New Zealand's total imports of £NZ 2,278,900,000; and to South Africa, 28.3 per cent of South Africa's total imports of Rs 1,111,600,000. *Encyclopedia Britannica 1962 Year Book.* In 1961, exports from Britain to Australia amounted to 27% ($568 million); to Canada 12% ($790 million); to India 20% ($426 million); to New Zealand 29% ($347 million). From chart on "Britain and Leading Commonwealth Traders," *The New York Times,* (September 16, 1962) p. 4 E.

[6] In 1960 imports by Britain from Australia amounted to 26 per cent of Australia's total exports of £A876,151,000; from Canada, 17 per cent of Canada's total exports of $5,266,400,000; from India, 26 per cent of India's total exports of Rs 6,482,000,000; from New Zealand, 54 per cent of New Zealand's total exports of £NZ 302,200,000; and from South Africa, 30.8 per cent of South Africa's total exports of Rs 876,000,000. *Encyclopedia Britannica 1962 Year Book.* In 1961 imports by Britain from Australia amounted to 22% ($490 million); from Canada, 18% ($980 million); from India, 29% ($406 million); "Britain and Leading Commonwealth Traders," *The New York Times,* (September 16, 1962) p. 4 E.

[7] See Jenkin Lloyd Jones, "The Colonist Wasn't Half-Bad," *The Evening Star*

which many may claim for this period of history, such as the export of domestic [8] British liberality, reason and responsibility in the conduct of civil affairs tends to be diminished. Curiously, however, the high order of British justice and sense of fair play have not suffered in the literature—these are well known and readily acknowledged.

Britain evolved the common law and contributed Magna Charta and, in an international sense, she has over the years acquired considerable skill in getting on with peoples. Because of her long involvement in the affairs of nations she has helped to bring political order and economic progress to large areas of the world, such as India, which had previously been plagued and oppressed by corrupt government officials, barbaric customs (e.g. suttee) and endless warfare among constituent [9] states. Many instruments [10] of both official and private institutions have also spread, in intangible ways, the concept of Commonwealth advantage, particularly in

(August 6, 1962). "His Good Works are Found Undone and His Bad Exceeded in Some Lands."

[8] The reader is referred to the great Reform Era of which some of the highlights at the beginning were: movement for a system of national education begun by Lord Brougham (1820); movement for reform in the Criminal Laws begun by Romilly (1808-18); Foreign Secretary Canning's policy (1822-27) to support the cause of nationalities against despotic government (e.g., his actions regarding Spain, Portugal and Greece, and his strong approval of the Monroe Doctrine); Huskesson's commercial reforms (1823-26); Peel's reforms in the Criminal Laws (1823-24); the Treaty of London (1827) to promote Greek independence; repeal of the Corporation and Test Acts (1828); the Catholic Emancipation Act (1829). In internal affairs the great Reform Era resulted in the effort to ameliorate suffering and the abolition of religious disqualifications for Parliament; in foreign affairs it began "Britain's active sympathy with the aspirations of smaller states and oppressed nationalities towards freedom and popular government." During the reign of William IV (1830-37) the middle class rose to political power due to the Reform Act of 1832 and began the era of social reform. The spread of education to all classes (The Education Acts) began in earnest under Victoria (1837-1901). In Victoria's reign self-government was granted to the larger colonies. The development of measures for the common interest of the colonies was also inaugurated. See W. E. Haigh, *An Analytical Outline of English History,* Oxford University Press, London (1924) pp. 276-332; see also Arthur Lyon Cross, *A Shorter History of England and Great Britain,* The Macmillan Company, N. Y. (1927) pp. 645-831; and George Macaulay Trevelyan, *History of England,* Longmans Green and Company, London (1926), pp. 615-677.

[9] The present Republic of India is made up of 15 states, 6 union territories, and 2 agencies. *Encyclopedia Britannica 1962 Year Book.*

Miss Barbara Ward in *The Rich Nations and the Poor Nations,* Norton Co., New York (1962) eloquently states that the British gave India "modern commercial law, the notion of contract, a new sense of security for property, a new belief that if the merchant sets to work to develop, accumulate, and invest, his wealth should be secure."

[10] "The League of Empire has been active throughout the British Dominions for the furtherance of education in Imperial concerns. . . . Another active organization is the Royal Colonial Institute, founded in 1868, to promote the cause of 'United Empire'. The Imperial Federation League, started in 1884, was dissolved ten years later . . . it achieved much in educating people to think imperially." A. L. Cross, *Op. cit.,* note 8, p. 796.

the arts and sports where a common language is an important binding force.[11] However, this first modern Common Market—of which the American colonies were early a part—has not sparked the imagination as has the European Common Market . . . nor has it achieved a common patent. Also, it has not taken advantage of the range of alternatives in negotiations with the E.E.C. that the Commonwealth's position might suggest. We propose to examine the role of industrial property with respect to this context.

SETTING

The experiences of the Commonwealth market are of course illustrative only, and have been selected to point up the possible advantages to be gained from a fuller examination of the Commonwealth's economic and technological arrangements. For conceptual completeness, it should also be noted that many of the observations made with respect to patents obtain in general for other forms of industrial property, such as trademarks. We have limited most of our discussion to patents so as to confine our area of examination as much as possible because of the broad context of the discussion that follows.

To understand the opportunities and problems with respect to industrial property of the five Commonwealth members, the concept of a common market for knowledge is introduced and its history traced from ancient times, as well as the history of the instrument devised by society, the patent system, to shelter the creators and encourage the progress of knowledge. It is shown how, to meet the needs of the society into which it was introduced, the first forms of the patent system were entirely national in nature. As the international needs and opportunities for the utilization of knowledge reemerged, the systems were revised and subtly integrated to meet the changing needs. One of these international opportunities grew out of the needs of the British Commonwealth of nations—which symbolize in microcosm the relations of the nations of the earth. In this context it is believed that the nature and role of the industrial property systems of the Commonwealth can be better understood.

The British Empire was evolving into a commonwealth coincident with the maturation of the Patent System concept, and when machinery was being devised by the countries of the world to deal with the international problems of industrial property—upon rediscovery of the common market for knowledge—the Commonwealth market was already great . . . and indeed British law provided the prototype for many of the early inter-

[11] Drew Middleton, *These Are the British,* Alfred A. Knopf, New York (1957).

national industrial property provisions.[12] The commonalities in the patent laws of empire nations (in conjunction with some intra-family registrations and certain bilateral patent arrangements) might be considered an early pre-formulation of the concept of a common international patent—and perhaps a very distant relation of the common European patent too! If so, why has no Commonwealth patent been accomplished and why have the popular trumpets been relatively silent with respect to the wide market of the Commonwealth and its contributions? . . . and also why have Britain and the Commonwealth rejected their own historical continuity?

Some of the reasons seem clear. The Commonwealth, made up of nations of different needs and creeds, of different languages and color, represented as weak a conglomeration of relationships as the relations between nations were in general. Moreover, during the period of empire, the means of transportation and communication had not reached their present efficiency, and geographic distances were a separating element, encouraging misunderstanding and prejudice.[13] Most important, however, was the type of tie that bound the empire. The relations between the mother country and the others were those imposed by the mother country—as though the other nations were not competent to care for their own affairs . . . this did not make for real unity, politically or economically, and although this relationship has completely changed, the future of the Commonwealth is still in doubt!

With the machinery and techniques of the British becoming outmoded and the inventive leadership diffusing to other European countries and the U. S., after Britain had expanded the know-how of the Industrial Revolution to the countries of the world and began to depend on the reverse flow, British stimulus with respect to Empire technological progress declined. Moreover, its capital was tied up in its past achievements[14] and the Dominions did not yet have the capital or sufficient know-how to assume Empire technological leadership. The Dominions were a growing population and had tremendous potential, but they were still in many ways dependent on the mother country. The freedom that characterized the British way of life was compatible with a high level of inventiveness but

[12] Compare, for example, the compulsory licensing provisions in the British "Patent and Designs Act" of 1949 and the International Convention for the Protection of Industrial Property as revised at London in 1934.

[13] Even the introduction of better communications was sometimes misunderstood. "The introduction of railways, telegraphs, etc., into India, and the consequent fear among the Brahmins of a British scheme for forcibly altering native customs and religion" was considered one of the general causes of the Indian Mutiny of 1857-58. See W. E. Haigh, *op. cit.*, note 8, pp. 304-305.

[14] See T. K. Derry and Trevor I. Williams, *A Short History of Technology from Earliest Times to A. D. 1900,* Oxford University Press (1961).

the Dominions were not in a position to make dramatic contributions. They were only able to participate, though energetically, in the steady unspectacular technological growth of Empire as it advanced to Commonwealth status.

THE COMMON MARKET FOR KNOWLEDGE

The British Empire and the concept of Commonwealth into which it has evolved have been, in effect, the world in miniature. To understand the problems, accomplishments and failures of the Commonwealth, it is, therefore, necessary to examine it from the world point of view. The relations, competitive and cooperative, of Commonwealth nations—including their industrial property systems—must be studied as part of the larger problem of the relations among the nations of the globe. Therefore, we propose to review briefly the history of the international common market for technological knowledge and the systems developed to encourage this knowledge, as the most pertinent context for a consideration of the industrial property aspects of the Commonwealth market.

Greek Contributions

The first and perhaps the most important common market throughout history has been the common market for knowledge. Those countries that learned to improve their common market in these goods prospered: by means of invention and innovation they improved their culture, welfare and power. Those that clung to outmoded concepts were left behind, or even perished. The Greeks made contributions to the common market for knowledge in the drama, architecture, sculpture, politics, and philosophy.[15] Although from a technological standpoint the glories of Greece and Rome can easily be overestimated—when they overthrew earlier civilizations they appropriated or destroyed a great deal from the ancient Near East,—"by 600 B.C. Greek technicians had in some respects reached, and in matters of taste surpassed, the level of their Oriental teachers."[15a] The Greeks abandoned the stage of history to the Romans, after a brief and a brilliant hegemony, but the desire to understand man and his environment[16] and to progress creatively they left embodied in the enduring world memory.

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[15] See W. A. Dunning, *A History of Political Theories, Ancient and Mediaeval,* The Macmillan Co., New York (1927) pp. 1-98.

[15a] See footnote 14.

[16] See Charles M. Bakewell, *Introduction to Plato the Republic,* Charles Scribner's Sons, New York (1928).

Roman Common Market

The Romans accumulated much more land and many more slaves than their predecessors. Nevertheless, the Roman genius for accumulation and organization made Rome the master of the known world only after "The Licinian laws were carried." [17] These laws removed the disabilities of the plebeians to share in the public lands and participate equally in pecuniary contracts. "Two centuries of prosperity, harmony, and victory followed the reconciliation of the orders." [18] With this weakening of caste and the consequent dissemination of information and diffusion of opportunity in Rome, the city grew to a mighty empire—and to an empire-wide common market. The land supplied the Romans with their agricultural and natural resource requirements, the slaves provided the manpower to drive their galleys and erect fine buildings. Technical development was thoroughly exploited by the Romans: their legal [19] system, their methods of warfare and military colonization, their roads and aqueducts are admired and exist to this day.

However, there were marked limitations to the achievements of the Romans themselves. They had carved an empire on the backs of the peasantry. The intellectual leaders of Rome did not take an interest in the technological developments going on around them. It was the freedmen and immigrants who supplied the inventive genius of their day.[20] When Ancient Rome again divided itself into caste and framed laws that set group against group, its great empire gradually disintegrated and its common market disappeared. Large accumulations of people were as necessary to exploit the technologies of the Romans as they are today [21] . . . and there is strong evidence that malaria epidemics decimated a number of these population centers.[22] Thus, it may be that their com-

[17] Thomas B. Macaulay, *Lays of Ancient Rome and Other Poems,* ed. W. P. Atkinson, American Book Company (1913). Notes, p. 113.

[18] Refer to note 17.

[19] Dunning, *op cit.,* note 15, pp. 99-130.

[20] Refer to note 14.

[21] Some writers foresee that the advances in atomic energy and automation will make large cities unnecessary in the future. For an interesting and optimistic discussion of our technical progress by a scientist, see J. Bronowski, "'1984' Could be a Good Year," *The New York Times Magazine* (July 15, 1962), p. 12. But see: Vannevar Bush, "Automation's Awkward Age," *Saturday Review* (August 11, 1962) p. 10. "There is nothing new about automation, except the term itself. It has been going on for generations. The automatic loom, power feeds on lathes, even the early scheme of making a pumping engine operate its own valves, were all forms of automation. In recent years the process has simply accelerated, for two reasons: One is the great increase in wages, which has put a premium on saving labor. The other is the advent of new devices, which lend themselves to be used in complex automatic machinery, *and which are reliable.*

[22] Refer to note 14.

parative lack of progress in certain fields, such as biology, also played a major role in the decline of the Roman Empire.

A SHELTER FOR KNOWLEDGE: THE PATENT SYSTEM

Medieval Europe

In medieval Europe people worked in guilds and under guild control, lacking the broad representation and the cross fertilization of ideas provided by a wide free market, invention and innovation grew sluggish. During the middle ages new knowledge could not readily spread: ideas, restricted to the needs of individual guilds, were kept secret and were lost with the demise of the membership.

England, much behind the continent in industrial development in the Middle Ages, introduced a system of Letters of Protection granted as early as 1331 to John Kempe. These were grants of monopoly intended to encourage the establishment of industry in England by specialists from abroad.[23] Edward III grasped the importance to the development of his country of technological knowledge. Although his method of encouraging it was crude, it accomplished for him and his successors what they required at that time and it eventually affected the type of patent available in Britain.[24] Medieval monopolies for the encouragement of trade were fairly common on the continent, but their purpose appeared to be control and regulation while the English were more interested "that our realm may subsist more of itself." [25]

The Tudors and Stuarts expanded the idea of bounties offered foreign skilled artisans to include native workers so as to encourage languishing domestic industries—eventually the monopolies were bestowed by Elizabeth [26] on ordinary daily necessities, to help defray the costs of the Spanish War, and subsequently by James I on the favorites of the Crown. This led to serious abuse. The parliamentary approval given to the patent of invention in the Statute of Monopolies of 1623 arose out of the intention to curb these abuses.

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[23] See John A. Dienner, "Patents and Nationalism," *Journal of the Patent Office Society,* Vol. 32, No. 8 (August 1950) p. 615.

[24] See Harold G. Fox, *Monopolies and Patents,* University of Toronto Press (1947) pp. 30, 43, and 45.

[25] See William Martin, *The English Patent System,* J. M. Dent & Co., London (1904).

[26] The debt the English patent system owes to Elizabeth is set forth in the "Historical Background of the English Patent Law" by Ramon A. Klitzke, *Journal of the Patent Office Society,* Vol. 41, No. 9 (September 1959) p. 615. Mr. Klitzke concludes that the history that preceded and followed Elizabeth's reign greatly contributed to the patent law but she was the first who recognized the great value of rewarding inventors and put it on a regular basis. He is of the opinion that the Statute of Monopolies was inevitable following the movement Elizabeth had begun.

Due in part to the support of Bacon and Coke, the exercising, and even more significant, the acknowledgment of parliamentary authority [27] with respect to monopolies occurred at a propitious moment for England: The printing press was beginning to effect a more rapid and widespread dissemination of information and the diverse skilled artisans who had been encouraged to emigrate to England were establishing themselves and producing. The governmental recognition of the patent for invention reflected the increased influence of Parliament, the courts and the King's subjects [28]—more freedom for the individual inventor—a most favorable climate for the growth and development of technological knowledge.

The Renaissance

With the Rennaissance, knowledge and learning flourished anew, and again there appeared a common market in the commodities of knowledge and skill. Beginning in Italy in the 13th century, the great revival of art, literature, and learning spread across Europe. The stage was reached where technological knowledge and society itself was becoming complex and relationships and operations had to be more organized to serve the needs of the public—and it was at approximately this time, about the 1470's,[29] that Venice established the first system of granting patents.[30] Later, individual German states, France and England [31] followed suit. Although a number of the American colonies had patent laws,[32] it was not until 1793 that the first national patent law was passed.

In more primitive societies there was no need to institutionalize arrangements dealing with knowledge—simple barter sufficed. As society became more complicated it was necessary to devise an instrument to accomplish transactions in technological knowledge for large and variegated publics

[27] ". . . the development of its [Parliament] powers in Tudor, Stuart and Hanoverian days, its resistance to the political theories of the Roman law received in contemporary Europe, and its transplantation to America and the Antipodes, are the great events which raised the political history of Britain into a sphere apart from the political life of the Continent." G. M. Trevelyan, *op. cit.*, note 8, p. xviii.

[28] ". . . she [Britain] evolved in the course of centuries a system which reconciled three things that other nations have often found incompatible—executive efficiency, popular control, and personal freedom." *Ibid.*, p. xvii.

[29] A. A. Gomme, *Patents of Invention*, Longmans Green, London, (1936).

[30] See Harold G. Fox, *op. cit.*, note 24.

[31] It is of interest that although the statute against monopolies recognizing the validity of patents granted to an inventor was passed in 1623, patents continued to be issued in England without a "formal statute relating to the procedure for obtaining a patent until 1852." See "The Law of Patents," *The Encyclopedia Americana*, Vol. 21 (1962 edition) p. 381.

[32] See V. S. Clark, *History of Manufacturers in the United States*, Vol. 1, McGraw-Hill, New York (1929).

with fairness, efficiency, and orderliness—the patent system was one of the methods evolved to satisfy this requirement. Patent legislation received a great impetus from the American and French revolutions. They represented struggles for personal liberty in a fundamental sense and one of the first acts of the governing bodies was to provide for the right of the inventor to the fruits of his labor.[33]

The Industrial Revolution

The Industrial Revolution—itself an expression of the progress in man's knowledge [34]—increased the need for hands [35] to drive the machines, food to feed these workers, and natural resources from which to fashion the products of the machines . . . and directed attention to another factor—the acquisition of markets. To the old pattern of national aggrandizement (land, people, and natural resources) an industrializing new world added markets—a factor charged by many to have been largely responsible for modern European colonial empire building. Countries such as England depended for foreign trade—when the great trading companies (e.g. East India Co., Virginia Co., and Hudson's Bay Co.) were established in the 16th, 17th and early 18th centuries—on control of certain areas of the world. This type of trading had been a way of life for nations since the dawn of history. With the advent of modern machines, however, it became imperative for nations to find adequate outlets for their huge and growing output.

This spurred the empire builders on, particularly the British, for it was in England that the Industrial Revolution first became a significant force, in about 1760. Although the main object was to secure markets, in certain countries like Australia, Canada, India, New Zealand, and South Africa, trade penetration eventually provoked a native industrial revolution.

The Industrial Revolution was the period of development of a high degree of technological skill,[36] of proliferation of the common market in technological knowledge, and awakening of more people than ever to the potentialities of knowledge as a "stuff" [37] that could be dealt with like

[33] See Jan Vojacek, *A Survey of the Principal National Patent Systems,* Prentice-Hall, Inc., New York (1936). See also Floyd L. Vaughan, "Important Differences in U. S. and U. K. Patent Systems," *Journal of the Patent Office Society,* Vol. 33, No. 11 (November 1951) p. 779.

[34] See Alfred Marshall, *Principles of Economics,* Macmillan & Co., Ltd., London, (1930).

[35] Trevelyan, *op. cit.,* note 8, p. 601-614.

[36] See W. H. Price, *English Patents of Monopoly,* Houghton Mifflin, Boston (1906).

[37] Irving H. Siegel, "Scientific Discovery, Invention, and the Cultural Environment," *PTC J. Res & Ed* Vol. 4, No. 3 (Fall 1960) p. 233-248.

land, people, and natural resources.[38] In the competitive society that accompanied this revolution, systems for the protection of invention and innovation designed to stimulate the progress of science and the useful arts assumed great importance. Country after country adopted some kind of patent system.[39]

Support and Adoption of Patent Systems

Most countries offered a basic form of patent which was independent of other kinds of patents. Although patent protection in general varied from country to country, certain groups of nations granted similar kinds of patents, other groups covered similar subject matter or instituted similar procedures or requirements for the working of patents, patent revocation, etc. The similarities among countries were far more striking than the dissimilarities. Essentially, they all provided the inventor the right to keep others from using the invention for a limited period of time subject to certain limtations. This was intended to enable the inventor to obtain some return according to the invention's value in the market place and thus encourage invention.

By the end of the 19th century most of the European countries, including Russia, had adopted patent systems. The Netherlands enacted a patent law in the early part of the century, repealed it in mid-century and reenacted it at the beginning of the 20th century. The repeal was charged to the influence of the free traders who were generally supposed to be opposed to inventors and manufacturers on the ground that the patent system restricted international trade.

The French well-known appreciation of creative talent[40] led to the

[38] Refer to note 21.

[39] "Another important factor in the development of modern technology has been the system of patent law obtaining in the different countries," Derry and Williams, *op. cit. supra* note 15.

[40] The support given by the French and Latin countries to the idea of scientific property—and the little support from Germany, Great Britain and the United States, despite Dean Wigmore's favorable observations—is reflected in the sympathetic consideration accorded Professor J. Barthelemy's proposal in France; the subsequent study undertaken by the Confederation des Travailleurs Intellectual of France, and the labor they devoted to the Ruffini plan, presented to the Committee on Intellectual Cooperation of the League of Nations; Mr. Gariel's scheme; and the preliminary draft convention on the subject prepared by a Committee of Experts in 1928 (See Stephen P. Ladas, *The International Protection of Industrial Property,* Harvard University Press (1930) pp. 844-872). Vojacek points to the French patent law of 1791 and the patent law of Soviet Russia of 1931 (Certificates of Authorship) as first attempts in the direction of patents for scientific discoveries. He also refers to plant patents in the U. S. as touching the border line of scientific discoveries and the provision in the Italian patent law of 1934, concerning the publication in a scientific paper of a discovery for which a patent is applied for within 12 months—securing priority rights to the inventor—as a stipulation

conclusion that it would be a violation of the rights of man if invention were not regarded as the property of its creator.[41] Others argued for compensation for inventors on the basis of simple fairness: they were entitled to the reward of a market responsive system like other property was able to command.[42] Although the patent system was not perfectly market responsive—extraneous factors, such as readiness of the market, the availability of auxiliary mechanisms, and advertising, might also be involved—proponents favored it as a non-state-directed instrument that carried ideas into the market, in large part, according to their actual vigor.

Mainly, support of the system came from those who believed that it was an essential means of encouraging invention and providing for the dissemination of information. It was claimed that inventors were more likely to firm up their ideas and manufacturers to develop and commercialize innovations if they could be assured of some measure of return.[43] Further they pointed out that in return for a limited period of protection, publication of a patent provided against the secrecy that otherwise might enshroud new ideas [44]—as it had in the guilds of the Middle Ages.

Instructive International Patent Experience

The history of the European dye industry is a most instructive international patent experience.[45] England has been credited with the establishment of the dye industry in the early 19th century. Both her dye industry and that of France prospered under their respective patent systems. Germany, made up of a series of small states—only some of them having patent systems—did not offer too much competition. With the unification of these states and under a vigorous private R&D policy, the German dye industry forged ahead.

Not having a patent system, the Germans were free to pirate the inventions and innovations of the English and the French.[46] The dye industries

that might gradually be developed as a basis for protection of scientific discoveries. See also Arthur M. Smith, *Patent Law,* Overbeck Co., Ann Arbor, pp. 97-121.

[41] See E. D. Prager, "History of Intellectual Property from 1545 to 1787," *Journal of the Patent Office Society,* Vol. 26, (1944) p. 715.

[42] *Millar v. Taylor* 4 Burr, 2303 (Burrough's Reports King's Bench)

[43] See Joseph A. Schumpeter, *Capitalism, Socialism and Democracy,* Harpers, New York (1947).

[44] See H. A. Toulmin, Jr., *Invention and the Law,* Prentice Hall, New York, (1936); see also William B. Bennett, *The American Patent System,* Louisiana State University Press (1934).

[45] See George E. Frost, "Competitive Research Activity: U. S. and Abroad" *PTC J. Res. & Ed.,* Vol. 6, Conference Number, (1962) pp. 59-64.

[46] See J. H. Chapham, *The Economic Development of France and Germany, 1815-1914,* Cambridge University Press (1945).

of England and France declined; they could not withstand the unrestrained competition of the Germans who were taking, without payment, the results of private French and English R&D. Soon, however, the German dye industry, and the chemical industry which it engendered, began to feel the effect of the drying up of their sources of new products and these industries, seeking to encourage the creation of new products, vigorously supported the introduction of a patent system in Germany.

After the establishment of a patent system in Germany in 1875, progress in private R&D in the dye and chemical industries was phenomenal—far beyond the previous period when they had lived on the pirated ideas of others. In fact, German chemical interests were largely responsible for the elimination of the provision in the Swiss patent law which excluded chemical processes from patent protection.

INTERNATIONAL PATENT DEVELOPMENTS

With the acceptance by many countries of a patent system, the problem of varying laws[47] in different countries—a problem not confined to patents—assailed the inventor who sought protection abroad. The first international conference to consider industrial property rights was held in Vienna in 1873 as a result of the complaint of the United States concerning the type of protection afforded foreigners in Austria.[48] In 1878 a second international conference, held under the auspices of the French government, drew up a draft convention which was considered by a subsequent conference in Paris in 1880, and in 1884 the Convention d'Union pour la Protection de la Propriété Industrielle became effective.[49] Although before the creation of the Convention in 1883 there were 69 international bipartite acts seeking protection of foreigners rights in industrial property, virtually all related to trademarks and designs or models.[50] There have been a number of revisions of the original text of the Convention. Australia joined in 1907, Canada in 1923, New Zealand in 1891, and South Africa in 1947. India has not yet joined.

Among the important concepts incorporated in the Convention was that of national treatment and the right to priority.[51] A foreigner whose country adhered to the Convention would receive the same treatment in

[47] See Robert Burrell, "International Conventions on Industrial Property," *Journal of the Patent Office Society,* Vol. 32, No. 3 (March 1950) p. 173.

[48] See J. N. Behrman, "Licensing Abroad Under Patents, Trademarks and Know-How by U. S. Companies" *PTC J Res. & Ed.,* Vol. 2, No. 2 (June 1958) pp. 202-205.

[49] See Ladas, *op. cit.,* Note 40 for information on the Convention.

[50] Ladas, *Ibid.,* pp. 54-57.

[51] See Emerson Stringham, *Patents and Gebrauchsmuster in International Law,* Pacot Publications, Wisconsin (1935).

other adhering countries as the nationals of those countries. The right of priority gave the inventor who filed in an adhering country the right to apply for a patent in other adhering countries for a period of 12 months subsequent to filing. The original Paris Convention has been revised in Brussels (1900), Washington (1911), the Hague (1925), London (1934) and Lisbon (1958). The text presently in effect is that of London; some nations have only acceded to previous texts.

Costs and Benefits of Patent System

A developing cooperation in matters concerning international patent protection was a sign of growing maturity and understanding of the problems relating to the common market in knowledge and technology. Although countries may differ ideologically, inventiveness and progress in R&D recognize no boundaries: the Russians in a communist society recently accomplished the sputnik and the Germans under a ruthless dictatorship developed a high level of team research during World War II.

It may be that the price to invention-importing countries, such as India, is higher—although this is questionable in view of compulsory working, compulsory licensing, and other controlling provisions in the patent laws of most countries—but the incentive to invent and manufacture for a world market, the encouragement provided to disseminate technical knowledge internationally, and the prize it holds out to underdeveloped countries to reduce their costs by developing their own technology are most important long run benefits.[52] Furthermore, the fact that people the world over are similar and express themselves creatively no matter what their geographic location or ethnic characteristics, may in this period of rapid communication make for a more rapid balancing of costs and benefits among nations. These and other social and economic factors have been the subject of debate by experts and have influenced the positions adopted by officials charged with drafting, negotiating and revising international arrangements. The representatives of the Commonwealth countries have had to take account of these very questions point for point: the membership of the Commonwealth comprises countries at all stages of development from the backward to the most advanced, and the type of consultation and adjustment followed by the nations of the world are similar to the procedures followed among the nations of the Commonwealth.

AN EARLY INTERNATIONAL PATENT PROTOTYPE

In part because of England's historic concern for the rule of law [53] and

[52] See Joseph A. Greenwald, "Technological Development and International Patent Problems," *Journal of the Patent Office Society,* Vol. 33, No. 1 (January 1951) p. 5.

[53] ". . . Coke, on the other hand, in the spirit of the English Common Law, conceived of law as having an independent existence of its own, set above the King as well as above

also because of her early [54] recognition that only a voluntary conference of peoples could endure, she led the way in attempting to settle the differences among her own family of nations by taking the larger view: she learned to treat nations as equals, and in the civilized spirit that dominated public counsels at home [54a] gradually spread, by precept and by example, the concept of self-government [55] that gives stability and unity to the Commonwealth. The patent laws of the British Empire—one manifestation of the way in which the British solved relations within the Commonwealth—circumvented, in effect, certain arbitrary national boundaries: by minimizing the differences in the colonial grants, they maximized the utilization of technological knowledge and resources throughout the Empire. This encouraged inventors to protect their contributions in a vast market and made potential returns attractive. Since the laws of empire countries derived in large part from the common law of England, the relation of the patent to the general laws of the different colonies also presented little problem.

Despite the similarities in the laws of the Empire countries, it was necessary for an applicant, if he wanted protection throughout the British Empire, to file between forty and fifty patent applications. This was true even after the individual provinces in Canada, Australia, South Africa, and the Malay states, which formerly granted their own patents, had discontinued the practice in favor of the Dominion or larger state of which they were a part. He could not be denied certain rights agreed upon among the countries of the Empire, but he had to comply with the domestic law of each country. Although he did not face a language problem, nor the wide differences of examination, claim drafting, etc., encountered by international applicants [56] outside the Empire, he did need a local knowledgeable representative and had to pay various duplicate fees and charges. He also had to prepare many copies of his application and to keep his eye on numerous calendars.

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his subjects, and bound to judge impartially between them. Laws were alterable only by the High Court of Parliament. The Prerogative Courts, with their reception of Roman Law and their arbitrary procedure belonged, he thought, to an alien civilization." Trevelyan, *op. cit.*, p. 319.

[54] "The grant of self-government to the larger colonies on the lines of Lord Durham's Report, first to Canada, then to the various Australian colonies and Cape Colony. This was followed by the establishment of federation: in the Dominion of Canada, 1867, and in the Australian Commonwealth, 1900." W. B. Haigh, *op cit.*, note 8, p. 325.

[54a] See footnote 8.

[55] See also Seth S. King, "Once Far-Flung British Realm Moves Further into History," *The New York Times,* (August 31, 1962) "Empire Transformed Since World War II to Commonwealth of Free Nations—India and Pakistan First in 1947."

[56] The considerable differences that exist between certain patent systems is demonstrated in "Problems of European Patent Protection," by Thomas Ostenfeld, *Journal of the Patent Office Society,* Vol. 34, No. 9 (September 1952) p. 739.

A Registration System

The Imperial Conference in 1921 recommended the validation of patents throughout the Empire. At a Conference of specialists at the Patent Office in 1922 consideration was given to the creation of an Imperial Patent Office [57] but this was postponed.[58] However, a plan was adopted for the extension of patents granted by the United Kingdom by means of a registration system. Pursuant to this system, a registration would be filed with a copy of the issued patent in each British colony intended to be covered.[59] Although this concept was not on the surface as advanced as the colonial policy of those countries such as France, Spain, Italy, and Holland, where colonies were considered a part of the mother country and registration was not required, the principle of home rule prevailed with respect to patents in the British Empire and a growing registration system—even though it did not include the Dominions—represented some progress.

The registration of issued British patents in the British colonies did not constitute in any way a separate patent system such as the European

[57] "*Prior Proposals for Common Patents.* In 1909, Du Bois-Raymond of Germany first suggested a single world-wide patent. During the first world war, uncompleted steps were taken for common patents in Germany and Austria. In 1919, proposals for a single patent covering the British Commonwealth died in the discussion and conference stage. On November 15, 1920, an Arrangement for an international patent was actually concluded in Paris and was signed by eleven countries. However it never went into practical effect. During the height of the second world war, from 1941 to 1943, a number of detailed proposals for a single European patent were published in the German periodical *Gewerblicher Rechtsschutz und Urheberrecht.* In 1946, Kucera of Czechoslovakia and in 1949, Longchambon of France offered proposals for the creation of a single European Patent Office. Since 1952, the governments of the Scandinavian countries have been considering the possibilities of a common patent while retaining the national laws and patent offices. Draft proposals for this compromise solution may be made public in 1962. These are a few highlights. During the last fifty years, many commentaries, analyses and modifications of these various proposals have been published. A complete compilation has been made by O. Bossung in *Grundfragen einer europaeischen Gerichtsbarkeit in Patentsachen* published in Munich in 1959. Other useful information is available in various 1959 issues of the Belgian periodical *L'Ingenieur-Conseil.*" Leonard J. Robbins, "The Proposed New European Patent," *PTC J. Res. & Ed.,* Vol. 5, No. 3 (Fall 1961) pp. 217-218.

[58] With respect to the idea of an Imperial Patent Office, a colleague has remarked that it ". . . merely died because of combined procedural and geographic problems and general lack of interest. In Great Britain approximately 40,000 patent applications are filed each year whereas in even the major Commonwealth countries such as Australia only a few thousand are filed. (Canada is a slight exception but this is solely due to the number of cases filed by U. S. applicants.) So far as I am aware this project has never been revived."

It is of interest to note the reference to Australia as "a vigorous, industrialized country ready to move out on its own" in Sept. 1962 *Fortune,* "The Australian Breakthrough," by William A. Garnett, p. 115.

[59] See Ladas, *op cit supra,* note 40, p. 840.

Patent Convention. The registration system was intended as a means to encourage filing in the colonies. However, the registration did eliminate the bar to prior publication in certain cases and in others it was the only form of patent protection available. It might well be that the relatively small number of registrations taken out in many of the minor British colonies and possessions did little to encourage the growth and development of this instrument into something more significant. But it should also be noted that the steps taken by the Commonwealth were under less modern conditions and were not subject to the urgent challenge that faces the Common Market countries today.

Comparative Law

The legal systems of Europe are based on a combination of Roman Civil law (Code of Justinian), Germanic law, Church law, and maritime law while that of England is grounded in the English Common law [60]— the common law that forms the basis for the legal systems of the United States and the British Dominions.[61] There are significant differences between the Civil law and the Common law, such as the importance of judicial precedents,[62] and with respect to the patent laws of different countries there are also significant differences unrelated to original legal system (e.g., in view of the genesis of the British patent as a grant of privilege by the sovereign, the English law continues a concept that does not consider the inventor entitled to a patent as a matter of right, as in U.S. and French law).

But there are also important common elements. For example in the patent laws of the British Dominions, except for Canada, and European countries, the first inventor is the one who gets to the Patent Office first. In most of these countries a patent remains in force only if periodic maintenance fees are paid, and in most of them the patent must be

[60] "The Revolution was a triumph of the lawyers over the executive, the close of a long struggle begun by Coke and Selden to subject the legality of the King's actions to the free judgment of the courts that administered the Common Law." Trevelyan, *op. cit.*, note 8, p. 506. "The body of legal principles which they [Glanvil, Richard Nigel and Bracton] set forth is purely English. . . . From the inevitably despotic tendencies of the Roman jurisprudence the law of England was kept free." W. A. Dunning, *A History of Political Theories, From Luther to Montesquieu,* The Macmillan Co., London, (1927) p. 198.

[61] See Otto R. H. Knopp, "The World's Major Patent Systems," *Journal of the Patent Office Society,* Vol. 44, No. 1 (January 1962) p. 8.

[62] "That the will of the monarchs should have the force of law was wholly inconsistant with the forms and theories of English legislation, Glanvil and Bracton lay it down in the strongest terms that the king, while subject to no man, is always subject to law. . . ." Dunning, *op. cit.*, note 60, p. 198. "Precedent and the custom of the courts constituted the sole guide to the application of the [Common] law. . . ." *Ibid.*, p. 199.

worked.[63] Professor Riesenfeld concludes that "From the comparative aspects it is interesting to note not only that the great trends of the American system have kept in line with those of the other Western countries, but that, in addition, the administration of American patent law has produced numerous technical legal problems which are directly paralleled in the other English speaking countries as well as in other industrial nations, especially Germany." [64]

The patent system of Canada is more like that of the United States [65] than that of Britain, although the first patent acts of the United States were similar to the British law of that period. Also there are some French influences in the Canadian system. Some of the features of Canadian that resemble American law include the term of the patent, interference proceedings, novelty requirements, recognition of the date of discovery.[66]

Common law countries generally do not admit of penal proceedings against infringers, but under the French or Germanic systems willful infringers may be subject to penal prosecution. The 14 year patent term provided under the Statute of monopolies—which according to Coke was selected because it represented the period of two apprenticeships—was subsequently adopted by most of the British Empire and the early U.S. Patent Acts. . . . Canada was one of the few exceptions.

The United States first introduced the examination for novelty in 1836, Britain introduced opposition proceedings in 1852, and Germany adopted both in 1876 . . . and one of the members of the Commonwealth, Australia, introduced an innovation in its patent law in 1954 that was somewhat of a milestone: within six months of filing, patent applications, at whatever stage of examination they may be, are opened to inspection. The deferred examination system being studied by the Dutch, if adopted, and the new Common Market patent, if successful, may come to be regarded as most important forward steps.[67]

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[63] Refer to note 61.

[64] Stephen A. Riesenfeld, "The New American Patent Act in the Light of Comparative Law: Part II," *Journal of the Patent Office Society,* Vol. 37, No. 10 (October 1955) p. 743.

[65] For an author who contends that Canadian practice lies intermediate between British and American, and is building up its own distinctive practice, see Peter Kirby, "Unity of Invention in Canada," *Journal of the Patent Office Society,* Vol. 39, No. 4 (April 1957) p. 250.

[66] Refer to note 33.

[67] See Patents Act, 1952-1955, No. 42, Sec. 43, Commonwealth of Australia; *Patent Examiner's Manual,* Australian Patent Office 1958; *History of the British and Commonwealth Patent Acts,* Australian Patent Office, 1959; for references to current European advances in patent law concepts see "Commentary to Proposed Modification of Dutch Patent Law," *Journal of the Patent Office Society,* Vol. 43, No. 11 (November 1961) p. 743; "Toward a Multinational Patent System" by Michael N. Meller, *Journal of the*

Common Patent Provisions

It should prove valuable to the new European trade group and to scholars interested in the subject to refer to some of the provisions which the five countries under study have accepted and retained in common [68] in their respective patent laws. Several additional comments, however, should be made before doing so. Countries of the Commonwealth have, like the mother country and Europe in general, been brought up in an atmosphere free from business competition as we know it in the United States.[69] This has been changing over the last several years and the opposite philosophy appears to be making headway, particularly in the Common Market countries,[70] but even this new European attitude is somewhat different from ours.[71]

Also, although the inventor and his invention are given more consideration in the Commonwealth than in the United States, the Commonwealth and most European countries concern themselves more with the public welfare than with the rights of the individual inventor.[72] Furthermore,

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Patent Office Society, Vol. 44, No. 4 (April 1962) p. 227; "The Convention for European Industrial Property Rights," by Gerard J. Weiser, *PTC J. Res. & Ed.,* Vol. 5, No. 4 (Fall 1961) p. 233; "The Proposed New European Patent," by Leonard J. Robbins, *PTC J. Res. & Ed.,* Vol. 5, No. 4 (Fall, 1961), p. 217.

[68] "*Prior Proposals for Harmonization of Patent Laws. . . .* Since 1947, the governments of the Benelux countries—Belgium, Holland and Luxembourg—have been studying the possibility for uniformity of their three patent laws, without any definite results up to now. Also, in 1947, the Benelux countries and France established the Institut International des Brevets (International Patent Institute) at the Hague as a central agency for the novelty examination of patents. The purpose is to relieve the burden from national patent offices and avoid duplication of effort. This Institute is functioning and available to the public in any country for novelty investigations, but is not yet in actual use by any national patent offices. It stands ready for possible use by a common European patent office. The Council of Europe, which includes the six Common Market countries and a number of others, has achieved a Convention for uniformity of formalities, which is of interest but does not involve any basic considerations. In 1951, Dr. Reimer, the then President of the German Patent Office, proposed a single filing system using national patent offices, with extension to other countries, a centralized novelty examination, and various modifications of national procedures to take place over a period of years in successive steps. In 1954, three other comparable proposals along generally similar lines were made by Dr. Reimer himself, by Mr. de Haan, President of the Dutch Patent Office, and by Dr. Was, a Dutch patent attorney. In 1958, the heads of various European patent offices, at a meeting in Vienna, produced the "Vienna Plan" for a so-called joint application. In the same year, CNIPA, a committee of European national patent associations, submitted a slightly different but comparable plan." Robbins, *op. cit.,* note 57, pp. 218-219.

[69] Behrman, *op. cit.,* note 48, pp. 213-230.

[70] See Norbert Koch, "The European Economic Community," *PTC J. Res. & Ed.,* Vol. 6, Conference Number (1962), pp. 97-102.

[71] See S. Chesterfield Oppenheim, "Keynote Address," *PTC J. Res. & Ed.,* Vol. 6, Conference Number (1962), pp. 14-23.

[72] See John H. Graham, "Footnotes on Foreign Patent Practice," *Journal of The Patent Office Society,* Vol. 39, No. 9 (September 1957) p. 623.

the patent laws of most European countries are more like the British system than the U.S. system and the Dominions of the British Commonwealth follow British law for the most part—even Canadian law is similar in many basic respects.[73]

Although Australia, Canada, New Zealand, South Africa and India have long had their own patent laws,[74] patentability criteria, examination procedures, and the kind of inventions covered have been in general very similar.[75] Generally, the subject matter was patentable if it was related to something tangible (a manufacture), was new,[76] useful, and not obvious to one skilled in the art and acquainted with the common knowledge in that art at the date of the patent.[77]

The trend has been toward eliminating statutory restrictions on patentable subject matter,[78] and most countries, including the Dominions, are generally agreed on a concept of novelty. However, there are many different requirements among countries with respect to priority and anticipation. Prior domestic public use or prior publication constitutes a bar in Australia, Canada, India, New Zealand, and South Africa.[79] Australia, New Zealand and India only reject on domestic publication, Canada and South Africa on prior publication anywhere.[80] The laws of the Commonwealth countries require an "inventive step" and are similar to those of other countries such as the U.S. (non obviousness) and Germany (level of invention),[81] and the law of certain Commonwealth

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[73] See W. Victor Higgs, "British Patent Law and Practice," *Journal of the Patent Office Society,* Vol. 41, No. 8 (August 1959) p. 562.

[74] See *Patent Laws of the World,* Vol. I and II, Chartered Institute of Patent Agents, London, edition of 1911; Reginald Haddan, *A Compendium of Patents and Designs Law and Practice,* Harrison & Sons, Ltd., London, (1931).

[75] See William Wallace White and Byfleet G. Ravenscroft, *Patents Throughout the World,* Trade Activities, Inc., New York (1944).

[76] See Kenneth Johnston, "The Criterion of Novelty Under the British Law—Principle Differences Between Countries on the Question of What Prior Publication or Use Invalidates a Patent," *Journal of the Patent Office Society,* Vol. 40, No. 1 (January 1958), p. 14.

[77] See Thomas Terrell, *The Law and Practice Relating to Letters Patent for Inventions,* eighth edition by John Reginald Jones (1934); compare subject matter of invention in Chapter II of Harold G. Fox, *Canadian Patent Law and Practice,* The Carswell Co., Ltd., Toronto (1937); see also Chapter I, Sec. II on patentable inventions in *Patents for Inventions and the Registration of Industrial Designs* by T. A. Blanco White, Stevens & Sons Ltd., London (1950) for a later English version.

[78] See J. R. Steyn, "Proprietary Rights in Inventive Ideas and Discoveries." *S.A.L.J.* 266 (1953).

[79] Refer to note 76.

[80] A. John Michel & Kurt Kelman, *Dictionary of Intellectual Property, Research, Patents and Trademarks,* New York (1954).

[81] See Reisenfeld, *op. cit. supra,* note 64, Vol. 36, No. 6, footnote 89 on p. 425;

countries (e.g. Australia and Britain) expressly provides that patent rights are personal property. Similarly, the U.S. Act states that patents have the attributes of personal property.[82]

With respect to examination, the five patent laws are similar to those of European nations like Germany. Canada has a strict examination system; Australia a somewhat less vigorous one; and in India and New Zealand it is even more limited. Although South Africa has restricted its examination to form,[83] engaging in no review with respect to novelty, its law has recently been amended to provide for a novelty search.[84] No opposition proceedings are provided for in Canada but are available in New Zealand (2 months) South Africa (3 months), Australia[85] (3 months) and India (4 months). However, the Canadian Patent Office does accept and consider objections made during the prosecution of the application.[86] Food and medicines[87] receive special treatment with respect to patentability in Australia, India, South Africa, New Zealand and Canada.

The type of claim, assignments, licensing and the duration of patents are comparable and there is no discrimination against Commonwealth members as foreigners. The British type of claim has been in use in all five countries, permitting a rather broad scope of invention to be defined by the claim.[88] There also are compulsory licensing provisions in the laws of all five.

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24 Halsbury Laws of England 593 (1937); Terrell and Shelley, *Laws of Patents* (1951); The Australian courts require that the subject must involve ingenuity above that normally exercised by a skilled practitioner (*History of the British and Commonwealth Patent Acts*, p. 3, Australian Patent Office, 1959). Obviousness in the Australian and South African Act is limited to opposition and revocation proceedings.

82 35 U.S.C. 261.

83 *Manual for the Handling of Applications for Patents, Designs, and Trade Marks Throughout the World*, Bureau Voor Technische Adviezen, Amsterdam, Holland, 2nd edition (1936).

84 Oscar Carlberg, *Guide to Patents, Trademarks and Designs*, Singer, Stern and Carlberg, New York, (1954).

85 For a discussion of opposition and its effect on the presumption of the validity of patents see "Opposition and the Validity of Patents in the English Speaking Countries" by Rene D. Zentner, *Journal of the Patent Office Society*, Vol. 40, No. 1 (January 1958) p. 47.

86 Refer to note 84.

87 See Leonard J. Robbins, "Pharmaceutical Patents in Foreign Countries," *Journal of the Patent Office Society*, Vol. 37, No. 4 (April 1955), p. 271.

88 See *History of the British and Commonwealth Patent Acts*, Australian Patent Office, 1959, pp. 22-24; *Australian Patents*, H. N. Walker (1949) The Law Book Co. of Australasia Pty. p. 61-62; *Patent Office Handbook*, 10th Ed. (1960), India Patent Office; Justice Dean, "The Claiming Clauses of Patent Specifications," 4 Res. Judicatae 144 (1949).

The compulsory licensing provisions of these countries, based on the British pattern, have been modified [89] to suit the particular needs of each country. The British roots go deep: the abuses resulting in the Statute of Monopolies of 1623 had left their mark and even benign [90] monopolies were strictly construed. In a country like India, where most of the applications for patents are filed by foreigners,[91] this method of licensing has been supported [92]—and this is true for Commonwealth countries generally—on the ground that it encourages the utilization of foreign technology, particularly in underdeveloped countries.

Except for Canada, which provides a 17 year patent term from the date of grant (similar to that of the United States) Australia, India, New Zealand, and the Union of South Africa provide a patent term of 16 years from the filing date,[93] which is similar to that of Great Britain. A provisional specification may be filed in all, with the exception of Canada. Patents of addition are also obtainable in all.

In practice, the patent has in effect, been as broad as the Empire, and thus, served to reduce the difficulties that might otherwise have retarded the development of the empire market. Of course, there were many other factors influencing this market, but few other factors have had so great an effect on the dissemination and utilization of technological knowledge and on inventiveness.

The new patent laws that have been enacted—without radical changes [94]—in Australia (1954),[95] New Zealand (1955) [96] and South

[89] In Australia, after the expiration of three years, a person may petition the Commissioner for a compulsory license. (Patents Act, 1952-1955, No. 42, Sec. 108, 110, Commonwealth of Australia). For information on the reason for providing compulsory licensing see *Australian Patents* by H. N. Walker, The Law Book Co. of Australasia Pty. (1949), p. 132. See also *Patents and Designs, Questions and Answers of Interest to Inventors and Industrialists,* Patent Office Society, 1948, Calcutta, India. See secs. 48, 49, and 50 of the South African Act of 1952 and Secs. 37, 40, and 41 of the British Patent Act of 1949.

[90] See L. James Harris and Irving H. Siegel, "Positive Competition and the Patent System," *PTC J. Res. & Ed.,* (Spring 1959) Vol. 3., No. 1, pp. 27-28 for reference to "benign monopolies."

[91] *Annual Report of the Patent Office,* 1929-1959, India Office of the Controller of Patents and Designs; *Patents Inquiry Committee,* 1948, India Ministry of Industry and Supply.

[92] See Behrman, *Op. cit.,* note 48, pp. 205-213.

[93] Refer to note 78.

[94] See Stephen A. Riesenfeld, "The New United States Patent Act in the Light of Comparative Law," *Journal of the Patent Office Society,* Vol. 36, No. 6, p. 406; "The Patents Act 1952," 27 *Aust. L. J.* 2 (1953).

[95] Australian Patents Act 1952-1955, No. 42, Sec. 133 et seq., Commonwealth of Australia. A committee to revise the patent law was originally appointed in 1935.

[96] See Norman S. Schmitz, "The Dynamics of Foreign Patents," p. 13. This was a paper

Africa (1953) [97] are similar to each other and to the British law [98] which went into effect in 1949.[99] In India the law is also similar, but is basically the Indian Patents and Design Act of 1911.[100] Although Australia, Canada, New Zealand, and South Africa have joined the International Convention, India has not. Only priority in Commonwealth nations is recognized in India.

The provisions of the patent laws of these nations are similar, but the laws of each are designed primarily to meet the particular needs of each nation at its own level of technical sophistication and within the context of what it considers its public interest to be. Evident too, is the ever present concern of underdeveloped nations with being exploited by more advanced industrial countries. That patent arrangements have played at least a small part in the reciprocal technical and industrial development of Commonwealth countries is attested by the many years the Colonial Arrangements have continued in effect. Australia, Great Britain, New Zealand, India, Union of South Africa and other Empire countries [101] were thus associated and reciprocity arrangements still exist among some of them.[102]

CONCLUSION

It is clear that despite the limited public attention the British Commonwealth of Nations has constituted a highly developed common market [103] and will remain one unless Great Britain cuts [104] the ties of association completely on joining the European Common Market.[105] The trumpets

presented on February 20, 1959 to the Lawyers Institute of The John Marshall Law School.

[97] South African Patents Act, No. 37 of 1952, Statute of the Union of South Africa 199.

[98] See Floyd L. Vaughan, "Recent Patent Legislation in Great Britain," *Journal of the Patent Office Society,* Vol. 32, No. 9, (September 1950) p. 692.

[99] U. K. Patents Act, 1949, 12, 13, and 14 Geo 6, c. 87. The Patent Law Reform Committee appointed by the Board of Trade issued two Interim Reports, one in 1945 and another in 1946, and a Final Report in 1947.

[100] The Indian Patents and Designs Act, 1911, as amended in 1952.

[101] Refer to note 83.

[102] Inter-Dominion arrangements are in force between certain Commonwealth countries and India and Pakistan due to the fact that these latter countries are not members of the International Convention. The purpose of these arrangements is to grant priority on a bilateral basis.

[103] In 1961 the Commonwealth exported a total of $15.5 billion—$1.200 billion to COMECON, $3.700 billion to the Common Market, $1.400 billion to Latin America, and $5.700 billion to the U. S.

[104] "I do not see how the Commonwealth can survive unless radical changes are made in the present proposals—Prime Minister Jawaharlal Nehru of India." *The New York Times,* (September 16, 1962) p. E11.

[105] See Seth S. King, "Britain and the Six," *The New York Times,* (August 1962)

have not sounded for the Commonwealth market because it has been with us so long, it is generally taken for granted. This is the same reason for the attitude that prevails with respect to the Common Market that the United States has also so long represented.

The outlook of the members of the Commonwealth has generally been progressive [106] with a tolerant and understanding view of international affairs—a cooperative arrangement was expected of them. In contrast, the European nations with some of the most advanced industrial machines in the world, have in the past hardly known a period of cooperation and peace. Their intense nationalistic rivalries, their military alliances, their suspicions, ancient hatreds and fears of one another had convinced many that there would never be an end to war among them. The realization of the E.E.C. was so fundamental a change, it shook the international community to the core—and the accomplishment of a common industrial property system for Europe, cooperatively achieved, is a far cry from the intensely nationalistic institutions fostered by the military despotisms of the recent past . . . and decidedly different from any previous arrangement, including that of the International Convention for the Protection of Industrial Property.

Thus, if we view events in proper focus, the reason the Commonwealth Market has not sparked world imagination as has the European market, becomes somewhat clearer. It is hoped that this paper will encourage further study of the contributions of the Commonwealth Market to international economic experience so that they might be better understood and utilized for future world market decision making. Also, it is suggested that an examination of the incentives and deterrants to a Commonwealth patent may provide valuable information on international or supranational patent possibilities.

Important current international questions on which a study of Commonwealth experience would shed light include: industrial property arrangements; public and private R&D programs; technological competition;[107]

p. 4E. For a discussion of the perplexing and awkward alternatives facing Great Britain see the lead editorial "Fate of the Commonwealth" and the "Common Market: Britain's Dilemma" by Marquis Childs in *The Washington Post* (September 12, 1962).

[106] New Zealand is perhaps the most progressive state in the world. Women were given the vote in 1893. . . . Under the Labor Ministry, large estates have been broken up—partly by heavy taxation, partly by compulsory sale; a State bank has been founded to lend money to small farmers for the purpose of improving their lands; and very progressive laws have been enacted for regulating factories and conditions of labor. . . . In 1898, ten years before the Mother Country, a system of old-age pensions was adopted. . . ." *A Shorter History of England and Great Britain* by A. L. Cross, the Macmillan Co., N. Y. (1927) pp. 771-772.

[107] A colleague commented: "I have long felt that an interesting study could be made of the causes for the relative lack of innovating activity in Canada. It is my own surmise

agricultural price-support systems; movement of capital, labor, and business; establishment of production, export, and import quotas; leveling effects of stockpile maintenance; state voting policies; general pricing policies; bargaining experience with member states; and general market and fiscal policies. Clearly, Commonwealth experience has much to teach us as we stand on the threshold of new international cooperative adventures involving the spread of technical knowledge.

It should also be suggested that the view of history presented in this paper indicates more alternatives or opportunities, which may not seem naturally to emerge, that Britain and the Commonwealth could well consider. Among the range of opportunities might be an alternative approach that could be taken with respect to E.E.C. on the basis of reciprocity—one large trading bloc cooperating with another on the basis of full parity. Indeed, closer economic union would foreshadow, as it has on other occasions, opportunities for still closer political ties. Our examination of history in this new light suggests that Britain and the Commonwealth may be missing an opportunity, that they may be discarding their experience and, in effect, be rejecting their own historical continuity.

In fact, when the time comes for direct confrontation by the United States with the E.E.C., we might consider reciprocity of the U. S. Common Market with that of E.E.C., supported by a common political sympathy and cultural background. It behooves the free world to develop arrangements among the large trading blocs it comprises which maintain them in their full vigor and which are compatible with their long range interests and common objectives.

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that this arises from the satellite condition in which most Canadian companies exist, i.e., as subsidiaries or affiliates of dominant American or British concerns. Technology originates with the parent companies and is communicated to the Canadian companies, which, therefore, have no innovating responsibility. I have an idea that if an examination were made of the patents issued by the Canadian Patent Office, this would show that by far the preponderant majority are based on United States originated inventions. Those which originated in Canada are so few that I suspect Canada would prove to be near the bottom of the scale in terms of per capita invention productivity."

For Appendix see following page.

Some Comparative Statistics of the More Industrially Advanced Members * of the Commonwealth, other than Britain

	Population	Education	Budget	Foreign Trade
Australia	10,508,101 (1961 Census)	10 Universities 47,565 Students (1959-60)	Revenue: £A 1,935,000,000 Expenditures: £A 1,951,500,000 (1961-62)	Imports: £A 1,037,040,000 Exports: £A 876,151,000 (1960)
Canada	18,168,000 (1960 Census)	339 Universities & Colleges Full-time University Grade Enrollment: 94,400 (1958-59)	Revenue: $5,765,000,000 Expenditures: $6,412,000,000 (1962)	Imports: $5,495,800,000 Exports: $5,266,400,000 (1960)
India	436,424,429 (1961 Census)	1,520 Institutes of Higher Learning 858,846 Students (1957-58)	Revenue: Rs 237,000,000 Expenditures: Rs 9,311,000,000 (1961-62)	Imports: Rs 10,113,000,000 Exports: Rs 6,482,000,000 (1960)
New Zealand	2,414,064 (1961 Census)	6 Colleges 15,821 Students (1959)	Revenue: £NZ 383,403,000 Expenditures: £NZ 276,538,000	Imports: £NZ 278,900,000 Exports: £NZ 302,200,000 (1960)
South Africa	15,841,128 (3,067,638 Europeans) (1961 Census)	10 Universities 41,489 Students (1960)	Revenue: Rs 715,950,000 Expenditures: Rs 715,700,000 (1961)	Imports: Rs 1,111,600,000 Exports: Rs 876,000,000 (1960)

This chart was compiled from material obtained from *Encyclopedia Britannica Year Book* (1962).
* See footnote 4.

Innovator's Payment Determination in the U.S.S.R.*

HERSCHEL F. CLESNER **

SUMMARY

SEVERAL PAPERS HAVE BEEN PUBLISHED dealing with the Soviet innovation system. The incentive stimuli utilized in the system are the monetary rewards to the creator based on his contribution (annual savings) to the Soviet economy. However, no previous paper has disclosed what specific factors are considered in computing the annual savings. Briefly, this paper attempts to describe through example and language these factors such as enterprise use and output; term of the innovation's use; material, energy, labor, and shop maintenance costs. This constant reexamination of the incentive system as related to their economic output may lead to less dictatorial measures to achieve innovation results.

INTRODUCTION

THE SOVIET SYSTEM FOR REWARDING INNOVATION is an integral part of the national program of incentives designed to stimulate industrial technology and economic growth. In as much as two of the powerful

* The Soviet "Statute on Discoveries, Inventions, and Efficiency Suggestions" and the "Instruction (Regulation) Regarding Payment for Discoveries, Inventions and Efficiency Suggestions" are discussed in the following articles:

Herschel F. Clesner, "The Coordinated Soviet Effort to Promote and Apply Major Inventions," *PTC J. Res. and Ed.*, Vol. 4 No. 3, (Fall 1960) pp. 212-219 which discusses the motivation for and the enactment of the Statute and Instruction involved.

M. Hoseh, "The U.S.S.R. Patent System," *PTC J. Res. and Ed.*, Vol. 4, No. 3, (Fall 1960) pp. 220-232 which primarily analyses the Soviet law in securing rights and the resultant publications.

P. J. Federico, "Soviet Law on Inventions and Patents" *JPOS*, Vol. 43, No. 1, (January 1961), pp. 5-96 which primarily relates to the conditions and administration of the law in securing rights with only a brief treatment of the matter of payment.

Herschel F. Clesner, "Payment for Discovieries and Innovations in the Soviet Union," *PTC J. Res. and Ed.*, Vol. 5, No. 1 (Spring 1961) pp. 52-63 which discusses the management relationship to innovators and payment procedures for innovations.

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motivating drives, familiar to the market economy for the competition sales of capital goods in the domestic market environment, are virtually lacking in the Soviet system, great emphasis is placed on individual and managerial incentive to achieve the introduction of new technology. The incentive consists of monetary awards for achievement. The financial plan and budget of the various enterprises must provide the funds for such payment. The amount provided for in the budget has been an experimental variable based on the total cost of production expenditure for the given ministry, agency, or Sovnarkhoz.[1] In fiscal years 1958 and 1960 this amount was 0.3 percent of the total cost of production expenditures. This expenditure must provide for the payments for all forms of incentive awards including those for inventors, innovators and discoverors.[2] In the past, therefore, the success of the incentive program depends on the availability and effective utilization of this budgetary expenditure.

How successful a tool is the Soviet scheme for rewarding invention and innovation system further depends on how the managerial-technocrat utilizes and how he administers such a tool in carrying out his responsibility of increasing productivity and savings through the introduction of new or more efficient technology. The operating managers are the backbone of the technocratic corps of the Soviet Union. The manager of the organization employing the inventor possesses a great amount of discretionary power concerning innovation since he determines in most instances: (1) whether or not to adopt and utilize the innovation; and (2) the ruble amount of the annual savings achieved by the innovation, under the terms of the official "Instructions." It is his job to promote and effect production economies. If the adopted innovation does prove to be successful, the incentive and innovation statutes and regulations are so designed that the manager and others will also receive an award. In this manner the manager and other decision-making personnel have

[1] Regional Economic Operating Unit.

[2] Includes payments made under (1) "Statute on Discoveries, Inventions, and Efficiency Suggestions," (2) "Instruction Regarding Payment for Discoveries, Inventions and Efficiency Suggestions," (3) "Instruction on Computation of Savings Resulting from the Application of Inventions and Efficiency Suggestions," (4) "The Decree on the Economic Stimulation of Enterprises and on Increasing the Material Interest of Personnel in the Creation and Introduction of New Techniques and Technology and the Utilization of Complete Mechanization," (5) Pertinent Instructions relating to the latter statute, (6) The "Decree for Economic Stimulation of Enterprises and on Increasing the Material Interest of Personnel in Lowering Costs, Overfulfilling Production Plans and Improving the Quality of Output," (7) pertinent Instructions under this decree and (8) there may be other statutes. However, all of these statutes are part of the overall incentive tool available to and designed to promote the introduction and utilization of new technology and create economic growth in the Soviet economy.

an incentive to take the risk necessary to introduce the innovations or the new technology.

PAYMENT

The amount of payment to a Soviet inventor or innovator is determined by a scale of approved awards. This scale is tied closely to the amount of annual savings obtained as a result of the use of the innovation. Specifically, the innovator is paid in accordance with the following schedule which is found on the "Instruction (Regulation) Regarding Payment for Discoveries, Inventions, and Efficiency Suggestions." [3]

The "Instruction Regarding Payment for Discoveries, Inventions and Efficiency Suggestions" [4] states that Annual Savings referred to in this schedule, in turn, are determined in accordance with another official schedule, called the "Instruction on Computation of Savings Resulting from the Application of Inventions and Efficiency Suggestions." [5] Without

[3] Ratified with the sanction of a decree April 24, 1959 by the Council of Ministers of the U.S.S.R. together with the "Statute on Discoveries, Inventions and Efficiency Suggestions" under Resolution No. 435.

Amount of Annual Savings (In Rubles)	Payment for Invention	Payment for Efficiency Suggestion
Up to 100	25% of the saving, but not less than 20 rubles	13.75% of the saving, but not less than 10 rubles
100-500	15% plus 10 rubles	7% plus 10 rubles
500-1000	12% plus 25 rubles	5% plus 20 rubles
100-500	10% plus 45 rubles	2.75% plus 45 rubles
5000-10,000	6% plus 250 rubles	2% plus 85 rubles
10,000-25,000	5% plus 350 rubles	1.75% plus 110 rubles
25,000-50,000	4% plus 600 rubles	1.25% plus 235 rubles
50,000-100,000	3% plus 1,100 rubles	1% plus 360 rubles
Over 100,000	2% plus 2,100 rubles, but not more than 20,000 rubles	0.5% plus 860 rubles, but not more than 5,000 rubles

[4] The translated Russian expression reads "rationalization suggestion." The word rationalization in American usage has several meanings and the meaning intended is the one not commonly used. The term in the Soviet context means suggested improvements which create efficiency savings in the work process. It includes methods of control, observation, and research, methods of industrial safety and worker's protection besides improvements in equipment, products, systems, and processes. The words "improvement" and "innovation" were considered as the rendition for "rationalization," but as they may also include inventions it was a considered opinion to use the term "efficiency suggestion" as the term which in American usage more nearly approximates the Russian meaning and usage. However, the word "innovator" is used in this article occasionally for the term "efficiency suggester," and "efficiency innovation" for "efficiency suggestion" as modified by the word efficiency.

[5] The greater portion of this article is based on the Russian language hand book entitled "Instructions on the Computation of the Savings Resulting from the Application of Inventions and Efficiency Suggestions" issued by the Committee on Inventions

this latter Instruction it has been impossible to determine the exact amount the Soviet innovator is entitled to receive for his contribution. Just what are the intended guidelines and considerations that determine savings and just how are these criteria applied? Unless we have a clear understanding of the procedure followed to determine the savings payment under the cited schedule, the scale of rewards will have little meaning. We shall first examine the underlying "Instruction" which sets forth the computational factors necessary to determine the savings resulting from the use of inventions and efficiency suggestions.

This Instruction was approved by the Committee on Inventions and Discoveries of the Council of Ministers of the U.S.S.R. on December 22, 1959. Its approval was achieved after agreement with the State Planning Commission of the U.S.S.R. (GOSPLAN), the Ministry of Finance of the U.S.S.R., and the All-Union Central Council of Trade Unions. It achieved its official status in the form of a decree of the Council of Ministers of the U.S.S.R.

The present paper deals primarily with the terms of the Instruction for computing the savings obtained in the Soviet economy from the use of inventions and efficiency suggestions covered by author's certificates for inventions or certifications for efficiency suggestions.

PAYMENT TERMS

Under the pertinent Soviet statutes and regulations on inventions and discoveries payment must be made to the inventors and innovators for their contributions within the following periods of time. Up to 200 rubles has to be paid within one month from the date that the plan to use the innovation extensively was approved. Payment exceeding 200 rubles must be paid in the amount of 25 percent (but in any event not less than 200 rubles) within one month from the date when the plan for extensive use of the innovation was approved. The remainder of the payment is to be made on the basis of the actual extent of the use of the innovation, but not later than two months after the expiration of the first year of use of the innovation.

Payment for inventions and efficiency suggestions is derived from the computation of the amount of savings achieved during the first twelve months of use of the invention or efficiency suggestion. The first twelve months of use of the invention or efficiency suggestion are counted from the beginning of the actual use of the innovations directly in industry,

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and Discoveries of the Council of Ministers of the USSR published Moscow 1960, 63 pages, copy available in the United States Patent Office.

[6] *Ibid.*

construction, agriculture, etc., or as stated by an act or other equivalent document. The drawing up of technical plans, working designs, the phase of experimental work, etc., are not considered to be in the nature of utilization, except when the invention or efficiency suggestion is directed toward improving a phase of the operation of technical planning, designing or the operation of a scientific research organization. The preliminary working and testing of the innovation also is not treated as utilization.

Savings on which the innovator's payment are determined are required to be computed not later than twenty days from the date the plan for utilization of the particular innovation was approved.

COMPUTATIONAL FACTORS—COST AND ENTERPRISE USE

Savings are determined by cost elements and items directly affected as the result of utilization of the innovation, on the basis of a comparison between existing norms in the enterprise (organization) prior to the use of the innovation and norms established in consideration of utilization of the innovation. If, at the beginning of the use of the innovation actual costs are lower than costs computed according to the norms established prior to the application of the innovation, then when savings are determined the actual costs are used and not costs derived from the formerly existing norms. If, at the beginning, the actual costs are higher than costs according to the existing norms when savings are determined, the norm costs are used and not the actual costs. Costs connected with working out and testing the innovation (preparation of drawings, models, experimental models, testing, etc.) are not considered in computing savings.

If the enterprise has no standardized norms, then savings are computed by individual cost items on the basis of the consolidated norm scales existing in the enterprise applying the innovation. In an enterprise where no standardized norms or consolidated scales exist then the existing union or other norms for labor and material costs, standardized under established procedure, can be used for computing savings.

Savings resulting from the use of the innovation (invention or efficiency suggestion) are computed by the enterprises (organizations) which must grant the innovator's payment in accordance with the Schedule [7] found in the third paragraph of this Article.

If the utilization of the innovation creates savings not only during the manufacture of the product but also during its exploitation, or just during its exploitation, then the enterprise (organization) which manufactures

[7] Section 4 of the Instruction on Payment for Discoveries, Inventions and Efficiency Suggestions. This is described in "Payment for Discoveries and Innovations in the Soviet Union" under II Payment for Inventions and Suggestions pp. 54-55 *PTC J Res. and Ed.* Vol. 5, No. 1 (Spring 1961) by Herschel F. Clesner.

the product computes the savings and pays the innovator's payment. In determining the enterprise it is also necessary to proceed on the basis of Section 4 of the Instruction on Payment for Discoveries, Inventions and Efficiency Suggestions.[8]

Total savings accruing from the use of the invention or efficiency suggestion in several enterprises are determined by the net sum of the savings for these enterprises or according to a consolidated computation based on the average savings per unit of product computed for several enterprises and the volume of use of the innovation in all enterprises using it.

During a computational year if the use of the innovation reduces manufacturing costs at one or several enterprises, production sections, etc., and at the same time increases costs at other enterprises, production sections, etc., or reduces costs for some items and increases them for other items, then this must be considered when computing savings. This refers to the difference in cost for materials and wages. Also, the purchasing, modernizing, reconstruction, installing, etc. costs of fixed assets which are involved with the utilization of the innovation are considered when computing savings in the amount of the annual depreciation deductions for the period of computation excepting seasonal endeavors and single orders. Enterprise costs related to the acquisition of its own manufactured equipment are to be considered in computing savings according to the above procedure. When utilizable fixed assets are replaced, the difference between the annual depreciation deductions before and after the use of the innovation must be considered in the computation.

Where savings resulting from the use of innovation do not originate as an efficiency in the process of making a product (machine tool, machine, material, etc.) but as a result of product exploitation, the savings are based in the maximum amount of product use in the computational year. If it is not possible to establish the maximum amount of product use in the computational year, it is permissive to compute savings based on the maximum annual output of the product.

If, in the course of a computational year, the use of the innovation changes the costs during the manufacture of the product and its use, then annual savings are computed with the cost increase or decrease resulting from the manufacture and use of the product, that is: if savings occur during its use but the cost of manufacture is more expensive, then the increase in costs during manufacture is subtracted from the savings obtained during its use; on the other hand, if there are savings during

[8] This is described under pps. 54 and 55. II Payment for Inventions and Suggestions of the Article "Payment for Discoveries, Innovations in U.S.S.R. by H. F. Clesner *PTC J. Res. and Ed.*, Vol. 5, No. 1.

the manufacture but its use is more expensive, then the increase in costs during its use is subtracted from the savings obtained during the manufacture. Where the innovation creates savings both during the manufacture and during use, these savings are totalled.

The following example is offered as a means of explanation of how payment and savings are determined.[9]

Example 1

An invention (machine for trimming wooden parts) creates a saving by an increase in the output norm in several plants. Nine machines were made.

Part A

Seven machines at a price of 500 rubles in Plant "A" made it possible to reduce the piece rate for trimming segments from 2.27 to .58 kopeks, as a result, the saving in wages for trimming is 1.69 kopeks. The 7 machines during the year handle 168,144 trimming operations. Thus the saving for basic wages is 1.69 kop. $\times$ 168,144 = 2,841.6 rubles and for supplementary wages (10%) + 284.2 rubles or a total of 3,125.8 rubles.

The increase in electric power cost is 347.2 rubles based on a capacity of the electric motor of 2 kw., motor operation 8 hours a day, 310 days working time and a cost of .1 kop. per kw/hr $\frac{(.1 \times 7 \times 2 \times 8 \times 310)}{100}$.

The increase in equipment depreciation cost with a norm of 10% is 350 rubles for the 7 machines $\frac{(500 \times 7 \times 10)}{100}$.

The total savings in *Plant A* is 3125.8 rubles minus 350 + 347.2 rubles = 2,428.6 rubles.

Part B

In Plant "B" manual operations by one of these machines were mechanized with the result that labor productivity increased creating a saving of 3 norm hours per shift. Based on the work conditions in one shift and the number of work days in the computational year, the annual saving in wages with an hourly wage rate of .198 including a saving in supplementary wages of 14.8 rubles, or 8% of basic is 200.1 rubles.

[9] This example and the others cited in this article may be found in the Russian language book entitled "Instructions on the Computation of the Savings Resulting from the Application of Inventions and Efficiency Suggestions" referred to in Footnote No. 6.

The increase in depreciation costs is 50 rubles with a norm of 10%.

The increase in electric power costs is 49.6 rubles with the same operating regime.

The saving, in *Plant B,* excluding additional costs, is 200.1 rubles minus (50 plus 49.6 rubles) = 100.5 rubles.

Part C

In Plant "C" another machine cuts the manufacturing time for one box by 30 minutes, which with an average monthly output of 300 boxes, reduces labor inputs by 1800 norm-hours a year ($.5 \times 300 \times 12$) and saves 403.2 rubles from which it is necessary to deduct depreciation and electric power costs of 99.6 rubles.

Total

Thus the total annual saving for the 9 machines used in the three plants is $2,428.6 + 100.5 + 303.6 = 2,832.7$ or an average saving per machine of 314.7 rubles which must be used for recomputing the saving with any increase in the machine output in the next four years.

COMPUTATION FACTORS—TERM OF INNOVATION'S USE

Annual savings are computed for the full computational year (the first 12 months in succession) from the beginning of the use of the innovation. Where the innovation is not used from the beginning of the year, savings are computed for the remaining part of the year according to the technical, industrial and financial plan (the construction and financial plan, etc.) for the given year, and for the remainder of the 12 months, according to the technical, industrial and financial plan for the following year, or if such a plan for the following year has not yet been approved then according to such a plan for the current year. If the actual volume of use of the innovation is different from the planned volume, the savings are recomputed during the course of the year. In seasonal operations of the Soviet economy savings are determined for the period of the season. In the case of innovations used for a period of less than 12 months, savings are computed for the actual period of use. Innovations pertaining to individual single orders savings are computed on the basis of the period for fulfilling the given order or its part, and where such an order exceeds 12 months savings are computed for a 12 month period of using the innovation.

When the innovation is used by several enterprises at different times during the course of one computational year, the savings are computed for the twelve months beginning with the day on which the use of the in-

novation period started in the first enterprise. If the innovation is used in combination with several other integral units (production sections, machines, parts, etc.) at different times, then the first use of the innovation is considered to be with the first unit.

Savings are computed from the first year of use of the innovation. In cases where an increase in savings result from the use of the innovation in subsequent years, savings are recomputed—for inventions the average of the subsequent four years of use, and for efficiency suggestions, during the second year of use. Where savings are increased due to an expansion in the volume of use of the innovation, the additional savings are determined by multiplying the planned savings per unit of product in the first year the innovation is used by the actual increase in the volume of use of the innovation for each subsequent year. The additional savings obtained as the result of such recomputation are added to the savings computed in the first year the innovation is used and the size of the payment is determined anew. The difference between the newly established amount of the payment and the formerly computed amount must be paid to the innovator. If the wholesale prices on raw materials, other materials, etc., change during the second and subsequent years of use of the innovation, then the savings per unit of product are corrected in relationship to the prices existing in the year for which savings were computed. In doing this, savings are computed at these prices only for the actual increase in the volume of the product.

COMPUTATIONAL FACTORS—MATERIALS, ENERGY, LABOR, AND SHOP MAINTENANCE COSTS

Where the use of the innovation cuts down the consumption of basic raw materials, intermediates, ancillary materials, fuel, power, etc., then the savings per unit of product are the result of the difference in their consumption based on the norms prior to the use of the innovation and the norms established with the use of innovation. The resultant savings are multiplied by the volume of output for the year. Savings derived from purchased raw materials, intermediates, and other such factors are computed using the wholesale prices (excluding turnover tax) existing at the time when the innovation was put into use with consideration of transportation and purchase costs. Savings in the consumption of power are also based on electric, heat, and other power rates at the time when the innovation was put into use. Installation costs are not to be considered. Savings in basic raw materials, ancillary materials, intermediates, fuel and power produced by the enterprise itself are computed on the basis of the planned or actual shop cost, whichever is the lower, at the time of the start of the innovation's use.

INITIAL DATA

1. Annual Output Plan

Cloth Article	*Prior to the Introduction (1,000 m)*	*After the Introduction (1,000 m)*
A	12,190.5	12,288
B	5,790.4	5,836.8
C	4,114.3	4,147.2
Total	22,095.2	22,272.0

2. Change in piece rates per meter of cloth (kopeks)

Cloth Article	*Prior to Introduction*	*After Introduction*	*Saving*
A	1.07	1.05	.02
B	1.18	1.15	.03
C	1.01	.99	.02

3. The supplementary payment under the progressive wage system as to the basic piece rates is 41%.
4. Supplementary wages are 8%.
5. Relatively constant overhead costs applying to cloth articles A, B and C come to 552,600 rubles per year and per meter of cloth.
   Prior to introduction 2.5 kopeks (552,600 rubles: 2,209,520)
   After introduction 2.48 kopeks (552,600 rubles: 2,227,200)
   Saving .02 kopeks (25.0-24.8 kopeks)

COMPUTATION OF THE ANNUAL SAVING

1. For basic wages

Article A (.02 × 12,288,000 m)	2,457.6 rubles
" B (.03 × 5,836,800 m)	1,751.0 rubles
" C (.02 × 4,147,200 m)	829.4 rubles
	5,038.0 rubles

2. For Supplementary payments under the progressive wage system

$\frac{5038 \times 41}{100}$	2,065.6
Total for basic wages	7,103.6 rubles

3. For Supplementary wages $\frac{7103.6 \times .8}{100}$ 568.3 rubles
4. For overhead costs

(.02 × 22,272)	4,454.4 rubles
Total savings	12,126.3 rubles

A change in the design of an article and method of making it made it possible to increase shop output, lower labor costs and the cost of basic material thus reducing the production cost of the article.

INITIAL DATA

	Prior to Introduction	*After Introduction*
Planned annual output (in units)	200,000	300,000
Piece rate per unit	.15 rubles	.11 rubles
Basic materials per unit (complete)	.25 "	.02 "
Depreciation of special instruments per unit.	.12 "	.01 "

OVERHEAD COSTS FOR ANNUAL OUTPUT

Costs for maintaining and operating equipment	30,000 rubles	40,000 rubles
Shop costs	36,000 "	42,000 "
All-Plant costs	45,000 "	45,000 "
Total Overhead Costs	111,000 "	127,000 "

A computation by items and an analysis of overhead costs show that with an increase in production volume of 50% the following changes took place:

(a) Costs for maintaining and operating the equipment increased 33%.
(b) Production shop costs increase 16.7%.
(c) Overall plant costs remain the same.

COMPUTATION OF SAVINGS

	Prior to Introduction		*After Introduction*	
Name of Cost Item	*Per Unit*	*Program (1,000 rubles)*	*Per Unit*	*Program (1,000 rubles)*
Annual planned output (units)	—	200,000	—	300,000
Direct Costs				
Basic Materials	.25	50	.2	60
Transportation and Procurement Costs (10%)	.025	5	.02	6
Basic Wages	.15	30	.11	33
Supplementary wages (10%)	.015	3	.011	3.3
Depreciation of Special Instruments	.12	24	.1	30
Total Direct Costs	.56	112	.441	132.3
Overhead Costs				
(a) Equipment Maintenance & Operations.	.15	30	.133	40
(b) Shop	.18	36	.14	42
(c) Overall Plant	.225	45	.15	45
Total Overhead	.555	111	.423	127
Factory-plant Overhead Prod. costs	1.115	223	.864	259.3
Savings	—	—	.251	73.3

If the use of innovation lowers labor costs paid according to piece rates, then the savings per unit are derived as the difference between the piece rate prior to the use of the innovation as contrasted with the piece rates put into effect in connection with use of the innovation. This saving is multiplied by the volume of output in the year. In computing the savings in wages, the savings in supplementary wages, which are determined at a percentage of the savings in basic wages, must also be considered.

Savings in employee wages paid under the time or time plus bonus wage systems are computed by the resulting difference between the planned annual wage fund before and after the use of the innovation. Where the actual wage is lower than the planned fund then the actual wage is used.

Supplementary payment under the piece-rate-plus bonus wage system is considered in the computations of savings as a percentage of basic wages. (See example).

If the use of the innovation has a direct influence on items of shop and overall overhead costs, then the savings or increase in costs are computed only for such items which change with the use of the innovation. If the innovation use results in increased commodity output, the relative saving in shop and overall costs in respect to the constant part of these costs is considered where the increase in production volume is reflected in the plan and the output sale is provided for.

The following examples are designed to demonstrate how some of these computation factors are used in determining savings.

New shuttles were introduced in a weaving factory which increase the length of the thread on the weft cop which resulted in an increase in loom productivity of more cloth.

Total production costs decreased 36,300 rubles or 16.3% with a volume increase of 50%.

Production cost per unit dropped from 1.115 to .864 rubles or .251 rubles.

Total Savings for new volume

.251 rubles $\times$ 300,000 = 75,300 rubles or 35,700 for direct costs and 39,600 overhead costs.

COMPUTATION FACTORS—SUBSTITUTION OF NEW UNIT OF MANUFACTURE, ELIMINATION OF REJECTS

Where the innovation relates to the manufacture of new machines or devices which were formerly not manufactured in the given enterprise,

then the savings are derived as the difference from the present cost of making the product as contrasted with the former cost of making the product or similar item. If such a comparison is not possible, then the cost of producing this or a similar product in other enterprises is substituted. In doing this, savings are computed for comparable costs by items of production cost.

For inventions and efficiency suggestions which replace a purchased article with an enterprise manufactured article, the savings are determined by the difference in costs for the purchased article at wholesale prices (excluding turnover tax), including transportation and procurement costs with the full cost of manufacturing and warehousing the article in the given enterprise.

Innovations put into effect during a period of mastering new designs, new technological processes, etc. when temporary norms and piece rates are in effect, the savings are computed for the intended period of effectiveness of the temporary norms and piece rates but not more than one year. If the innovation's use lowers costs for the manufacture of experimental designs or for experimental work then the computation is for the period the experimentation is done and for the innovation used, but not more than one year.

In those instances where use of the innovation insures a reduction or the complete elimination of rejects in production, the savings are computed according to direct costs and variable shop costs which apply to the cost of the output finally rejected before and after the use of the innovation. These savings are determined on the basis of data on the average monthly percentage of finally rejected articles as to the output of suitable articles during a six month period prior to and during a three month period after the innovation's use. The computation also considers the relative savings in overhead costs as to the relatively constant part of these costs resulting from the increased output due to the reduction in rejected output.

Savings resulting from innovations for the correction of rejects are determined as the difference between the reduction in losses from rejected output and the additional costs for correcting the rejects. Only the output rejected for the causes which are eliminated by the given innovation are used in the computation.

An invention was put into use in a tire plant which repairs rejected tire casings into suitable ones. Four such machines were put into use.

NECESSARY DATA TO COMPUTE SAVINGS

1. Annual plan for the output of tire casings:
   a) Prior to invention introduction 100,000 units of production.
   b) After invention introduction 105,000 units of production.

2. Losses involved in the manufacture of the rejected tire casings:

   5 rubles.

3. Additional costs for correcting rejected tire casings a year:

   a) basic wages (piece rate per unit of 5.0 kopeks) (5 × 5,000) 250 rubles.
   b) supplementary wages (10% of basic wages): 25 rubles.
   c) costs for glue (.025 kg × .5000) = 125 kg. at a price .203 rubles per kg.) 25.4 rubles.
   d) depreciation of four machines with a balance sheet value of 750 rubles each and 10% annual depreciation deductions (750 × 4 × .1) = 300 rubles.
   e) electric power: (computed) 211.2 rubles.
   f) costs for repairing and operating the machines (computed) 523 rubles. Total additional costs: 1334.6 rubles.

COMPUTATION OF SAVINGS

1. Savings in the item of losses from rejects (5 rubles × 5000) 25,000 rubles.
2. Additional costs for correcting the rejected tire casings 1334.6 rubles.

Savings are 25,000 rubles — 1,334.6 rubles = 23,665.4 rubles.

COMPUTATIONS—CONSTRUCTION INNOVATIONS

Innovations which reduce the cost of a construction project or connected work, savings are computed by comparing the confirmed estimated cost of building the project or of the work based on the working drawings before and after the innovation's use for those cost items which change in connection with the innovation's use. In computing the savings resulting from the innovation's use the estimated cost of the given project or work is corrected for the difference between the July 1, 1955 prices and rates, and prices and rates at the time the innovation is put into effect. Where the innovation reduces the direct costs for construction only for one or several items, then savings are computed only for those items. Savings from construction overhead costs are considered in those cases when the use of the innovation directly lowers costs in respect to individual items. If the period for constructing the projects is greater than one computational year, then the savings are determined for the volume of construction or work done during the computational year of the innovation's introduction. If the innovation is used at several construction projects then the savings are determined for all of these projects based on the volume of the innovation's use at these projects in the computational year. Estimated financing computations of the construction cost, not approved and accepted for financing, cannot be used as a basis for computation. Where the innovation not only lowers the construction cost but also changes the cost in the same computational year, this, too, must be considered when computing the savings. Also innovations savings which lower construction cost are recomputed if there

occurs an increase in the volume of use of the innovation in subsequent years.

CONCLUSION

The economic system in effect in the U.S.S.R. has unmistakably produced economic growth in that country. It is fair to conclude that where there is growth there must be in operation some initiative and incentive on the part of the participants, by individuals, as well as economic units.

In the Soviet economic system the mechanisms of competition through the market and the urgent drive to promote sales are in effect non–existent. Since the individual Soviet economic enterprise operates under predetermined plans, the local operating unit is limited in its autonomy of investment and risk–taking decisions. Further, in any developed and smoothly operating enterprise, in the absence of market pressures, there is great resistance to change which would include the introduction of new technology but does not include necessarily efficiency improvements in existing operations. Accordingly, these and other forces at work, such as the ponderous Soviet bureaucratic set-up, inhibit and retard innovation and the introduction of new technology.

Because of their limited export potential, the current squeeze on additional manpower for industry due to declining birth rates in war and famine years, plus the large numbers of workers tied up in agriculture, the bulk of Soviet industrial growth, its continued technical upsurge, must come from a sharply rising labor productivity. Such a steep rise could be achieved only by very rapid modernization and automation of production, sustained by the introduction and application of new technology.

Lacking market incentives, the Soviet system has attempted to employ "capitalistic" stimuli that appeal to the self-interest of the individual, to the technocrat and the manager. These are designed as alternatives or supplements to the political and social pressures used by the regime to achieve increasing labor productivity. Yet, prior to 1959 these stimuli were obviously ineffectual, indicating that the system did not use the available material incentives adequately, that it did not stimulate basic and primary inventions or the rapid adaption of such inventions. The system, until then, was geared primarily to the achievement of greater volume output, along established technological lines, rather than to major innovation and its introduction into use.

Since 1959, however, the party leadership has been pressing forward vigorously, ruthlessly, with single-minded determination and with increasing exploitation of every possible channel, has attempted to accelerate the advance in production techniques and the utilization of new tech-

nology. As part of this drive, the revision of the "Statute on Discoveries, Inventions and Suggestions for Rationalization of Procedures" and the "Instructions" relative to payment and computation of the payment for inventions and efficiency suggestions were revised. Clearly, the main objective of these revisions is to reward more effectively, and give greater incentive to, those immediately concerned with innovation, with a special emphasis on the decision makers who assume the risk of introduction. This reexamination will undoubtedly lead to the strengthening of personal material rewards for the introduction of new products and technology. It will also advance the cause of new technology by the immediate guarantee of the payment award if the innovation was introduced.

Despite the introduction of these new guide lines, for use in computing the savings achieved by innovation, the new measures may lead to difficulties in the accounting and also to improper allocation of funds for payment. There is also the added difficulty of obtaining exact knowledge on the use, and the exact payment due for the use, after the innovation has been adopted and utilized by an enterprise other than the innovator's own. Further, where savings are created through the use of a new product or the introduction of new technology, there is still a great amount of discretion left to the plant manager in his computation of the appropriate payment. This same discretion carries over in determining payment for innovations which do not produce a savings but help to do the same job in a better way, special inventions for new types of production, new valuable materials, medicines, new machine–produced products and the right to increase the payment amount for innovations used on a limited basis. Yet these deficiencies may be balanced out if the needed funds are available to carry along the entire individual and managerial incentive programs. Along with that, a dynamic movement of modernization and automation of production, supported by innovation breakthroughs, is necessary to offset the inhibiting forces present in the Soviet system. Such a program to overtake the United States in industrial technology and to achieve a greater level of material well-being than that which will be found in this country by 1970 must of necessity acquire great momentum or the leaders of the U.S.S.R. will have to undertake more imaginative, less dictatorial measures for stimulating inventiveness and risk-taking in their state-operated economy.

On Individual and Joint Patent Production*

IRVING H. SIEGEL**

SUMMARY

THIS REPORT EXTENDS an earlier one on the continuing dominance of single inventors in the modern corporation and on new technological frontiers.[1] It presents additional statistics on inventors per patent, compares inventive experience with authorship, and offers additional observations and evidence on the roles and relations of individuals and small groups (e.g., research teams).

I. SOLE AND JOINT INVENTORS

Distribution of Inventors per Patent

THE SAME KINDS OF FREQUENCY DISTRIBUTIONS that were shown in the earlier paper for the number of patentees per grant are encountered again in the new computations presented below. The statistics demonstrate persuasively that, in the two contexts of interest to us (i.e., in the corporation and on today's technological frontiers), individuals are much more productive of new patents than any combination of inventors—pairs, trios, or larger groups. The findings for both settings indicate that single inventors persist even where formal research and development programs are commonly conducted on a scale favorable to the organization of laboratory workers into teams. Indeed, the patent output of sole inventors often exceeds the total for all joint inventors by a substantial margin; and in no case reported here is the contribution of single individuals significantly smaller than the composite output of all groups.

* Interim report of a study of published data on research activities and patents.

** Dr. Siegel is a member of the Foundation's research staff.

[1] See I. H. Siegel, "Persistence of the Sole Inventor," *PTC J. Res. & Ed.*, Vol. 5, No. 2 (Summer 1961), pp. 144-149. The term "sole" is used here in a customary manner, as in a patent application, to differentiate single from multiple or "joint" originators of a patent. It does not have the same connotations as the related word, "solo."

Another word, "group," is used in this paper in two senses, but no ambiguity should result. It is employed to designate (1) a frequency class or (2) a combination of people having a definable common purpose or interest.

The observed patterns, being exhibited also by phenomena in many other fields, are familiar to the statistician. They are highly "skewed": When graphed, they resemble a J printed backwards or the left half of a U. Since the frequency arrays necessarily begin with the patent output of single inventors (for the concept of zero inventors would make no sense here), the distributions are technically known as "truncated" or "decapitated." Numerous mathematical expressions may be proposed for describing these statistical arrays, but the task of determining equations of best fit must be deferred to another occasion or left to other authors.[2]

At this point, a distinction should be noted between the principal statistics considered here and others that may appear to be of the same *genre* but really have a different meaning. Thus, ratios in which the steadily rising number of research and development workers in the nation is related to a fairly stable annual output of new patents do not necessarily imply that the average size of inventive "teams" is increasing. Many such workers are not engaged at all in patent-oriented activities, while our statistics refer exclusively to the inventors winning patents.

A similar caution should be observed in interpreting analogous figures, presented later, on the authorship of papers. Thus, ratios of available scientists and engineers to the number of technical papers published by only a part of this special population [3] differ basically from distributions of papers according to size of specific author groups (including single authors). The latter figures, restricted to the actual authors of the works, are comparable to distributions of patents according to number of patentees.

Summary of Earlier Findings

For the convenience of the reader, we recapitulate the statistical evidence provided in the earlier article. In brief, single inventors accounted for more than half of all patent grants in every case considered.

First, we note the findings for three large corporations commonly regarded as technologically progressive.[4] In these companies, the propor-

[2] Models meriting investigation include the Yule and truncated Poisson distributions, exponential "decay" functions, and various logarithmic "laws" associated with the names of Pareto, Lotka, and Zipf. Dozens of bibliographic citations are appropriate here, but two would suffice to start an interested student on his way: M. G. Kendall, "Natural Law in the Social Sciences," *Journal of the Royal Statistical Society,* Vol. 124, Pt. 1, 1961, pp. 1-16, and H. T. Davis, *Theory of Econometrics,* Principia Press, Bloomington, 1941, Chapter 3.

[3] Ratios of this sort are presented in *Publication of Basic Research Findings in Industry, 1957-59,* National Science Foundation, 1961, pp. 27-29.

[4] The firms are International Business Machines Corporation, International Teletype Corporation, and Western Electric Company.

tion of recent patents credited to single inventors ranged from 63 percent of the total to 69.5; to paired inventors, from 22 to 28; and to trios, from 6 percent to 9. Four or more persons were identified with a patent in only 30 of the 1,834 observations for all three companies combined. Only once were six names associated with a patent, and equally rare was the mention of a team of seven.

Second, we summarize the earlier statistics relating to two familiar technological frontiers—atomic energy and transistors (including some other semiconductor devices). Sole inventors accounted for 56 percent of the 1,266 government-owned atomic energy patents released for non-exclusive, royalty-free licensing in the period July 1957-December 1960. Furthermore, they accounted for a much greater proportion—79 percent—of the 203 patents for transistors and related devices found in the U.S. Patent Office file (Class 330, Subclasses 12-40) in May-June 1960. Only 42 of the 1,266 atomic energy patents were credited to teams of four or more inventors, and only 1 patent was attributed to a team of six. In the distribution for 203 transistors, even trios were uncommon, accounting for but 4 patents; and no patents were recorded for larger groups.

Additional Statistics for Atomic Energy

The availability of additional data for atomic energy patents in a form convenient for processing permits a test of the stability of the results derived in the earlier paper. The new computations, presented below, confirm the original evidence of the dominance of sole inventors in nuclear technology.

During 1961, the Atomic Energy Commission released 250 more of its patents for non-exclusive, royalty-free licensing. This increment brought the cumulative total of publicly available atomic energy patents to 2,734.[5] (The distribution mentioned in the preceding section, covering 1,266 patents, included half the total available for general licensing before 1961.) The credits for the 250 new patents reveal that individual inventors contributed slightly more than half:

	Released AEC Patents	
Inventors	Number	Percent
Sole	128	51.2
Joint	122	48.8
Two	76	30.4
Three	33	13.2
Four	8	3.2
Five	4	1.6
Six	1	.4

[5] *Major Activities in the Atomic Energy Programs: January-December 1961,* U.S. Atomic Energy Commission, January 1962, pp. 404-411.

Three other new distributions, which follow, have been compiled from data on atomic energy patents published by a Congressional Committee in 1959.[6] Although these figures doubtless include a good number of patents already incorporated in the tabulation mentioned for 1,266, they refer to significant sub-universes and hence cast additional light on the role of single inventors.

First, we consider a distribution computed from data for 425 patents actually licensed by AEC, upon written request. This array shows a much higher contribution by single inventors—almost two-thirds—than do the figures already presented for atomic energy patents available for licensing:

	Licensed AEC Patents *	
Inventors	Number	Percent
Sole	274	64.5
Joint **	151	35.5
Two	113	26.6
Three	20	4.7
Four	2	0.5

* Excludes 2 patents for which no information on inventor(s) was reported.
** Includes 16 patents (3.7 percent) which could not be distributed since they were marked *"et al."*

Second, we consider the distribution of 381 atomic energy patents for which contractors had retained licenses.[7] This array also shows a contribution of almost two-thirds from sole inventors:

	AEC Patents: Contractor-Retained Licenses *	
Inventors	Number	Percent
Sole	245	64.4
Joint	136	35.6
Two	98	25.7
Three	31	8.1
Four	5	1.3
Five	2	0.5

* Excludes 1 patent for which no information on inventor(s) was reported.

Third, other AEC data attest the outstanding performance by individuals in various well-defined areas of nuclear technology.[8] Sole inventors are associated with 66 percent of the government patents reported for auxiliary reactor equipment; with 65 percent in the case of nuclear instruments; and with 59 percent in the case of nuclear-reactor components. Even in the design of reactor systems (e.g., pressurized-water,

[6] *Selected Materials on Atomic Energy Patents,* Joint Committee on Atomic Energy, U.S. Congress, March 1959, Vol. I, 70-85.

[7] *Ibid.,* pp. 86-97.

[8] *Ibid.,* pp. 99-107.

boiling-water, organic-moderated, sodium-cooled, homogeneous, fast-breeder, and gas-cooled), where a team approach might seem especially appropriate, the share for individuals reached 50 percent. The details follows:

AEC Reactor Technology Patents	Inventors Per Patent					
	Sole	Joint	Two	Three	Four	Five
Reactor Types						
Number	32	32	19	4	6	3
Percent	50.0	50.0	29.7	6.2	9.4	4.7
Reactor Components						
Number	30	21	14	4	3	0
Percent	58.8	41.2	27.4	7.9	5.9	0
Auxiliary Reactor Equipment						
Number	41	21	17	3	1	0
Percent	66.1	33.9	27.4	4.9	1.6	0
Nuclear Instruments						
Number	79	43	37	5	1	0
Percent	64.8	35.2	30.3	4.1	0.8	0

Are Chemical Patents Different?

Now we turn to a technologically active field not explicitly covered in the original paper and ask: How typical of chemical patents are the findings thus far reported? It is well known that joint research is common in industrial and academic chemistry laboratories; and that most chemical patents are issued to assignees, generally the employers of the inventors. The question, therefore, seemed worthy of special attention even though the atomic energy statistics already examined include numerous chemical, as well as electrical and mechanical, inventions.[9]

A frequency analysis was accordingly made of all the chemical patents reported in four recent weekly issues of the *Official Gazette* of the U. S. Patent Office—for June 5, 12, 19, and 26, 1962. Of the 888 patents recorded there for American and foreign nationals, almost half were the output of single inventors. Indeed, the contribution of single inventors was as great as the combined output of teams of two and three. Groups of four or more inventors accounted for only 1 patent in 25. The largest group, including ten persons, was represented by only 1 invention (a method of preparing steroid compounds).

The details for the 888 chemical patents clearly show the outstanding

[9] Thus, among the atomic energy patents are many relating to "unit operations" and "unit processes" associated with chemical engineering (such as catalysis, solution, extraction, separation, adsorption, distillation, reduction, and halogenation); and to the production of metals (such as uranium, thorium, cerium, cesium, zirconium, hafnium, and the rare earths), non-metallic elements, alloys, isotopes, organic polymers, acids, and other compounds.

role of sole inventors on the chemical scene, even though individuals fall short of a majority share in the patent total:

Inventors	Chemical Patents	
	Number	Percent
Sole	428	48.1
Joint	460	51.9
Two	317	35.7
Three	109	12.3
Four	23	2.6
Five	6	.7
Six	1	.1
Seven	0	0
Eight	3	.4
Nine	0	0
Ten	1	.1

It should also be reported here that sole inventors outproduced every group in each of the four weeks surveyed, so this table for chemical patents does not reflect vagaries of aggregation or averaging.

II. INVENTION AND AUTHORSHIP

Comparison for two companies

The pattern found so characteristic of patent production is also encountered in the study of technical authorship, but it is not clearly the norm for the written communication of research findings. Significant divergences occur as the scope of inquiry broadens, with single authors sometimes exhibiting only indecisive margins over paired authors or even lagging behind them.

When attention is directed to the companies for which patent experience has been reported, the distributions of technical articles by number of authors are found to be fairly similar to the corresponding distributions for patents. Thus, tabulations prepared from information provided in five recent quarterly issues of the *IBM Journal of Research and Development* (for April 1961-April 1962) show the dominance of both single authors and single inventors. The relative contribution of sole inventors (two-thirds) is seen to be greater, however, than that of sole authors (three-fifths):[10]

Inventors or Authors	IBM			
	Patents		Articles	
	Number	Percent	Number	Percent
Sole	306	68.0	275	60.0
Joint	144	32.0	183	40.0
Two	101	22.4	129	28.2
Three	27	6.0	36	7.8
Four	10	2.2	14	3.1
Five	4	1.0	4	.9
Six	1	.2	0	0
Seven	1	.2	0	0

[10] The table is based on recent patents and articles of IBM employees (and occasional outside associates) and on the articles (excluding letters) published in the five cited issues.

Data obtained from the five issues of the *Western Electric Engineer* for the same interval (April 1961-April 1962) also show wide margins in favor of individual inventors (two-thirds) and authors (three-fourths).[11] The Western Electric distribution for patents is very much like that for IBM, but the dominance of individual authors is much more striking than in the case of IBM:

	Western Electric			
	Patents		Articles	
Inventors or Authors	Number	Percent	Number	Percent
Sole	149	68.7	121	76.1
Joint	68	31.3	38	23.9
Two	47	21.7	30	18.9
Three	15	6.9	7	4.4
Four	6	2.7	1	.6

Single and Joint Authors

According to other information, the performance of individual authors is not decisively, nor consistently, superior to the performance of joint authors. Nowadays, individuals do not always outproduce pairs in the various disciplines although, as a rule, they are still encountered much more frequently than trios or larger groups; and their share of the total number of works (unadjusted for length or quality) often falls below 50 percent.

For illustration, let us consider a list of research papers and technical articles published in 1958-1960 by staff members of the Battelle Memorial Institute and their (outside) collaborators.[12] In the category of "mechanics and mechanical engineering," individual authors made a greater contribution than all others, accounting for slightly more than half of all titles. The distribution here resembles that for inventors per patent, but, as we proceed to other well-defined categories, the similarity diminishes. Thus, although individuals also outperformed every group in "physics and nucleonics" and in "electronics and electrical engineering," their share in both of these categories slightly exceeded two-fifths. In the important Battelle research area of "metallurgy and metallurgical engineering," individual authors maintained a lead over every group, but their contribution to the total amounted to less than three-eighths. In the case of "chemistry and chemical engineering," another significant area of Battelle research, individuals accounted for one-third of the total; they were virtually matched by paired authors, and trios were also well represented. Individuals were outproduced by paired authors in the "ceramics" category, and their share of the total fell short of one-third.

[11] Based on data of the kind mentioned in footnote 10, except that other staff "presentations" are also included with articles.

[12] *Literature Contributions*, Battelle Memorial Institute, Columbus, July 1961. Titles that belong to more than one of the research areas designated in this pamphlet are listed more than once.

Special notice should be taken of a comprehensive study of journal literature made by the Johns Hopkins University Operations Research Office.[13] This survey of ten periodicals for the period 1920-1959 shows the following distributions for the two terminal years:

Authors	Percent of articles in— 1920	1959
Sole	59	31
Joint	41	69
Two	33	41
Three	7	18
Four or more	1	10

A striking reversal is indicated by these two columns. The distribution of authors for 1920 reminds us of the characteristic distribution for patenting inventors. The 1959 array, however, shows paired authors in the lead, while the share for individuals falls short of one-third of the total. It is tempting to speculate that the change presages a similar development with respect to inventors per patent in the future—the eventual dominance of paired inventors and the increasing representation of larger groups while the contribution of individuals remains sizeable. But another point, concerning the period actually embraced by the statistics, seems more worthy of special attention.

A Halting Trend?

As the figures showing the reversal in authorship shares are examined decade by decade, a curious fact emerges: The critical change really occurred between 1920 and 1940, *before* the "research explosion" set off by World War II. In subsequent years, government-financed and privately-financed corporate research has flourished, numerous new frontiers of science and technology have been opened, and teamwork in the laboratories has become a matter of common talk. The observed effect on the authorship distribution between 1940 and 1959, however, was limited to some further gain in the relative importance of three or more authors—at the expense of paired authors as well as individuals.

The Johns Hopkins study also has something of interest to say about differences among the disciplines. Even in 1920, papers by two authors already outnumbered those by single authors in a representative chemistry journal and a leading physiology journal, and combinations of three

[13] This paragraph and the next three are based on H. S. Milton and H. H. Green, *The Group vs. the Individual in Research,* Johns Hopkins University Operations Research Office, Bethesda, July 1960. The ten periodicals in the survey relate to the physical sciences (3), the life sciences (2), the earth sciences (2), the applied sciences (2), and mathematics (1).

authors were also prominent. On the other hand, mathematics and geography were, and still remain, strongholds of individual endeavor.

A more recent note [14] on the nation's mathematics output, based on the contents of three major journals, also shows 1920-1940 to be the period of decisive shift to joint authorship. Paired authors accounted for only 2.2 percent of the total number of papers in 1920 and 18.2 percent in 1940. In 1950, however, the *same* percentage is shown as for 1940; and a *decline* to 12.7 is recorded for 1960.

The failure of joint authorship to advance significantly or unequivocally in our well-advertised age of "big research" and of the team approach should encourage fresh analysis of unexpected or puzzling behavior in certain times series involving patents. One example that comes to mind is the virtual stabilization of the ratio of patents issued to domestic corporations (numerator) and to individuals (denominator) during the past two decades or so. This ratio more than trebled in the period between the two World Wars,[15] *before* "R&D" acquired capital letters, but it has shown no important change in the ensuing years.

III. INTERACTION OF INDIVIDUALS, GROUPS, AND THE LARGER ENVIRONMENT

At this point, it seems appropriate to extend the discussion, initiated in the earlier paper, of factors pertinent to the analysis of individual and joint invention. A simple yet comprehensive framework is offered for systematic recording and examination of the characteristics and interrelations of individuals, groups, and their common environment. Within such a framework, some pertinent opinions and literary evidence not cited either in the preceding sections or in the earlier paper are presented.

Allowing for Multiple Interaction

Studies of the determinants and conditions of invention are all too often designed in such a way as to preclude the registration and detection of vital influences. The structure and variety of creative activity, its many alternative mechanisms and modes of realization, cannot be comprehended by observation, analysis, or theory confined to only one discipline, or even to two or three. Findings that refer to a large body or to "society" cannot be directly applied or extrapolated to small "face-to-face" groups—or still worse, to small groups without regard to the particular environments in

[14] Communication by W. R. Utz, *American Mathematical Society Notices*, June 1962, pp. 196-197.

[15] *Historical Statistics of the United States: Colonial Times to 1957*, U.S. Department of Commerce, 1960, p. 607.

which these operate. Controlled experiments in applied psychology or sociology that bear on invention have to be interpreted with discrimination when the results are extended to situations in the "real world." The same is true of "thought experiments" predicated on an economic rationality that is only indifferently manifested in actual behavior. Generalizations derived from empirical inquiries, on the other hand, are not necessarily sounder than those established by arm-chair methods, by deduction from plausible or appealing assumptions. Propositions grounded on the correlation of a few preselected pertinent variables have a deceptive appearance of definitiveness when statistical tests affirm the explanatory power of these variables; but such test scores cannot wash out an "original sin" of inadequacy or bias in the underlying model.

No brief is offered here for eschewing premature hypotheses, or "first approximations" that seldom are followed by progressive refinements, or the application of quantitative methods. Rather, the object is to reaffirm a place for straightforward "common sense" inquiry—for the orderly accumulation, organization, and review of relevant information, without prior arbitrary or parochial limitations on choice. Specifically, the designation of a small number of exhaustive interacting (or, if one prefers, "transacting") categories is useful for describing a "genetic" or "dialectical" evolutionary process, whatever the scale or complexity of such a process; and information cast into such a mold may also provide both the material and the insights for those simpler hypotheses and distillations that the human mind seems disposed to prefer.

In the remainder of this paper, we shall think of the *individual* as the center of a series of concentric circles of increasing radius. The first circle is the *group* of which the individual may be a member. Next, come the firm (i.e., the sponsor or employer, private or public), the economic *market* (composed of all firms, customers, and suppliers, including the labor force), the *state* (represented by government and law), the *culture* (defined by all other elements of the institutional setting, including customs, values, skill varieties and grades, and technology), the *international order,* and *nature* (raw material, energy sources, and "land" in general). Each of these "actors" has "inherent," but still evolving, properties; and each influences, and is influenced by, the others.[16]

[16] The model suggested here is similar to those proposed by the author in other connections. See, for example, four papers by I. H. Siegel: "Technological Change and Long-Run Forecasting," *Journal of Business,* July 1953, pp. 141-156; "Conditions of American Technological Progress, *"American Economic Review,* May 1954, pp. 161-177; comments in *Capital Formation and Economic Growth,* Princeton University Press, 1955, pp. 572-578; and "Scientific Discovery and the Rate of Invention," in *The Rate and Direction of Inventive Activity: Economic and Social Factors,* Princeton University Press, 1962, pp. 441-450. See also Jacob Schmookler, "Changes in the Industry and in the State of

Individual Qualities and Roles

Commonly, particular personal attributes are singled out as critical for scientific and technical achievement, but no list can be complete or absolute. Performance, after all, is dependent also on the nature of the task and on the facilitating and inhibiting features of the environment—not only on the "inherent" capabilities of people. The qualities deemed important for successful solo efforts of self-employed or employee inventors are not necessarily the same as those required of research managers, project leaders, senior research associates, or rank-and-file team members; and the key attributes sought in basic research workers are usually different from those sought in applied research personnel. In proper proportion, unglamorous and relatively passive individuals can, and do, effectively complement those with the better-publicized dynamic, positive virtues. Indeed, in creative enterprise as in other activities, there seems to be room nowadays for all of Riesman's types—for inner-directed, outer-directed, and tradition-directed personalities.

Two more comments should be made before we take a look at the recent literature. First, as already hinted, "inherent" personal capabilities that are brought to a creative situation are modified by the new experience itself. That is, "education" is, like invention, an outcome of a process of interaction of people and their environment (including other people), so that any initial list of individual qualities undergoes progressive change. The second point is the importance of internal tension or conflict for creative activity: Invention depends, not only on the collaboration, but also on the opposition, of certain personal traits. In the same way that the elements of external environment encourage or inhibit personal achievement, the interplay of intrapersonal factors (including the passive traits) also contributes to success or failure. Where the dominant scientific concern is to explore intensively the psychological and biological roots of behavior, additional interacting categories which help to shape and direct the performance of a person as a whole might be identified and discussed explicitly.

To give substance to the foregoing observations, we cite illustrative recent writings by authoritative or well-situated observers on individual

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Knowledge as Determinants of Industrial Invention," in the last volume cited, especially pp. 225-228.

Structurally similar models have suggested themselves in so many fields of inquiry that a new unifying "general system theory" has been identified and elaborated. In this theory, a "system" is defined as "a complex of elements standing in interaction." The nature, history, and applicability of the theory are authoritatively expounded by L. von Bertalanffy in *Problems of Life,* Harper reprint, New York, 1960—especially in the last chapter, on "The Unity of Science."

qualities that are pertinent to the administration, stimulation, or actual conduct of inventive activity:

1. At the top of the research hierarchy in the modern corporation is a manager or vice president, who, according to a seasoned student of research administration, ought ideally to possess: considerable experience in research programming and laboratory direction; a thorough understanding of the conditions of creativity and successful team effort; a feel for technological currents and prospects; ability to participate effectively in corporate policy-making; a capacity to coordinate research objectives with corporate operations and public relations; skill in communicating to company colleagues the significance of technology; a balance of scientific vision and concern for the practical; and a talent for teamwork. In addition, the ideal research manager should show curiosity and constructive discontent, enthusiasm and ability to communicate enthusiasm, courage to take risks and make unpopular decisions, and dedication to his own aims.[17]

2. At a lower level of research management, where the leader may also be an active scientist or engineer, some of the same qualities prove valuable. (In a new case history of the invention of the transistor at the Bell Telephone Laboratories, reference is made to Shockley's rejection of the conventional dichotomy between pure and applied science, his broad-ranging interests, his conviction that a solid-state amplifier was feasible, his persuasiveness of colleagues, and his "contagious" enthusiasm.[18])

3. The characteristics of non-administrative creative scientists present a continual challenge to administrators. Since scientists often seek to become poor or indifferent supervisors in pursuit of pay and prestige, more companies will doubtless try to prolong creative careers by establishing "parallel paths of reward and recognition for technical and managerial personnel."[19] A university dean records these characteristics of the creative person that must be considered by academic officials: an inquiring mind, powers of analysis and accumulation, intuition, self-discipline, a tendency toward perfectionism, introspection, and resistance to external authority.[20] An industry research director adds: ". . . a strong need to

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[17] M. Holland and Contributors, *Management's Stake in Research,* Harper and Bros., New York, 1958, pp. 18-25.

[18] R. R. Nelson, "The Link between Science and Invention: The Case of the Transistor," in *The Rate and Direction of Inventive Activity; Economic and Social Factors,* Princeton University Press, 1962, pp. 559, 560, 582. See also A. H. White, "Basic Research at Bell Laboratories," in *Proceedings of a Conference on Academic and Industrial Basic Research,* National Science Foundation, 1961, pp. 25-26.

[19] J. M. Morris, "Administration of Research in Industry," *Research Management,* July 1962, p. 242.

[20] J. D. Brown, "A Climate for Discovery," in *Proceedings of a Conference on Academic and Industrial Basic Research,* pp. 66-68.

assert himself and be independent." The creative scientist is seen by this director as a "restless type" requiring "approval, prestige, satisfaction of curiosity" and exhibiting "a need to belong, or simply a need to create a new idea or concept." By performing a "successful creative act," he removes "the frustration which results from the unsatisfied need for insight into a problem." [21]

4. Another corporate official, who holds several patents, recognizes six types of personnel whose talents have to be selected or blended to meet the aims of a research organization. In addition to the "Promethean mind," there is room for the "critical or analytical mind," the "cumulative-inductive mind" (effective at ordering information), the "cumulative-descriptive mind" (effective at presenting information), the "meticulous mind" (which delights in precise detail), and the "routine industrious mind" (patient for repetitive fact-seeking).[22]

5. Hard work and perseverance may compensate for lack of native genius—this is the message to the youthful novice from a Nobel laureate and holder of many atomic energy patents. People of superior endowment, he observes, do not realize their potential "unless they are fortunate enough to be in an environment where they are continually prodded into activity." Some need solitude for accomplishment, others do best as team members. In any case, the nation's tasks are so numerous and varied as to require people of many levels of ability. Achievement may depend on a particular "combination of qualities"—such as "manual dexterity, special experimental technique, a freshness of viewpoint, or an insight gained from past experience." By mastering fundamental principles, scientific method, and modern laboratory techniques, one may advance "with near certainty" to levels of achievement unattained by "many mental giants of a generation ago." [23]

Psychological and biological aspects of individual behavior, already acknowledged to some degree in the five items just cited, are also treated more explicitly in recent literature pertaining to invention. Examples follow:

1. A student of "preventive psychiatry" notes a need to reduce the wastage of creative manpower by intrapsychic interferences—by "neurotogenic processes" that lead to periodic compulsive "overdrive" and to reaction in the form of temporary or protracted "work blocks." These disturbances, which may afflict mental workers at different times in their

[21] J. D. Porsche, "Creativity in Terms of New Products," in M. Holland and Contributors, *op. cit.*, pp. 102-103.

[22] J. M. Morris, "Administration of Research in Industry," *Research Management*, July 1962, p. 234.

[23] G. Seaborg, "Letter to a Young Scientist," *THINK*, July-August 1962, pp. 15-21.

careers, could be aggravated (though apparently not originated) by inappropriate educational procedures.[24]

2. Much attention is being given to the prolongation of creativity beyond the favored younger ages. Although "for creative research freshness is more important than wisdom," [25] late switches from one field to another may revive productivity; the novelty of change and the opportunity to apply ideas and methods established in an alien discipline occasionally prove conspicuously beneficial.[26] If the apparent diminution of creative power in mid-career represents a transition from aggressive achievement to a defensive posture "under attack from other experts and from a new generation of young research people," the remedy of transfer to a new field is surely indicated. The shift, however, is ordinarily difficult to make.[27]

Group Achievement

Any combination of individuals that has a spine of common purpose may be regarded as an "organism," but such a group also constitutes a specialized "environment" for personal expression and interpersonal exchange by its members. When a productive group is called "creative," it is implicitly accepted as an organism, but the adjective could justifiably be reserved to the members themselves—especially to those credited with the achievements that comprise the group's distinctive output.

Creativity, in other words, might well be retained as a personal attribute that can be intensified in a carefully contrived environment which includes a proper blend of colleagues, suitable equipment, attractive rewards and working conditions, and skilful leadership. Indeed, the essential problem of leadership is to encourage identification of individuals with group aims insofar as possible, to encourage maximum self-satisfying performance along the line of group interest, and to control dysfunctional personal actions and interactions. In steering the course of the group, the leadership also has to look outward—to take due account, for example, of competing groups and of the objectives sought, and constraints imposed, by still higher echelons of management.

The concept of group could be extended to include (a) past contributors to current inventive activities or (b) major inanimate accessories. Thus,

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[24] L. S. Kubie, "The Fostering of Creative Scientific Productivity," *Daedalus,* Spring 1962, pp. 294-309.

[25] H. De W. Smyth, "Role of the University in Basic Research," *Proceedings of a Conference on Academic and Industrial Basic Research,* p. 20.

[26] "Thinking Ahead with Leo Szilard," *International Science and Technology,* May 1962, pp. 35-36.

[27] J. M. Morris, *loc. cit.,* p. 244.

when viewed against the cultural heritage of tools and knowledge, all current creative effort represents a special kind of group enterprise; for every inventor, including the lone wolf, has a vast number of known and nameless historical antecedents and collaborators.[28] This fact seems critical to the cultural anthropologists and sociologists who disparage the novelty and uniqueness of what is usually called invention. The second extension of the group concept includes man and machine as coequals in a team. Instruments that enhance man's motor and sensory capabilities have typically been recognized as subordinate tools, but the advent of "mechanical brains" that are indispensable for rapid decision-making in adverse changing circumstances, is having a profound effect on ways of speaking and thinking about "man-machine systems." [29]

In the paragraphs that follow, we shall limit discussion to the conventional group—to people coexisting in geographic proximity and having a well-defined community of interest. The role of past contributors or major instruments in defining the character of contemporary invention could best be discussed later, if necessary, as an aspect of culture.

Group research may be organized to promote the "convergence," or allow the "divergence," of individual efforts; and sole inventors will find opportunities under either dispensation. If a specific end result is sought, as in product research or process development, the formal assignment and scheduling of tasks seem desirable; the activities of subgroups are closely coordinated and integrated; and a hierarchical structure may be evident. On the other hand, when the object of inquiry is to "find out what can be found out," as in basic research in a given field, experts may be brought together from several disciplines; their efforts may be only loosely coordinated; the lines of authority are left somewhat vague; and the "freedom" of the scientist is emphasized. Avenues of investigation multiply as the work proceeds, and "serendipity" is not necessarily discouraged.

In the management of "convergent" research, the supervisory role may be given either to a senior scientist or to a professional administrator who preferably has had some research experience. The senior scientist, as will be noted again below, is in a good position to become an inventor or co-inventor. The professional administrator, on the other hand, is more likely to be "working for the subordinate," to serve as a guide, trouble-shooter, and a communications link to higher management; he tolerates and encourages considerable research autonomy on the part of his staff. Creativity and technical independence may find earlier and fuller expres-

[28] See H. DeW. Smyth, *loc. cit.*, p. 19; and T. S. Kuhn, "Historical Structure of Scientific Discovery," *Science,* (June 1962) pp. 760-764.

[29] See, for example, L. J. Fogel, "Autonomous Automata," *Industrial Research,* February 1962, p. 19.

sion under such an administrator, especially when his research expertness, if any, has been established earlier in some *other* field. Overvigilance, like overorganization, is believed to have a stifling effect.[30]

In all groups, interaction with one's intellectual and administrative peers and superiors is continual, and it has both constructive and disruptive effects. Supervisors try to spur creative individual efforts within the group context by teaching, inspiring confidence, gently criticizing, introducing a sense of urgency, promoting intercommunication, and fostering rivalries. But they must not rely on pat "brainstorming" formulas, and they certainly cannot afford to let induced competitiveness or tension get out of hand. When control is good, the payoff in ideas is high; "censorship barriers" are lowered as critical judgment is deferred, and "mutual reinforcement" by group members unfetters individual imagination.[31]

Other comments in recent literature point up the significance of the group as a specialized environment for deployment of individual talents:

1. A Nobel physicist who turned biologist at the age of 47 teamed up with a younger physical chemist because "I don't like to work alone. I'm not too good working with my hands." He also said: "I don't like large groups if I can help it." [32]

2. In the study of the transistor's history, the author "wonders whether an invention like the transistor . . . ever can be a team effort, if invention refers to a basic idea, and team refers to a group of people whose work is closely coordinated and planned by a group leader." He surmises that the same sort of invention could be devised in a small industrial laboratory or at a university; but "a large industrial laboratory like Bell does have a comparative advantage in this business." He refers to three elements in the success of the Bell semiconductor project: ". . . the close interaction of top-flight scientists, a great deal of freedom in the course of research, and an extremely strong interest on the part of at least one member of the group in inventing a practical device." [33]

3. A professor of industrial engineering, who believes that the modern team approach has fundamentally changed the meaning of "invention" in government and academic laboratories as well as in industry, has analyzed ten cases. Although his findings emphasized the "cooperative character" of the "creative work," he also observed: "In each of these 10 foregoing

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[30] This paragraph and the preceding one are based largely on J. M. Morris, *loc. cit.*, pp. 238-241.

[31] J. D. Porsche, *loc. cit.*, p. 109. See also an article in *Wall Street Journal*, September 13, 1962, on "brainstorming" and other techniques intended to enhance group creativeness in modern companies—e.g., "morphological analysis" and "personal analogy."

[32] *International Science and Technology*, May 1962, p. 35.

[33] R. R. Nelson, *loc. cit.*, pp. 579-580.

cases, one or two persons were primarily responsible for initiating the project and were formally responsible for the work." [34]

Where one unifying mind (the principal investigator's or a senior scientist's) exists and where the source of critical ideas may not be identifiable because of continuous staff interaction, the person in charge stands a good chance to become a sole inventor. To balance the possibility that an indifference to credit or that the quick diffusion of good ideas leaves a leader to reap much more than he has sowed, we should mention a significant counterpossibility. Thus, the head of a world-famous research organization has suggested to the present writer that many firms nowadays, for the benefit of morale, overload patent applications with team members; that in most cases he has investigated only one team member is worthy of being called the inventor.

The Larger Environment

These remarks bring us to the next in the series of concentric circles: the firm. Employer attitudes and actions, as well as other elements of the common environment, affect the performance of the individual and the group. It would be a mistake, incidentally, to assume that common factors have a similar impact on personal and collaborative efforts and do not influence the sole-joint patent ratio.

Among the many aspects of company or institution policy that are relevant to individual and joint invention are: the official attitude toward the patent system, provisions for compensation for patents (other than generous or overgenerous credit, which has just been mentioned), arrangements for maintenance of competency in the state of the art, and the level of utilization of creative personnel. Companies that wish to establish or maintain a strong or diversified patent position have adequate legal counsel and actively assist employee-inventors in paperwork. Many firms give small awards for patent applications, royalties, periodic bonuses for innovation, or stock options. Among the fringe benefits in support of technical skill are: paid membership in professional societies, expenses for attendance at meetings, assistance in preparation of technical papers, tuition for work-related courses, in-house programs for upgrading, and professional publicity for on-the-job accomplishment.

Most difficult company task of all, perhaps, is the optimum use of the most creative personnel—who may be left to wither in routine tasks, on unchallenging overlong projects, under insensitive or spiritless leaders. One antidote is to support their "personal" ideas with time and facilities—

[34] S. Melman, *The Impact of the Patent System on Research,* Study No. 11, Senate Committee on the Judiciary, 85th Cong., 2d Sess., 1958, p. 16.

and funds if warranted. To the creative individual, "all projects are company projects, and properly used creative men are company men." [35]

Other influences exerted by the employer deserve passing mention. The relative importance of sole and joint inventors depends in part on the extent to which team research is actually conducted and also on the size of the teams. The zeal of journalists and others to establish the reality of a trend toward team organization has tended to obscure the continuing importance of individual operations in the laboratory. The design and location of research facilities condition the opportunities for communication within and outside the firm. Publication policy, finally, may stimulate or discourage initiative.

For conceptual completeness, we should cover all the remaining rings of the larger environment. These really deserve more than token discussion, however, and the task will not be taken up here.

IV. CONCLUDING COMMENTS

Instead of restating our principal findings and the supporting evidence in summary form, we conclude with selective observations on the content of the three preceding sections.

The main proposition discussed in this paper—viz., the continuance of the sole inventor in an outstanding role in the modern corporation and on the technological frontier—may obviously be subjected to further test, refined, and extended. Additional data on inventors per patent are available for exploitation. It would seem desirable to examine the distribution of inventors in other situations than those already considered, to observe changes occurring through time wherever chronological comparisons are feasible, and to correlate the new statistical material with other information having explanatory value. Situations in which the research duties of a staff are largely defined by the existence of a major unit of equipment (e.g., a synchrocyclotron) merit particular attention.

It is important to distinguish between the main hypothesis demonstrated in this paper and other (often apparently contradictory) propositions employing somewhat similar words or the same words in multiple senses. Thus, as an early footnote points out, the connotation of "sole" is different from that of "solo"; a person may do "independent" research either as an employee or in self-employed status; and the word "group" (or "team") may designate either an *organizational* aggregate (e.g., a laboratory staff) or a *statistical* class included within such an aggregate (e.g., only those members credited with making a specific patented invention).

[35] On this paragraph and the preceding one, see D. A. Brown, "Compensating the Innovator," *Industrial Research,* February 1962, pp. 22-24.

The preparation of a technical article is a creative act that may normally bear little resemblance to invention, yet an examination of authorship figures in conjunction with those for patent production is revealing. Although distributions for authors vary widely according to discipline, they are similar to the corresponding ones for inventors per patent in the two major corporations considered in this paper. More striking is the continuing dominance of sole inventors in the chemical field despite the loss of leadership there by sole authors long ago. This fact and certain others should encourage a reappraisal of propositions on individual and group invention that supposedly characterize the current period of vast and increasing public and private investment in research and development activity.

The literary gleanings presented in the third part of this paper disclose many avenues for individual inventive achievement and recognition, even for individuals working in a group context. Of course, in many corporations and on various novel scientific and technical fronts, research is still not organized on a team basis. Where group effort does predominate, however, the team may represent an ensemble of *virtuosi,* of loosely coordinated specialists guided by a common theme rather than a clear pattern of authority. Where a more definite hierarchical order exists, a project leader or principal investigator is in a favored position to become recognized as an inventor or coinventor. Even here, a motivated or talented individual may, whatever his grade, still invent according to his specialty or personal interest; he may react in a "private" creative way to the stimulus of a challenging general task or a challenging team environment. Furthermore, an administratively or technically equipped leader may come to the fore and assume tacit command regardless of the official assignment of authority.

The system of interacting categories discussed in the third section of this paper offers a useful framework for development and exposition of a general theory of invention (and of its aftermath too). Such a theory, like a map, embraces all feasible avenues in the first instance; and it is also adaptable to the study of particular routes regarded as more plausible, or of greater interest, than others. Furthermore, the system of categories is suited to the examination of the blend of forces contributing to invention, in general or a particular case: individual factors (e.g., personality, technical ability, education, motivation, and age), group factors (e.g., quality of supervision, assignment of personnel, and staff cooperation and competition), employer policy (e.g., encouragement and assistance of patent activity), and so forth.

A categorical analysis of the inventive process makes clear the multiplicity of participants, of potential claims to the fruits, and of alternative

plausible shorthand descriptions of the process. We may choose to talk of invention in terms of "heroes"; or we may eschew romanticism and emphasize, as some social scientists prefer, the successful struggle of "man" (i.e., a culture, or its occupationally specialized agents) against "nature." A firm that provides facilities and employment to researchers, a state that provides technical education—both may claim a special share of the gross rewards of invention. A group may appear as the essential context for a given achievement. A special category of international debt may be defined: How much is due to a native land for its nurture of an emigrant Bell, Tesla, Steinmetz, Marconi, Zworykin, Ipatief, or Shockley? Philosophical, economic, political, legal, sociological, anthropological issues abound; and the representatives of any one of these disciplines typically are not of the same mind regarding the proper allocation of joint products, rights, or wealth.

The remarks just made are not intended to suggest that a patent system lacks a sound basis, operates haphazardly, or yields overgenerous rewards to undeserving individuals or corporations. Such a system must be regarded instead as one part of the complex apparatus whereby a society like ours pragmatically "solves" the problem of generating and distributing the benefits of invention and of other economic activities. The total apparatus operates in a more sophisticated way than is sometimes imagined. For example, if a "giveaway" results in an unreasonable partitioning of rewards, there is also a disproportionate automatic "takeaway" in the form of progressive income taxation. Besides, administrative, legislative, and judicial corrections can be made for gross errors.

In two earlier articles appearing in this *Journal*,[36] the present author and a colleague have noted that patents serve as instruments of "positive competition"—the kind that actually is "working" rather than the kind declared to be "workable" or representing some still more rarefied theoretical norm. The conventional and creative use of the patent system to pursue private gain within the bounds of dynamic law may yield greater social benefits than alternative arrangements promising a juster initial distribution of rewards but inspiring lesser rates of invention and other productive activity. Our evolving regime of "positive competition" permits broad scope for private as well as public decision-making and encourages continual functional adjustment of the patent system and the other interacting elements of a generally expanding economy.

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[36] L. J. Harris and I. H. Siegel, "Positive Competition and the Patent System," *PTC J. Res. & Ed.*, Vol. 3, No. 1 (Spring 1959), pp. 21-32; and "Evolving Court Opinion on Patent Licensing: An Interaction of Positive Competition and the Law," *Ibid.*, Vol. 5, No. 2 (Summer 1961), pp. 103-113.

Data Provisions in Defense Contracts*

GEORGE F. WESTERMAN **

I. INTRODUCTION

THE DEPARTMENT OF DEFENSE is in the data business in a big way. It has been estimated that defense establishments spend $1.5 billion annually to acquire data and $500 million more in its reproduction. Fifty million drawings are being managed within the Department and six million new reproducibles enter the system each year. One billion prints are distributed annually. These figures illustrate the magnitude of the resources devoted to data within the Department of Defense.[1]

Nevertheless, the main cause of trouble in this field is not the volume of data being handled. The crux of the problem lies in the fact that there is embodied in this data, much of the know-how or skill, technique and experience necessary to produce a large number of defense items. In numerous enterprises today, know-how is probably a far more important element of the success formula than many other traditional assets.[2] Therefore, industrial concerns take great pains to keep it from their competitors. On the other hand, one of the principal reasons for the Government's acquisition of data is to lay a foundation for competitive procurement.[3] In view of the diametric opposition of these Industry and Government objectives, it is not at all surprising to find more controversy raging over data than in any other area of Government procurement. Unfortunately, the true factual situation in the average case involving a data problem is all too often beclouded by nebulous and emotional thinking on both sides, Government as well as Industry.

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* The opinions or conclusions presented herein are those of the author and do not necessarily represent the views of the Department of the Army or any other governmental agency.

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[1] Report of Department of Defense Survey of Requirements for Manufacturing Type Data at Military Installations, Office of Procurement Policy, OASD (S&L), 1 August 1960, p. 3. These figures are estimates because data are generally not priced separately in a contract but are included in the cost of the principal item.

[2] Beach, "The Government and Industrial Know-How," 41 *American Bar Association Journal* 1024 (1955).

[3] In this connection ASPR 1-300.1 (1 July 1960) provides that:

"All procurements, whether by formal advertising or by negotiation, shall be made on a competitive basis to the maximum practicable extent."

The purpose of this paper is to give a straightforward explanation of Department of Defense policy with respect to acquisition and use of data, the difficulties encountered in the application of this policy and the steps being taken to alleviate these difficulties. Part 2, Section IX of the Armed Services Procurement Regulation, commonly called ASPR, is the basic authority in this field.[4] It is here one must turn for an explanation of what is meant by data, how it is acquired by the Government and how it may be used.

II. WHAT IS "DATA" AND WHEN IS IT "PROPRIETARY"?

ASPR Definitions

ASPR states that " 'Data' means writings, sound recordings, pictorial reproductions, drawings, or other graphic representations and works of any similar nature whether or not copyrighted. The term does not include financial reports, cost analyses, and other information incidental to a contract." [5] Some of this data is classified as "proprietary data"; everything else is called "other data." [6] The expression "proprietary data" is not a legal term of art. To different people it may mean different things. At one end of the spectrum, it may mean any data containing information which an industrial firm for commercial purposes desires to protect from use by others. At the other extreme, "proprietary data" may be thought to coincide precisely with what would be legally protectible as trade secrets. The Department of Defense solution to this problem is found in ASPR 9-201(b) which provides a definition setting forth explicitly those elements considered essential to constitute data which is entitled to special recognition as "proprietary data". This definition states that " 'Proprietary data' means data providing information concerning the details of a contractor's secrets of manufacture, such as may be contained in but not limited to his manufacturing methods or processes, treatment and chemical composition of materials, plant layout and tooling, to the extent that such information is not disclosed by inspection or

[4] For a discussion of Part 1, Section IX of ASPR, see Westerman, "Patent Provisions in Defense Contracts," 44 *JPOS* 38 (1962).

[5] ASPR 9-201(a) (1 July 1960).

[6] ASPR 9-201(c) (1 July 1960) states:

" 'Other data' means all data other than 'proprietary data' and includes:

(i) Operational data which provides information suitable among other things for instruction, operation, maintenance, evaluation or testing; and

(ii) Descriptive data which provides descriptive or design drawings or descriptive material in the nature of design specifications which, although not including any 'proprietary data', may nevertheless be adequate to permit manufacture by other competent firms."

analysis of the product itself and to the extent that the contractor has protected such information from unrestricted use by others." [7]

Thus, under the ASPR definition, "proprietary data" does not include information in the public domain or that which has not been protected by the owner against its unrestricted use by others. Nor does it include any information which can be ascertained by inspection and analysis of the product itself, in other words, by "reverse engineering."

The Dispute between Industry and the Department of Defense

It is at this point that the Department of Defense and Industry find themselves in sharp disagreement. Mr. G. C. Bannerman, Deputy Assistant Secretary of Defense (Procurement), in testifying before House Subcommittee No. 2 of the Select Committee on Small Business on 31 March 1960, summarized the controversy as follows:

> Industry would describe as proprietary data any information it desired to protect, rather than limiting the term to trade secrets. We cannot agree with industry that we should, by regulation, extend protection to information which is in the public domain or which can readily be obtained by analysis and examination of the product, and, hence, can be readily copied by others. * * * [8]

One of Industry's main objections to the ASPR definition of "proprietary data" was brought to the attention of the subcommittee on 30 March 1960 by Robert R. Lent, Vice President, Riggs Nucleonics Corp., Burbank, California, who testified in pertinent part:

> The military maintains that if an item, on which there is a proprietary claim, can be reverse engineered then they are relieved of the responsibility of so doing and therefore have a right to demand knowledge that could be obtained through reverse engineering. * * *

Mr. Lent then explained this statement by pointing out that the ASPR definition of "proprietary data" contained the limiting phrase "to the extent that such information is not disclosed by inspection and analysis of the product itself". He then went on to say:

> Now in actual practice, instead of saying 'is not disclosed,' it is being interpreted to mean 'or could not be disclosed.' I think that any industry guest here will testify that at Wright Field in their procedure of identifying proprietary rights they use the design drawings. If there is anything in these drawings which they believe could be reverse engineered then they say that the claim of proprietary rights on this item is not reasonable because it could be determined by examination and by using the law of probabilities. This is our bone of contention. We do not believe this legal, correct, or ethical. * * * [9]

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[7] ASPR 9-201(b) (1 July 1960).

[8] Proprietary Rights and Data, Hearings before Subcommittee No. 2 of the Select Committee on Small Business, House of Representatives, 86th Congress, Second Session, pursuant to H. Res. 51, March 29, 30, and 31, 1960, page 122. Mr. Bannerman was, of course, presenting the view contained in the ASPR 9-201(b) definition of "proprietary data".

[9] *Ibid.*, pages 51-52.

Mr. Bannerman's reaction to this testimony was "that perhaps the definition has been read with a tougher point of view than we had originally intended in some instances. * * *" [10] He further clarified this statement in a letter dated April 22, 1960, to Subcommittee Chairman Multer by pointing out that:

> We are convinced that the 'reverse engineering' aspect of the definition should be clarified so that Government personnel will not classify data as "nonproprietary' just because the item can be reverse engineered with extensive engineering and financial effort. The cost to the Government of reverse engineering is a clue to the proprietary nature of such data. So is the time such an effort would take.
>
> In short, we recognize that the present definition is in need of change. Accordingly, if we are to retain the concept of 'proprietary data,' the definition must be sharpened so that it will include any data not readily revealed by the product itself rather than only that data which is incapable of being reverse engineered. It may be noted in passing that while this will require a change in language, it does not require a change in intention. The words 'is not disclosed' in the above definition were never intended to describe a process of expensive and detailed reverse engineering. The fact that they have been so interpreted dictates the necessity for a change in definition. * * * [11]

Since the Multer Committee Hearings, a series of comprehensive studies of this complex subject have been underway. One proposal resulting from these studies is that the ASPR 9-201(b) definition of "proprietary data" be modified by inserting the word "readily" before the phrase "disclosed by inspection or analysis of the product itself". This proposal, which brings the definition in line with Mr. Bannerman's testimony before the subcommittee, recently has been approved by the ASPR Committee and should be reflected in the next change to ASPR.

III. WHY DOES THE GOVERNMENT NEED DATA?

In order to acquire a better understanding of this problem, we must find out why the Government needs data, as well as becoming acquainted with the various methods used in its acquisition. The uses made of data by the Government generally fall in two broad categories:

1. Reprocurement of equipment and parts; and
2. Internal governmental use.

The first category is self-explanatory. The second category, internal governmental use, includes among other things, evaluation, inspection, cataloguing, operation and maintenance of purchased equipment. The essential characteristics of this group of uses is that the data required need not be disclosed outside the Government—hence "internal Governmental use". On the other hand, when data is to be used for reprocurement

[10] *Ibid.*, page 140.

[11] *Ibid.*, page 175.

of equipment and parts, it must be disclosed outside the Government to the prospective supplier. Obviously, the Government will need greater rights to disclose data to outsiders than it needs when the data is to be used only within the Government. In the former case, the competitive position of the firm furnishing the data to the Government is jeopardized. In the latter case, no substantial harm is done to the firm furnishing the data, and the only risk it takes is that of inadvertent disclosure by the Government, or of possible erroneous action by the Government in using the data for reprocurement.

IV. GOVERNMENT ACQUISITION OF DATA

General (A)

The procurement of data by the Armed Services is governed by two distinct kinds of contractual provisions. The first is a separate document in the form of a specification describing how to prepare the data. There are a number of such specifications, the most basic of which, for the purpose of this discussion, is Military Specification MIL-D-70327, entitled "Engineering Drawings and Associated Lists." The second type of provision is a series of contract clauses set out in Part 2, Section IX, ASPR, along with instructions as to their use. Which clause is used depends upon the type of contract involved and whether the Government requires limited or unlimited rights to the data to be delivered. Provision is also made in ASPR 3-109 for protecting data submitted in response to requests for proposals.

The ASPR data clauses merely establish the Government's rights to use data delivered under the contract and do not require that any data be delivered. These clauses do not become operative or effective unless data is specified for delivery as an item in the schedule of the contract. This distinction is very basic, but is one which is not always clearly understood. The ASPR clauses may therefore appropriately be referred to as "rights in data" clauses. Not only do the ASPR data clauses not require that any data be delivered, but certain provisions of the clauses actually eliminate the necessity of furnishing a special class of data, called "proprietary data", by automatically amending the data specifications, as will be discussed hereafter.

There are three principal ways by which the Government acquires data. One is through Government-financed research and development. The second is through contracts for the purchase of supplies, and the third, by direct purchase of the data under a separate contract. Under special circumstances, which will be described later, the Government may also "reverse engineer" an item to obtain data. Depending upon the origin

of the data and the circumstances under which it was acquired, the Government's rights to use it are either limited or unlimited.

Data Acquired Under Research and Development Contracts (B)

By "Government-financed research and development" we mean the situation where a contract, financed by the Government, has as one of its principal purposes experimental, developmental or research work.

All data acquired under an R&D contract is subject to unlimited use by the Government for any purpose, including competitive reprocurement.[12] It is incumbent on the procuring activity to contract for and get the data required and to assure that the data as to which we have unlimited rights is not marked with restrictive legends. In the case of an R&D contract, the contractor must furnish, for the price of the work, all data resulting directly from the performance of the contract, whether or not it is proprietary.[13] There must also be furnished such additional data as may be necessary to enable manufacture of the equipment which is developed.[14] In a program involving continuing development of a particular weapon this requirement should continue through all phases of development so that useful data is available for any requisite configuration of the weapon.

There are two exceptions to these requirements. First, ASPR does not require the additional data for standard commercial items which are incorporated as components in the end product, provided the contractor furnishes identification as to the source and characteristics (including performance specifications, when necessary) of these items.[15] The theory behind this policy is that with information as to the source and characteristics of standard commercial components, either the Government or any manufacturer, whether or not acting for the Government, can buy such items on the open market. Secondly, proprietary data is not required by the regulation for items which were previously developed at private expense and offered for sale, provided the contractor identifies these items and the proprietary data pertaining thereto.[16] Industry has leaned heavily on these two exceptions as reasons for not furnishing a great deal of data under R&D contracts.

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[12] ASPR 9-202.2(a) and (b)(2) (15 February 1962).

[13] ASPR 9-202.1(c) (1 July 1960).

[14] *Ibid.*

[15] ASPR 9-202.1(c)(i) (1 July 1960).

[16] ASPR 9-202.1(c)(ii) (1 July 1960).

Data Acquired under Supply Contracts (C)

1. *General.*

Different rules apply to the purchase of supplies, as distinguished from research and development. The term "supplies" embraces a diverse range of goods from common items such as shovels and wheelbarrows to completely military items like atomic submarines. While the term relates only to contracts which do not involve any significant amount of research and development, it can cover supplies which were initially developed at private expense as well as those which were developed at Government expense.

2. *Formally Advertised Contracts and Contracts for Standard Commercial Items.*

The general policy of the Department of Defense is to limit demands for data to that which is essential to satisfy its needs.[17] Underlying this policy as it is applied to supply contracts is the assumption that military needs for data for internal governmental use can be met without using "proprietary data".[18] Thus, in the case of formally advertised supply contracts and other contracts for standard commercial items, ASPR 9-202.1(b) specifically states that "proprietary data" shall not be requested. However, "other data" may be obtained under such contracts, to the extent needed, with unlimited rights.

3. *Other Supply Contracts.*

"Proprietary data" may be obtained under other supply contracts only when a clear Government need for such data is established.[19] After this need is established there must be a specific negotiation for the data involved and the contractual requirement must be listed as a separate item on the contract schedule.[20] In such negotiations, the burden of establishing the

[17] ASPR 9-202.1(a) (1 July 1960) reads:

"It is the policy of the Department of Defense to encourage inventiveness and to provide incentive therefor by honoring the 'proprietary data' resulting from private developments and hence to limit demands for data to that which is essential for Government purposes. The activity responsible for initiating a purchase request, after consultation with the procurement activity whenever feasible, will carefully determine the use contemplated for the data to be acquired and will specify only such data as is determined to be necessary to satisfy such use."

[18] In view of the experience gained since this regulation was published, there is now some question as to whether internal governmental needs such as maintenance, cataloguing and standardization can be satisfied without the use of "proprietary data".

[19] ASPR 9-202.1(b) (1 July 1960).

[20] *Ibid.*

pertinent data as "proprietary data" rests with the prospective contractor.[21]

The purposes for obtaining the "proprietary data" will govern its use.[22] If it is being acquired for the purpose of enabling the Government to establish additional sources of supply, it must be obtained without limitation as to its use.[23] However, where it has been determined to obtain "proprietary data" for a limited purpose, such as emergency manufacture by the Government, such data may be obtained subject to limitation as to its use.[24]

4. *The "Fail Safe" Provision.*

One rather troublesome problem arises when the specifications of a supply contract call for the delivery of a set of manufacturing drawings, in apparent conflict with ASPR policy. In order to ensure that "proprietary data" is not obtained under such contracts, ASPR 9-203.2 requires the inclusion of a "fail safe" provision in all supply contracts in which data is specified to be delivered.[25] This provision automatically deletes any

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[21] This is true in the Army at least, since APP 9-202.1b(3) so states, using the following language:

"When it has been determined that 'proprietary data' is involved and required, it may be acquired under negotiated supply contracts. In connection with the negotiation and pricing of such data, the mere assertion that data is 'proprietary data' by a prospective contractor does not itself establish that fact. The burden rests on the prospective contractor to show that the data is 'proprietary data'. This burden might be satisfied by furnishing the contracting officer information requested by procurement personnel and cognizant patent personnel. In arriving at a determination whether 'data' is 'proprietary data' and in assessing the weight to be given a claim that data is 'proprietary data', the contracting officer, as required by the Head of the Procuring Activity, shall consult with either or both (i) appropriate scientific and technical personnel, or (ii) cognizant patent personnel, who, on the basis of available information and technical advice, shall make recommendations to the contracting officer."

[22] ASPR 9-202.2(b)(1) (15 February 1962).

[23] *Ibid.* In such case the contract clause in ASPR 9-203.1 (Basic Data Clause) and 9-203.2 ("Fail-Safe" Clause) must be included in the contract and the requirement for the "proprietary data" specified in the Contract Schedule.

[24] *Ibid.* In this instance, ASPR Clauses 9-203.1 (Basic Data Clause), 9-203.2 ("Fail-Safe" Clause) and 9-203.3 (Limited Rights Provision) must be included in the contract and the Contract Schedule must suitably identify the data which is subject to limited use.

[25] This provision reads as follows:

"(i) Notwithstanding any Tables or Specifications included or incorporated in the contract by reference, 'proprietary data' need not be furnished unless suitably identified in the Schedule of the contract as being required. For the purpose of this clause, 'proprietary data' means data providing information concerning the details of a Contractor's secrets of manufacture, such as may be contained in but not limited to his manufacturing methods or processes, treatment and chemical composition of materials, plant layout and tooling, to the extent that such information is not disclosed by inspection or analysis of the product itself and to the extent that the Contractor has protected such information from unrestricted use by others."

requirement for "proprietary data" unless such data is suitably identified in the schedule. Because "proprietary data" is peculiar to each prospective contractor, it cannot be identified in the schedule and invitation for bid before the contractor has been selected and hence, it cannot be obtained through the means of formal advertising.[26] Note, however, that the "fail safe" provision is required by ASPR 9-203.2 to be included "in all supply contracts in which data is specified to be delivered" and not limited to formally advertised contracts.

Same Rules Apply to Subcontracts (D)

Subcontractors sometimes complain that prime contractors are exacting "proprietary data" from them, citing a Government requirement as justification. Whether or not such a complaint is justified depends upon the data requirements of the prime contract. Under the policy expressed in ASPR, subcontractor data obligations to the prime are not to be any greater than those which would be incurred if the subcontractor were dealing directly with the Government.[27] Therefore, there can be no justification for a prime contractor, under the guise of its contractual obligations to the Government; requiring, for its own private advantage, a subcontractor to furnish "proprietary data" not called for by the Government in the prime contract.

To further protect the rights of subcontractors there is now under consideration in the ASPR Committee, a proposal to add the following statement to ASPR 9-202.1:

> Subcontracts for supplies shall be governed by the provisions applicable to supply contracts (9-202.1(b) and 9-202(b)(1)) notwithstanding that the prime contract may be for experimental, developmental or research work.

In other words, this proposal clearly spells out that the subject matter of the subcontract determines the type of data clause and not the clauses in the prime contract.

Data Submitted in Response to Requests for Proposals (E)

Requests for Proposals may require the offeror to submit data with his proposal which may include a design or plan for accomplishing the objec-

[26] Hearings, *op. cit. supra* note 8 at 137.

[27] In this connection ASPR 9-202.1(a) reads in parts as follows:

"The acquisition of data from a subcontractor shall be governed by the nature and circumstances of the subcontract, it being the intent of the Department of Defense that in obtaining data originating with subcontractors, the contractor shall, insofar as carrying out his obligations under a prime contract is concerned, be guided by the same policies and procedures as if the subcontractor were contracting directly with the Government and should not request unlimited rights in 'proprietary data' where such rights are not required by the Government under the prime contract."

tives of the procurement. Since this data may include information which the offeror does not want disclosed to the public or used by the Government for any purpose other than evaluation of the proposals, ASPR 3-109 permits the offeror to mark such data with a restrictive legend.[28] Data so marked must be used only to evaluate proposals and cannot be disclosed outside the Government without the written permission of the offeror except under the conditions provided in the legend.

Direct Purchase of Data (F)

In order to acquire sufficient data for competitive procurement of items developed at private expense, the Government sometimes must resort to either purchase of "proprietary data" with unlimited rights, or reverse engineering. Use of either of these two methods of acquiring data, however, should be undertaken only under certain very closely controlled conditions which have been laid down by the Department of Defense.[29] This policy allows purchase of unlimited rights in privately developed "proprietary data" for the purpose of establishing competition only when it is shown that:

1. There is a clear need for reprocurement of such supplies, and
2. There are not suitable supplies of alternative design, and
3. Either the existing source has inadequate capacity for defense needs or is demanding an excessive price, and
4. The item can be manufactured by others without special manufacturing, quality control, or calibration processes or techniques or other secrets of production which are not revealed by technical data which is procurable, and
5. The existing source will not license or train additional competing sources.

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[28] This legend reads as follows:

"This data furnished in response to RFP No. ———, shall not be disclosed outside the Government or be duplicated, used or disclosed in whole or in part for any purpose other than to evaluate the proposal; provided, that if a contract is awarded to this offeror as a result of or in connection with the submission or such data, the Government shall have the right to duplicate, use, or disclose this data to the extent provided in the contract. This restriction does not limit the Government's right to use information contained in such data if it is obtained from another source." (MAR. 1958)

[29] Joint memorandum dated 12 December 1961 from Thomas D. Morris, Assistant Secretary of Defense (I&L), subject: Procurement of Military Equipment and Parts. While ASPR 9-202.1(c) provides for the purchase of previously developed proprietary data at the time of entering into an R&D contract, this is seldom ever done, and in truth is not very practical for either the Government or the Contractor. At the time of entering into the contract, neither the Government nor the Contractor knows whether the Government will ever want to use the data for procurement or manufacture. Consequently, its value is hypothetical at such time. Also, it is too easy for the Government to use its economic pressure to make the data the subject of a "tie-in" sale for the price of the other work being performed under the contract. It is therefore more realistic, and results in greater equity to the Contractor for the Government to pay fair compensation for this data when it decides to use the data for procurement.

Even when all of the above circumstances are present, "proprietary data" with unlimited rights should be obtained only where it can be shown that the savings in reprocurement of the item will be likely to exceed the cost of the purchase of the data. Within the Department of the Army, such purchase of data may only be made with the specific approval of the Deputy Chief of Staff for Logistics or his designee.[30] Where these conditions are met, the "proprietary data" may be purchased after a specific negotiation of a price therefor, but must be stated in the contract schedule, as a separate item, separately priced.

Reverse Engineering (G)

The use of "reverse engineering," i.e., engineering inspection and analysis of a product, for the purpose of obtaining data for reprocurement purposes, may not be undertaken except under the same conditions that control the purchase of proprietary data with unlimited rights including the conditions stated in paragraph 1 through 5 in section F above. In addition, there must be a finding that the savings through competition would be likely to exceed the cost of "reverse engineering," and such action must be approved by the Deputy Chief of Staff for Logistics or his designee.[31] When it is required that a choice be made between the purchase of "proprietary data" with unlimited rights or "reverse engineering" to accomplish the same objective, the determination should be made on the basis of relative economics and other pertinent factors, bearing in mind that "reverse engineering" requires the use of scarce engineering resources to duplicate development results which already have been achieved.

Data Packages (H)

Data packages suitable for the competitive procurement of defense items and their spare parts should be obtained as promptly as possible in accordance with appropriate Department of Defense policy. As has already been pointed out, this policy requires that for items and parts thereof developed at Government expense, "data necessary to enable reproduction or, where appropriate, manufacture of the equipment" must be furnished by contractor.[32] However, ASPR recognizes that an item might involve, in addition to new parts developed at Government expense,

[30] Memorandum dated 14 March 1962 from Paul R. Ignatius, Assistant Secretary of the Army (I&L) for Deputy Chief of Staff for Logistics, subject: Procurement of Military Equipment and Parts.

[31] *Ibid.*

[32] ASPR 9-202.1(c) (1 July 1960).

the incorporation of standard commercial parts or parts which were developed at private expense or both. For the standard commercial parts, the Regulation requires identification of a source and characteristics sufficient to permit the Government to procure the parts of adequate substitutes and for the parts developed at private expense but not meeting the standard commercial test identification of source and name only.[33] Accordingly, for an end item developed at Government expense, it is expected that a data package will be available for competitive procurement for the item, which includes complete manufacturing data for the new parts developed at Government expense, identification of a source and performance requirements for standard commercial parts, and identification of the source and name of any other part developed at private expense but not meeting the standard commercial test and assembly data. If the item involves only a combination of standard commercial parts, the only data obtained by our contract probably will be assembly data. Competitive procurement is contemplated for the assembly of the end item, even though the prime contractor may have to procure the parts sole source.

For items developed at private expense, ASPR 1-304 sets forth the policy with regard to selection of items involving proprietary data or other restrictive factors.[34] Attention to this policy at the time of selecting an item for military use will alleviate future procurement problems. ASPR 1-313 states the DOD policy on procurement of parts for military equipment. Original data packages for items and parts developed at private expense and involving proprietary data will, in all probability, consist only of performance characteristics, especially if they are standard commercial items. For other items developed at private expense but not meeting the test of standard commercial, only the source and the name of the item may constitute the entire original data package.

V. FOLLOW-ON PROCUREMENT OF PRIVATELY DEVELOPED ITEMS

Under the foregoing rules for the acquisition of data, it is obvious that the Government frequently will not have suitable data with

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[33] *Ibid.*

[34] This paragraph of ASPR reads as follows:

"In some cases, the procurement of an item would involve proprietary data (see 9-201(b)) or other factors which would restrict sources of procurement or limit competition, but alternative items can be procured which would meet the military needs involved. In such cases, consideration should be given in selecting the item to be procured, to the relative advantages for national defense purposes of the item which involves such proprietary data or other factors as against the disadvantages of a restricted source of supply and possible increased cost to the Government because of lack of competition. However, where a particular item best meets military needs, the contracting activity should not refrain from procuring the item solely because it would involve such restrictions or limitations."

unlimited rights for competitive procurement of privately developed items. This raises the question as to what should be done in such a situation. ASPR 1-313 provides the answer insofar as parts are concerned. In short, parts for military equipment must be procured so as to assure the requisite safe, dependable, and effective operation of the equipment. Where it is feasible to do so without impairing this assurance, parts should be procured on a competitive basis. However, where this assurance can be had only if the parts are procured from the original manufacturer of the equipment or his supplier, the procurement should be restricted accordingly. Subparagraph (b) states when to go competitively, namely, in the case of parts that are fully identified and can be obtained from a number of known sources, and parts for which fully adequate manufacturing drawings and any other needed data are available (or can be made available in keeping with the policies in Section IX, Part 2). Finally, paragraph (c) recognizes that in some instances sole source procurement is the only answer. However, in any case, before going sole source, the following methods of procurement should be considered in the order stated:

A. Where it is not essential that the items be identical, competitive procurement of such items will be accomplished by:

1. The use of performance specifications or other specifications which do not contain "proprietary data", or
2. Use of samples or models if the item is not complex, or
3. The designation of a brand name or equal in accordance with ASPR 1-1206.[35]

B. If the foregoing competitive methods will not produce suitable equipment, the next order of preference is for sole source procurement from the original developer. This method of procurement should be followed unless it can be clearly demonstrated that the firm does not have adequate productive capacity or is seeking to charge more than a fair and reasonable price.

C. If additional productive capacity is required for such items, the existing source should be encouraged to license and, to the extent necessary, to train other sources, or, if he prefers to sell the data, purchase of

[35] This Regulation states in pertinent part:

"Purchase descriptions shall not be written so as to specify a product, or a particular feature of a product, peculiar to one manufacturer and thereby preclude consideration of a product manufactured by another company, unless it is determined that the particular feature is essential to the Government's requirements, and that similar products of other companies lacking the particular feature would not meet the minimum requirements for the item. Generally, the minimum acceptable purchase description is the identification of a requirement by use of brand name followed by the words "or equal". This technique should be used only as a last resort when an adequate specification or more detailed description cannot feasibly be made available in time for the procurement under consideration."

such data may be made in accordance with the criteria set forth in Section IV F. above.

D. Finally, the product may be reverse engineered under the circumstances described in Section IV G. above.

VI. EFFECT OF "HI-DOLLAR BREAKOUT PROGRAM" AND SIMILAR EFFORTS TO REDUCE NON-COMPETITIVE PROCUREMENT ON DOD DATA POLICY

During the past year, the Department of Defense has initiated an aggressive program to substantially reduce the amount of noncompetitive procurement.[36] This program has resulted in very intensive and effective efforts within each of the military departments to minimize noncompetitive procurement. It is important that these intensive efforts continue, but it is also important that they do not lead the military departments to demand or to use privately developed proprietary data in a manner which is contrary to their established procedures or expressed policy "to encourage inventiveness and to provide incentive therefor by honoring the "proprietary data" resulting from private developments and hence to limit demands for data to that which is essential for Government purposes." It must be recognized that the policy of securing optimum competition and that of encouragement of private development of items having military usefulness will produce situations which require a decision as to whether or not to procure competitively. Insofar as this decision involves the method of obtaining or using data for competitive procurement, the provisions of Section IX, Part 2 of ASPR are governing and are supplemented by the guidelines set forth above. Indeed, in the "Hi-Dollar Breakout Program," [37] a "hard hitting" procedure for increasing competition in the defense-wide procurement of aeronautical spare parts which is now in the testing stage, the Department of Defense specifically incorporates the criteria outlined above, cautioning that "competition is not to be obtained by compromising continuous weapons systems improvement, or through misuse of proprietary data developed at private expense."

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[36] Joint Memorandum dated 9 May 1961 from Thomas D. Morris, Assistant Secretary of Defense (I&L), subject: Noncompetitive Procurement of Military Equipment and Parts.

[37] Joint Memorandum dated 27 January 1962 from Thomas D. Morris, Assistant Secretary of Defense (I&L), subject: Installation of Test Procedures for the DOD Hi-Dollar Breakout Program: Competitive Procurement of Aeronautical Replenishment Spare Parts.

VII. DIFFICULTIES IN APPLYING PRESENT POLICY

a. General

Despite ASPR requirements, Industry has been very reluctant to supply the Government with sufficient data for competitive reprocurement purposes. In fact, indications are that some of the military services are not receiving sufficient data even for such internal purposes as repair and maintenance. Efforts to obtain this essential data by agreeing to limit its use to internal purposes have been made, but the policy is very difficult to administer. Furthermore, certain industry spokesmen hold to the view that the safest way for them to protect their "proprietary data" is not to disclose it to the Government at all, even for a limited purpose. The logic behind their argument goes something like this: If I pick up a bell and ring it, there is absolutely nothing I can do to erase from the mind of anyone hearing it, the fact that the bell has rung. Similarly, once an engineer or other technically trained person sees a piece of "proprietary data", even for a limited purpose, there is no way that the information he gains from that data can be eliminated from his mind so as to prevent any possible future use for other purposes. In other words: "You can't unring a bell!" It is very important that some agreement in this area be reached, since a free flow of information from Industry to the Department of Defense is vital and is in direct relationship to the confidence of Industry in the protection afforded its "proprietary data" once in the hands of the Government.

b. Data for Internal Government Use

Certainly there should be no question that Industry be required to furnish to the Government all the data reasonably needed to evaluate, inspect, catalogue, operate and maintain the products it sells the Government. It is absolutely essential that the Government have sufficient data to perform these functions. Furthermore, it is common practice for Industry to furnish data for such purposes to its commercial customers. There is no valid reason why an exception to this practice should be made when the customer involved is the Government. One shortcoming of the present Regulation is the requirement that all data obtained under an R&D contract be without limitation on use, with the corollary that not all data is to be obtained. That data which is excluded is often needed for in-house Government use. A solution is now under consideration by the ASPR Committee that will permit the obtaining of all necessary data but, as appropriate, subject to limitations on use. This may also solve the problem presented by the receipt of inadequate data for opera-

tional purposes and which has been made inadequate by unilateral determinations by contractors that certain data is proprietary and therefore excluded or blacked out.

c. Data for Competitive Reprocurement

The situation with respect to data to be used for competitive reprocurement of equipment and parts is by no means so simple. At present, the Department of Defense is attempting to function primarily as a warehouse for such data. Except in isolated instances, the Government does not itself use the data it has accumulated to manufacture anything, but instead distributes it to other producers.

From what has been said thus far, it is obvious that the Military Departments are encountering many difficulties in obtaining sufficient data for competitive procurement. Further problems arise in keeping data already on hand up-to-date so as to reflect changes made in an item since the original drawings were prepared. Living as we are, in an era of ever-increasing rapidity of technological advance, it is not at all uncommon for thousands of such changes to be made in an item up to and including its production phase. Finally, even when manufacturing drawings are available, it is by no means certain that they contain enough know-how to enable another producer to make the item.[38] This is particularly true in the case of modern technical or specialized military items such as tanks, radar, guided missiles, aircraft, rockets and equipment of similar complexity. It might be wise in the case of such items to allow production data to remain in the possession of the research and development contractor until the Government needs it to establish secondary sources. This could be accomplished by a clause in the R&D contract giving the Government an option to call for the data when it is needed and perhaps to require the assistance of the R&D contractor in establishing secondary sources.

[38] Hearings, *Op. cit. supra* note 8 at 42 and 43. Mr. Richard Hahn, President, Airborne Research and Development Corp., Sun Valley, California, was particularly emphatic on this point in testifying before the Multer Subcommittee on 29 March 1960:

"Gentlemen, let me assure you, you cannot pick a man's brain completely clean and show everything on a drawing that is in a designer's or manufacturer's thoughts.

Many, many design details and production techniques never reach the drawing paper, and, consequently, a matter of a few thousandths on a drawing, or an overlooked tolerance, can cause a complete failure of a liquid-oxygen valve or liquid-oxygen control unit at cryogenic temperatures. This failure, gentlemen, can cost millions of dollars and, more important, probably many American lives, both crewmen and even innocent victims in their homes.

A specific case I know of—in fact, several specific cases I know of—when a small contractor has been beaten to his knees and forced to submit engineering drawings that rightfully belong to him, these drawings have been altered, little details missing, little notes left off, certain tolerances changed."

Data for internal Government purposes would, of course, still be required to be furnished as required by the present Regulation.

VIII. SUMMARY

To summarize present Department of Defense policy, where the Government has paid for the development it should get all data and rights therein in accordance with the foregoing rules. Affixing of restrictive legends to data in which the Government has unlimited rights should not be permitted, nor should such legends be honored if they were improperly affixed.

The Government should always honor its contractual commitments with respect to "proprietary data."

The Military Departments should not seek to purchase "proprietary data" relating to privately developed supplies, nor should they undertake to reverse engineer such supplies, unless it has been previously determined in each instance and approved at the level of the Assistant Secretary of the Military Department concerned, or his designee, that such action is necessary, is likely to lead to successful competitive production, and that the probable savings through competitive procurement will exceed the cost of such action. These practices should never be followed solely to assure the future existence of competitive possibilities, without an economic evaluation.

The policy on acquisition and use of data as stated in Part 2, Section IX of ASPR, was the first attempt by the Government to come up with a comprehensive regulation in this difficult field. Because it is still relatively new, the Regulation is under constant review and study. Despite valiant efforts by the Department of Defense to make the Regulation satisfy everybody, including the Congress, the Military Departments and widely varied segments of Industry, it is unlikely that complete agreement ever will be reached. Nevertheless, shortcomings or inequities against either the Government or contractors are being corrected as rapidly as the need for such action becomes apparent. Perhaps this is about all that reasonably can be expected.

STUDENT PAPERS

Among the objectives of the seminar and lecture series given by the Foundation in conjunction with The George Washington University Law School are the stimulation of student interest and the initiation of a source of publishable student material for the *Journal*. By making available the best papers, students receive an incentive and our readers will appreciate the evidence of scholarly development in the fields of interest.

R. Steven Pinkstaff, a senior in The George Washington University Law School, was recipient of the Patent Office Society Student Award for the following paper submitted in partial fulfillment of the requirements for the seminar and lecture series for the year 1962.

The Foundation invites educational and research institutions to submit informative student manuscripts on the patent, trademark, copyright, and related systems.

Copyright Notice Requirements for Foreign Works Published Abroad

R. STEVEN PINKSTAFF

WHILE THERE IS ADMITTEDLY A CONTROVERSY whether to include any requirement of notice in the revised copyright law, this paper is concerned with the applicability of the notice requirement to works of foreign authors published abroad and is not directed to the relative merits of the notice requirement per se. It will be assumed that the new statute will contain a requirement of notice, at least for works readily reproduced from the copies placed in the hands of the public.[1]

Historically, notice is a basic concept of the highly formalized United States copyright law and is indispensible in obtaining copyright protection under our present system.[2] The first copyright law [3] did not require that a notice be placed on the work copyrighted, but did require that the copyright owner place an advertisement in a United States newspaper for a period of four weeks, within two months of the date of the registration. The requirement of a copyright notice became a substantive part of the

[1] The Registrar Of Copyrights suggests that the notice requirement be kept in the revised copyright law. Report Of The Register Of Copyrights on the General Revision of the United States Copyright Law, 87th Cong., 1st Sess., pp. 62-64 and comments therewith. See generally Copyright Revision Study No. 7, 86th Cong., 2d Sess., pp. 1-65.

[2] 17 U.S.C. 10 (1947).

[3] Act of May 31, 1790, 1 Stat. 124 (1790).

copyright law in 1802 [4] and has been retained in every revision of the law since that time.

The seemingly harsh requirement for notice is abated when it can be shown that the notice is lacking due to an accident, but recovery is denied in an action against an accidental infringer who was misled by the absence of the notice.[5] The courts in earlier years were strict in construing the notice provisions of the copyright law and held copyrights invalid due to a dispersed notice,[6] a defective notice as to name,[7] a notice in the wrong name,[8] a lack of a date [9] or a post dated notice.[10] However, in recent years the courts have adopted an increasingly liberal attitude toward the copyright notice and have held that substantial compliance with the statute is sufficient.[11]

The requirement of notice in a work published abroad must be viewed in light of the requirements for those works which are published in the United States. Sections 10, 19 and 20 of the copyright law require that each copy of a work published or offered for sale in the United States by authority of the copyright proprietor *must* contain a copyright notice of the prescribed form in the prescribed position. Section 10, requiring publication of the work with notice, reads as follows:

> Any person entitled thereto by this title may secure copyright for his work by publication thereof with the notice required by this title; and such notice shall be affixed to each copy thereof published for sale in the United States by authority of the copyright proprietor. . . .

There is no escape from the requirements of sections 10, 19 and 20 save those outlined above, and should a work be published without the required notice it immediately becomes a part of the public domain, free to be copied by anyone.

The concept of "public domain" stems from the common law which reserved to the author all the rights to his works *ad interim* until they were published. The act of publishing alone, regardless of the author's intent, caused the work to become part of the public domain. In this manner the author of a musical score could perform his work while at the same time effectively protect it since it was not being "published" by being

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[4] Act of April 29, 1802, 2 Stat. 171 (1802).

[5] 17 U.S.C. 21 (1947).

[6] Thompkins v. Rankin, 24 Fed. Cas. 39, No. 14090 (C.C.D. Mass 1876). For a more liberal view see Record and Guide Co. v. Bromely, 175 Fed. 156 (C.C.E.D. Pa. 1909).

[7] Smith v. Wilkinson, 19 F. Supp. 841 (D. N.H. 1937), aff'd 97 F. 2d 506 (1st Cir. 1938).

[8] Public Ledger Co. v. Post Binding & Publishing Co, 23 F. Supp. 302 (E.D. Pa. 1938).

[9] Wildman v. New York Times Co., 42 F. Supp. 412 (S.D.N.Y. 1941).

[10] Baker v. Taylor, 2 Fed. Cas. 478, No. 782, (C.C.S.D.N.Y. 1848).

[11] Harry Alter Co. v. Graves Refrigeration, Inc., 101 F. Supp. 703 (N.D. Ga. 1951). See also Copyright Revision Study No. 7, supra note 1 at pp. 11-12.

performed. The author of a book, however, was not able to retain any control over his work since it necessarily had to be published to be enjoyed.

The United States copyright law did not merge the common law into the statutory law and the two forms of protection co-exist in our present legal system. The author has the option to proceed under either of the two forms of protection but he must make a decision as to which course he is going to pursue at the time just prior to when he causes the work to be disseminated to the public. If he publishes the work without the required notice he does not meet the requirement of the statute and must rely on the common law, which, as we have seen, is of no avail as the work passes into the public domain at the time it is published. Notice, however, if the work can be disseminated without being "published," i.e., the performance of a musical score or stage play, the work can be protected under the common law and a real option is presented to the author. Attendant to this option to proceed under the common law is the necessity of never allowing the work to be distributed in written form, a restriction that conceivably could become burdensome.

The burden placed upon a foreign author is even greater than that placed on an American author if he is required to place a United States copyright notice in his foreign editions. Not only must he be aware of the copyright laws of his own country at the time he first publishes his work, he must also decide whether he ever intends to publish the work in the United States. In order to comply with the strict notice requirement of the United States copyright law, and to avoid a question in the case law, he must put a notice recognized by the United States in the first foreign edition he causes to be published.

The first United States copyright laws did not provide for the protection of the works of foreign authors and until 1891 [12] granted copyrights only to United States citizens or residents. The 1891 amendment was in response to the enactment of the Berne Convention by most European nations in 1886. The Berne Convention extended copyright protection to citizens of a member nation upon compliance with a general set of provisions. The United States has not become a member of the Berne Convention and does not respect its provisions. Thus, although the foreign author is allowed to register his copyright in the United States, he must comply with the United States laws irrespective of what the law of his own country requires. Since the laws of a number of nations require notice only for certain classes of works,[13] in many cases the foreign author must put a notice in his work which is not required by his own country in order to comply with the United States laws.

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[12] Act of March 3, 1891, 26 Stat. 1106 (1891).

[13] See *Copyright Revision Study*, supra note 1 at 26-28.

The present requirements for notice must be viewed in light of the provisions of the Universal Copyright Convention which became effective in the United States on September 16, 1955. However, in order to be able to determine what course will be followed by the courts in the future, the past court decisions prior to 1955 regarding notice requirements in foreign publications must necessarily be explored.

The state of the law with respect to the requirement of notice in a foreign publication is at best unsettled. The question has been before the courts in only a few cases. The first case that expresses an indication that notice is not required in every copy sold is *United Dictionary Co. v. G. & C. Merriam Co.*[14] Merriam took out both American and English copyrights on a new version of a dictionary but they did not imprint the United States copyright notice in the copies sold in England. United Dictionary bought a copy of the English edition, which did not have the United States notice, copied it and began to sell it in the United States. Merriam brought suit to enjoin the sales by United Dictionary, the issue before the court being whether the notice requirement had to be imprinted in all copies or only those copies sold in the United States. The Supreme Court, speaking through Justice Holmes, stated that it was unlikely that Congress intended a warning to be placed on copies which were sold to persons without the jurisdiction of the United States where the laws of the United States were not in force. The court did not consider the effect of publishing a work prior to obtaining a United States copyright, but the case is often cited for the proposition that the publishing of books in foreign countries has no effect on the force and validity of United States copyright law, a strong implication that a prior foreign publication should not invalidate a United States copyright.

In *Universal Film Mfg. Co. v. Copperman*[15] a publication prior to registration of the copyright was found by a district court, Judge Hough presiding, to be sufficient to invalidate a copyright regardless of where the publication took place. A movie film was made in Denmark and copies were sold in Europe and England prior to the United States copyright registration. Defendant, who was an assignee of the persons having the sole exhibition rights in England, brought the picture to the United States and exhibited it in violation of both an agreement with the authors that the exhibition license would extend only to England and a later registered United States copyright. Judge Hough expressed the opinion that the film had been completely disseminated prior to the United States copyright registration, and there was no distinction between cases where

[14] 208 U.S. 260 (1908).

[15] 212 Fed. 301 (S.D.N.Y. 1914), aff'd 218 Fed. 577 (2d Cir. 1914), cert. den. 235 U.S. 704 (1914).

the dissemination was in the United States and cases where the dissemination was in a foreign country. The circuit court affirmed the district court but did not mention the prior publication theory propounded by Judge Hough. Instead, they based their opinion on the fact that defendant was a licensee of plaintiff and the United States copyright could not be enforced against a prior licensee. Thus, while the opinion containing the statement that any publication without notice invalidates a subsequent copyright was affirmed, it was affirmed on another ground leaving some doubt as to the precedent value of the district court opinion.

Four years later Judge Hough in *Italian Book Store v. Cardilli*[16] rendered a contrary opinion as to the effect of a foreign publication on the validity of a United States copyright. A song, originally published and copyrighted in Italy in 1913, was subsequently copyrighted in the United States prior to any publication in the United States. Defendant plagiarized and sold copies of the song after the United States copyright registration was obtained. Judge Hough stated that this was a case of first impression without mentioning the *Copperman* case and held the publication in Italy without a United States copyright notice did not bar a subsequent copyright registration in the United States as long as there was no publication in the United States prior to obtaining the United States protection. This case was not appealed by defendant and was not considered by the circuit court.

In *American Code Co., Inc. v. Bensinger*[17] the court considered a case that, while not presenting precisely the same question as did *Cardilli,* presented a situation where plaintiff copyrighted a book in the United States that was pirated from an English book, including some new matter. Defendant copied the English book and sold it under the same title as did plaintiff but did not attempt to copyright the material. The court found that plaintiff had established a prima facie case under United States copyright law, stating that while the British author had copyrighted his book in England, he had obtained no rights in the United States since he had not chosen to obtain protection in the United States. The court does not state that the United States copyright is valid irrespective of the English publication, since only the plaintiff's prima facie case was before the court. However, the court intimates that the fact defendant copied a book admittedly published in England prior to the United States registration would bar the United States copyright.

The law remained in this unsettled state until 1939 when in *Basevi v. Edward O'Toole Co., Inc.*[18] the court had before it a suit for infringement

[16] 273 Fed. 619 (S.D.N.Y. 1918).

[17] 282 Fed. 829 (2d Cir. 1922).

[18] 26 F. Supp. 4 (S.D.N.Y. 1939).

of a copyright of a catalog of religious pictures. The court found that there was a publication which did not bear the requisite copyright both in the United States and abroad prior to the United States registration of the copyright. The court stated that in view of the fact that the United States was not a member of the Berne Convention the requirement of publication with a notice of copyright was necessary to obtain a United States copyright whether the publication was in the United States or in a foreign country. The court felt that decision in *Cardilli* was effectively overruled by *Bensinger* and noted that in some 20 years *Cardilli* had not been cited once in Shepard's Citations. Thus, although the case apparently dealt with a publication both in the United States and abroad prior to the United States copyright, the court straightened out the uncertainty that existed in the prior cases.

There was no apparent break from the *Basevi* decision until *Heim v. Universal Pictures Co.*[19] where by dicta the court effectively overthrew both *Bensinger* and *Basevi* and reinstated *Cardilli* as the correct interpretation of the copyright law. A song was written in Hungary in 1934 and published there without a United States copyright notice in 1935. In 1936 a United States copyright was obtained by depositing a copy in the United States Copyright Office before any copies were published in the United States. The court relied on the statement in *United Dictionary* that a foreign publication would not bar a United States copyright and concluded that the *Basevi* case had been wrongly decided. The court stated the provisions of sections 9 and 12 of the copyright statute did not require the foreign publication to bear a United States copyright notice since the second half of section 10 required notice to be affixed only to those works published or sold in the United States. The court concluded that as long as the works did not enter the public domain of the country where it was first published it would not enter the public domain of the United States, stating:

> There is no doubt textual difficulty in reconciling all the sections, as has often been observed; the most practical and, as we think, the correct interpretation, is that publication abroad will be in all cases enough, provided that, under the laws of the country where it takes place, it does not result in putting the work in the public domain.[20]

It must be noted that this statement is dicta since the court dismissed the complaint on another ground.

Judge Clark, dissenting, felt the decision was opposed to the language of the statute in that the provisions of the second half of section 10 dealt with procedures that are to be complied with *after* securing the copyright

[19] 154 F. 2d 480 (2d Cir. 1946).

[20] Id. at 487.

protection, and, it is the first half of section 10 that controls the granting of a copyright.[21] This portion of the statute states that a copyright may be secured by "publication thereof with the notice of copyright required by the title" and, according to Judge Clark, means that the notice must be affixed to all copies regardless of the country of first publication. He felt that if Congress is to require a notice to be affixed in order to secure a copyright, it should not be easier to get such copyright by first publishing the work abroad than by publishing the work in the United States. It is apparent that Judge Clark felt the majority was in effect legislating by their opinion and he was emphatic in his feeling that any change should come from the legislature.

The *Heim* decision was subsequently interpreted in *Rolland v. Henry Holt & Co.*[22] as not overturning the prior case decisions to the effect that publication abroad is to put the work in the public domain. The court concluded that *Heim* stands only for the proposition that a work will not be put in the public domain when the United States has a treaty with the nation in which the work is first published and the publication does not put the work in the public domain in that country.

Since 1955 the provisions of the Universal Copyright Convention have altered the effect of United States copyright law on works published in foreign countries. In effect, the Universal Convention and the United States enabling legislation require the United States to grant copyright protection to any work published in a foreign country which is a member of the Convention that complies with the requirements of the Convention. Article III of the Universal Convention states:

> Any contracting state which, under its domestic law, requires as a condition of copyright, compliance with formalities such as . . . notice . . . shall regard these requirements as satisfied with respect to all works protected in accordance with this Convention and first published outside its territory and the author of which is not one of its nationals, if from the time of the first publication all the copies of the work published with the authority of the author or other copyright proprietor bear the symbol © accompanied by the name of the copyright proprietor and the year of first publication placed in such manner and location as to give reasonable notice of claim of copyright.

The enabling United States legislation is found in section 9(c) of the copyright statute and requires that *from the first date of publication* the work must contain the Convention notice if the requirements of sections 13, 14, 16, 17, 18, 19, and 20 are to be waived. However, the provisions of section 9(c) are not extended to authors who are citizens of the

[21] See Howell's Copyright Law, Latman Rev. Ed., (1962) at 87 which is in agreement with Judge Clark's view that the second part of section 10 applies only after obtaining a copyright registration.

[22] 152 F. Supp. 167 (S.D.N.Y. 1957).

United States or who are domiciled here regardless of the place of first publication, nor to works of any author which are first published in the United States.

It can be seen from this latest addition to the copyright law that Congress has not chosen to abolish the notice requirement for foreign works published abroad. In view of this reiteration of the notice requirement as a vital element of United States copyright law, the decision in *Heim* must necessarily be reviewed.[23]

The majority of authors will undoubtedly be able to obtain copyright registration under the Universal Convention since they will be citizens of countries which are members of the Convention or the publication will take place in a Convention country, either of which is sufficient to qualify for Convention provisions. When this occurs the *Heim* case is overruled since section 9(c) specifically states that the notice must be imprinted on all copies "from the time of first publication." It is hard to conceive how a court could follow *Heim* in light of this provision. The court, even if it felt that prior to the enactment of section 9(c) there was not a sufficient requirement for foreign authors to imprint United States copyright notice in foreign publications, must now be aware of the purpose of the United States law to allow copyrights to be granted to foreign authors only when the notice is affixed from the time of first publication. To this extent the courts must overrule *Heim* in cases arising under the Universal Copyright Convention.

However, two situations can arise where the provisions of the Universal Convention will not apply or where it will be urged that they should not apply. One situation is where the United States has an existing bilateral treaty with the nation where the work is first published in addition to the Universal Convention. The bilateral agreements are not replaced by the Convention, and are explicitly stated not to be abrogated.[24] The other situation is where the work is first published in a country which is not a contracting member of the Convention.

Looking first at the situation where a foreign author residing in a country which is a member of the Universal Convention and also has a bilateral agreement with the United States attempts to obtain a United States copyright under the bilateral agreement in view of the *Heim* decision, as opposed to the provisions of the Universal Convention, the

[23] After the enactment of the Universal Copyright Convention enabling statute the Copyright Office changed their regulations for registering foreign works which previously followed the *Heim* decision, 37 C.F.R. § 202.2(a)(3) (1959) on the basis that Congress in 1954 overruled *Heim* by implication when the Universal Convention enabling statute was passed and that *Heim* is in conflict with the policy of the Universal Convention that foreign works must bear a copyright notice.

[24] Universal Copyright Convention, Article XIX.

court will be faced with a situation where it will have to find the provisions of section 9(c) meaningless except with respect to cases arising under the Universal Convention if they choose to follow *Heim*. The Convention was intended to provide a universal system of copyright and the courts should not attempt to give effect to copyrights which do not meet the requirements of the Convention when the work is first published in a country that is a member of the Convention. Additionally, the same Article XIX which states that all bilateral treaties are not to be abrogated by the Convention also states that "(i)n the event of any difference between the provisions of such existing conventions or arrangements and the provisions of the Convention, the provisions of this Convention shall prevail." This should cause the court to find that when the country in which the work in first published is a contracting state to the Universal Convention, the bilateral treaty and the *Heim* decision cannot be employed to avoid the notice requirements of the United States copyright law. As we have seen, Congress chose to include the notice requirement when it implemented our existing laws to provide for the Universal Convention, and there is no room for the argument that Congress did not intend the notice requirement to apply to foreign authors as *Heim* indicates. The judicial legislation of *Heim* was not followed by Congress and the courts should not attempt to reinstate it.

In a few instances the situation will arise where the work is first published in a foreign country which is not a member of the Universal Convention, in which case the pre-existing bilateral treaties and conventions will apply. In this situation the court will be directly confronted with the dictum in the *Heim* case. The argument will be put forth that since the country of first publication is not a party to the Universal Copyright Convention, the court must apply the *Heim* rationale as precedent and find that a publication without notice in a foreign country that does not place the work in the public domain of that country will not act as a bar to obtaining a valid United States copyright. In this situation it is felt the only logical decision the court can reach is to overrule the *Heim* case.

In reviewing the prior decisions one interesting fact is that they all arose in the southern district of New York. Thus, the *Heim* factual pattern will be one of first impression in a circuit other than the second circuit. In these circuits the courts will no doubt take the 1954 amendment to section 9 of the copyright law as an indication that Congress did not intend to allow foreign authors to be able to obtain a United States copyright without complying with all the formal requirements of the United States law. There is a little reason, and a lack of Congressional intent, to allow a foreign author to obtain a more favorable position than

the American author. United States copyright law has always been highly formalized and the fact that other nations have not chosen to pattern their copyright law after ours should not cause our courts to limit the application of United States law.

Should a case under a bilateral treaty arise in the second circuit, as apparently most cases concerning foreign works do, it is felt that the court cannot logically follow its prior decision in *Heim* and must overrule that case. Judge Frank's opinion in *Heim* is apparently one of judicial legislation based on a discrepancy in the then existing copyright law. At the present time this discrepancy is not present although the language on which the decision was based is the same now as it was then. The aforementioned amendment to the copyright law in 1954 reiterated Congress's desire to have a notice requirement in our law, and the intent to have this notice apply to domestic and foreign works alike. It would have been equally as easy to implement the Universal Copyright Convention by stating that if the work complied with the copyright provisions of the country in which it was published, it would also comply with our laws. Congress did recognize the burden placed on foreign authors and exempted foreign authors from the deposit and manufacturing requirements of United States law. But Congress did not exempt foreign works from the notice requirement. Instead, they chose to cause foreign works to have to comply with the *maximum* notice provisions of Article III of the Universal Copyright Convention. This is sufficient to indicate to any court, including the second circuit, that the notice requirement is an essential element of United States copyright law and that in no instance should a foreign author be allowed to obtain a copyright without complying with it. Faced with this reasoning, the second circuit should overrule the *Heim* case and return to the principles set forth in *Basevi.*

In conclusion, it is apparent that the notice requirement is a basic principle of United States copyright law and is uniformly applied to works of American authors whether published here or abroad. Although there is a case which stands for the principle that a foreign author can obtain a United States copyright without imprinting a notice in the foreign editions of his work, the recent amendment to the United States copyright law did not incorporate this decision into the statute. The courts in deciding a case today must logically conclude that a foreign publication without the required copyright notice will place the work in the public domain of the United States.

Since the present state of the law is obscure on this point, and since the most recent court decision is opposed to the rationale of Congress, the copyright revision should contain an express statement as to the notice requirement for foreign works published abroad. If Congress follows the

theory used when the Universal Convention was implemented, they will require notice in foreign works. One way this can be accomplished is to insert the words "from the time of first publication whether in the United States or abroad" after the word "title" in the first part of section 10. Whatever method is chosen, an effort to remedy the present quandary should be made.

The Concept of "Property" in Know-how as a Growing Area of Industrial Property: Its Sale and Licensing

JOHN B. NASH *

SUMMARY

RUNNING THROUGH THE CASES and writings on the subject of know-how is a continuous thread of uncertainty, debate, and conflicting opinions as to whether there is "property" in know-how. Against a background of this imprecision, a definition of "property" in this context is developed and applied to representative cases in the various sub-topics of the general field. No distinctly incorrect cases are discovered where injustice resulted from the universally confused thinking regarding "property" in know-how.

DEFINITION OF KNOW-HOW

IT MAY CONSIST OF INVENTIONS, processes, formulas, designs, skilled manual methods, preferred sequences of industrial operations learned from practical experience, etc., whether patentable or not. It may be evidenced by blueprints, specifications, drawings, technical manuals of procedure, etc. It almost invariably involves trade secrets. It may involve accumulated technical experience and skills which can best, or perhaps only, be communicated through the medium of personal services.[1]

The broad spectrum of concepts which are included in the term "know-how" is well illustrated in a 1916 case in the Circuit Court of Appeals, 6th Circuit. Plaintiff's attempts to describe his know-how are couched in these terms: "Just our knowledge of how to conduct the saw business." "Simply our knowledge of the business, which of course we kept secret to ourselves." "Nothing but the system was secret." "The

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[1] The writer is indebted for this excellent definition (here with some small enlargement from the writer's own experience) from the source in footnote 7 *infra*.

handling of the machines as well as the method of getting the work out, and somewhat the method of placing it on the market also." [2]

THE SETTING OF THE PROBLEM

In considering the sale and licensing of know-how, a concept whose protection in equity and at common law is much broader than the scope of the statutory protection under patent and copyright laws,[3] a great variety of topical features comes to view.[4]

A survey of the literature reveals that each of these sub-topics has been dealt with repeatedly and intensively, notably in the *Patent, Trade Mark, and Copyright Journal of Research and Education.*[5]

In exploring the diverse aspects of the subject of know-how in the writings and cases involving this subject, one continuous thread is discovered to run, in one form or another, throughout all the material: the great uncertainty, debate, and conflicting opinions as to whether there is "property" in know-how.

The cases reveal that many times the subject is held up by the courts at arm's length, regarded with much doubt and disfavor, and then discarded before the case proceeds to decision. A pointed example of this

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[2] *Durand v. Brown,* 236 F. 609, CCA 6th (1916).

[3] *Mycalex Corp. of America v. Pemco Corp.,* 74 F. Supp. 420, 68 PQ 317, Md (1946), *Vulcan Detinning Co. v. Assman,* 173 NYS 334, 185 NY App Div 399 (1918) and *Stanley v. Columbia Broadcasting System,* 208 P 2d 9, 82 PQ 123, Sup Ct Calif (1949).

[4] Among these may be listed: Federal and state tax aspects; protection courts give to owners; unfair competition (equitable injunction against use or disposition by one to whom given in confidence); comparison among such licensing or sale, exporting products produced in the U.S. by the know-how, investing in foreign subsidiaries to manufacture the products; licensing of know-how as protection against charge by Dept. of Justice that the patent license is a front to divide markets; know-how as good will or other asset in bankruptcy; requirements for protection: novelty and reduction to practice; *inter alia.*

[5] See *PTC. J. Res. & Ed.,* Vol. 1, No. 1 (June, 1957) p. 145, and following issues including Conference numbers, Project 5a of the Foundation. See also: *American Enterprise In The Common Market: A Legal Profile* (2 vols.) ed. by Stein and Nicholson, pub. University of Michigan Law School, Ann Arbor (1960); Chemical Engineering Progress 55 (June 1959), 45; Eckstrom, *Licensing in Foreign Operations,* Chap. VI, pub. Foreign Operations Service, 1958; Porter, Paul R., "Common Mistakes in Licensing," *JPOS* 42 (Feb., 1960), 1245; Schmidt, I., *Licensing Know-How, Patents, and Trade Marks Abroad* University of Illinois Law Forum (Spring, 1959), 243; *Foreign Licensing Agreements,* National Industrial Conference Board, Inc., Part I dated 1958. Extensive and helpful bibliographies, including materials on various forms of know-how, are to be found in *PTC. J. Res. & Ed.:* Vol. 1, No. 2, pp. 236-239; Vol. 2, No. 2, pp. 303 et seq., pp. 435 et seq., pp. 549 et seq.; Vol. 3, No. 1, pp. 83 et seq.; Vol. 3, No. 3, 229-302; Vol. 3, No. 4, pp. 440 et seq.; Vol. 4, No. 1, pp. 192 et seq.; Vol. 5, No. 1, pp. 88 et seq.; Vol. 5, No. 2, pp. 184 et seq.; Vol. 5, No. 3, pp. 280 et seq.; Vol. 5, No. 4, pp. 369 et seq. A particularly useful bibliography dealing with trade secrets is to be found in *PTC. J. Res. & Ed.,* Vol. 3, No. 2, pp. 211 et seq.

technique can be observed in the case of *E. I. du Pont de Nemours Powder Co. v. Masland* where Mr. Justice Holmes skirts the issue thus:

> The word "property" as applied to . . . trade secrets is an unanalyzed expression of certain secondary consequences of the primary fact that the law makes some rudimentary requirements of good faith. Whether the plaintiffs have any valuable secret or not the defendant knows the facts, whatever they are, through a special confidence which he accepted. *The property may be denied,* but the confidence cannot be. Therefore the starting point of the present matter is not property . . . , but that the defendant stood in confidential relations with the plaintiffs . . . and the first thing to be made sure of is that the defendant shall not fraudulently abuse the trust reposed in him. [Italics added.] [6]

The legal writers also show evidence of a trauma from the unsettling effects of the indecision, tentativeness, and conflict of the cases where "property" in know-how is dealt with. Representative is the following quotation from an incisive and scholarly article dealing with the taxation of know-how as capital gains, informative and clearly reasoned except where the nemesis of "property" in know-how is being considered.

> The unfair competition cases have referred variously to an owner's "property" or "right of property" or "kind of property" in trade secrets. But without necessarily contradicting these premises, it should be apparent that the rights inhering in trade secrets are something different from and lesser than the absolute and exclusive property rights—as to use, dominion, and disposition—accruing to the owner of physical things, or the monopoly rights granted by a patent; in other words if a trade secret is property, it is not such in the full sense. The owner of a trade secret, provided he takes the necessary precautions to safeguard its secrecy, is merely protected in the unfair competition cases against its use and disclosure without his consent.[7]

It is true that a substantial majority of the cases examined by the writer pay lip service to the concept that there might be arguably a tenuous and limited kind of property in know-how, nevertheless they either conclude by denying the reality of the concept or dismiss it as being too slight and problematical to base recovery or protection upon, and instead rely wholly on the historical equitable protection against unfair and bad faith practices on part of the defendant.

At this point the courts and the legal writers are faced with this dilemma: Since the courts often stress the fact that the fraudulently deprived plaintiff owner of know-how will be protected against having a fraudulently-appropriating defendant profit from his fraud, on the grounds of equitable protection against unfair or bad faith business practices, for the reason there is only an uniquely evanescent form of property present in know-how, or, alternatively, none at all—then what is it in

[6] 244 U.S. 100, at 102, and quoted with approval in *Allen-Qualley Co. v. Shellman Products,* 31 F. 2d 293, affirmed 36 F. 2d 623.

[7] Creed, John F., and Bangs, Robert B., "'Know-How' Licensing and Capital Gains," *PTC. J. Res. & Ed.,* Vol. 4, No. 1, p. 93 (Spring, 1960) at p. 97.

know-how that is sold,[8] licensed,[9] assigned,[10] taxed,[11] transferred by mortgage,[12] subject to levy and sale under a common law writ of execution,[13] exchanged for stock shares in a corporation,[14] the subject of a contract for purchase,[15] considered as good will or other asset in bankruptcy?[16]

This dilemma was neatly solved by the Circuit Court of Appeals, 7th Circuit, in a 1931 case which involved deciding whether an invention not yet patented was property. The court pointed out that an applicant can sell and assign his application for a patent in accordance with 35 USCA, Article 47, and then said,

> We think it is a fair definition to say that what may be sold or assigned is property.[17]

It is submitted that this begging the question proves nothing. Thus, what may be sold or assigned is property, therefore it must be property because it can be sold or assigned.[18]

The authors of the article dealing with know-how quoted *supra* inexplicably surrendered to this same temptation to beg the question, by quoting with approval the *Commissioner v. Stephens-Adamson Mfg. Co.* case, *supra,* and stating,

> The unfair competition cases are perhaps not conclusive of the status of trade secrets as property. More appropriate for the purposes of this inquiry are the precedents involving the sale of trade secrets. It is firmly established that trade secrets may form the subject matter of a sale (or assignment). A "sale" is legally defined as the transfer of *property* for a valuable consideration. Accord-

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[8] *Chadwick v. Covell,* 151 Mass. 190, 23 NE 1068, 6 LRA 839, 21 Am St Rep 442 (1890). *Stewart v. Hook,* 118 Ga 445, 447, 45 SE 369 (1903).

[9] *Lapin v. La Maur, Inc.,* 87 PQ 390, 11 FRD 339, Minn. (1950).

[10] *Vulcan Detinning Co. v. American Can Co.,* 67 NJ Eq 243, 247; 58 A 290; 72 NJ Eq 387, 67 A 339.

[11] *Inecto, Inc.,* 20 BTA 566 (1930) *affirmed per curiam,* 50 F. 2d 1078 (ed Cir 1931).

[12] *Tuttle v. Blow,* 176 Mo 158, 172; 75 SW 633 (1903).

[13] *Hanley v. Fidelity Ins. T. & S. D. Co.,* 8 Pa Dist R 207 (1896).

[14] See cases cited in 37 ALR 2d 919, and ALR 2d Supp Service 1960 issue 2719.

[15] *Bryson v. Whitehead,* 1 Sim & Stu 74 (1822).

[16] See cases cited in 42 Am Jur 188, 189.

[17] *Commissioner v. Stephens-Adamson Mfg. Co.,* 51 F. 2d 681, at 682 (1931).

[18] The true question here is, of course: What characteristics of the unpatented invention cause it to be the subject of property, and *therefore capable* of being sold or assigned. It may be argued that, since by statute the courts were constrained to give legal effect to the sale and assignment of an unpatented invention, this case illuminates the truth of the argument that there can be no "property" where the courts refuse to consider it so. Assuming, arguendo, the correctness of this reasoning, it scarcely seems to apply authoritatively to instances where there is no statutory direction to the courts regarding sale and assignment—as in the case of know-how.

> ingly, it is necessary to conclude, at least for the special purpose of sale, that trade secrets are property.[19]

Thus, trade secrets can be sold therefore they are property, and they are property because they can be sold.

EMERGENCE OF THE PROBLEM

Emerging from this welter of imprecise thinking and writing, on the part of both legal scholars and the courts, when the subject of "property" in know-how is being dealt with, is the suspicion that this imprecision could possibly have resulted in faulty and unjust decisions in both actions at law and suits in equity dealing with this subject-matter.

Therefore the problem with which this paper deals is twofold, but with a certain necessary sequence arising from the nature of the problem. *First:* what exact definition of "property" in know-how can be devised which will coincide with and clearly explain the established rules of *both* the cases in equity showing the protection afforded an owner against having his know-how used or disposed of by another who obtains it improperly, and the cases at law where money damages are awarded to an owner of know-how in the same general circumstances,[20] and, *second*, does an independent examination of the cases reveal instances of incorrect court decisions in the subject area traceable to unanalytical thinking regarding "property" in know-how? *Correlatives* to this inquiry are two: an evaluation of the magnitude of incidence of error, if any is found, and, if incorrect cases are discovered, how could more analytical modes of reasoning applied to their facts have resulted in different decisions?

FORGING THE DEFINITION OF "PROPERTY" IN KNOW-HOW

The familiar analytical discipline of Hohfeld[21] provides the method by which "property" in know-how can be defined with exactness of expression.

A conceptual distinction is interposed between the thing with respect to which legal relations between persons exist, on the one hand, and the

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[19] Footnote 5 *supra*, at p. 97, 98.

[20] The attempt to distill the exact and precise meaning out of the confused writing and thinking about "property" in know-how is not merely an exercise in an artificial series of successive refinements of the meaning of the word. Successfully done, it should furnish a powerful analytical tool for use by the courts in their cases involving know-how. It should help lawyers in their work of advising clients and in persuading courts to provide appropriate enforcement of the legal relations inhering both in know-how owners and in others who claim to be privileged to use and dispose of the know-how without liability.

[21] Hohfeld, Wesley, Newcombe, *Fundamental Legal Concepts As Applied in Judicial Reasoning, and Other Legal Essays*, ed. Walter Wheeler Cook, Yale University Press, New Haven, Conn. (1923).

legal relations themselves, on the other hand. Clarity of thought is in part achieved by avoiding confusing the subject matter of the property (i.e., of the legal relations between persons with respect to the subject matter) and the property itself. Immediately a small bonus derives from this method, for no longer do the courts and legal writers have to worry about "tangible" and "intangible" property, and elusive differences between the two.[22] Considered as we are now doing, all property is "intangible," for it consists of the legal relations between persons with respect to the subject matter of the property. The subject matter may be tangible as in the case of land, an animal, a machine, etc., or it may be intangible, as in the case of a share of stock, a contract of purchase and sale, a promissory note, or know-how.[23]

The Restatement Of The Law Of Property,[24] using Hohfeldian analysis, furnishes generalized definitions of the legal relations between persons with respect to the subject matter of property.[25]

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[22] Footnote 5, *supra.*

[23] Elementary reflection will reassure that the essence of the property in a share of stock does not inhere in the piece of paper it is printed on but rather in ownership of the share of the corporation it represents. Similarly the property in a contract is separate from the piece of paper it is written on, as is the property in a contract of purchase and sale, or a promissory note. Physical destruction of the piece of paper evidencing the legal relations involved, i.e., evidencing the property involved, cannot per se affect the property evidenced therein, any more than destroying the certificate of marriage terminates the marriage.

[24] *Restatement of the Law of Property,* pub. American Law Institute Publishers, St. Paul, 1936.

[25] *Ibid.,* Vol. I, p. 4: "Sect. 1. *Right.* A right, as the word is used in this Restatement, is a legally enforceable claim of one person against another, that the other shall do a given act or shall not do a given act. *Comment: a. Correlative duty.* The relation indicated by the word 'right' may also be stated from the point of view of the person against whom that right exists. This person has a duty, that is, is under a legally enforceable obligation to do or not to do an act. The word 'duty' is used in this Restatement with this meaning."

Ibid., Vol. I, p. 5: "Sect. 2. *Privilege.* A privilege, as the word is used in this Restatement, is a legal freedom on the part of one person as against another to do a given act or a legal freedom not to do a given act. *Comment: a. Correlative absence of right.* The relation indicated by the word 'privilege' may also be stated from the point of view of the person against whom the privilege exists. From the point of view of this other person it may be said that there is no right on his part that the first person should not engage in the particular course of action or of non-action in question."

Ibid., Vol. I, p. 6: "Sect. 3. *Power.* A power, as the word is used in this Restatement, is an ability on the part of a person to produce a change in a given legal relation by doing or not doing a given act. *Comment: a. Correlative liability.* The relation indicated by the word 'power' may also be stated from the point of view of the person whose legal relation is thus liable to be changed. This subjection of the second person to having his legal relation affected by the conduct of the person having the power is a 'liability' and the word is used in this Restatement with this meaning."

Ibid., Vol. I, p. 8: "Sect. 4. *Immunity.* An immunity, as the word is used in this Restatement, is a freedom on the part of one person against having a given legal

Applying this same analytical method, and observing the limitations of the applicable rules as laid down in the cases, it will be demonstrated that "property" in know-how can be formulated in terms of the following rights, privileges, powers, and immunities on the part of the owner. Later it will be shown that these concepts of property can be used to resolve the apparent conflict in the cases between the two concepts of basis of protection: common law protection of property rights, or equitable protection against use and disposition of know-how by another who has obtained it improperly.

The know-how owner has the RIGHT as against the whole world that another shall not use or dispose of his know-how under circumstances where the other has obtained the know-how by stealth, theft, or betrayal of confidential disclosures where the other knows or should reasonably know of its secret character, that is, where the other has obtained the know-how improperly. (All persons other than the know-how owner have the correlative DUTY not to use or dispose of the owner's know-how after obtaining it improperly.)

The owner has the PRIVILEGE of use or disposition of his know-how. (All other persons have the correlative NO-RIGHT that the owner shall or shall not use or dispose of his know-how.)

The owner has the POWER to dispose of his know-how by sale, licensing, assignment, etc., and also to obtain an injunction in equity against the use or disposition of the know-how on the part of any person who obtains it improperly, as well as to obtain a money damages judgment against such a person who uses or disposes of the know-how after obtaining it improperly. (All other persons have the LIABILITY of having their legal relations with respect to the improperly-obtained know-how changed, and of being subjected to action by a court of equity or law under the same circumstances.)

The owner has the IMMUNITY as against the whole world that his exclusive use or disposition of the know-how cannot be prevented, limited, or controlled by any person who obtains the know-how improperly. (All other persons have the DISABILITY that they cannot prevent, limit, or control the exclusive use or disposition of the know-how by the owner, under circumstances where the other persons have obtained it improperly.)

It is submitted that the above rights, privileges, powers, and immunities on the part of the know-how owner, together with the correlative duties,

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relation altered by a given act or omission to act on the part of another person. *Comment: a. Correlative disability.* The relation indicated by the word 'immunity' may also be stated from the point of view of the person with respect to whom the immunity exists, that is, who has no ability so to alter the given legal relation. The second person has, in this particular, a disability with regard to the first person and the word 'disability' is used in this Restatement with this meaning.

no-rights, liabilities, and disabilities in all other persons who obtain the know-how improperly, constitute the "property" the owner has in the know-how, and it is this property which can be licensed and sold, and which can be dealt with in other ways in the same fashion as can the same kind of property with respect to other subject-matters.

ANALYSIS OF LEGAL BASIS FOR PROTECTION OF KNOW-HOW

Cases are legion to the effect that it is not the protection of an owner's "property rights" in know-how which constitutes the basis for protection of his interests therein, but rather it is the historical equitable protection against the employment of improper means to procure the know-how.[26]

Proponents of this thesis argue thus: No liability attaches to another's using or disposing of the know-how of an owner if the other person discovers the know-how by inspection or analysis of the commercial product embodying the know-how. But equity will enjoin use or disposition of the know-how by the other person to whom it was disclosed in confidence in circumstances where he knew or should reasonably have known of its secret character, and also in cases where the other person acquired the know-how by stealth, theft, or bad faith.

The argument then turns its attention to the unreality of the concept of "property" in know-how by this reasoning: Note that if the other person obtains the know-how properly it is not wrong for him to use or dispose of it as he wishes. This is true even though there is no change in the "property" the owner is supposed to have in the know-how, even though his alleged "property right" remains static and unchanged, and without any action, permission, or authorization on his part. How, the argument runs, can there originally have been "property" in the know-how protected by the courts, if such court protection depends entirely upon the nature of the act of the other person and has nothing to do with the owner, actions of the owner, or with the know-how itself?

Application of the definitions of property in know-how developed *supra* renders the problem a simple one and provides an uncomplicated solution. The two different hypothetical cases in the argument *supra* involve the same parties and the same know-how. The signal distinction is in the manner in which the other person obtains the know-how. In the case of the other person's obtaining the know-how properly the owner's rights, powers, and immunities are not invaded, for the reason the latter are legal relations existing between an owner and another who acquires the know-how *improperly* only. Therefore the owner has none of the legal relations defined *supra* with respect to another who obtains the know-how properly.

[26] Footnote 6. *supra.*

An exception, of course, is the owner's *privilege* to use and dispose of his know-how himself unhampered by the other person. The owner's privilege of self-use is not invaded by the act of the other person in using the know-how properly obtained. Therefore, in this case there are no grounds for the owner to institute against the other person a suit in equity or an action at law, for the reason none of the owner's legal relations with the other person respecting the know-how is invaded.

Where the other person acquires the know-how improperly there immediately spring into being all of the rights, privileges, powers, and immunities defined *supra*. In such a case the owner can have either an injunction in equity against the other person or a money damages judgment for the harm inflicted by the other person, for the reason the owner's property interests in the know-how are invaded by the wrong-doer.

For the reason that the celebrated Justice Holmes case of *E. I. du Pont de Nemours Powder Co. v. Masland* [27] is often cited in support of the thesis that property rights in know-how do not constitute basis of protection by courts,[28] that case is here analysed in light of the definitions of the various aspects of property in know-how developed *supra*.

In the *Masland* case Defendant learned processes for making artificial leather while in Plaintiff's employ, and later, having left that employment, proposed to use those processes in his own business. Plaintiff claimed the processes to be secret (i.e., know-how); Defendant claimed they were well known to the trade. Plaintiff obtained an injunction forbidding Defendant from disclosing the processes. Plaintiff claimed his property in the processes would be lost if they were disclosed to anyone.

In upholding the injunction, Mr. Justice Holmes made the statement quoted *supra* under the heading "Setting Of The Problem," casting doubt on the "property" but reaffirming the equitable protection against disclosure of secrets obtained in confidence.

There is no need to juggle words about property in this case. With respect to the know-how in the *Masland* case, the Plaintiff had the right as against the Defendant that the latter should not disclose the know-how, having obtained it in confidence. The Defendant had the correlative duty not to disclose. The Plaintiff had the power to prevent disclosure by Defendant by means of an injunction in a suit in equity. The Defendant had the correlative liability of being prevented from making the disclosure. Therefore Mr. Justice Holmes' decision recognized Plaintiff's right and Defendant's duty. It gave legal effect to Plaintiff's power and placed Defendant under the liability. That is to say, the decision recognized completely Plaintiff's property (a right and a power) and Defendant's

[27] Footnote 6, *supra*.

[28] Footnote 7, *supra*. Also see Ellis, *Trade Secrets*, Art. 6, p. 10 at p. 13.

correlative legal relations with respect to the subject matter of the property: the know-how.

CONCLUSION

The rules so far developed both at law and in equity regarding the sale and license of know-how, as well as other kinds of disposition thereof, appear to be consistent throughout the cases examined by the writer, but where decision depends at least in part on the presence or absence of "property" in know-how the reasoning becomes unnecessarily tortured and obscure. However, the many cases examined for possibility of incorrect conclusions caused by this imprecise reasoning have not revealed any such result.

Therefore it must be concluded that the principal benefits in employing the Hohfeldian concept of property developed and applied in this paper flow from a cleaner marshalling and evaluation of the legal issues raised by the facts.

Initially, there is completely resolved the apparent conflict in the cases between those which recognize "property" in know-how by dealing with know-how as property in cases of sale, licensing, taxation, etc., and those turning upon the equitable basis for protection of the owner and which normally downgrade or deny the existence of property in know-how.

Finally, the conflict being proved illusory, the courts and legal writers should find their paths clear to thrust straight to the heart of the concept of property in know-how; they should be able to recognize without quibbling its presence or absence, give effect to its use or disposition when rightful, protect against them when wrongful, and be completely free from the uncertainty which a real conflict in the cases would generate.

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A history of the firm that developed the postage meter, which was patented in 1902 but long remained a "machine without a market."

The National Catalog of Patents, Rowman and Littlefield, Inc., New York.

"The *Catalog* draws together in orderly classification . . . the . . . patent information diffused throughout the five thousand issues of the *Official Gazette* of the United States Patent Office. . . . You will find . . . patents . . . grouped together by Classes and Subclasses as defined by the Patent Office. Patents granted in their respective fields (as well as allied patents which have primary listing in other fields) are shown in the form of one major claim and one drawing as exemplified in the *Official Gazette.* . . . Each unit of the *Catalog* contains its own *Manual of Classification* and *Index.*" Chemical and Electrical patents are the first two groups to be published. They will be followed with other groups. "Beginning in February 1963 . . . a supplement to each unit containing all patents granted in this field during the previous year" will be issued. The Electrical unit will consist of 65 volumes and the Chemical of 60.

PERIODICALS

Angelo, Homer G., and Richard F. Scott, "The European Common Market: New Problems in Antitrust Regulation," *American Bar Association Journal,* Vol. 48, No. 7 (July 1962) pp. 634-639.

Messrs. Angelo and Scott indicate that "European antitrust

regulation, has a special impact on European activities of United States business enterprises which are also subjected to United States antitrust regulation. Beginning with a discussion of the basic policies of the European Common Market as a whole, the writers explain the antitrust aspects of the system set up by the Treaty of Rome of 1958, and the new legal problems that antitrust regulation in the European Common Market present."

Applebaum, Louis B., "The One Line Picture Claim," *Journal of the Patent Office Society,* Vol. 44, No. 6 (June 1962) pp. 379-397.

The author discusses the implications of the Ex parte Squires decision, approved by the Board of Appeals, which "allowed claims consisting entirely of reference to a figure of the drawings." Mr. Applebaum divides his paper into three sections: Patentability, The Claim Form, and Questions Ahead. He concludes with the statement that "The Squires decision affirms a well-settled rule limiting the 'printed matter' cases. It then capstones a line of development of the technique of incorporation by reference in claims in the general and mechanical arts."

Brudno, W. W., "A Management Checklist for Overseas Business," *Foreign Commerce Weekly,* (June 4, 1962), pp. 992ff.

This article, the third of a series sponsored by the Southwestern Legal Foundation, briefly considers the foreign protection afforded to patents, trademarks, and trade secrets.

Bryant, Samuel W., "The Patent Mess," *Fortune Magazine* (September 1962) p. 111 ff.

"The government spends $12 billion a year to encourage inventions, but its administration of patents is tortuous, confused, inconsistent. DOD has one policy, AEC another, NASA another; and U. S. courts, where a lot of patent cases land, have almost as many ideas as there are judges."

Burrus, B. R., "Soviet Law of Inventions and Copyright," *Fordham Law Review,* Vol. 30 (April 1962) p. 693.

Carter, Chauncey P., "Trademarks in Hawaii," *Journal of the Patent Office Society,* Vol. 44, No. 5 (May 1962) pp. 348-350.

"The question of how ownership of a trademark or tradename is established under the present law appears never to have been authoritatively decided in any court."

Clesner, Herschel F., "Soviet Space Communications Expectations," *Journal of the Patent Office Society,* Vol. 44, No. 6 (June 1962) pp. 398-408.

This is an address to the Rochester Patent Law Association on February 20, 1962. Mr. Clesner refers to the Soviet progress in space technology and unusual awareness of technologi-

cal advances being made in this field. He concludes that "Space evolution and innovation are rapidly moving to the stage of economic adaptation. . . . U. S. industry must have the capability to have know-why and know-how to compete. To maximize our chance for survival as a free democratic nation, with a prospering economy, we must provide our industry, scientists, administrators, and leaders with adequate communication media that they will readily have available the necessary information relating to their problems."

Colino, R. R., "Copyright Protection Abroad for United States Cultural Exports," *Duke Law Journal,* Vol. 1962 (Spring 1962) p. 219.

"Commissioner Ladd Reviews the Kintner Management Survey Report," *Journal of the Patent Office Society,* Vol. 44, No. 6 (June 1962) pp. 363-378.

This is an address by Commissioner Ladd to Patent Office employees on April 10, 1962. ". . . I am going to . . . cover these things. First, to discuss the long run problems of the Patent Office which, in my view, threaten the examining system in the United States. Second, to review with you some of the steps which we have taken within the past year to meet these problems and to provide in the Patent Office careers and opportunities which will encourage improvement in our performance and which should help meet these problems. Finally, to bring to you the Management Survey report which has been recently filed, and to give you some of my observations on that report." With the aid of charts the Commissioner compared research and development funds, both government and private, with Patent Office appropriation and personnel; applications filed by fiscal year; and the relationship between cumulative search load and rate of application disposal per examiner. He referred to the "accelerated" promotion program and the research and development program. He advised that all examining functions will probably be grouped "into four Operations—chemical, electrical, mechanical engineering and general engineering and industrial engineering arts." The Commissioner discussed the manner in which the recommendations to create additional divisions will be implemented. He also touched on the recommendation for a Quality Control unit and closed with a reference to the importance of production and the attention which must be directed to the management and technical placement problem.

Creighton, Joseph R., "Corporate Counsel and Antitrust," *American Bar Association Journal,* Vol. 48, No. 7 (July 1962) pp. 654-656.

Mr. Creighton "discusses the responsibility of company lawyers, and their ability to prevent antitrust violations by their companies. The author stresses that company lawyers not only must concern themselves with the

soundness of their advice, but that they must work toward management policies which will actively encourage consultation by managers at all levels."

Federico, P. J., "Intervening Rights in Patent Reissues," *The George Washington Law Review,* Vol. 30, No. 4 (April 1962) pp. 603-637.

A revision and amplification of a paper read before the Patent Law Association of Pittsburgh and a Lawyers Institute on Selected Subjects in Patent Law held in Chicago in February 1960. The author traces "the development of the law in this area of intervening rights from its inception up through the enactment of the Patent Act of 1952 and the cases based thereon. The developments can be better understood and many difficulties can be avoided by treating the subject in several historical periods without attempting to reconcile the results during one period with the results in another. In accordance with this treatment, the following periods may be distinguished:

"First Period. The reissue patent is valid, and the so-called intervenor is held liable for infringement.

"Second Period. The reissue patent is invalid.

"Third Period. The reissue patent is valid, but the intervenor is held to be not liable for infringement. This third period overlaps the second period, and it can be said that during some part of the time both theories existed simultaneously according to different lines of cases.

"Fourth Period. The situation is regulated by statute."

Flank, Leonard, "Extrinsic Limitations In Claims," *Journal of the Patent Office Society* (July 1962) Vol. 44, No. 7, pp. 472-485.

"Recurring questions arise in the drafting and prosecution of patent claims regarding the use of limitations by reference to forms, structures, quantities, qualities, environment, and relationships of a physical nature which are not a part of the invention. Nonetheless, such limitations may be required by the nature of the invention to be included in the claim properly to describe the invention and to afford adequate protection for the invention." The author "discusses the problem and proposes guideposts to lead the way . . . to acceptable solutions."

"Fourth Joint Meeting of UNESCO Intergovernmental Copyright Committee and Berne Permanent Committee," (Madrid, Sept. 25-30, 1961) *Bulletin of the Copyright Society of the USA,* Vol. 9 (February 1962) p. 230.

Frayne, Gabriel M. "The EEC (Common Market) Patent and the National Treatment Principle," *The Trademark Reporter,* Vol. 52, No. 3, (March 1962) pp. 248-259.

"It is the purpose of this paper to inquire, specifically in regard to the Patents Convention,

whether the International Convention requires that the benefits of these special Conventions be accessible to all nationals . . . of countries party to the International Convention, even though these countries have not adhered to the said special Convention." The author concludes: "It is possible, as has been done above, to make a technical analysis of the nature of the EEC Patents Convention, and to come to the conclusion that unless the EEC patent is made accessible to Unionist foreigners, the national treatment principle of the International Convention will be violated. . . . The fact that the six EEC nations are about to achieve uniformity, after decades of various proposals for harmonization of their laws, by means of a single law enforced through International institutions, is no justification for attempting at this late date to abolish the national treatment principle, or rather for making national treatment attainable only through the acceptance of total uniformity of protection to adherence to the EEC Patents Convention. . . ."

Gaylor, Peter J., "Right to Privacy as a Collateral Problem," *Journal of the Patent Office Society,* Vol. 44, No. 5 (May 1962) pp. 351-354.

"There has been some discussion in legal circles as to whether such a right legally exists. . . . In Robertson *v.* Rochester Folding Box Co., 171 N.Y. 538 . . , it was held that there was no right of privacy. . . . After the Robertson . . . Case, New York passed a law making it a misdemeanor to use the picture or name of any living person, without his consent, for advertising or for purposes of trade."

Goldberg, M. D., "Promoting the Progress of Science and Useful Arts: a Commentary on the Copyright Office Report on General Revision of the United States Copyright Law," *Cornell Law Quarterly,* Vol. 47 (Summer 1962) p. 549.

Ladas, S. P., "Common Market Patent and Trademark Treaties Open or Closed," *Trademark Reporter,* Vol. 51 (December 1961) pp. 1203.

"Latin America," *Business Week,* (September 22, 1962) pp. 158-182.

A special report on Latin America indicating that the climate is charged with a new kind of revolution based on grass roots support. Although the business potential is there the area is "moving toward socialism and neutralism" and business investment is declining. However, U. S. companies still play an important role in the development of local industries and local companies manufacture products under U. S. licenses. The report contains a number of charts and two brief separately boxed statements on "Powerhouse for Latin Industry" and "Latin Universities: Schools of Agitation." There is also a liberal sprinkling of the names

and specific references to local and foreign companies doing business in Latin America.

McAuliffe, J. D., "Consideration of Inter-American Conventions," *Trademark Reporter,* Vol. 52 (January 1962) p. 25.

Megley, Richard B., "Design and Mechanical Patents Relating to the Same Subject Matter," *Journal of the Patent Office Society,* Vol. 44, No. 5 (May 1962) pp. 309-338.

"The inherent difference between design and mechanical patents negates the possibility of double patenting where such patents relate to the same subject matter. . . . Where there exists a valid design patent and mechanical aspects of an article are shown therein to facilitate presentment of the design disclosure, the inclusion of the mechanical aspects constitutes only a publication thereof." The author concludes that ". . . any attempt at generalizing or concisely stating the legal problems and ramifications would be misleading and false as a result of the conflicting decisions. However, as a practical matter, it can be pointed out that a wise course is to attempt to have the patent which supplies the greater protection issue first."

Offner, E. D., "Trademark Protection In Foreign Countries," *Trademark Reporter,* Vol. 51 (December 1961) p. 1216.

Orenbuch, Louis L., "Federal Patent Policy and Small Business," *Journal of the Patent Office Society,* Vol. 44, No. 5 (May 1962) pp. 339-347.

"As a compromise between the desires and fears of small business, it is proposed that the contractor, be it 'big' business or 'small' business, be permitted to retain commercial rights in inventions arising out of federal R&D contracts, provided the contractor is placed under the obligation of making a bona fide effort to develop the invention for commercial utilization and, when the invention is developed, of making a bona fide effort to market the invention. . . . In the event the contractor chose not to exploit commercially the invention or ceased its efforts to bring the invention to commercial utilization, then the contractor would lose all rights in the invention and it would be made freely available to any others who desired to undertake commercial ventures. . . . It is not the intent of the proposal to permit the big military contractor to accumulate a large quantity of inventions over a number of years and then select those it considers most likely to succeed. The contractor would be required to make its election at the time the invention is reported to the contracting officer and the contractor would, within six months thereafter, have to commence commercial development or forfeit the rights in the invention. . . . A small business usually is able to determine, shortly after an invention is made, whether or not the invention has commercial potential. . . ."

"Patents—Patentee's Product Makes Process Too Obvious to Patent," *Syracuse Law Review,* Vol. 13 (Winter 1961) p. 337.

Patterson, R. J., "Keeping Records for Patent Purposes," *Journal of the Patent Office Society,* Vol. 44, No. 7, (July 1962), pp. 462-471.

The author directs his remarks to scientists and engineers and includes reasons for keeping invention records, the requirements for adequate records, sets forth the basic legal principles involved, and the minimum legal requirements for proving conception and reduction to practice.

Pravel, B. R., "The New Texas Trademark Act—Some Reasons and Background," *Journal of the Patent Office Society,* Vol. 44, No. 7 (July 1962), pp. 486-494.

"Since the work on the Act involved a relatively long period of time and numerous people, it occurred to me that it might be of value to the lawyers who look at this Act in the future to have some written information in a composite form as to the reasoning and background source material which went into the drafting of this new Texas Trademark Act. This report is therefore submitted in an effort to supply some of such information."

"Principles of Civil Legislation for the U.S.S.R. and Union Republics (Conclusion)," *Soviet Review,* (August 1962), pp. 41-54.

This translation of a part of a major law enacted in December 1961 and becoming operative in May 1962 contains "Section IV. Copyright Law" (pp. 43-48) and "Section V. Law on Inventions" (pp. 48-50).

"Prospective Use of the Grant-back Clause in Domestic and Foreign Patent Licensing Agreements," *Albany Law Review,* Vol. 36 (June 1962) p. 256.

Röttger, Martin, "The Problems of a Trademark Law for the Common Market," *The Trademark Reporter,* Vol. 52, No. 3 (March 1962) pp. 225-247.

Reprinted from the Institute of Trade Mark Agents. This paper was read before The Institute of Trade Mark Agents, London, on October 26, 1961. The discussion that followed is also reprinted. Dr. Röttger's paper is divided into 13 sections, covering "1. Relationship between Common Market and National Trademark Law, 2. The 'Positive Right of User,' 3. Common Market Trademark Registry, 4. Right of Application, 5. Examination, 6. Advertisement and Opposition, 7. Cancellation of a Common Market Trademark, 8. Territory, 9. Appeal Against Decisions of the Common Market Registry, 10. Jurisdiction, 11. Assignment, 12. Licensing, 13. Member States. The paper and the discussion that follows, though relatively brief, are informative.

Sharpe, A. P., III, "Copyrights and Design Patents—the Common Zone Between," *Cleveland-Marshall Law Review,* Vol. 11 (May 1962) p. 336.

Small, C. W., "Government Recognition and Acquisition of Patent Rights," *Cleveland-Marshall Law Review,* Vol. 11 (May 1962) p. 363.

Snyder, Earl, "Foreign Investment: The Other Side," *Federal Bar Journal,* Vol. 22, No. 1 (Winter 1962) p. 16-24.

"Economic development depends on motivation, capital, and technical and managerial skills. There is little doubt that most newly developing nations are strongly motivated in this regard; indeed, they are in a headlong dash to develop economically by whatever means are available. Their difficulties lie in the fact that they lack capital and technical and managerial skills. By and large, they are able to obtain these only from industrially developed nations. Their success in obtaining them depends largely on their success in attracting foreign investors. Adherence to . . . eight points . . . will go a considerable distance toward assuring their success in this direction. . . . 1. Have a stable government with a generally receptive attitude toward foreign investment; in short, provide a 'favorable investment climate' 2. Make full information available on: (1) investment opportunities; (2) legal and institutional framework governing investments; (3) extent of governmental control of business; (4) policies and attitudes toward foreign investment. 3. Provide a well-balanced tax system at a moderate rate level with some initial incentives. 4. Agree to international arbitration of disputes between investors and governments. 5. Establish industrial development banks or corporations or both. 6. Know what persons are interested in and available for joint ventures or management participation in private foreign investment, or both. 7. Assure no expropriation for a minimum period. . . . 8. Assure payment of compensation when expropriation occurs."

"Soviet Research Waste," *The American Behavioral Scientist,* Vol. V, No. 2 (October 1961).

The economic journal, *Economisheskaya Gazeta,* reports that about 80% of the 130,000 allegedly new inventions recorded by the Soviet government in the past year were invented or patented earlier, either in the USSR or abroad. Legislative proposals have been introduced to prohibit research directors or new machinery producers from initiating work on a project until a study has been made of the literature and a search of the Patent Library in Moscow, which has six million patents on file.

Spencer, Richard, "A European Patent: A New Solution to an Old and Vexing Problem," *American Bar Association Journal,* Vol. 48, No. 8 (August 1962) pp. 747-751.

The author explains how certain difficulties in the negotiations for a European patent have been overcome. He considers the ques-

tion of membership in the industrial property conventions of the Common Market, the accomplishments of the Coordinating Committee established to develop a uniform system of industrial property, the procedure for patenting outlined by the patents subcommittee of the Coordinating Committee, and attempts to answer a number of questions that might occur to American Lawyers and Companies.

Torfing, Henning B., "The New Danish Trade Mark Act," *The Trademark Reporter,* Vol. 52, No. 4 (April 1962) pp. 378-389.

". . . a summing up of the evolution in administration and judicial practice under the 1936 Act, as laid down in the new Act [1960], accompanied by some comparative observations which brings the characteristics of Danish Law into relief, and some spotlights on recent trends."

Wehringer, Cameron Kingsley, "Copyrights, The Artist, and Filing Delay," *Journal of the Patent Office Society,* Vol. 44, No. 7 (July 1962) pp. 436-443.

"Whether or not a revision of the copyright law is made, 'deliberate delay' in filing a claim to copyright seems to be a dangerous and foolhardy procedure. 'Near delay' is another matter. Although this paper has considered the artist and his painting as the subject of a copyright, the reasoning is applicable to others."

Westerman, George F., "A Common Patent in the Common Market," *Journal of the Patent Office Society,* Vol. 44, No. 7 (July 1962) pp. 444-461.

Among the subjects the author discusses are the hopes and aims of the Common Market, its historical background, the effect of the Rome Treaty on the national systems for the protection of industrial property, the draft convention for the European patent, and the possible participation by the United States and other countries outside the Common Market.

Yamashita, Kiyoshi, "Some Aspects of Pharmaceutical Patents in Japan," *Journal of the Patent Office Society,* Vol. 44, No. 5 (May 1962) pp. 291-308.

"Japanese Patent Law does not permit granting a patent on medicines as well as processes of compounding two or more medicines. Then, what is a medicine? What is a compounding process? The present paper will serve to study these questions." Examples of Japanese pharmaceutical patent claims are included in an appendix.

RECENTLY PUBLISHED BOOKS FOR YOUNG PEOPLE

Adler, Irving, *Color in Your Life,* New York: The John Day Company. Illustrated by Ruth Adler.

Evans, I. O., *Inventors of the World,* London: Frederick Warne & Co. Illustrated by Drake Brookshaw.

Intellectual biographies of thirteen heroes in the history of invention.

Larsen, Egon, *A History of Invention,* New York: Roy Publishers. Illustrated.

History of technological progress in the fields of energy, transport, and communication.

Moore, Patrick, *The Picture History of Astronomy,* New York: Grosset & Dunlap. Illustrated.

Astronomy from its beginnings to the recent space adventures of Gagarin and Shepherd.

Riedman, Sarah R., *Masters of the Scalpel: The Story of Surgery.* New York: Rand McNalley and Company. Illustrated.

Brief biographies of historic leaders in the world of surgery.

Shepherd, Walter, *The Universe,* New York: Julian Messner. Illustrated.

Suggs, Robert C., *Lords of the Blue Pacific,* Greenwich, Conn: New York Graphic Society. Drawings by Catherine Scholtz, maps by Leonard Darwin.

Story of the peopling of the Pacific Islands by the Polynesians.

Suggs, Robert C., *Modern Discoveries in Archaeology,* New York: Thomas Y. Crowell. Illustrated.

Introduction to the study of Archaeology.

FOREIGN BOOKS AND PERIODICALS

"Basic Principles for Legislation Concerning Patents in the European Common Market" (A Communication by the Official Joint Chamber of Commerce of France and Germany), *Revue de Droit Intellectuel,* No. 5-6 (May-June 1960) p. 162.

The resolution underlines the many points in common between the two chambers. Examines application and patents; the notion of novelty; utility models; patentability of chemical and pharmaceutical products.

De Caluwe, Aime, "The First Regulation Enacting Articles 85 and 86 of the Treaty of Rome," *Revue de Droit Intellectuel,* No. 1-3 (January-March 1962) p. 9.

This is an analytical examination of the provisions of the Regulations. Article 4, paragraph 2, which deals with certain classes of agreements which are excepted from registration, is discussed.

Gaspar, Florent, "The Regulations Applicable to Agreements and to Monopolizing Situations in the Common Market," *Revue de Droit Intellectuel,* No. 1-3 (January-March 1962) p. 1.

This is a study briefly reviewing the purposes and the content of Articles 85 and 86 of the Treaty of Rome. It reviews then the main articles of the Regulations No. 17.

Robbins, Leonard J., "The Patents in the European Community," *Revue de Droit Intellectuel,* No. 5-6 (May-June 1960) p. 141.

This article is a translation of that published by the Institute on Legal Aspects of the European Community, The Federal Bar Association, 1960.

Styret For Det Industrielle Rettsvern (Patentstyret) 50 år, Oslo, Norway, 1961, printed by Oscar Andersens Boktrykkeri.

"The Patent Authority in Norway was organised as a separate institution as early as June 16, 1885 by the Patent Act, which took effect on June 1, 1886, but it was not until the new Acts on Industrial Rights of July 2, 1910, which took effect on January 1, 1911, that the institution received its present form. The book has been published to celebrate this fifty years anniversary." The book contains articles on the following subjects written for the most part by the members of the staff of the Norwegian Patent Office: "The Patent System: Some General Reflections on the System, its Past, Present and Future," by Johan Helgeland; "Patent Organisation in Norway: A Historical Review," by Aasmund Svinndal; "The Organisation of the Patent Office and How the Cases are Treated," by Aasmund Svinndal; "Trade Marks and Industrial Designs," by Roald Røed; "The Patent Office Library," by Finn Varran; "The Patent Agent," by Per Onsager; "Industry and the Patent Institution," by E. Uri; "The Independent Inventor," by Halvard Foss; "The Patent Institution Seen Through the Eyes of an Economist," by Arnljot Strømme Svendsen; "The Patent Office and the Courts," by J. C. Mellbye; "International Co-operation in Industrial Rights," by Johan Helgeland; "Patent Classification," by Gunnar Reiland; "Patent Applications in the Micro-Biological Field," by L. G. Hansteen; "Concerning The Rights to Employees' Inventions," by E. M. Hammel; and "Associations in the Patent Office," by Lief Norstrand, Henry Løken and Roald Røed.

In the lead article Director of the Patent Office, Johan Helgeland, states that "The work done by this [The Patent, Trademark, and Copyright Foundation of The George Washington University] Foundation which is still in progress, I consider to be without comparison the most interesting done in this field." Although the book is in Norwegian, there is a very informative Synopsis of the Contents of the Book at the back. Director Helgeland's paper on International Co-operation in Industrial Rights should be of particular interest to those concerned with the subject of common patents and trademarks. The Director devotes much of the paper to inter-Nordic co-operation and the Nordic patent.

Y. Saint-Gal, "The Problems Raised by the Eventual Co-Existence of a European Trademark with a

National Trademark," *Revue de Droit Intellectual,* No. 12 (December 1961) p. 420.

In reviewing the problems raised by this question, the author suggests that national trademarks should be distinguishable from the European trademark by a significant sign to prevent confusion. The problem is analogized with that existing in the Sarre before and at the time of its return to the German Federal Republic.

Y. Saint-Gal, "Trademarks in the Common Market," *Revue de Droit Intellectuel,* No. 11 (November 1961) p. 318.

The author reviews the legislative and historical background of the proposed European trademark. He brings out the main points on which there are differences of opinion between the member countries. The progress of the committees working on the question is reviewed. The economic importance of a European trademark is discussed and the author suggests that within the spirit of European Community, the problem will be resolved satisfactorily. The author proposes the following features for the European trademark: 1) The national trademark should co-exist with a European trademark; 2) An international trademark and a European trademark should also co-exist, the European trademark serving as a basis for the establishment of an international trademark; 3) The European trademark should be in harmony with the principles established by the Paris Union Convention; and 4) The owner of a European trademark should have effective protection.

The following considerations should be kept foremost in mind: 1) The European trademark should be incontestable; 2) The life of a trademark should take into account its commercial value; 3) The grant of a European trademark should only be possible for the whole of the territories of the European Community; and 4) The jurisdiction of national and European tribunals should be clearly defined.

The article concludes with a discussion of the conditions under which the European Trademark would be available to non-members of the Treaty of Rome.

REPORTS AND HEARINGS

"Government Patent Policies in Meteorology and Weather Modification—1962," Hearings Before the Subcommittee on Monopoly of the Select Committee on Small Business, U. S. Senate, 87th Congress, 2nd Session, March 26-28, 1962.

Testimony of officials of various Federal agencies on an area of technology that increases in practical importance with the advent of satellites facilitating weather prediction and control.

"Patents, Trademarks, and Copyrights," Report of the Subcommittee on Patents, Trademarks, and Copyrights of the Committee on the Judiciary, United States

Senate, Eighty-seventh Congress, Second Session, pursuant to S. Res. 55.

"Registration and Protection of Trademarks," Hearings before the Subcommittee on Patents, Trademarks, and Copyrights of the Committee on the Judiciary, United States Senate, Eighty-seventh Congress, Second Session, pursuant of S. Res. 267 on S. 1396, and an Amendment in the Nature of a Substitute Thereto, May 16, 1962.

NOTES

1962-63 Bulletin Available

The 1962-1963 *Bulletin,* including information on the organization of the Foundation, the research and educational programs, and a list of Foundation members, has gone to press. Copies will be available in the near future.

1962 Conference Number Distributed

Since the Common Market and its effects on other economies of the world have stimulated much interest in international transactions relating to industrial property, publication of the 1962 Conference Number of *The Patent, Trademark, and Copyright Journal of Research and Education* was accelerated. Copies of this edition, concerned chiefly with current international affairs, were distributed recently.

The Conference Number contains an edited transcript of the proceedings of the 1962 Annual Public Conference of the Foundation, including a summary, research reports by the staff of the Foundation, a presentation of current isues by qualified discussants, questions from the floor and answers, and an appendix. The following is a list of the subjects presented and discussed:

FOUNDATION RESEARCH REPORTS:

UNITED STATES INDUSTRIAL PROPERTY SYSTEMS IN THE COMPETITIVE WORLD CONTEXT

Patent Policies for Employees; Government Patent Policies; Trends in Invention Here and Abroad; European Common Market: Patent and Antitrust Aspects; Comparative International Patenting Statistics; Competitiveness of Small Business in Foreign Markets; Taxation of U. S. Income from Foreign Sources; Competitive Research Activity: U. S. and Abroad

CURRENT ISSUES PANELS:

U.S.S.R.: A NEW FACTOR IN INTERNATIONAL PATENT RELATIONS?

Inventions and Patent Practice in the Soviet Union; The Role of the Soviet Union in International Proprietary Rights Affairs; Foreign Trade and the New Russian Interest in Foreign Patent Relations

INTERNATIONAL OUTLOOK ON INDUSTRIAL PROPERTY

Implications of the Common Market

The European Patent Convention; Industrial Property and the Competition Concept of Antitrust; European Economic Community; The Meaning of the Common Market

Implications of the Alliance for Progress

The Increased Licensing of Industrial Property in Latin America; The Role of Private Enterprise in the Alliance for Progress; Problems and Objectives of the Alliance for Progress

Implications of Programs to Expand United States Foreign Trade

United States Legislation and Administration for an Expansion of International Trade; Trade Liberalization in the Context of United States-Japan Trade

Pinkstaff Named For Student Award

The second annual Patent Office Society Student Award has been presented to R. Steven Pinkstaff, a student in The George Washington University Law School. The award is made annually for the best paper by a student in the Seminar and Lecture Series conducted by the Foundation. Mr. Pinkstaff received a citation and honorariam of $100 contributed by the Society. His paper, "Copyright Notice Requirements for Foreign Works Published Abroad," is published in this issue of the *Journal.*

Fifth Digest Printed

A new *Digest* entitled "Business and Government Use the Foundation's Research" was made available at the Annual Public Conference in June. This latest issue refers briefly to a number of the Foundation's studies that have attracted wide attention, including its current work on international arrangements relating to industrial property. The *Digest* also provides information on the organization of the Foundation and how to use its findings.

12th Report to Members Published

The 12th *Report to Members* of The Patent, Trademark, and Copyright Foundation was distributed in the latter part of June. The Report is designed to provide up-to-date information on the Foundation's work in research and in its other activities, as well as a close-up of the individuals engaged in these activities.

Reports Required on Foreign Investments and Licensing

New reporting requirements for international investors and licensors were announced by the Office of Business Economics, U.S. Department of Commerce.

> "Under the new regulations, U.S. business firms and others holding substantial interests in foreign firms—generally 10 percent or more of the controlling stock—are required to file regular reports on their intercompany transaction. Similar reports are required of U.S. firms substantially controlled abroad, and a further report must be filed by firms receiving or paying royalties and license fees.
>
> "Up to the present, statistics on these international investments, income flows, and licensing operations, have been collected on the basis of voluntary reports filed by sample groups of leading firms. The Office of Business Economics of the Commerce Department, which is responsible for the preparation of the balance of payments accounts, expects the new mandatory reporting system to strengthen these essential data in three ways—by broadening the coverage, improving the accuracy and timeliness of the reports, and producing new figures on certain types of investments not previously covered.
>
> "Underlining the importance of these new reports, the Department noted that U.S. investments abroad are now valued at nearly $37 billion, account for annual capital outflows of $1.6 billion, earn over $3½ billion a year abroad and remit about $3 billion to the United States annually as income, royalties and fees.
>
> "The foreign direct investments in the United States covered by the new reporting system total some $7 billion. . . .
>
> "Certain of the forms are quarterly and must be filed beginning with a report for the first quarter of 1962. Other reports are annual, and the first report is to cover the calendar year 1961.

"Completed reports are to be filed with the Office of Business Economics, U.S. Department of Commerce, Washington 25, D.C. Additional information and copies of the regulations and forms may be obtained from that office or the Commerce Department field offices throughout the United States.

"Details of these requirements and the regulations concerning the reports are published in the Federal Register dated April 21, 1962, and are codified in the Code of Federal Regulations under Title 15, Chapter VIII, Part 803."

The European Common Market Patent Convention: The Right To Apply For A Common Market Patent

GERARD J. WEISER*

INTRODUCTION

IN NOVEMBER 1962, THE DRAFT of the European Common Market Patent Convention was officially released.[1] A year ago, the Foundation already reported quite extensively on numerous provisions of the Draft for the Patent Convention[2] and on the probable effects on American interests.[3]

It is important now that the exact terms of those provisions which

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[1]The Draft of the European Patent Law Convention, hereinafter referred to as the European Patent Convention or as the Patent Convention. Official text of the Coordinating Committee for Industrial Property Rights of the Commission of the European Economic Community: Avant-Projet De Convention relatif à un droit européen des brevets élaboré par le groupe de travail Brevets. The official text was published in a bilingual edition with both French and German versions. All translations of foreign language texts used in this report are the writer's.

[2]Gerard J. Weiser and J. N. Behrman, "The European Industrial Property Convention," *PTC J. Res. & Ed.*, Vol. 5, No. 3 (Fall 1961), p. 233; Leonard J. Robbins, "The Proposed New European Patent," *PTC J. Res. & Ed.*, Vol. 5, No. 3 (Fall 1961), p. 217. For a detailed analysis of the antitrust regulations of the Common Market that was published by the Foundation, see Gerard J. Weiser, "Freedom of Competition in the European Economic Community: An Analysis of the Regulations Implementing the Antitrust Provisions," *PTC J. Res. & Ed.*, Vol. 6, No. 1 (Spring 1962), p. 20. Subsequent discussions of the Common Market patent were published by Franz Froschmaier, "The Draft Convention of Patents in the Common Market," *International and Comparative Law Quarterly*, Supplementary Publication No. 4 (1962), p. 50; Finniss, Chairman of the ECC Coordinating Committee for Industrial Property Rights, "Industrial Property and the Common Market," *International and Comparative Law Quarterly*, Supplementary Publication No. 4 (1962), p. 47; Michael N. Meller, "Towards a Multinational Patent System," *Journal of the Patent Office Society*, Vol. 44, No. 4 (April 1962), p. 227; George F. Westerman, "A Common Patent in the Common Market," *Journal of the Patent Office Society*, Vol. 44, No. 7 (July 1962), p. 444; Franz Froschmaier, "Grundzüge des Konventionsentwurfs über ein europäisches Patentrecht," *GRUR Ausl.*, Vol. 9 (1962), p. 433; Wagret, "Le Brevet Européen," *Revue du Marché Commun*, Vol. 47 (May 1962), pp. 213, 218; Franz Froschmaier, "Patents, Trademarks and Licenses Within the Community," *International and Comparative Law Quarterly*, Supplementary Publication No. 1 (1961), p. 58.

[3]Weiser and Behrman, *ibid.*, p. 245; Robbins, *ibid.*, p. 232.

are likely to be of greatest concern to American interests be published promptly for analysis and discussion by interested parties.[4] A qualified and educated body of opinion can make a contribution towards the enactment of provisions in the Patent Convention that are most conducive to best serving the legitimate interests in the field of industrial property on both sides of the Atlantic harmoniously.

For this purpose, a few important provisions have been singled out for initial reporting here accompanied, at this time, by a very brief discussion. Amongst the most important provisions of immediate concern are those proposing to regulate the right of parties that are not members of the contracting states[5] to avail themselves of the European Patent.[6] Three rights must be distinguished: on one hand, the right of adherence or of association to the Convention,[7] and on the other hand, the right of accessibility or the right to apply for a European patent without adherence or association. Problems arising if the United States were to consider some form of association, have already been discussed.[8] Only the provisions controlling the right to apply for a European patent by a non-contracting member will be considered here, particularly as they apply to a member of the International Convention for the Protection of Industrial Property,[9] like the United States.

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[4]The Honorable David L. Ladd, Commissioner of Patents, in an Address at the American Bar Association, Patent, Trademark, and Copyright section, August 8, 1962, on "The Patent Plans of the Common Market Countries," has encouraged a study of these plans. He stated:

"I want to make some comments upon the Common Market plans for a European patent system. Specifically, I want to suggest that on the basis of what we now know about this proposal, those in the United States who are interested should begin to study the proposal, consider its implications for the United States, and form their opinions about the Common Market system." The Commissioner's address appears in *Journal of the Patent Office Society*, Vol. 44, No. 9 (September 1962), p. 583.

[5]The contracting states would be, initially, the members of the Common Market: France, Germany, Italy, Luxembourg, Holland, and Belgium. It would include Great Britain if she should join the Common Market before the Convention becomes effective.

[6]*Op. cit.*, note 4, the Commissioner stated:

". . . I feel free to say that on the question of access to the Common Market patent, it seems clear to me that access should be made available, at least to the nationals of countries, like the United States, which are members of the Paris Union."

[7]Article 211 covers Adherence and Article 212 Association.

[8]Meller, *op. cit., supra*, note 2, pp. 227, 253.

[9]The International Convention for the Protection of Industrial Property as amended in 1958 in Lisbon, hereinafter cited as the Paris Union Convention and its members as the Union members, *Journal of the Patent Office Society*, Vol. 41, No. 2 (February 1959), p. 87.

I. THE TWO ALTERNATIVES TO ACCESSIBILITY

THE RIGHT TO FILE FOR AN APPLICATION for a European patent is set forth in two alternative proposals:[10] one embodies a very liberal approach and the other a very restrictive one.

Under the first proposal for accessibility, any party can file for a European patent. Under the second proposal, three conditions must be fulfilled: the applicant must qualify as a national of one of the contracting states, the application must be filed in one of the contracting states, and it must qualify as a "first" application under Article 4 of the International Paris Convention. More specifically, Article 5 reads as follows:

> ARTICLE 5
>
> THE RIGHT TO FILE FOR A EUROPEAN PATENT
>
> *First Variant*—Any party desiring to obtain protection for his invention for the entirety of the Territory of the Contracting States, may apply for a European patent.
>
> *Second Variant—1)* Any natural person or legal person, or anybody qualifying as a legal person under the national law, having the nationality of one of the Contracting States, that desires to obtain protection for his invention for the entirety of the Territory of the Contracting States, may apply for a European patent.
>
> 2) The application for a European patent must be based on one or more applications for a national patent filed in one of the Contracting States and qualify as a first filing in accordance with Article 4 of the Paris Convention for the protection of industrial property of March 20, 1883, as last amended in Lisbon on October 31, 1958.

The first variant provides for unrestricted accessibility for any party independently from membership in the Paris Union Convention. In the second variant, sections *(1)* and*(2)*, considered cummulatively, restrict accessibility to a party domiciled in and having the nationality[11] of one of the contracting states who has filed there his first application. Hence, in effect, this variant would preclude the subsidiary of an American company from filing for a European patent unless that filing qualified as a first filing, and thus would be prior to the filing of the application in the United States.

When in variant 2, section *(1)* is considered independently of section (2), it would entitle a *ressortissant* of the contracting state to file

[10]Article 5, variants 1 and 2.

[11]A party domiciled in one of the contracting states and qualifying thereby as a

for a European patent regardless of whether this application qualifies or not as a first filing. Accordingly, it was suggested that Common Market subsidiaries of American companies would be entitled to file for a Common Market patent.[12] The futility of such a clause in excluding by itself applications for a Common Market patent from non-contracting Member States was recognized in Europe.[13] When section *(2)* of variant 2 is considered independently of section *(1)*, any party, regardless of domicile, who files first in one of the contracting states would be entitled to a European patent. This would mean that an American applicant would have to file first in one of the contracting states before filing in the United States. But, he would not have to be domiciled in the contracting state. Section *(2)* of variant 2, alone, was one of the solutions advocated by proponents of limited accessibility.[14] Now, the cummulative effects of sections *(1)* and*(2)* of variant 2 foreclose some of these possibilities for obtaining access to the European Patent. Accessibility would be available only on extremely restricted terms.

II. LIMITED ACCESSIBILITY AND THE INTERNATIONAL CONVENTION

A recent study[15] showed that the exclusion of the members of the Paris Union from the European Patent would be a clear violation of

national thereof is hereinafter called a *ressortissant.*

[12]Weiser and Behrman, *op. cit., supra,* note 2, p. 247; Robbins, *op. cit., supra,* note 2, p. 232; Stephen P. Ladas, "Common Market Patent and Trademark Treaties Open or Closed," *Industrial Property Quarterly,* Vol. 1 (1962), pp. 23,24.

[13]Committee of National Institutes of Patent Agents, CNIPA, Subcommittee on Patent Integration, *Industrial Property Quarterly,* Vol. 1 (1962), pp. 18, 20. The Committee stated:

"The possibility that a restrictive policy would turn out to be futile because filing of an application from abroad might be arranged through an associated concern within one of the participating countries, even if this concern were merely a patent holding company."

[14]*Ibid.,* on the question of access, the CNIPA Committee considered four alternatives:

"open to everybody; or open only to persons residing or established in the participating countries; or open only to persons entitled under special conditions related to (a) the place where the invention has been made, or (b) the place where the first application for such invention has been filed."

The Committee favored:

"restricting accessibility to those who have filed their first application for any invention in any participating country as the neatest and most realistic solution of the problem."

[15]Gabriel Frayne, "The ECC Common Market Patent and the National Treatment Principle," *Industrial Property Quarterly,* Vol. 5 (1962), p. 126; Stephen P. Ladas, *Industrial Property, American Enterprise in the European Common Market, A Legal Profile,* (Stein and Nicholson, 1960), p. 235.

the national treatment principle of the Convention.[16] Under this view, the European Patent Convention would be distinguishable from prior, special arrangements established pursuant to Article 15 of the Paris Convention[17] in offering significant, substantive advantages over the national laws. Accordingly, a discriminatory system would be established which would be inconsistent with the Paris Convention.

(1) *Variant 2 and the National Principle of the Paris Convention*

Variant 2 of the European Patent Convention, however, does not totally exclude non-contracting states from applying for a European patent. Accordingly, at first glance, a violation of the national treatment principle would not appear to be made out immediately. Perhaps, an attempt to justify the requirements imposed on non-contractants may even be made as a condition or formality allowed under Article 2 of the International Convention. This Article conditions the grant of the same protection and the same legal remedy to all members of the Paris Union Convention "provided they observe the conditions and formalities imposed upon Nationals." Moreover, once having complied with the requirements of filing set forth by Article 5, variant 2, the non-member would appear to be fully entitled to the rights under the European Convention. Such justification for the restrictions, however, would not be sound.

Variant 2 of Article 5 requires of the applicant from a non-contracting state a complete divestiture of his foreign status. There is no parallel for such requirements under any of the special arrangements entered into pursuant to Article 15 of the International Convention. The conditions sought to be imposed by Article 5, variant 2, for the non-member's admission go to the very crux of his status as a non-member in requiring him to completely assimilate as a member before being granted access to the rights and obligations of the European Patent Convention. This would essentially be tantamount to denying him

[16]Article 2, section 1, of the International Paris Convention states:

"Nationals of each of the countries of the Union shall, as regards the protection of industrial property, enjoy in all the other countries of the Union the advantages that their respective laws now grant, or may hereafter grant, to nationals without prejudice to the rights specially provided by the present Convention. Consequently, they shall have the same protection as the latter, and the same legal remedy against any infringement of their rights, provided they observe the conditions and formalities imposed upon nationals."

[17]Paris Union Convention, Article 15: "It is understood that the countries of the Union reserve the right to make separately between themselves, special arrangements for the protection of industrial property, insofar as these arrangements do not contravene the provisions of the present Convention."

access as a non-member. The very purpose of the national treatment principle provisions in the Paris Convention is to insure to the non-national a treatment equivalent to that given to a national. In the present case, the non-national is not given such treatment until he has divested himself of his foreign attributes. Accordingly, the conformity of Article 5, variant 2, with the Paris Union Convention is most questionable.

(2) *Variant 2 and the Right of Priority*

Moreover, variant 2 brings about the complete deletion of the provisions of the European Patent Convention establishing the right of priority. The official comments to Article 5 note that adoption of variant 2 would require deleting Articles 72 to 74. Article 72 provides, in part:

> ARTICLE 72
>
> THE RIGHT OF PRIORITY
>
> *Section 1*—Any party, or his successor in title, who has duly filed an application for a patent, or for a utility model, shall benefit of a right of priority, for a period of twelve months from the date of the filing of the first application, for filing an application for a European patent for the same invention.
>
> *Section 3*—Any application which qualifies as a regular national application by virtue of the law of the state in which the application has been filed or of bilateral or multi-party treaties is recognized to provide the basis for a right of priority.
>
> *Section 4*—By a regular national filing is meant any filing that is adequate to establish the date on which the application was filed in the country concerned, whatever may be the outcome of the application.
>
> *Section 6*—If the first filing has taken place in a state other than a Contracting State, the above provisions are applicable only to the extent to which this state grants, pursuant to an administrative regulation, a right of priority on the basis of a first filing in the European Patent Office.

Not only does variant 2 bring about the deletion of the internal right of priority proposed by the Convention in Articles 72-74, but it fails to observe the original purpose and meaning of the right of priority established by Article 4 of the Paris Union Convention.[18] This provision is primarily intended to give the inventor, who has first filed in the country where he made the invention, appropriate time for extending his

[18]Paris Union Convention, Article 4: "A person who has duly filed an application for a patent . . . in one of the Countries of the Union . . . shall enjoy, for the purpose of filing in the other countries, a right of priority during the periods hereinafter provided."

protection to other countries by filing a patent application. Under variant 2, the applicant from the non-contracting state would file first in the Common Market country and then, having thus acquired a right of priority based on this first filing, in the country where the invention was made. Thus, the first filing would be in a country where the invention was not made and only the second filing would be carried out there. Thus, a pattern would develop which is directly inverse of that prevailing now. This would certainly be a distortion, if not a contravention, of the spirit of the Paris Union Convention.[19]

III. THE COEXISTENCE OF NATIONAL LAWS WITH THE EUROPEAN LAW

There exist economic and political realities which must be taken into account at the time of approval of the final terms of the European Patent Convention which go beyond these and various other legalistic arguments which question the conformity of variant 2 of Article 5 with the Paris Union Convention. Any system for a European Patent which imposes restrictions on the accessibility of the system for non-members must expressly provide for the continued existence of the national patent system. Otherwise, the proposed system would fail to observe the stipulations of the Paris Union Convention.[20] Accordingly, the proposed European Patent Convention provides for its coexistence with the national patent laws.[21] At a minimum, the coexistence requirement would demand that the national systems of patent law of the contracting states be preserved. But the further position may also be taken that it is implicit in this requirement that the quantum of right available at the time the Convention becomes effective cannot be decreased thereafter. This implies a static system of industrial property law for the contracting states.

IV. EFFECTS ON INDUSTRIAL DEVELOPMENT

The requirement of preserving national laws is inconsistent with dynamic economic and political developments in the EEC. The establishment of a European Patent would necessarily lead to the harmoniza-

[19]Also, Article 8 of the European Convention states that it shall not violate the commitments to which contracting states adhere by virue of other international agreements.

[20]*Op. cit., supra,* note 13, on the question of coexistence of the national and federal patent systems, the CNIBA Committee stated ". . . By virtue of maintaining national systems, the participating countries can continue to fulfill their obligations under the Paris Union Convention . . ."

[21]Article 6 and Introduction to the Draft Convention, p. 3.

tion of national laws[22] pursuant to Article 100 of the Treaty of Rome. Gradually, too, it should provide the impetus for at least the partial abandonment of the national systems.[23] Even to the extent that any national law becomes obsolete in protecting a national industrial property interest, it would then have to be maintained. With the economic interests having adequate protection under a new supra-national law, little justification remains for the national law.

It is very important for the EEC countries to realize that the requirement of preserving the national laws is, therefore, likely to be a serious restraint on achieving desirable aims of the EEC. Restricted accessibility will, accordingly, be against the best interests of the EEC. In contrast, free accessibility of the European Patent system to non-members allows for a continued dynamic evolution of the law in the field of industrial property consonant with the aims of the EEC.

Moreover, economic expansion involving legally protected industrial property generally promotes the flow and trade of unprotected property. To establish obstacles to the protection of industrial property is like restraining the very core of economic development. This is opposite to the fundamental aims of the Treaty of Rome. Furthermore, placing

[22]Ladas, *op. cit., supra,* note 15, pp. 247, 290-295; Froschmaier, *op. cit., supra,* note 2, Supplementary Publication No. 1, p. 59. Any system for a European patent that would be preferred by contracting parties with non-members relegated to the national patent contributes to perpetuating the compartmentalization of the EEC. See Froschmaier, *op. cit., supra,* note 2, Supplementary Publication No. 1, p. 64.

[23]*Op. cit., supra,* note 13. The CNIBA Committee advocates a system going further than mere harmonization. "The future system must be established on new bases and not constitute merely a compromise between the existing (national) arrangements. In other words, integration must win over harmonization. To insure the success of a future federal system, it is indispensable, we believe, that the inventors of the participating countries have advantages in acquiring federal patents rather than national patents." Also, Finniss, Chairman, EEC Coordinating Committee of the Patent, Trademarks, and Design Committees, "Are the National Rights of Industrial Property Doomed to Disappear?," *La Propriété Industrielle,* Vol 6 (1961), pp. 133, 139. In discussing the establishment of a federal right of industrial property, juxtaposed onto the national right, he stated:

"Two rights will coexist; and one can think that one will devour the other following economic evolution. . ." As a result of the establishment of a federal right coexisting with a national right, ". . . the relative importance of the national rights will decrease considerably. . ." On the point whether the national rights will be displaced by the federal rights, he said ". . . If Europe becomes one, . . . becomes unified, all national rights will disappear, and they will disappear very fast; and they will probably disappear first because it is the fate of industrial property rights to be the avant-garde of the unification of the laws." He continued, ". . . along with the economic acceleration . . ., I believe that it will be childish to believe that, following this hypothesis, the industrial property right will be able to retain its national roots."

supra-national protection for industrial property essentially out of reach for the United States may have a serious dampening effect on the flow of protected property between the United States and the EEC. This would be contrary to the purpose of the Trade Expansion Act and similar liberal trade policies. It may also constrain industrial development in the EEC whenever it involves protected industrial property which had its origins in the United States. These are realities which those responsible for finalizing the Patent Convention cannot fail to recognize if they are to be aware of the best interests of the EEC.

V. THE POLITICAL CONTEXT

The issue of free accessibility is, however, basically a political one. It must be realized that it arises within the context of broad political problems. The EEC is committed now to fully assuming its world responsibilities.[24] The Community has pledged to seek non-discriminatory solutions to the problems arising out of the growth of the Community. Between a narrow and preferential solution—like restricted accessibility—and one broadly constructive—like free accessibility—the latter one is the only truly acceptable one for a community which has seen its world obligations grow commensurately with its economic importance.[25] In establishing a European system of industrial property, the EEC cannot tie it with restricting and preferential appendages discriminating against the United States. The EEC has realized that it must make certain that it must not merely seek EEC solutions that would aggravate the problems of other nations. Only world solutions are commensurate with world responsibilities.

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[24]Professor Hallstein, President of the Commission of the European Economic Community, "The European Community: Its Emerging World Role," an address at Creighton University, December, 1962.

[25]*Ibid.*, "We have passed the stage of being uniquely a European factor. We are a world factor. We are not only willing to consider the problems of nations on whom our very existence has an impact, we are obliged to. We have reached the age of commitment, and we accept it." It must be noted that one of the reasons why the European Patent Law Convention is outside the legal structure of the Treaty of Rome is to entitle other countries to participate in the Convention without becoming associated with the European Common Market. The fact that the Convention is independent of the Treaty of Rome can not, therefore, be a proper basis for saying that the liberal policies advocated by the EEC are not applicable to the Convention. The Convention has the official sanction of the governments of the EEC. Froschmaier, *op. cit., supra,* note 2, Supplementary Publication No. 4, p. 50. Therefore, policies enunciated by the EEC are also applicable to matters related to the Convention.

VI. CONCLUSION

The problems in this field call upon the United States to exercise strong and persistent, yet understanding and tactful, diplomacy to convince the EEC to live up to its commitments.

By recognizing its world responsibilities, the EEC will make a significant contribution to the building of a dynamic and equitable Atlantic partnership in the field of industrial property.

Industrial Property in Latin American Development

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ANOTHER ROUTE FOR HEMISPHERIC ADVANCE

THIS PAPER, WHICH FOLLOWS UP A THEME enunciated in an article published in this *Journal*[1] earlier in the year, is the first of a series emerging from a study of the role that industrial and related property may play in the future economic and social development of Latin America. It presents findings based on two types of information concerning patents, trademarks, and similar properties: (*1*) responses to a questionnaire sent to a group of small, medium, and large companies having Latin American operations; and (*2*) a preliminary survey of the English-language legal literature on patents, trademarks, and similar properties and of other available writings on economic, political, and social characteristics of the various countries.

In later articles, use will be made of other information that is being compiled. Thus, questionnaires have been sent to a large number of leading Latin American law firms and to individuals strategically located in industry, government, science, education, and the arts. Additional material is being derived from official reports of United States government agencies (such as the State and Commerce Departments), Latin American governments, and the Organization of American States.

This study and its successors aim at greater understanding of the problems to be overcome and the remedies that may be applied in expanding the contribution of intellectual property systems. They will provide guides for policy-making compatible with the objectives[2] of the Alliance for Progress, organized in 1961 under the Charter of Punte del Este. This Alliance, it will be recalled, represents a major cooperative undertaking to help our neighbors to the south to raise their level of industrialization, to improve the climate for capital investment, to promote political stability, and generally to advance the skills and welfare of the population.[3] Within the context of the Alli-

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[1] L. James Harris, "Industrializing Latin America: A New Frontier for Industrial Property Transactions," *PTC J. Res. & Ed.*, Vol. 6, No. 1 (Spring 1962), pp. 1-19.
[2] See Appendix A.
[3] Teodoro Moscoso, "Progress Report on the Alliance for Progress," *The New*

ance's aims of economic and social progress through self-help, basic reform, and external assistance, the strengthening of intellectual property and similar systems could significantly enhance the international flow and application of technological information, investment funds, and educational and cultural materials.

The Foundation's interest in Latin America as a new market for industrial property transactions coincides, not only with the establishment of the Alliance for Progress, but also with bold efforts being made within Latin America itself to enlarge the scope and volume of industrial production and international trade.[4] These efforts underscore the importance of early and explicit recognition of a concept of Latin American community, in addition to the more familiar notion of hemispheric partnership.

Two manifestations of inner striving in Latin America toward cooperative economic improvement also suggest the prospect of a drive toward self-realization as a multi-national entity having a common core of hispanic culture and history. These are the new Central American Common Market[5] and the Latin American Free Trade Association.[6] The first of these two trading blocs includes El Salvador, Guatemala, Honduras, Nicaragua, and Costa Rica; the second includes Argentina, Brazil, Chile, Colombia, Mexico, Paraguay, Peru, and Uruguay. Initially, these organizations are focusing on greater economic unity, but they also provide opportunities, as in the case of the European Economic Community, for extending cooperation to additional fronts. With the growth of common institutions, interests, and symbols, such organizations should help the participating nations to develop greater resistance to externally supported subversive influences;[7] and this new stability would also reinforce other action to encourage the inflow of foreign investment funds.

York Times, August 12, 1962, Magazine Section, p. 11.

[4] Donald A. Moffitt, "Lift for Latin Lands—Their Tariff-Cut Pacts Expand Market Areas, Spur Industry Growth," *The Wall Street Journal,* December 24, 1962.

[5] See *Multilateral Economic Co-Operation in Latin America,* Vol. I (1962), United Nations, Department of Economic and Social Affairs, pp. 5-31, on the general treaty on Central American economic integration, the agreement on the equalization of import duties and charges, protocols on equalization of import duties and charges, the multilateral treaty on free trade and Central American economic integration, the agreement on the régime for Central American integration industries, and the agreement establishing the Central American Bank for economic integration.

[6] *Ibid.,* pp. 35-83.

[7] For a capsule sketch of communist strength in the six Central American countries see "Tough Hard-Core Reds Active in Central America" by Al Burt, *The Washington Post,* December 9, 1962, p. E8; See also, for current communist operation in South America, "Brazil Hunts Caches of Red Arms," by Joseph Brant, *The Washington Post,* January 13, 1963, p. A23.

The Central American Common Market is developing actively. Barriers have been eliminated to about one-half the trade among the member nations since the treaty was signed in December 1960. External tariffs have been standardized on about 80 percent of all commodities, and a regional development bank has been established. Machinery has been devised for settling disputes among members. Recent discussions have embraced additional important issues, such as the abolition of passports, the creation of a common currency and "nationality," cultural integration, tax unification, unification of mail and other communication rates, and standardization of electoral systems.[8]

It is increasingly felt that the formula of market enlargement is constructively applicable to the many Latin American countries impatient for economic advance. At a meeting of Latin American industry representatives in Buenos Aires in April, 1962, recommendations[9] were made by the Committee on Industrial Property of the first Assembly of Industrial Enterprises to promote the unification of industrial property systems and establish an information clearinghouse on trademark applications and other industrial property matters within the free trade area (eventually, within a common market). In a speech before the Organization of American States on December 13, 1962, the President of Chile proposed the economic integration of Latin America as the shortest route to higher living scales. President Kennedy quickly endorsed this proposal for a large Western hemispheric common market as an essential step within the framework of the Alliance for Progress.[10]

Clearly, these increasing evidences of deliberate action on the part of the United States[11] and the Latin American countries themselves[12]

[8] "Central Americans to Meet Next Month," *The New York Times,* November 25, 1962; "5 Latin Nations Seek U. S. Fund to Aid Social Progress," *The Washington Post,* January 20, 1963, p. A19.

[9] Robert L. Birch, "Latin-American Patent Systems Unification Project," *The Journal of the Patent Office Society,* Vol. 44, No. 11 (November 1962), p. 753. This note refers to a special edition (1962, No. 3-4) of the Chilean journal *Industria,* which is devoted to the meeting in Buenos Aires. (See Robert L. Birch, "Latin American Common Market Patent Coordination Project," p. 420 of the Note Section of this *Journal.*)

[10] "Latin 'Common Market'?," *U. S. News and World Report,* December 24, 1962, p. 13.

[11] Paul P. Kennedy, "U. S. Credit Spurs Mexico Land Plan," *The New York Times,* July 15, 1962; Philip Shabecoff, "Spurs Are Sought In Latin Housing," *The New York Times,* October 21, 1962, Financial Section; Paul P. Kennedy, "U. S. May Counter Latin Aid Critics by Adding Funds," *The New York Times,* October 21, 1962.

[12] "Special Report on Latin America," section on "Moves for Integration," *Business Week,* September 22, 1962, pp. 176,178; "Promise in the Americas," *The Evening Star,* October 23, 1962.

require a timely consideration of the commonalities and compatibilities of hemispheric intellectual and related property systems. By building on these relationships and properly extending them, the nations concerned should be able to augment the contribution of such systems to economic and social development. Indeed, closer integration of the systems within Latin America could become a very vital force in industrialization. Meanwhile, the United States has a special interest, not only in encouraging greater uniformity within Latin America, but also in establishing explicit channels for technical interchange based on a mutual understanding[13] of our distinct systems. Thus, the concepts of Latin American community and inter-American partnership could be joined imaginatively in the realm of technology at this favorable juncture in history.

RESPONSES TO QUESTIONNAIRE

As already noted, a letter of inquiry was sent to a small number of companies that are members of the Foundation and that engage in Latin American operations. These companies were selected on the basis of a review of their annual reports. An effort was made to represent different size classifications as well as the three major patent categories—electrical, chemical, and mechanical. The object of the inquiry was to ascertain the nature of the industrial property and related problems encountered by the respondents and the significance attached to them.

The first question was: "What kinds of industrial property (e.g., patents and trademarks) do you utilize in your Latin American operations?" Most of the companies that responded indicated that both patents and trademarks[14] entered into their Latin American transactions. On the whole, greater importance was attached to trademarks than to patents. Furthermore, the role of patents is more significant in the more industrialized of the Latin American countries, such as Mexico, Brazil, and Argentina.[15]

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[13] See Adolph A. Berle, *Latin America—Diplomacy and Reality* (New York: Harper and Row, for the Council on Foreign Relations, 1962), for a discussion of the possibility of distinct political and economic systems arising that are peculiar to Latin America, and a plea for "wide understanding and tolerance"; Also see: Robert L. Heilbroner, *The Making of Economic Society* (Prentice-Hall, 1962), for an interesting discussion of the development of the present market societies and the difficulties encountered by the underdeveloped nations in transition.

[14] Also see: J. N. Behrman, "Advantages and Disadvantages of Foreign Licensing," *PTC J. Res. & Ed.*, Vol. 2, No. 1 (March 1958), pp. 139-141; J. N. Behrman, "Licensing Abroad Under Patents, Trademarks, and Know-How by U. S. Companies," *PTC J. Res. & Ed.*, Vol. 2, No. 2 (June 1958), pp. 186-187.

[15] Also see: J. N. Behrman and W. E. Schmidt, "New Data on Foreign Licensing," *PTC J. Res. & Ed.*, Vol. 3, No. 4 (Winter 1959), p. 371.

The second question was: "What kinds of arrangements respecting industrial property (e.g., patent or trademark licensing) are pertinent to your Latin American operations?" Some of the responding companies reported direct patent and trademark licensing, but a larger number indicated the conduct of such activity through subsidiaries. One company reported a general policy "to retain ownership of patents and trademarks in the parent company and to license the use thereof to a foreign subsidiary which, in turn, grants sublicenses. In addition our foreign subsidiaries are licensed under a few patents of unrelated United States companies." Several companies expected that patent and trademark licensing would become commercially more important in the future.

The third question was: "With what size ('large,' 'medium,' 'small,' or self-employed) and what kinds (e.g., manufacturing, sales, repair) of firms do you have such arrangements?" Most of the responding firms indicated current relationships with, or interest in entering into arrangements with, manufacturing and selling firms in all size categories.[16]

The fourth was a compound question: "(*a*) Have these arrangements become sources of increasing company revenue within the last five years? (*b*) Do you expect them to become increasingly significant in the next five years? (*c*) Please comment on *a* and *b*." In general, the larger respondents regard licensing as an important source of current and future revenues. Some of the other companies also look forward to increasing revenues from Latin American arrangements.[17] One company reported that "relatively new associations in Mexico[18] appear to be promising. Some associations in Brazil of rather long standing are becoming increasingly difficult because of government restrictions placed on business,[19] primarily relating to the exportation of dollars."

The fifth question read: "For extending and improving the mutually beneficial use of industrial property in Latin America, what policy

[16] Also see: J. N. Behrman, "Advantages and Disadvantages of Foreign Licensing," *op. cit.*, pp. 141-148; J. N. Behrman, "Licensing Abroad Under Patents, Trademarks, and Know-How by U. S. Companies," *op. cit.*, pp. 244-248.

[17] Also see: J. N. Behrman, "Advantages and Disadvantages of Foreign Licensing," *op cit.*, p. 140; J. N. Behrman, "Licensing Abroad Under Patents, Trademarks, and Know-How by U. S. Companies," *op. cit.*, pp. 242-244.

[18] Also see: Daniel James, "Kennedy Visits A 'New' Mexico—Industrialization Has Transformed It, Though It Remains 'Ciento Por Ciento Mexicano'," *The New York Times,* June 24, 1962, Magazine Section; Philip Shabecoff, "Mexican Shift in Cuban Crisis May Attract U. S. Investments," *The New York Times,* November 18, 1962.

[19] See also: George R. Sherman, "Brazil: A Nation Off Balance," *The Evening Star,* September 10, 1962; Lawrence Stern, "Hanna Mine Dispute May Affect U. S.—Brazilian Relations," *The Washington Post,* December 9, 1962.

changes would you recommend: (*a*) by United States government? (*b*) by United States firms? (*c*) by Latin American governments? (*d*) by Latin American firms?" In addition to the comment already made on government restriction on dollar exports, several observations by respondents merit notice.[20]

1. According to one company, "it was not possible to arrange a satisfactory Engineering and Research Fee agreement with the Brazilian government for locally manufactured _____. This is not critical as long as we are continuing to furnish from the United States such components as _____, the prices on these items being inflated to include the amount we would receive as an Engineering and Research Fee. As additional production is foreseen in Brazil, it is our belief it would be helpful if the government of Brazil were to allow Engineering and Research Fee agreements on such production."

2. Another company is considering "the possibility of increasing the use of 'shared' equity ownership in foreign subsidiaries in which local nationals put up a part of the capital for business as utilizing our industrial property."

3. Still another company "would strongly recommend that the patent system of these countries be improved." It refers in particular to "enforceability of patents against infringing products imported from other countries." It also proposes "that the laws of many countries should be amended to make clear that in patent infringement litigation the burden is on the importer to prove that the product involved was made by a process other than the one claimed in the patent alleged to be infringed."

PRELIMINARY SURVEY OF LITERATURE

In the survey of English-language legal literature, it was found that the industrial property systems of Latin America were generally oriented toward the exploitation of existing foreign technology rather than the encouragement of native invention. Another initial finding is that trademarks receive much more emphasis than patents in the current state of industrialization. A third point is that the interest manifested by the various countries has not been uniform—a fact which

[20] Also see: "Advantages and Disadvantages of Foreign Licensing," *op. cit., supra,* note 14, pp. 153-157; "Licensing Abroad Under Patents, Trademarks and Know-How by U. S. Companies," *op. cit., supra,* note 14, pp. 190-195; J. N. Behrman, "Foreign Licensing and Investment in U. S. Foreign Economic Policy," *PTC J. Res. & Ed.,* Vol. 4, No. 2 (Summer 1960), pp. 150-172.

might be expected in view of different degrees of industrialization.[21] Fourth, relatively little attention has been given to translation and convenient assembly of the pertinent legislation, administrative regulations, and court decisions (presumably because of past insufficient demand), and it is not always clear what law is in force. Fifth, a number of inter-American conventions and treaties are on record with respect to industrial property, but these vary in countries covered and in types of property concerned.[22] Although there has been a definite evolution in the scope and sophistication of the provisions, no enduring common focus has yet been established for coordinating the attention and action of all the countries of Latin America. Sixth, despite variations in the coverage and details of the legislation of different countries, the commonalities[23] are impressive, and these seem to provide a basis for integration and compatible future development—another dimension of the prospective emergence of a Latin American community organized around a common hispanic tradition. Finally, since the Latin and Anglo-American legal traditions are necessarily distinct, our survey also suggests that a conscious effort is required to establish and maintain a con-

[21] See "Powerhouse for Latin Industry," *Business Week*, September 22, 1962, p. 174.

[22] See *Inter-American Treaties and Conventions on Industrial Property*, Treaty Series No. 15, Pan American Union, General Secretariat, OAS (Washington, D. C., 1962).

[23] See: *Manual for the Handling of Applications for Patents, Designs, and Trademarks Throughout the World* (2nd ed.; Amsterdam, 1936), Bureau Voor Technische Adviezen; William Wallace White and Byfleet G. Ravenscroft, *Patents Throughout the World* (New York, 1944), Trade Activities Inc.; *Patent Laws of the World* (1911 ed., supplements to 1940 [individual leaflets], London), Chartered Institute of Patent Agents; *A Statement of the Laws of Argentina in Matters Affecting Business*, Division of Law and Treaties, Dept. of International Law, Pan American Union (Washington, D. C., 1960); *A Statement of the Laws of Brazil in Matters Affecting Business, ibid.* (1961); *A Statement of the Laws of Bolivia . . ., ibid.* (1962); *Chile, ibid.* (1956); *Colombia, ibid.* (1961); *Cuba, ibid.* (1958); *Dominican Republic, ibid.* (1953); *Ecuador, ibid,* (1955); *Guatemala, ibid.* (1959); *Honduras, ibid.* (1959); *Mexico, ibid.* (1961); *Nicaragua, ibid.* (1960); *Paraguay, ibid.* (1962); *Peru, ibid.* (1955); *Uruguay, ibid.* (1957); *Venezuela, ibid.* (1962); G. Breuer, *Patents and Trade Marks in Argentina and South America* (Buenos Aires, 1947); *Index to Legislation in Latin America 1950-1960*, Library of Congress Law Library, two volume set, kept current; *World Trade Information Service*, U. S. Department of Commerce, Part 2, No. 55-57, *Operations Reports, Patent and Trademark Regulations of Argentina* (1955); *Ibid.*, No. 56-30, *Patent and Trademark Regulations of Bolivia* (1956); *Ibid.*, No. 55-98, *Brazil* (1955); *Ibid.*, No. 56-46, *Chile* (1956); *Ibid.*, No. 54-2, *Colombia* (1954); *Ibid.*, No. 55-94, *Costa Rica* (1955); *Ibid.*, No. 55-68, *Cuba* (1955); *Ibid.*, No. 55-85, *Dominican Republic* (1955); *Ibid.*, No. 55-43, *Ecuador* (1955); *Ibid.*, No. 55-29, *Guatemala* (1955); *Ibid.*, No. 56-37, *Haiti* (1956); *Ibid.*, No. 55-12, *Mexico* (1955); *Ibid.*, No. 56-14, *Panama* (1956); *Ibid.*, No. 55-77, *Paraguay* (1955); *Ibid.*, No. 55-110, *Peru* (1955).

structive relationship between the industrial property systems of the United States and Latin America.

Patents in Latin America

The provisions of the industrial property law, as already noted, reveal considerable commonality and indicate attractive opportunities for forging the industrial property systems into an effective instrument for technological advance under private as well as public auspices. For example, the duration of patents in all these countries appears to cluster about a period of fifteen years (for thirteen of twenty countries). Most of the countries provide for patents that expire in five, ten, fifteen, or twenty years. Except for Ecuador and Cuba, the countries of Latin America offer different combinations of five-, ten-, fifteen-, and twenty-year patents at the option of the applicant. Panama and Chile grant all four types. Colombia and Honduras offer patents of from ten through twenty years duration; and Argentina, Dominican Republic, and El Salvador, from five through fifteen years.[24]

Approximately eleven of the Latin American countries grant patents of addition and/or improvement; and all Latin American countries except Haiti, Nicaragua, Mexico, and Brazil grant revalidation and/or importation, introduction, or confirmation patents.[25] It is much less difficult to obtain a patent of addition or improvement than an independent patent for the same invention, since the former only covers improvements upon the disclosure of the independent patent. The novelty rules with respect to independent patents generally do not apply to revalidation, importation, introduction, or confirmation patents, and the life of these latter types is usually restricted to the life of the independent patent confirmed. The prevalence of patents of addition and of confirmation in so many of the Latin American countries reflects, perhaps, the low state of invention in these countries.

Another interesting commonality is that in all the countries both the inventor and the assignee can apply for a patent.[26] This feature is in contrast with United States law, which is derived from the English law: only the original and first inventor may apply for a patent. Although

[24] See Oscar Carlberg, *Guide to Patents, Trademarks and Designs* (2nd ed.; New York: Singer, Stern and Carlberg, 1958).

[25] See *Patent Laws of the World* (1911 ed.; London), Chartered Institute of Patent Agents.

[26] Carlberg, *op. cit., supra,* note 24.

this Latin American procedure and that of granting the patent to the person who gets to the patent office first are common in Code countries and represent a view of the public interest (in that they encourage prompt filing), they also might reflect some lack of consideration for the rights of the individual inventor. Provisions for the payment of taxes in the laws of ten of the Latin American countries also may be said to disfavor the individual inventor. This emphasis on market orientation tends to stimulate the transportation rather than the origination of technology and seems incompatible with the encouragement generally granted to creative effort in other aspects of Latin American culture.

The prevalence of working requirements in the laws of all Latin American countries, except for Panama, Haiti, El Salvador, Colombia, and Chile, also indicates a preoccupation with the exploitation of the technical advances of others rather than the encouragement of native development.[27] The need of relatively unindustrialized countries to draw on the other countries finds expression in provisions facilitating early use, but the price seems to be the discouragement of new indigenous invention.

In 1955, an eminent member of the Lima Bar, José Barreda Moller, wrote as follows of the situation in Peru, which is recognized as one of the more progressive nations in Latin America:

> ". . . Industrial Development has started only recently. Few of the new national products are of a quality that merit trademark protection. Even less possess sufficient inventiveness and originality for patenting. Foreign trademarks and patents exceed Peruvian ones at a ratio of 20 to 1.
>
> "In view of this situation it is not strange that there has been little interest in changing the law to the same level as in the industrial nations. Peru has not felt the internal pressure of interested groups seeking the protection of improved trademark and patent law.
>
> "This stagnation is not in agreement with Peruvian legal tradition. Neither is it in accordance with the awakening of Peruvian industry.
>
> "The Peruvian Trademark Law dates from December 19, 1892, with only minor changes to date. It holds little interest for the student and contains no provisions relating to modern concepts or to recommendations of international conventions.

[27] *A Statement of the Laws* [of the countries of Latin America] *in Matters Affecting Business, op. cit., supra,* note 23.

> "The same is true of both judicial and administrative jurisprudence. The former is inadequate and discouraging and has had no influence on the development of industrial legislation. The latter lacks sufficient publicity. As for legal literature on the subject: there is none."[28]

Trademarks

Since trademarks are considered personal property[29] in the Latin American countries, they are generally freely assigned and licensed. In all the countries except Venezuela, Ecuador, and Brazil, trademarks may be assigned without the good will of the business.[30] In all, furthermore, trademarks may be licensed. In some, like Brazil and Mexico, licensing is controlled by statute; in others, it is simply permitted in conformity with the civil law concept of a trademark as personal property. Generally, there are no requirements for quality or other control of the trademark by the licensor as in the United States.[31]

Most of the trademarks expire after ten years, and all may be renewed indefinitely. As is the case in Code countries, all Latin American countries grant the trademark to the first applicant. This practice is based on the theory that the registration creates a trademark right. Curiously, however, the use of the mark is compulsory in about half the countries. Some countries do recognize the superior right of the first user by allowing him, for a limited period, to have an infringing trademark set aside.

Among the countries in which registration of the mark is controlling and priority of use is immaterial are: Argentina, Peru, El Salvador, Bolivia, Costa Rica, Ecuador, and Paraguay.[32] Among the countries that provide some limited opportunity for opposing or cancelling registra-

[28] José Barreda Moller, "Peruvian Trademark Law," *The Trademark Reporter,* Vol. 45, No. 3 (March 1955), p. 264.

[29] "Trademark Licensing—Foreign" (a panel discussion), *The Trademark Reporter,* Vol. 51, No. 10 (October 1961), p. 1027.

[30] *Op. cit., supra,* note 27.

[31] Breuer, *op. cit., supra,* note 23; and *Index to Legislation in Latin America, op. cit., supra,* note 23.

[32] A colleague commented:"I believe there exists a trend away from this rigid approach, and there are examples where countries such as Argentina, Peru, etc., will consider facts other than mere registration in support of a claim of right in a trademark. Evidence of this more liberal approach can be found in the decision in Argentina concerning the trademark, LA VACHE QUI RIT and Device, discussed in *The Trademark Reporter,* Vol. 52, at page 775. Moreover, under the 1929 Convention the member countries tender an opportunity for opposing or cancelling registrations based on prior use."

tions based on prior use are Brazil, Chile, Colombia, Cuba, and Mexico.[33]

All but the Dominican Republic provide for opposition. This procedure may act as a protective mechanism against "trademark jumping." In most cases, marking is optional.[34]

There seems to be a greater commonality among the provisions for trademarks than for patents. This fact may reflect the more widespread use of trademarks. Although most[35] Latin American countries have well developed[36] industrial property statutory laws, with the exception of Brazil, Mexico, and Argentina, these laws are, in effect, aspirations; and, as already observed, they are directed largely to protection from and exploitation of, the technical advances of *other* countries. Much of the law of Brazil, Mexico, and Argentina[37] is also in the nature of high resolve, but these three countries, having attained more sophisticated industrial levels,[38] are much more interested in the protection of industrial property. Representatives of the other nations of Latin America—except, perhaps, for Peru, Venezuela, and Uruguay—sometimes even give the impression of impatience when the subject of industrial property is under discussion. The climate is changing, however, as the mutual advantages of deliberate improvement of the systems of all hemispheric countries become increasingly recognized.

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[33] Walter J. Halliday, "Inter-American Conventions for Protection of Trade-Marks," *The Journal of the Patent Office Society,* Vol. 32, No. 9 (September 1950), pp. 669-670.

[34] Carlberg, *op. cit., supra,* note 24; *Op. cit., supra,* note 27.

[35] *World Trade Information Service, Operations Reports, Patent and Trademark Regulations* [of Latin American Countries], *op. cit., supra,* note 23.

[36] But see Jeremiah D. McAuliffe, "Measures to Insure Protection of Service Marks in the Americas," *The Trademark Reporter,* Vol. 51, No. 5 (May 1961), pp. 462-465.

[37] *Op. cit., supra,* note 31.

[38] Roberto Noble, *Argentina, A World Power* (Ediciones Arayu; Buenos Aires, 1961); *Conjuntura Economica* (English ed.), a monthly review of production and trends, Brazilian Institute of Economics of the Vargas Foundation; *Desenvolvimento e Conjuntura,* Brazilian Confederation of Industries; *Revista do Conselho Nacional e Economia,* list of present legislation and list of laws relating to economic and social development, published by National Economic Council; *Situaçao Economica do Brazil* (yearly publication); *Anuario Estatistico do Brazil,* published by Instituto Brasileiro de Geografia e Estatistica; *Boletin,* by I.B.G.E.; Annual reports of the Banco di Brazil; *Investment in Mexico, Conditions and Outlook for U. S. Inventors,* U. S. Dept. of Commerce.

Conventions

Attempts to develop a broad inter-American agreement on protection of trademarks—a type of industrial property more likely than patents to be of native origin—have had only a modicum of success.[39] (See Appendix B). The Santiago Convention of 1923 was not ratified by a sufficient number of countries to make it effective.[40] The Inter-American Registration Office in Havana which started to function in 1919 was eliminated, in effect, by the requirement of the 1923 Convention that separate fees be paid to each country in addition to the general registration fee paid to the Havana Bureau.[41]

The 1929 General Inter-American Convention for Trademark and Commercial Protection has been ratified by only ten countries.[42] Six countries ratified a separate Protocol to the 1929 Convention for the establishment of a new International Office in Havana, and all of these, except Cuba, have subsequently denounced it.[43] Among the countries which have failed to ratify the 1929 Convention are Argentina, Brazil, Chile, Mexico, and Venezuela. Since only four Latin American countries—two of which are not industrially advanced—are members of the International Convention for the Protection of Industrial Property and *none* of the leading industrial countries has ratified the 1929 Convention, it is apparent that much remains to be done to reach a mutually satisfactory convention on trademarks in this hemisphere.

Although some authorities have regarded the 1929 Convention as an advance[44] over the International Convention, others consider it too detailed. One author has written that it "attempts to transfer into the conventional regime concepts and rules of the law of the United States which are unrelated to the background or the civil law prevailing in Latin America."[45]

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[39] Walter J. Derenberg, *Trade-Mark Protection and Unfair Trading* (New York, 1936), Chap. 15 on "International Aspects of Trade-Mark Law, the Pan-American Conventions," pp. 779-802; Jeremiah D. McAuliffe, "Consideration of Inter-American Conventions," *The Trademark Reporter,* Vol. 52, No. 1 (January 1962), pp. 25-34.

[40] Halliday, *op. cit., supra,* note 33, p. 664.

[41] *Op. cit., supra,* note 33, p. 663.

[42] *Op. cit., supra,* note 33, p. 665; *op. cit., supra,* note 22.

[43] *Op. cit., supra,* note 42.

[44] Mr. Suastegui, the Mexican delegate at the 1929 Washington Convention, stated: " 'We leave, satisfied in the belief of having solved the problem in a manner absolutely equitable, laying new foundations and setting forth principles more advanced and in accord with the latest developments in international trade . . . .' " (Derenberg, *op. cit., supra,* note 39, p. 800).

[45] Stephen P. Ladas, *The International Protection of Industrial Property* (Harvard University Press, 1930), p. 768.

Only four countries are members of the International Union for the Protection of Industrial Property—viz., Brazil, Cuba, Dominican Republic, and Mexico. At the International Congress of South American States (in Montevideo, 1889), Argentina, Bolivia, Brazil, Chile, Paraguay, Peru, and Uruguay signed conventions relating to patents and trademarks which were subsequently ratified by five of the signatories.[46] In 1902, a convention on patents, industrial drawings and models, and trademarks was signed by sixteen of the countries and ratified by Guatemala, El Salvador, Costa Rica, Nicaragua, and Honduras. This convention was subsequently abrogated.[47] Another convention, relating to "patents of invention, drawings and industrial models, trade marks, and literary and artistic property"[48] was signed in 1906, but it did not obtain ratification by a sufficient number of countries. In 1910, a convention on inventions, patents, designs and industrial models and another on trademarks were signed; later, the patent convention was ratified by twelve countries and the trademark convention by thirteen. Four ratifiers—Costa Rica, Guatemala, Honduras, and Nicaragua—have since denounced the trademark convention.[49]

The Montevideo Convention of 1889 on trademarks has been abrogated, and the one on patents is in effect only between Argentina and Peru. The conventions of 1902 and 1906, relating to intellectual and industrial property, have both been abrogated.[50] The 1910 convention for the protection of trademarks is in effect among Bolivia (which has adhered definitively), Brazil, Cuba, Dominican Republic, Ecuador, Haiti, Panama, Paraguay, United States, and Uruguay. The 1923 Convention for the Protection of Commercial, Industrial, and Agricultural Trade-Marks and Commercial Names is in effect among Brazil, Cuba, Dominican Republic, Haiti, Paraguay, United States (with reservations), and Uruguay.[51]

Various delegations to these conventions have from time to time expressed themselves in favor of acceding to the International Union for the Protection of Industrial Property. They argued that the multiplicity of agreements and the diversity of definitions and concepts tend to hinder international transactions involving industrial property

[46] Halliday, *op. cit., supra,* note 33, p. 662.

[47] Ladas, *op. cit.,* p. 764.

[48] Ladas, *op. cit., supra,* note 45, p. 758.

[49] Halliday, *op. cit., supra,* note 33, p. 663.

[50] Ladas, *op. cit., supra,* note 45, p. 764.

[51] *Op. cit., supra,* note 22.

rights. Indeed, the provisions of some of these conventions were criticised by delegates favoring accession to the Union of 1883 as vague and indefinite, unduly complicated, and even impractical.

A well-known author states:

> "The long and repeated efforts of about two-score years to create an American union for the protection of industrial property, and to establish an international regime on the subject which would give satisfaction to all American countries, have been well-nigh fruitless. What are the reasons for this? Is it the fact that the United States, a manufacturing country, has interests which conflict with those of Latin America, which produces only raw materials? Is it the lack of long preparation and continuity of study of the questions involved in the protection of industrial property? Or is it the lack of sufficient information on the law and interests of the various American countries, the failure to interest these countries sufficiently in the advantages of a common international regulation of the subject of industrial property?"[52]

The questions here raised are still most pertinent to the situation with respect to an American union for the protection of industrial property.

CONCLUSION

Most Latin American countries suffer from a serious lack of technical knowledge and financial capital,[53] and the resources of land[54] and labor[55] are, in most cases, inefficiently utilized.[56] Food supplies are generally

[52] Ladas, *op. cit., supra,* note 45, p. 765.

[53] "Special Report on Latin America," section on "Business in a Vise," *Business Week,* September 22, 1962, pp. 162-171; Donald B. Hadley, "Latin America Needs to Win Back Investors, Robinson Tells Bankers," *The Evening Star,* December 11, 1962; Robert Metz, "Investors Wary of Latin America," *The New York Times,* November 4 ,1962; Isabelle Shelton, "Appeal for Latin Wealth," *The Evening Star,* June 26, 1962.

[54] H. Stuart Morrison, "Land Reform Program Bogged Down in Brazil," *The Evening Star,* June 18, 1962, p. B5; Richard Eder, "Two Factors Peril Aid to Colombia," *The New York Times,* November 11, 1962.

[55] Arthur P. Whitaker, "Peron's Ghost Haunts Argentina," *The New York Times,* October 7, 1962, Magazine Section.

[56] Roberto T. Alemann, "Reconstruction in Argentina," *Challenge,* February, 1962, Institute of Economic Affairs, New York University; "Special Report on Latin America," section on "An Economic Cure?," *Business Week,* September 22, 1962, pp. 171-182; Edward C. Burks, "Economists Urge Argentine Shifts," *The New York Times,* July 1, 1962, p. 4; "Economic Woes Plague Uruguay," *The New York Times,* December 2, 1962; "Growth Outlook in Colombia Dims," *The New York Times,* October 21, 1962, p. 31; Juan de Onis, "War on Inflation Falters in Brazil," *The New York Times,* October 21, 1962, p. 29.

inadequate, education is confined to the few, competition in our sense is rare or fluctuating, and exploitation of labor is commonplace. Complicating the difficulties of orderly change to an industrial society is the dissemination of information by modern means of communication, which understandably increases the restlessness among native populations for the better life which they know that others enjoy.[57]

If the serious gaps in technical knowledge are to be supplied within the framework of a relatively free society,[58] mechanisms will have to be provided whereby inventors and developers, native or foreign, are encouraged to improve existing technologies and make new products. The incentives will have to be provided to companies as well as individuals. For their part, foreign industrialists and investors will have to understand the nature of Latin American industrial property systems and the cultural sources thereof.

Confidence engendered by sound and effective industrial property systems could stimulate enterprise and the reinvestment of profits. In a favorable climate, the transfer of technical knowledge would be supported by private investment[59] as well as government loans,[60] and the knowledge would also be translated into physical capacity.[61] Literacy progress and health and education assistance could amplify both of these processes.[62]

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[57] "Coup Sentiment Gains in Caracas," *The New York Times,* October 21, 1962; John N. Plank, "Monroe's Doctrine—And Castro's," *The New York Times,* October 7, 1962, Magazine Section, p. 30; Tad Szulc, "Latin Aid Troubles Rise," *The New York Times,* October 21, 1962, Editorial Section.

[58] Arturo Frondizi, *Freedom—The Ideals of the West and Economic and Social Development* (Buenos Aires, October 9, 1961); Tad Szulc, "U. S. Wins More Hemispheric Support for Stand on Cuba," *The New York Times,* October 7, 1962. p. 4E; William L. Ryan, "Strong Stand by U. S. Seen Delighting Latins," *The Evening Star,* October 24, 1962.

[59] "Argentina, An Experience in Partnership," an address by James F. McCloud, President, Industrias Kaiser Argentina before the Commonwealth Club of California, June 8, 1962.

[60] Dan Kurzman, "Colombia Aid to Set Pattern for Alliance," *The Washington Post,* January 20, 1963.

[61] John Hoover, "A Picture of Argentina, An Industrial Adolescent With an Appetite for Steel," *The Washington Daily News,* November 17, 1961, p. 22.

[62] See: Noble, *op. cit., supra,* note 38; *Argentina,* American Republic Series, No. 1, 1960, Pan American Union, General Secretariat, OAS (Washington, D. C.); Arturo Frondizi, *Argentina in the Face of World Problems* (Washington, D. C.: Argentine Embassy, 1961); *Planeamiento,* Rivista Trimestral, Junta Nacional de Planeamiento (La Paz, September de 1961); *Bolivia . . . en America,* Vol. 1, No. 1 (January-February 1962), General Consul of Bolivia, General Consulate of Bolivia, New York; William P. Wadbrook, "Dominican Republic Reforms Gradually Overcoming Losses Accumulated Under Trujillo," *International Commerce* (U. S. Dept. of Commerce, July 23, 1962).

It appears that the industrial property laws of Latin American countries, concerned with the protection of, and orderly transactions in, technical knowledge, already are strikingly similar.[63] If an organized[64] effort could be directed toward the reworking of such laws and their further harmonization within the context of the newly developing Latin American trading blocs, a considerable contribution could also be made toward the realization of Alliance for Progress goals.[65]

For the countries of Latin America, the present seems to be the right time to begin energetically to improve the legal and economic highways that already exist.[66] The United States, furthermore, might take explicit account, in connection with the Alliance for Progress, of the need to establish still better highways and to this end participate with its neighbors in the process. Hemispheric unity would be aided by a conference on industrial property. The commonalities which already exist in the industrial property laws of Latin American countries suggest a successful outcome. Thus, a valuable contribution might be made to the concept of hemispheric unity that traces back to Simon Bolivar and found its first expression in the Treaty of Union signed in Panama in 1826.[67]

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[63] *Op. cit., supra,* note 23.

[64] See Appendix C, "Press Release Issued by Group of Specialists Meeting in Mexico City," January 8th, 9th, and 10th, 1963.

[65] Moscoso, *op. cit., supra,* note 3; (See Appendix A).

[66] Harris, *op. cit., supra,* note 1.

[67] See *"Introduction to . . . the Twenty Latin American Republics,"* Pan American Union, General Secretariat, OAS, Washington, D. C.

APPENDIX A

"The Declaration to the Peoples of America, signed at the same time [as the Charter of Punta del Este], established the following principal goals for the Alliance's ten-year program:

To improve and strengthen democratic institutions.

To accelerate economic and social development.

To carry out urban and rural housing programs, thus providing decent homes for all Americans.

To encourage programs of agrarian reform to correct unjust systems of land tenure and use.

To assure fair wages and satisfactory working conditions to all.

To wipe out illiteracy.

To press forward with programs of health and sanitation.

To reform tax laws and punish tax evasion severely.

To maintain fiscal policies which will protect purchasing power.

To stimulate private enterprise in order to encourage economic development.

To solve the problems created by excessive price fluctuations in basic exports.

To accelerate the economic integration of Latin America."*

**The Alliance for Progress—What You Should Know About It,* The Pan American Union, General Secretariat, Organization of American States (Washington, D. C., 1962), pp. 2-3.

APPENDIX B

CURRENT INTER-AMERICAN CONVENTIONS ON INDUSTRIAL PROPERTY AND PRESENT ADHERENTS

	Venezuela	United States	Uruguay	Peru	Paraguay	Panama	Nicaragua	Mexico	Honduras	Haiti	Guatemala	El Salvador	Ecuador	Dominican Republic	Cuba	Costa Rica	Colombia	Chile	Brazil	Bolivia	Argentina
International Convention for the Protection of Industrial Property (Patents, Utility Models, Trademarks, Trade Names, Indications of Source or Appellations of Origins and the Repression of Unfair Competition)		x						x						x	x				x		
Montevideo Convention of 1889 (Patents)				x																	x
Buenos Aires, 1910, *Convention on Inventions, Patents, Designs and Industrial Models*		x	x		x	x	x		x	x	x		x	x	x	x			x	*	
Buenos Aires, 1910, *Convention on the Protection of Trademarks*		x	x	x	x	x				x			x	x	x				x	*	
Santiago, 1923, *Convention for the Protection of Commercial, Industrial, and Agricultural Trade Marks and Commercial Names*		**	x		x					x				x	x				x		
Washington, D. C., 1929, *General Inter-American Convention for Trademark and Commercial Protection*		x		x	x	x	x		x	x	x				x		x				

* Adhered definitively
** Adhered with reservations

APPENDIX C

PRESS RELEASE ISSUED BY GROUP OF SPECIALISTS MEETING IN MEXICO CITY

A representative group of specialists in the profession of Industrial Property Law met in Mexico City, January 8th, 9th, and 10th, 1963, with the objectives of considering the problems resulting from the diversity of systems and legislations in the countries of America and improving the protection of industrial property.

Following a full discussion and in view of the necessity of having a permanent organization entrusted with the study and resolution of such problems, those attending the meeting resolved unanimously to form the "Interamerican Association of Industrial Property" (ASIPI) as a legal entity in accordance with the principles set forth in the attached resolution.

For these purposes committees were elected with the following memberships:

"Organization Committee"		"Promotional Committee"	
Dr. José Barreda Moller	Peru	Dr. Jeremiah D. McAuliffe	U.S.A.
Dr. Francis C. Browne	U.S.A.	Dr. Harold Roditi	U.S.A.
Lic. Bernardo Gomez Vega	Mexico	Dr. Ignacio Escobar Lopez	Colombia
Dr. Cesar Sepulveda	Mexico	Lic. Alejandro Uhthoff	Mexico
Dr. Jeremiah D. McAuliffe	U.S.A.	Lic. Ernesto R. Vitteri	Guatemala

The terms of reference of the organizing committee are:

1. To prepare a draft of constitution and bylaws for submission to a constitutive assembly.
2. To prepare the agenda for the meeting of ASIPI.
3. To take all steps leading to the early constitution and formation of ASIPI.
4. To call together and prepare the constitutive assembly.

The following duties were assigned to the promotional committee:

1. To inform the press as to the above activities.
2. To communicate the resolutions taken at this first meeting to all other specialists in the profession of Industrial Property throughout the Americas and to the competent official agencies.
3. To distribute information concerning the work of the organizing committee.
4. To promote the formation of national associations as entities of ASIPI.
5. To solicit the attendance of specialists in the profession at the constitutive assembly.

The final resolution taken at this meeting was the calling together of the constitutive assembly of ASIPI to be held in Mexico City in January 1964.

The undersigned specialists in Industrial Property, meeting in Mexico City, January 8 to 10, 1963, considering:

That a solid legal and administrative system of Industrial Property is widely recognized as being responsible for the economic progress of the most highly developed nations and is essential for the future progress of those nations in which a full economic development has not yet been achieved;

That the diversity of legislations and administrative systems prevailing in the countries of America in the matter of Industrial Property, relating to the recognition and protection of the rights of inventors, to marks, to industrial models and designs and to commercial names, impedes its economic integration and development;

That the reduction of existing differences among the legal and administrative systems relating to Industrial Property will facilitate the cultural understanding of the peoples of the Americas and promote the investment of capital necessary for their development by creating greater opportunities for employment;

That it is necessary to coordinate in these countries the efforts of those persons, groups and institutions who are dedicated to studying the problems and to the promotion of Industrial Property;

That the system of Industrial Property has not been utilized to the full extent of its highest aims in these countries with a view to assisting the formation of an economically stronger and culturally more advanced society; and

That the present degree of interdependence of the countries of the Americas requires that the relationships among the specialists of the different countries of this hemisphere be strengthened for the better application of their efforts;

Resolved:

1) To organize the "Interamerican Association of Industrial Property" (ASIPI) grouping together, as individuals and through national groups, the specialists in the matter who desire to collaborate in the coordination of the legal systems relating to patents, marks, commercial names, industrial models and designs and problems of unfair competition in the various countries, aiming at improvement thereof and at reduced differentiation thereamong;
2) To promote in all countries of America the constitution of integrated national groups of specialists in the matter of Industrial Property in order that they may jointly dedicate themselves to obtaining and achieving the objectives which the Association has set for itself;
3) To call together a general conference of specialists in the matter of Industrial Property of the countries of America in January 1964 in Mexico City in order to constitute the Interamerican Association of Industrial Property (ASIPI) and to reach all other agreements deemed suitable by those attending the same.

Mexico City, January 10th, 1963.

Protection of Trademarks and Patent Rights in the Middle East History, Geography and Economics

SABA HABACHY*

SUMMARY

PROTECTION OF INDUSTRIAL PROPERTY in the Middle East started with the Turkish Law of 1872. The most recent enactment on this subject is the Kuwait Patent Law in force since July 15, 1962.

Legislation on intangible property in the Middle East follows the International Conventions and the most modern European laws.

However, persistence of stagnant desert and agricultural economies in this area resulted in tardy recognition of industrial property. Up till 1958, 90 percent of trademarks and patent rights registered in Lebanon were foreign-owned. Local scientific research was practically nonexistent. Technological progress was slow.

Nevertheless, since the discovery of its vast oil resources, the Middle East is undergoing rapid change. Oil exploration is using highly advanced scientific techniques in its desert wastes. Attention is now focused on big refineries and petro-chemical industries. Since oil-producing countries have a substantial share in the benefits resulting from these recent developments in their economic structure, they are showing renewed interest in the advancement of science and in extending equal protection to the inventor, the designer and the industrialist without whom their present prosperity would not have been possible. As the Kuwait Constitution of November 11, 1962 put it, the modern states of the Middle East

> "promote science, literature and art and encourage scientific research."

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I. PROTECTION OF TRADEMARKS AND PATENT RIGHTS IN THE MIDDLE EAST HISTORY, GEOGRAPHY AND ECONOMICS

THE PROTECTION OF INDUSTRIAL PROPERTY in the Middle East has been assured by legislative enactments and regulations which go back to the second half of the nineteenth century. The oldest statute in the Middle East relating to the protection of industrial and commercial property was the Turkish law of 24 Jamad Al-Akhar 1288 A.H. (1872 A.D.); while the most recent legislation in this respect has been promulgated by the State of Kuwait after it achieved independence a little more than a year ago. That legislation creates an office for the registration of trademarks, which has also been made responsible for the registration of patent rights and industrial designs by the Patent Law of April 9, 1962 in effect since July 15, 1962. The recent Kuwait laws of 1962 have been made available in this country in Arabic and English thanks to the diligence of the Consulate General of Kuwait in the City of New York and the prompt response of the Government of Kuwait, which has rushed several copies of the trademarks and patent legislation of Kuwait by air mail to the United States. This was to be expected from a progressive and forward-looking nation such as Kuwait, which has inscribed the following words in Article 14 of its Constitution of November 11, 1962:[1]

> "The State promotes science, literature and art and encourages scientific research."

As a general rule, the legal enactments in the Middle East concerning what is usually called "intellectual, literary, artistic and industrial property" follow the International Conventions, and are copied from the corresponding European legislation. However, it should be borne in mind that trademark and patent legislation in the Middle East has not yet had the time to strike deep roots. Its development has been tardy and slow, and there are disparities between the law as written and the law as applied. Consequently, it would be a mistake to assume that because the laws are identical, the protection of industrial property in the Middle East is the same as it is in the West.

Although that part of the law is becoming more and more international in character, its development in the national systems of law is a function of economic, ideological, scientific and technological conditions in the individual countries. It is easier to copy a foreign statute than it is to bring up a generation of scientists and technicians. Further-

[1] *Kuwait Today*, Special Issue of November 12, 1962.

more, there is the difficult task of creating an enlightened public opinion. In spite of high hopes and enthusiasm for industrialization in under-developed countries, a nomadic or an agricultural economy does not lend itself to complicated inventions or sophisticated techniques. Little need is felt in the new nations for elaborate laws protecting intangible rights. Science, modern technology and industry cannot be created in a country overnight. The following are some illustrations taken from the experience of various countries in the Middle East:

1. Beginning with Turkey, it was long after the Industrial Revolution in Europe that the Turkish Empire felt the need for modernizing its system of law, adopting European economic institutions and applying science to the solution of its problems. The law reform in Turkey started with the Tanzimat. In 1839, Sultan Abdul Majid issued the Khatti Sherif of Gulkane which was a declaration of rights for all the inhabitants of the Empire as well as a program of social and economic reform. That Khatt which was read in pomp by the Sultan in person before the assembled grandees of the Empire and the Corps Diplomatique carried a significant reference to Western culture and science in the following passage:

> "It is our belief that banks should be opened . . . that capital funds should be created to augment the sources of material wealth, that roads and canals should be opened for the transportation of products. that all obstructions preventing the growth and development of agriculture and commerce should be removed and the necessary facilities provided, and that for the accomplishment of these aims, means should be sought to profit by European culture, science and capital."

However, the profiting by European science and capital required progressive universities and modern laws. This meant a departure from classical Islamic culture and law which, for instance, condemned lending money at interest. Consequently, progress, if any, under the former Sultans of Turkey was very slow, and the achievement fell short of the hopes and good intentions. Thus, it was only in 1850 that the Ottoman Empire started to implement the Khatti Sherif of Gulkane by adopting a commercial code borrowed from French law; and the enactment of the first law to protect industrial and commercial property had to wait until 1872 (24 Jamad Al-Akhar 1288 A.H.). It cost Turkey total defeat in the First World War and the overthrow of the Sultanate and the Caliphate to make a complete overhaul of its economic outlook and its legal institutions. It was left to the modern Republic of Turkey under Kemal Ataturk to Europeanize its outlook and industrialize its economy.

2. The second illustration is taken from Egypt. After the opening

of the Suez Canal for navigation the Khedive Ismail wrote the following in a letter to his Prime Minister Nubar Pasha, in which he limited his hitherto autocratic rule and pledged himself henceforward to rule with and through his council of ministers:

"We are no longer a part of Africa; my country is now a part of Europe."

However, it was only after the abolition of the Capitulations by the Treaty of Montreux in 1937 that Egypt was able to join the civilized nations of the world in enacting laws for the protection of industrial property. Its trademark law was promulgated in July, 1939. But before that date, the Penal Codes of the Mixed and National Tribunals, which were effective since 1875 and 1883, respectively, contained provisions punishing as forgery (with imprisonment and fine) the imitation of a trademark or of an industrial design belonging to another person or firm. However, in the absence of a law providing for the registration of trademarks and patents, these provisions of the criminal law remained a dead letter for many years. I remember a case in which, as assistant to the attorney general of Egypt, I failed to obtain a conviction in a criminal prosecution involving some mechanics who had been imitating the trademark of the Singer Sewing Machine Company. The products of that Company were, and still are, highly prized in Egypt. The accused had affixed the letters Sincer on low priced machines of inferior make. Their acquittal was not only due to a legal technicality, it was also due, in a large measure, to public opinion, which was not much concerned about the infringement of the rights of a distant foreign company. Even today, only lip service is paid in some under-developed countries to the principle of equal treatment and the prohibition of discrimination against foreigners, which are so basic in the International Conventions for the protection of industrial property. In theory, the law is the same for everybody. But in practice, things are different, and there are great disparities between the letter and the spirit in which legal provisions are applied, irrespective of the fact that the majority of Middle East countries have adhered to the International Conventions

3. I shall take the remaining illustrations from other countries in the Middle East. Beirut, Lebanon is becoming a printing center for the Arabic reading world. There exists in the Republic of Lebanon a modern up-to-date copyright law. However, public consciousness has not yet sufficiently developed to the extent of adequately protecting the rights of an American author against the publication of an unauthorized Arabic translation of his work. That publication proved to be very popular and lucrative. As a practical solution, however, the

American author was advised to come to an agreement with the translator and editor of the wrongful publication, rather than go through the effort and expense of lengthy and little rewarding litigation. What is more, in the negotiations for a settlement, the translator and publisher told the wronged American author that he should be grateful to them for the wider recognition of his work in the Arab world, which they ascribed to their wrongful act. One is reminded of the saying of a writer in a cause celebre before the French courts in the nineteenth century. His defense against the complaint of the wronged party who claimed that plagiarism was theft (le plagiat, c'est du vol), was the motto: I take what I deem to be good where I find it (je prends mon bien où je le trouve). This explains why some nations in the Middle East were slow in joining the International Conventions, or tardy in adopting legislation protecting industrial, artistic or literary property. In the United Arab Republic, for instance, a copyright law was enacted only as late as June 24, 1954 (Law No. 354 of June 24, 1954). The Law protecting patent rights and industrial designs in the U.A.R. is dated August 16, 1949. The most recent patent law in the Middle East is Kuwait Law No. 4 of April 9, 1962, effective since July 15, 1962. While Saudi Arabia has a trademark law (High Order No. 8762 dated 24/6/1358 A.H.), it has not got a patent law as yet.

4. In the domain of trademarks, soft drinks became very popular in the hot climate of the Middle East after the War. The words "Cola" and "Up" became famous in a battle royal which is still raging. There were Kawthar (nectar) Colas, Mekka Colas, Fresh Ups and Bubble Ups. So long as the fight is between competing foreign trademarks, you can count on the protection of the courts. But there is still some hesitancy concerning the application of the law to the weak local citizen who is prosecuted by the giant foreign capitalist corporation. In the case of the Mekka Cola, it was pointed out that there was a trademark law all right, but there was little chance for a fair hearing. So, the practical advice, which was given and followed, with satisfactory results, was to come to an arrangement by virtue of which the illegitimate use of the rightful trademark was converted into a legitimate use under a licensing agreement.

There have been contradictory decisions in Lebanon and Egypt in cases brought by "Seven Up" against "Fresh Up" and "Bubble Up." However, some of these cases are still *sub judice* and have not yet been finally decided. It took several years of hard fight to have the rights of "Coca-Cola" and "Pepsi Cola" to the exclusive use of their trademarks finally upheld by decisions of the Egyptian Court of Cassation. However, once recognized in Egypt, it was easy to convince

the courts in other countries in the Middle East to follow the precedent laid down by the Supreme Court of the U.A.R.

5. The last illustration is taken from the domain of patent rights and industrial designs. In a relatively highly sophisticated country in the area, the Administration of Industrial Property refused to recognize the novelty of an industrial design which was well known all over the world. However, after strenuous efforts, a decision of the Council of State of the U.A.R. overruled the administration and settled the dispute in favor of the owner company. Another country, namely Libya, adopted a very modern patent law which is only three years old. That law, which was copied verbatim from the U.A.R. law of 1949, provided for prior search and pre-examination of applications before registration of a patent. A "Protection Bureau of Commercial and Industrial Property" is supposed to render decisions concerning the patentability of an invention or an industrial design. But, to all intents and purposes, that Bureau is non-existent. The country in question has not had the time to bring up any scientists. It has a university which is not yet ten years old, and which has no facilities whatever for teaching modern science.

This disparity between the law as written and the law as practiced is the result of the social, cultural and economic atmosphere in the Middle East. An inquiry was recently made in Lebanon, a progressive country with one and a half million inhabitants. That Republic boasts four universities and a rate of literacy of 90 percent, the highest in the Middle East. Its economic life depends on tourism and transit trade. Nevertheless, a recent inquiry at the patent office of Lebanon showed that about 90 percent of those who benefited by the laws protecting industrial property were foreign nationals, mainly foreign corporations. In 1961, out of a total of 1,035 trademarks registered in Lebanon, 897 were foreign. The proportion of foreign-owned registered patents was even greater, since only 5 percent of these patents belonged to Lebanese patentees. No wonder then that where nationalist feelings run high, it is often difficult to get protection for the foreign trademark owner and the foreign patentee.

The conclusion to be drawn from the illustrations given above may be summed up as follows:

In order to give a correct idea of the state of the law relating to industrial property in a country in the Middle East, or in any country for that matter, we must take into account the stage it has reached in its economic, scientific and technological evolution, its natural resources, and its industrial potential, its geographical situation and the degree of intensity of its nationalistic outlook.

II. DESCRIPTION OF THE AREA AND REASONS FOR RENEWED INTEREST IN ITS TRADEMARK AND PATENT LAWS

The countries generally included in what is known as the Middle East cover an area of over three million square miles. But apart from the Nile Valley and Mesopotamia, the greater part of that area is desert wastes. The Peninsula of Arabia alone is one-third the area of the United States.

In that wilderness, scanty rainfall and some scattered oases support a primitive nomadic life at subsistence level. There is evidently no room there for industrial property or patent law. However, in the field of discovery and invention, the unexpected often happens. We shall see how part of the wilderness was made to blossom like a rose. This development was taking place since 1909 in Iran, Iraq, Bahrein, the Arabian Peninsula and, more recently, in Algeria and Libya. Consequently, there is a renewal of interest in industrial property, patent and trademark laws in these countries.

Agriculture and irrigation engineering are highly progressive in Egypt. This is true to a certain extent of Iraq, Turkey, Syria, Iran, Morocco, Algeria and Tunisia. Forestry is one of the important economic resources of Anatolia. Since trademark law protects the products of agriculture, forestry and the extractive as well as the manufacturing industries (see, for instance, Article 1 of U.A.R. Law of July 9, 1939), it is natural to expect an early development of trademark law in these areas. In the majority of cases, trademark laws were enacted in the Middle East several years before patent laws. These laws protect local agricultural produce, such as Turkish figs, Iraqi and Tunisian dates, Egyptian rice, Anatolian railway sleepers, Sinai manganese, and so on. The methods of scientific agriculture are being gradually introduced. The selection of cotton seed started in the second half of the nineteenth century in Egypt. Very progressive research was going on over several decades to preserve the high quality of Egypt's long staple cotton. Agricultural machinery, fertilizers and insecticides are being more generally used throughout the Middle East, and licensing agreements are sought for the local manufacture of some of these products. But they involve patent rights which are in the domain of industry rather than agriculture. It is hard to protect the rights of the botanist, the geneticist or the agricultural research scientist who, by cross-breeding, evolved a superior variety of seed. The man who gave his name to the finest long-staple cotton Egypt ever produced, Sakellaridis, died penniless. In a posthumous recognition of his services, the Egyptian Government allocated a pension to his wid-

ow. Broadly speaking, an agricultural economy may furnish the propitious ground and the appropriate climate for the growth of trademark law, but not for the development of invention or patent law. This explains why trademark laws preceded patent laws in most of the countries of the Middle East, and why inventions and industrial designs have had such tardy recognition. The emphasis was and still is laid on agricultural land as the main source of wealth. Other possessions did not represent much value. The saying of the old Roman law: *Res mobiles res vilis* is still true of the Middle East. To the jurist practicing law in that area—save in a few exceptional cases—the concept of intangible property is hardly recognizable. Industrial property is a subject of interest to the big foreign company overseas, rather than an article of local concern. The average lawyer in the Middle East is seldom interested in patent and trademark law. He belongs to an under-developed area, where the general belief is that under-developed nations are entitled to borrow from the accumulated intellectual and industrial wealth of the more fortunate nations. This explains why some nations are still hesitant to adopt laws which would curtail this freedom.

This raises the question: What reasons are there for interest in Middle East trademark and patent laws and what new factors militate in favour of better expectations for the development of these laws: A. within the Middle East iself; and B. on the international plane?

A. *Within the Middle East*

1. Interest in patent and trademark law is naturally designated first to protect the rights of nationals and foreigners who reside on the territory of the state. However small these rights may be in comparison with the interests of foreign nationals and companies in the Middle East, it is still the duty of the state to protect these legitimate interests, like any other form of property.

2. Second: The nations of the Middle East are beginning to be anxious to assume their rightful place and bear their share of responsibility in the community of nations. The law governing industrial property is increasingly becoming part of a universal law of nations, or, to use the expression of Professor Jessup, of a transnational law. In no other branch of the law has there been as many international arrangements and conferences. Berne, Switzerland has become a world center for the international protection of intangible rights. The nations of the Middle East are beginning to take pride in keeping up

with the Joneses and in not being outdistanced by the more advanced nations.

3. Third: There is always the hope that the Middle East will catch up with the scientific and technological developments in which it has been outstripped by the West. This hope may not be far distant. In the past, the Middle East had given the West its numerals, its algebra and its astronomy. Its present backwardness may only be a passing stage in history, to be succeeded by a revival of scientific discovery and technical ingenuity. Important research work is being carried out in one of the major problems of our day in the University of Jerusalem, namely, the desalting of sea water. There was a time in the United States when some people doubted the wisdom of continuing a patent office in Washington, D. C., on the supposition that all that there was to discover or invent had already been discovered or invented. Such statements, which were taken seriously at the time, would cause a smile in the atomic and space age in which we live.

To borrow from a summing up of a report by Doctor Vannevar Bush, science is the endless frontier. The sky is no longer the limit of human aspirations and inventiveness. It may be a mistake to judge the future developments in the domain of science, technology and law in the Middle East by its tardy progress in the recent past or its present slow movement. The prophetic saying may yet become true in desert areas of the Middle East other than the Nejev.

At the beginning of the present century, the great French economist Charles Gide, while discussing possible future sources of energy, pointed out that ultimately, men might turn to the rays of the sun for heat, light and power. The future centers of industry, he said, might be located in the deserts of Arabia and the great Sahara of Africa where the rays of the sun are most ardent. This is happening now, in the case of energy which had been originally derived from the sun and which was trapped in geological strata since countless millenia in the form of oil and natural gas. Since the first discovery of oil in 1909 in Iran, the latest techniques in exploration and drilling for oil and gas are now being used in the Middle East on an unprecedented scale. Some of the biggest refineries in the world have been built in Abbadan, Ras Tanura, Bahrein and Aden. The talk of the Middle East now is petro-chemical industries and the utilization of the area's vast resources of natural gas. All of a sudden the law governing industrial property in the Middle East has become of far-reaching importance. Some of the most sophisticated applications of modern science are being continuously utilized in the search for oil. Gone was the time when regis-

tration of patents and trademarks was looked upon in the Middle East merely as a satisfaction to national pride or as a source of revenue to the state.

B. *On the International Plane*

As the export business of American companies develops, and as American technology becomes more widely known and applied, the need is more keenly felt to protect American trademarks, inventions, and industrial designs against local and foreign competition. Approximately 120 foreign countries grant patent protection at the present time, while trademarks enjoy safeguards against imitation and abuse in even a greater number of countries.

In the case of the Middle East, the threat of imitation of highly advanced industrial processes is naturally barred for a while by the present tardy development of scientific research and the relatively small size of local industry. However, there are two important considerations which lead American firms to seek the protection of their industrial rights in the Middle East.

First, an American firm may find it to its advantage to establish a subsidiary to manufacture its product or use its highly developed techniques in a country in the Middle East. In their eagerness to industrialize, some Middle East countries provide incentives, such as tax holidays, lower costs and freedom to repatriate earnings and capital to attract foreign investments. A new field of licensing is opening up between firms in the U. S. and industrialists and governments in the Middle East. In such cases locally protected patent rights, designs and trademarks would enhance the value of the product or the license.

The following examples may serve as illustrations:

1. In 1946, the Misr Group of industrial enterprises entered into a contract with an American firm for the erection and operation of a plant for the manufacture of viscose and artificial fibers. The contract provided for the utilization in Egypt of any patent rights on present or future discoveries and inventions due to the research being carried on in the laboratories of the American firm.

2. Mention has already been made of the use of American trademarks in the fast growing soft-drink industry in the Middle East under so-called "bottling agreements." These products have been responsible for the greater part of the case-law on industrial property now being gradually elaborated in the Middle East.

3. At the present time, negotiations are being carried out between

the government of the U.A.R. and two major United States chemical concerns with respect to licensing agreements for the local manufacture of insecticides.

Second, it is important to preserve the element of novelty before international publicity is given to an invention or public use is made of it in a manner to make it no longer patentable. It is also important to preserve the priority provided for in the International Conventions and in the patent laws of the Middle East, by filing applications within one year of the filing of an application for a patent in the United States.

To give an illustration: Article 53 of the Law of Patents and Industrial Designs No. 132 of August 16, 1949, in the U.A.R. provides as follows:

> "If an application for a patent of invention is presented in a foreign country which deals with Egypt on a basis of reciprocity, the interested party or his assignee may present an application to the Patent Office on said invention, according to the procedures and under the conditions provided for in this Law, within a year of filing the application in the foreign country. Notwithstanding the provisions of Artcle 3 of this Law, the publication of the description of the invention, its use, or the filing of an application thereon within the period provided for in the preceding paragraph, shall have no affect on the application for a patent. . . ."

The same provisions are to be found in Article 49 of the Libyan Patent Law No. 8 of 1959 and in the Kuwait Patent Law No. 4 of 1962, Article 9.

When we come to trademarks, we find that the reasons for vigilance in protecting these valuable rights in the Middle East are even more compelling. These reasons can be briefly summed up under the following three points:

1. From a practical point of view, U. S. trademarks which are of current use in the Middle East are far more numerous than U .S. patents and industrial designs. They cover practically every industrial product exported from this country to the Middle East, or manufactured locally in that area under a licensing agreement. The value of these trademarks in terms of money is considerable; and it is increasing in importance with the growth of international trade between this country and the Middle East. This is evidenced by the fact that there have been hardly any court fights in Middle East countries over inventions or patent rights; and in the few cases where such fights occurred, the values involved were not very significant. On the contrary, litigation on trademarks of great value is becoming increasingly frequent in that area.

2. In the Middle East, it is easier to forge or misuse trademarks than it is to imitate highly technical inventions or complicated industrial designs. The tardy development of modern science and technology affords a practical guarantee for the time being to the Western inventor against the unauthorized use of the fruits of his labor and research.

3. The damage that may be caused by neglect in the case of trademarks may spread to other countries by virtue of certain provisions of the local laws and the International Conventions. The following is an illustration of that possible danger:

An imitator, let us say in the U.A.R., succeeds in wrongfully registering a U. S. trademark of world renown. Because the wronged U. S. firm is not interested in the U.A.R. market, it is not informed in time of the misuse of its trademark, and does not challenge its piratical registration. This state of affairs goes on for five years, during which the wrongdoer continues to make an illegitimate use of the trademark. According to Article 3 of the U.A.R. trademark law No. 57 of July 9, 1939:

> "The person who has registered a trademark shall be considered as its exclusive owner. The ownership of the trademark cannot be contested if the person who registered it has used it continuously for a period of five years at least from the date of registration, if, during that period no successful action was brought against him."

The U.A.R. has become a party to the International Conventions since 1950 (Law No. 165 of 1950). The unlawful use of the trademark in the illustration mentioned above can result in its registration at the International Bureau at Berne. As a result, the wrongfully registered trademark will enjoy equal protection in all the member countries of the Union for the Protection of Industrial Property, and its rightful owner may be deprived of its use in several countries at the same time. The seriousness of the prejudice which would result from such a possibility is further enhanced by the fact that other countries in the Middle East have copied Egyptian industrial legislation in this respect.

III. DIFFERENT TYPES OF MIDDLE EAST LAW RELATING TO THE REGISTRATION AND PROTECTION OF INDUSTRIAL PROPERTY

With legal enactments on trademarks in some one hundred and forty countries and on patents of invention, industrial designs and models in some one hundred and twenty countries, the subject of protection of industrial property is assuming vast proportions. Even limiting one's self to a regional study of law in the Middle East would not

make it possible to encompass the subject in this limited space. My aim is to draw a picture of the main features of the different systems of legislation adopted in the Middle East concerning the registration of industrial property rights and the degree of protection they afford.

Roughly speaking, Middle East countries can be divided in this respect into three groups, namely:

1. Countries which follow the French system of registration of industrial property rights without prior examination or search.

2. Countries which have adopted in a limited measure the British, German and U. S. systems of examination and investigation before registration.

3. Countries which have not yet enacted special legislation for the protection of certain forms of industrial property.

I shall give illustrations which represent each of these groups. However, I would make the following preliminary remark: In no country in the Middle East does registration alone constitute title or final proof of ownership. The case of judicially unchallenged continuous use of a registered trademark for five years in the U.A.R. and other countries has already been mentioned. But there, ownership is the result of usucapion (acquisitive prescription) or a statute of limitations (extinctive prescription), rather than of registration.

However, registration serves as prima facie evidence of ownership, while priority of industrial use or novelty is the original source of ownership.

Bearing this in mind, I shall proceed to give a sketchy picture of the legislative enactments relating to trademarks and patents of inventions and industrial designs in each of these three categories in the Middle East.

A. *First Group: Registration without Prior Examination or Search*

This group is typified in the Middle East by countries which have inherited their industrial legislation from the former Ottoman Empire.

As mentioned above, the first Ottoman legal enactment relating to the protection of industrial and commercial property was a statute of the year 1872. On 24 Jamad Al-Akhar 1288 A.H., an Ottoman law organizing the protection of trademarks was issued and made applicable to all provinces of the Empire, with the exception of Egypt which had an autonomous legal system of its own. Later on that law was replaced by new legislation which was issued sixteen years later, on 29 Shaban, 1305, A.H., fixing a period of protection of 15 years for trade-

marks, renewable indefinitely for successive periods of 15 years (Articles 3 and 4).[2]

The procedure of registration was greatly simplified (Article 7). The punishment for imitation and illegal use was a fine of from two to fifty Ottoman pounds, or imprisonment for a period of one to six months (Article 14).

On May 10, 1880 (1292 A.H.), the Ottoman Empire adopted a modern system of registration of patents. Registration gave protection for periods of five, ten or fifteen years according to the fees paid. Pharmaceutical products were not patentable.

That Ottoman law continued to be applicable in Lebanon and Syria after the First World War. It was complemented by subsequent legislation under the French Mandate by Decrees No. 769 dated March 19, 1921, and No. 865 dated May 21, 1921. That last decree created a trademark and patent office (Bureau of the Protection of Industries and Arts).

Further instructions from the French High Commissariat were issued in September and December 1921; and a decree No. 1136 of December 1921 amended the law in some points of detail. Otherwise Ottoman laws relating to patents of invention were maintained.

In 1923, the French High Commissariat appointed a committee for the drafting of a new comprehensive law for the protection of commercial, industrial, artistic, literary and musical property rights. The present Lebanese law promulgated by Decree No. 2385 dated January 17, 1924, was the result of the work of that commission.[3] After the termination of the French Mandate, the Republic of Lebanon amended its law in some of its details. However, the basic feature of its system for the protection of industrial property and other intangible rights remained the same.

The Iranian law protecting industrial property follows the French system. Registration of trademarks and patents is made without prior examination, and it is left to the courts to decide whether the registration was made by the legitimate owner of the trademark or the inventor, or by a pirate and an imposter.[4]

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[2]The new law was applicable in Lebanon and Syria (Translation into Arabic and publication by Youssef Sader; Majmouat al Qawanin) *Collection of the Legal Enactments,* p. 284 and f.

[3]Sader, *Collection of Laws,* Vol. II, p. 292.

[4]See R. Aghababian, *Legislation Iranienne Actuelle* (Teheran, 1939), Chapter XIII, p. 79.

B. *Group of Countries which Have Adopted a Regime of Prior Examination and Search.*

That group is represented in the Middle East by the U.A.R., Saudi Arabia, Libya and Kuwait. The Egyptian Trademark Law of July 9, 1939, was copied, with minor modifications, in the Saudi Arabian Regulation promulgated by High Order No. 8762 of September 12, 1939. The present Patent Law of the U.A.R. is dated August 16, 1949. It served as the model on which was based the corresponding Libyan Law of 1959, and the Kuwait Law of 1962.

The Egyptian legislation on trademarks, patents and industrial designs has had a preponderating influence on the laws of other Middle East countries. The history of its development is closely connected with Egypt's growing interest in scientific research and its applications in modern industry. That interest is a tribute to a U. S. citizen who visited Egypt in 1930. Very probably, he does not have the least idea of the profound influence which the three days he spent in Egypt during that visit has had on the future organization in that country of scientific research and on the legislation protecting industrial property.

It happened that in 1930 Egypt had just gotten rid of the restrictions which its customs treaties had imposed on the progress of its industry. Early that year, a telegram was received in the newly organized Department of Commerce and Industry from Tokyo in which that Department was informed that its correspondent was the secretary of the National Scientific Research Council of the United States, and that he had been sent by former President Herbert Hoover to represent his country at an international railway congress in Japan. As he was interested in a world survey of the organization of scientific research in different countries, he intended to spend three days in Cairo on his way back to the United States. Consequently, he was shown what Egypt had at the time, which was very little, and he was asked to meet the leaders of Egypt's bourgeoning industries, which were comparatively unimportant. He impressed on his Egyptian hosts two things: First, that sound industrial development depends in a large measure on well organized scientific research; and second, that adequate legal protection for industrial property was a necessary incentive of creativeness and inventiveness. After his return to the States, he sent the Egyptian Department of Commerce and Industry a lot of useful literature on the National Research Council and on the Bureau of Standards of the United States, as well as a book on the organization of scientific research of which he was the author.

Years later, the seed which was sown by the unknown American

scientist and organizer began to bear fruit. The Department of Commerce and Industry, which had become a Ministry, went to work on the two allied projects. The result was the issuance of the Decree dated November 2, 1938, which created the Egyptian National Research Council of Scientific Research and the promulgation of Trademark Law No. 57 of July 9, 1939, which was referred to above. Both have been maintained under the present government of the U.A.R. To the National Research Council has been added a ministry of scientific research which has been created under the present cabinet of the U.A.R.

In a recent report published by the Ahram Cairo daily,[5] some interesting details were given about the appropriations and number of research scientists which are now hard at work on different problems in the National Research Council of the U.A.R. In 1956, the government of that country had spent five million Egyptian pounds on the laboratories and equipment of different departments of the National Research Council which has an annual appropriation of half a million pounds. This is insignificant by United States standards, but it is quite substantial by Middle East standards. More important still is the recognition of the value of scientific research for the first time in the Middle East.

As regards the protection of industrial property, the Egyptian government sent missions of scientists and lawyers to this country, Great Britain, France and Germany. Four lawyers studied the registration of trademarks and patents in Europe. By special arrangement, they had training for one year at the office of the Registrar of Trademarks and Patents in London. On their return to Egypt, they organized the present Department for the Protection of Industrial Property, which has been responsible for the registration of trademarks, patent rights and industrial designs. Egypt's example was followed, more or less effectively by other Middle East countries. The U.A.R. patent law of 1949 also served as a model of patent legislation for the entire area.

According to the Egyptian regime, trademarks or patents are not registered immediately on filing. They are examined by the Department and published in a special gazette. The Department should notify the applicant of its decision to register, modify or reject the application. In case its decision is to reject the trademark or patent, a recourse is open to the applicant. If the application is accepted, it is published in the same gazette issued periodically by the Department. Any interested party can oppose the registration requested within a

[5]The Ahram daily newspaper of November 14, 1962, p. 5.

fixed period from the date of publication. An appeal from the decision of the Department is open, either before the ordinary tribunals or before the Council of State. Should registration be finally approved, it would be effective from the date of the application. Although publication is merely declaratory and does not entitle the applicant to the rights so registered, nevertheless it constitutes a strong presumption of ownership which would be difficult to disprove.

According to the Trademark Regulation of Saudi Arabia, publication of applications filed takes place in the government's Official Gazette. The period during which an interested party can oppose registration is six months from the date of such publication. Appeals from the decisions of the Registrar are finally decided by the Supreme Commercial Board whose verdicts are final. Article 19 of the Regulation lays down a rule, similar to that already noted in the case of Egypt, by virtue of which continued unchallenged use of a registered trademark for a period of five years definitely establishes title to it. The following is a translation of that provision:

> "Anyone who registers a trademark in the Registration Section shall be considered as its sole owner. The right on the part of others to challenge the ownership of a trademark shall be extinguished if the person who registered the mark has enjoyed its continued use for at least five years from the date of registration without any case being successfully brought against him in respect of such use during that period."

The sanctions against falsification and infringement of trademarks are twofold: civil law sanctions and criminal punishments. The former include damages and confiscation of the marks, goods, designs and models which constitute the infringement. The latter consist of a fine or imprisonment. This is equally true of the U.A.R., Libya, and Kuwait.

C. *Group of Countries without Special Trademark or Patent Legislation.*

An illustration of this group which still persists at the present time in the field of patents of invention and industrial designs is offered by Saudi Arabia, which has not promulgated a patent regulation as yet.

Does this mean that inventions are not protected in Saudi Arabia?

The answer to this question is that the absence of a special regulation bars criminal prosecution. However, damages can be obtained and infringement can be stopped by a civil action under the general principles of Muslim law applicable in Saudi Arabia. Unlawful competition is a tortious act. Unjust enrichment at the expense of another

is prohibited by Muslim law. A general rule is laid down by that very fair system of law to the effect that whoever reaps the benefit must support the cost.

The situation in Saudi Arabia with respect to patent rights today very much resembles the situation in Egypt before it promulgated its patent law. Since 1883, a promise was inserted in Article 12 of the Civil Code of Egypt to the effect that a special law would be issued regulating all kinds of intellectual or intangible rights. However, because of the Capitulations, many years passed before Egypt was in a position to enact legislation protecting industrial property. The provisions of the Penal Code which punished falsification and abuse of trademarks and industrial designs remained inoperative. But, while the law was defective, the Mixed Courts of Egypt devised ways and means for protecting all kinds of intellectual, literary, artistic and industrial property. The registrar of the Mixed Court of Appeal of Alexandria was authorized to enter on his registers trademarks, industrial designs and descriptions of inventions. This established a presumption of ownership, priority of use and novelty. Applying principles of equity and natural justice, the Mixed Tribunals built up a body of case-law against all forms of unfair competition (Concurrence Déloyale). These included imitation, unauthorized use and any form of misappropriation of the fruits of the intellectual effort of another person. Unlawful trademarks and designs and the goods which carried the false marks, as well as the machinery built in imitation of an invention, were seized by a court order and confiscated by way of reparation to the legitimate owner of the trademark or the inventor.

Such is the position in Saudi Arabia today with respect to patents of invention and industrial designs. To prove ownership, priority of use and novelty of design, a publication is made in the official gazette of the Saudi Arabian government. This can be usefully coupled with a declaration before a notary public. Suits can be brought before the Supreme Commercial Board, as is the case with respect to trademarks, or before the ordinary Muslim courts. Seizure of imitation machinery and false designs can be ordered in reparation of the damage caused to the inventor or the rightful owner of the industrial design.

IV. THE LAW IN ACTION: LACUNAE AND SHORTCOMINGS

The texts of Middle East laws as a whole are satisfactory. In practice, however, a firm in this country may encounter some difficulties because of inefficient or unreasonable ways in which these laws may be applied. The following may serve as illustrations:

First: Let us consider registration. National pride makes the use of the Arabic language compulsory. In the case of trademarks this causes little hardship in the majority of cases where signs, pictures and drawings are involved. But there has been difficulty in a few cases in which foreign words or characters were incorporated as elements of a trademark. Here an over-zealous official may insist on modifying the trademark in order to make it include an Arabic translation of the foreign words. In one case, this would have involved the destruction of containers and other property on which the original marks had been fixed indelibly in Latin characters only. However, a satisfactory compromise was reached whereby substantial financial loss was avoided. The administration agreed to the use of the containers bearing solely the old foreign language marks until the stock was exhausted.

However, in the case of applications for patents of invention, the legal requirement to furnish both an abstract and a detailed Arabic description of the invention and its practical applications may be quite burdensome. In the majority of cases, some highly scientific and complicated technological processes have to be described in Arabic, or translated from English into Arabic. The Arabic language is one of the richest in the world. It was adaptable to the requirements of science some ten centuries ago. In mathematics, it gave the modern world its algebra. In astronomy, the names of the stars Deneb, Betelgeuse and many others are Arabic. The word chemistry, like the word alchemy, is Arabic in origin. But, after the glorious era of Haroun Al Rashid and Al Ma'moun, scientific Arabic stopped growing and remained dormant for several hundreds of years. When it woke up, only a few decades ago, it found itself out-distanced and left far behind by modern science and technology. No corresponding Arabic words can be found for scientific expressions which are familiar to a high school pupil in this country. No paraphrases have been agreed upon as corresponding to current scientific terminology in the Western world. In describing an invention, or in translating scientific and technical expressions into Arabic, new expressions have literally to be coined or invented by the translator. The Arabic terms so coined or invented may not mean the same thing to two Arabic speaking persons, however highly qualified they may be. Were a case to come before a court in the Middle East concerning an invention, there may be difficulty in identifying the object of a patent registered in Arabic alone.

The following suggestion has worked out in a satisfactory manner. Instructions should be given to the local agent to file with the application an English original with an Arabic translation. The drawings, diagrams and other technical data, such as algebraic formulas and de-

signs should also be appended. The application should contain a clause to the effect that the Arabic version is presented in satisfaction of the legal requirement, while the English, which contains the scientific description of the patent applied for, should govern in case of doubt or dispute. There can be no objection under Middle East laws to such a proviso. Tunisia and other territories in North Africa, which were under French rule, still accept applications and descriptions in the French language, but it is to be expected that nationalist influences would soon prevail, and that the use of the Arabic language would be made compulsory in these areas also.

2. Second: Let us consider the effects of the growing tide of nationalist feeling on the rights of the foreign owner of a trademark or a patent. Here again, a word of caution must be pronounced. It would be a mistake to believe that once registration is accomplished, the industrial rights of the foreigner are secure. It requires patience and continuous effort sometimes to make it known to the public in a Middle East country that such a trademark or such a patent belongs to an American firm, and that its abuse is prohibited by law. A decision in a test case to be tried before the highest judicial authority in the land is often called for in order to establish the exclusive use of the trademark or the patent. In some cases, it took years to put a stop to illegitimate use where a trademark or a patent proved to be exceptionally lucrative to the imitator.

The following examples would illustrate the vicious effects of extra legal considerations which might intrude in a forensic argument. Before an Egyptian court, Counsel for the imitator of a world famous trademark indulged in a nationalistic socialist diatribe against the rich foreign capitalist firms prosecuting the poor small fellow who would go out of business and lose his livelihood. Opposing Counsel who appeared for the foreign firm remonstrated with his colleague that what he was saying had nothing to do with the facts of the case or the legal issues involved. "I know," he replied, "but what I am saying is popular with the masses." In certain cases press campaigns and religious fanatical forces have been set in motion against the foreign company. A decision by the responsible judicial and other governmental authorities would help to put a stop to this kind of demagoguery. Patience, restraint and fair play will finally prevail on public opinion, so often misled by the wily pirate or the misguided fanatic. But the rule of equal treatment contained in the International Conventions is often reduced to a dead letter in certain instances. In many domains, including that of industrial property, the perfect and universal rule of law is yet to come. In the case of the soft drink industry, a false issue was

raised in the name of religion to the effect that the product of the foreign company contained prohibited ingredients. A chemical analysis and a legal opinion by the highest religious authority put an end to the deliberate campaign of abuse.

3. Third: Because of the relative novelty of the law protecting industrial property in the Middle East the number of qualified agents who can be depended on to give efficient service or reliable advice is very limited. Irresponsible and unscrupulous elements have infiltrated this field of legal practice. However, it is far removed from my intention to belittle the few excellent legal firms in the Middle East which can be relied on for integrity and efficient service. It must be recognized, however, that they are the exception rather than the rule. Better and more accurate knowledge in this country of foreign law would hopefully put an end to costly mistakes and unfortunate experiences.

Effect of 1962 Federal Tax Legislation on Owners of Patents and Related Property

ROBERT B. BANGS*

SUMMARY

TWO NEW FEDERAL TAX LAWS became effective in October, 1962, when passed by Congress and signed by the President. These are public laws 87-834, the Revenue Act of 1962, and 87-792, the Self-Employed Individuals Tax Retirement Act of 1962. Both pieces of legislation deal primarily with federal income tax rules; both contain provisions of interest to corporations and individuals who own patents and related industrial property. This report outlines these provisions briefly.

The Revenue Act of 1962 introduces a new feature—the investment credit—into American tax law. This is a direct credit against tax liability of up to 7 percent of the cost of equipment purchased for business use. Any purchases made on or after January 1, 1952, may be used for credit if otherwise qualified. The investment credit is designed to be a permanent feature of our tax law. Only purchases of tangible personal property with a useful life of four years or more can qualify for the credit. Therefore, investments in real estate and in purchased patents are generally not eligible.

NATURE OF THE INVESTMENT CREDIT

THE INVESTMENT CREDIT IS INTENDED to serve as an incentive for American business to invest more rapidly in modernization. It operates by raising the net rate of return attributable to equipment. It is also analogous to a 7 percent price reduction on equipment. A new category of property for tax purposes, Section 38 property, is defined in the Internal Revenue Code for claiming the investment credit. This category consists of tangible personal property subject to an allowance for depreciation and having a useful life beyond four years.

The full credit is available for purchases of such property with a useful life of eight or more years; if the life is between six and eight years the credit is reduced by 1/3; if between four and six years by 2/3; no credit is available if the useful life is less than four years. Credit may

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be taken for purchases of used property, if otherwise qualified, up to an amount of $50,000.

The investment credit reduces the basis for depreciation of property on which it is taken and thus limits the depreciation deductions available in current and future years. Limits are set on the extent to which the investment credit may reduce tax liability in any one year,[1] but carryforwards and carrybacks for unused investment credit have been provided. Credit is available for public utility investments in Section 38 property at 3/7 the rate for industrial investments, i.e., the rate is limited to 3 percent or less. If property is not used as long as expected, a portion of the investment credit claimed on purchase must be added back to tax liability in the year the property is sold. Typically, the investment credit would operate in the following manner.

A business investing $10,000 in new equipment during 1962 would have a potential credit of $700 which might be taken directly against tax liability. The basis for depreciation of the new equipment would become $9300. The credit would thus be equivalent to more than a 14 percent initial depreciation allowance if the taxpayer is a corporation subject to the 52 percent rate. In the case of individuals with large taxable incomes—it would be even more.

As originally requested by the Treasury Department, the investment credit would have been available only for net investment in excess of current depreciation accruals. As enacted, the credit is available even though a business is disinvesting in equipment, i.e., not replacing its equipment as rapidly as it is accruing depreciation charges.

The investment credit has been criticized as favoring manufacturing as against other forms of business. Those engaged in distribution, for example, point out that the credit does little for them because their major investment is in inventory and accounts receivable. On these no credit is available.

Although the investment credit is not a depreciation provision, it is obviously closely related to those other provisions of the tax law that deal with depreciation deductions. These provisions have also been changed recently by administrative action rather than by legislation.

In July, 1962, the Treasury Department overhauled its administrative procedures dealing with depreciation by publishing new guidelines concerning acceptable useful lives for tax purposes for new equipment. Generally speaking, these new guidelines provide a single life

[1] Generally this limit is $25,000 or $12,500 each for a husband and wife filing separate returns.

class for all specialized equipment used in an industry.[2] There are also life classes for general purpose equipment used by most industries, such as office furniture and equipment and motor vehicles.

The new lives are optional but may be used for three years without challenge and thereafter indefinitely if consistent with replacement practice of the taxpayer. Businesses that have already established a right to use lives shorter than the new industry standards may continue to use these shorter lives if their use is justified by replacement experience.

In the new procedure, a reserve ratio test is established as an objective measure of replacement practice. The reserve ratio is simply the accumulated depreciation for a class of assets with a common useful life, expressed as a percentage of the original cost of these assets. Accrual of depreciation raises the reserve ratio while replacement of equipment lowers it.

Tables of acceptable reserve ratios are provided for various methods of depreciation, various useful life classes of assets, and various rates of growth (or decline) of investment in equipment. If a taxpayer's reserve ratio is below the standard, he passes the test and may continue the depreciation rates he has been using. If his ratio is above the standard, he must either bring it down by more rapid replacement or have his depreciation deductions reduced and his tax liability increased. Retroactive adjustments of past overdepreciation, by means of penalty rates for the future, will not be a part of the new procedure.

It was estimated by the Treasury Department at the time the new depreciation guidelines were announced that these would permit at least 70 percent of all productive equipment used by American business to be depreciated more rapidly for tax purposes than in the past.

A major purpose of the new depreciation guidelines was to reduce controversy between taxpayers and the Internal Revenue Service over depreciation deductions. Grouping depreciable assets into broad classes and providing objective standards of replacement were designed to produce this effect. The old standards had been applied somewhat unevenly.

Another purpose of both the investment credit and the depreciation guidelines was to conform American tax amortization of productive facilities more closely with that permissible in other leading industrial countries, in order to strengthen our competitive position in the world economy.

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[2] Certain exceptions have been made, e.g., excluding dies, jigs, and fixtures used by machinery companies from the life classes of the related machinery. Other exceptions of this type may be made later to relieve hardship situations.

As already noted, purchased patents owned by corporations do not qualify for the new investment credit. Nor does it appear that under the new depreciation procedure these patents may properly be grouped with other depreciable property in the new life classes. Rules for patents remain the same as under prior law, namely the allowable life is the remaining legal life of the patent grant, even though the economically useful life of the patent may be shorter than this because of other technical developments. It, therefore, appears that the Revenue Act of 1962 provides no new tax incentive for business to invest in purchased patents.

The 1962 Act also made no provision for depreciation of purchased know-how, thus failing to correct a tax inequity of long standing. Such depreciation is not allowable because the useful life of know-how is uncertain. If know-how is internally developed by company-financed R&D it may be expensed. Many businessmen feel that depreciation of purchased know-how should be an allowable deduction.

GAINS FROM SALE OF DEPRECIABLE EQUIPMENT

Another provision of the Revenue Act of 1962, Section 13, requires generally that any gains from sales of depreciable equipment be treated as ordinary income instead of capital gain. This was intended to be a protective feature in the law in view of the investment credit and the more rapid depreciation allowed under the new guidelines. However, this section applies only to tangible property also; consequently, it does not cover patents. When these patents are owned by corporations or other businesses and are either sold outright or licensed exclusively for the full remaining term (which is the equivalent of a sale for tax purposes) they will continue to yield capital gain.[3] In a word, no new tax barriers to sales of patents, applying to transactions entirely within the U.S., are originated by the provisions of the new tax law.

Our past studies of tax experience for the Foundation indicate that large American corporations with substantial patent portfolios sell individual patents only rarely, although they may give exclusive licenses somewhat more often, particularly in certain foreign countries. Proceeds from such transactions may continue to be treated as sales of Section 1245 property and reported as capital gain.

These same past studies also indicate that it is not common for American corporations to purchase patents from outsiders; most owned patents are assigned by employees who have either developed them in

[3] Unless the sale is to a controlled foreign corporation.

the course of the company's own R&D work or incidentally. Depreciation of purchased patents has not, therefore, been a large item for most corporations.

TRANSFERS OF PATENTS TO CONTROLLED FOREIGN CORPORATIONS

The Revenue Act of 1962 makes many changes in the tax rules applicable to income earned abroad and to transactions between American business and controlled foreign subsidiaries. Among these changes is Section 16, which applies specifically to sales of patents, copyrights, or know-how by an American corporate parent to a controlled foreign subsidiary, i.e., a foreign company more than 50 percent owned by the American parent. Such sales in 1963 and thereafter will give rise to ordinary income instead of capital gain.

This new provision, Section 1249 of the Internal Revenue Code, will not apply in case of sales to a non-controlled foreign company. In this case the exclusive license route can still be used to obtain capital gain. Where less than a sale of the patents and related property is involved, even to a controlled foreign subsidiary, the transaction will produce ordinary (royalty) income, taxable in the same manner as business income from any other source.

Section 16 originated in a provision in the House Bill (HR.10650) which would have been considerably harsher in application than the conference solution had it been enacted. This provision would have required that any income originating in foreign subsidiaries from patents, copyrights, formulae, or processes developed in the U.S. be attributed to American stockholders owning 10 percent or larger interests in the foreign subsidiaries, even though this income was not distributed to them, and even though the patents and related property were used in direct manufacturing activities abroad. In the latter case it would have been necessary to construct, or estimate, the income attributable to the patents and related property. In place of this rather rigorous rule the Senate substituted the milder rule of taxing as ordinary income any proceeds from the sale of patents or related intangible property to controlled foreign subsidiaries.

The reason for this provision was the feeling that, when American research or ingenuity had created the industrial property, to have allowed its transfer to a foreign subsidiary without tax consequences would have meant a leakage from the U.S. tax base. A major purpose of the Revenue Act of 1962 was to deal more effectively with tax haven situations and practices which have enabled income earned by American business abroad to be sheltered from the U.S. tax until eventually

returned as dividends. It was felt by the Administration that tax havens were contributing to the outflow of U.S. capital into foreign investment, and thus weakening our balance of international payments as well as contributing to erosion of our income tax base.

TAXATION ON AN ACCRUAL BASIS OF INCOME FROM FOREIGN SOURCES

PL 87-834 does provide for taxing to the U.S. shareholder certain types of income realized by controlled foreign corporations currently as they are earned rather than when they are finally distributed as dividends. These rules apply only when the foreign corporation is more than 50 percent owned by U.S. taxpayers and only when 30 percent or more of its income is attributable to what is now known as foreign base company income. Only stockholders with a 10 percent or larger interest in voting power in the foreign corporation get this attribution of current earnings. This is a radical new feature in American law in which the taxing authority in effect looks through the subsidiary foreign corporation and treats it as though it were a branch operation.

The income on which tax deferral is no longer allowed consists of that

1. From insurance abroad of U.S. risks
2. From foreign base company sales or service operations
3. Reinvested in U.S. property, including patents, copyrights, and know-how valid for use in the U.S.

Foreign base company sales or service income is, generally speaking, income derived from operations in countries other than those in which the subsidiaries are chartered, e.g., from operations in England or France if the subsidiary is a Swiss corporation. Certain uses of base company income are allowed without tax liability, namely, qualified investments in less developed countries and in special export trade corporations. These latter corporations must derive at least 90 percent of gross income from export sales and at least 75 percent from transactions with unrelated persons. In practice these limitations are quite difficult to meet.

If a foreign subsidiary of a U.S. concern has accumulated earnings from operations abroad beyond the needs of the business, and if it chooses to invest these in U.S. inventions which can be exploited to yield royalty income, the U.S. shareholders will now be treated as though a dividend had been declared, the tax on it paid, and the balance reinvested in the American patent rights by the American shareholders. Under prior law the royalties would have been a business expense to the licensee but the income would have accrued to the foreign

corporation free of U.S. tax until returned to the shareholders as dividends. The tax deferral might have continued for many years if profits had been entirely reinvested abroad.

While there was little evidence that any substantial volume of foreign base company net income was actually being reinvested in U.S. inventions, a possible tax loophole has been closed; but at the same time an impediment to foreign ownership of U.S. patent rights has been erected. The new rule will not apply, however, to foreign individuals or corporations that are not subsidiaries of U.S. parents.

The features of PL 87-834 ending deferral of tax on certain types of income from foreign sources were among the most controversial in the entire revenue bill. The legislation enacted in the foreign sources income area did not go nearly as far as the President had requested but it did go much further than many American business interests thought desirable. It will set some limits on the future use of tax havens and will complicate the construction of special business arrangements to capitalize on tax deferral. It is not expected that these new rules will pick up much revenue—merely that they will prevent further leakage of revenue and weaken the inducement to seek additional tax havens abroad.

The new law will also require U.S. shareholders to obtain additional tax and accounting data from their controlled foreign corporations. This can mean new, expensive, and burdensome accounting procedures. It may be necessary that two sets of books be kept, one to reflect information required by the country of incorporation, the other to reflect information required by the new U.S. law. In any event, U.S. firms trading abroad will have to take into account many unusual and complex tax concepts which do not apply to their foreign competitors.

In order to avoid the effect of the new law, some companies will be put to the expense of reorganizing. Firms with a manufacturing operation in one foreign country and a sales operation in another may combine the operations in the country of manufacture so as to preserve the tax deferral advantage. However, firms with a number of factories abroad have difficult decisions to make. Setting up a sales operation in each country could be costly and impractical. Undoubtedly some firms will conclude that the merchandising advantages and convenience of concentrating sales activities in one central trading subsidiary will be sufficient to offset the unfavorable tax consequences.

The provisions of the 1962 Act relating to foreign income involve the most comprehensive revision of our international tax rules that has ever occurred in a single tax measure. It is perhaps too soon to

gauge fully business reactions to the changes, and no doubt particular problem areas will be identified after the Treasury has finished drafting regulations implementing the new Act. There were numerous complaints from the business community about the bill which passed the House; however, complaints dwindled after the much milder Senate version was approved. A reasonable impression is that, while all the implications of the law are not yet known, the business community generally recognizes that foreign operations need not suffer seriously as a result of the 1962 tax revision. Business dislikes the changes but feels that necessary adjustments in operating arrangements can be made in many cases as required.

PL 87-792

The other tax law enacted in the last Congress deals entirely with pensions for self-employed individuals. It defines arrangements whereby these individuals may establish pension plans for themselves and their employees and obtain current income tax deductions for their contributions to these plans. The law was designed to redress a long standing inequality between corporate officers and employees who are to an increasing extent covered by pension arrangements and self-employed persons who were not.

Under the new law a self-employed person may set aside for himself up to 10 percent of earned income each year, up to a maximum of $2500 and may deduct 1/2 of this contribution. In effect, the self-employed person is treated as both an employer and an employee. When both capital and services are material income producing factors, earned income will be limited to 30 percent of the total. If the self-employed person has employees with three or more years of service and no ownership interest, they must be covered under the same nondiscriminatory formula as that on which his benefits are based. Contributions for true employees are wholly deductible but the employees must have vested or nonforfeitable rights to these benefits. Retirement benefits cannot be payable before insurance age 60 nor postponed after insurance age 70.

Generally the new law brings self-employed persons under similar or analogous rules to those now applying to corporate and other pension plans, with special safeguards for true employees.

Inventors who are self-employed may establish pension plans for themselves under the new law on a slightly more favorable tax basis than heretofore. One problem is that the new law does not allow for fluctuating income—the 10 percent of earned income and $1250 limit-

ations apply each year. Clearly these limits are more favorable to a steady income than a fluctuating one.

CONCLUSION

Federal tax legislation enacted in 1962 will have but slight impact on owners of patents and related industrial property. Purchased patents are not eligible for the 7 percent investment credit and no acceleration of depreciation under the new administrative procedures is permitted.

Transfers of patents or related property to controlled foreign corporations will occasion a tax at ordinary income instead of capital gain rates. Purchases of U.S. patents by controlled foreign subsidiaries of U.S. companies may cause attribution of the income from such properties to the parent even though the income is actually received by the subsidiary.

Self-employed inventors can obtain limited tax benefits if they establish pension plans for themselves. Half their contributions to such plans for their own benefit will be deductible up to specified limits.

No major effects on the pattern of U.S. business operations, either in this country or abroad, may be expected to follow from these relatively minor changes in income tax rules.

In 1963, with both tax reduction and tax reform promised a priority position on the legislative calendar, more significant changes in tax parameters for industrial property owners may be made. The Foundation will follow developments in tax legislation carefully, and will report the details and implications of this legislation as it evolves.

An Appraisal Of The Atomic Energy Field After 20 Years Of The Patent Title Policy

H. FREDRICK HAMANN*

SUMMARY

THE DEVELOPMENT OF THE ATOMIC ENERGY FIELD over the twenty years since the establishment of the Manhattan District has been replete with controversy over the issue of patent ownership. The purpose of this study is to determine to what extent this field has been uniquely developed under the sponsorship of the Manhattan District and the Atomic Energy Commission, and whether the manner in which the field has developed justifies the present statutory title policy.

The Commission patent portfolio is analyzed to determine in what inventive areas its major holdings are found, whether these areas have been uniquely developed under Commission sponsorship, and the extent and timing of the contribution of non-Commission, private parties to these areas.

The findings that relatively few of the inventive areas relating to nuclear technology are exclusively or uniquely developed under Commission sponsorship, and that the contribution of private parties in most inventive areas in recent years is large, raises a substantial question as to the propriety of the continued application of the title policy to the entire atomic energy field. As a result, it is concluded that a complete reappraisal and reorientation of the patent policy relating to atomic energy is overdue.

I. INTRODUCTION

THE DEVELOPMENT OF THE FIELD OF ATOMIC ENERGY and the effect of the patent title policy on that development during the last twenty years cannot be objectively assessed without first recognizing that, prior to the accelerated evolution under Manhattan District and Atomic Energy Commission leadership, the existing fundamental knowledge encompassed generations of scientific development contributed by

* Assistant Patent Counsel, North American Aviation, Inc. The views expressed herein are the personal views of the author and do not necessarily reflect the position of North American Aviation, Inc.

scholars supported by Government, industry, and university.[1] This fundamental knowledge cannot be measured in terms of patents granted, since much of it was directed to theoretical and experimental analyses not patentable under our system or was not patented because the economic incentive to obtain patent coverage was of significantly less importance than early publication and resulting professional recognition. The extent of these early contributions is mentioned here so that the advances of the last twenty years may be placed in their proper perspective. The reader should be aware that the field of atomic energy was neither an unknown field nor one which had advanced beyond the state of infancy at the inception of the Manhattan District.

Prior to 1942 and the establishment of the Manhattan District,[2] the possibility of a chain reacting system had been postulated and the fissioning of uranium had been experimentally established.[3] A cursory examination of the literature on nuclear fission and transuranic elements existing prior to 1942 shows hundreds of publications on these subjects, with most of them bearing dates in the 1939 through 1941 period, containing contributions from the scientific communities of many different countries.[4] Thus, the novelty and vast potential of this field was appreciated and study and experimentation was already taking place at an increasing pace. The patented literature existing prior to 1942, while limited, also bears out an appreciation of the future and the potential of nuclear fission.[5]

Against this backdrop of immaturity, the accelerated development of atomic energy under the Manhattan District and the Atomic Energy Commission was to take place, first under the urgency for a developed weapon and later in the peaceful uses of this new energy source. The twenty years of Government support of this field have been replete with controversy over the issue of patent ownership, inseparably joined

[1] Casper W. Ooms, "Patents on Inventions in the Field of Nuclear Energy," *Progress in Nuclear Energy—Law and Administration,* Vol 1. Pergamon Press Ltd. (1959), pp. 86-105.

[2] The Office of Scientific Research and Development was responsible for the initial planning during early 1942. See H. D. Smyth, *A General Account of the Development of Methods Using Atomic Energy for Military Purposes,* U. S. Government Printing Office (1945), Chapters I through IV.

[3] von Halfan, Joliot and Kawarski, *Nature,* (1939), 143 pp., 470, 680; F. Perrin, *Comptes Rendus* (1939), 208 pp., 1394, 1573. See Smyth, *supra,* note 2.

[4] See *Nuclear Fission and Atomic Energy,* edited by W. E. Stephens, The Science Press (1948), Chapter 1 and pp. 259-280. See also Glasstone, *Source Book on Atomic Energy,* Van Nostrand (1950).

[5] Patents on reactors and nuclear processes useful in reactors had been granted or published prior to 1942 in the following countries: Great Britain (648,293), Australia (114,150 and 114,151), France (861,390), and United States (2,206,634).

with the question of its unique development and resulting special treatment of inventions. This special treatment accorded inventions and the subsequently imposed statutory title policy has provided the Atomic Energy Commission[6] with a vast patent portfolio clearly dominating the future development of this field.

II. PURPOSE

In view of the maturing state of the atomic energy field, it was considered appropriate to investigate whether this field in fact developed in a unique manner and, if so, whether the uniqueness continues to justify the policy of taking title to patentable innovations after two decades of progress.[7] More specifically, this study analyzes the Commission patent portfolio resulting from the special treatment accorded this field to determine in what inventive areas[8] these holdings are found and whether the Commission has been uniquely responsible for the development of any of these areas. The investigation considers the inventive areas of the major Atomic Energy Commission patent holdings[9] and their relationship to the development of nuclear technology.[10]

It is a further purpose of this study to investigate whether the Commission patent holdings are found in new technological fields and to

[6] "Commission" as used herein includes the Manhattan District.

[7] See *PTC J. Res. & Ed.*, Vol. 4, No. 4 (Winter 1960), Chapter 5, "The Title Policy of the Atomic Energy Commission" for a general view of arguments for and against the Commission's patent policy.

[8] "Inventive area" as used herein is equivalent to a subclass under the U. S. Patent Office classification system.

[9] It is estimated that about 10 percent of the patents assigned to the Commission resulted from the activities of Commission employees rather than contractor employees (see *PTC J. Res. & Ed., supra,* note 7, p. 307).

It is also estimated that about one-third of the Commission patent portfolio has resulted from Commission-sponsored work at private facilities. See *Report of Subcommittee N of the American Patent Law Association Committee on Government Patent Policy,* (March 13, 1962).

Ninety percent of the inventions reported to the Commission during the period 1943 to 1958 were submitted by 14 contractors (see *Atomic Energy Patents—Hearings before the Subcommittee on Legislation of the Joint Committee on Atomic Energy,* April 21-23, 1959, pp. 26-28). Of this 90 percent, 58.5 percent were submitted by industrial organization contractors and 41.5 percent were submitted by academic institution contractors. Thus, if 10 percent of the total were submitted by Commission employees, it is estimated that 53 percent of the total were submitted by industrial contractors and 37 percent of the total were submitted by academic institution contractors.

[10] "Nuclear technology" as used herein is defined as the 19 inventive areas listed in Table 1, *supra,* p. 5. See note 21, *infra.*

what extent, if any, private parties[11] have contributed to the development of these fields, as well as the extent and time of the contribution and in some measure the identity of such private parties.

III. BASIS FOR ANALYSIS

This study is based upon the following assumptions:

1. That the number of patents issued and issuing in a particular field is a general indication of the growth of technology in that field,[12] and the filing date of the application is a fair indication of when the advance in technology was made.
2. That the Patent Office classification system is sufficiently definite and certain to be used as a general definition of an inventive area.
3. That the total patents issued during the years 1942 through 1961[13] and having filing dates from 1942 through 1961 constitutes a sufficient basis for judging the trends in and development of nuclear technology over the last 20 years.[14]

All patents issuing to the Commission during the period 1946 through 1961 were considered on the basis of their original Patent Office class and subclass in order to determine the specific areas for detailed analysis.[15] Any subclass which contained more than ten pat-

[11] "Private parties" as used herein means all parties except the Atomic Energy Commission and the Manhattan District. No attempt is made here to measure the value or significance of the individual contributions covered by the patents; nor are the numbers of patents or filings used herein considered significant in the absolute sense. The real significance of the percentages obtained herein is to show the trends in and relative contribution to the development of nuclear technology.

A patent in which title is assigned to a private party is assumed not to have been supported by a Commission contract. This assumption is based upon the fact that all of the patents studied are related to atomic energy and therefore the Commission would rarely waive title to the invention.

[12] This study, although covering the period through 1961, reflects the status of the technology as of about 1958, since the effect of applications still pending in the Patent Office cannot be fully assessed, and an average prosecution period of three or four years appears reasonable.

[13] No patents were found issued to the U. S. Government during the period 1942-1946 in any of the inventive areas studied. Undoubtedly this is a result of war-time secrecy requirements.

[14] The effect of security classification in delaying the issuance of patents in the atomic energy field tends to distort the time sequence of technology development if patent issue dates are used as the sole criterion. This distortion is minimized in this analysis by taking a 20-year period for the study and using the filing dates of the patent applications resulting in patents in determining the time of development.

[15] The actual count upon which the analysis was based was from information presented in the *Official Gazette* of the United States Patent Office. Abstracts published in the *Official Gazette* have not been considered in this analysis.

ents owned by the Commission was initially considered as an inventive area where Government sponsorship under the Manhattan District or the Commission was significant.[16] This criterion eliminates all but 19 subclasses contained in six classes. These six classes contain almost two-thirds of the patents assigned to the Commission. They are:

Class 23 – Chemistry
Class 75 – Metallurgy
Class 204 – Chemistry, Electrical and Wave Energy
Class 250 – Radiant Energy
Class 260 – Chemistry, Carbon Compounds
Class 313 – Electric Lamp and Discharge Devices

Within these six classes the 19 subclasses having more than ten Commission-owned patents were considered for detailed analysis.[17] These 19 subclasses contain about 50 percent of the Commission patent portfolio[18] and are summarized in Table 1. It is apparent from Table 1 that the Commission owns about 36 percent of the total patented art in these 19 subclasses.[19]

While the Patent Office classification originally assigned to the issuing patents of the Commission was utilized to determine the classes and subclasses of interest, the information in Table 1 is based upon the classification lists available in 1961.[20] For the purposes of this analysis, the above-listed 19 subclasses are considered to encompass

[16] Based upon the original Patent Office classification, Commission-owned patents may be found in over 130 different Patent Office classes and over 750 different subclasses. Over 725 of these subclasses contain five or fewer patents which are owned by the Commission, whereas only 19 subclasses contain more than ten Commission-owned patents.

[17] It is implicitly assumed that subclasses containing 10 or fewer Commission patents are either of relatively minor technical importance if the Commission holdings represent a majority of the patents issued in that subclass, or that the Commission patent holdings are not significantly important in the development of that inventive area.

[18] An additional 35 percent of the Commission portfolio is present in inventive areas in which the Commission owns five or fewer of the patents in the subclass.

[19] The table reflects the situation as of December 31, 1961. The Commission patent portfolio at that time contained a total of about 2,750 patents.

[20] The only significant change resulting from the use of up-to-date classification lists was the elimination of Class 250 subclasses 27 and 27.5 from consideration. The Commission owned 97 patents in these subclasses, which were abolished in October 1960, and the patents reclassified in over 50 different subclasses in Class 329. Since Class 250 subclasses 27 and 27.5 originally contained over 500 original patents, the possibility that the number of Commission patents represents even a significant portion of any one of the newly defined inventive areas is considered remote. This points out one of the difficulties in utilizing the Patent Office classification system as a basis for analysis, since the classifications must necessarily slowly change to reflect the ever-changing direction of technological development.

TABLE 1

Class	Subclass	Total Number of Patents	Number of Commission Patents	Percent Commission Owned
23	14.5	613	458	75
	88	244	12	5
	204	162	11	7
	270.5	102	13	12
75	84.1	86	48	57
	122.7	35	31	89
204	1.5	60	52	87
	154.2	84	58	69
	193.2	322	252	78
250	41.9	468	203	43
	49.5	281	11	4
	83	109	16	15
	83.1	57	24	42
	83.3	324	12	4
	83.6	624	78	13
	84.5	37	12	33
	108.	74	17	23
260	429.1	41	33	80
313	63	46	19	41
	Totals	3,719	1,360	

substantially all of the patented nuclear technology.[21]

A more detailed analysis of these 19 subclasses was undertaken to establish the extent of the Commission-owned interest and the time of contribution in each of these inventive areas.[22] The results of this analysis are shown in the last column of Table 1. It is apparent that in

[21] These 19 subclasses contain all of the art which in the author's opinion could be considered as being reasonably related to nuclear technology. The Commission owns about 41 percent of the post-1941 developments contained in these 19 subclasses.

Weapons technology is automatically excluded from this analysis since, under Section 151 of the Atomic Energy Act of 1954, no patent shall be granted for an invention utilizing atomic energy in an atomic weapon. All weapons developments are considered as exclusively developed by the Commission.

[22] Three periods, 1942 to 1946, 1947 to 1953, and 1954 to 1961, inclusive, were taken as periods of interest, since legislative enactments in 1946 and 1954 had significant effects on activities in the atomic energy field. The numbers for each period are not absolute, since there may be pending applications with filing dates in all three periods, the majority of which will be within the last period. The percentages are considered representative, at least to the extent of showing the relative activities of the Commission and private parties, and to indicate the trends of interest in specific inventive areas.

seven of the inventive areas the Commission owns a majority of the issued patents. These seven inventive areas, which contain about one-third of the total Commission portfolio, are considered to encompass all the patented developments relating "directly" to nuclear technology, and will be analyzed in detail first to determine whether they represented technological areas exclusively developed by the Commission. The remaining 12 subclasses, which are considered to encompass most of the patent developments "reasonably" related to nuclear technology, will then be analyzed to determine whether any area was exclusively developed at some prior time. In this analysis the phrase "exclusively developed" cannot be precisely defined, since a simple percentage of patents owned would ignore such important considerations as the time of the development and the extent and relative proportion of the various contributions to the art. The time of development is taken for the purpose of this analysis as corresponding to the filing date of the issued patent. The distribution of the filing dates for Commission-owned patents and patents owned by all others is shown in Table 2 for each year of the 20 years under study and for each of the seven inventive areas directly relating to nuclear technology.

IV. ANALYSIS OF SEVEN INVENTIVE AREAS RELATING DIRECTLY TO NUCLEAR TECHNOLOGY

Each of these inventive areas will be analyzed separately to show the development of the technology covered and the trend or change in such development.

A. *Class 23 Subclass 14.5; Chemistry—Compounds—Actinide Series Elements*

The first Commission-owned patent in this inventive area issued in 1948, at which time a privately developed background technology represented by over 70 patents already existed. On this basis, it could be argued that the technology was at least partially developed by private parties before the Commission became a force in technological development of this art. Additional strength for such a position is gathered when it is considered that as late as 1954 only one-third of the patents in this inventive area were owned by the Commission. Yet in 1961 over 75 percent of the patents in this inventive area are commission owned. This rapid change is easily understood when it is realized that much of the art in this inventive area was under a security classification and only after liberalization of the security classification rules follow-

TABLE 2

PATENTS ISSUED HAVING FILING DATES AFTER 1941
IN THE SEVEN INVENTIVE AREAS
DIRECTLY RELATED TO NUCLEAR TECHNOLOGY

Filing Date Year	23/14.5		75/84.1		75/122.7		204/1.5		204/154.2		204/193.2		260/429.1		Total	
	AEC	Other	AEC	Other	AEC	Other	AEC	Other	AEC	Other	AEC	Other	AEC	Other	AEC	Other
1942	2	3	—	—	—	—	1	—	—	—	—	—	—	—	3	3
1943	14	1	1	—	—	—	2	—	—	—	1	—	—	—	18	1
1944	64	2	8	—	1	—	4	—	1	—	7	—	5	—	90	2
1945	53	2	7	1	1	—	11	—	11	—	53	—	3	—	139	3
1946	31	2	7	—	4	—	5	—	6	1	26	—	2	—	81	3
1947	47	2	1	—	3	—	—	—	—	—	7	—	5	—	63	2
1948	30	3	—	1	6	—	4	—	—	—	4	—	4	1	48	5
1949	26	5	2	—	2	—	3	—	1	—	7	—	3	—	44	5
1950	27	4	1	—	—	—	1	1	3	—	7	—	4	—	43	5
1951	20	2	—	1	—	—	2	—	2	1	4	—	1	—	29	4
1952	33	5	—	1	—	—	3	—	2	—	13	—	3	—	54	6
1953	23	2	1	1	—	—	3	—	1	—	15	1	—	—	43	4
1954	12	2	1	4	2	—	7	1	2	—	10	—	1	—	35	7
1955	19	7	3	3	2	1	—	—	4	5	17	12	—	2	45	30
1956	19	15	2	5	—	—	2	—	10	5	28	19	2	2	63	46
1957	18	15	7	4	7	—	2	—	6	3	17	21	—	1	57	44
1958	14	8	4	4	2	2	2	1	7	8	25	13	—	1	54	37
1959	4	2	3	—	1	1	—	—	2	—	11	4	—	1	21	8
1960	2	—	—	—	—	—	—	—	—	—	—	—	—	—	2	—
1961	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Totals	458	82	48	25	31	4	52	3	58	23	252	70	33	8	932	215

ing the 1954 Act were large numbers of applications, filed years earlier, declassified and issued as patents. This inventive area contains the largest number of Commission-owned patents, i.e., 17 percent of the Commission portfolio is found in this inventive area. No other single inventive area contains over 10 percent of the Commission patent portfolio.

The Commission patent holdings in this area of the technology have filing dates distributed over the three periods of interest as follows: 36 percent had been filed after 1941 but prior to 1947; 45 percent during the period 1947 through 1953; and 19 percent after 1953. Yet the majority of these applications did not mature into patents until after 1957. This can be explained only on the basis of delayed issuance because of secrecy orders.

The private filings[23] in this area show an increasing activity during the course of the three periods, i.e., about 17 percent prior to 1947, 26 percent filed during the 1947 through 1953 period, and 57 percent after 1953. Thus, while Commission filings outnumber private filings in every year during these periods, the percentage of total filings during any one period by private parties has increased from less than 10 percent during the early period to over 35 percent of the total filings during the last period. Thus, private interest in this area, while continuous during all periods, has shown a marked increase during the period subsequent to 1953.

The 73 privately owned developments filed prior to 1942 must be considered a substantial background contribution to this art, since the inventive area is directed to chemistry, which is not specifically dependent upon the fissionable, radioactive or other properties of the compound peculiar to nuclear energy. During the period 1942 through 1961, 82 patents issued on private activities, and this contribution to the art is also entitled to equitable recognition. Thus, it appears on the basis of the patented art that, while the Commission has been the major contributor to this inventive area, it is by no means a technology exclusively developed under Commission sponsorship. In this inventive area, private parties have an equity arising from their contribution as represented by the technological development inherent in over 150 patents issued on non-Commission activities.

B. *Class 75 Subclass 84.1; Metallurgy—Non-ferrous Pyrometallurgy—Rare and Refractory Metals—Actinide Metals*

The first Commission-owned patent in this inventive area issued in

[23] Only filing dates after 1941 are considered in this paper.

1956, at which time a non-Commission background technology represented by 16 patents existed; 13 of these 16 patents issued prior to 1931. Thus, 20 percent of the present technology existed before the Commission technology contributed to the patented art. The effect of security classification in this inventive area is apparent when it is considered that although the first Commission-owned patent issued in 1956, 50 percent of the Commission-owned patents were filed prior to 1947. The effect of security classification is therefore to create the impression, by the comparatively large numbers of Commission-owned patents issuing after 1956, that almost all the patented Commission Technology was developed in the 1950's, whereas the actual fact is that a major portion was developed during the 1940's.

The period from 1931 to 1948 saw no patents issued in this subclass. Thus, the 13 industry-developed patents, which formed most of the patented technology prior to the Manhattan District and Commission developments, resulted from work in a period when the actinide elements were little more than curiosities, and the neutron no more than a suggestion.[24] However, these 13 patents[25] issued prior to 1931 nevertheless include basic teachings for the preparation of uranium and thorium metals and oxides not dependent upon aspects peculiar to nuclear technology and are entitled to some recognition in assessing the equity of private contributions.

Industry was developing little private technology in the field during the 1947-1953 period, since the filing dates for private patents show that 80 percent of the private developments were filed subsequent to 1953.

The Commission-sponsored contribution is represented by 57 percent of the issued patents in this area. During the period after 1953, the filings, based upon issued patents, of the Commission and private parties are essentially equal. Thus, it is concluded that at this stage in the development of this inventive area both private and Commission development of the technology is taking place at substantially equal rates and that this inventive area must be considered as jointly developed technology where the equity of the Commission is only slightly greater than that of industry.

C. *Class 75 Subclass 122.7; Hydrometallurgy—Alloys—Actinide*

This subclass was established in 1956 and all patents except four are assigned to the Commission. The Commission owns 89 percent of the

[24] See Glasstone, *Sourcebook on Atomic Energy*, Van Nostrand (1950), Sect. 2.109-2.114.

[25] Nine of these patents, all issued before 1931, were assgned to Westinghouse Lamp Co.

patents in this inventive area. There is no privately developed background technology in existence in the patented art on which an equity interest of private parties in the field could be urged. Further, it was not until 1959 that a patent was issued to a private party. Three of the four privately held patents have filing dates later than 1958, thereby indicating that private interest in the proprietary development of this inventive area is relatively recent. On the other hand, the filing dates of Commission-owned patents show that over 50 percent of the cases were filed before 1950, and 20 percent prior to 1947. Therefore, it must be concluded, on the basis of the patented art, that this inventive area is technology exclusively developed by the Commission.

D. *Class 204 Subclass 1.5; Process and Products—Electrolysis—Actinide Series Element or Compound*

The first Commission-owned patent in this inventive area issued in 1950 and all but eight patents are owned by the Commission. The Commission owns 87 percent of the patents in this inventive area. Of the eight privately held patents, five were issued prior to 1940 and therefore are entitled to little recognition in measuring the extent of the private contribution. The other three patents issued after 1942 and had filing dates of 1950, 1954, and 1958, thereby indicating no substantial continuing proprietary interest in this inventive area. However, the Commission interest in this field has been continuous, with 45 percent of the Commission portfolio in this area having filing dates prior to 1947, and almost 75 percent filed prior to 1954. Only about 10 percent of the patented technology can be attributed to non-Commission activities and most of that activity was prior to the Manhattan District activities. Thus, the extent of the privately developed background is so small, both in number and proportion, in comparison to the Commission contribution that it must be concluded that this inventive area has been exclusively developed by the Commission.

E. *Class 204 Subclass 154.2; Processes and Products—Electrical, Radiant or Wave Energy Chemistry—Nuclear Reactions*

The first Commission-owned patent in this inventive area issued in 1951, at which time less than a handful of privately owned background patents existed.[26] Thus, little equity exists based solely upon background technology. Approximately 30 percent of the Commission-

[26] This subclass was established in 1957 and patents issued prior to that date in this inventive area were then reclassified to this new subclass.

owned patents in this area were filed prior to 1947 and an additional 15 percent during the period 1947 through 1953, while almost all of the privately owned patents were filed after 1954. Approximately 70 percent of the patents in this inventive area are Commissioned-owned, with over half of this portfolio having filing dates after 1953. While most private contributions to this art have been relatively recent, i.e., since 1955, the size of this contribution cannot be ignored in assessing the development of this art. During the period from 1954 the Commission filings numbered 31, as compared to private filings of 21; thus, the recent interest of private parties has been substantial. This inventive area cannot, therefore, now be considered as exclusively developed by the Commission, although its equity is significantly larger than that of private parties.

F. *Class 204 Subclass 193.2; Processes and Products—Apparatus—Nuclear Reactors*

This subclass was established in 1957[27] and up to 1958 only one private patent had issued in this inventive area. The first privately owned patent issued in 1958 after almost 100 AEC-owned patents had issued. In this art the security classification appears to have substantially delayed issuance of many patents. Only one of the privately owned patents is based upon a filing date prior to 1954, while 57 percent of the Commission-owned patents were filed prior to 1954 and 35 percent were filed prior to 1947. The Commission had about 140 patent applications on file before the first privately owned application was filed. As late as 1957 the Commission owned 100 percent of the issued patents in this inventive area. The Commission owned 78 percent of the patents in this inventive area at the end of 1961.

It is apparent that while the technology of this inventive area was exclusively developed under AEC sponsorship as late as 1954, the tremendous increase in private developments as represented by 70 patents now assigned to private parties has materially altered this situation.[28]

[27] See note 26, *supra*.

[28] This increase in private developments, however, appears to be directed to nuclear fission and not nuclear fusion devices. Sixteen patents classified in this inventive area and 10 patents classified in Class 204 subclass 154.2, discussed *supra*, are directly related to thermonuclear reactors or neutron generators utilizing thermonuclear reactions, i.e., fusion devices as distinguished from fission devices. Only two of these patents are owned by private parties. Thus, the Commission has exclusively developed this "sub-area" of invention based upon issued patents. The more detailed breakdown of these two inventive areas illustrates the necessity for utilizing the Patent Office classification system as a guide and not as an absolute definition of an inventive area.

Thus, this last period saw patents issued on 108 Commission filings as compared to 69 patents issued on private filings, and this inventive area can no longer be considered as exclusively developed under Commission sponsorship.

G. *Class 260 Subclass 429.1; Chemistry—Carbon Compounds—Carbocyclic or Acyclic—Heavy Metal Containing Actinide Series Elements*

This subclass was established in 1955 and up to 1959 only one privately owned patent had been issued in this inventive area. Eighty percent of the patents in this inventive area are owned by the Commission. The filing dates for seven of the privately held patents are after 1954 and are evenly dispersed over the period ending in 1959. Considering the Commission filing dates, 90 percent of the cases were filed prior to 1954 and one-third prior to 1947. Since only three Commission patents have issued with filing dates after 1953, it would appear that this inventive area is no longer of significant technical interest to the Commission to warrant substantial support. It is also possible that continued security classification of developments in this field has prevented the issuance of patents based upon more recent developments. However, this last possibility is considered remote, since privately owned patents have continued to issue in this inventive area. Thus, it appears that private parties have now taken over the development of this inventive area. Considering the private contribution as represented by 8 patents as compared to over 30 Commission-owned patents, this inventive area must, at this time, be considered as exclusively developed under Commission-sponsored programs. However, when it is considered that most of the private developments have been recent and therefore represent the most advanced art, it appears likely that the Commission's exclusivity will dissipate rapidly.

SUMMARY

In each of these seven inventive areas the Commission owns at least a majority of the patented technology. Considering these areas collectively, a total of 1241 patents have issued to the date of this compilation, with the Commission owning about three-quarters of the patented art. There can be no doubt that such a patent holding represents a dominating patent position, but it is equally apparent that only in certain specific inventive areas does the Commission patent holding represent exclusive development. If it is assumed that a holding of 75

percent or more in any one inventive area represents exclusive development, it is found that less than one-third of the Commision patent portfolio is located in inventive areas exclusively developed under Commission sponsorship. If the conclusions stated in paragraphs A through G, *supra,* are used as a basis for defining exclusive development, less than 5 percent of the Commission portfolio is located in inventive areas considered as exclusively developed under Commission sponsorship. In either case such a small percentage does not establish a requirement for a title policy covering the entire technology at this stage of its development.

An analysis of the filing dates of all patents issuing on applications filed after 1941 in these seven inventive areas as shown in Table 2 indicates that private filings were relatively insignificant in number until after 1953. In fact, the number of filings after 1953 based upon private activities was over four times the private filings during the 12 years prior to 1954. In only one inventive area[29] have private parties been continuously active since the early 1940's, and even in this area the private filings in the period after 1953 were significantly larger than for all of the 12-year period prior to 1954.

In contrast to the relatively late private activities in these seven inventive areas, the Commission and its predecessor, the Manhattan District, have a history of continued development in all of these inventive areas from 1942 to the present.[30]

In these seven inventive areas Commission filings for the periods 1942 through 1946, 1947 through 1953, and 1954 and after are essentially equal, i.e., 35 percent, 25 percent, and 40 percent, respectively.[31]

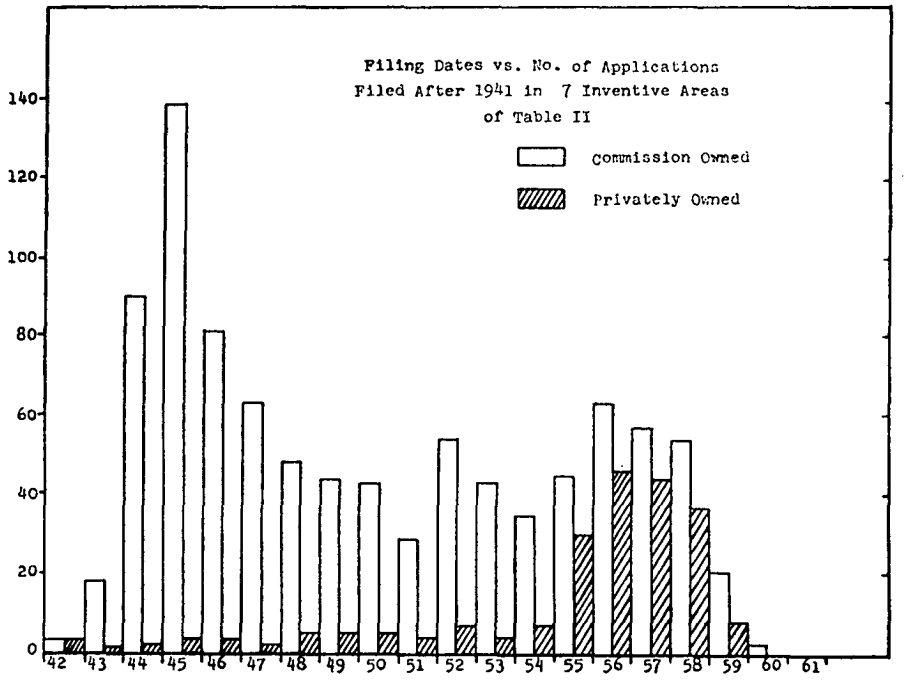
The trend of private vs. Commission filings is graphically illustrated in Chart I. Private filings represented less than five percent of the developments in these seven inventive areas through 1953, whereas after the Atomic Energy Act of 1954 the private filings account for 40 percent of the patented developments. This sudden increase in private filings after the 1954 Act can only be attributed to incentive afforded by the removal of the severe restrictions on the patenting of atomic

[29] Class 23 subclass 14.5.

[30] The only exception is Class 260 subclass 429.1 where 90 percent of the Commission filings took place before 1953. See paragraph G., *supra.*

[31] The fact that the smallest percentage of cases was filed during the longest period considered here, i.e., 1947 through 1953, is probably reasonable when it is considered that this period included the transfer of responsibility of the Manhattan District to the Commission, the readjustment of scientific endeavor resulting from a redirection toward peaceful uses of atomic energy, and the replacement of scientific personnel returning to pre-war pursuits.

CHART I



energy developments present in the 1946 Act. Much of the technology covered by these seven inventive areas was unpatentable under the Atomic Energy Act of 1946, which prevented the issuance of patents on inventions "useful solely in the production or in the utilization of fissionable material."[32] While the Commission had the advantage of deferring this issue of unpatentability[33] by suspending prosecution, there were probably a number of privately held patent applications abandoned because of this language.[34] A further effect of this prohibition under the 1946 Act was the probable lack of incentive to perform research (and file patent applications) in these areas since no protection for the required investment was afforded. However, there was an incentive to perform research and obtain patent coverage under the provisions of the Atomic Energy Act of 1954 and as a result private interest

[32] Atomic Energy Act of 1946, Sec. 11 (a) (1).

[33] 35 USC Section 267.

[34] The Atomic Energy Act of 1954, Sec. 160, provides for reinstatement of such abandoned applications within one year after enactment of that Act and such applications shall then be deemed to have been continuously pending since their original filing date. No data is known as to the extent to which this savings clause was utilized.

significantly increased in spite of the potential problems under Section 152[35] and the possibility of compulsory licensing.[36]

V. ANALYSIS OF 12 INVENTIVE AREAS REASONABLY RELATED TO ATOMIC ENERGY

The 12 inventive areas considered here as being reasonably related to nuclear technology primarily cover chemical compounds and electrical instrumentation, none of which are directed to aspects peculiar to nuclear technology. Since Commission sponsorship does not presently account for at least a majority of the patented developments, an analysis of patents and filing dates was undertaken to determine whether any area was at some time during the last 20 years exclusively developed by the Commission. The distribution of post-1941 filing dates for the periods of interest is shown in Table 3 for these 12 inventive areas.

H. *Class 23 Subclass 88; Chemistry—Compounds—Salts—Halogen—Fluoride and Silico-fluorides*

The first Commission-owned patent in this inventive area issued in 1950 after a privately developed background represented by over 120 patents was in existence, and all but 12 patents are owned by private parties. Thus, 95 percent of the total patented developments in this art are privately owned. As shown in Table 3, increased private interest is evidenced in this area as the atomic energy field developed. Commission interest, however, has never been a factor in the development of this art and appears to be non-existing during the period after 1953.

Therefore, there is no basis for concluding that this inventive area has ever been exclusively developed under Commission sponsorship.

I. *Class 23 Subclass 204; Chemistry—Compounds—Binary Compounds*

The first Commission-owned patent in this inventive area issued in 1948 after a privately developed background represented by 57 patents was in existence, and all but 11 patents are owned by private parties. Thus, 92 percent of the patented developments in this art are privately owned.[37] As shown in Table 3, private development of this inventive

[35] Atomic Energy Act of 1954, Section 152 (as amended).

[36] Atomic Energy Act of 1954, Section 153 (as amended), which is applicable to any patent application filed before September 1, 1964.

[37] Based upon filing dates of developments in this inventive area after 1941, the Commission owned 100 percent of the developments in 1942 based upon two applications filed in that year. However, this small number is not considered as representing exclusive development.

TABLE 3

Invention Area			Distribution of Post-1941 Filings in 12 Inventive Areas			Percentage of Patents Owned	Percent of Patented Art Filed Prior to 1942
			1942–46	1947–53	1954–61		
H	23/88	AEC	25	75	0	5%	0
		Other	19	36	45	95	41%
I	23/204	AEC	82	18	0	7	0
		Other	18	28	54	93	28
J	23/270.5	AEC	0	46	54	12	0
		Other	5	53	42	88	25
K	250/41.9	AEC	69	26	5	43	0
		Other	18	39	43	57	1
L	250/49.5	AEC	36	28	36	4	0
		Other	26	30	44	96	20
M	250/83	AEC	31	44	25	15	0
		Other	10	41	49	85	9
N	250/83.1	AEC	37	25	38	42	0
		Other	6	38	66	48	3
O	250/83.3	AEC	0	50	50	4	0
		Other	9	32	59	96	10
P	250/83.6	AEC	42	48	10	13	0
		Other	21	48	31	87	17
Q	250/84.5	AEC	9	0	91	33	0
		Other	0	15	85	67	5
R	250/108	AEC	41	47	12	23	0
		Other	5	33	62	77	24
S	313/63	AEC	5	37	58	41	0
		Other	5	23	72	49	11

area has been substantially continuous during the three periods of interest and shows an increasing interest as the atomic energy field developed. Commission interest has never been a factor in the development of this field, and Commission-owned patents have never accounted for more than 10 percent of the patented art in this inventive area.

Therefore, there is no basis for concluding that this inventive area has ever been exclusively developed under Commission sponsorship.

J. *Class 23 Subclass 270.5; Chemistry—Apparatus—Extracting or Leaching—Extraction of Liquid with Liquids*

The first Commission-owned patent issued in 1952 after a privately developed background represented by over 40 issued patents existed, and all but 13 patents are held by private parties. Thus, Commission interest in this area is relatively recent, and has never been a factor in the development of this field. Commission-owned developments have never accounted for more than 15 percent of the developments of this area.

There is therefore no basis for concluding that this inventive area has ever been exclusively developed under Commission sponsorship.

K. *Class 250 Subclass 41.9; Radiant Energy—Ionic Separation or Analysis (e.g., Mass Spectrometry)*

This inventive area is one of the few inventive areas which showed the complete reversal of developmental support during the last 20 years. Thus, up to 1945 the issued patents in this area were essentially all privately owned. Private development, while always a factor in the evolution of this inventive area, has taken place primarily after 1953. For the period 1945 through 1954 Commission filings outnumbered private filings by a ratio of 10 to 1, and the Commission owned at least a majority of the patentable developments in this area. However, Commission developments seem to have reached a peak in 1946 and decreased in almost every succeeding year. Based upon filing dates, the Commission owned over 70 percent of the post-1941 developments in this field during the years 1946 through 1948. Yet, at the time of this study, Commission developments represented only about 44 percent of the patented art. This decrease in dominance is a reflection of the apparent redirection of Commission interest from this field in the 1950's as compared to the markedly increased interest of private parties starting as

TABLE 4

Patents Issued Having Filing Dates After 1941 in the Twelve Inventive Areas Reasonably Related to Nuclear Technology

Filing Date Year	23/88		23/204		23/270.5		250/41.9		250/49.5		250/83		250/83.1		250/83.3		250/83.6		250/84.5		250/108		313/63		TOTAL	
	AEC	Oth.	AEC	Oth.	AEC	Oth.	AEC	Oth.	AEC	Oth.	AEC	Oth.	AEC	Oth.	AEC	Oth.	AEC	Oth.	AEC	Oth.	AEC	Oth.	AEC	Oth.	AEC	Other
1942	—	—	2	—	—	2	—	8	—	18	—	2	—	—	—	3	0	23	—	—	—	—	—	—	2	56
1943	—	11	1	4	—	—	—	16	—	8	—	—	—	—	—	1	1	9	—	—	—	1	—	—	2	50
1944	1	5	2	6	—	—	16	4	2	14	—	4	3	1	—	11	2	13	—	—	—	1	—	1	26	60
1945	1	4	2	6	—	1	41	10	1	10	2	1	5	0	—	7	20	29	1	—	5	—	—	—	78	68
1946	1	5	2	3	—	—	84	8	1	6	3	2	1	—	1	4	10	19	—	—	2	—	1	—	106	47
																									214	281
1947	—	6	—	6	—	2	13	9	—	10	—	3	—	1	—	13	6	15	—	1	2	1	4	—	25	67
1948	—	5	—	3	—	5	11	14	—	13	—	3	2	—	—	4	3	38	—	—	1	1	—	1	17	87
1949	1	4	1	4	—	4	6	9	—	9	—	2	1	1	—	10	8	28	—	1	3	2	—	1	20	75
1950	1	6	0	4	1	5	9	9	—	7	1	2	—	1	—	12	9	40	—	—	—	—	1	1	22	87
1951	3	6	—	1	2	8	4	18	1	5	1	5	2	1	4	11	8	27	—	—	—	4	—	—	25	86
1952	3	12	—	2	2	3	4	16	2	10	1	7	—	1	1	17	4	36	—	1	1	1	1	—	19	106
1953	1	9	1	9	1	7	5	27	—	9	4	12	1	4	1	24	—	29	—	—	1	4	1	2	16	136
																									144	644
1954	—	12	—	10	3	4	2	36	1	13	—	6	3	3	2	38	2	29	—	3	—	4	—	1	13	159
1955	—	9	—	9	3	5	4	26	2	23	2	9	1	6	1	30	1	34	3	3	1	8	3	1	21	163
1956	—	10	—	16	—	10	2	13	1	21	—	7	2	4	—	33	1	30	4	4	—	3	1	6	11	157
1957	—	12	—	10	—	3	1	17	—	17	1	8	1	5	2	37	—	19	2	3	—	5	—	2	7	138
1958	—	12	—	5	1	3	—	11	—	13	1	7	1	1	—	14	—	18	1	4	—	3	3	4	7	95
1959	—	3	—	6	—	2	—	3	—	6	—	3	1	2	—	8	2	5	1	3	—	1	4	2	8	44
1960	—	1	—	1	—	—	1	4	—	1	—	—	—	—	—	2	1	—	—	—	1	—	—	—	3	9
1961	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
																									70	765
Totals	12	132	11	105	13	64	203	258	11	213	16	83	24	31	12	279	78	441	12	23	17	39	19	22	428	1690

early as 1951. Thus, this inventive area exemplifies the ever-changing emphasis of Commission-sponsored work in the fringe areas of the nuclear energy field.

The effect of security classification is also apparent in this field when it is considered that 40 percent of all post-1941 developments were filed prior to 1947, yet it was not until 1955 that 40 percent of the patents had issued in this inventive area. But private activity does not appear to have been retarded in developing this field merely because of security restrictions, since well over half of the private cases bear filing dates prior to 1954.

Thus, under at least one of the criteria for measuring exclusive development, this inventive area was at one time exclusively developed under Commission sponsorship. However, this exclusivity has disappeared and private developments have for every year since 1954 represented a majority of the patented developments.

Therefore, there is no basis at this time for considering this inventive area as exclusively developed under Commission sponsorship, although it could have been considered exclusively developed by the Commission in 1946.

L. *Class 250 Subclass 49.5; Radiant Energy—Ray Energy—Electronic and Ionic (e.g., Electron Microscopy)*

The first Commission-owned patent issued in 1953 in this inventive area after a privately developed background of over 140 issued patents existed and all but 11, or about 4 percent, of the patented developments in this inventive area are privately owned. Based upon issued patents or filing dates, Commission-owned developments in this inventive area have never represented more than a few percent of the patented developments in this inventive area. Therefore, this inventive area is not and never has been exclusively developed under Commission sponsorship.

M. *Class 250 Subclass 83; Radiant Energy—Ray Energy—Detection or Measurement of Invisible Rays*

The first Commission-owned patent in this inventive area issued in 1949 and all but 16 patents are held by private parties. Thus, private development has accounted for 85 percent of the inventive achievements in this area. As shown in Table 3, there has been substantially

continuous and increasing private activity in this area as the atomic energy field progressed, while there was a reduction in activity in this field under Commission-sponsored programs during recent years.

There are, of course, no grounds for urging that this inventive area is one exclusively developed under Commission sponsorship. In fact, based upon either filing dates or issue dates, the Commission developments have never represented more than 30 percent of the total art patented.

This inventive area is one of three of those studied where the patent ownership of other U. S. Government agencies was significant compared to either the Commission patents or patents owned by U. S. nationals (see Table 6). However, even if the U. S. Government holdings are taken in total, there still is no basis for concluding that the inventive area was exclusively developed under U. S. Government supported programs.

N. *Class 250 Subclass 83.1; Radiant Energy—Ray Energy—Detection or Measurement of Invisible Rays—Neutron Responsive*

The first Commission-owned patent in this inventive area issued in 1948, when only two privately held patents existed as background technology. Based upon filing dates, for the period 1944 through 1955 the Commission owned a majority of the post-1941 developments, and during the period 1944 through 1950 owned over 70 percent of the developments in this area. However, at the end of 1961 the Commission-owned patents represented only 42 percent of the total patented art.

Commission interest in this field has been substantially continuous during the entire 20-year period, while private interest was relatively minor before 1954. Since the private developments have been greater by a factor of two than the Commission-sponsored developments during the period after 1953, and since the majority of the patents in this inventive area are privately owned, it must be concluded that at this stage in the progress of this inventive area no basis exists for urging that it represents an exclusively developed field of Commission-sponsored work. However, the fact that for a substantial length of time the Commission patent portfolio in this area represented over 70 percent of the development again points up the significant fact that Commission-sponsored development is constantly changing in emphasis.

O. *Class 250 Subclass 83.3; Radiant Energy—Ray Energy—Detection or Measurement of Invisible Rays—Electrical*

The first Commissioned-owned patent issued in 1948 in this inventive area after a privately developed background of about 40 issued patents existed and the Commission-owned interest in this area represents only about 5 percent of the total patented art. Private filings show a substantial increase after 1953, while Commission filings show substantially no interest prior to 1947 and essentially equal filings during the two periods subsequent to 1946.

Based upon issued patents or filing dates, the Commission-sponsored developments in this area have never represented more than a few percent of the total patent development. This is the only inventive area studied where the patent holdings of other U. S. Government agencies taken collectively outnumbered the AEC-owned patents (see Table 6). However, even if all U. S. Government-held patents are taken collectively, such a patent portfolio accounts for less than 10 percent of the patents in this area. Therefore, this area cannot be considered as exclusively developed under Commission or Government sponsorship.

P. *Class 250 Subclass 83.6; Radiant Energy—Ray Energy—Detection or Measurement of Invisible Rays—Electrical—Ionization-type Detector*

The first Commission-owned patent in this inventive area issued in 1947, after a privately developed background of over 120 issued patents existed. Private developments have accounted for over 87 percent of the patented developments, and filing dates indicate substantial and continuous private activity in this field. Although private activity would have appeared to decrease during the last period, see Table 3, such is not considered the case since only filing dates of issued patents are considered here. Thus, filings taking place within the last three or four years are not fully reflected in these percentages. The general trend of filing by private parties during the early part of this last period is essentially constant, and no reason is apparent for a change in this trend during the last few years.

The Commission filings, however, show a relatively large reduction during the last period which indicates a shift in developmental emphasis and reduced Commission interest in this inventive area.

The Commission has never owned a substantial interest in the patent developments in this field based on issued patents or filing dates, com-

pared to the over 500 post-1941 private filings in this inventive area. This inventive area is the third of three studied where the number of patents owned by other Government agencies is comparable to the Commission portfolio (see Table 6). However, taking the Government holdings collectively or the Commission portfolio separately, there is no basis for concluding that this inventive area was exclusively developed under Government or Commission sponsorship.

Q. *Class 250 Subclass 84.5; Radiant Energy—Ray Energy—Ray Generation—Neutrons*

The first Commission-owned patent in this inventive area issued in 1950,[38] at which time a total of three privately held background patents existed. During the period 1959-1960 the Commission owned 50 percent or more of the patented developments. Yet, at the end of 1961 Commission-owned patents represented less than one-third of this art. Over 90 percent of the Commission-owned patents and 85 percent of the privately held patents were filed after 1953. Thus, both the Commission and private parties have limited their major activities in this field to the period after 1953, with the private developments outnumbering Commission-sponsored work by a margin of greater than 2 to 1.

Thus, this inventive area cannot be considered as being exclusively developed under Commission sponsorship.

R. *Class 250 Subclass 108; Radiant Energy—Ray Energy—Shields and Shielding Materials*

The first Commission-owned patent in this inventive area issued in 1949, at which time a total of over 20 privately held background patents existed. While almost 90 percent of the Commission patents were filed before 1954, private filings show the reverse trend (see Table 3). While over one-fourth of this art existed prior to the Manhattan District, renewed private interest in this field has taken place after 1950, i.e., over 80 percent of the private developments after 1941 bear filing dates after 1950. Based upon filing dates of post-1941 developments, the Commission owned a majority of this art during the 1945 through 1953 period and over 75 percent of the post-1941 cases filed

[38] This single filing represented 100 percent of this art and at least 50 percent of the filed art up to 1949. However, a single filing is not considered to represent exclusive development even as to post-1941 developments. Further, up to 1953 only four applications had been filed by both the Commission and private parties. Comparisons on such small quantities are not considered significant.

during the 1946 to 1947 period. However, as of this compilation only 29 percent of the post-1941 developments and only 23 percent of the total patented art are Commission owned. Thus, while this art may be considered as having been exclusively developed at one time, there is no basis for now urging that this inventive area is exclusively developed under Commission sponsorship.

S. *Class 313 Subclass 63; Electric Lamp and Discharge Devices—With Positive Ion Accelerator*

The first Commission-owned patent issued in 1954, at which time about 20 percent of this patented art existed as private developments. Considering the development of this art subsequent to the creation of the Manhattan District, little filing activity took place prior to 1947. During the 1947 through 1953 period, however, Commission filings outnumbered private filings by a small margin, while during the period subsequent to 1953 private filings outnumbered Commission filings and both show an increasing interest during the three periods. Of the patented developments in this field with filing dates after 1942, 54 percent are privately owned and 46 percent Commission owned. Thus, at least as of the present time,[39] there is no basis for considering this area as exclusively developed under Commission sponsorship.

SUMMARY

In each of these 12 inventive areas the Commission owns less than a majority of the patents at this time. Considering these areas collectively, a total of 2478 patents have issued to the date of this compilation, with the Commission owning about 17 percent of the patented art. While such a patent holding represents a substantial interest, it cannot be considered as representing exclusive development. In three of these 12 inventive areas the Commission at one time owned at least a majority of the patented developments, but this dominance has disappeared with increasing private interest. Therefore, the unique development of the nuclear energy field has no application to these 12 inventive areas at this time.

[39] Based upon filing dates, the Commission owned 50 percent or more of the post-1941 developments during each year during the period 1946 through 1955, and over 70 percent during the years 1947 and 1948. On this basis, it could be urged that this area was at one time exclusively developed under Commission sponsorship. However, the number of filings prior to 1955 for both the Commission and private parties numbered only 17, too small a number to substantiate a meaningful conclusion as to exclusive development.

An analysis of the post-1941 patented developments in these 12 areas, as shown in Table 3, indicates that private filings in these 12 inventive areas have outnumbered Commission filings in every year except 1945 and 1946, and that Commission filings during the last two periods considered here were several factors smaller than private filings. Commission filings during the three periods in all 12 areas were 50 percent prior to 1947, 33 percent during the period 1947 through 1953, and only 17 percent after 1953. Thus, while Commission interest in these inventive areas not directly relating to nuclear technology has in general declined, private interest has always been substantial and has markedly increased during the last decade. Private filings for the three periods in all 12 areas are 17 percent prior to 1947, 38 percent in the 1947 through 1953 period, and 45 percent after 1953.[40] This trend of Commission versus private filings is graphically illustrated in Chart II. In these 12 areas the changes in legislation covering atomic energy appear to have affected the filing policies of private parties. However, this effect is not as pronounced as the effect of the changes introduced by the 1954 Act on the seven inventive areas directly relating to nuclear technology, since these 12 inventive areas were generally outside the scope of prohibitions of the 1946 Act.

VI. DOMINATING POSITIONS IN NUCLEAR TECHNOLOGY

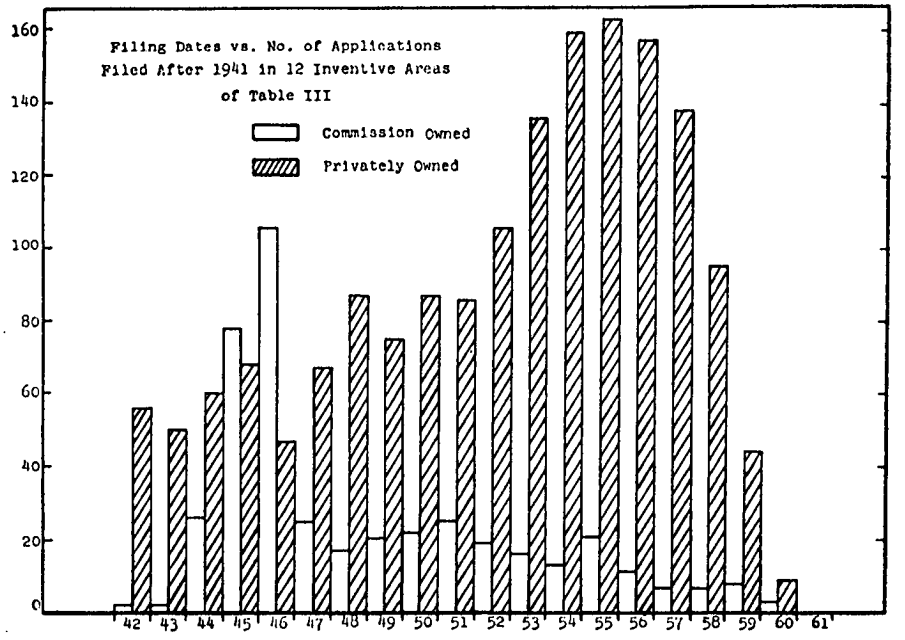
While the above analysis shows that the large majority of the inventive areas in which the Commission is or has been substantially interested are not exclusively developed under Commission sponsorship, a further analysis of these same 19 inventive areas was undertaken to determine whether a dominating patent position was developing in favor of particular private parties.

The primary interest here is in analyzing the patent holdings in the 19 inventive areas of the 14 contractors which have been the most active in the Commission-sponsored programs.[41] These corporations are considered to have the greatest fund of knowledge relating to nuclear technology and are, therefore, in the best position to embark upon private activities in the atomic energy field. Also of interest are the patent portfolios of various foreign identities and the possible effect of these

[40] When it is considered that these percentages are based upon filing dates of issued patents, and filings for the three years prior to December 31, 1961 are only partially represented, it is apparent that the increased private interest in these areas is significantly more than the 45 percent noted here.

[41] See "Atomic Energy Patents," *supra,* note 9, p. 28, for a list of these corporations and their relative invention disclosure activity.

CHART II



holdings on the development of atomic energy.

The 14 corporations own only 3 percent of all of the issued patents and 2.6 percent of the post-1941 patents in the seven inventive areas most closely related to nuclear energy. However, in the remaining 12 inventive areas not directly relating to nuclear energy they own almost 13 percent of all of the issued patents and 7.2 percent of the post-1941 patents. Thus, those corporations having the greatest background in nuclear technology appear to be relatively less active in areas of substantial Commission interest than in areas of minor Commission interest. This appears to substantiate the position that the broad language of Section 152 is something less than an incentive for persons to enter a field related to work being performed under Commission contracts. However, this factor-of-three difference in patent activity of the 14 corporations cannot be attributed entirely to problems associated with Section 152, real or academic, since the market factors are not necessarily the same for inventive areas relating directly and those areas not relating directly to nuclear technology. But the question is raised whether the absence of a competitive market in some areas at this time is not at least in part a result of the absence of a patent incentive in those areas over most of the 20 years since 1942.

With the 14 corporations collectively owning a patent portfolio of

183 patents (see Table 6) out of a total of 3,265 patented post-1941 developments, there is little basis for urging that any dominating patent position has been created in the total group of 14 corporations. In fact, no single one of the 14 corporations owns more than 10 patents in any one of the 19 inventive areas, except in the inventive areas discussed in paragraphs K, L, and O, *supra,* all of which are considered as privately developed inventive areas. Further, in every one of those three excepted areas the patent portfolio of any one of the 14 corporations amounts to less than 10 percent of the issued patents in that area. Thus, the 14 corporations have no preferred patent position in any of the 19 inventive areas studied, and no dominating patent position has been created or appears to be developing.

Whether a dominating patent position would have resulted in the absence of the title policy is difficult to assess on the basis of existing information. However, some indication may be obtained by considering the 7 inventive areas and the 12 inventive areas separately. If title to all of the Commission-owned patents in the 12 areas had been left in the 14 corporations, these contractors would collectively own less than 28 percent of the post-1941 patents in these 12 areas. Thus, in these 12 areas the likelihood that a dominating patent position might have resulted in one or more contractors appears remote. If this same analysis is applied to the 7 inventive areas, however, the likelihood that a dominating patent position might have been created is significantly increased.[42]

However, there is no indication that existing Antitrust Laws could not have tempered any dominating position that might have resulted. Further, the existence of the compulsory licensing provisions after 1954, before which only 7 percent of the Commission-owned patents in these 7 inventive areas had issued, would have provided a further control of any dominating patent position which might have resulted. Thus, the justification of the existing patent policy solely on the basis that it has prevented dominating patent positions is not at all clear. Further, under the existing policy the essential absence of patent incentives in these areas to further develop inventions directly relating to

[42] If the Commission-owned patents were issued to the contractors in proportion to the number of reported inventions (see note 9), concentrations of patents in the 7 areas could have resulted in five contractors, in the following percentages: General Electric Company—19.5%; Union Carbide Nuclear Co.—9%; University of California—18.1%; University of Chicago—17.1%; and Westinghouse Electric Corp.—15.6%. Whether concentrations in five contractors, two of which are academic institutions, would have amounted to domination by one or more in a particular area, or whether a concentration of less than one-fifth of the patents in any one contractor necessarily means domination is a matter of conjecture.

nuclear technology which arose out of Commission-sponsored work must be considered as detrimental to the atomic energy field.

U. S. patents owned by foreign parties in all of the inventive areas studied here amount to about 13 percent of the total of those privately held post-1941 patents. However, when the two groups of inventive areas are considered individually, it is found that in the 12 areas not relating directly to nuclear technology foreign ownership accounts for 10 percent of the private holdings, a percentage commensurate with the foreign ownership of all U. S. patents.[43] However, in the seven areas directly relating to nuclear technology over 33 percent of the post-1941 private holdings are foreign owned.[44] Thus, foreign ownership is a substantial influence in the private portfolio of United States patents relating directly to nuclear technology. This influence has been, in part, compensated for by the recent Atomic Energy Commission regulations providing for foreign patent rights in contractors under certain conditions.[45] The effect of these regulations in practice cannot as yet be fully assessed after the relatively short operating time and the unknown breadth of application. Thus, whether such rights as are accorded under these regulations will be sufficient to constitute a reasonable basis for bargaining with foreign interests must remain an open question. The issuance of this regulation, however, must be considered a recognition by the Commission that industry's need for patent rights in at least foreign countries on technology relating directly to atomic energy is basic to any ". . . program to encourage widespread participation in the development and utilization of atomic energy for peaceful purposes. . . ."[46]

Considering all of the 3,265 post-1941 patented developments in the 7, 12, and 19 inventive areas of this study (see Table 6), ownership is distributed among the various industrial, private, and governmental interests in the following percentages of the total number of patents:

It is therefore clear that no one interest owns a majority of the patented nuclear technology of the 19 inventive areas, and that industry-supported developments and Commission-supported developments are

[43] See "Annual Report of the Commissioner of Patents. Fiscal Year 1960" *Journal of the Patent Office Society*, Vol. 43, No. 6, (June 1961), and compare p. 407 with p. 417.

[44] This large foreign interest is even more noteworthy when it is considered that agreements with some foreign countries reduced the U. S. patent holdings of certain foreign governments. See *Selected Materials on Atomic Energy Patents*, Joint Committee on Atomic Energy, Vol. II, pp. 308 *et seq.* (March 1959).

[45] See "Commission Contract Policy Regarding Foreign Patents with Approved Contract Provision," *Federal Register*, (January 23, 1961), pp. 693-694.

[46] Atomic Energy Act of 1954, Section 3 (d).

TABLE 5

POST-1941 PATENTS

	7 Inventive Areas	12 Inventive Areas	19 Inventive Areas
Owned by U. S. Individuals	1.2%	8.0%	5.7%
Owned by U. S. Corporations	10.5	60.7	43.0
(Owned by the "14 Corporations")	(2.6)	(7.2)	(5.6)
Owned by Foreign Interests	6.6	8.1	7.6
(Owned by Foreign Individuals)	(0.7)	(1.7)	(1.3)
(Owned by Foreign Corporations)	(3.4)	(5.8)	(5.0)
(Owned by Foreign Governments)	(2.5)	(0.6)	(1.3)
Owned by the Commission	81.3	20.2	41.7
Owned by Other U. S. Government Agencies	0.4	3.0	2.0
Total Number of Patents	1147	2118	3265

essentially equal. It is also clear that the Commission owns about 80 percent of the patents in the seven inventive areas, while private parties own about 80 percent of the patents in the other twelve inventive areas. Thus, assuming the seven inventive areas are collectively considered as being exclusively developed by the Commission, or assuming that dominating patent positions might have resulted in these seven areas under a license policy, the substantial issue is raised as to whether a patent policy conceivably applicable to the seven inventive areas should be so inclusive as to be applicable to the twelve inventive areas, where these twelve areas encompass almost two-thirds of the patented developments of nuclear technology and where the contribution of the Commision to these areas is only one-fifth that of private parties.

VII. CONCLUSIONS

The historic purpose of the patent system has been to promote the progress of useful arts in a private enterprise economy consistent with the public interest. There seems to be little doubt that the patent system has accomplished this purpose in the traditional spheres of business activity. In the atomic energy field the private enterprise system has never been fully utilized in carrying out this purpose. At first public interest in terms of weapons for defense and secrecy resulted in a determination that there was no room for private development and pri-

TABLE 6*

	23/ 14.5 **	23/ 88	23/ 204	23/ 270.5	75/ 84.1 **	75/ 122.7 **	204 1.5 **	204/ 154.2 **	204/ 193.2 **	250/ 41.9	250/ 49.5	250/ 83	250/ 83.1	250/ 83.3	250/ 83.6	250/ 84.5	250/ 108	260/ 429.1 **	313/ 63	Total
No. of Applications Filed after 1941 on Which Patents Have Issued	540	144	116	77	73	35	55	81	322	461	224	99	55	291	519	35	56	41	41	3265
OWNERSHIP																				
U. S. Corporations	44	103	95	51	20	3	2	19	30	209	164	48	22	200	333	23	24	3	13	1406
U. S. Individuals	11	8	4	3	—	—	—	—	1	19	9	18	3	32	61	—	11	2	2	184
Total U. S. Private	55	111	99	54	20	3	2	19	31	228	173	66	25	232	394	23	35	5	15	1590
No. owned by the 14 Corporations	9	3	19	5	3	2	0	5	10	41	23	2	3	39	16	—	—	1	2	183
Foreign Individuals	5	2	3	2	1	—	—	—	1	8	8	—	—	7	4	—	2	2	—	45
Foreign Corporations	14	14	2	6	3	1	—	1	19	16	30	3	2	21	24	—	1	1	4	162
Foreign Governments	6	1	1	2	1	—	1	2	18	3	—	1	—	—	2	—	—	—	3	41
Total Foreign	25	17	6	10	5	1	1	3	38	27	38	4	2	28	30	—	3	3	7	248
Commission	458	12	11	13	48	31	52	58	252	203	11	16	24	12	78	12	17	33	19	1360
Other U. S. Government Agencies	2	4	—	—	—	—	—	1	1	3	2	13	4	19	17	—	1	—	—	67
Total U. S. Government	460	16	11	13	48	31	52	59	253	206	13	29	28	31	95	12	18	33	19	1427

* Ownership based upon assignee indicated on issued patents.
** Inventive areas in which the Commission owns a majority of the patented developments.

vate patents in the atomic energy field.[47] Later public interest in terms of international prospects for nuclear energy resulted in private enterprise being included to a limited extent under Government supervision and control to insure equalization of opportunities between existing contractors and newcomers to the field.[48] Thus, while the Atomic Energy Act of 1946 essentially precluded private enterprise from freely entering the field of nuclear technology for the traditional purposes of product development, the Atomic Energy Act of 1954 removed many of the bars to patent protection and restored a portion of the patent incentive to nuclear technology, but with concern that insiders might secure a monopoly position. The response of private enterprise to this limited incentive has been amply illustrated in almost every inventive area analyzed here. Without exception, the interest of private enterprise in the proprietary development of all areas of nuclear technology has substantially increased since the passage of the 1954 Act. Thus, while the incentive is more limited than that to which private enterprise usually responds, it is clear that the patent incentive is an important factor to the development of nuclear technology. An increase in this incentive can only result in greater response by private enterprise and the consequent growth of nuclear technology to a state of maturity. Increased patent incentives are considered essential to encourage apparently reticent enterprises to fully utilize their capabilities in advancing nuclear technology, both as Commission contractors and in proprietary development programs, and for the fuller integration of all private enterprises in the future development of nuclear technology.

It is clear from the analysis of this paper that certain inventive areas of nuclear technology are not and never have been exclusively developed by the Commission and that other areas, fewer in number, have been and still remain exclusively developed by the Commission. However, it is equally evident that a substantial majority of the patented nuclear developments has resulted from private activities and that the unique or exclusive development of atomic energy is limited to a few phases of a vast and complex technology. The relatively limited number of inventive areas considered to be uniquely developed under Commission sponsorship also casts considerable doubt upon any claim that title to patentable developments under Commission contract should automatically pass to the Commission. The fact that the Commission sponsored the work under which an invention arose, and therefore

[47] John G. Palfrey, "Atomic Energy Law in the United States," *Progress in Nuclear Energy—Law and Administration,* Vol. 1, Pergamon Press Ltd. (1959), p. 17. See also Atomic Energy Act of 1946, Sec. 11.

[48] *Supra,* note 47, at pp. 29, 32.

under existing policy is entitled to the patent, ignores the fact that the invention is in many cases based upon a vast background of proprietorially developed knowledge. In almost all of the inventive areas defining nuclear technology the contribution by private parties has been substantial, yet this contribution, if recognized at all, is recognized only in fields not involving atomic energy,[49] although the private contribution has not been so limited. Many of these contributions have little or no utility outside of the atomic energy field and therefore continue to be unrecognized. Contractors who have made substantial investments in facilities and equipment in order to promote the peaceful uses of atomic energy are entitled to recognition within the field of their endeavors to promote invention and investment. This recognition of background equity must at least encompass those inventive areas which are no longer or never have been uniquely developed under Commission sponsorship and should extend to any and all uses of the inventive concept. Qualified contractors, reluctant to donate their background to their competitors under the present policy, may be induced by such added incentives not only to further the Commission's program but to embark upon their own proprietary development of nuclear technology. The real criteria for determining Government ownership of patents in nuclear technology should not depend upon the timing of financial contribution, but upon the total equity, i.e., a recognition of contributions of both of the partners in the development of nuclear technology.[50]

The unique manner in which certain portions of nuclear technology have developed, while of some validity in justifying a strict patent policy in the early periods considered here, is no longer applicable as a basic policy. A patent policy with emphasis upon the proven capabil-

[49] See *U. S. Atomic Energy Commission Manual,* Chapter 9113, "Patents and Copyrights," Section 015, which defines in the following terms the maximum rights accorded a contractor: "Whenever any invention or discovery is made or conceived by the contractor or its employees in the course of, or under the terms of this contract, the contractor shall furnish the Commission with complete information thereon; and the Commission shall have the sole power to determine whether or not and where a patent application shall be filed, and to determine the disposition of the title to and the rights under any application or patent that may result; provided, however, that the contractor in any event, shall retain at least a sole (except as against the Government or its account), irrevocable, royalty-free license with the sole right to grant sublicenses, under said invention, discovery, application or patent, such license being limited to the manufacture, use, and sale for purposes other than use in the production or utilization of special nuclear material or atomic energy."

[50] The compulsory licensing of inventions arising out of Commission contracts would be a recognition of the public interest in and contribution to nuclear technology, and would provide a means for controlling dominating patent positions.

ity of the free enterprise system to advance the technology and provide the public with products as well as scientific knowledge is essential to the growth of the atomic energy field.

The above analysis also demonstrates the continually changing technological emphasis of Commission sponsorship and indicates that any patent policy must necessarily be sufficiently flexible to embrace such changes and, at the same time, give specific guidance in the manner and extent to which the contributions of private parties to the development of nuclear technology are to be recognized. While the present rigid statutory title policy covering the whole of the atomic energy field becomes less realistic with the passage of time, it is apparent that a complete change to a license policy in the atomic energy field is not wholly justified at this time, since uniquely or exclusively developed inventive areas still exist to a limited extent and, therefore, some restrictions are desirable. A patent policy which recognizes the investment, technical capability, and privately sponsored background developments of the contractors is, however, necessary to the future advancement of nuclear technology. Such a change in patent policy should continue the basic policy of transition from Government monopoly to the free enterprise promotion and development of nuclear technology by defining the obligations of the Commission in granting patent rights in both the "infield" and the "outfield."[51] Further, such a policy must recognize the responsibility of the Government in inducing organizations to further develop concepts or inventions arising out of Government contracts and by granting patent rights to protect the investment required by such developments. Subsequent changes in patent policy could then be based upon the response of private enterprise to these additional incentives.

In summary, the existing statutory title policy is no longer commensurate with the true extent of non-Commission-sponsored development in the atomic energy field. In fact, there is ample evidence that in most of the inventive areas within the scope of the broad language of the Atomic Energy Acts of 1946 and 1954 the policy has consistently failed to provide an equitable distribution of patent rights. Since this analysis shows the facts and trends as they existed in the late 1950's, it is submitted that a complete reappraisal and reorientation of the patent policy relating to nuclear technology is overdue.

[51] *Supra,* note 49. This Manual provision defines the contractor's rights in the "outfield" All other rights are "infield."

ANNOTATED BIBLIOGRAPHY

Recently Published or Reported Material Relating to the Foundation's Work

BOOKS, PAMPHLETS AND PERIODICALS

Aeschlimann, Christopher John, "The Arbitrability of Patent Controversies," *Journal of the Patent Office Society,* Vol. 44, No. 10 (October 1962) pp. 655-663.

"It would therefore appear that even with respect to patent controversies federal courts are required, upon application of one of the parties and upon being satisfied that the issue involved is referable to arbitration under a written agreement, to grant a stay of judicial proceedings pending arbitration in accordance with 9 USC 3 . . ."

Bowes, T. L., "Views of European Lawyers," *American Patent Law Association Bulletin,* (October-November 1962) pp. 496-502.

The author presents some practical views of European patent attorneys with respect to the contemplated Common Market Patent and the Common Market Antitrust Regulation. This paper was presented as part of a panel discussion at the Annual Meeting of the American Patent Law Association in Washington, D.C. in October 1962.

Bryant, S. W., "The Patent Mess," *Fortune* (September 1962) pp. 111-113, 226-232.

"The government spends $12 billion a year to encourage inventions, but its administration of patents is tortuous, confused, inconsistent. DOD has one policy, AEC another, NASA another; and U. S. courts, where a lot of patent cases land, have almost as many ideas as there are judges."

Burck, G., "Hitching the Economy to the Infinite," *Fortune* (June 1962) pp. 123-125, 267-274.

"The 'fallout' of products promises to be fabulous. But the impact on the economy also has a disturbing side."

Carter, Chauncey P., "Trademarks Never Die . . .," *Journal of the Patent Office Society,* Vol. 44, No. 10 (October 1962) pp. 711-714.

The author discusses some of

the background of early trademarks and identifies some of the oldest live registrations.

Daddario, Emilio Q., "Patents in the Space Age" (Mimeographed).

An address by Congressman Daddario, Chairman of the Special Subcommittee on Patents and Scientific Inventions of the House Committee on Science and Astronautics, before meetings on "Government Contracting and Your Patent Rights" sponsored by the Government Patent Policy Committee of the Patent, Trademark and Copyright Section of the State Bar of Texas and the Texas Manufacturers Association in Houston and Dallas in November of 1962.

Evans, George A., "Value of Patents in a Going Business," *Journal of the Patent Office Society,* Vol. 44, No. 8 (August 1962) pp. 564-572.

"A good sound business of any magnitude has a well established level of patent activity, the major effects of which are felt primarily in the period five to ten years later. There is no reason to believe that patents are going to be less valuable in the future."

Foster, Scott R., "Inadequate Disclosure of Utility under Nuclear Patent Application," *Journal of the Patent Office Society,* Vol. 44, No. 8 (August 1962) pp. 503-511.

The author concludes, "that some examiners are over extending the rejection of nuclear applications on the ground that they lack an adequate disclosure of utility and that perhaps in many instances such rejection could not be met by one or more of the . . . decisions of the Board of Appeals."

Frishauf, S. H.—P. Bassard, "Industrial Property in the Former French Overseas Territories," *Journal of the Patent Office Society,* Vol. 44, No. 11 (November 1962) pp. 754-766.

"There is concern that each of the newly independent states will institute its own legislation relating to industrial property without taking into account its neighbors or continuity of previous private rights. The world would then observe the birth of more than a dozen national patent offices and trademark bureaus, with procedures which will be so varied as to be unworkable.

"It is thus important that the new states understand the necessity of both national and treaty legislation relating to intellectual property; and that such legislation is in their own interest; that they may receive all necessary aid for the proposal and enactment of legislation; and that a general framework of legislation should be established under which the national legislation may have freedom to operate."

Guzzardi, W., Jr., "G. E. Astride

Two Worlds," *Fortune* (June 1962) pp. 127-132, 255-262.

The nature and scope of G. E.'s endeavor in Nation's defense.

Hauptman, Gunter A., "How Does an Inventor Find a Patent Attorney or Agent?," *Journal of the Patent Office Society,* "Vol. 44, No. 9 (September 1962) pp. 629-634.

"In summary, an inventor's hunt for a patent practitioner would be simplified if:

1. The existing lawyer referral system is utilized;
2. A separate patent lawyer referral service panel, within the existing lawyer referral framework, is set up according to areas of technical competence;
3. All referral service advertising mentions the existence of specialist panels (without necessarily identifying them);
4. The patent panel is advertised in local technical publications (viz., professional society chapter bulletins, amateur radio club news letters, etc.) and national popular technical magazines;
5. It is emphasized by distribution of informative Patent Office booklets, that patent lawyers are not the only qualified patent practitioners."

Hickman, Kenneth C. D., "Unsuccessful Inventors: A Great National Resource," *Journal of the Patent Office Society,* Vol. 44, No. 10 (October 1962) pp. 664-673.

"You patent attorneys need the 'little man,' the ultimately unsuccessful inventor. . . . If you and he both wish to survive you have a great missionary task right directly in front of you. It is to devise a code of ethics, a code of decency in the dealings between the little inventor and the big industrial firm."

Hildreth, Ronald B., "Contributory Infringement," *Journal of the Patent Office Society,* Vol 44, No. 8 (August 1962) pp. 512-543.

". . . if a third party assists another in the infringement of a patent, he is . . . subject to liability. This . . . doctrine of contributory infringement . . ., which originally was based upon the common law, has been modified by the decisions of the Supreme Court in the Mercoid Cases and the subsequent statutory provisions in the 1952 Act. It is the purpose of this paper to determine the status of contributory infringement in view of these modifications. Furthermore, the *Aro* case will also be analyzed to consider its effect upon the instant doctrine and also the specific area of 'repair or reconstruction' therein."

Ladas, Stephen P., "Antitrust Law

in the Common Market with Special Reference to Industrial Property Agreements," *Ohio State Law Journal,* Vol. 23, No. 4 (1962) pp. 709-751.

"It is proposed in this paper to discuss only the incidents of the Rules Governing Competition of the Treaty of Rome, and the implementing Regulations, on industrial property. To this end, it is necessary to first view the policies of the Common Market in the context of which the Treaty provisions were adopted and are to be interpreted; then to give a brief analysis of the provisions in question; and lastly, to suggest their application to industrial property agreements and the procedure established by the Regulations." Includes a lucid and concise discussion of "Articles 85 and 86 of the Treaty" and provocative sections on the application of these articles to industrial property agreements relating to patents, trademarks, and know-how. The penultimate section is devoted to "Exclusive Distributor Agreements." There are illuminating comparisons throughout the paper to the German antitrust law.

Lang, Edward H., "Requirements of Rule 131 Affidavits to Antedate References Cited Against Generic Chemical Claims," *Journal of the Patent Office Society,* Vol. 44, No. 8 (August 1962) pp. 551-563.

". . . the C.C.P.A. had already decided that to entitle a party to a patent or genus he must prove he was in possession of the generic invention before his opponent invented either the genus or the species. This, however, did not settle the question as to what constituted being in possession of the generic invention. The principle purpose of this paper is to discuss this question."

Laude, Kurt E., "The Compensation for Employee Inventions in Germany," *Journal of the Patent Office Society,* Vol. 44, No. 11 (November 1962) pp. 772-781.

"In Germany—like in other countries, e.g. Switzerland or Austria—an employee who makes an invention is entitled to a compensation if and when the employer takes over the invention and uses it.... on July 20, 1959, 'Rules for the Determination of the Compensation for Inventions made by Employees in Private Service' were enacted. . . . The following [paper] is a brief outline of the above Rules which may be of interest not only in considering the situation in Germany but also for generally appraising employee inventions."

Lessing, L., "The Voyage to the Moon," *Fortune* (June 1962) pp. 117-122, 279-290.

Most intricate mobilization of government, science, and industry ever attempted outside of war.

Neumeyer, Frederick, "Employees' Rights in Their Inventions," *Journal of the Patent Office Society,* Vol. 44, No. 10 (October 1962) pp. 674-710.

The author discusses the regulation of the rights of emplopers and employees in various countries in connection with inventions made by the latter in the course of their employment. The legal situation of employee inventors in these countries is classified and examined in the following four groups: 1. ". . . the insertion of provisions concerning employee inventors into patent law"; 2. ". . . the so-called Law of Obligations"; 3. ". . . a special law devoted exclusively to the rights and obligations of employee inventors and their employers, and the legal problems arising from these relations"; and 4. ". . . precedents established by the courts and by official boards specially instituted to give guidance in the matter." Under the "Regulation by Patent Law (Classical Type)" are considered Austria, Canada, Japan, the Netherlands, and Italy; under "Regulation by Patent Law (Socialist Type)," the Soviet Union, the German Democratic Republic, Czechoslovakia, Poland; under "Regulation by Law of Contracts," Switzerland; under "Regulation by Special Law," Sweden, Denmark, the Federal Republic of Germany; and under "Regulation by Judicial Precedents," the United Kingdom, and the United States.

Pirri, Vincent P., "Does Statutory Basis Exist For Rule 131?," *Journal of the Patent Office Society,* Vol. 44, No. 11 (November 1962) pp. 730-753.

"By his own strategy and tactics, he [patent attorney] has lent credence to the proposition that a utility showing or disclosure is a requisite element in an affidavit under Rule 131 (*providing* the invention does not possess art obvious utility). If this be true, the basis for such a proposition must be found, not in the Rules of Practice, but in the United States Code, Title 35. One of the primary purposes of this article is to ascertain whether such basis exists. . . . It is, therefore, another primary purpose of this article to attempt to establish the metes and bounds with regard to the language of Rule 131."

Prusak, Leonard P., "The Lawyer's Role in Industrial Management," *Journal of the Patent Office Society,* Vol. 44, No. 12 (December 1962) pp. 787-802.

"The lawyer who ventures into the urgent atmosphere of American industry cannot, as his predecessors may have, walk under the halo of a barrister whose function is limited to the solution of profound legal problems of nontech-

nical nature. He must instead prepare himself to discharge a variety of duties, not the least of which include participation in management, active contact with the research function and, ultimately, mediation between the two groups with the purpose in mind that flow of communication can be translated into meaningful action, rather than remaining as if in a vacuum."

Robbins, Leonard J., "The European Patent Convention," *American Patent Law Association Bulletin* (October-November 1962) pp. 463-480.

"I propose to divide this talk into four main parts—first, a very brief review of the history of the proposal; second, an analysis of the main procedural and substantive aspects with some comments on practical problems; third, what may or can be the position of outsiders, and in particular the United States, with respect to this Convention; and fourth, an estimation of the future situation." This paper was presented as part of a panel discussion at the Annual Meeting of the American Patent Law Association in Washington, D.C. in October 1962.

Scher, Alexander V., "What Foreign Patent Attorneys Think of American Patent Practice," *Journal of the Patent Office Society,* Vol. 44, No. 8 (August 1962) pp. 544-550.

"Last year a small group of American patent attorneys engaged in foreign patent practice decided to contact those of their friends abroad who were actively engaged in filing patent and trademark applications in the United States for the purpose of obtaining their frank opinions of conditions which they encounter in the United States Patent Office. . . . A total of 31 answers was received from Argentina, Belgium, Brazil, France, W. Germany, Great Britain, Holland, Israel, Italy, Japan and New Zealand. The largest number of answers (and the most complete and interesting ones) came from Germany, Great Britain and Italy."

Siekman, P., "The Fantastic Weaponry," *Fortune* (June 1962) pp. 157-160, 214-224.

The need for recognizing military's role in the space effort of this Nation.

Slayter, Games, "Two-Phase Materials," *Scientific American,* Vol. 206, No. 1 (January 1962) pp. 124-134.

The remarkable strength of glass fibers embedded in plastic focuses attention on the whole conception of materials in which a substance of high tensile strength is combined with one of greater elasticity. This principle is being put to use to produce materials with unique qualities far superior to anything found in nature.

Slowinski, Walter A., "Registration Under Articles 85 and 86 ('Rules of Competition') of the Treaty of Rome," *American Patent Law Association Bulletin* (October-November 1962) pp. 480-495.

The author discusses some practical procedural details of registration of agreements, decisions of associations of enterprises, and concerted practices with the E.E.C. authorities. Includes a bibliography. This paper was presented as part of a panel discussion at the Annual Meeting of the American Patent Law Association in Washington, D.C. in October 1962.

Smith, A. S., "Canaveral, Industry's Trial by Fire," *Fortune* (June 1962) pp. 135-139, 200-212.

"Cram 36,000 connections into one 'black-box,' assign a small army to fitting it all together for one space shot—then stand back for the moment of truth at the world's most demanding test lab."

Wade, Worth and Louis Chereau, *How to Exploit Patents and Know-How in Europe,* Advance House, Pennsylvania, 1962.

This is a practical handbook for the executive, inventor, research person, and their attorneys. The language is simple and concise, and the book contains neither footnotes nor citations. The text concludes with a bibliography and a comprehensive check-list for negotiating licenses on patents, trademarks, and know-how. In his review of the book for the *American Bar Association Journal,* Howard I. Forman describes it as follows:

"The book is divided into two parts. Section A, which contains 16 chapters, sets the stage with eye-opening discussions of the differences between American and European markets, and the effect of European trade groups on American business. The value of European patents, problems involved in licensing such patents, as well as technical know-how and services, and the law governing employee inventions in Europe are among the succeeding subjects which are covered. This is followed with an analysis of European anti-trust legislation and a discussion of their litigation and arbitration practices.

"The second part, Section B, devotes separate chapters to each of 18 European and Scandinavian countries. Such points are treated as the kinds of inventions which will have appeal in each of these countries, the kinds of patents obtainable, the laws governing the working of patents and compulsory granting of licenses, as well as any restrictive business or trade laws."

Whitmore, Harold B., "The Significance of Compact Prosecution," *Journal of the Patent Office Soci-*

ety, Vol. 44, No. 11 (November 1962) pp. 719-729.

"In one sentence, compact prosecution means changing afterthoughts into forethoughts. It means that all of the searching which was inefficiently spread out over two or three actions previously will be concentrated, wherever possible, into the first action; and it means that your first response will—we hope—in the words of the notice, consolidate the planning and prosecution of all claims of any desired wording or scope which were not already in the original application into the first response."

NOTES

International Public Lectures Inaugurated

A new public lecture series on current international industrial property developments, is being conducted under the auspices of The Patent, Trademark, and Copyright Foundation. The title of the series is "Current International Industrial Property Developments and the Relation Thereto of Antitrust and Trade Practice Laws and Policy."

This series has been made possible by support from the Alfred P. Sloan Foundation. Contributions have also been received from industrial firms.

The initial lecture was given by Pieter Verloren van Themaat, Director General of the General Direction for Competition of the Commission of the European Economic Community, on January 28, 1963. Dr. Verloren van Themaat spoke on "Current Antitrust Developments in the European Common Market and the Relation Thereto of Industrial Property Rights." Mr. Ephraim Jacobs, attorney and antitrust specialist, led the subsequent discussion. The participants were welcomed by O. S. Colclough, Provost of The George Washington University, and Robert C. Watson, Chairman of the Foundation's Advisory Council.

Geoffrey W. Tookey, Queen's Counsel, President of British Group of International Association for Protection of Industrial Property, spoke at the second lecture, February 6, 1963, on "Current Developments in Industrial Property Rights in Great Britain." Francis C. Browne, patent attorney and Vice President of the American Group, acted as moderator.

The Foundation is providing an opportunity, with this series, for people from various branches of learning and fields of endeavor to exchange views with officials and other experts from abroad, who are in a decision-making or recommending capacity, and who are close to the new international developments relating to industrial property rights.

The areas the Foundation presently plans to include in this lecture series are the Common Market, Japan, Latin America, Great Britain and the Commonwealth, and the U.S.S.R.

The series will extend over a period of approximately seven months with lectures by different qualified foreign experts. In all the lectures, the presentation by the foreign expert will be moderated by an American specialist who will then lead the subsequent discussion. The lectures are so organized as to encourage participation from the audience. Open to the public and free of charge, the lectures are being held at Lisner Auditorium on the campus of The George Washington University.

Dates, topics and speakers of future lectures will be announced through the Foundation's *News Notes* and press releases.

Barker Receives Kettering Award

The Kettering Award for the year 1962 will be presented to Dr. Joseph W. Barker, nationally known research leader, at The Patent, Trademark, and Copyright Foundation's Annual Public Conference. This award, in honor of the late Charles F. Kettering, is made annually to an individual, who has contributed meritorious work in the field of intellectual property. The presentation of an appropriate citation and medal will be made June 20th, during the seventh Annual Public Conference at the Mayflower Hotel, in Washington, D. C.

Dr. Barker has played an important role in the establishment of the Foundation, and with the late Dr. Kettering was one of the six national leaders in research who were named honorary members of the Foundation, and with the late He is now a member of the Advisory Council of the Foundation.

At present, Dr. Barker is consultant to the Data Processing Group at BEMA, Inc., consultant to NASA's Office of Applications, and consultant to the Dean of Graduate Faculties at C.C.N.Y. He is a Director of the National Malleable and Steel Castings Company and currently serves on the Board of Directors of Research Corporation.

Formerly, Dr. Barker was Dean of Engineering at Columbia University for sixteen years during which time he was on leave for five years to serve as a special assistant to the Secretary of Navy. Subsequently he became President of Research Corporation, and from 1946 to 1956 was Chairman of the Board.

Among the many associations Dr. Barker is a member of are: American Institute of Electrical Engineers, American Association for the Advancement of Science, American Society of Engineering, and Sigma Xi.

After having received his B.S. and M.S. from Massachusetts Institute of Technology, Dr. Barker obtained the following degrees:

LL.D., Bucknell University; Sc.D., Northeastern University; D.Eng., Case School of Applied Science; LL.D., Union College; D.Eng., University of Rochester, and L.H.D., Muhlenberg College.

The award in 1961 was presented to Vannevar Bush, Past President, Carnegie Institution of Washington, D. C.

European Common Market Conference Announced

The National Law Center of The George Washington University has announced a two day conference devoted to the financial and legal problems facing American business operating within the European Economic Community. The conference will be held in Lisner Auditorium on the campus of The George Washington University on April 8 and 9, 1963.

The theme of the conference is "Doing Business in Europe" and the topics discussed will include: Establishment of a Business Within the European Community; European and American Taxes; Patents and Other Industrial Property; and Antitrust and Restrictive Business Practices. The panelists will include European technical experts from the European Economic Community and American experts from business, banking and the legal profession.

The conference is being co-sponsored by The Patent, Trademark, and Copyright Foundation of The George Washington University and the Commerce Clearing House, publishers of topical law reports.

Latin American Common Market Patent Coordination Project

ROBERT L. BIRCH*

Guidelines for the development of a Latin American common market, including coordination of patent and other industrial property protection systems, were considered at a meeting of representatives of Latin American industry held 23-28 April 1962 in Buenos Aires.

The urgency of carrying out the various programs was reinforced at a second meeting of the group in Mexico City, reported in the Chilean journal *Industria* (issue 8 for 1962) in which occurs an article on the standardization of terminology related to customs and manufactures, raw materials, etc.,

*Patent Office Scientific Library.

ture" and its application in Latin America. This occurs on pages 32-35.

A translation** of the text of the Buenos Aires resolutions on industrial property follows, based on the report in the special issue of *Industria* on the Buenos Aires meeting:

WORK GROUP NO. 6

INDUSTRIAL PROPERTY, PATENTS, AND TRADEMARKS

The problems of industrial property, patents and trademarks were studied by Work Group No. 6. Its final recommendations are contained in the following document:

The Industrial Property Committee of the First Assembly of Industrial Contractors of the Countries of the A.L.A.L.C [Asociación Latinoamericana de Libre Comercio] (Latin American Free Trade Association).

Considering:

1) that matters of industrial property have a direct bearing upon the trade among the countries;

2) that it is therefore practical to adapt the system of industrial property to the trade among the countries of the area and to extend the scope of its application.

Recommends:

a) the appointment of a study and work group to consider the possibility of unifying the rules concerning industrial property in the countries of the A.L.A.L.C.

b) the study of the possibility of arriving at an industrial property convention for the countries of the A.L.A.L.C.

c) the practicability of bringing about immediately an interchange of information on trademarks applied for and other matters of industrial property, in order to facilitate for manufacturers the safeguarding of their rights in the countries of the area.

d) the study of unified standards for identification of commodities so as to protect legitimate competition in the trade among these countries.

e) the establishment of an office to implement the decisions of this Committee approved by the Assembly, and to work out, after previous consultation, the agenda of the Committee of the next Assembly and to proceed by means of investigation to compile the material to be considered at such convention.

**Translation of a report in *Industria* [Chile], Nos. 3-4 [77th year], 1962, p. 19: "Grupo de Trabajo No. 6: Propiedad Industrial, Patentes y Marcas," prepared in the Patent Office Scientific Library Translation Section.

New Trademark Series Introduced

The first booklet "Coats of Arms of the Business World," a new series on trademarks, entitled *The Trademark, The Maker's Monogram,* directed to young people, has been distributed by The Patent, Trademark, and Copyright Foundation as part of its educational program. The Foundation is making a special effort to reach the youth of today to help prepare them to accept the future responsibilities of citizenship. Both interesting and informative, "Coats of Arms of the Business World" is a general introduction to trademarks. Trademarks are defined, and differentiated from trade names and then historically traced from their first use by the ancient Chinese to the present day.

Other booklets in this series will deal with such topics as the registration, protection and utilization of trademarks.

Priced at 15¢ per copy, these booklets are also available in bulk. Bulk purchases under 5,000 are 10¢ per copy; up to 10,000, 8¢ per copy; over 10,000, 6¢ per copy.

Guide to Research On EEC Issued

A research guide to the reports of The Patent, Trademark, and Copyright Foundation on the European Common Market, that have been published in the *Journal* has been distributed as a flyer in the series entitled, *What Do You Know About...?*

The guides are issued to executives and professional people, as well as to Foundation members, as an easy reference aid to patent and related information in *The Patent, Trademark, and Copyright Journal of Research and Education.*

New Digest Distributed

A *Digest* on "The Growing International Role of Patents and Trademarks" has been distributed by the Foundation. This *Digest,* the sixth, is a summary of Foundation research on the European Common Market, including antitrust regulations and trends in Common Market licensing, and on the recent research on industrial property in Latin America. It also includes information on the first modern common market, i.e., the British Commonwealth.

The *Digest* is a non-technical summary of the results of the Foundation's research, and includes news of its educational ac-

tivities, for use by executives, government officials, educators and laymen generally, as well as to those with a professional interest in the patent and related fields. Previous *Digests* have been on "Business and Government Use the Foundation's Research," "Compulsory Patent Licensing and its Effects," "Patents in Federal Research and Development Contracts," "Our Intangible Exports Through Foreign Licenses," and "How American Patents Are Used." Copies are available upon request.

Public Lecture Series:

Current International Industrial Property Developments and the Relation Thereto of Antitrust and Trade Practice Laws and Policy

Attractive economic opportunities are developing all over the world. Furthermore, in the markets of Europe, Asia, Latin America, and even in those of the United States, American producers are experiencing growing competition from countries whose economies we helped to restore and from economic groupings we actively encouraged. The Foundation has been engaging in studies concerned with industrial property and related rights of a number of these foreign countries and markets as they are in the process of realizing their potential. Some of these, like the countries of the Common Market have exhibited an extraordinary rate of economic growth—others like the common markets of Latin America, are pressing forward and, with new imagination as their political and economic alignments take shape, should exercise a profound effect on the future course of the free enterprise systems. In view of the remarkable events taking place abroad our citizens are deeply concerned as to how these events will affect their interests.

To shed light on these issues and the emerging opportunities, high officials and other distinguished experts who are in a decision-making or recommending capacity and are close to the new international developments in industrial property, antitrust, and trade practice laws and policy are being brought to Washington from abroad to participate in a series of public lectures.

The objective of this series is to provide a domestic forum in which a cross section of our public can participate in an informal discussion with foreign experts, who being located abroad, are normally unavailable to them. The lectures, free and open to the public, are followed by a discussion period for this purpose. It is hoped that these discussions will provide more understanding, that this experiment in informal personal consultation will develop into an instrument for reciprocal exchange of informed opinion and for the guidance of national policies.

The first lecture was presented by Dr. Pieter VerLoren van Themaat

and was held on January 28, 1963. His subject was "Current Antitrust Developments in the European Common Market and the Relation Thereto of Industrial Property Rights." This lecture was followed on February 6, 1963 and March 7, 1963 by lectures from Mr. Geoffrey W. Tookey and Dr. Franz Froschmaier respectively. Mr. Tookey spoke on "Current Developments in Industrial Property Rights in Great Britain," and Dr. Froschmaier on "Progress Toward the Proposed Conventions for a European Patent and for a European Trademark." Each presentation by a foreign representative was moderated by an American specialist who lead the subsequent discussion. An official of the University and the Foundation welcomed each visiting expert. The lectures were held in Lisner Auditorium on The George Washington University campus.

The first three lectures were concerned with the new developments in Europe (the Common Market countries and Great Britain). A lecture and discussion is scheduled for April 18, 1963 on Japanese changes and prospects and May 23, 1963 on the outlook for Latin America. The series has been made possible by support from the Alfred P. Sloan Foundation, and also from companies.

In keeping with the educational purposes of the Foundation, the lectures are being published in the Foundation's *Journal.* Because of the rapid developments relative to industrial property, antitrust, and trade practice laws and policy in the Common Market and their importance to United States interests, we have made a special effort to bring these lectures and discussions to our readers in the shortest possible time. The first three public lectures and subsequent discussions are published as Volume 6, Number 4.

L. JAMES HARRIS
Executive Director

FIRST PUBLIC LECTURE AND DISCUSSION

JANUARY 28, 1963
7:30 P. M.

Current Antitrust Developments in the European Common Market and the Relation Thereto of Industrial Property Rights

GUEST LECTURER
PIETER VERLOREN VAN THEMAAT

LISNER AUDITORIUM
WASHINGTON, D. C.

Current Antitrust Developments in the European Common Market and the Relation Thereto of Industrial Property Rights

PROCEEDINGS

PROVOST COLCLOUGH: Our distinguished Guests, and beloved lady, Mrs. Watson, Ladies and Gentlemen. It is my distinct privilege to open tonight's first, in a series of public lectures, on the subject of the "Current International Industrial Property Developments and the Relation Thereto of Antitrust and Trade Practice Laws and Policy" which will go on for the next six months. Support from the Alfred P. Sloan Foundation has made this program possible. Contributions were also received from industrial firms.

This is really a significant step in the educational program of The Patent, Trademark, and Copyright Foundation of The George Washington University.

I do not wish to extend my remarks and, therefore, may I observe ladies and gentlemen, the fact of which you may be aware, but perhaps you have not thought in detail, that a considerable proportion of the patents granted in the six member states of the Common Market are filed by foreigners to those countries.

For example, they are by citizens of the United States, the United Kingdom—yes, and citizens of Japan. Thus, changes in the industrial property assistance in that market, the Common Market, are certain to affect the United States licensing practices and policies.

Moreover, as the European Market increases its contribution, yes, its challenge if I may say so, to world trade and specifically in relation to our bid for expansion, we Americans are bound to make added use of licenses to industrial property. Such transactions may become subject to the antitrust regulations of the Common Market countries.

The Patent, Trademark, and Copyright Foundation has already invited attention in its reports to these regulations and their possible effect upon American subsidiaries and other United States enterprises in the six member countries. This evening, as part of the educational activities of the Foundation, we are providing the first of a series of opportunities to exchange views with distinguished officials of the Com-

mon Market, who are very close to the problem, that is, the new anti-trust developments.

This, as I have said, is the first of some six or more lectures. The next will be Mr. Tookey from the United Kingdom. But tonight we are honored, indeed, to have a distinguished official of the European Economic Community with us. The way we will proceed is that he will speak and then, as you think and listen to him, we have a very distinguished man in this field from our own country, a member of our own profession in the United States, who will moderate the discussion. Hence, if you will think about the problems as we go along, then our moderator will be able to handle the questions afterwards.

Now, at this moment it is my great pleasure to introduce a distinguished lawyer, public servant, the former Commissioner of Patents, recognized and respected by our entire profession, and, if I had to call him by a name, I would say, "Mr. Patents" but I will actually say, Mr. Watson.

(Applause.)

DR. WATSON: Thank you, Mr. Director.

Ladies and Gentlemen, my function here is to call your attention to the fact that this is the first of a series of presentations of this general nature to which you may expect to receive invitations to attend during the coming six months.

The Annual Public Conference of the Foundation will take place in June,—I believe June 20th and 21st, and by that time this lecture series will have been concluded.

The Director has made reference to the fact that Mr. Tookey, who was one of the participants in the conference at Lisbon, held for the purpose of considering proposed amendments of the International Convention for the Protection of Industrial Property, will be the next speaker to appear. He will give us some idea of the nature of the developments which are taking place in Great Britain in connection with industrial property at this time. Following that we will expect to have Dr. Franz Froschmaier on March 7, Director in the General Direction for Competition of the Commission of the European Economic Community.

On April 18 we confidently expect to have a speaker from the Japanese Empire.

On May 23 we expect to have a speaker from one of the Latin American countries.

Mr. Director, I now return the podium to you.

PROVOST COLCLOUGH: Thank you.

As you know, Mr. Watson is Chairman of the Advisory Council of the Foundation, which helps us to develop the policy and program for research and education in the Foundation.

Thank you, Mr. Chairman.

It is now my privilege to introduce the moderator for the evening, a distinguished, practicing attorney, with emphasis in the field of antitrust law. He has been with the Department of Justice, the Antitrust Division, for some fourteen years and was chief of legislation of the Legislation and Clearance Section, with jurisdiction over all merger matters and clearance programs involving consultation with business.

It is interesting to know, in view of our subject this evening, that he has participated in a number of cases which involve the very subject of the discussion this evening—industrial property at the international level.

He has been a colleague of mine, having lectured at The George Washington University, and also at the University of Virginia.

He is Chairman of the Trade Regulations Committee of the D. C. Bar Association and the Advisory Board of Antitrust and Trade Regulations of the Bureau of National Affairs.

I merely relate this to our distinguished guests of the evening to let you know that we have one with us tonight, as we say in the United States, who has "been around."

It is my great pleasure to introduce Mr. Ephraim Jacobs.

MR. JACOBS: Thank you very much.

Ladies and Gentlemen. Just about five years ago I had the pleasure of attending a conference on International Restrictive Business Practices at the University of Chicago and that I believe was the first time I had the pleasure of meeting Dr. VerLoren van Themaat. He delivered a paper which I recall very vividly, dealing with cartel practices in the Netherlands.

Well, tonight, shall we say by virtue of horizontal and/or vertical integration, he comes to us in a much broader capacity and I might say that his experience in the field that we are interested in is unbounded. Our plan for tonight is that after Dr. van Themaat makes his formal presentation we will circulate among you some paper upon which you may record questions which you will then send up to us and Dr. van Themaat will answer them.

If some of you feel that you cannot communicate too well in writing, I am sure he will consider oral questions as well.

As we say in the law, we will now proceed to qualify our witness.

I do this not because there is any question at all about the qualifications of our guest tonight, but because I am sure that many of you would like to know a little bit about his background.

Despite the lengthy description of his title that appears in the program, I will, if I may, with due deference, refer to him as the Director General of the Competition Department, and I hope, sir, that you will not take offense at this shortening of your title.

Dr. van Themaat was born in Rotterdam, Holland, studied law in the Netherlands and received his Doctorate Cum Laude in 1946 for a thesis on International Fiscal Law.

From 1942 to 1952 he was with the Ministry of Economic Affairs at The Hague.

In 1952 he was appointed Assistant Director of the Economic Organization. In 1954, he was promoted to the position of Director of this department. Here he was responsible chiefly for policy on price control, agreements between firms, economic and political aspects of the right of establishment of industry and wholesale commerce.

In 1957 he was elected President of the Expert Committee on Agreements of the EEC countries with the task of preparing regulations on restrictive commercial practices in the context of the free trade area negotiations.

In January and February of 1958—and this is the period that I referred to before at which time I first met our guest speaker—he headed a mission to the United States composed of experts from ten European countries.

In April 1958 he was appointed Director General of the Competition Department of the Commission of the European Economic Community in Brussels.

Dr. van Themaat is the author of several works on economic organization, international fiscal law and general agreements among firms.

It is indeed with great pleasure, Ladies and Gentlemen, that I introduce to you, Dr. van Themaat.

(Applause.)

DR. VAN THEMAAT: Well, Ladies and Gentlemen, it is a great honor to be the first speaker on the current international industrial development.

This is one of great interest here in the United States for the development of the Common Market.

Certainly, it is quite true that quite a number of American firms have very much to do with this patent law in the market as well as this recent antitrust regulation.

So I quite understand, indeed, that an American audience is interested in this problem where patent legislation and antitrust legislation are meeting.

Now it is not only an honor to be here in the United States and to give this lecture but also a pleasure.

Certainly the attitude of American firms and American lawyers is very different from the attitudes of the, let us say, the man from Switzerland who asked recently as to information about the consequences as to the application of Switzerland or her participation in the Economic Community and he was particularly interested as a business man—the question was if the antitrust rules of the treaty would be applicable to cartels of Swiss firms. He was told this would indeed be the case and afterward this man asked himself and the other gentlemen if there was not some other Common Market available!

I. I certainly have been most imprudent in accepting the honoring invitation of your University, to give a lecture on "Current Antitrust Developments in the European Common Market and the Relation Thereto of Industrial Property Rights."

Not only I have to deal with so many other problems, that I can hardly be considered an expert on industrial property rights, but both sides of the problem—the antitrust side and the industrial property side—are also complicated by problems of doctrine, by fundamental questions on the underlying economic and legal philosophy which hardly are of a nature to facilitate the answer to the question what happens, when patent—or trademark law is meeting antitrust legislation in a procedure on the validity of a licensing agreement.

I mention some of those fundamental questions on which—in any case in Europe—opinions are divided:

1) Should antitrust legislation protect the highest possible degree of competition between every two single enterprises or only an optimal degree of competition in a given relevant market taken as a whole?

2) Does the monopolistic right of production and bringing on the market of a specific product, provided for by patent legislation include full freedom of market policy with regard to such a product within the limits of patent legislation itself or is this freedom also limited by public law regulations on prices, quality, quantity and competition?

3) If public law regulations in the public interest are allowed to limit the exercise of the legal monopoly right of the patent holder, is there any limit to the limitations, which might be imposed by such public law regulations to the exercise of patent rights? More particularly, is there any reason to give priority to either antitrust legislation or

to patent legislation, when they are leading to conflicting conclusions with regard to the validity of a licensing agreement or—in the case of applicability of Article 86 of the Treaty of Rome—with regard to the appreciation of the prices and other conditions at which the patent holder is selling his product? How could the problem of the conflicting conclusions be solved, when no priority on either side would be acknowledged?

4) Up to what extent is it justified to say that, the patent holder being able to prohibit production and sale of specific products, a licensing agreement can never restrict competition, but—on the contrary—increases it, with the consequence that restrictions of the freedom of action of the licensee in a licensing agreement cannot be considered either as a restraint of competition, but only as a limitation of the increase of competition?

I have mentioned these questions not in order to give an answer to them, but because I often felt that in discussions between antitrust experts and experts in the field of industrial property different answers on these basic questions were at the background of various answers to more detailed practical questions which had to be answered. I must leave the answer to the basic questions to law professors who are more qualified than I am to answer them.

II. Before entering into the details of my subject, I would like to make some remarks on the main goals of our policy of competition at the present stage of the Common Market, main goals which are equally of interest to understand our goals in the field of patent legislation and to understand the actual priority objectives of our antitrust policy.

Our whole activity at the present moment is guided by the desire to integrate the six national markets into one vast common market without any barriers to interstate trade and without any state or private measures which would create unequal conditions of competition in this interstate commerce, for instance by subsidies, by unequal fiscal charges, by discriminating practices of government agencies, by unequal quality regulations, by private practices tending to different price levels in the various national markets and so on.

It is for this reason that we want to remove patent barriers to interstate trade resulting from the territorial limitation of the protection given by patent legislation by creating a federal European patent legislation. It is for this reason also, that we are giving priority to the investigation of market sharing agreements and other practices tending to quantitative restrictions of interstate trade, export clauses in exclu-

sive distributorship—and licensing agreements, dumping practices and practices tending to the maintaining of different price levels in the six national markets.

The goal of freeing interstate trade of all sorts of restrictions and distortions is, however, to be reached gradually, starting with the more direct restrictions and distortions and moving only gradually towards the elimination of practices with a more remote effect on interstate trade.

In more general terms, the Community seeks to achieve its objectives by an economic integration embracing the whole area of intermember state economic activity and regulations related thereto. The actual goal of this integration is the establishment of a free market between member states: a customs union eliminating all public obstacles to a free and unrestrained exchange of goods, services, capital and labor, obstacles which derive from the classical policy of national protectionism. This free market, so the founders of the European Community believed, should not be governed by detailed economic planning, but by rules prohibiting anti-competitive practices.[1] *The Community philosophy for intermember state commerce,* then, is basically one of free enterprise, regardless of domestic economic policies within member countries. In order to create the conditions for the operation of a free market, the Treaty of Rome provides for rules dealing with both private and public restrictions or distortions of competition.

III. As to private restrictions, the framers of the Treaty of Rome wrote a body of antitrust rules into the Treaty itself. These "Rules of Competition" include Articles 85 and 86 of the Treaty, which are the material antitrust provisions in the proper sense. Article 85 (1) establishes a *general prohibition* of agreements between enterprises, decisions of associations of enterprises and concerted practices which restrict or tend to restrict competition and are capable of affecting intermember state commerce. The interstate commerce criterion, as I said, might be liable to progressive interpretation, just as it has been in U. S. jurisprudence. The rather broad scope of this basic provision covers a host of both horizontal and vertical agreements and practices, such as fixing prices or terms of trade, controlling production, limiting channels of distribution, dividing markets or sources of supply, restricting importations or exportations, fixing resale prices or conditions of sale, tying-in agreements, exclusive dealing contracts, collusive discri-

[1]Completed, of course, by such macro-economic coordination of the economy and social adjustments as can be found in every modern state, in varying degrees.

mination, and certain categories of licensing agreements. The agreements and decisions prohibited by Article 85 (1) are declared to be void by Article 85 (2). This prohibitive concept is moderated by a provision which in the sense of a test of economic utility, might be termed a *legislated rule of reason*: restrictive practices which contribute to the improvement of production or distribution of commodities or to the promotion of technical or economic progress may qualify for administrative exemption subject to compliance with Article 85 (3). According to this provision, Article 85 (1) may be declared inapplicable to such "reasonable" practices where, in addition to the beneficial effects mentioned, an appropriate share of the resulting profits is reserved to consumers and where the restriction both is minimized to the indispensable extent and does not eliminate competition in respect of a substantial portion of the commodity involved. Article 86 forbids the *abusive exploitation of a dominant position* in the Common Market or a substantial part thereof by one or several enterprises. Unlike the far-reaching prohibition of concerted action by Article 85, Article 86 does not affect the existence of enterprises which dominate the market or the legality of the exertion of economic power deriving from dominant positions; it merely forbids the abuse of such power, but it forbids this abuse not only from the moment the competent authorities have said that an abuse exists, but from the entry into force of Regulation No. 17, that is to say since March 13, 1962. The question in how far the mere fact of a patent can be sufficient to assume a market dominating position for the products concerned, has not yet been answered, but in any case a patent or trademark does not seem to exclude the application of Article 86 to the enterprises concerned, for instance, when they would discriminate between buyers, in as much as, apart from the legal monopoly constituted, a dominant position has been brought about.

IV. In spite of the rather general terms of Article 85 and 86, they were both designed to govern the Commnuity as rules of law rather than statement of principle. Council and Commission of the European Community held them to be applicable as *self-executive* and internal law of the member states. For the period after March 13, 1962 this concept has been confirmed by the Court of Justice of the Community in its recent *Bosch v. De Geus* decision. That case involved an effort by a German manufacturer to enforce a contract clause forbidding his German dealers from exporting refrigerators without the consent of the manufacturer. When refrigerators were being sold by a Dutch dealer other than the manufacturer's exclusive dis-

tributing agent for the Netherlands, Bosch and his agent sued the Dutch dealer in a Netherlands court for injunction and damages. The Dutch defendant claimed that the restrictive clause was automatically null and void under Article 85 (1) and (2) of the Rome Treaty. After the defendant appealed from an adverse decision in the lower Court, the Dutch Court of Appeal at The Hague referred the case to the Community's Court of Justice for interpretation of the nullity provision of Article 85 (2). The Court of Justice held that during the period from January 1, 1958 (the day of the entry into force of the Rome Treaty) till March 13, 1962 (the day of the entry into force of the *first Council's Regulation to implement Articles 85 and 86*) the nullity clause would not apply automatically but only on administrative decision stating explicitly to that effect. Decisions of this nature not having been taken at all (with the exception of seven decisions of the German antitrust authority issued under Article 85 (3)), the Court's finding practically defers the applicability of the nullity clause until the entry into force of the implementing regulation. This ruling thus *temporarily preserved the validity of all existing agreements concerned* regardless of their compatibility with Article 85 (3), agreements which would otherwise have been deemed technically void after the Treaty came into effect.

V. The *Bosch* case highlights the importance of regulations under Article 87 of the Treaty. This provision calls for appropriate executive regulations to be issued for the purpose of applying the legal principles of Article 85 and 86, and it confers upon the Council of Ministers of the Community authority to legislate in this field. The first such regulation (Council's Regulation No. 17) was adopted unanimously by the Council in February, 1962, coming into effect as a binding regulation on March 13, 1962. The main purpose of this regulation is to ensure uniform application of Article 85 and 86 in all member states, to establish predictability of law for all concerned and to provide for various procedural devices which will enable the Commission of the Community to pursue an effective antitrust policy.

During the drafting stages of the regulation, one of the cardinal points was whether the exception of Article 85 (3) could be invoked *ipso iure,* i.e., automatically on the grounds of a mere compliance with that provision (*exceptio legis*), or subject to an administrative decision of constitutive effect explicitly setting aside the ban of Article 85 (1). The final result was a compromise establishing a system of *prior notification for retroactive validation of "reasonable" restrictions.* As a rule, the retroactive effect imparted to exemptions under Article 85

(3) is limited to the date of notification; but for some particular categories of restrictions—among these national agreements with only an indirect influence on interstate trade, vertical price fixing, certain restrictions in licensing agreements, agreements on uniform standards and types—retroactivity may be extended beyond the date of notification back to March 13, 1962. For *transitional purposes,* the same privilege of full retroactivity of the exemption is open to restrictions, which were in existence on March 13, 1962 and which either belong to the particular categories just mentioned—and may consequently obtain prolonged retroactive exemption already on these grounds—or which have been notified to the Commission before November 1, 1962, or, if between two parties only, before February 1, 1963. This special rule of notification thus provides for *uninterrupted validity* under the applicable civil law in favor of *"reasonable" pre-existing restrictions;* it is supplemented by a provision facilitating adaptation of "unreasonable" pre-existing restrictions provided that notification is effected in due course.

Exclusive jurisdiction to apply Article 85 (3) is conferred upon the Commission which thus emerges as an antitrust administrative body of great importance. Apart from the notification procedure, the regulation provides for the Commission to grant *negative clearance* in respect of agreements, decisions or practices not likely to give cause to prosecution. If, furthermore, acting on request or ex officio, the Commission finds that Article 85 or 86 are being infringed, it may address *recommendations* to the enterprises responsible or, if necessary, oblige the parties concerned to *cease and desist.*

Besides these basic procedural institutions, the regulation gives above all authority to the Commission to make *inquiries* and *investigations,* both for specific cases before it and for more general economic problems in the Common Market, provided that infringements are to be presumed according to general circumstances. The Commission agents may have access to all business books, papers and records, may copy documents, make oral inquiries and direct investigations on the firm's premises. Negligent or deliberate violation of Article 85 and 86 as well as refusal to comply with a binding decision, or presentation of false information may lead to sanctions of *administrative fines* from $500 to $1,000,000 or ten percent of the business turnover of the preceding year. In order to compel prompt compliance with the Commission's decisions, *penalties* may be ordered at the rate of $50 to $1,000 for each day of delay. In addition, the regulation deals with procedural questions like cooperation with national antitrust authorities. For this purpose an *Advisory Committee* has been established. In order to

institute *procedural guarantees,* the regulation entitles the parties concerned as well as other interested parties to express their views. *Publicity* has been provided for as to the substantial contents of demands for negative clearance and of notifications likely to justify a favorable decision of the Commission, as well as of the substantial contents of these decisions themselves, and of decisions taken in prosecution of infringements against Article 85 or 86. Procedural rules concerning requests and notifications have been established (Commission's Regulation No. 27) providing for *forms to be employed obligatorily.*

VI. I have mentioned that some particular categories of "reasonable" restrictions may qualify for retroactive exemption under Article 85 (3) back to March 13, 1962 without being obliged to respect any particular deadline for notification. These categories are enumerated in Article 4 (2) of Regulation No. 17. For my lecture of this evening it is sufficient to mention that among these categories you find agreements between two enterprises only, of which the sole effect is to impose on the transferee or user of *industrial property rights*—particularly patents, utility models, industrial designs or trademarks—or on the beneficiary of contracts involving the transfer or license of *manufacturing processes* or of *knowledge* relating to the use or application of industrial techniques, *limitations upon the exercise of such rights.*

So the provisions of Article 4 (2) of Regulation No. 17 provide relief from notification for certain restrictions in licensing agreements which are probably of great importance and interest for American enterprises. With a view to the approaching arrival of the deadline for notification of pre-existing two-party-agreements, this exception must not be lost sight of. If the firms concerned want to be sure, however, that an exemption under Article 85 (3) can be granted to their agreements—and such cases may very well occur—they can have an interest to notify their licensing agreements nevertheless. It should never be forgotten indeed, that an exemption can only be granted, if the four conditions of Article 85 (3) are fulfilled and that the possibility of full retroactivity is of no value whatever, whenever the exemption can only be granted after modification of certain restrictive clauses of the agreement. The facilities of adaptation offered by Article 7 to pre-existing agreements of the Article 4 (2) categories, can only be obtained by notification before January 1, 1964. It is assumed under Article 4 (2) 2b, that such restrictions may fall within the provisions of Article 85 (1). The prohibition set forth in that article generally does not apply, however, to restrictions imposed on a licensee which are properly

within the protection granted to the licensor by industrial property legislation. The Commission's communication on patent licensing agreements to which I shall soon return in detail contains a first effort, in this respect, to reconcile the monopoly-oriented patent law and the competition-directed antitrust law.

Article 4 (2) 2b only deals with restrictions imposed on a licensee which go beyond these limits. Such restrictions must meet two conditions:

1) they must be imposed upon the licensee, i.e., not upon the licensor,

2) they must restrict the licensee in *the exercise of these rights.*

This last phrase has been interpreted as requiring a direct relation between the restriction and the exercise of the right. Restrictions which no longer have a real connection with the exercise of the industrial property right fall within the basic rule of Article 4 (1). Consequently, retroactivity may only be granted upon and as from the date of notification. For new agreements this means in practice that they will have to be filed before entering into force. Such restrictions may exist, for example, if the licensee

1) is bound for a longer period than the duration of the industrial property right,

2) cannot acquire, produce or sell any competing product,

3) agrees not to export to another member country,

4) obligates himself to impose upon his buyers competitive restrictions.

A precise distinction of the various categories is only possible after an examination of each specific case.

VII. The deadline for notifying agreements between two parties has almost arrived. No estimate of the probable number of notifications has been possible.[2] The Commission presumed that the number of bilateral agreements concerned is a considerable one and that the automatic sanction of nullity will withhold many enterprises from taking any risks. In these circumstances, it was felt that two steps might bring about substantial relief without interfering with the Community's policy:

1) to grant exemptions for categories of restrictive agreements which, judged by their characteristic features, comply with Article 85 (3) in such a way as to justify an exemption of the entire category;

[2]Since the deadline has been passed after the lecture was given, a rough estimate of about 35,000 agreements is possible.

2) to establish principles of interpretation in order to avoid notification of agreements which in the Commission's opinion do not fall under the ban of Article 85 (1).

Both measures had been contemplated in the field of exclusive distributorship and patent licensing agreements. The announced intention of granting general exemption for certain categories of exclusive distributorship agreements can only be fulfilled, however, at a later stage. For the time being, the announcement of the Commission's intentions in the official gazette of November 9 has no other legal significance than that of a provisional opinion that Article 85 (3) applies. Notification remains necessary, however, to obtain the benefit of that provision. A simplified form of notification has been made available for these cases by Regulation No. 153. First principles of interpretation, on the other hand, could be established forthwith. Such principles of interpretation have been published, along with Regulation No. 153, in the December 24 issue of the official gazette of the Communities. They concern sole agency and patent licensing agreements.

In the communication concerning patent license agreements, the Commission gives its opinion that the following clauses in patent licenses are not within the scope of Article 85 (1) of the Treaty of Rome:

A. *Obligations imposed on the licensee:*

1) *Limiting the license to a certain mode of exploitation of the patent (manufacture, use or sale);*
2) *limiting the license to certain technical applications of the patent;*
3) *limiting the quantity of products to be manufactured or the number of acts of exploitation of the patent;*
4) *limiting the exploitation of the patent with regard to time (less than the life of the patent); with regard to part of the territory covered by the patent or with regard to a particular factory or location of the plant; or with regard to the person (prohibiting assignment of the license or grant of sub-license).*

These four sorts of obligations do not fall within the prohibition of Article 85 (1), because they are covered by the patent. Such obligations imply only the partial retention of the right to restrain which is involved in the exclusive right of the patentee, against the licensee who, besides, is authorized to exploit the invention. The listing does not constitute an exhaustive enumeration of the rights conferred by the patent. I must leave it to law professors to decide if this part of the interpretation constitutes an inevitable legal conclusion or—as some

experts think—a limited application of a rule of reason in the interpretation of Article 85 (1). I refer in this respect to my introducing remarks.

B. *Obligations for the licensee to affix a patent marking on the product.* These obligations correspond, in the opinion of the Commission, to the patentee's legitimate interest in seeing the protected items characterized as having their origin in the patented invention. Since the licensee may also select and affix his own distinctive marks on the protected item, this provision has neither the purpose nor the effect of restricting competition.

C. *Obligations concerning the quality of the product or the supply of materials insofar as these are indispensable to insure the technically unobjectionable exploitation of the patent.* Insofar as they are to avoid the technically faulty exploitation of the invention, these obligations could not restrict the competition that is to be protected. The obligation to obtain supplies of certain products is only taken into account when quality can not be determined by objective criteria. In this case the obligation has the same significance as quality standards.

D. *Grant-forward provisions on improvements and grant-back provisions on improvements, including licenses on improvement, provided that in the second case the grant by the licensee to the licensor is not exclusive and there is a reciprocal obligation on the part of the patentee to license improvements.* These undertakings assumed by the licensee do not, in any case, have any restrictive effect on competition whenever the licensee retains the possibility of communicating acquired experience or of granting licenses to third parties and is entitled to share in the licensor's future attainments concerning know-how and inventions. Without such reciprocity a dangerous concentration of monopolistic power in the hands of the patent holder might be feared. As for undertakings by the licensor with relation to the communication of experience or the granting of licenses, they do not seem to restrict competition, even without reciprocity. This whole section relates only to the obligation to communicate experience or to grant licenses, and not to restrictions which may be imposed on interested parties concerning the utilization of such experience or inventions. The legal evaluation of such restrictions remains open.

E. *Undertakings by the licensor not to grant a license to any other person and not to exploit the patent himself.* Some doubts may arise as to the question whether obligations of the licensor not to exploit the patent himself or not to authorize the utilization of the invention by

any other person do not constitute a restriction of competition, like all other contractual restrictions of freedom of market-behavior. For that reason this question has been left open in the communication, in which the Commission considers, however, on the other hand, that in the present situation of the Community, such obligations are not likely to affect trade between the member states. This interpretation seems to be a clear example of a progressive interpretation of the interstate commerce criterion, as I mentioned was possible. One should be cautious, however, in using this interpretation as an important precedent, because of the fact that the underlying philosophy has not been made quite clear.

The whole communication does not apply to:

A. *Agreements involving patent pools, reciprocal licenses and multiple parallel licenses.* In such cases eventual restrictive effects on competition are resulting less from the legal monopoly granted by patent law than from the agreements themselves. So it seemed indicated to leave these situations open to later decision.

B. *Agreements relating to other rights of industrial property or to know-how.* The legal situation with regard to trademark licensing seems much less clear than with regard to patent licensing. Trademarks are not intended to provide for a monopoly of production or selling which could be transferred in part to other enterprises. They are in the first place intended to indicate the origin of the product. In any case under the legislation of some of the member states it is rather doubtful, to what extent restrictions as to the use of the trademarks are covered by the protection of the law, as long as it is clear, that the sold products are originating from the producer concerned. With regard to know-how agreements the evaluation is complicated, firstly, by the vagueness and the different interpretations of the notion itself and, secondly, by the fact that there is no specific legal protection of know-how. Of course such agreements are covered, however, only then by Article 85, when some of their clauses are restricting competition and affecting interstate trade.

C. *Agreements which may include clauses other than the above listed.* In such cases a case by case approach is the only possible for the moment.

VIII. The character of the communications of the Commission is not that of a decision; apart from establishing a precedent which, to a certain extent, limits the Commission's own discretion they do not

produce any legal effects. The purpose of these communications is to provide firms with some guidance as to the considerations which will influence the Commission in its interpretation of Article 85 (1) and in the application thereof to the agreements mentioned. So long as, and insofar as, such contracts do not contain restrictions other than those listed in the above-mentioned communications, the Commission is of the opinion that the prohibition of Article 85 (1) does not apply. In the light of these communications, the interest of firms to obtain negative clearance for the agreements in question, as well as the request to have the legal position settled by an individual decision of the Commission, will as a general rule disappear. Consequently, there is no longer any reason to notify agreements of this nature.

On the other hand, the importance of the precedent thus established is obviously limited to the jurisdiction of the Commission and by no means affects the Court of Justice's future jurisprudence. No prejudice is implied to the application of Article 85 (1) to clauses other than those listed in these communications. This is particularly important in the field of licensing contracts and with regard to the listed clauses when they appear in contracts relating to patent pools, to the granting of reciprocal or multiple parallel licenses, and to agreements concerning the exploitation of other industrial property rights or of technique-improving inventions which are not legally protected. In these cases, none of the guide lines established has any effect.

In particular, the scope of this guidance is limited to individual and independent patent licensing contracts. Consequently, clearance of patent pools or other collective undertakings for the exploitation of common patents, of agreements on exchange of patents or of multiple parallel licenses (exploitation of identical inventions, protected under patents of different nationality, by separate firms) requires an individual decision of the Commission depending upon full examination in each case. The Commission was anxious to avoid any compromising statements on this subject which seems rather complex when measured by antitrust standards, and it prefers to build up a body of case law instead.

Summarizing one can nevertheless conclude, that the Commission has made an important effort to contribute to clarifying the relationship between industrial property rights and antitrust legislation. We are waiting anxiously for the verdict of science on our conclusions.

(Applause.)

MR. JACOBS: Thank you very much, Dr. van Themaat.

We would now like to have you write down your questions if you

will. While we are waiting for the questions to be brought up, I would like to announce that copies of the economic treaty and the antitrust regulations referred to by Dr. van Themaat are available at the office of the EEC at 235 Southern Building here in Washington, D. C., telephone NAtional 8-5070.

We will start out, Ladies and Gentlemen, with this question.

Dr. van Themaat, the question is, "Will the existence of a patent system in the Common Market aid or assist the economic development of the Common Market?"

DR. VAN THEMAAT: I think, indeed, that the answer given to your question is yes, which doesn't mean there are not some dissenting opinions on this question.

MR. JACOBS: A question here asks, "Isn't there a great deal of administrative discretion in the application of antitrust regulations in the Common Market?"

The follow-up question which assumes, I suppose an affirmative answer is, "Is this desirable?" That was perhaps a supposition on my part, but that is the question.

DR. VAN THEMAAT: Well, there certainly is a great deal of administrative discretion in the application of antitrust regulations.

The amount of discretion is certainly reduced considerably by the fact that these are purely legal criteria which can be found in Article 85 (1).

Of course, the possibility of varying interpretations is there, but the full possibility of appeal to the Court of Justice is also there, whereas, with regard to Article 85 (3), the possibilities of an appeal to the Court of Justice are far more limited because Article 85 (3) certainly gives a large amount of discretion to the Commission to interpret such economic notions as contribution to economic or technical progress or improvement of distribution which gives an equitable share of the resulting benefits to the consumers.

So, on those purely economic notions, I think, indeed, that probably the Court of Justice will leave a great deal of discretion to the Common Market Commission. So the possibility of appeal to the Court on legal grounds certainly remains of importance also with regard to Article 85 (3), but I admit a great deal of discretion is permitted by this Article. This is desirable too, I think, yes. I think, indeed, that with regard to such economic notions a great amount of discretion is necessary.

I don't think it would be a good thing, if a Court of Justice would make a purely economic policy decision, not based on a plea of legal criteria. I think it is, indeed, better, that the Commission has the task

to do so, because the Commission can be controlled for instance, by the European Parliament.

MR. JACOBS: I have a question here which is of great interest, Doctor, to most lawyers in the antitrust field in the United States and also to patent lawyers, and that is, "What is the present status of price restrictions on resale by the licensee imposed by the licensor of a patent?"

DR. VAN THEMAAT: Well, the present status of price restrictions, after many discussions of the problem, is that the Commission did not feel justified to include such price restrictions in the communication of clauses in patent licensing agreements which don't come under Article 85 (1). So the minimum and the maximum, one can say on this point, is that discretion remains open. We want to leave the question open up to the moment when specific agreements can be examined, because we are, indeed, not quite certain that it would be very easy to give a good justification of an opinion that such clauses would not come under Article 85. So there is certainly a risk that such price restrictions will be considered as coming under the prohibition of Article 85 (1), but only a risk, because the question has been left open.

Another point is, that in most cases such restrictions will not give rise to an obligation of notification of the agreement, because they normally will come under the exemption of notification of Article 4 (2) of Regulation No. 17.

MR. JACOBS: It occurs to me, and of course to many others here, that in the course of working out a single unified patent policy in which a group of nations are involved, and where each of the nations may have their own individual patent laws, that some compromises might be required; and some decision has to be made as to which country's laws should be followed.

Would you care to comment on how this problem has been and is being approached, namely, what compromises must be made by certain countries to come out with a unified, overall patent approach?

DR. VAN THEMAAT: Well, this point, of course, has been of considerable interest in working out the draft of a European Patent Convention. One can see, as a summary of the conclusions, that, indeed, one felt able to come to a compromise which is neither exactly corresponding to the German, or Dutch system, with previous examination of the invention, nor to the system of France, Italy and Belgium, but which is somewhere in between the two extremes.

More exactly, one can say that a compromise has been found between the varying systems of the six member countries by providing for a first period of protection without previous examination and for a second period of protection which is only granted after examination of the

novelty of the invention. This is not just a compromise between various extremes, but has been considered as a good solution of the technical and economic problems involved.

MR. JACOBS: The next question is, "How does the Commission relate to the International Court in The Hague and is it expected that the Commission may have to draw on the counsel of that Court?"

DR. VAN THEMAAT: I must say that this is for me quite a question. I have never discussed it before in relation to the European Community or to the International Court of Justice in The Hague.

The Community, as you know, has its own Court of Justice and legal conflicts with the Commission or member countries with regard to the compatibility of their decisions with the Common Market Treaty or its rules of implementation will be brought before this Court.

For that reason, I think the question could only come up, in case of eventual conflicts between member countries with regard to other conventions than the Treaties of Rome or the Coal and Steel Treaty, for instance a treaty with third countries. In such cases a conflict might be brought before the International Court of Justice in The Hague. I would have to know what cases one has in mind before expressing a view on the interest the Common Market Commission could have in such a case.

FROM THE FLOOR: Well, I am particularly interested because I was raised and educated in The Hague and because I was thinking of the communities and the other countries and I wondered if they would ever feel qualified to rule on any case if that came to that point, jurisdictionally.

PROVOST COLCLOUGH: Dr. van Themaat has referred to, or touched on that, when he referred to the third country.

Mr. JACOBS: This is rather an intimate group, and I think it might be better at this point if you would just direct your question to Dr. van Themaat.

We discussed this beforehand and we decided it could be done either way, so if it is all right with you, of course, Doctor, we will take questions from the floor.

FROM THE FLOOR: Dr. van Themaat, you discussed at some length the types of agreement that, after the *Bosch* decision, where illegality could not be set up in defense against an attempt to enforce an agreement.

I am wondering if there is any kind of agreement under the present conditions in which illegality under the treaty, *ipso jure* illegality could still be set up against a private action in which an attempt was

made to enforce an agreement. Is that just completely out after the *Bosch* decision?

DR. VAN THEMAAT: The *Bosch* decision, it only excludes the defense of illegality for the period before March 13, 1962 and so the *Bosch* decision has a negative side and a positive side.

The negative side is for the period before the entry into force of Regulation 17. The Court clearly decides that the illegality of the agreement cannot be accepted as a defense for this period.

But for the period after March 13, the conclusion of the Court of Justice is exactly opposite because for the period after the 13th of March, the Court very clearly indicated that when an agreement which comes under the notification provision of Regulation 17 has not been filed with the Commission in due time before the 1st of November or the 1st of February of this year, then in such case, the agreement must be deemed to be null and void since the beginning, especially since the 13th of March 1962.

So with regard to such agreements which would come before the Court at the present time, the defense of illegality would certainly be upheld by the Court of Justice of the Community.

The situation is far more complicated with regard to agreements which have been filed to the Commission because in such cases, the National Courts have no possibility to apply themselves Article 85 (3). It is only the Commission which has the power to exempt an agreement of the prohibition by application of Article 85 (3). So, in such a case, the practical situation would probably be, that a Court would be petitioned by parties to agreements who state on the validity of the agreement and when the agreement would come under Article 85 (1), that the Court would wait for a decision of the Commission with regard to Article 85 (3) before giving its decision.

In some cases, a provisional decision would be possible, but in other cases the Court would simply wait up to the moment when the Commission would have stated whether Article 85 (3) can be applied.

So, in practice, I think that this defense of illegality of agreement is especially important with regard to agreements which have not been notified to the Commission, whereas they should have been notified or in a later stage with regard to agreements where application of Article 85 (3) has been refused by the Commission and that agreement is nevertheless being continued by the parties concerned.

So for the moment, I think, the first situation where a case is brought before the Court on an agreement which should have been notified but has not been notified, would be the more important case where the illegality could be of practical importance.

FROM THE FLOOR: May I follow this up, please?

MR. JACOBS: But only one, short question, please, sir.

FROM THE FLOOR: What would a National Court do in a situation of a not final agreement, but one that has not been notified?

If it gets the issue, would it refer the case to the Commission and would the Commission render a decision at the behest of the National Court or hold it in obeyance until the Commission acts?

DR. VAN THEMAAT: The National Court in such a case could immediately take a decision of cease or desist with regard to such an agreement or the other decision asked for by the parties concerned. It is not held to refer the case to the Commission.

FROM THE FLOOR: Doctor, the communication dealing with independance and exclusive dealerships lists among the dealerships, that he must maintain a considerable inventory of goods covered.

Now, the word "considerable" is to be interpreted in relation to what? The dealers business, the national market or the community market?

DR. VAN THEMAAT: I think especially in relation to developing the markets concerned. If he is an exclusive dealer or agent for the national markets, he will have to have a larger stock in a larger market, of course. He will not have to have the same stock as a dealer in France as in Luxembourg. Everything depends on the size of the market, the whole circumstance of the situation. So it is difficult, I think, to give a general answer to this question. It will have to be answered in specific cases.

MR. JACOBS: We have in our own section 7 of the Clayton Act, Doctor, the word "substantial" or "substantially" used.

What you just said about "considerable" is very similar to what our Supreme Court has said about "substantial." So we do have language like that in our own statutes.

FROM THE FLOOR: Did I understand the Doctor to say that licenses, exclusive licenses under patents, under a patent and trademark combined in the same license, their validity was not yet determined, but was being held open? Did I hear that?

DR. VAN THEMAAT: Well, there was only one question of exclusivity which has been dealt with in the communication of the Commission, that of the obligation of the patent licensor not to grant a license to any other person and not to exploit the patent himself. That is all and so all the other questions are left open by the publication to a specific decision in specific cases.

FROM THE FLOOR: Probably I am getting hard of hearing. In the first instance that such a license is all right, an exclusive license—?

DR. VAN THEMAAT: It is all right. It is considered not to come under Article 85 (1)—no need of notification—no need of examination by reason of Article 85 (3).

MR. JACOBS: If there are no further questions, we want to again thank Dr. van Themaat, and I would like to turn the meeting back to our Director.

PROVOST COLCLOUGH: Thank you, on behalf of the Chairman of the Advisory Council, Mr. Watson, and all of us here at the University.

I am sure on your behalf also, we do thank you, Doctor, very, very sincerely for being here tonight and for sort of scratching our minds, so that we will become more and more informed about this tremendous economic complex which has developed in Europe and in which the United States of America, as our President has pointed out, is so vitally interested.

I want to thank Mr. Jacobs, very deeply, for having served as our moderator this evening.

The next lecture in this series will be on the 6th of February at the same time, in the evening, when our speaker will be Mr. Geoffrey W. Tookey, Queen's Counsel, President of the British Group of International Association for the Protection of Industrial Property. His subject will be "Current Developments in Industrial Property Rights in Great Britain."

Thanks very much.

(Applause.)

(Thereupon, at 9:30 p.m., the lecture, question and answer period was concluded.)

SECOND PUBLIC LECTURE AND DISCUSSION

FEBRUARY 6, 1963
7:30 P. M.

Current Developments in Industrial Property Rights in Great Britain

GUEST LECTURER
GEOFFREY W. TOOKEY

LISNER AUDITORIUM
WASHINGTON, D. C.

Current Developments in Industrial Property Rights in Great Britain

PROCEEDINGS

PROVOST COLCLOUGH: I should like at this point to pay my respects to our distinguished guest from the United Kingdom, to Mr. Browne, the moderator, and to the ladies and gentlemen with us this evening.

This is the second in a public lecture series addressed to the subject of "Current International Industrial Property Developments and the Relation Thereto of Antitrust and Trade Practice Laws and Policy."

You will recall, of course, that our first public lecture was delivered by Dr. VerLoren van Themaat from the Netherlands, where he very actively participates in the Commission on the European Economic Community.

Because of the great diversity of industries in the United Kingdom, all types of products are suitable for exploitation there. To formulate patent policies with respect to Great Britain, however, requires a knowledge of the current development of industry in that country.

Since the establishment of the Common Market and the European Free Trade Area, tariff barriers between member nations have been gradually lowered while high duty has been maintained on imports from nonmember states. In a study made by The Patent, Trademark, and Copyright Foundation and published in its *Journal,* the United Kingdom ranked first, number one, of 40 countries in the number of licenses these countries received from 100 American companies. There has been a growing boom, if I may use that word "boom" in this intangible, some have said invisible, sense of foreign trade, the licensing of foreign patents and trademarks owned by American companies and the support of American know-how.

One might ask the question, what is the present environment in the United Kingdom with respect to foreign licenses? The increasing reverse flow of foreign licensing of assets into the United States from Great Britain is also of interest to us. Hence, I believe it is most timely here in the second of our public lectures to have a distinguished gentleman from the United Kingdom, widely experienced in the entire area of industrial property and know-how, talk to us about the United Kingdom on the subject which he has chosen for tonight.

To introduce him and to moderate the meeting this evening, I have

the pleasure of introducing our moderator. He is a member of the law firm of Browne, Schuyler, and Beveridge, Mr. Francis C. Browne, a graduate of Ohio State University, where he received his B.A. in 1936. He received his legal education at Cleveland Law School and at The George Washington University, receiving his Bachelor of Law degree at the former institution in 1942.

His activity in the many societies concerned with the problems with which we are so interested is notable, such as the American Patent Law Association of which he is the Vice President, the Association for Protection of Industrial Property, the American Chemical Society, the United States Trademark Association, and I could go on, ad infinitum.

I think it is more important now that I have the pleasure of introducing our moderator for the evening, Mr. Francis C. Browne.

(Applause.)

MR. BROWNE: Thank you, Mr. Chairman. The organizational activities in which I have participated from time to time enabled me to make the acquaintance of our guest lecturer of this evening. I first recall having met him at a meeting of the AIPPI in Brussels, in 1954. Up to that time we had not had the pleasure of holding an International Congress of the AIPPI in the Western Hemisphere and as a result of our invitation extended to the International group at Brussels, the organization had its Congress here in Washington in 1956.

Our guest lecturer this evening Geoffrey Tookey, has been an outstanding member of the British group of the AIPPI, for more years prior to the time I met him than he has been since I have met him.

Now I will not say anything further that will reflect upon his age, because his youthful appearance belies his actual age. Suffice it to say that our distinguished guest lecturer tonight was a Bencher in the Honorable Society of Gray's Inn, and was called to the bar at Gray's Inn in 1924. He is a graduate of Engineering of the Imperial Science and Technology School in 1921. He is Queen's Counsel, which is a special degree of barrister, and his experience in the field of industrial property has earned him the deepest respect and admiration of all of us who have had the opportunity of hearing him speak, whether it is as an advocate of a point of view in the AIPPI deliberations or speaking to a friendly gathering such as we have here tonight. Mr. Tookey also holds the position of Chairman of the Board of Trade Advisory Group on proposals of Common Market countries regarding a European patent system. At the last lecture some of the antitrust aspects were discussed. Our distinguished guest speaker for this evening, on the

other hand, has concerned himself in great detail with the patent aspects of those deliberations.

He is also a member of the Subcommittee of the General Council of the Bar of England dealing with Common Market problems and, perhaps more intimately from our standpoint, you might like to know that he has been designated by the Board of Trade (which is the counterpart, not of our U. S. Chamber of Commerce, but the counterpart of our Department of Commerce) to hear appeals in trademark matters under the Trademark Act of 1938.

Since 1954, he has been President of the British group of the AIPPI and was a member of the British Delegation to the Lisbon, Portugal, conference on the revision of the Paris Convention in 1958.

I won't go to the trouble of enumerating his many, many more accomplishments, because I think his renowned capabilities, his manner of speaking and everything else will indicate to you that it would be more useful to turn the floor over to our guest speaker for this evening. At the conclusion you will recognize that there are many more things that can be said and will be said about our speaker.

I take the greatest pleasure in introducing a person whom I not only consider to be an eminent professional colleague, but a dear personal friend, Mr. Geoffrey Tookey, Q.C.

(Applause.)

MR. TOOKEY: My good friend, Mr. Browne, I thank you very much for your very kind words of introduction.

I feel it a very great honor to be asked to come to Washington and to address you on a subject which is of great mutual interest.

It is a pity that the field of interest which concerns rights in patents and trademarks should be characterized by a term of such solid immobility as "Industrial Property." It is in fact a field of great dynamic quality, and its pattern advances with the times and, indeed, is as modern as the day. Any invention which is currently protected by a patent must necessarily be new within about twenty years, while a trademark, if it is worthy of protection, must be one which is currently distinctive in the market in which it is used. In Great Britain, and no doubt in other countries too, the numbers of patents granted and trademarks registered are running higher than they have ever done. This in itself is not only a sign of great industrial activity but also an indication that the principles of the schemes of protection for inventions and trademarks which were originally worked out many years ago have proved to be sound. In Great Britain at the present time it can reasonably be said that to a very large extent these rights are enjoyed peaceably. By this is meant that patents and trademarks are

in general respected, and are enjoyed without undue recourse to litigation. This is, of course, a very satisfactory state of affairs, and it need not be thought that it is bad for the lawyers! They still have their part, and a considerable part, to play where industrial property rights are concerned.

To answer the question as to what are the main current developments in industrial property rights in Great Britain, one turns first to the picture as regards patents. The general picture here is seen as one in which liberal use is made of the patent system for the purpose of staking a claim in respect of new developments in all the various fields with which industry is concerned and for which patents can be obtained. Applications for patents are by no means confined to inventions of first importance and a high degree of merit. The tendency is rather to extend the policy of taking out patents to every worthwhile improvement in the art even though small, so as to build up a patent position. The monopoly rights are accepted at their proper value, which may be much or little, but there is also the intention that the taking out of patents will ensure, as a minimum of protection, that there will be a right of user as against other and later applicants who may be adopting the same policy. In some fields of technical progress the thoroughness with which developments are recorded in patent specifications is such that the patent literature is the standard literature of the art concerned, and the specifications are more in the nature of research reports.

The United Kingdom is, of course, one of the countries which has a system of examination and novelty search. It also has a reasonably comprehensive opposition procedure, of which very full use is made at the present time. This may certainly be regarded as one of the main current developments. The opposition procedure in the Patent Office is chiefly used for testing out a party's views as to the validity of claims contained in a patent specification. If the opposition is successful, and a fair proportion of cases are wholly or partially successful, all is well for the opponent. On the other hand, the burden of proof in opposition cases lies heavily upon the opponent, and the applicant for the patent receives the benefit of every doubt, to which he would not necessarily be entitled in proceedings in the Courts. So there is always the danger that if success is not achieved in the opposition, the result will be that the patent specification is strengthened as a result of the applicant's use of his right to amend. It is because of this difficulty of the burden of proof that the advocate brought in to argue the case for the opponent often looks with dismay at the pile of contentious affidavits which is placed before him, and wonders how he can prove that

he has a case which is clear beyond all reasonable doubt. Whatever the theoretical advantages and disadvantages of oppositions may be, the proof of the pudding is in the eating, and the fact remains that the opposition procedure, with its associated "belated opposition" procedure which is available within one year of grant, flourishes exceedingly at the present time, and proceedings for revocation in the High Court are correspondingly small.

I might pause here. After having spent a little time with Mr. Browne, my knowledge has increased not only from day to day but hour to hour and I venture to think that some change in the language which I have written down here is necessary to make myself clear.

I have said in effect that because of the extensive use of the opposition procedure, proceedings for revocation in the High Court are correspondingly small. But I think what would indicate the meaning better would be to say that the validity contests in the courts are correspondingly small. If I use that phrase "validity contests" I get away from all differences between us on matters of procedures. We have petitions for revocation, which I believe you do not have. So let us agree to talk about validity contests, whatever form they may take.

The oppositions are heard by a team of hearing officers, acting individually, who are either Assistant-Comptrollers or Superintending Examiners. This team, which changes slowly in the course of the years, has gained considerable experience in dealing with these oppositions. It is right so say that the manner in which they tackle their work, giving in each case a fully reasoned written decision, gives general satisfaction. It should be noted that the increase in number and weight of oppositions in recent years is in part due to the provisions of the Patents Act, 1949, which enabled the Patent Office for the first time to take into account, in opposition proceedings only, questions of inventive subject matter and prior use, and not merely questions of novelty and adequacy of description. This was an important change, and despite the difficulties of assessing quantum of invention, the change appears to have been well justified, bearing in mind always the special burden of proof applied.

There is a right of appeal from the Patent Office to the Patent Appeal Tribunal in opposition cases, but it is probably true to say that most of the effective opposition work must be done while the case is in the Patent Office.

The use of opposition procedure as a testing ground for validity reduces considerably the occasions on which the Courts have the opportunity to speak words of wisdom on patent matters and to give guidance on matters of principle. This lack of guidance is perhaps felt

most acutely at the present time in chemical cases, and particularly with regard to claims for chemical products. These claims are tending to get very bold and it is doubtful whether a good example is being set to those countries who still draw back from allowing chemical product claims at all.

Turning to another part of the patent picture, there have been recent developments of interest in connection with the field of patentable subject matter. English law has been more restricted in this respect than the law of several other patent granting countries. The granting of patents in Great Britain is tied to the word "manufacture." Nothing that is not a manufacture can be patented. This word appears in the Statute of Monopolies of 1623 and it was probably chosen purposely to differentiate from other activities such as selling ordinary commodities, mining, the exercise of arts such as printing, and also agriculture, none of which at that time needed any encouragement by means of monopolies, and therefore in connection with which the grant of monopolies could not be justified. Until recently it was the practice of the Patent Office, supported by the Patent Appeal Tribunal, to reject all applications for patents for new developments in the agricultural and like fields, as being outside the province of patents as recognized under English law. Now the English apple-cart has been upset by onè of the Commonwealth Courts, which in a great surge of liberal thought has held that agricultural processes are manufacturers within the meaning of that word as it has developed in the course of time. In view of this decision, the English Courts have held that the view hitherto applied in the British Patent Office can no longer be regarded as certain, and that as the applicant must have the benefit of any doubt at the application stage, he cannot be denied his patent on the ground that it relates to an agricultural process or even a process of preparing cattle for slaughter.

It is a curious way for such a change to come about, but so far as the United Kingdom is concerned some relaxation of the "manufacture" rule was almost certain to come at some time. The most likely way in which a definite change of law will be brought about will be as a result of movements at present taking place on a wide front in Europe in connection with the harmonization and integration of patent laws, so that the United Kingdom comes into line with its neighbors. It may therefore be appropriate to turn straight away to such matters.

To explain the difference between harmonization and integration I would say that if we agree with other countries that the term of a patent shall be 20 years, or if we agree that novelty shall be not merely within the confines of a particular country, but world novelty, well, then, we

are harmonizing our laws. If on the other hand we agree that we shall have a common system of patent application or that even to a greater extent we shall have a common patent system, then we are integrating our patent laws.

There has been in existence now for over seventy years the main international convention for the protection of industrial property whereby an inventor in one country may have a year of grace in which to take out his foreign patents while securing the priority of date of his first application. This system has worked well and has given little or no trouble. Indeed it is because of the smoothness of working of this international convention, with the amendments of it which have been made from time to time, that about ten years ago serious thought began to be given to the next logical stage of development. The time became ripe for discussion with regard to international harmonization and integration of patent laws. A fertile ground for such discussion was to be found in newly constituted economic communities. The Benelux countries, that is to say Belgium, Netherlands and Luxembourg, were among the first to pool their ideas and to consider the setting up of integrated laws for patents and for trademarks. A similar movement followed in the Scandanavian countries. Over a wider field in Europe, discussions took place with a view to the harmonization of patent laws and also for practical cooperation between those government patent offices which carry out novelty searches before the grant of patents. Some of these offices are becoming overloaded, and since their work involves considerable overlap as regards novelty searches in relation to the same invention, there is obvious scope for improvement. Many discussions, in which the British Government has taken an active part, have taken place in the last few years with a view to achieving such harmonization, integration and cooperation. One forum for such discussions has been the Council of Europe which meets at Strasbourg.

Pausing there, I always have to remind myself who is in the Council of Europe, who is in the Common Market and who is in the European Free Trade Area. The Council of Europe is, of course, subscribed to by quite a number of countries, about 15, and it is largely a forum for political discussion. Great Britain has a voice and vote in that organization, and already two conventions on patents have been formulated and signed, although these by themselves represent only a small beginning. The first major advance towards harmonization of patent laws has been the drawing up of a further convention under the aegis of the Council of Europe which sets out some of the points of substantive law relating to the grant of patents upon which agreement by many of the European countries would appear to be possible. This

convention has reached the stage of a final draft and it has been used in connection with discussions for an even wider scheme, namely, the setting up of a complete European patent system. This latter proposition is the one on which all eyes are now closely focussed. The signing of the Council of Europe draft convention is being held back for the moment, and it remains to be seen whether it will go ahead in advance of the wider scheme, or await developments so as to ensure compatibility.

There can be no doubt about the extent of progressive thought which is now being expended upon the idea of a European patent. It is a practical possibility, and there is much activity amongst all those who are concerned to foster the project, or to examine it, or to criticise it. The situation at the moment is that the draft of the scheme (which in some respects is only in skeleton form) has been published and laid before interested bodies, and is open for comment until a date later in this year. The scheme has been promoted by the governments of the six countries which form the Common Market, but it is not in itself an exercise under the Treaty of Rome which set up the European Economic Community, which is the official name of the Common Market. It is a parallel exercise which is being worked out by the six, and it can have an existence and a scope which is not necessarily limited by Common Market considerations. The scheme involves acceptance of compromise solutions to many problems which stem from the present differences which exist in national patent laws and there will have to be adjustments of outlook and many new thoughts in the realm of patent law and practice. The system must provide a service which commands general respect and is effective. It must also be a service which can be started up in countries already fully developed industrially without being so overloaded at the outset that the machinery breaks down before it has a chance to run smoothly. It cannot be expected to spring forth at birth fully armed like Pallas Athene. All these are matters which are being earnestly considered.

The United Kingdom is most interested in all that is going on in this direction. At present it has no direct voice in the discussions which are going on among the experts of the six. It is a private party and its privacy has to be respected. About a year and half ago the President of the Board of Trade appointed a Liaison Group, consisting of representatives of the main industrial and professional interests and of the Government, for the purpose of assisting the Government to formulate its ideas and policies in relation to the events which are taking place in Europe in the patent field.

This group has done and is doing much work on the subject. British

interest in the scheme for a European patent has many facets. If the present negotiations for the entry of the United Kingdom into the Common Market had not failed, there might well have been an invitation to join the party which is preparing the scheme. The question still arises as to whether the United Kingdom would be permitted to and would wish to accede to the Convention. On such a basis it would be able to join the scheme, but it would have to accept it in the form in which it had been settled by its originators. Apart from these alternatives, there might be the possibility of association with the Convention, although the meaning and effect of association would have to be fully understood. In all these considerations there are many points to be borne in mind. There are questions of practicability, convenience, advantage, disadvantage and cost. One particular matter to consider is the question of arrangements for the enforcement and defense of patent rights and defense against claims for infringement of patent rights, having regard to the fact that almost inevitably the European system must be backed up not only by a European Patent Office but also by a system of Courts exercising federal jurisdiction.

This is in fact provided for in the plan. There is the question how these courts would be constituted and where they would sit. The United Kingdom is interested to know, just as much as many other countries outside Europe, including the United States, whether although a country is not a member of the Convention by accession, association or otherwise, its nationals will have the right to apply for a European patent on the same basis as the nationals of the six countries concerned. This is a matter of paramount importance not only from the general point of view of maintaining equality of treatment of nationals of all those countries which have hitherto worked in harmony under the main Industrial Property Convention, but also from the point of view of avoiding the complications which would arise in connection with the exploitation of inventions within the Common Market, if the system by which any particular invention is protected is not a matter of choice for the applicant but is determined by the nationality of the applicant. There will also not unnaturally be some apprehension as to how efficiently national systems will be maintained if there is a swing over to the federal system of protection within the countries of the Convention. A great many minds are directed at the present time to all these critical matters. Whatever the outcome of the scheme will be, there can be no doubt that it is bold and far-reaching in its concept and is being pursued with energy. It is the most important development in the patent world for quite a long time.

Trademarks. One of the interesting changes which is taking place in

the trademark picture concerns the long term effect of the registered user provisions which were introduced into United Kingdom trademark law in 1938. These provisions are applicable only to registered trademarks, but the question is beginning to emerge in a serious way as to whether there is any logic in this limited recognition of the right of the proprietor to allow others to use his mark under his control. This needs perhaps a little explanation.

Trademarks receive protection under the common law on proof of reputation and under statute law on proof of registration. According to the common law, the old fashioned idea of the function of a trademark has been maintained up till now as being the indication of the origin of the goods, and this means a sole origin. According to statute law, the function of a registrable trademark is to indicate a connection in the course of trade between the goods bearing the mark and some person possessing the right to use the mark either as proprietor or as registered user. Even if lawyers understand the difference, why should the purchasing public do so? Having regard to commercial practice and styles of labelling and advertisement since 1938, the public no longer believes that a trademark must of necessity be associated with one particular person or company. That is an outmoded idea. The public is content that the mark is associated with a particular organization whether this is represented by one company or a group of associated companies, or a group of persons or companies who are tied together by agreements as a result of which there is unity of control, in some material respect, of the goods sold under the mark. The purchasing public is not concerned as to whether the trademark is registered or not. It is just a trademark. It would seem therefore that the distinction in meaning between registered marks and common law marks upon which the law has hitherto insisted can no longer be a reality. The situation has been reached when it would be difficult to say that the public would necessarily be deceived by the use of unregistered trademarks by persons several in number but associated by agreement or otherwise as to the use of the mark, or alternatively by the use of registered trademarks in a similar way but without official approval and registration of user agreements. The matter is of importance not only to companies who, in ignorance of the law or otherwise set up user arrangements concerning unregistered trademarks, but also to companies who wish to go ahead with user arrangements in respect of registered marks in advance of the completion of the formalities of registered user arrangements. It is a matter which is only just beginning to show itself in court cases, and it will be interesting to watch developments. The common law has a way of developing on its

own, and in this instance it would be to the advantage of trademark owners that it should, and there would appear to be no public disadvantage, although it must not be assumed that there is yet any official recognition of this point of view.

In another direction, the tug-of-war still continues between traders who desire to use and monopolize descriptive words and phrases as trademarks and the Registrar of Trade Marks and the courts who try to keep the monopolization of common words and phrases within bounds. In recent years the struggle has been intensified. Short, snappy and descriptive might be said to be chief characteristics of many new marks which now hit the advertising pages of the magazines and newspapers in the United Kingdom, and not all of them are by any means due to transatlantic influences.

It may be argued that traders and their advertising agents know best what makes a good trademark. The law does not necessarily recognize this philosophy. The question has to be asked whether the extensive and valuable rights which flow from registration can be justified if the dominance of the descriptive character of trademarks is so pronounced. A balance has to be struck somewhere, and it is one of the Registrar's arduous duties to apply the law with the interest of the public and of traders in general well in mind.

Many developments regarding trademarks have, like patents, been on the international front. In principle it is still the rule that every country must be regarded separately so far as the use of trademarks is concerned. The same trademark may be used quite properly in different countries by different interests and no confusion or interference may arise. A trader may, however, have an international reputation and his marks may be well-known in Great Britain although his goods are not actually on the market there. In proper circumstances English law will protect such a reputation. Having regard to the ease and speed with which persons can travel across the world and see what is happening in other markets, there are the beginnings of recognition by the English courts that registration should be refused to a trader who seeks to register in the United Kingdom a mark which is well-known abroad and in respect of which he can lay no genuine claim to proprietorship. Refusal comes either in the exercise of the court's discretion or on the ground that the applicant cannot in good faith make the declaration on his application form that he claims to be the proprietor of the mark. This is, however, a rule still to be applied with caution and only in strong cases having regard to the general rule that rights in trademarks are recognized as existing only where the marks have been used or are well-known.

It is because trademarks are necessarily associated with particular markets that they cannot be treated internationally just as inventions which are the subject of patents. Broadly speaking, having regard to the extensive exchange of information between developed countries, most inventions are novel the world over if they are novel at all. They can certainly be described in terms which are understood the world over. Not so trademarks. A trademark which is excellent for one market may be meaningless or quite unsuitable for another owing to differences in language or in public understanding. This is no great bar to agreement between countries upon the principles of trademark law or to schemes for the harmonization of trademark laws, and exercises in respect of these matters are already the subject of serious consideration, as for example by the International Association for the Protection of Industrial Property. But when it comes to the integration of trademark laws and the setting up of unified systems of trademark registration covering several countries, then the difficulties become greater. There is the example of International Registration under the Madrid Arrangement, but for various reasons the United Kingdom and other countries have not felt attracted to it. There is more to be said in favor of a unified trademark system for countries bound together as an economic community. There has been produced a draft trademark law for the Benelux countries, and a unified system for the Common Market is now under consideration.

This may well represent a healthy movement in the field of trademark protection, and prove to be much more free from difficulties than the corresponding movement in the realm of patents. In the United Kingdom a liaison group has been set up by the Board of Trade to study this development, on the same lines as the Patents Liaison Group.

Now, I come to the third item, Designs. There were changes effected in United Kingdom Design Law in 1949, as a result of certain recommendations made by a Departmental Committee. This committee had to deal also with a review of the patent law. The result was that design law received less detailed attention than the other and more important branch of the law. The operation of the Designs Act, 1949, which followed the committee's recommendations, gave rise to dissatisfaction, and therefore a fresh committee, to deal solely with Design law, was set up by the Board of Trade in 1959. The results of its labors are contained in a Report published in August 1962.

Designs cover such a wide range that schemes for their protection have always been difficult to work out in such a way as to give general satisfaction. Some designs can easily comply with the statutory requirement that they should be "new or original" and different from designs

previously known. Other designs, in particular representations of human beings, animals and existing objects which might form the subject matter of toys, artificial flowers, shop-window dummies and figures made of china, plastic or other materials, cannot readily comply with the statutory requirements although they may be brought about as the result of original work and be wholly worthy of protection upon general moral principles.

There is an interesting illustration in the published Report of one of these human figures. The further the figure is from nature the more are the chances of registering it; the more it is like nature, the more likely it is to be refused.

The recent committee has proposed a solution to the problem on the basis of providing an additional form of protection which will exist alongside the present system. The present system will be designated "Design Monopoly," giving the registered proprietor the rights which he can already obtain under the 1949 Act, that is to say a monopoly which does not involve proof of copying to establish infringement. A new system is proposed, called "Design Copyright," which can be secured by simple deposit of a representation or specimen at the Patent Office, and giving the proprietor protection analogous to that enjoyed by ordinary copyright, e.g., literary or dramatic copyright, but for a period limited to fifteen years as a maximum. The subject matter of "Design Copyright" must be an original work in the sense that it must involve labor and skill on the part of the author, and it must be registered before it is made public. There will be infringement only if the work is copied, that is to say it would be no infringement if the same design were arrived at as a result of independent work, following the rule which applies in ordinary copyright cases.

The idea is that use can be made of the two systems in respect of any particular design, there being an overlap in much the same way as is the case with trademarks receiving the dual protection through registration effected under the statute and through reputation established under the common law. The committee proposes that if a proprietor deposits a design for design copyright protection, he should have a period of six months in which to register for Design Monopoly, based on the earlier deposit and dating back to it. The committee supports the view that the possibility of dual protection of an original artistic work under design legislation and the Copyright Act of 1956 should continue to be prevented, but it makes certain proposals for a simplification of the way in which the law on this subject is at present expressed.

The committee's recommendations have been favorably received,

and there is no reason to believe that they will not be accepted by the government and used as the basis for amending legislation as soon as an opportunity to do so is available. The result would be a much improved design law.

(Applause.)

MR. BROWNE: Mr. Tookey, we are all deeply indebted to you not only for having come the distance you have to give us this lecture tonight, but for the diligent effort that obviously went into the preparation of this lecture. In this country, of course, we are familiar with things such as "compact" cars, the Patent Office now has what they call "compact prosecution," but this is the first time I have had the privilege of hearing a "compact lecture" on the subject of industrial property.

I think you have covered the whole field and well.

(Applause.)

If I had the power and authority that the officials of this University—

PROVOST COLCLOUGH: I delegate them to you.

MR. BROWNE: I will exercise that authority right now. In view of what I have just said, I think you should add to your titles the degree, "C.L." for "compact lecturer."

(Laughter.)

MR. BROWNE: Mr. Tookey has kindly consented to answer questions that the members in the auditorium wish to put to him. I am sure that he will have no objection to answering questions ranging anywhere from the fundamentals involved in the industrial property development, to the most practical points, because it is evident to you from this lecture that he deals not only in fundamentals but he is an extremely practical person and his wide range of experience has enabled him to bring to us a wealth of knowledge that we should take advantage of at this point.

Rather than following the practice of writing the questions, if you can keep the question brief in oral form, I will be pleased to recognize each and everyone of you as long as time permits.

FROM THE FLOOR: Mr. Tookey, you said that there were a great many more oppositions than formerly. How many a year would it come to? Do you have an idea?

MR. TOOKEY: Yes. The last complete year for which figures are available, or available to me, were about 600 oppositions entered and 900 pending.

Now that is pending from previous year, so a total of 1,500 oppositions were passing through the Patent Office in a 12 month period.

FROM THE FLOOR: Is there a large percentage of success, enough percentage of success to make it worthwhile either by way of refusal or at least amendment? It usually results in a narrowing down of the claim.

MR. BROWNE: According to the criteria applied by most lawyers taking appeals, if 50 percent of the cases are reversed that is evident of a reasonable degree of success.

FROM THE FLOOR: Isn't it a matter of fact that a majority of oppositions are disposed of, you might say, without hearing?

PROVOST COLCLOUGH: The record, you mean?

FROM THE FLOOR: Yes, just like interferences are terminated without taking evidence and things of that sort.

MR. BROWNE: Interlocutory agreements, motions and so forth.

MR. TOOKEY: I don't know what the mortality is as regards those which are disposed of without oral hearing, but I imagine it would be quite high.

MR. BROWNE:. Any further questions?

FROM THE FLOOR: Mr. Tookey, those persons who oppose the idea of accessibility to non-nationals of the six nations, what arguments do they advance in such opposition, if you know?

MR. TOOKEY: I don't know for certain. My own view is I don't think that non-accessibility is a practical proposition and if they did make this scheme operate on the basis of non-accessibility, my own view is that they wouldn't be able to maintain that position very long.

FROM THE FLOOR:. In practice, yes.

FROM THE FLOOR: Sir, if I heard correctly you have probably already answered this question. My question is would there be great obstacles under the process of British law to amend or modify certain sections, if and when Great Britain should join the Common Market or is this area under preparatory study for such event?

MR. TOOKEY: I think I can answer that. If we decided to go in with the Common Market patent, I don't think there would be any difficulty in enacting the necessary legislation to bring our national laws into line.

FROM THE FLOOR: I see. Thank you.

MR. BROWNE: Any further questions?

FROM THE FLOOR: This has to do with your design problem. If someone had a copyright under the 1956 Act, say on a cartoon character, Mickey Mouse, for example, and he wanted to use the Mickey Mouse in an industrial manner such as on a plate, a "T" shirt or rubber toy, how would this report that you referred to effect this? You have to

get a design copyright or could you still retain his copyright under the 1956 Act and get your protection under that?

MR. TOOKEY: The answer to your question is this, that in respect to the application of Mickey Mouse to a plate, he can apply for copyright either in the present form, design monopoly, or he can take it in the form of design copyright. But whichever he takes, he can only get 15 years maximum.

The argument upon which the Walt Disney organization was heard and given every consideration, I think, by the committee was as to what is the right thing to do not viz-a-viz the two forms of design copyright, but viz-a-viz design copyright and your ordinary copyright under the general copyright law. The old law which has been in existence for many years was that it depended upon your intention and if Mickey Mouse, for example, came into existence as a film character, and there was no intention at that time of putting him on the plates and so on, then you got your copyright for 50 years afterwards. But that was changed in 1956 to the disadvantage of people like Walt Disney.

The committee was split on whether to go back to a more liberal treatment of such cases or to retain the law as it has been settled in 1956 but to try to make it more understandable. The majority were in favor of maintaining the stricter view, although they all agreed that it ought to be made a little more plain on the statute.

FROM THE FLOOR: I believe Mr. Disney is somewhat unhappy, isn't he?

MR. TOOKEY: I wouldn't be surprised.

MR. BROWNE: Any further questions?

FROM THE FLOOR: I have an observation. I don't know whether I ought to bring this up or not. But I would like to hear a resumption of the argument which took place at Lisbon between Mr. Federico for the United States and our guest speaker on the proposition which was supported by the American delegation to the effect that six months should be allowed after a man has disclosed his invention or practiced it or someone else has made a disclosure of his invention before he is required to place his application on file.

In other words, in your country and in practically all the countries except ours, there is that requirement that causes you to rush to the patent office and the rush must be very great when an invention is made because the practitioners in this country see the results of it and as a practitioner in the old days I used to save many applications in which disclosures were not put together.

Because of that rush around, the rush in the United States was found

to result in insufficient disclosure and I imagine quite a few around here tonight have experienced that unhappy situation with ultimate defeat by the patent office. But in this country I think that we have a great advantage because of the fact that we do not give the laurels to the first man at the patent office and the work of this Foundation has shown that of those applicants, of those inventions which are patented by corporations eventually at least 40 percent have been commercially exploited before the application is filed.

In other words, we have a testing period and if the invention is not publicly acceptable we don't file the application and thereby a large number of applications no doubt are withheld from the patent office and the practitioner can say to the young man, the man without very much money, with a magic idea who wants a patent right away, "Why not wait a little while and make the thing and try to sell it and if it is so good we will talk over this patent proposition.

"If it is not good you will find out and you will lose the idea of a patent." That keeps applications which would result in patents of no commercial value out of the patent office and there are other advantages. I now call on Mr. Browne.

MR. BROWNE: I might have to disqualify myself as a moderator in this part of the debate unless you will let me confine myself to the role to seeing that each side gets equal time.

FROM THE FLOOR: They all lined up behind him. Now he is over here without his gang!

(Laughter.)

MR. BROWNE: In that case we should give Mr. Federico the first four hours and the next four hours to Mr. Tookey so they will have equal time.

FROM THE FLOOR: My recollection of the debates at Lisbon is that the members of the British delegation seldom engaged in any long harangues with anybody on any topic but expressed their position with well-chosen words, great clarity and without any bombast or anything like that and quite often the British delegate would settle some matter while uttering just a few words of common sense.

MR. BROWNE: That is always helpful.

FROM THE FLOOR: That is not helping me at all.

(Laughter.)

FROM THE FLOOR: In the Patent Committee of the Conference the American delegation, of course, spoke quite extensively on it. The Europeans were perfectly adamant that they wanted no period before applying for a patent. Many would not agree to a permissible period in cases of stealing the invention from the inventor and somebody

publish it. Many would agree to that, having a period whereby an unauthorized disclosure might be made. If it was wrongful, a wrongful disclosure somebody sort of stole the idea from an honest inventor and published it then he might have a little equity and they may come to his relief. But I think we were alone all the way on the debate of having a period. We weren't asking for a year which we had, but only six months but six months was absolutely unacceptable to everybody else.

MR. BROWNE: This might call for just a little comment from Mr. Tookey on the fundamental principle between "first inventor" viz-a-viz "first to file." This might get to the heart of the opposition to the American proposal, because there is a fundamental difference.

MR. TOOKEY: We have the advantage here that we can get to a point within a few minutes. With these international diplomatic conferences it is no good going to the rostrum and saying a few words, because some nationalities don't pay attention until you have been talking for ten minutes and then they say, "He is still talking and therefore must have something to say," and they begin to listen. But this particular point wasn't my particular point although it is quite true that the United Kingdom was adverse to putting anything into the Convention which would allow disclosure within six or twelve months of application for a patent without detriment to novelty, always excluding the abusive case which is dealt with separately. But there were other nationalities which spoke far more strongly on the subject. The Swiss delegate, for example, pointed out this, that quite apart from the question of which philosophy was best—whether it was best to have it cut and dried that if you want your patent you must not disclose it, or whether you should take a more liberal view and say let the chap have a run of six or twelve months to see if it is patentable or not—apart from all that you must recognize the great practical dangers which exist in trying to make any great change. It was felt that if you put into the Convention now a provision saying in effect that disclosure within six months does not matter, inventors would see that and they would think, "Well, now all is safe. We can disclose," whereas, of course, it would take 20 years before a substantial number of countries had incorporated that provision into their national laws. It was felt that a lot of people would be caught out badly by having misunderstood the effect which such a change in the Convention would have.

PROVOST COLCLOUGH: Are you saying that, while you might not quarrel with the six months or a year at the domestic level, there would be many difficulties because of the laws and sovereignty to adopt the same rule on an international level?

MR. TOOKEY: Yes.

FROM THE FLOOR: That might be true. Our statute requires or puts a year's limit and you can't avoid that no matter what goes into the International Conference so six months wouldn't really be six months if you waited very long in figuring a United States application. You wouldn't have too much margin but you would have a little period in there. I think it is very valuable in this country anyhow.

Of course, if you are going to get a foreign patent and you should file there first almost, because some of them are so arbitrary about any disclosure anywhere in the world prior to the filing of an application.

MR. BROWNE: There was a point brought out at a meeting of a small group of industrial property people in Mexico City last month with respect to this matter of adopting domestic legislation as a prelude to an international arrangement which would, in effect, take cognizance of the uniformity of national legislature. The national legislatures, not unlike our own, are made up of people who are not only basically familiar with the technicalities of patents. In most instances the time that would be allotted for study and debate of these matters by those legislative bodies wouldn't do justice to the subject itself and therefore the tendency of the domestic legislative body would be to turn down anything that disturbs the status quo. I think that same situation, as I say, exists in our own country with respect to changing the patent laws or other laws which are dealing with subjects other than labor, taxes, civil rights or other more popular subjects on which most Congressmen and Senators feel they are fully informed.

PROVOST COLCLOUGH: Wouldn't you feel also, Mr. Browne, that the difference between the industrial complexes of one country and another would cause some hesitation?

MR. BROWNE: That is correct.

Any further discussion on this point?

FROM THE FLOOR: I can see the point of not putting it into an international agreement or convention. The first question is whether Mr. Watson has succeeded in interesting any European country in following the more liberal American view and whether independent of his efforts there has ever been any sentiment in any European country for having such a liberal view.

MR. BROWNE: Do you know of any country that would, in your opinion, take kindly to allowing this period of grace just on a domestic basis?

MR. TOOKEY: No.

FROM THE FLOOR: It is a good idea.

MR. BROWNE: I can see where it would require the organization of

a considerable lobby to convince the people of any one country to adopt this principle; and I know we have enough trouble in our own legislature trying to get things accomplished here.

PROVOST COLCLOUGH: We are dealing with problems that, in centuries past were dealt with on a bilateral basis, while we are in a world dealing daily on a multilateral basis.

MR. BROWNE: Just to indicate how we sometimes get our neck chopped off when we become involved in the affairs of other countries, necessarily I think of the Canadian situation. They say we are interfering in the domestic politics of Canada; but the issue arises out of something that is international in scope. So if we have to lobby I think we would forego any proposal where it is for the common good of everyone involved to do so and understandably would not press for its adoption for any selfish motive. Certainly if there is no sentiment whatever in favor of a proposal to liberalize the law in regard to delay in disclosure then we just haven't been able to convince them it is for the common good or there would be a reasonable segment that would go along with it.

FROM THE FLOOR: If I could take a few minutes I would like to ask Mr. Tookey to comment on a particular situation relating to the British law itself.

Last year the Department of Commerce received a long letter of complaint from an American manufacturer who was quite outraged at the treatment he received in England. He had manufactured a certain article and he started to export it to England and he was met with a British patent which prevented him from bringing any of the goods into England or selling them and so forth.

What had happened was this—that as soon as he had started selling the article here a competitor in the United States, not a British competitor, purchased one on the market and immediately shipped it to a subsidiary in England. The subsidiary applied for a British patent as its inventor and obtained it and then used that patent to prevent the original American company from doing any business in England. Now the American company had not applied for a British patent, had not shipped any goods to England before this incident. He had applied for a United States patent but that had not been issued at the time. I had the job of concocting an answer to him. He wanted something done about it. Something had to be done about that situation and I had the job of concocting an answer to him. He had consulted the British Council so they told him it was perfectly all right and there was nothing he could do about it. That was the substance of the answer we gave him, that was the British law and that was it. This is the old concept.

Nothing that happens outside of England counts in England and the person who brings an invention to England is called a inventor and could validly get a patent. Is that correct?

MR. TOOKEY: The difficulty which arose was due to the differences of the laws of the two countries.

FROM THE FLOOR: Of course.

MR. TOOKEY: If the American manufacturer had been making use of his twelve month period before taking out the American patent then, of course, the International Convention priority would have been of no advantage to him. Otherwise it would have covered him so far as importation and manufacture in the United Kingdom is concerned.

FROM THE FLOOR: The American manufacturer didn't want a British patent himself. He just wanted to do business there.

MR. TOOKEY: If he wants protection he must take out a British patent.

MR. BROWNE: He found patents could be offensive as well as defensive. It does raise an interesting question though on this matter of importation of knowledge and know-how and exploitation thereof, for the economic betterment of a country. It raises a question whether we in the United States shouldn't have a little closer look at our concept of the patent right inventions and all that goes with it. We have become so engrossed with the idea that patents will be issued to the first inventor that this manufacturer apparently thought that no one else in the world could ever get a patent any place unless they met the same criteria; which is not consistent with the laws of England, in particular.

If we turn to the problem of the new nations, the underdeveloped nations, is it not likely that those nations are going to have to utilize a different concept (I prefer to use the word monopoly) of lawful monopoly. Rather than rewarding "invention" by nationals of that country or "inventions" by others, it might offer the monopoly to the person who will not only bring the technical knowledge and know-how into the country but who will actually exploit it to the point of economically developing it, to the betterment of that country. Is there any merit at all to changing our concept of "invention" and "patent" in that regard, Mr. Tookey?

MR. TOOKEY: It is a difficult question. I think our ideas of a patent being granted to an inventor by importation would have to go. But for the moment the British law is to the effect that we don't go into the question of whether the invention was obtained abroad.

FROM THE FLOOR: Aren't there any newly developed countries just about in the same condition as this country was in 1790 when we

enacted our first patent law and one of the primary purposes was to bring into the country ideas and to establish industry here. I don't see that their country now is any different than ours was at that time.

MR. BROWNE: There is an ingredient that existed in the American republic which apparently hadn't existed in other political or economic units before. Britain had the statutes of monopolies many years before we had our patents and we, of course, based our patent on the grant to the inventor to stimulate and encourage individual initiative and develop opportunity, whereas the British system offered the incentive to the one who had the economic power to exploit something, regardless of the source of the intellectual effort which produced it.

Now, in the new countries, my inquiry is whether the incentive to the individual will be sufficient to bring about invention, which will then be exploited within that country. In other words, will they have a free enterprise system (which I believe is essential to the operation of the patent system) or will they have such a regulated economy that it will have to go over to a monopoly, grant or franchise, much as public utility? It comes down to the fundamental question of the economic philosophy under which these new nations will be developed.

If it is a free enterprise economy the greatest incentive to invent is issuing the patent to the first inventor. If it is to be based on incentive for economic investment and growth, and in that regard to provide further employment by putting something to work, whether it is new, novel, inventive or not—that is entirely a different economic concept.

I don't know which would be best under those circumstances.

MR. TOOKEY: There is a difference of concept in theory. From the practical point of view I should have thought that the vast majority of British patents are granted to the first inventor.

FROM THE FLOOR: One of the big differences between our system and that of the British and the rest of the world, is a license or right you have, the right to work patents after a period of years.

Now this type of philosophy carries over to almost all the other European systems. Now in integration, would that still appear to be the basis of the system that would come into being as contrasted to our own?

MR. TOOKEY: The British requirements as regards compulsory working set an attitude. The provisions are hardly ever invoked. The numbers of cases in which a compulsory license is applied for are few. The provisions do indicate that the idea of a patent is that it should be granted for the setting up of a manufacture in Great Britain. One of the most important requirements so far as compulsory licensing is concerned, I think, is that somebody who has a subsidiary patent of

substantial value should not be prevented from working it by failure to obtain voluntary licenses.

PROVOST COLCLOUGH: Improvement, in other words.

MR. TOOKEY: Yes. It may be that there are certain special fields in which the public interest requires that compulsory licenses should be granted. Different countries have different views on that subject. Our requirements on food and drugs are quite stringent. Other countries have not as much concern in food and drugs, but they are interested in other things, say building safety and things like that. As regards the European patent system, one does find in the plan certain provisions for compulsory licenses. I suppose that by and large they are reasonable, and not nearly so strict as present British law.

MR. BROWNE: Do you detect the possibility that the hazard of a compulsory license would discourage persons from taking out patents in the countries that have compulsory licensing provisions where they would have to either work it or actually maintain the taxes and all that sort of thing and still be subjected to the hazard of compulsory licenses. Would it discourage them?

MR. TOOKEY: It would not discourage them from taking out patents at all. It would simply encourage them to see that the invention was worked. If you are going to have a federal system like the European system, then obviously if you are working anywhere in the community, that will be sufficient compliance with the compulsory working requirements.

MR. BROWNE: Not hearing any questions from the floor or seeing a hand raised I want to take this opportunity to express appreciation on behalf of all present and on behalf of the Foundation to Mr. Tookey, and I am sure Admiral Colclough will have some further remarks. I will give the floor back to the Admiral.

PROVOST COLCLOUGH: Thank you, Mr. Browne. One thing for which I intended to apologize for at the opening of this evening is a misspelled word in your program. I am glad that I have the opportunity to do it now, because I think I can make a point that I could probably not have made before. If you look on your program after Mr. Tookey's name, Guest Lecturer, it records him as "Queen's Council." Last evening, when we had a delightful dinner together, he said he thought that was going a little too far. After listening to him this evening, I am not sure it does. I do want to say one serious thing. If you will look at the bottom of your program it says the purpose of this series of lectures is to provide an opportunity for people from different branches of learning and fields of endeavor to exchange views with officials and other experts from abroad who are in a decision-making or recommend-

ing capacity, and who are close to the new international developments relating to industrial property rights. As Mr. Browne was leading this discussion a moment ago, I am sure many of us recognized that some of these differences, particularly in this area of multilateral agreements, as against bilaterals, one of the very basic requirements, basic needs, it is that of mutual understanding of our system of industrial property. I don't know whether Mr. Watson would agree with me or not, but I think he probably would, that an International Conference such as was described at Lisbon, a great deal of information is required as to why we are as we are in this respect and why the United Kingdom is like it is. Then emerging nations must be brought into the discussion.

So, the very purpose of these lectures which are supported by the Alfred P. Sloan Foundation and other industrial firms, is to give us the opportunity to become, not only better informed but gain a feeling of what it is that motivates the people of one nation in this important area as differentiated from the other. So, on behalf of the Chairman of the Advisory Council of The Patent, Trademark, and Copyright Foundation, Mr. Watson; the Executive Director of the Foundation, Mr. Harris; and all of us here this evening; and finally, all of us at the University, we express our deep appreciation to you, Mr. Tookey, for coming over and seeing us. We hope you have enjoyed it, because we certainly have. We thank you so much.

Thank you, Francis Browne, for moderating so efficiently tonight. I would last like to call your attention to the next lecture in this series on the 7th of March. The Director of the European Economic Community, Dr. Franz Froschmaier, will be here. His subject will be "Progress Toward The Proposed Conventions for a European Patent and for a European Trademark," to which our distinguished speaker tonight has made reference.

It is certainly something that needs a lot of education on both sides of the Atlantic before it can become a reality.

(Applause.)

(Thereupon, at 9:13 p.m., the lecture, question and answer period was concluded.)

THIRD PUBLIC LECTURE AND DISCUSSION

MARCH 7, 1963
8:00 P. M.

Progress Toward The Proposed Conventions For A European Patent And For A European Trademark

GUEST LECTURER
FRANZ FROSCHMAIER

LISNER AUDITORIUM
WASHINGTON, D. C.

Progress Toward The Proposed Conventions For A European Patent And For A European Trademark

PROCEEDINGS

PROVOST COLCLOUGH: Ladies and Gentlemen, first of all, I welcome you to the University on this occasion about which I will speak in a moment.

It is my happy function to welcome you to the third in this series of lectures and discussions at The George Washington University, which its Patent, Trademark, and Copyright Foundation is presenting this spring with the support of the Sloan Foundation, DuPont and others, in order to bring to those interested in the subject—perhaps I should say that another way—those who are conscious today of their interest in the subject of industrial property on the international level.

I do not think I can exaggerate when I say that this is one of the vital periods in economic factors on the world scene—the dealing with industrial property. The EEC we are thinking of tonight. But our next lecture will bring to this country an authority on this same subject from Japan. So, we are thinking of this problem in the whole total context of industrial property, world wide. For instance, the common patent, the common trademark will be introduced, as we understand it, for the six countries of the Common Market and perhaps for others that might join later.

The Foundation, of the University, of which I have the privilege of serving as Director, has discussed this subject at some length in its reports and its publications. As a matter of fact, a committee representing the Common Market countries already has made public the draft of the convention establishing the common patent system. Whether and to what extent non-member countries will be invited to participate is not clear at this time. The businessmen, representing industry and business in the United States, naturally would like to know whether citizens and corporations of the United States will be eligible for full participation in the common patent system.

Without any commitment on his part and without challenging him, we are honored by the great privilege tonight of having Dr. Franz Froschmaier from Brussels who will be presented to you in a moment.

As I have said, this is the third of these lectures and discussions. We have the privilege tonight, as our moderator, Mr. Leonard J. Robbins of the universally known firm of Langner, Parry, Card & Langner, New York City. I shouldn't say New York City. I should say of the world. He was educated in England and the United States. He had the privilege of university educations at Cambridge, London, and New York University Law School. It would be rather superfluous for me to talk at length about him. We all know he has spent years specializing in foreign patents and trademarks and is the author of many papers in these fields. Without taking any more of your time, I welcome all of you here tonight and hope many of us will try to follow constructively these discussion periods, which we would not do if we did not believe they were extremely valuable.

It is my privilege then, to present your moderator of the evening, Mr. Leonard J. Robbins.

Thank you, Mr. Robbins.

(Applause.)

MR. ROBBINS: Thank you, Admiral Colclough.

Ladies and Gentlemen, we have with us tonight a very distinguished visitor from Europe who is going to review for us an experiment that is being made in the field of industrial property by the European Common Market authorities. At the present time, nobody knows what the final result of this experiment is going to be and it is admitted there are some controversial aspects.

If the experiment is successful, it will have significant effects on economic development in Europe and also on American participation in European trade.

One of the cardinal principles of the Rome Treaty which established the European Common Market is free-flow of commerce and elimination of geographical barriers. Now it seems clear that national industrial property rights and national patent rights in particular in the six Common Market countries, are contrary to this principle. They are private monopolies.

In an extreme case, six different patents for the same invention in the six countries could be in the hands of either different owners or different licensees, and as a result any flow of the patented articles across national borders could be stopped.

Well, the question before the Common Market authorities was—what should be done about this? One solution would be to utilize the principle of harmonization, which is also emphasized in the Rome Treaty. What would that involve? It would mean that on the national

level the various governments would be urged to bring their patent laws into conformity with each other, at any rate in substantive aspects, so that ultimately it would be possible to extend patents over the whole territory. But actually that is not as easy as it sounds, since there are many basic differences and harmonization would be a slow process.

In fact—far too slow for the dynamic forces that are at work in Europe. As I think everybody knows, these are directed towards the ultimate political and economic federation of Europe and the prompt elimination of any obstacles in the ways.

Therefore, instead of cautious harmonization, an alternative was proposed about four years ago, namely, to establish new supranational industrial property rights, which would automatically eliminate the internal national barriers.

To some extent this recalls the situation in Europe in the early part of the 19th Century when the German Zollverein—the customs union—was established. Then, existing patent and trademark systems in the relatively small German kingdoms and principalities were actually abolished and replaced by a centralized system. In the present era it is not so simple. In fact it would be impossible suddenly to abolish the longstanding patent and trademark laws of the six Common Market countries. So there had to be a compromise. The principle of co-existence was invented, possibly with some reluctance, since this prevents an immediate perfect solution to the problem. If and when the new supranational European Patent Convention comes into effect, it will co-exist with the present national patent systems for an indefinite period. How long, we don't know, but possibly for a very long time until the ultimate day of complete federation in Europe, when the convention would actually become the patent law of the new superstate and the national patent systems then would vanish.

We in the United States are obviously interested in these European developments. Can we participate? And if so, what advantages would there be for us?

To acquire what may be called a reasoned viewpoint, it is necessary to know and understand what has gone on in Europe.

As we all know, legal thinking in Europe is not always parallel to ours here, based on our common law heritage. This has been apparent recently in connection with the antitrust provisions under the Rome Treaty. Also there is often not a sharp distinction in Europe between the executive, legislative and judicial functions. The Commission itself, formally the executive body, definitely has some legislative aspects.

In addition there has been an atmosphere of extreme secrecy in

which the draft Patent Convention has been prepared, which would not have occurred over here in a similar situation. However, the secrecy now is ended, and a period of frustration for many Europeans interested in this field is over. At last it is possible to talk quite freely.

Our expert tonight, Dr. Franz Froschmaier, is the ideal lecturer because he has been connected with this matter right from the very beginning.

Dr. Froschmaier was born in Germany and studied law at Munich University. For several years he was assistant to the famous Professor Reimer, who was President of the German Patent Office and also was head of the Institute for Foreign and International Patent, Trademark & Copyright Law at Munich University. From 1956 to 1958, he practiced law in Munich, and in 1958 obtained his doctors degree in law at the University of Cologne.

In September 1958, Dr. Froschmaier was appointed to the European Common Market Commission in the section dealing with competition, where he was placed in charge of questions relating to industrial property. During that time, he was observer for the Commission at the Lisbon Conference for revision of the International Convention for Industrial Property, and he has participated in numerous other conferences of the Common Market member states.

With regard to his particular topic tonight, he was appointed secretary to the Working Group of the Coordination Committee of the Common Market Commission which prepared the draft text of the European Patent Convention. Not only has he dealt with organizational problems, but actually has also had a voice in the proceedings as representing the Commission itself.

I regard Dr. Froschmaier as a very fine example of the new European. In effect, when he joined the Commission, he acquired a European nationality for the time being. I know he is a very enthusiastic crusader for the Patent Convention.

I know that Dr. Froschmaier, and also other Common Market officials, are very grateful for the opportunity of being able to come over here and gain some knowledge of American viewpoints. That is something they cannot acquire so well in Europe, even though Americans visit them. I think that The George Washington University Foundation and its very energetic Executive Director, Mr. Harris, together with the Sloan Foundation are greatly to be congratulated for establishing this lecture series and making it possible for responsible European officials to visit the United States. It is a two-way traffic. They are giving us their ideas but they are going to take back with them some of our ideas.

I know also that Dr. Froschmaier is anxious that there should be a vigorous discussion when he has finished.

Now, Ladies and Gentlemen, Dr. Froschmaier.

(Applause.)

DR. FROSCHMAIER: Thank you, Mr. Robbins, for your kind introduction and for the precise statement of some of the most important reasons which brought us to try this venture in the field of industrial property.

I also want to thank the Foundation for the possibility of coming over, of presenting a few points of view which we think should be considered when charged with what we try to do, as I actually hope, I am quite sure, that I am going to take back a few very valuable suggestions for the future of our work.

Truth and facts, in effect, has many aspects, and if tonight I am going to talk about the European patent draft and a little bit about the European trademark draft, I want you to bear in mind that I am actually speaking as a member of the administrative staff of the E.E.C. Commission. That is to say, I am going naturally without even wanting to expressly, I am going to urge a few points we think are most interesting in the direction of the evolution we tried to assure in this European Community, and there are certainly quite a few more points that may be considered and which you might miss in what I am going to say.

I. INTRODUCTION

1. The endeavors invested in the unification of law in the field of industrial property since the beginning almost of this century, led to a new and decisive stage in 1962, especially in patent law.

In the spring of that year the Scandinavian countries published the draft of a common Scandinavian patent law as the result of a long time collaboration. The Committee of Experts on Patents of the Council of Europe adopted in July 1962 a draft convention on the unification of certain points of substantive law on patents for invention and submitted it to the Committee of Ministers. Finally the working party on patents, which was established by the member states and the Commission of the European Economic Community (E.E.C.) published the draft convention relating to a European patent law in November 1962[1].

I do not think that it is sheer coincidence that those three drafts were

[1] An English translation of that draft was published by Her Majesty's Stationery Office in London shortly afterwards.

achieved at about the same time. But we are not going to dwell on possible common or mutual influence. Our main concern will be the tentative unification of law within the E.E.C., the patent draft being an outstanding example and on which general interest has been focused by its publication. This fact will also permit discussion of the patent draft in some detail, while there will be considerably less to be said about the future trademark convention.

Before turning to the drafts themselves it appears useful to expose briefly the function of what is called in terms of the Rome Treaty "approximation of legislations" within the structure of the Community.

2. This Community has not been conceived as a tariff union, but substantially as an economic union. The tariff union, important as it is, has never been anything but a step towards economic union. What would be the effect of a common external tariff system, if foreign trade policy of the member states remained divergent? What use would it be to abolish interior tariff barriers, if the national markets were closed again by means of tax privileges or state aids? How could the tariff union exert its integrating effect, if private agreements or abuse of monopolies restrained the free flow of trade?

Economic union therefore is a logical consequence to implement the tariff union. But it is more. Economy and politics cannot be separated. The evolution toward an economic union—whose first considerable manifestations occured in the fields of agriculture and antitrust legislation constitutes in fact a political evolution. The main objectives, the "image" guiding the Commission of the E.E.C. in working on that development, were exposed in the action program published in 1962 by the Commission and extensively discussed and substantially approved by the European Parliament. In our view the tariff union, the economic union and the political union are very closely interlinked and will, without being automatic steps of progress, only in their entirety constitute a solution to our problem: the European Community.

From this roughly sketched outline it follows, I think, that the elaboration of common economic politics is only possible, if we accept the political and institutional consequences. A particularly important element would be the establishment of a common European legislation that would confer certain national competences upon European institutions. In fact, the power to legislate for the whole of the Community may be considered as the nucleus of a federal organization of the member states. This would, among other conditions, require that

the European Parliament assume normal functions of parliamentary control. As we have not yet reached that stage of evolution, it is necessary to turn to the traditional means of conventions, if the interests of the Community call for uniform legislation in fields, where the Rome Treaty did not expressly provide for legislative power of the Commission and the Council of Ministers.

Such power to legislate with direct effect upon individuals in our member states, as established in the fields of competition (antitrust) and agriculture already mentioned, is however exceptional. The Treaty takes account of the indispensable legal basis for economic development of a common market by procedures for harmonization or approximation of legislations, which take place

—in special cases, expressly mentioned in several provisions of the Treaty (p.e. Articles 27, 54 par. 3g, 56 par. 2, 57 par. 2, 66, 99)

—whenever divergencies existing between legal or administration provisions of the member states have a "direct incidence" on the establishment or functioning of the Common Market (Article 100),

—if the Commission concludes that a disparity of provisions of the member states falsifies the conditions of competition and thereby provokes a distortion, which has to be eliminated (Articles 101 and 102).

The procedure implies proposals by the Commission to issue directives, which have to be adopted by the Council after hearing the Parliament. Directives are only binding on the member states, who are free to reach the assigned binding objective by appropriate national means. The result is the elimination of divergencies in national legislation which would impede the effectiveness of certain measures and, at optimum, identical provisions of national laws on a given subject matter or field of law. Especially the general clause of Article 100 is a very flexible and appropriate instrument to build up a legal framework for the realization of the Common Market in a "gliding scales" manner, if you bear in mind that the Commission has a certain liberty of appreciation as to what constitutes a direct incidence at a given stage of economic integration.

As almost every economic activity—this is what we are primarily concerned with—is in some way or other subject to legal rules, you may easily imagine the importance of this instrument of approximation of legislations. It is of particular importance in the wide sector of competition. Free competition has been designated by the Rome Treaty to be the motor and the sole regulating factor for economy in the Common Market. To make it work, it is necessary to guarantee not only the freedom of economic activity as it is envisaged by antitrust

legislation, but also the possibility of free trade beyond the old frontiers, unhampered by prescriptions as p.e. on labelling or the composition of goods, to establish equal starting conditions to enter into competition with others, and to harmonize those rules, that affect the exercise of economic activity.

To fulfill this task, it is not always sufficient to harmonize national legislation; uniform legislation may be needed. This is a domain where in principle the member states are free to decide. Nevertheless, the Treaty laid down a certain orientation by Article 220, which lists a number of legal fields (p.e. law of corporations; mutual recognition and enforcement of legal decisions), where conventions appear necessary in order to realize the objective of the Treaty, and where the Commission would take the initiative under the general mandate of Article 155, to guarantee the development of the Common Market. But even beyond those indications of Article 220 it must not be forgotten that the adherence to the E.E.C. has closely bound together our member states and has created—in spite of all political difficulties which are normally to be expected in such an enterprise—a community of interests which inspires them to use also conventions of a larger scale, in order to complete the legal organization of the Common Market and to fill with life the structure of the Community.

3. This takes us back to our problems of industrial property. As early as 1958 the Commission received requests from the competent ministeries of some of our member states to examine whether it would be possible to advance within the E.E.C. the tentatives toward a European patent system which had been started back in 1951 by the Council of Europe without having led to positive results. The studies to which the Commission proceeded in close contact with the competent authorities of the member states and the Commission of Euratom included all fields of industrial property. We soon arrived at the result that it would be insufficient to simply harmonize the existing national legislations on the ground of Article 100 of the Treaty. The principal reason that made us think of a more advanced solution implying a uniform legislation for all member countries was the fact that industrial property rights are subject to the generally admitted principle of territoriality which is to say that industrial property rights are valid only in the state that granted them. Even if we should have been able to arrive at identical national legislations we would still have been confronted with this territorial barrier constituting a very serious obstacle to the free flow of goods which is one of the main objectives and main conditions of a common market. Moreover, this would have meant to

legally authorize private agreements to split up the market by way of national industrial property rights. For these very reasons we had to propose the establishment of a common uniform law which could only be based on a convention among the member states, as the Rome Treaty did not provide for an instrument of such far reaching importance.

By way of conventions we could also hope to resolve questions for which a solution by the sole national legislator seemed almost impossible—for example, the creation of common administrative bodies and the establishment of a common jurisdiction. To a certain extent we found a model precedent in the common draft of the Benelux countries on trademarks. But contrary to this proposed Benelux convention, it seemed necessary to maintain national legislation on industrial property, corresponding to purely local interests for protection be it by patent or by trademark. This necessity will certainly remain till the Common Market is really established, and probably also afterwards. Moreover, we thought that it would be easier for the experts of the member countries to come to conclusions if they could look for the most reasonable solution without being worried by the idea that they had to change their national legislation. Our practical experience meanwhile has confirmed this belief. During the first conference of the competent under-secretaries of our member states in November 1959, under the chairmanship of Mr. von der Groeben, member of the E.E.C. Commission, the proposal of the Commission to draft conventions in the field of industrial property was accepted as well as our suggestions regarding the working organization. In fact, the under-secretaries decided to set up a coordinating committee which is chaired by Mr. Finniss, Director of the French Institute of Industrial Property, and three working parties on patents, trademarks and design protection, respectively chaired by Mr. Haertel, of the German Ministry of Justice, Mr. De Haan, President of the Dutch Patent Office, and Mr. Roscioni, head of the Italian industrial property department.

In this way the Commission had initiated the elaboration of conventions and being represented in everyone of these committees is working as a sort of catalyst for the common interests of the Community. It is also in charge of all technical preparation and service necessary.

In December 1960 the under-secretaries, on the basis of reports of Mr. Haertel and Mr. De Haan on the feasibility of the proposed European conventions discussing the different possibilities and recommending certain solutions, formulated their decisions in a protocol, that later on was formally approved by the Governments of the six. This

protocol constituted the directives for the working group on patents which commenced the drafting of the convention in April 1961 and submitted the complete draft to the under-secretaries' committee in October 1962. This committee, without examination of the details of the draft, stated only that it was in accordance with the given directives and decided to publish the draft convention in order to enable the Governments and the Commission to crop the opinions of interested circles in the member states, of international organizations concerned, and also to learn eventually what third party states think about the draft proposals.

The working party on trademarks met in 1961 in order to elaborate based on the directives of the under-secretaries in a more detailed way the possibilities for a trademark convention indicated by these directives and will meet again in March 1963 in order to discuss the draft convention which is presently being prepared.

In the field of design protection the members of the coordinating committee have a fundamental report by Mr. Roscioni on the possibilities of the creation of a European system of protection and will have to decide at latest in the beginning of the year 1964 on the propositions to submit to the committee of the under-secretaries.

As each of the conventions envisaged requires judicial and administrative institutions which would conveniently be combined and created on a common basis, and regarding the fact that these conventions will contain provisions such as for adhesion or association that should be treated identically, it was decided by the under-secretaries that all those common provisions should be incorporated in what we call a general convention establishing the framework for the three special conventions. A special group of the coordinating committee is now elaborating the draft of the general convention which, logically, must be signed simultaneously with the first special convention ready for signature, that is to say with the patent convention.

After this general review of our activities up to the point where we are standing now, let us turn to the patent draft and to the principles of the trademark convention envisaged.

II. THE DRAFT CONVENTION RELATING TO A EUROPEAN PATENT LAW

The draft comprises 12 parts and 217 articles. This may appear somewhat lengthy, but it has to be considered that we did not dispose of a general legislation to which we could refer to, such as the national legislator is able to do. We, therefore, had to provide regulations for every detail, substantive or procedural.

On the other hand, I want to emphasize that the draft as it stands

is an expert's draft and bears no official character whatsoever. It has not yet been unanimously adopted by all delegations even in the working party. We still have a series of provisions where an alternative wording has been formulated corresponding to a minority opinion; in certain cases—very few fortunately—there still seems to be fundamental disagreement. We hope that the results of public discussion will facilitate the elimination of those alternatives. Moreover, the amicable spirit of collaboration in the working party has always produced compromise solutions, so that we are not pessimistic at all as to the final success. I suppose that most of you have read the draft either in the original text or in the English translation and are more or less familiar with the general system proposed. I shall, therefore, after briefly recalling the rough outlines of the draft, refrain from commenting in detail on the provisions in their entirety and will concentrate on a few points which might be particularly interesting under technical aspects, aspects of Community interest, and political aspects.[2]

1. *General Principles*

The convention constitutes new legislation creating a "European patent law" and providing for the grant of "European patents," which are valid in all member states, can be transferred or canceled only with effect to the whole of the territory of these states, and are subject only to the provisions of this new legislation. The system will be highlighted by a common administration, the "European patent office" and the establishment of a "European patent court."

The granting procedure comprises two different stages. In the first stage a European patent application will be submitted to an examination pro forma in the European patent office followed by a search for novelty carried out by the International Patent Institute in The Hague. Publication of the "provisional European patent" will follow within some 18 months after the filing date accompanied by a novelty report prepared by the International Patent Institute. The provisional patent expires five years after the date of publication of the grant unless a request for examination of the provisional patent is submitted to the European patent office in the meantime. The request may be introduced by the patentee as well as by any third person and will be published in the official bulletin of the office. In the second stage, following

[2] A general review of the patent draft was printed in the supplement to the July 1962 issue of the *International and Comparative Law Quarterly,* pp. 50-59, and, in a somewhat completed form, in the German review *Gewerblicher Rechtsschutz und Urheberrecht,* Auslands- und internationaler Teil, September 1962, pp. 433-438.

the request for examination, the European patent office will examine the invention subject of a provisional patent, as to novelty and inventive merits—deferred examination—and eventually confirm the provisional patent as a "final European patent."

The convention leaves to the member states the right to maintain their national patent laws and respects, of course, the obligation of contracting parties under international treaties, such as the Paris Convention in particular.

2. *Comments Regarding Some Technical Provisions*

a) Substantive law

Let us consider mainly the conditions of patentability and the provisions of the draft relating to compulsory licensing.

The scope of patentable inventions is defined in Article 10 of the draft by the negative. Patents shall not be granted in respect of inventions, the publication or exploitation of which would be contrary to the "ordre public" or morality. This is a principle generally accepted in all civilized countries and I want to emphasize that the draft states expressly that the mere prohibition of the exploitation of the invention by national legislation is not sufficient. We deem this addition necessary because in at least one of our member states a legal prohibition of exploitation is considered to come under the concept of "ordre public." We thought, however, that the mere fact that a particular law in view of a special economic situation of a given country prohibits the use of certain products is not really touching the fundamental legal order of a state and it would be unjustified to refrain from granting patents on subject matter which, after a certain modification of the economic situation, could again be lawfully used.

Beyond inventions contrary to public order or morality, the draft excludes from patentability plant or animal varieties or essentially biological processes for the production of plants or animals. This provision corresponds to the fact that all of our member countries (except Luxembourg) have signed the recent Paris Convention for the protection of plant or animal varieties. We think that such "inventions" do not exactly fit into the traditional concept of patents for technical inventions. It is, however, clear that this exception should not strike inventions relating for example to certain pharmaceutical products of microbiological composition.

You will have noticed the important fact that the draft provides for legal patentability of chemical as well as pharmaceutical products which constitutes progress with regard to the patent legislation of some

of our member states. In Italy, for example, it is impossible to protect pharmaceutical products or even process patents, while the German legislation excludes chemical products as such, giving protection for process inventions only. If a European patent convention enters into effect this would mean that pharmaceutical or chemical products will be protected in the whole of the territory of the member states even if national legislation remained unchanged.

An invention coming under this concept of legal patentability should moreover answer the conditions of being susceptible of industrial application, of novelty and of involving an inventive step. In defining industrial application (Article 14) the working party expressly included agriculture in the field of industry which constitutes clear progress with regard to some national legislations. The condition of novelty (Article 11) follows the French concept of absolute novelty. An invention is new if it does not form part of the state of the art. The state of the art comprises everything made available to the public by means of a written or oral description by use or in any other way before the date of filing the application for a European patent. In this connection we had certain difficulties concerning the contents of prior patent applications or patents published on or after the filing date of the European patent. We finally included such prior European patents or applications in the state of the art. You know that national legislations such as the German patent law contain particular provisions as to prior rights, but this solution necessitates an examination within the patent office as to the identity of the prior application and the later application, during which the examiner was practically bound to define in abstract the scope of protection of the earlier right, of the earlier application or patent, a decision which is made in concrete cases of infringement by the competent courts. To avoid this difficult and time-consuming-procedure the draft includes prior European applications and patents in the state of the art, a solution which permits the examiner to read the prior application or patent exactly like any other prior publication, in order to determine the novelty of the invention involved. However the draft does not include prior national applications and patents in the state of the art for the reason, that in those cases a European patent for the whole of the territory could not be granted, while it would be possible for the inventor to turn to several national applications, a procedure which the draft also provides for. As we wanted to avoid the danger of too many national patents splitting up the Common Market, it seemed preferable in those cases to grant, nevertheless, a European patent which will at least be valid in five member countries except within the territory of the country where the

prior application or patent in question exists. Therefore Article 19 of the draft contains a special provision for prior national rights.

The third requirement for patentability is the inventive step defined in Article 13 of the draft, which says that an invention shall be considered as involving an inventive step if it does not result in an obvious way from the state of the art. This condition obviously results from the German and Dutch patent laws corresponding to the inquirements of inventive activity or flash of genius also known in Anglo-Saxon law.

Now I will come back on the territorial scope of protection and the rights conferred by a European patent under a later heading. Let us briefly regard Article 21 defining the extent of the protection conferred by European patent. This article provides that the extent of the protection shall be determined by the terms of the claims. Nevertheless the description and drawings shall be used to interpret the claims. I do not know whether this formulation is perfectly clear. What the working party tried to obtain is a solution somewhat halfway between the United States and the German practice. On the one hand we do not want to have that great number of claims which is often to be found in American patents. Therefore we added the possibility of interpreting the claims by using description and drawings. On the other hand German courts seem to go rather too far in interpreting the scope of protection on the basis of description and drawings and have established a doctrine of interpretation of patents which is hardly understandable for a German and certainly incomprehensible to anyone else. While the objective of this provision is clear, the wording may be less so, and a great deal will depend upon the practical application of this Article 21. It is to be mentioned besides that a similar provision is contained in the Strasbourg draft convention, the wording of which is somewhat divergent so that a redrafting of one of the other of these provisions may be necessary.

A few words now to compulsory licensing, a legal institution unknown to United States law but in principal commonly accepted in European countries. The draft provisions on compulsory licensing were extensively discussed in the working party. A minority was in favor of leaving exclusively to national authorities the power to grant compulsory licenses under a European patent subject to the conditions of the national law concerned and with effect only for the territory of the particular state. The majority, on the contrary, thought that compulsory licenses should be granted by the European patent office having effect on the whole of the territories of the member states. The draft now provides (Article 136) for the granting of compulsory licenses in three cases.

A compulsory license may be granted if at the expiration of the period of three years from the grant of a provisional European patent and four years from the lodging of the application for such patent, the subject matter of the invention has not been manufactured or utilized within the territory of the contracting states to a sufficient extent in relation to the combined needs of all those states, and if the patentee can not produce legitimate excuses. It will therefore suffice if a patentee establishes a manufacturing plant in anyone of the member countries as long as he guarantees an appropriate supply within the whole of the territory. Mere importation will, however, not be sufficient, yet this is a point where the working party was not unanimous.

Another reason for granting compulsory licenses is the interdependence of patents (Article 137). In that case of interdependence the compulsory license will upon application be granted to the proprietor of the later patent only to the extent necessary for the exploitation of the later invention and only in so far as such later invention serves industrial purposes different from those of the earlier invention; or, in the case of identical industrial purposes, only if the later invention constitutes noteworthy technical progress in relation to the earlier one and if a return license will be granted in respect of the later patent to the proprietor of the earlier patent, if he so requests. This provision applies in the case of interdependence of a European as well as of a national patent; if the earlier patent is a national patent the scope of effectiveness of the compulsory license is, however, restricted to the national territory of the earlier patent.

Finally, the draft contains a reservation in favor of national legislation (Article 144), which enables a contracting state to grant in the public interest compulsory licenses under a European patent. The extent of licenses so granted is limited to the territory of the state concerned and the interested member state is bound by the provisions of the convention, which safeguard the interests of the proprietor of the European patent. Finally I want to mention that the draft contains a provision in favor of compulsory licenses granted by virtue of Article 17 of the Treaty creating the European Community of Atomic Energy.

b) Procedural Provisions

The main body in charge of procedures relating to the European patent will be the future European patent office, an international administration common to all the contracting states. This office will not only contain examining sections and examining divisions but also boards of appeal forming a second degree of a judicial character

within the office, and competent to review the decisions of the examining sections and divisions. Moreover, the draft proposes to establish so-called revocation boards, that is to say, special boards adjudicating on questions of invalidity of the European patent. They will also have jurisdiction in respect of compulsory licensing. It goes without saying that the establishment of such an important international administration which may ultimately comprise a staff of some 1500 people is a considerable problem which we can only hope to resolve by a method that had been chosen also by the Swiss patent office, that is to say by setting up the administration in consecutive steps. The European patent office will, therefore, in the beginning grant patents only on a certain field of technology enlarging its activity by and by in accordance with available staff and documentation. For all fields of technology where European patents can not be granted during this transitory period of establishment, the draft provides the possibility of a common application procedure which permits inventors to obtain by one single patent application to obtain national patents in the contracting states (Articles 189 to 193).

The problem of obtaining highly qualified personnel is a very serious one, especially if the language problem is considered. We hope that in the same rhythm in which national offices may be discharged by the activity of the European office trained personnel of the national offices may be available. With regard to the documentation problem it seems to be indicated, that the European patent office have its seat where an examining office is already established within the member states. But this is one of the questions awaiting decision on a political level. It is worthwhile to be noticed, that the draft proposes in Article 34 French, German, and English as the main languages to be used by the European patent office.

This office will be in charge of the deferred examination, a procedure which is new for all of our member states. Two imperative necessities had to be considered for the examining procedure. We had to provide for rapid protection for the inventor without impeding competitors and we had to lessen the considerable and almost additional burden of examining offices. Turning to statistics we noticed that after a period of four to six years after the grant of the examined patent up to 40 percent of national patents are abandoned and the work invested in examining these patents was practically wasted. This explains the five years' period before expiration of the provisional patent. Moreover, we think that those five years afford useful time for the patent holder to evaluate the economic interest of his invention before investing in its development; a time during which he does not lack protection. This

protection within the overall term of 20 years starting with the filing date of application begins with the publication of the provisional patent together with the novelty report of the International Institute of The Hague. This protection due to the provisional character of the patent before examination is somewhat restricted as compared with the protection of the final European patent. Actually the holder of a provisional patent may intend an infringement action but if the defendant objects because of the invalidity of the provisional patent the infringement procedure has to be interrupted until the definite examination has been accomplished by the European patent office. But if the final European patent should be granted, the protection against infringement extends to the term of the provisional patent. In this way sufficient protection is available for the inventor within a relatively short time after application; normally it may be expected that the provisional patent together with a novelty report will be published some 18 months after the patent application.

If the inventor is already sure of the economic importance of his invention, he is free to request examination immediately after the publication of the provisional patent. The time necessary for the definite examination in the European patent office will be normally some 30 months. This period may be longer in case of many oppositions by third parties, but in regular cases the final European patent with the full authority of the patent office examination may be obtained within four years from the filing date, a period which is considerably inferior to what many inventors have to expect when applying for national patents.

In counterpart to the rapidly available protection by the provisional patent we had to provide a safeguard for the competitors. This is one of the main reasons for having established a novelty report (which would better be called a report on the state of the art) by the International Institute of The Hague. This report that will practically constitute a list of prior publications that might possibly interfere with the patent application allows not only the inventor but also the public and especially the competitors to assess the value of the invention. Whenever, a competitor really thinks that a provisional patent stands in the way of his economic activity he is free to also request the final examination of the provisional patent.

If you put together the high standards of patentability and the strict examination procedure, the always wide awake spirit of competition and the provisions relating to compulsory licensing, it may be expected that economic development under the system of the European patent will not be impeded by unused and economically uninteresting patent

monopolies. On the other hand, the definite protection by the final European patent will be a strong one. Greater legal certainty will permit a keener analysis of the market situation and we hope that this system aids to strong competition and efficient utilization of European resources, thus meeting the purposes of the Rome Treaty.

Let us now turn to proceedings for revocation and proceedings for infringement.

A final European patent will be cancelled if the invention was not patentable or if the description of the invention is not sufficient. A revocation in part is possible. The final decision annuls the protection under the patent with retroactive effect. Any person interested may request the revocation including the competent authorities of member states intervening in the public interest. The proceedings will take place before the revocation board in the European patent office, which examines ex officio the validity of the patent. A hearing of the parties will normally take place. The decision of the revocation board is subject to appeal before the European patent court.

The provisions regarding revocation (Articles 127 to 135) are based on the general principle that all questions regarding the validity of European patents as well as problems of interpretation of the convention come under the exclusive competence of the European authorities. This principle applies also to infringement proceedings.

Actions for infringement have to be brought before the national courts which would be competent if the infringement concerned a national patent. Infringement actions in respect of European patents are subject to the rules of procedure applicable by virtue of national law to infringement actions in respect of national patents. But there are three exceptions to the competence of national courts:

If during a proceeding for infringement of a provisional European patent the validity of this patent is questioned, the defendant may be condemned for infringement only after the confirmation of the provisional patent as a final European patent by the European patent office.

If during an infringement proceeding concerning a final European patent, the defendant raises the question of invalidity, the proceeding has to be interrupted and the defendant has to commence the cancellation proceedings before the European patent office within a certain time.

If questions of interpretation of the convention become decisive in an infringement suit a preliminary decision of the European patent court may be obtained on a reference from inferior courts.

In the case of courts of final appeal the reference to the European court is obligatory.

This is how the draft respects the idea that the validity of European titles granted by European authorities can not be adjudicated by national courts. Moreover it guarantees to the necessary extent the uniformity of interpretation of the convention. Of course, there will be divergences of national jurisdiction at least in the beginning of the European patent system. But we could not think of another practicable solution at present and we trust that under the control of the European patent court, national jurisdiction will rapidly turn to common standards.

Finally the draft gives the opportunity to have the scope of protection of the European patent defined even before an infringement suit is introduced either by a declaratory judgment or by proceedings for arbitration before the revocation board of the European patent office. (Articles 181 and 182).

One last point to end this chapter. During a transitory period, simultaneous protection afforded for the same invention by a European patent and by one or more national patents is exceptionally authorized against the principles laid down in Article 7. This exception appeared to be necessary for purely practical reasons. We could not expect that people in charge of the patent policy of industry would immediately turn to the European patent without practically knowing its value. If we had excluded from the beginning the possibility of having for the same invention one or several national patents and a European patent, we would have run the risk that a considerable number of patent applications would still have been directed towards national channels instead of the European patent office. A good start being of vital interest to a new enterprise such as the European patent system, we rather put up with this logical loophole in our draft.

3. *Aspects of Particular Interest for the Community*

As I already stated one of the main interests in the elaboration of a convention in the field of industrial property was to abolish the territorial barriers resulting from national protection. Consequently we had to watch very closely that the European patent would not give rise to a new splitting up of the market and that a divergence of interpretation of this European patent would not create anew different conditions for economic activity in the territories of the member states. The principle of the indivisibility of the European patent is stated in Article 18, which says that European patents shall have effect on the

whole of the territories of the contracting states and is logically elaborated in the first variant of Article 20, which constitutes the solution proposed by the majority of the working party. Article 20 in its first variant defines jure conventionis the rights conferred by a European patent. As the rights conferred by national patent laws of our member states are essentially identical, this provision of the first variant of Article 20 may not have too much of practical importance, but the psychological importance of a conventional formula is certainly not to be underestimated. Moreover the definition by the convention opens the way towards the European patent court in case of conflicts of opinion before national courts. The definition of the privileges of the patentee by the convention makes them subject to the control of the European court as to their interpretation. The second variant of Article 20 would exclude such possibility.

With regard to the necessity to avoid a fractioning of the market, Article 20a is of far reaching effect. It provides that the rights attached to a European patent shall not extend to acts concerning a patented article covered by the said patent, which are done on the territory of contracting states after the proprietor of the patent has put that article on the market in one of these states. In other words, this provision regulates the exhaustion of patent rights, such as known in national law, on a common scale, so that acts in one country extend their legal effects to all member states without considering the old territorial barriers of protection. You will immediately see the importance of that provision if you refer to the corresponding provision of Article 29 with regard to contractual licensing of a European patent. Respecting economic necessities which we thought justified (an eventual application of Article 85 of the Treaty being reserved) the draft admits a territorial licensing under the European patent. But once the patented article being lawfully put into the market by the licensee or the patentee, the territorial scope of the license may not be invoked under patent law to defend territorial exclusivity. Let us take an example: suppose an Italian company has obtained a European patent and gives a license to a French firm to use the patent only within the territory of France; if the French firm would set up a manufacturing plant in Italy to produce the patented product, this would certainly constitute a patent infringement and the Italian owner of the European patent could sue its French licensor. If the French firm produces the patented product in France, transports it to Italy and sells it there, the acting of the French company would also constitute a patent infringement. But the Italian client of the French company who acquired the product in Italy, does not commit any patent infringement and cannot be sued by

the Italian patentee. And again if the French manufacturer sells the product in France, the buyer may freely import the product into Italy without being liable of patent infringement, nor is the French company in that case, because it remained completely within the terms of the license agreement. Of course, the Italian patentee could impose the contractual obligation upon the French company not to sell the patented article to clients who are going to export outside of French territory. But such a clause would be irrevelant from the point of view of patent law and certainly subject to Article 85 of the Rome Treaty.

Similar provisions are to be found in the chapters of the draft relating for example to compulsory licensing or to the simultaneous protection by national patent and the European patent. I think that they are absolutely indispensable for a patent system which is to work within a Common Market. A word as to harmonization of national laws. Excepting Article 207 we have not expressly provided for harmonization in the draft. Nevertheless, we think that the bringing into force of the convention will inevitably lead to an approximation of national legislation. But we did not want to charge the signature and the ratification of our convention with such problems well aware of the experience that a modification of national legislation is very difficult to obtain.

4. *Questions Revealing Certain Political Aspects*

There are essentially three of such questions, which by the way possess general importance also for the other conventions envisaged. They are the problem of accessibility that is to say whether nationals of third party states may obtain European protection, the question of accession concerning full adherence of third countries to the industrial property conventions, and finally the question of association to those conventions. There are no solutions as yet to these questions and you will understand that I can only contribute a few elements here.

a) *Sedes materiae* for the question of accessibility is Article 5 of the draft, the two variants of which constitute extreme solutions between which intermediate solutions may be envisaged. Three points, I think, have to be considered in this connection. The first is to know whether Article 2 of the Paris Union Convention to which all of our member states are parties obliges us to admit nationals of the other contracting states of the Paris Union to apply for European protection. It seems to me that this would be the case if it may be stated legally, that the protection granted under the European convention goes beyond the protection granted under national law. As you all know

divergent points of view on that question have already been presented in publications. Secondly, there is the question of purely political opportunity to exclude third country nationals from industrial property protection made to measure for a common market which by its very nature is liberal as regards international trade relations. Thirdly, it may be asked whether it is consistent with one of our main objectives to avoid fractioning of the Common Market by way of national protection barriers if third country nationals who own a considerable percentage of patents in our member states would also in the future be simply referred to national protection. One might even wonder whether it is wise from the point of view of the legislator to establish a provision which is rather easily to be circumvented. Also the contribution by way of fees from third country nationals to the financing of the European patent office, which should be financially self supporting, is not a negligible element.

b) The problem of accession is to know whether a state which is neither member nor associate member to the common market Treaty may adhere fully to the patent convention. The working party bound by the directives of the under-secretaries proposed in Article 211 a formula for a convention open to accession in the traditional sense at least for all states members to the Paris Convention. As you may have noticed, part of the working party suggested to restrict accession to European countries. These two variants are certainly not manifestations of a more or less liberal sense of the delegations' participating in the working party. It reflects rather deliberations about the practical possibilities for non-European states to accept a system such as it is proposed by the draft.

When the under-secretaries decided that the European industrial property conventions should be open, this question, of course, had not yet been examined thoroughly. My strictly personal opinion is that one might even wonder whether it is not indicated to restrict full accession to the convention to states that adhere or eventually are closely associated to the Rome Treaty. We have already been criticized for example by our Swiss friends for the fact that the preliminary studies were executed only within groups constituted by the six member states to E.E.C. without the possibility for third countries to be represented at least by observers. Now I am thoroughly convinced that we were only enabled to arrive in such a short time at the results we have presented by the fact that the six are united in a community pursuing the same economic or even political objectives. A reasonable evolution in the field of industrial property law is, I think, only to be expected in the course of the general evolution of law within the E.E.C.

which is certainly going to simplify legal relations (example: the convention envisaged on recognition and execution of legal decisions and titles). It would be dangerous for the objectives of the Economic Community if such an evolution in the field of law could be blocked for an important sector, such as industrial property, by third party states who do not generally participate.

Contrary to earlier endeavors in this field which practically left intact national sovereign powers, one might say that the patent draft is modeled corresponding to a supranational construction. So the draft provides the creation of a uniform law valid for the territory of several states and defining definitely the scope and the content of protection. All questions concerning the validity of European titles may only be examined before European authorities and even in infringement proceedings an appeal before a European court is provided. I think that such a construction may only be executed within an organization of states which on the basis of the Rome Treaty have already created common institutions and are pursuing common objectives. It is evident that also institutional questions such as the establishment of the European patent court would be decisively facilitated if full membership to the patent convention would be restricted to E.E.C. members or associates. If you think of eventual Parliamentary control of future legislation in this field of uniform law, this aspect reveals an even greater importance.

Finally, the patent draft contains a series of provisions (such as the aforementioned Articles 20a and 29 or Article 25 to 28, 197 or 199) which are to take care of the particular necessities of the Economic Community and of the policy of competition of the Commission. A state that has not participated in the development of the E.E.C. has no interest and probably not even the possibility to accept such provisions. But this is, as I said, my purely personal opinion. The question is still open and should be decided on a political level before signature of the convention.

c) The formula of association (Article 212) has been copied from the Article 238 of the Rome Treaty. This very subtle formula permits determination by negotiations for a treaty of association between the six and the interested third party the rights and obligations under the patent convention which the latter could or should accept. This opens a wide range of possibilities, particularly because an association would not require any relation to the E.E.C. Treaty and could perfectly well serve to exclude for the third party interested all provisions particularly framed for the purposes of the Rome Treaty.

The president of the working party on patents, Mr. Haertel, once

said that association could be imagined from 1 to 99 percent. Practically speaking I think that we should prepare a few propositions for typical association treaties. Just to give you an idea: a very basic and restricted formula of association corresponding perhaps to the one percent clause mentioned by Mr. Haertel could be imagined in the way that the third party state recognizes the priority in the sense of the Paris Convention for the European filing date and receives in exchange —provided that the first variant of Article 5 would not be accepted definitely—the certainty that his nationals may apply for European protection. Another variant of association might be that a third party state accepts the European procedure until the patent is granted; but this patent would be considered in the territory of the third state as a purely national patent subject only to national law. And again an interested third state might accept the whole of the patent convention except the jurisdiction of the European court. These are only a few hints to help you understand the formula of association proposed. We shall certainly have to elaborate this problem in detail, but I want to emphasize that the possibility of association will probably be of considerable practical importance and might even constitute the pass-way towards the unification of patent law within a larger group of states prepared to collaboration.

These are the few comments I wanted to make on the patent draft. They are far from being complete or exhaustive and there are certainly many other provisions of the draft which could be discussed at some length. I hope, however, that those few indications are sufficient to give you an idea about the general orientation of the draft convention on European patents.

III. SOME PRINCIPLES FOR A FUTURE TRADEMARK CONVENTION

There is much less to be said about the trademark convention envisaged. The elaboration of the patent draft going full speed, you will understand that there was not much time left to examine the questions relating to a European trademark in detail. As the working party on trademarks under the chairmanship of Mr. De Haan will meet only in the end of March to discuss for the first time a draft convention I can give you only a few basic ideas which will be seriously examined and on which the draft convention might be established. But being no prophet, the following indications can only reveal an extremely provisional character.

The great underlying principle on which all participating delegations agree is that it should be difficult to obtain a European trademark,

but once the protection granted it should be very hard to destroy. To this two points are to be retained:

1. A European trademark protection should only originate by registration in the European trademark office. We would abandon therefore on European scale the possibility provided for in national laws of our member states, except Germany and the Netherlands, to acquire the trademark by use. This would appear to be indispensable because

2. The European trademark after a certain period, probably five years, should practically be incontestable on the grounds of prior rights. It might, therefore, be envisaged, that the European trademark office will proceed to examine ex officio the so-called absolute obstacles to registration such as listed in Articles 6 *quinquies* and 6 *ter* of the Paris Convention, and will also consider prior rights based on its proper documentation and on information coming from national offices and from the applicant himself. If there are no absolute obstacles to registration the trademark office might inform the applicant about eventually pertinent prior rights. If the applicant maintains the application, the European office could inform personally the owners of prior rights and invite them to oppose the application concerned within a certain delay of for example six months. At the same time the application should probably be published, thereby starting also the delay for opposition proceedings.

If no oppositions were introduced or the applicant prevailed in opposition proceedings, the envisaged incontestability of the European trademark after registration would have the effect that the utilization in the whole of the territory of the member states of the European trademark could not be prohibited by owners of prior rights which were defeated in an opposition proceeding or which were personally informed by the European trademark office without having raised opposition against the application. For the owners of other prior rights there could be another period of about five years after registration during which they may go before the competent courts in order to oppose the European trademark. After that period the European trademark could practically not be attacked with, of course, a few exceptions such as for example, bad faith of the owner of the European trademark.

3. The third point that might be retained for the convention envisaged follows from the necessity created by the Common Market to avoid the splitting of the market by way of trademarks and to cut out the possibility—often used though—to set up a system of ex-

clusive distributorship by way of trademarks. We think that trademarks are destined to distinguish the goods of competitors as to their origin, to represent the good will incorporated in the mark and to nothing else. It may therefore be expected that the draft convention will contain provisions, perhaps similar to those contained in the patent draft, to eliminate utilizations of the trademark, which are not consistent with free competition in the whole of the Common Market.

It is to be expected that the working party on trademarks will to a very large extent make use of the results elaborated by the working party on patents and many provisions, such as for example, on the European trademark office or questions of jurisdiction, of renunciation, novelty or revocation may more or less be copied from the patent draft. It is therefore permitted to hope that towards the end of this year the competent working party will present to the coordinating committee an elaborated draft for the convention relating to a European trademark law.

IV. CONCLUSION

Some of the national experts working in our different committees have called this year a year of catastrophe and this for the very practical reason, that the work on the European Community scale proceeds at such a fast rhythm that our experts hardly know how to satisfy the necessities of their national tasks which go on besides. Till the beginning of next year we have to elaborate the complete draft of the general convention touching questions which are very difficult to resolve and of highly political eminence. The working party on patents is about to elaborate the rules and regulations necessary for the application of the patent convention including rules on fees. The patent draft has to be examined together with experts from other interested ministeries of the member states and last not least we face the heavy obligation to reconsider the whole of the draft in the light of the opinions of interested circles and organizations we receive.

The patent draft, the general convention and the rules and regulations for the patent draft have to be signed simultaneously and must therefore be completely prepared practically by the end of this year as we have set a tentative deadline for the signature at latest in Spring, 1964. This may be somewhat optimistic but we are certainly trying to keep up with our own intentions. If by that time we succeed really to present the whole system into which shortly afterwards the trademark convention may be fitted, we shall have established the fundamentals

for a European system of industrial property. Already now the experience during the elaboration of this system shows, that the common objectives of the E.E.C. states in the field of economy and politics permits us to arrive at results which could not be obtained during much longer periods on a large scale of collaboration of several states. An eventual success would once more be the confirmation of the fact that the European Economic Community is not only eliminating trade barriers but is also realizing an economic union which needs even in the field of civil law a system appropriate to the economic and political necessities of the future and serving legal security on the entire territory of the Community.

I think an eventual success, first with the patent convention, the general convention, and eventually the other projects in the field of industrial property would be once more a confirmation of the fact that the European Community is not only eliminating existing trade barriers but is also realizing a economic union which needs, even in the field of civil law, a system appropriate to the economic and political necessities and framework of the future and receiving legal security in the entire territory of the Community.

Ladies and Gentlemen, I thank you very much for your attention.

(Applause.)

MR. ROBBINS: Ladies and Gentlemen, we have heard a masterly summary of a complex situation. I think we can say that Dr. Froschmaier as secretary of the Working Group obviously knows his job. And also that behind the veil of secrecy the representatives of the six countries did plenty of work.

Dr. Froschmaier mentioned a number of the problems that exist. I feel the Commission will face a very difficult task to reconcile the many conflicting viewpoints.

Now the time for questions has come. I would like to know if any members of the audience have written down their questions. Could I see how many there are?

(showing of hands.)

Dr. Froschmaier, first, before reading these written questions from your audience, I'd like to ask you one question myself.

Probably the Working Group has been under the impression that England would join the Common Market and as a result would also become a member of the European Patent Convention. I think this must have been implicit during the drafting operation.

In view of the very dramatic change that occurred a month or so ago—the De Gaulle veto—obviously England will not be in the Com-

mon Market, at any rate for a number of years. The likelihood that England would independently join the European Patent Convention is remote.

Now, do you think, Dr. Froschmaier, as a result of this new situation, that there is going to be a strong tendency to confine the Patent Convention just to the original six countries and that there will be very little impulse for other countries to come in as full members?

DR. FROSCHMAIER: Well, I think very much will depend in fact on what our British friends want. President Hallstein, who preceded me by a few days, said that it was his personal opinion we should try to bridge the gap until Great Britain really comes into the Common Market by way of some association. This is certainly a personal idea of President Hallstein. But I think what he means is that we should try to avoid a widening of the gap between the Common Market on one side and the United Kingdom on the other.

As to our particular problem, very much depends upon the attitude which our English friends will take as to the European industrial property conventions. I can't give you a definite answer. If Great Britain really would be interested to fully adhere to these conventions, I think there is a good chance that we would consider very seriously this question of the United Kingdom.

I could also imagine that for the time being, as long as Great Britain does not come into the Common Market, our British friends would prefer the formula of association. No additional problem would then be raised. I think this is a question we could clear rather rapidly.

PROVOST COLCLOUGH: Dr. Froschmaier, in that connection, several times in your very enlightening talk, you used this word "association." I think there are some of us whom it would help if we were enlightened, just a little bit, as to what you mean as a distinction between the word "member," which we all understand—I hope—and the word "association."

DR. FROSCHMAIER: Well, membership means that a third country interested would take over everything, all rights and obligations under the text of the convention as it will stand after its entry into force. This would mean also that a third country would have a full vote on whatever common administrative body this European structure will have.

Association, on the other hand, means that by negotiations for a particular treaty between the six original states on one side and the third country on the other side, it is determined point by point which one of the obligations and rights arising under the convention is to be taken over by the third country interested.

As I said, you could imagine a great variety of possible solutions.

One indicated was for the variant excluding the accessibility for third country nationals: to exchange the possibility of access against the recognition of the priority of the European filing date. Another possibility could be to accept the European procedure up to the moment where the patent is granted, but instead of having a patent on seven countries, you would have a European patent on six countries plus an annexed patent on a purely national scale in a third country interested.

These are only indications of what might happen under this formula of associations.

PROVOST COLCLOUGH: That is clear. Thank you very much.

MR. ROBBINS: Here is a question that is directly related to this problem—"Is it possible to envisage that an associate member would be entitled to file for a European patent without entailing the obligation that the European patent would have status in the home state of the associate member?"

Well, Dr. Froschmaier, in terms of actual countries involved, which ones would want to apply for associate membership? Particularly if they have been given free access to begin with?

DR. FROSCHMAIER: Yes, that is an important argument, I think. It is often said if you open the access to the European patent, what is the interest of the third party states to get into a closer relation to European conventions?

Generally I would like to say that I do not think our draft could be considered as the nucleus of a world-wide patent system. The draft as it stands, is certainly a draft meant especially for the purposes of the Common Market.

Now, a certain incentive for third countries to obtain a closer relation to the European system, I think, would still arise in the case of the national examining patent offices. I think there is quite a definite interest to lessen the burden on the national examining offices by using a common body proceeding towards examination of patent applications. In this way there could be obtained a lessening of the burden on the national examining offices and probably also a certain help in dealing with the backlog we have in all national examining offices.

This is perhaps one of the possibilities that could cause third countries to associate or even to adhere to the convention.

MR. ROBBINS: Here is another related question—"Do you foresee a trend towards association or perhaps a possible veering towards the formation of a separate, non-European bloc? And if so, to what extent would this throw the operation of the European Patent Convention out of gear?" Do you think that the EFTA countries, for example, would form their own competitive bloc?

DR. FROSCHMAIER: No, actually not. On the contrary, you know that the Scandinavian countries have elaborated a uniform patent law for the Swedish, Norwegian, and Danish patent applications. I believe we would welcome greatly such a solution on the Scandinavian basis because our Scandinavian partners indicated that on this ground, having their own patent system for several countries, we could find perhaps more easily a possibility to work together and try whether we could not simplify some procedural or even substantive aspects of patent law by getting together.

This would be a formula of association between two groups of states instead of one group and one individual interested third party state.

PROVOST COLCLOUGH: With certain economic overtones, right?

DR. FROSCHMAIER: Yes.

PROVOST COLCLOUGH: And also, because it happens to be my question, it would have strong political overtones, I imagine, naturally?

DR. FROSCHMAIER: Yes, I think so.

MR. ROBBINS: This question is of great interest to us here. But whether you can provide an answer now, I don't know—"What is the current commentary from interested groups in the six countries as to the two variants of Article 5? Are you aware yet of any points of view that are in existence in Europe?"

DR. FROSCHMAIER: Well, there are, of course, points of views. As far as I am informed—well, you could say it is about undecided at present, as far as we have been informed. And we have not all the opinions of all people interested or all people concerned. It looks like it was 50-50 up to now.

MR. ROBBINS: When you say 50-50, could you divide that up among countries? Do you know how the French feel and how the Germans feel?

DR. FROSCHMAIER: Well, contrary to what you might expect, I don't think you can draw a dividing line between countries quite exactly. I think this is a position which goes right across the borderline of the countries. There are certain centers of opinion in one or the other country, but the opinions are not restricted to one country only.

So, I won't say you can divide up the opinion, for example, against accessibility and attribute it to French interested circles because also Germans or Dutch or Italians think that they would prefer not to have accessibility to the European patent.

MR. ROBBINS: Here is a combination of two questions—"Have any studies been made (possibly statistical) as to how rapidly national patent systems might decline after the European Patent Convention is in effect and operative?"

DR. FROSCHMAIER: No. To that effect, we have no studies at hand. We have some rumors about intentions on the national level to abandon national patent law as soon as the European patent system is working and has proved to be an efficient system, but we have no studies on statistics or other grounds which give indications as to that effect.

MR. ROBBINS: Here is a procedural question I was expecting somebody would ask; in your discussion, you did not touch on this in detail. The question is—"Some people here fear that the intervention opposition procedure will delay issuance of European patents for a very long time especially for inventions where the general industry intervenes. Is this fear sound?"

DR. FROSCHMAIER: There may be some point to that fear. I have to admit it. The majority in our working party thought—and so do I—that the intervention procedure we chose would eventually lessen the danger of delaying the granting procedure as compared to the normal or classical opposition proceedings as known in German law. But I have a feeling that this point is certainly going to be considered again. Some of our interested circles are feeling very strongly about it, and this point will be right on the agenda of the working party in September when we go through the draft again and it may be that the opinion we get from interested parties in all of our countries will induce us to change the procedure we have provided for. But, this remains to be seen.

MR. ROBBINS: Ladies and Gentlemen, we are arriving at the end of our allotted time. There are a few remaining written questions here, some of which overlap. I think the simplest way will be for further questions to come from the floor. So, if anybody wishes, will he or she stand up?

FROM THE FLOOR: Dr. Froschmaier, I noticed you mentioned several existing bodies like the European patent court and the international court in Luxembourg, of course, the Rome Treaty, the Paris Convention, the Strasbourg Convention.

Now my question is, what will be the status or the position of those different bodies viz-a-viz the European convention, once it is established? And would they present large obstacles or would they act as catalysts?

I am not familiar with the limitations or operations of those particular bodies.

DR. FROSCHMAIER: Well, I think there are two points involved. As far as your question refers to international institutions, such as the Geneva office, working on the scale of the Paris Convention, or the Council of Europe, we certainly will collaborate with those interna-

tional bodies working on a much larger scale, especially because all of our member countries have subscribed to the treaties and conventions on which those international bodies work.

A second question is, what will be the relation between the European industrial property administration and the Common Market institutions? This question is entirely open. It has to be settled by the general convention. But we do not yet have a draft of this general convention. I think it is quite understandable that we, as a Commission of the E.E.C., would certainly like to have the system in the field of industrial property to be inserted in the existing institutions of the Common Market. But do not forget that there is one condition. If the conventions should be open to access of any third party, then we cannot logically insert entirely the patent office, or whatever they will have, into the existing institutions of the E.E.C.

FROM THE FLOOR: In reviewing some of the divergencies of opinion such as in Article 20, 29, 5 and so on, one could arrive at the conclusion that a lot of divergencies are based upon a disagreement as to the extent to which the patent system could be used to restrict competition.

Is that an accurate analysis, and if so, why isn't the antitrust section also involved in this draft?

DR. FROSCHMAIER: Yes. In effect, this point is partly true. I think the divergency within the working party exists on the point whether it is indicated to try and cut out certain practices which would not be consistent with antitrust policy in the Common Market by a text of the patent law or whether it should be left entirely to the application of the provisions of the Rome Treaty relating to antitrust policy, such as 85 and 86.

Part of the delegations thought it appropriate to exclude already by the text of the patent law, practices which are undesirable under the antitrust policy, instead of referring simply to Articles 85 and 86.

FROM THE FLOOR: Dr. Froschmaier, since we are among friends here, we can use the word supranational. Let me ask you a very blunt question, a legal question. Is it the Commission's opinion that Article 5, variant 2, violates the Paris Convention?

DR. FROSCHMAIER: The Commission, as such, has no elaborate opinion on that particular legal question. I think I made it clear that the Commission thinks that Article 5, variant 1, should be adopted, but we would rather rely on other reasons than only on the legal question involved.

MR. ROBBINS: Dr. Froschmaier, in that connection, if the viewpoint of the Working Group is that variant 1 of Article 5 should be adopted, why then is there a comment in the draft convention that a preamble

at present missing should state that this is a "special arrangement" under the International Convention? This implies to me non-accessibility rather than free access.

DR. FROSCHMAIER: I think in view of our time we should not enter now into a very detailed legal discussion. The interpretation of the term "special arrangement" under Article 15 of the Paris Convention is discussed. And some people think that, while being a special arrangement in the sense of Article 15, it still should be open from Article 2 of the Paris Convention.

I think that legally speaking the construction of a "special arrangement" does not exclude the obligation to give accessibility. This will be a special arrangement certainly, but possibly without being of the same character as the special arrangements we already have under Article 15, such as the Madrid arrangement on trademarks.

FROM THE FLOOR: Is there any proposal for jurisdictional courts with jurisdiction that is greater than the states, the sovereign states as they are known today, in the E.E.C.?

In other words, do you contemplate or foresee the institution of some courts that may have extra territorial jurisdiction, extra territorial in the sense of grading, than the states as they are known today?

DR. FROSCHMAIER: I think this is one point I did not discuss. I may have mentioned that we provide that all questions regarding validity of European titles will only be decided by European instances, starting with the judicial boards of the patent office and in the last instance going before a European patent court, the decision of which, of course, is valid for the whole of the territory of the member states.

We have, on the other hand, the infringement proceedings which go normally before national courts, but national courts have no possibility to decide on validity questions. They would have to interrupt the national proceeding until this question is settled before the European instance. And they can, or if they are the last appeal instance on the national level, they must refer questions of interpretation of the convention to the European patent court.

So, the draft necessitates a court with a wider jurisdiction than any national court could have and with binding force in the whole of the territories of the member states. We did not decide, and this question should be decided by the general convention, what court should assume these competencies. And I think there will be a strong feeling that we should take the Luxembourg Court of the communities to serve for such purpose because—among other reasons—it would be extremely expensive to establish a new court on that scale.

Does that answer your question?

FROM THE FLOOR: Yes. Thank you.

DR. FROSCHMAIER: Thank you.

FROM THE FLOOR: Perhaps this is too elementary and I missed something, but in the most restrictive outlook for the possibility on accessibility does the national of another country acting as a resident of one of the other six, not have the same rights and privileges as one of the other six under the convention, and if not, what happens when the national patent will disappear?

DR. FROSCHMAIER: Well, thank you for the question. I think the argument against accessibility has never gone so far as to say nationals of third countries can never have a European patent, even if national laws disappeared.

I mean, there is no dispute possible on the question that third country nationals must obtain European protection if national laws will be abolished. Then this is no question at all. This is quite sure, if we won't have any longer national legislation in that field, then the European protection must be available to third country nationals.

But as long as national protection is still available, the argument of the adversaries of accessibility is to say third country nationals have, as they have now, also in the future the possibility to turn to national protection in the member countries of E.E.C.

PROVOST COLCLOUGH: Thank you very much.

It is now, Dr. Froschmaier, twenty minutes past ten o'clock. We have an American expression which I think you will understand, whether it refers to football or what—you have had quite a workout. And to the elite of our gathering this evening who are still with us, I am sure you all join me in paying our respects to Dr. Froschmaier. This has been one of the most interesting evenings we have had in this lecture series, because we have been right down there, dealing with the basic issues in a field of tremendous interest to American industry, the reasons for which you understand. And the question the gentleman has just asked epitomizes that view.

Also, as our moderator pointed out, right at the end of Dr. Froschmaier's tremendous talk, I think we should always stop and think at the moment—we as Americans—that, here we are, talking about European common patent and trademark systems which would, if they are successful, as I believe you agree they will be, bring together systems in industrial property that were farther apart, at one point, than at least half the European countries and our own system were. Therefore, as we think about the future of our dealings in industrial property with the European Community, we must be very objective, because our fundamental ideas and concepts are so close to half of this Community

and very far apart from the other half. It is, probably, for that reason that we, here at The George Washington University and our Patent, Trademark, and Copyright Foundation, believe this series of lectures and discussions by distinguished experts from abroad is so fundamentally important. That is why we intend to publish these lectures, in order that, not only those who are fortunate enough to be with us on these occasions, but people all over the United States whose affairs are involved in this issue, will have an opportunity to study the problem.

And now, as we conclude the evening, our next session in the lecture series will be at eight o'clock on the evening of April 18. We then will have Toru Onuma, the Secretary General of the Fair Trade Commission of Japan. His lecture will be entitled, "Current Developments in Antitrust and Trade Practice Laws and Policy in Japan and the Relation Thereto of Industrial Property Rights." This will be the fourth public lecture, and the same rules prevail as heretofore. The lectures are free. That is due to the support we have received. It will be appreciated if you will call and indicate your intention to be here.

And now, Mr. Robbins, thank you very much for having, not only moderated, but in your very lucid talk, set the "pitch" for the evening, if I may use that American expression.

Finally, ladies and gentlemen, I am sure you join me in expressing our heart-felt appreciation to Dr. Froschmaier for coming to the United States and being with us. We wish he could stay longer.

(Applause.)

(Thereupon, at 10:29 p.m., the lecture, question and answer period was concluded.)

The index for Volume 6 which is generally included in the year end issue will be deferred to the first number of Volume 7.

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Individuals are invited to submit manuscripts to the *Journal*.

The Patent, Trademark, and Copyright Foundation sponsors objective research in accordance with the Declaration of Trust establishing the Foundation. This purpose is set forth in Article IV, Section 1 of the Declaration as follows: "The purposes and objects of the Foundation shall be promoted and carried on without regard to, and independently of, the special interests of any group or body politic, whether political, legal, social, or economic."

The positions taken by authors of articles in the *Journal* which are not the product of the Foundation's research program are not necessarily those of the Foundation.

THE CONFERENCE

The Annual Public Conference, broadcast nationally, is the occasion for presenting and discussing the research findings of the Foundation and discussing also current issues important in the fields of its interest through which the Foundation may be guided in planning its future work.

The Conference also provides an opportunity for people from different branches of learning and fields of endeavor who share a common interest in the patent and related systems to meet and enlarge their perspectives by participating in the stimulating and productive exchanges and contacts of the Conference.

The research of the Foundation represents the first university attempt at a comprehensive study of the patent, trademark, copyright, and related systems in the United States. This study is systematically planned and coordinated. Different specialities, such as economics, statistics, psychology, sociology, and law, are utilized. The study is based on the facts gathered by the staff on the actual operation of the systems.

The sixth Annual Public Conference was attended by key representatives of commerce, education, science, manufacturing, labor, finance, and the professions from throughout the nation.

The proceedings of the Conference are published in this issue of *The Patent, Trademark, and Copyright Journal of Research and Education.* It contains a summary, an edited transcript of the proceedings, which includes research by the staff of the Foundation until the Conference, the presentation of current issues by qualified discussants, questions from the floor and answers, and an appendix.

When discussants are invited to participate in the Conference, they are, of course, assured of freedom to say what they wish, either as individuals or members of their organizations. Their remarks pertain both to staff reports and various aspects of the patent and related systems.

A Summary of the Proceedings

THURSDAY EARLY AFTERNOON SESSION

The Thursday early afternoon session of the Conference was devoted to the presentation of Foundation research reports of "United States Industrial Property Systems in the Competitive World Context." Participants in this Session were the Director, O. S. Colclough, who acted as moderator; Professor S. Chesterfield Oppenheim, Adviser on Research; the Executive Director, L. James Harris; the Chairman of the Advisory Council, Robert C. Watson; the Principal Investigators, Joseph Rossman, Donald S. Watson, Barkev S. Sanders, Gerard J. Weiser, P. J. Federico, Irving H. Siegel, Robert B. Bangs, John F. Creed, George E. Frost, and the Thomas Alva Edison Fellow, Mary A. Holman.

Director Colclough welcomed the Conference participants and emphasized the importance of communicating the factual information the Foundation is gathering. He directed attention to the media published by the Foundation and referred to the international nature of the program.

The sixth Annual Public Conference was inaugurated with a Keynote Address by Professor S. Chesterfield Oppenheim, Foundation Adviser on Research, entitled "United States Antitrust Policy in the Competitive Free World." He pointed out that "the legal boundaries of national jurisdiction do not and cannot define the economic boundaries of international markets." He cautioned, however, that we should "hold fast to domestic ideologies we deem distinctive American means of fostering motivations for a vigorous competitive process which preserves the independence of decision-making by private business enterprise." Specifically he referred to the public policy of our patent and antitrust laws stating "that there is no inherent conflict in the exclusivity of patent rights and the kind and quality of competition our antitrust laws seek to preserve." He referred to the outlook for a greater degree of harmonization of the laws of various Free World countries with respect to industrial property, and expressed the belief "that United States antitrust policy applicable to American enterprises doing business in foreign commerce . . . should be enforced with a degree of flexibility adapted to greater harmonization with the national or multinational antitrust laws of the Free World economies." He pointed out that "In the United States . . . there is . . . the risk that more emphasis is apt to be placed upon concentration of economic power than upon proof of abuse of such power" and recommended "that the Sherman Act should be applied only to arrangements between American firms or in concert with foreign firms which have substantial anticom-

petitive effects on our foreign commerce." He concluded that "Governments, as well as private organizations, must resolve to place dispassionate studies, from which the realities of facts and experience flow, above preconceived emotional attitudes which create short and long run barriers to effective international economic growth of private enterprise in the competitive Free World."

Executive Director Harris referred to the pioneer work done by the Foundation in the international field and recalled the early history of these studies. He pointed out that the Foundation was presently concentrating its international studies on the European Economic Community and was looking toward studies on Latin America. Executive Director Harris presented some of the findings developed in the Foundation's first studies in the international area.

Chairman of the Advisory Council Watson explained the function of the Council and directed attention to the growing international interests of the Foundation. He emphasized the importance of the factual information being gathered.

Presentation of Research Findings of the Foundation

PATENT POLICIES FOR EMPLOYEES

Dr. Rossman reported that questionnaires had been sent to a representative sample of domestic and foreign corporations owning United States patents. He stated that the questionnaires were directed both to the corporations and their inventor-employees. While not all the anticipated replies had been received, those returned indicated that a large number of the United States corporations required that research and development employees sign agreements in advance to assign all inventions in the employer's field. While some corporations made no additional payments to employees upon filing applications or obtaining patents, most corporations made small payments. In addition, some granted special awards to inventors. The corporations considered any additional payments to be fringe benefits, but replies from inventors indicated that more money would encourage them to produce more inventions. However, there is a trend to increase the payments made to inventors. Replies from foreign corporations indicate that they face the same problems.

GOVERNMENT PATENT POLICIES

Dr. Watson, Counselor to the Thomas Alva Edison Fellow, introduced Miss Holman, the current holder of the Fellowship. Miss Holman stated that although the government currently owns about 12,000 patented inventions as a result of its research and development activities, little information is available on the nature and extent of their use. Nor is there factual knowledge on the relationship between that use and the economic growth and development of the country. Because of the nature of the research and development from which these patented inventions originated, some proportion only can be used by the government. Others, however, have commercial potential. Of these, some can be used without costly development, while others will be commercialized only after extensive investment in plant and equipment. Tentative findings seem to indicate that about 15 percent of the patents in the government portfolio are or have been used commercially. Evidence also suggests that additional ones would be commercialized, if there were sufficient incentive.

TRENDS IN INVENTION HERE AND ABROAD

Dr. Sanders referred to Mr. Federico's paper published in 1937 which indicated that the proportion of patents maintained by fees has progressively increased, on the average. Dr. Sanders offered evidence of the

same kind of upgrading taking place in the United States (e.g., that approximately 40 percent of assigned patented inventions are put to commercial use before a patent application is filed and the proportion of patented inventions put to use among those issued in 1952 is higher than among those issued in 1938 and 1948). Dr. Sanders suggested a Patent Utilization Study for countries where maintenance statistics are available to shed further light on the relationship between patent utilization and the maintenance of patents. He referred to charts (reprinted in the appendix to this volume) illustrating the relationship between the number and survival rates of patents in several foreign countries. He pointed out that in years where there was a sharp drop in the number of patents the survival rates of those patents in subsequent periods are higher, indicating an improvement in quality of inventions patented when the number declines.

EUROPEAN COMMON MARKET: PATENT AND ANTITRUST ASPECTS

Mr. Weiser stated that the purpose of the Study is to examine the developments in the European Common Market as they affect American interests. The work on the phase dealing with the European Patent Convention was reported in the Foundation's *Journal.* Our studies on the impact of the antitrust laws of the European Common Market are progressing and a first report has been published in the Spring issue of this *Journal.* Also being studied are the recent decisions of the administrative agencies in France and in Germany that are concerned with antitrust matters, as well as decisions of the Court of the EEC. In the taxation area the study is seeking to determine the effects of the Treaty of Rome on the different taxation systems prevailing in Europe and the significance of such effects for the establishment of American enterprise in the Common Market.

COMPARATIVE INTERNATIONAL PATENTING STATISTICS

Mr. Federico stated that for the purpose of determining the relative amounts of inventive activity in various countries, a great deal of caution must be exercised in using the numbers of patents issued because patent systems are different, applications are diluted by those filed by residents of foreign countries, complete data is unavailable for certain countries, countries vary in size, the mass of applications filed in one country during a given period does not necessarily have the same degree of homogeneity as those filed in another, etc. Mr. Federico discussed tables showing a comparison of per capita number of patent applications filed by residents of a select list of countries arranged according to their relative standing

with respect to their inventive activity. He informed the Conference that data is being collected from a large number of countries and is being tabulated for publication.

COMPETITIVENESS OF SMALL BUSINESS IN FOREIGN MARKETS

Dr. Siegel informed the Conference that he was preparing a report on the results obtained in a series of studies on the role of patents among other factors in the creation, evolution and operation of smaller firms. In reflecting on the implications of some of our findings for the competitiveness of small firms in international markets he said that though the increasing competitiveness of the new economic changes in the world today may make difficulties for small firms, small business as a category is here to stay. He pointed out some of the pluses that are of importance to the survival of individual firms. Dr. Siegel also referred to the growing antitrust mentality in other nations. There seems to be very limited interest on the part of American manufacturing firms, especially small companies, in exploiting foreign opportunities. Although most of the research programs in the country are conducted by small business, from the performance standpoint these represent only about 6 percent of the total volume of research and development activity, and these firms comprise only a small percentage of all small companies. In the Foundation's small business studies, although we find a limited interest in the earlier years in patents or in licensing activity, as these firms become more sophisticated they do become increasingly interested. Small firms have many governmental and other sponsors urging development in foreign directions.

TAXATION OF U. S. INCOME FROM FOREIGN SOURCES

Dr. Bangs summarized briefly the Foundation's continuing research in taxation, which includes both analyses of prevailing law and surveys of actual tax experience. Individual inventors and corporations with substantial patent portfolios have been covered. Independent inventors often fail to get R & D costs as tax deductions and have difficulty in locating a suitable licensing arrangement so as to obtain capital gains treatment. Corporations have good access to R & D expenses but seldom use exclusive licensing for capital gains.

Mr. Creed stated that Congress is presently considering a tax bill that, among other things, would drastically alter the taxation of income derived from industrial property rights abroad. The proposed legislation—which

is H.R. 10650—would tax U. S. companies on a current basis with respect to income earned or certain benefits derived by foreign subsidiaries or affiliates from any exploitation of U. S. developed patents, copyrights and exclusive formulae and processes. The Treasury has recently recommended a change in the approach to this problem. At the time the patent or like property is transferred by the U. S. parent company to its foreign subsidiary, the foreign company would immediately produce income taxable at ordinary rates, rather than as capital gain. The enactment of the proposals discussed above would almost inevitably place foreign affiliates of U. S. companies at a distinct disadvantage.

COMPETITIVE RESEARCH ACTIVITY: U. S. AND ABROAD

Mr. Frost stated that we can anticipate some measure of antitrust law in countries of Western Europe. Referring briefly to certain basic points in U. S. patent and antitrust law, he concluded that, in the main, in research and new product marketing the norm is competition stimulated by the availability and threat of patent rights and secured against unreasonable restraint by the antitrust laws. Mr. Frost compared the development of the dye industry in England, France and Germany as an example of the effect of a patent system on competitive research. The British and French dye industries were hampered and, ultimately, virtually disappeared when their competitors, the Germans, were free to pirate new products. Eventually, the German industry, due to the drying up of its new product sources, lost vigor. After the Germans adopted a patent system they made tremendous progress in research and new product competition. Cartelization and the ultimate merging of German industry, however, dulled that competition.

THURSDAY LATE AFTERNOON SESSION

The Thursday late afternoon session of the Conference was organized as a panel discussion on the "U.S.S.R.: A New Factor in International Patent Relations?" Professor S. Chesterfield Oppenheim acted as moderator and the speakers included H. J. Rand, President, Rand Development Corporation; Herschel F. Clesner, Assistant Counsel, Subcommittee on Patents, Trademarks, and Copyrights, U. S. Senate Committee on the Judiciary; Leon M. Herman, Senior Specialist, Soviet Economics, Legislative Reference Service, Library of Congress. The first and second sessions served as background for a third phase of the program on Thursday afternoon during which questions were submitted by the audience to both the Foundation researchers and to members of the panel concerned with the international patent relations of the U.S.S.R.

INVENTIONS AND PATENT PRACTICE IN THE SOVIET UNION

Mr. Rand talked about his visits to the Soviet Union seeking developments that might be useful in the United States. He described advanced surgical apparatus he found there, and the interest of American corporations which would, nevertheless, not invest because of a lack of U. S. patent protection. He referred to the exchange of patents between the United States and the Russian patent offices and the Russian team that was recently dispatched to this country to study our patent system. Mr. Rand mentioned the Russian Authors Certificate and the procedure followed in Russia of sharing the inventor's reward with the plant managers and others who could help to make a good idea workable. He believed, in general, that their system was working well for their purposes and that we could benefit by encouraging the Russians to patent in this country.

THE ROLE OF THE SOVIET UNION IN INTERNATIONAL PROPRIETARY RIGHTS AFFAIRS

Mr. Clesner referred to the present regime under Khrushchev as a period of emergence whereas the period of Stalin was primarily one of isolation. In order to meet the goals of their seven year plan, purchases of foreigns plants, technical know-how and other skills and knowledges are needed. However, other nations are growing reluctant to sell package technology as they realize that the Soviets intend to be a strong competitor. It is the Soviet ambition to overtake the United States in industrial technology and achieve a higher level of material well-being within ten years. Because of severe limitations in manpower due to war and famine and the large number of people engaged in agriculture, the bulk of their industrial growth must come from increased labor productivity. The Soviets' adjustment to the process of world trade and the use of proprietary rights is slow. The average Soviet manager encounters the value of proprietary rights only when attempting to purchase or sell technology when dealing with foreign firms. Mr. Clesner stated that in the past five years the Soviets have become active again in filing patent applications in the United States and other Western nations. It was his opinion that the Soviet Union will play a more prominent role in international proprietary rights affairs.

FOREIGN TRADE AND THE NEW RUSSIAN INTEREST IN FOREIGN PATENT RELATIONS

Mr. Herman remarked on the growing Soviet interest in buying complete plants and the Soviet and Western interest in patents that accompany

such purchases. He mentioned certain institutional obstacles to trading in patents with the West, such as the former habit of helping themselves to the technology of the West without payment. Now they are interested in playing the game because they have something to lose from pirating. Western exporters indicated to Mr. Herman they did not fear the Russians copying a machine that was sold to them since, in a competitive market, the Russians would thus be building obsolescence into the Soviet system.

Award Dinner

The Award Dinner held Thursday evening honored Dr. Vannevar Bush, noted scientist, inventor, and public servant, recipient of the 1961 "Charles F. Kettering Award for Meritorious Work in Patent, Trademark, and Copyright Research and Education." Dr. Bush, in his acceptance address, opened his remarks with the question, "We, who are associated with the patent system in one way or another, often wonder why it is now vigorously attacked, or, more dangerously, whittled away in its effectiveness. It is a central feature of our free enterprise system, under which we have attained the highest standard of living in all the world and in all history. Why then should we see all about us that system harassed in subtle ways?" He pointed out that other nations are becoming more competitive and he wondered "whether we can approach this problem sanely and wisely, or whether we have to go through some sort of economic catastrophy before we learn simple lessons." He emphasized that he was criticising those Americans who pursue a special interest without regard for the general welfare. He criticised the violation of the American principle that personal property should be secure against seizure by government, and charged that government has sometimes attacked companies merely because they were large. He also pointed out the "prevalent fallacy . . . that a benefit is inherently conferred when a patent is destroyed." He argued against unnecessary expenditures and vigorously supported a healthy free enterprise system strongly supported by government. Dr. Bush concluded that "The central question is whether this understanding can come in time. It is incumbent upon all of us to aid in an increase of understanding by the people."

FRIDAY MORNING SESSION

The Friday Session was organized as a panel discussion of current issues by experts on the European Economic Community, the Alliance for Progress, and U. S. foreign trade programs. The session provided a broad and representative perspective for comments on the work of the Foundation and for exploring suggestions for future study. John C.

Green, Consultant to the Foundation was moderator. The speakers included Leonard J. Robbins of Langner, Parry, Card and Langner; George Nebolsine of Coudert Brothers; Norbert Koch, member of Directorate-Générale de la Concurrence, Commission of the European Economic Community; H. van Blankenstein, Economic Minister, Netherlands Embassy; Walter A. Slowinski of Baker, McKenzie and Hightower; John M. Cates, Jr., Deputy Director for Inter-American Regional Political Affairs, U. S. Department of State and alternate U. S. Representative on the Council of the Organization of American States; Pedro Iraneta, Secretary, Inter-American Development Bank; William B. Dale, Deputy Assistant Secretary for International Affairs, U. S. Department of Commerce; and Hajime William Tanaka, Special Counsel, United States-Japan Trade Council.

THE EUROPEAN PATENT CONVENTION

Mr. Robbins stated that beginning around 1958 the driving forces behind the Common Market decided that supra-national autonomous European industrial property rights were necessary. In broad outline the decision is to create separate, specific European patent, trademark, and design conventions as offspring of the Rome Treaty, coexisting with national rights indefinitely. The trademark and designs conventions are still in the embryonic stage, but the patent convention will soon be born in draft form. Mr. Robbins reviewed the position of the United States with respect to the European patent convention, specifically considering (1) full adherence; (2) free access-rights; (3) accordance with the International Convention for Industrial Property; (4) association on a basis of reciprocal rights and obligations. He reviewed the time schedule for the publication of the draft convention, submission of comments, and ratifications by the six member countries, and recommended the establishment of a special joint committee of state and commerce representatives to act as a clearinghouse for proposals from the American groups.

EUROPEAN ECONOMIC COMMUNITY

Dr. Koch stated that recent developments in the area of antitrust regulation of the European Economic Community bear directly upon European activities of United States enterprises. With the establishment of the European Common Market a Community antitrust policy is being put into operation which comes comparatively close to the U. S. concept of fostering private business competition through prohibition of combinations in restraint of trade. He pointed out that the Treaty of Rome establishes a general prohibition of restrictive practices moderated by a

legislated rule of reason and forbids the abusive exploitation of a dominant position. Agreements which violate the general prohibition are null and void. In its recent *Bosch v. De Geus* decision, the Court of Justice of the Community practically defers the applicability of the nullity clause until March 13, 1962, the day of the entering into force of the first Council's Regulation to implement the antitrust provisions of the Rome Treaty. This regulation establishes a system of prior notification for retroactive validation of "reasonable" restrictions. The question of when a patent, trademark or know-how agreement may be held violative of the Community antitrust law will be determined by a philosophy which seeks to mutually accommodate the monopoly-oriented law on industrial property and the competition-directed antitrust law.

THE MEANING OF THE COMMON MARKET

Dr. van Blankenstein highlighted the new spirit that has inspired Europe and has made it possible to have common regulations on restrictive trade practices and a draft for a treaty setting up a unified system of industrial property. He pointed to the development of a common European civil service, a European executive and a Council of Ministers which might be viewed as a first beginning of a body, comparable with the United States Senate. He noted the absence, at this stage, of an effective federal parliamentary body, although there existed a first beginning in the shape of an Advisory European Parliament. He reminded the audience of the role that the United States has played in helping this European recovery.

INDUSTRIAL PROPERTY AND THE COMPETITION CONCEPT OF ANTITRUST

Mr. Nebolsine stated that in viewing the Rome Treaty as a whole it is impossible to find an intent to alter industrial property rights. He referred to two articles in the Rome Treaty and Regulation Number 17 (promulgated by the Commission) concerning know-how, to support this observation. He discussed the antitrust rule concentrated in two clauses in Article 85 (1) and referred to authority in analogous fields to shed light on their interpretation.

THE INCREASING INDUSTRIAL PROPERTY LICENSING IN LATIN AMERICA

Mr. Slowinski reviewed the recent progress made with respect to the economic development in Latin America, and apprised the Conference of background material for those interested in such development. He referred to the research of the Foundation and encouraged further research

in the Latin American area. He emphasized the importance of understanding the tax systems of the world by those who plan licensing of industrial property abroad, and discussed the theory of tax jurisdiction in several foreign countries. He referred to the implications of the proposed U. S. tax bill H. R. 10650 now pending before the Senate Finance Committee and the Secretary of the Treasury's proposed alternative recommendation. It was Mr. Slowinski's opinion that this bill contains unnecessary hurdles in the path of companies seeking to do business in Latin America.

THE ROLE OF PRIVATE ENTERPRISE IN THE ALLIANCE FOR PROGRESS

Mr. Cates described the Alliance for Progress and its objectives, stressing the importance of private investment abroad and the relationship of economic development to stable political and social conditions. He referred to the concept, in the Alliance for Progress, of the necessity for self-help and for social and legislative reform as a precedent to economic aid, and pointed out that the various countries have agreed to work together. A major aim of the Alliance for Progress is to create the political climate which will encourage local and foreign private enterprise to participate in national development. The Alliance for Progress works through many channels including AID, private firms, the Inter-American Development Bank, the Peace Corps, Food for Peace Program, and the various agencies of the United Nations and the Organization of American States.

PROBLEMS AND OBJECTIVES OF THE ALLIANCE FOR PROGRESS

Mr. Irañeta pointed out that the long-term nature of the Alliance for Progress, the multilateral approach, and the degree of relation to social and economic policies are new in United States aid programs to Latin America. Referring to the complexities of the tasks and the need for continuous public support, he marked factors essential to the program's success: a general understanding of the need for a long process of change; clear permanent criteria for granting aid; procedures that will enhance broad public support, and measures that will prevent wide fluctuations in the foreign exchange receipts of Latin American countries and facilitate their external trade expansion. Pointing out that capitalization from internal resources will need to be seven to ten times as large as the foreign capital received, he emphasized the tremendous development effort required of the Latin American countries per se.

UNITED STATES PROGRAMS TO EXPAND INTERNATIONAL TRADE

Mr. Dale outlined two programs of the Federal Government to expand U. S. foreign trade, namely, the Trade Expansion Act of 1962 and the export expansion program undertaken by the Department of Commerce. He referred to the five major features of the international situation and our domestic situation that had affected the manner in which the provisions of the Trade Expansion Act were drafted and presented. He also discussed four major categories of provisions in the Act. Mr. Dale pointed out that the export expansion program must have results within a short time for us to reduce very sharply and rapidly our foreign exchange deficit. He concluded with an enumeration of the activities of the Department of Commerce implementing the export expansion program.

TRADE LIBERALIZATION IN THE CONTEXT OF UNITED STATES-JAPAN TRADE

Mr. Tanaka cited a few basic statistics relating to U. S.-Japan trade to shed light on what might happen if further tariff reductions are negotiated. To allay apprehension he referred to the Holland Report issued by the House Labor and Education Committee in 1960 and a recent Brookings Institution study. He pointed out that while non-competitive industries in the international market will be adversely affected, innovating and diversifying industries under the spur of competition will move into new growth markets. Mr. Tanaka examined some of the cases involving Japan which have come up before the Tariff Commission and the Office of Emergency Planning to demonstrate the effect on U.S. interests of U. S.-Japan trade in the products concerned.

The Proceedings of the Conference

THURSDAY EARLY AFTERNOON SESSION
JUNE 14, 1962

FOUNDATION RESEARCH REPORTS: UNITED STATES INDUSTRIAL PROPERTY SYSTEMS IN THE COMPETITIVE WORLD CONTEXT

The sixth Annual Public Conference was convened at 1:34 P.M., O. S. Colclough, Director of the Foundation, presiding.

WELCOME

DIRECTOR COLCLOUGH: Gentlemen, as the Director of the Patent, Trademark, and Copyright Foundation, I have the privilege to welcome you to the sixth Annual Public Conference.

As I am sure I need not belabor for a group such as this, not only are the results of the research and educational program of the Patent, Trademark, and Copyright Foundation of The George Washington University tremendously important at this time, but equally important in our society today is what is commonly referred to as the art of communication.

I think it is particularly important in our industrial economy—and a basic element of that economy, i.e., the patent system—that we give consideration always to whether those things we discover and those things we have to present will reach the proper audience.

And how would I describe the proper audience? I think I would have to say the American people as a whole, when you are dealing with anything as vital as the patent system.

Consequently, as you sit here and as we offer our sixth Annual Public Conference, I hope you will be conscious of the dual role you play: one, for your own interests, to develop a clearer understanding of some of the problems we face; and then, secondly, to carry this message away with you and make use of it wherever you see fit.

As many of you, whom I have known well over the years in this effort have heard me say so many times—but I must say it again—almost more today than ever before I feel it is so vital that we understand that the health and welfare, if I may use those terms, of the patent system in our industrial economy depend in the final analysis, under our form of government, upon an understanding of its place, not only by those of us who are devoted to it in our day-to-day lives, but by those who are the final controlling power in our democracy, i.e., the citizenry of the United States.

It is for that reason that we publish the *Journal,* that we publish the

Digest, that we publish *The Patent System All Around You,* which are in your folders, that we took on the task of producing a movie, "Fuel to the Fire," and that we have an Annual Public Conference.

You have before you in your folders the program for the Conference this afternoon and for the dinner this evening, where I hope we will all see you again in a social atmosphere, when we are going to honor a very distinguished American, Vannevar Bush. Then tomorrow morning there will be another session like this.

This afternoon we are going to offer you a presentation of the findings of the Foundation through the members of its research staff. Each one will try to present his findings, or hers, as we have a Thomas A. Edison Scholar with us this afternoon, concisely. May I ask that each of you, as the presentations are made, think about the problems that you would like to discuss and reserve them until the presentation of the findings is completed.

Then we will have, to complete the afternoon, a subject which you find there, "U.S.S.R.: A New Factor in International Patent Relations?"

I would like to emphasize again, please, that you lend your help in proceeding with the program in an efficient and timely fashion.

Tomorrow morning, as you also see in the program, we are going on to an international basis. It is our custom to have a Current Issues Panel. Tomorrow morning will be the international outlook on industrial property, and I believe we have assembled both fellow citizens and guests from abroad who will be able to present this subject in an exciting way.

I will now present to you someone who does not need to be presented. Probably no one in this room is better known that the man who is going to open the afternoon session with his keynote address. Many of you here—I will ask you to raise your hands—were his students.

(Large show of hands.)

Therefore, without further ado, I give you Professor S. Chesterfield Oppenheim, formerly of George Washington and now of the University of Michigan.

Oppie.

(Applause)

Keynote Address

UNITED STATES ANTITRUST POLICY IN THE COMPETITIVE FREE WORLD

PROFESSOR S. CHESTERFIELD OPPENHEIM: Director Colclough, my colleagues at this table, ladies and gentlemen. I am talking on the United States antitrust policy in the competitive free world.

Evaluation of the United States industrial property systems in the competitive world context calls for a new perspective. In past years, research and American literature in law and the allied social sciences on our patent and trademark systems, as in the areas of antitrust and trade regulation generally, have been directed primarily toward domestic aspects. Post-World War II developments marked new directions in governmental and business approaches to private competitive enterprise in the Free World economies. A succession of international economic developments has gradually created an atmosphere in which old habits of thinking in domestic settings have been shaken. The United States and other Free World countries accordingly face the necessity of accommodating national interests to the larger common stake of commitment to free enterprise as an international goal.

This Public Conference is a response to the urgency of this revaluation. Preservation of industrial property rights is only one segment of this world panorama in which research and development, financing and investment, production and marketing, tariffs and taxation are all interwoven. Across this range is the omnipresence of antitrust policy which today is no longer only the hallmark of our federal laws. American and foreign enterprises competing in international markets must now conform to the antitrust laws of various Free World countries.

In this brief presentation of complex subject matter, I can only hope to highlight some general considerations fundamental to the expansion of Free World economies, with special reference to the public policies of the United States as one of the leaders in this movement. Tomorrow's eminent panelists will discuss in detail the international outlook on industrial property.

One fundamental principle is that the Free World nations must be guided by policies which recognize the economic interdependence of their respective national economies, whereby each nation is given access to compete in the markets of the others. After World War II the United States took the lead in recognizing this principle by proposing an international trade organization. This died aborning but other international trade institutions came into being. Today the United States is participating in the General Agreement on Tariffs and Trade and the Organization for Economic Cooperation and Developments.

Meanwhile, in Western Europe, economic interdependence on a supranational scale was given official status in the European Coal and Steel Community. Then came the six-nation European Common Market and the Outer Seven nations of the European Free Trade Association in which the United Kingdom joined. In this hemisphere the Alliance for Progress

foreshadows similar developments for integrating and coordinating common and reciprocal bonds of the inter-American countries.

The realities of this progression toward international economic interdependence of Free World private competitive enterprise evoke another basic precept which I phrase as follows: The United States and other countries in the Free World cannot hope for enduring expansion of international trade and investment unless they rid themselves of antiquated legal barriers erected by excessive assertion of unilateral national jurisdiction based upon sovereign power.

There is no question that each nation has power to determine for itself its economic policies affecting foreign trade to the same degree as self-determination of its political and governmental systems. However, international economic cooperation by treaty or other contractual obligations cannot coexist with an insular approach to national sovereign power. A nation's domestic policies may have direct and substantial extraterritorial effects on the economic interests of other countries into whose markets the business enterprises of a particular nation venture. When the claim of national sovereignty of one country collides with the sovereign claims of another country in the economic sphere, legal precedents to date teach us that such conflicts have not been effectively composed by either the doctrines of public international law or the private international rules of conflict of laws. There are also wide gaps in existing international treaties, conventions and other contractual commitments which leave fertile soil for controversies between national governments on economic policies.

In my view, these conditions confront Free World countries with the hard fact that the legal boundaries of national jurisdiction do not and cannot define the economic boundaries of international markets. Free World countries must therefore meet the crucial test of their good faith and willingness to bring into reasonable balance autonomy of sovereign national power and responsibility for joint and cooperative actions to reduce conflicting economic policies. This means the ability and readiness of each Free World country to approximate harmonizations of their national laws with their commitments to international economic goals. It does not mean outright uniformity which does violence to the political, economic or social traditions of a cooperating nation. Adjustments can be made with due regard for reconciling private right and public interest of the home country with the common international interests in which the trading and investing countries have a unified goal.

The remainder of my remarks is directed chiefly toward the public policies of the United States on industrial property and antitrust. There are, of course, other policies which need revaluation in achieving the Free

World's growth and solidarity in the massive competitive struggle with the Soviet and other communist blocs. The United States is already embarked upon making adjustments in tariffs and is considering proposals concerning taxation of international operations of American enterprises. These are aimed at bringing these policies into increased harmony with the economic conditions and legal developments in the Free World economies, particularly in Western Europe. Worthy as these objectives are, the key to sound economic adjustments which also protect our gold reserves, lies in a proper balance between affirmative United States encouragement of capital investment of American enterprises abroad by preserving tax incentives for this capital outflow and an increase in United States exports by tariff cuts which realistically weigh the differentials in lower production costs compared with American domestic costs.

In this balancing of national and international economic interests, let us not bargain away the hard core of American public policies which reinforce our leadership in industrial productivity and technological development. Economic international interdependence and a sense of self-restraint in unilateral exercise of sovereign power, to which I have previously alluded, do not mean we should not hold fast to domestic ideologies we deem distinctive American means of fostering motivations for a vigorous competitive process which preserves the independence of decision-making by private business enterprise.

One example is found in the public policy of our patent and antitrust laws. In 1955 I published a paper in which I took the position that patents and antitrust can peacefully coexist. My thesis still is that there is no inherent conflict in the exclusivity of patent rights and the kind and quality of competition our antitrust laws seek to preserve. Both public policies are complementary parts of the paramount goals of a competitive economy. Decrees against patent misuse in violation of either the United States Patent Code or United States antitrust laws are proving to be ample safeguards in judicial decisions based upon findings that such transgressions have occurred. There nevertheless is persistence of a minority view that the exclusivity of patent rights is by nature antithetical to competitive principles. The danger is that this ideological variance from our Constitutional and statutory sanctions of patent exclusivity has already found its way into the halls of Congress where some members have taken their cue from this reformist minority group.

Fortunately, Congress in the Patent Code of 1952 reaffirmed and strengthened "hard core" protection of domestic patent rights. In the past Congress has also wisely rejected proposals for extensive compulsory licensing of patented inventions. This harsh remedy is sanctioned by the Supreme Court only to correct past and prevent future patent-antitrust

violations found to exist. In my view, this remedy should not be extended to royalty-free compulsory licensing.

Foreign patent and antitrust laws may or may not correspond to our conceptions but American cooperation in the international realm does not require any sacrifice in our domestic policy of the basic precepts of our patent laws and Patent System. I also note that the same approach applies to the American trademark system. The Lanham Trademark Act of 1946 strengthened our federal trademark registration and even evinced Congressional intent to create new substantive rights in marks.

When we turn to the international framework, particularizations of the need for American adjustments become evident. It is obvious that when American enterprise does business abroad, it must conform to the laws of the country in which it operates. To illustrate, when American firms do business in the European Common Market, they must do as the firms are there required to do by the municipal law of a member state or by the federal law of the Market. With reference to industrial property, the outlook is for a greater degree of harmonization of the laws of various Free World Countries. This is a program now in prospect or the Common Market. The Rome Treaty makes no direct reference to industrial property but in that area the Common Market members are signatories to several international Conventions. This should tend to foster Common Market unification of laws affecting patents, trademarks, designs and models. The Common Market countries are now considering a draft of a common patent and trademark system.

The implications of this development will be a topic discussed in tomorrow's current issues symposium. My reference to this matter is intended merely to emphasize that the United States may be drawn into this development in two respects. One is that we may be persuaded to extend our participation in international conventions designed to bolster greater coordination of industrial property laws on a multinational scale than presently is the case. The other is that the United States should come to the aid of American business enterprises doing business abroad by combating discriminations against non-members of the Common Market or other like economic community alliances which deny American business the benefits of any common patent or trademark system adopted abroad. American companies which prefer to obtain foreign patents or trademark registrations corresponding to their domestic rights should not be forced to create subsidiaries abroad, or engage in joint ventures with foreign enterprises, as the only way to overcome discriminations against American business in the grant of industrial property rights through a common foreign patent or trademark office. Many American companies prefer to

resort to patent or trademark licensing here and abroad in their dealing with foreign companies. This alternative should not be blocked by discriminatory treatment. Our Government should insist upon reciprocity in industrial property protection as the price for our cooperation with other Free World countries.

Next I come to American antitrust policy applicable to the foreign commerce of the United States. It is well known that since post-World War II we have witnessed the spread of antitrust laws to countries of the Free World. The United States and Canadian antitrust laws can no longer be considered policies unique to the North American continent. Today Great Britain and every important European Free World country has antitrust laws of varying scope and degree of severity. In other parts of the world Japan is a prime example of a country with extensive antitrust law coverage.

He would be bold indeed who seeks to prophesy the future directions of executive, administrative and judicial decision-making in this globular antitrust field. Oversimplification of the complexities might lead to unwarranted generalizations. Yet despite the substantive and procedural diversities in these national antitrust laws, it is accurate to say that there are areas of similarities comparable to American antitrust policy.

One such area covers restrictive agreements among competitors. Some of these may correspond to restrictive arrangements among competitors to control production, fix market prices, divide markets or customers or to boycott others, all of which are deemed illegal *per se* under American antitrust laws. Again I stress that when American business ventures into foreign markets, they will be under the necessity of avoiding these restrictive practices to the extent they are condemned by the municipal antitrust law of the country where they do business or of the community law, as exemplified in the European Common Market and its recently promulgated Regulation implementing Articles 85 and 86 of the Rome Treaty.

This self-evident legal compulsion to comply with foreign antitrust laws on a national or supranational level, however, does not come to grips with the many problems regarding the application of American antitrust laws to the foreign commerce of the United States. Yet, I believe that United States antitrust policy applicable to American enterprises doing business in foreign commerce either alone or in combination with other American or foreign enterprises, should be enforced with a degree of flexibility adapted to greater harmonization with the national or multinational antitrust laws of the Free World economies.

Let me make clear that I am not addressing myself to the administration and enforcement of American antitrust policy applied to our domestic interstate commerce. Furthermore, I do not purport to evaluate in this

discussion our foreign commerce antitrust litigated cases or consent settlements. Also put to one side are proposals for Congressional amendment of American antitrust laws in their application to our foreign commerce. My comments deal only with my view of basic principles within the existing framework of our foreign commerce antitrust policy.

One barrier to international economic progress is outmoded thinking about the jurisdictional reach of American antitrust laws. It is unrealistic to resort to the concept that territorial jurisdiction over subject matter or persons within the United States, or jurisdiction over our citizens or business nationals in foreign markets, justifies extraterritorial extensions of our antitrust policy even if it conflicts with foreign laws. The fact that antitrust is now a widespread policy in Free World countries itself makes obsolete the attitude of the immediate post-World War II period when the United States engaged in a mission to export its antitrust policy to other countries in original packages of our own common law and statutory conceptions. Since then the Department of Justice has been consulting with other government agencies and at times with foreign governments in an effort to coordinate antitrust with our foreign relations or National security interests. This is commendable.

It is true that American enterprise doing business abroad may be faced with a few harsher antitrust sanctions than judicial interpretations under our antitrust laws. This is exemplified in a number of countries which restrict an individual seller's refusal to deal in the absence of what we regard as an illegal antitrust purpose. Exclusive dealing arrangements and tying clauses are absolutely prohibited in several countries, whereas our approach is to require a showing of actual or probable substantial anticompetitive effects, although admittedly the odds in American court decisions are against a finding of legality.

However, there are other areas in foreign antitrust laws where American enterprises doing business abroad are likely to be favored by a more extended Rule of Reason inquiry than under our antitrust approach. For example, there is a sharp difference in foreign governmental and American governmental attitudes toward business bigness of enterprises that acquire a dominant market position. In actuality the trend of United States Supreme Court and lower federal court decisions is not alarming so far as internal company growth, short of monopoly market power, is concerned. These decisions have not condemned enterprise bigness in industries where a few large sellers account for the whole or a major part of production and sales—the so-called oligopolies covering a substantial number of key American industries. No federal court has held that, absent proof of collusion, namely, a conspiracy or agreement among these large-scale

sellers, oligopoly industry or market structure is inherently at odds with competitive behavior. Yet there persists as a minority view, particularly in the writings of a few economists, and as a view expressed by certain members of Congress, the belief that the size and market share of an oligopoly company should be limited by judicial decree under the existing Sherman Act or by statutory limits through Congressional amendments. This has been proposed for oligopoly firms labeled as "dominant companies", even though they fall far short of the present economic or legal concept of monopoly power to fix market prices and to exclude competition.

If this controversial minority view should make headway and should be applied to American enterprises engaged in foreign commerce, this will produce grave conflict with foreign antitrust approaches of the European Free World countries. While foreign laws do regulate the so-called dominant companies, they do not seek to divest them of their market power merely because of their bigness. Under European antitrust laws the trend is to curb abuse of power of a dominant company. In the absence of such misconduct, the beneficial accomplishments of the big companies are given due consideration under an extended Rule of Reason method of evaluation. In the United States, there is, to be sure, an interaction of the industry structure and behavior criteria of antitrust violation. There is nevertheless the risk that more emphasis is apt to be placed upon concentration of economic power than upon proof of abuse of such power. The demonstrable beneficial achievements of big business are seldom given any weight in antitrust adjudication in our federal courts.

These differences coexist with correspondence between American and foreign antitrust laws in significant areas of policy aimed at elimination of business practices in unreasonable restraint of trade, monopolization and attempts to monopolize. Nevertheless, the deviations in our antitrust mores, to which I have called attention, underscore my belief of the necessity for self-restraint of our enforcement agencies to avoid placing American enterprises doing business abroad under severe competitive handicaps which may result from attempted extraterritorial applications of United States antitrust laws. The 1955 Report of the Attorney General's National Antitrust Committee recommended that the Sherman Act should be applied only to arrangements between American firms or in concert with foreign firms which have substantial anticompetitive effects on our foreign commerce. This is still a salutary basic guide.

Our domestic antitrust policy is properly considered an anticartel policy. Let us not forget, however, that some countries abroad view their domestic cartels or even international cartels as appropriate subjects of exemption when a governmental agency finds that they constructively promote the

public interest rather than distort competition. Likewise, joint ventures among competitors may be blessed with foreign governmental sanction through a similar Rule of Reason approach. This is another example of an area where American firms might be given clearance by the Department of Justice or Federal Trade Commission when joint ventures with other American enterprises or with foreign firms are found in purpose and operative effects to be promotive of our foreign as well as our domestic commerce. Likewise, it is to be hoped that an American parent and its subsidiaries will not be charged with conspiracy under our Sherman Act when they act as a single enterprise to promote their own trade in foreign commerce and do not in purpose or effect coerce or otherwise restrain the trade of strangers to the corporate family. It would be a desired harmonization if foreign antitrust laws took the same approach.

All of this means that the United States can ill afford to use rigid legalistic conceptions of autonomous and sovereign exercise of antitrust jurisdiction over foreign commerce. In the foreign trade antitrust field, litigation on a case by case basis is too protracted for jet-speed developments. If the Free World antitrust laws should evolve greater multinational uniformity than now exists, this will be more likely to be accelerated by international agreement and cooperative means for harmonizations of conflicting laws, their interpretations and enforcement. In this process, however, we may be certain that each Free World country will insist upon preserving its political, economic and social traditions so long as they are deemed compatible with mutual and common objectives of expanding Free World Trade and investment with due recognition of the international economic interdependence of the cooperating countries. Missionary antitrust zeal of any country is out of date in an international economy where no one Free World country can have dealer's choice or always hold the trump cards.

My concluding observations are directed toward the continuing need for studies and fact-finding in all areas of international private competitive enterprise upon which sound policies of Free World antitrust and trade regulation depend. The areas of interest of this Foundation's research staff in this afternoon's session illustrate one way of meeting this need. The Foundation's research program is grounded upon factual data from which an analysis and synthesis can be constructed for translation into policy directions tested by empirical proof and by practical operation and experience, not by pure theory or speculative opinions. International agreements, informal consultations and cooperative actions in the competitive world context require similar approaches to fill existing gaps in factual information and evaluation of ways and means for maximizing harmony

in Free World economic policies and industrial property systems. Governments, as well as private organizations, must resolve to place dispassionate studies, from which the realities of facts and experience flow, above preconceived emotional attitudes which create short and long run barriers to effective international economic growth of private enterprise in the competitive Free World. If economic liberty keeps pace with political and civil liberties in the Free World, the diffused benefits of a high standard of living resulting from competitive incentives in those industrial societies will be more powerful than military armaments in the ideological struggle with the communist blocs.

(Applause)

DIRECTOR COLCLOUGH: Thank you, Professor Oppenheim, for setting the pulse of this sixth Annual Conference.

Because I am quite sure that everyone in this room is more conscious than ever today that the United States must play its proper role on the international level, the thought just occurred to me, as we proceed with the rest of our program this afternoon, that certainly, to participate on the international level in the field of industrial property, we must be very sure that our own patent, trademark and copyright systems are strong and healthy.

Before I proceed further, and as we now begin to hear from our research staff, I want to pay my respects to the Chairman of the Advisory Council of the Patent, Trademark, and Copyright Foundation, the group of men on a national basis, with their many interests from a diversity of viewpoints, on whom we depend for advice and counsel in shaping the program of the Foundation—the Honorable Robert Watson, the former Commissioner of Patents.

Bob.

(Applause)

I always must pay my respects to the Executive Director of the Foundation, who works with me and with the Council and who is entitled to so much of our appreciation for the success of the Foundation—Dr. L. James Harris.

Lou.

(Applause)

As we proceed now, we are, as the program shows, going to call upon members of our research staff, one at a time, to present a brief of his particular research project.

As I mentioned earlier, we will ask you to think about what is said and reserve your questions or comments until the end of the program.

I, by the way, did not recognize the representative of the Commissioner of Patents, because you are going to hear from him, Pat Federico.

So now I call upon Dr. Joseph Rossman of Philadelphia, whose area of interest is patent policies for employees.

PRESENTATION OF RESEARCH FINDINGS

PATENT POLICIES FOR EMPLOYEES

DR. JOSEPH ROSSMAN: Mr. Chairman, ladies and gentlemen, friends of the Foundation, my report is on the patent policies for the company employees project which we are undertaking here at the Foundation.

The pilot study was undertaken early this year to determine the policies of American and foreign companies in securing patent rights on inventions made by their R & D employees. For this study, a random three per cent sample of companies was selected from the *Official Gazette* of the U. S. Patent Office during the fiscal year of 1960.

A questionnaire was mailed to these U. S. companies which were selected by patent numbers we found in the *Official Gazette.*

We also enclosed a questionnaire on a 4 x 5 card which the company was requested to hand each inventor or inventors of the sampled patents and ask them to fill in and mail in a stamped envelope addressed to the Foundation.

A total of 447 questionnaires was mailed to U. S. companies in the sample. We pledged to keep all replies confidential as to company identification.

We are still receiving replies, but by the end of May, 23 per cent of the replies were received. There were 1,118 inventor cards sent in this sample—we sent one for each inventor—and as of the end of May, 28 per cent of these cards were filled in and returned.

The foreign questionnaire was sent on airogram letters and included a question relative to any special laws which the particular country might have regulating the assignment of patented inventions made by the company employees. A total of 220 foreign airmail letters was sent, and so far we have received 31 per cent of the replies, a rather surprising number.

A questionnaire was also sent to 74 additional company Foundation members whose names were not on the list of the U. S. sample that we selected from the *Official Gazette.* So far we have received some very interesting information which shows definite patterns and which has an important bearing on the productivity of R & D employees.

It is generally recognized that new products and processes are vital to

a company's growth. These new products are being developed by R & D employees who are hired to perform this function.

As you know, R & D costs have increased tremendously in the past few years. It is clear, in order to keep R & D costs down by increasing inventive productivity, increased attention must be given to company policies in relation to their R & D employees in order to insure maximum productivity. It is hoped our study will shed some useful light on this topic.

The 102 replies which we received from U. S. companies in our three per cent sample indicated that all of them required the inventors, the R & D employees, to sign an agreement in advance to assign to the company the entire title to the inventions made during the period of employment relating to company business. The companies were not requested to send copies of their agreements forms, since such forms are fairly standardized today, most companies favoring a fairly short form.

Of the 102 companies replying so far, I might give just the highlights:

Sixty-two (62) pay the inventor nothing or a nominal one dollar when the patent application is filed.

Five (5) pay $5.00, 2 pay $10.00, 5 pay $25.00, 17 pay $50.00, 1 pays $60.00, 11 pay $100.00, 1 pays $200.00, and 1 pays $250.00 when the application is filed.

When joint inventors are involved, the larger payments are usually equally divided among inventors, and in some instances the divided payment may be increased by a small amount.

In most instances where payments of $25.00 to $50.00 are being made, the companies usually pay the same amount to the sole inventor when the patent issues. There are 9 companies which pay anywhere from $25.00 to $75.00 when the patent issues to the sole inventor. One company reported that it pays $500.00. Nine (9) companies pay $100.00.

In the case of joint inventors, 2 companies pro-rate the $100.00 payment when the patent issues among the inventors. One company pays each inventor $75.00, no matter how many inventors there are. And 1 company pro-rates $150.00.

Several companies reported that special awards are made each year for outstanding inventions in amounts which range from $1,000.00 to $5,000.00. A number of companies make special awards an occasion for publicity and also presentation of medals.

The comments made by the companies in regard to the payments made indicate, first of all, that R & D employees are hired to invent and that their salaries are scaled to compensate for such services. Any payments made when the application is filed or when the patent is issued can be considered merely fringe benefits and not compensation for the actual value of the invention to the company.

Many of the replies indicate that the payments made are not regarded as incentive payments to increase inventor productivity but merely as inducements to encourage submission of research results and ideas to the patent department and also to encourage cooperation with the company patent attorneys in the preparation of invention records and also assisting during prosecution of the patent applications.

However, I might say that, although companies regard these payments as fringe benefits, I don't think the inventors actually regard them that simply, as I will tell you a little later.

I might say these are very topical highlights, and we will analyze the results in greater detail, including the additional replies coming in. I am anxious to give you just the bare highlights here.

We asked another question as to whether there has been a company policy change. We hoped to probe what effect such change might have produced, and we tried to get statistical information from the people answering this question.

As you might guess, such data is generally unavailable, but we did get some very detailed statistical replies from quite a few companies.

There were 26 companies that indicated they had changed their employee inventor policies—almost 25 per cent, in other words, of these companies. There were also eight in the Foundation member replies which indicated they changed their policies. Generally, the changes had involved increasing the payment to the inventor when the application was filed or when the patent issued.

For all the groups here, 9 reported that they experienced some increase of inventions as a result, 12 found no change, and 11 had no data which could indicate any change of any kind.

Some companies indicated they increased their payments only to match the fringe benefits offered by competitors so as not to be at a disadvantage in attracting creative R & D people from outside.

However, it is interesting to note that 2 companies dropped cash payments entirely for the reason that they felt any individual awards tend to make the employee inventors "lone wolves" who would refuse to cooperate with their fellow employees who might want to contribute in making a patentable invention. These companies believed that team play was more important than trying to select or make any kind of an award at all.

I expect to discuss that in our final report in greater detail, because I think it's very significant, very critical to the whole question here.

Another question we asked was: What standards and procedures do you employ to evaluate the inventive productivity of R & D employees?

The replies received from the U. S. companies indicate that no objective

method has been evolved for evaluating the productivity of these R & D people. However, their replies gave us many answers and many ideas. Many factors must be considered before any judgment can be made regarding the output of individual employees, such as whether the nature of the specific project he is assigned to work on is important; the facilities available to him; the technical character of the problems involved; whether the project involves basic or applied research; the time spent on the project; prior successes or failures by others; the value of the project to company business. These are factors which have to be considered in any evaluation.

About half the companies stated that no attempt at all is made to evaluate productivity. However, in practice, some factors are informally considered in evaluating the R & D productivity for determining whether they are entitled to salary increases or other promotions. The evaluation appears to be generally made by immediate supervisors who are in frequent contact with the R & D employees, and consideration is given to their entire performance and overall contribution to the company's growth.

Only 20 per cent of the replying companies consider the number of applications filed or patents obtained as at least one factor that might be considered, but not the critical factor.

In general, they say R & D people are expected to invent because they are employed to do so, and the number of inventions does not necessarily measure their value to the company.

One respondent pointed out that emphasis on numbers of suggestions can only result in an increase in the amount of paper work to be handled by the patent department without any increase in actual contribution to the company's intellectual property.

The third question we had in our questionnaire relates to the prevailing practice of companies taking title to inventions made by their R & D employees and whether that practice impairs the incentives of these R & D employees.

Practically all of them replied that it had not in any way impaired the incentives of their employees as far as they could see. In some ways, of course, that might be a self-serving answer.

But you will see later that the inventors who answered our questionnaire didn't think so entirely.

The fourth question I had better read. Mr. Harris wrote this, and it's a little tricky and rather provocative. "Another criticism of industry policies with respect to its employee inventors is that the established policies have become less and less appropriate as government financial support for industry R & D grows. Please comment on this topic."

Well, practically all U. S. companies replied that government support

of industry R & D has no bearing on established company policy as to their research and development employees. However, this question drew much fire from respondents regarding the current pending legislation for the government to take complete title to all inventions developed under R & D contracts, and it would take several hours to give to you even a summary as to what they said.

I just spoke to Miss Holman here, and I threatened to turn over all these replies to her for her own analysis in her project if Mr. Harris agreed.

On the inventor questionnaire, which was just a 4 x 5 card, here again Mr. Harris plotted very deliberately not to give inventors too much space to write too much so they would put down exactly what they thought and no more. We, of course, hoped to have replies to this questionnaire from the inventors as a cross-check on their bosses.

Well, we got 291 inventors of this sample who said that they assigned their patents to the U. S. companies as employees required to assign by agreement. Only 4 in this sample said that they were not employees. In other words, they were probably outside inventors.

About 40 per cent of the inventors indicated that R & D employees could be very definitely encouraged to produce more inventions. One question we had was, "Can employee inventors be stimulated to produce more inventions? What can be done?" Forty (40) per cent indicated they can be encouraged to produce more inventions by more cash payments, bonuses, and royalties on a percentage basis.

This is a very large percentage, and I am rather surprised that they are so unhappy.

A favorable creative environment was stressed by 18 inventors.

Freedom to pursue research projects of their own selection was mentioned by 18 inventors.

Professional recognition by the company itself was indicated as essential by 23 inventors.

More information and education regarding patent law was mentioned by 14 inventors as being an incentive to help in submitting ideas.

Various miscellaneous suggestions were made, such as attendance at scientific and technical meetings, permission to publish results of their research, better facilities, better communication of problems to be solved, as factors that would stimulate and help in their productivity.

My general impression is that the motivation to help company growth by improving existing company products was not mentioned at all by these inventors, rather surprisingly. It indicates that motivation of R & D company employees in line with company objectives has not been adequate,

and I think better communication and orientation in this area by company efforts seem to be indicated.

Just one more topic. As I said, we sent out questionnaires to foreign companies—I am going over my time just two minutes more—and the replies from the foreign companies were very astonishing to me. I thought that they wouldn't want to bother answering a questionnaire sent out by a nosy American Foundation as to what their activities were. But, much to my surprise, they replied almost immediately—and by airmail. We did not ask them to reply by airmail, but they did.

I will give you a rundown. As you know, it is only a small sample—3 per cent of the foreign that we found in the OG. But we had 1 reply from Belgium, 2 from Canada, 7 from Denmark, 16 from West Germany, 13 from Great Britain, 3 from Holland, 4 from Italy, 4 from Japan, 1 from Liechtenstein, 1 from Norway, 1 from South Africa, 8 from Sweden, and 8 from Switzerland. I'm not sure whether that indicates the rate of frequency of patenting by foreigners in this country. Maybe Mr. Federico can indicate that later on.

We received many detailed replies. We had the question: "Does your country have special laws regulating the assignment of patented inventions made by company employees? If yes, how do these laws affect your arrangements with your employee inventors?"

Many of the respondents were very courteous. They sent copies of the specific laws in their countries, as in Germany especially, which you know has very involved and very intricate employer-employee legislation.

The comments and attitudes will be analyzed further. We are going to try to see whether we can learn something from their experience.

The thing that impresses me so far is that foreign companies are facing exactly the same kind of problems that American companies are facing—productivity of the employees, the problems of adequate rewards or sharing of profits.

Generally, in spite of special statutes in some of these countries, as in Germany, Italy, and in Japan, which are rather broad in requiring that the employee shall be adequately remunerated for his invention if it appears to be profitable to the company, in practice it seems from the replies that the companies regard adequate salary and deserved promotions as full compliance with their special employee award laws.

We hope to give you more information in our future published reports.

Thank you.

(Applause)

DIRECTOR COLCLOUGH: Thank you, Dr. Rossman.

Next on our agenda are Professor Donald S. Watson of The George

Washington University and Miss Mary A. Holman, Thomas Alva Edison Fellowship holder at the University, on the subject of government patent policies.

Professor Watson.

GOVERNMENT PATENT POLICIES

PROFESSOR DONALD S. WATSON: Mr. Chairman and gentlemen, I want to make just a few remarks about one of our research projects.

The United States government now owns a large block of patents—far more, in fact, than any business corporation. This large block of patents has come out of the great growth in research and development in the postwar period, has come about through the government's policy toward its own employees and through the title policy. But, in addition to that, even the agencies following the license policy have acquired many patents for the government.

The research topic is the use of government-owned patents. The research is being carried out by the first holder of the Thomas Alva Edison Fellowship, a fellowship made possible through the assistance of the McGraw Foundation.

The first holder of the fellowship is an experienced researcher. She is a college teacher, and she is working on the final stage of her studies for the doctorate degree in economics.

I have much pleasure in presenting Miss Mary Holman.

(Applause)

MISS MARY A. HOLMAN: Thank you very much.

As Professor Watson indicated, this study is concerned with the utilization of government-owned patented inventions. The primary objective is to answer a seemingly simple question: What happens to these inventions after they are assigned to the government?

Little or no information is available currently on such matters as the nature and extent of commercial use, the reasons for non-utilization, the uses to which the government itself puts these patents, and whether the patents help to promote economic growth and development through improving technology and increasing the efficiency of our resource utilization.

The first problem encountered on this project was to find out how many patented inventions were in the government portfolio. There were no official figures on the actual number of patents. Considerable time was spent in the Assignment Branch of the U. S. Patent Office counting these patented inventions. Estimates of about 12,000 patents had been made, and my count confirmed these estimates.

The importance of the problem of the utilization of government-owned patents will increase in the future, if the government continues to increase its patent holdings. About half of the patents it now holds have been acquired within the last five years.

The exact number of patents the government owns in the future will depend upon such things as the amount of research and development the government sponsors, the patent productivity of this research and development, and, of course, the policy of the government toward acquiring employee inventions and inventions resulting from contract research and development.

There can be little doubt that the administrative machinery affects the commercial use of these patented inventions. The government could widen the commercial utilization of these patents in many ways. None of the ways is without advantages and disadvantages. For instance, it could develop potentially useful inventions itself, or it could liberalize its licensing arrangements and permit exclusive licenses. It could even commercially exploit these inventions itself.

Some preliminary investigations have been made to determine how foreign governments are handling the disposition of patent rights resulting from government-sponsored research. It is hoped these investigations will shed light on the problem of the relationship between the administration of patents and the rate of commercial use.

The nature of the patented invention itself also affects the rate of commercial use. As one would expect from the type of research and development from which these patented inventions originated, most of the government-owned patented inventions presently fall into the broad categories of electronics, chemistry, electricity, radiant energy, and ordnance. Obviously, some proportion of these patented inventions can be used only for government purposes. They hold no apparent commercial value.

To get factual information on the nature and extent of the use of government-owned patents, it was necessary to go to primary sources. A randomly-sampled group of inventors of these government-owned patents and another group of individuals and firms licensed to use the patents were requested to supply information in a mail survey. In the remaining minutes, I would like to indicate to you a few extremely tentative findings that have resulted from these questionnaires.

Commercial use has been reported on about 15 per cent of the sampled patented inventions. For purposes of this study, commercial use was limited to mean producing the patented invention or using it in the production of goods and services.

This 15 per cent rate of utilization is considerably less than the estimated 50 to 60 per cent rate of utilization for patents assigned to private

firms and individuals. Further, there is preliminary evidence from both licensees and inventors that there are additional patented inventions owned by the government that would be put into commercial use had these individuals and firms had title to the patent or an exclusive license to use it.

Preliminary findings also seem to support the contention that those government-owned patented inventions which are put into commercial use are those which require little or no further development. This is important when patent rights are judged to be an essential element for a managerial decision deciding whether or not costly and risky investment in plant and equipment should be undertaken.

About 70 per cent of the patents that were reported to have been commercialized by private firms and individuals did not need any further development.

Finally, there does not appear to be a close relationship between the number of patents to which licenses have been issued and the number of patented inventions which have been commercially used. Of the replies from licensees, only 15 reported that they had actually commercialized the patented invention. A frequently stated reason for non-use was insufficient market demand. Another important reason cited was that it would involve too much in terms of sales effort or costly development work to make the commercialization possible. Curiously, some of the firms denied having been issued a license or else they did not have any indication of a license agreement in their records.

These are only tentative findings. The study has not advanced far enough to draw firm conclusions or to make recommendations. But given the existence of the private patent system as it is in this country, and within its framework, very preliminary evidence suggests that there are some government-owned patented inventions that could be commercialized and have not been because there is insufficient incentive.

Thank you.

(Applause)

DIRECTOR COLCLOUGH: Thank you, Professor Watson and Miss Holman.

The next member of the research staff is Barkev S. Sanders, whose research is in the field of trends in invention here and abroad.

Dr. Sanders.

TRENDS IN INVENTION HERE AND ABROAD

DR. BARKEV S. SANDERS: I suppose I should follow precedent and read. Usually I don't like to do that. But after what has been said about

the importance of empirical research both in foreign patents and in United States patents, I don't think I need my introduction.

The trend idea immediately suggests something about numerical comparisons of patented inventions. Of course, that is full of pitfalls, as some people have pointed out, and I believe that Mr. Federico is going to underscore that.

However, in spite of this, there are many aspects where the study of foreign patents could be highly instructive partly because they are produced under different provisions. Their study would shed light on problems with respect to our own patent system and its role in our economic progress.

I shall deal, of course, with only a few of these.

Early, before the Foundation's study indicated that a very high proportion of the assigned patents in the United States and even a significant proportion of the unassigned patents are put to commercial use, Mr. Federico way back in 1937 indicated how the maintenance of foreign patents by the payment of annual maintenance fees could give a clue to the proportion of patented inventions that are put to commercial use.

In his characteristic objective and cautious way, this is the language he used at that time:

"The system of taxation of patents in force in most countries can be used as one element of such a study, since from them some measure of the patents which are successful in the sense of producing revenue for their holders can be obtained."

This was, as I said, in 1937, and his figures suggested that at least on the basis of these statistics perhaps something like 40 or 50 per cent of the patented inventions might be put to commercial use.

Another aspect that Mr. Federico emphasized that might have wide implication for giving us some insight as to what has happened to our own patented inventions was the fact that the proportion of patents that are maintained by payment of these maintenance fees has progressively increased on the average. And he demonstrated this for British and German patents, and in his later study he demonstrated that this is quite common for other countries where such information is available over several decades.

Now, I am inclined to believe that if we had similar data for the United States, which we do not have, there also would be what I characterize an upgrading of the inventions which are patented, the same kind of upgrading that has been going on in many European countries and in all probability in the United States as well.

There are only some clues as far as United States patents are concerned

that this has happened. Among those, one is our finding that in something like 40 per cent of those patented inventions that are put to commercial use, such use begins before even a patent application is filed. This is with respect to assigned patents. This immediately gives you an indication that there would be a selection, because you would assume where an attempt to use an invention proves a fizzle no application would be filed.

But there are other clues. Another one is, for instance, in our own limited sample of 1938, 1948, and 1952. There has been a progression. This is not statistically significant, but still the proportion of patented inventions put to use from 1952 issues is higher than that of 1948 or 1938.

Still another clue is the lower percentage of use of earlier patents. This was obtained when we asked the inventors of sample patents the utilization rate of all of their patents. From over 10,000 patented inventions for which this information was supplied, only 43 per cent were put to commercial use, while of the sampled patents, which were relatively more recent, 57 per cent were used commercially.

There was a similar progression with respect to unassigned patents. There, in terms of the patents that were in our sample, the utilization rate reported was 43 per cent, and with respect to all the patents of these inventors the percentage used was 30.

So, to me, these are indications of upgrading of inventions which are patented. We find a phenomenon occurring in some other country where the statistics lend themselves easily to study, and we seek for these things, for clues, in the United States to see whether similar changes have occurred. And once you know what you are hoping for, you find it much more easily than if you were seeking in the blind.

So, in this respect, you get new dimensions added by the study of foreign patents, and I think much insight could be added to our own understanding about what is happening to our patent system if it were possible to repeat a study following the pattern of the utilization study that the Foundation made with respect to some foreign patents in those countries where the maintenance statistics are available to tie very directly the relationship between patent utilization and the maintenance of patents for one year, two years, three years, and so on.

I think I shall skip other possible crossovers and simply refer you for a few minutes to some graphic material that you have in your kits. There I have illustrated the relationship between the number of patents and the survival rates of these patents. The first chart is with respect to Great Britain. (Charts referred to are reproduced in Appendix I.)

You will notice that in the years when there is a sharp drop in the number of patents the survival rates of those patents in subsequent periods

is higher, indicating that when the number of patents declines the quality of the inventions that are patented increases.

Therefore, this is another indication that you should not simply take the number of patents as such, as an index of inventiveness.

There is another guideline one should draw from these few statistics for England, Germany and Switzerland. These statistics should be analyzed in terms of the basic data rather than in terms of fitting a highly conceptual mathematical function and then trying to analyze this function. To illustrate, in a recent publication it was concluded that in Britain the survival rates of patented inventions had declined since 1950. I think if you study these data you will see that that is not true. It was maybe during the war that there was a drop.

Further details of these and other countries for which such data have become available will be analyzed in greater detail and their implications spelled out, I hope, soon in the *Journal* of the Foundation.

Thank you.

(Applause)

DIRECTOR COLCLOUGH: Thank you, Dr. Sanders.

Our next speaker is Gerard J. Weiser, who will speak to us on the European Common Market, patent and antitrust aspects.

Mr. Weiser.

EUROPEAN COMMON MARKET: PATENT AND ANTITRUST ASPECTS

MR. GERARD J. WEISER: Mr. Chairman, friends of the Foundation. The purpose of this research project is to study the developments in the European Common Market as they affect American interests both here and abroad.

As part of this project, and as its background, we have to watch and evaluate all developments that occur in the Common Market that may have some significance to American interests. This immediately requires an evaluation and the exercise of discrimination in rejecting that material of no significance to us—and with which we cannot concern ourselves—and with selecting that material which does have relevance to the Foundation's purposes and to our reading public.

A first hurdle implicit in this work is the language barrier and the difficulty in obtaining information from Europe. We think that we have been rather lucky and fortunate in overcoming these to a large extent.

Following this general plan, the first area we have studied was the Euro-

pean Patent Convention. This work which was undertaken roughly about a year ago was published as a first report last Fall in a *Journal* of the Foundation (Volume 5, Number 3).

The study revealed the main aspects of the Patent Convention, with which I believe you are all familiar, the proposal to create a European Patent throughout the Common Market, the possibility of joinder by other European countries and the possibility of joinder by the United States—a very vexing question, indeed.

The report was timely, because as it stands at the present time the Draft of the Convention is expected to be published some time this Fall. And it is proposed that a meeting be held in Italy later during the next year, with the hope of adopting the Convention some time in 1963.

The new European Patent Convention will be very important for the solicitation, exploitation and management of American industrial interests abroad.

The second main area of research in this topic is the antitrust field. Our studies are progressing in an attempt to evaluate the impact of the antitrust laws of the European Common Market. We are publishing a first report in the Spring issue of the *Journal* attempting to analyse the antitrust regulations implementing the antitrust provisions of the Treaty of Rome. By tracing these regulations through their legislative history, as through the European Parliamentary Assembly, we attempted to give the analysis more significance.

These regulations are of particular interest to patent circles, those having patent interests abroad, since the regulations make some exemptions from registration for certain agreements involving industrial property.

Furthermore, we are studying the recent decisions of the Commission Techniques Des Ententes and of the Bundeskartellamt, the two administrative agencies in France and in Germany, respectively, that are concerned with antitrust matters. Likewise we are following the decision of the Court of Justice of the EEC; and in particular we are studying the *Bosch* case which was handed down last month.

A third area into which we are moving is the taxation area. We are attempting to find out if pursuant to the Treaty of Rome differences in taxation systems prevailing in Europe have been so minimized as to make other factors, particularly economic factors, of greater significance in the establishment of American enterprise in the Common Market. We are researching in the area of joint ventures—where one partner is an American—and the antitrust and patent problems as they particularly relate to joint enterprise.

This, in a nutshell, is what the Foundation is attempting to do in the

field of research in the Common Market. It is a challenging area of research and a very satisfying one too.

This, in summary, is a report, Sir. (Applause)

DIRECTOR COLCLOUGH: Thank you.

Next we will hear from a man we all know and respect so much, Mr. Pat Federico, of the Patent Office, on the subject of comparative international patenting statistics.

COMPARATIVE INTERNATIONAL PATENT STATISTICS

MR. P. J. FEDERICO: We go back to statistics now.

There is a good deal of fascination in patent statistics, and one of the first things many people think of doing when they have some statistics for a number of different countries is to compare them for the purpose of determining the relative amounts of inventive activity in the various countries. Usually considerations like these are taken into account.

First, you cannot compare numbers of patents issued by different countries, because their systems are different. In some countries patents are issued a few months after a perfunctory formal examination, whereas in others there is a long, involved procedure which eliminates a whole lot of them. Since the patents themselves cannot be compared, the numbers of applications must be used instead. Here they are all on an equal footing; there has been no examination of any of them.

Another consideration is that since you are going to compare the inventive activity of the countries, you must subtract the applications filed by residents of foreign countries and use only the applications filed by domestic applicants in each country.

This involves problems, because while for some countries applications divided by the country of origin are available, for other countries only patents divided by countries of origin are available. But in the latter case you can use the patent data to make estimates for the applications and arrive at fairly close estimates.

There are also problems in the data, in that you don't have complete data for some countries, in which case estimates must be made. But these are minor details.

Again, single years should not be used for the comparison, because there might be random fluctuations in a particular year, or it may not be representative. So you use a short period. The period should not be so long that you lose the basis for comparison, but should be long enough to avoid random fluctuations in a particular year.

Now, you cannot compare the numbers themselves, because the coun-

tries vary in size, and they must be reduced to a basis where you can compare them to get the relative inventive activity. The population of a country is used. And if you have a period, you must pick a year for the population. The beginning or the middle of the period usually makes very little difference in the results.

After going through this operation, you have a set of figures which give the per capita number of patent applications filed by the residents of each country considered, and there you have, when you arrange them with the highest one at the top, the relative standing of the countries with respect to their inventive activity.

Two tables have been passed around which show the result of this exercise for two five-year periods, 1951 to 1955 and 1956 to 1960.*

These tables differ from the one that was presented several years ago in the Patent Foundation *Journal,* taken from a French source, in a few respects—primarily in that more countries are included. There was no selection of countries, but every country for which data could be found was included.

The 1951 to 1955 table could be compared with the one published several years ago. There are slight differences and rearrangements because the data used was slightly different, but the general results are the same except for the greater number of countries now included, including some countries which are seldom included in a study.

I have a chart here which is exactly the same as the chart previously published except for the fact that it has more countries and it is for the period 1956 to 1960. Unfortunately, the paper wasn't big enough to show the top of the leading country, which, on the same scale as the others, would be about ten feet higher than all the others, and then the remaining countries trail down in varying degrees.

The results shown by these tables will not be discussed here, but it is obvious at once that there is something fundamentally wrong. This is not necessarily the astonishing and hitherto unknown outstanding leadership of Liechtenstein, but other matters as well. So the whole operation must be reexamined to see what is wrong with proceeding in this manner.

There are several basic defects in the whole thing. One is consideration of the data itself. In the United States we treat the words "applicant" and "inventor" as synonymous, because only the inventor may apply for a patent. But that is not true in the majority of foreign countries. So in data taken from reports of foreign countries of applications or patents divided by the residence of the applicant, the owner is meant, not the

* The tables referred to are reproduced in Appendix II.

inventor, since the owner applies for the patent in the majority of cases in its own name. I say "it" because they are primarily companies.

In Germany, one week's issue shows that 83 per cent of the patents were applied for by companies, in the name of the company, and the reports would show the residence of these companies, not the inventors. Of course, where the company and the inventor live in the same country, there is no difference in the result.

But there is a common practice in obtaining foreign patents of permitting a foreign subsidiary or a foreign related company to apply for the patent, in which case a patent or application listed in country A as filed by a resident of country A, may be for an invention made by an individual in country B.

So there is some defect in the basic data when it is used for inventive activity.

Of course, this feature might be measurable. Some way might be found of making allowance for it. In most instances it would probably make very little difference, but there is a suggestion from a little bit of data found that in some countries it may make a tremendous difference.

But much more important is the basic fallacy in comparing these figures, the application figures of different countries, and that is the assumption that they can be compared.

Before you can compare the application figures, you would have to establish that the mass of applications filed in one country during a given period was of substantially the same nature, the same degree of homogeneity, as the mass of applications filed in the other country during the same period.

If you could give each application a measure which would measure its quality or what not, the distribution of these values should be substantially the same for the countries compared.

Or, to state it another way still, if you took a proper statistical sample of the applications in two countries, or the countries that are being compared, the two samples should be practically indistinguishable from each other in all important characteristics.

Now, this is far from the case. There are a number of factors which affect the filing of applications in different countries, in such a manner that the gross numbers of applications cannot be considered comparable. I will mention only a few.

Some of these reside in the differences in the laws of the countries. Perhaps in a country that does not examine at all there may be a greater encouragement to file applications which would not be filed in a country where there is a very strict examination.

But, aside from that, the patent laws of many countries encourage the filing of hasty and premature applications much more so than the laws of other countries; that is, applications which would be dropped quickly or rejected quickly and which would not be filed at all in other countries.

In most countries a patent is barred if there has been any publicity, public use or description in printed publication—and in some countries even by way of nonconfidential oral disclosure to another—, before the filing of the application for patent.

Also if two different inventors apply for a patent, unrelated inventors, for the same invention, the patent is given to the first one to file. The second one to file gets nothing.

As a result of this particular system there is great haste in filing applications, leading to lesser selection in what is filed.

In the United States and Canada there is a period of one and two years, respectively, before an application is filed, during which publication or use of the invention will not bar a patent. Also in these countries a patent will be granted to the first inventor rather than the first applicant to file.

When it is suggested in the United States that we abolish the interference procedure, the argument is usually raised that that will lead to hasty and ill-filed applications.

This is one aspect of a larger phenomenon, in that there is a much greater pre-selection of applications to be filed in some countries than in others, or, put another way, there is very little pre-selection of applications to be filed in some countries as compared to others.

In the United States there is a highly developed system of preliminary searching before applying for a patent. In most instances a search of the invention or the alleged invention, at least through prior United States patents, is made before applying for a patent, and a decision is made on the basis of the results of the search.

Also the period of use that is permissible gives another opportunity for selection.

Now, there is some preliminary searching done in other countries, but not to the same extent and not as well organized system as in the United States.

Merely as an illustration, the new German Patent Office building has a search room of which they are quite proud. This room is less than a third the size of the search room in the United States Patent Office. And almost on any day the room is very sparsely occupied—just a few people sitting here and there—whereas in the United States, with a search room three times the size, it is usually very difficult for somebody to try to find a seat where he could do some work.

Perhaps an extreme example of the practical absence of pre-selection is in the U.S.S.R., where, out of about 40,000 applications that are filed a year, 75 to 80 per cent are rejected—"rejected" meaning the patent or author's certificate is finally refused.

This is not because of any unusual efficiency or strictness restriction in the examination system, but merely because the applications are filed without selection—they're just filed—whereas in other countries there might be some pre-selection.

There is an article in the *New York Times* summarizing an article in one of the Russian periodicals that treats at length the indiscriminate filing of applications resulting in this large proportion of rejections.[2]

There is another matter which also may have some influence, and that is the differences in some countries with respect to the amount of subject matter which can be included in one application. All patent laws indicate, in one way or another, that one application must be directed to one invention. But there is a great deal of difference in the practice as to what is considered proper to include in one application.

Now, this has not been measured, but some way of measuring it would have to be found and allowed for. Of course, in some instances it might not make any difference, but in other instances, particularly between countries that are extreme in their practice, it might make a considerable difference.

Now, I am not suggesting that patent application statistics cannot be used for any purpose because many useful things can be derived from them, but merely indicating that a great deal of caution has to be exercised.

The use of patent data to measure inventive activity in one country alone is very difficult, but the difficulties are multiplied tremendously in dealing with a number of different countries with different laws and different habits in filing applications.

In this matter of patent statistics, particularly with foreign countries, it is rather difficult to get the basic data. The first step has to be to collect the data. For this purpose we have collected data from a large number of countries and put them into a number of tables which will be published, presumably as a source of historical patent statistics. These tables will include patents granted in over 40 countries beginning with the year 1791 for the earliest ones, and the later ones coming in as the data becomes available.

For most of the countries also there is application data from 1901 to date.

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[2] Agranovski, "Secrets of the Patent Library," *PTC J Res & Ed.*, Vol. 5, No. 3 (Fall 1961) p. 273.

And for 18 countries only, those for which such data was available, there is a ten-year table of applications filed by or patents granted to residents of different countries in a particular country.

These tables, explanations, and so forth, will form a paper of historical patent statistics.

Thank you.

(Applause)

DIRECTOR COLCLOUGH: Next I will call upon Dr. Irving H. Siegel to summarize our research in competitiveness of small business in foreign markets.

Dr. Siegel.

COMPETITIVENESS OF SMALL BUSINESS IN FOREIGN MARKETS

DR. IRVING H. SIEGEL: Today I address myself to a topic which really represents a target of opportunity. I have been in the midst of preparation of a report that brings together and discusses in a larger context the results obtained in a series of mail questionnaire studies conducted under my general supervision. These studies relate to the role of patents among other factors in the creation, evolution and operation of smaller firms.

I reflect today on the implications of some of our findings for the competitiveness of small firms in international markets.

First, I think it is important to distinguish between small business as a category and small business in terms of specific firms. There is no doubt that, with the Common Market and other new economic challenges in the world today—for example, the increasing competitiveness of the Japanese and the destabilizing role that the Soviet bloc might play in world markets—many small firms will have difficulties.

It is also clear, however, that small business as a category is here to stay. The reason for confidence is very simple. According to the Small Business Administrator, even today, despite the ravages wrought by combination, merger, war, and demobilization, all of which have unhinged small businesses in the past and encouraged trends toward consolidation, 95 per cent of all the firms in the country today are still small businesses according to the criteria of the Small Business Administration.

This does not demean the role of larger businesses but points to something inherent in the nature of our system which inspires confidence that small businesses are here to stay.

A question of political interest all the time is, of course, whether *particular* small businesses in this or that Congressman's bailiwick will survive

and prosper. And this question is full of ideological and other import too, and therefore is a matter of continuing concern.

Concerning the situation of particular small businesses, we see a lot of writing today which points out the various dangers that are faced by virtue of the resurgence of the Japanese and the Germans, the rehabilitation of the allied countries of Europe, and so on; and we see much which indicates that cost disadvantages are developing or becoming aggravated.

A survey that many of you may recall, by the National Industrial Conference Board on costs and competition, relates to firms which operate in both the United States and in foreign countries.[1] It shows, for example, that, in the U. K. and the Common Market generally, an advantage in unit labor cost and also total unit cost is enjoyed by the European counterparts of the American firms.

We also know well the other difficulties that we face as a nation, in maintaining a proper balance of payments. You are well aware of the considerable concern expressed with regard to our gold reserves and the stability of the dollar as an international currency. These problems affect the lives of many individual companies.

Now, what are some of the pluses that are of importance to the survival of individual firms, granted that small business as a category will certainly survive?

Well, the United States was the first of the great "common markets." The conception of the American common market goes back to Alexander Hamilton's *Report on Manufactures* in 1791. It became a reality in the course of the nineteenth century, and we have had the advantage in this kind of market of producing on a mass basis.

Still more important, we have learned the secret of mass distribution. We have learned, too, the secret of mass financing. We have learned that the little man, by virtue of his assurance of a job most of the time, has a basis for credit—a great American discovery.

The Europeans are just learning the facts of mass distribution, financing, and credit. The Japanese and other latecomers in the industrial revolution will have to learn these facts too.

We have a certain head start in know-how, as well as mass production techniques. We have experience in working in a large common market. Despite our complaints and self-criticism, we still have the highest productivity in the world, several times that of many, many countries, countries which are challenging us only by virtue of the fact that their wage scales are so low, their hourly rates are so low. Our productivity is so much

[1] T. R. Gates and F. Linden, *Costs and Competition: American Experience Abroad*, National Industrial Conference Board, New York, 1961.

higher that in most cases the unit labor costs, per unit of output, are still competitive in our country.

I do not say this to induce complacency. I simply want to point out that there are many pluses in the balance.

We must also consider something else which is generally overlooked in much of the writing that I see. The coming of the Common Market to Europe and the industrial revitalization of Japan, represent part of the expanding "revolution of rising expectations," a phrase which seems to be applied only to stirrings in the so-called "underdeveloped" countries but which also should be applied to this new phase of the industrial revolution in such "advanced" countries as Great Britain, France, Italy, and Germany.

What does this mean? This means that the Marxian prophecy may fail of fulfillment even in Western Europe as it has, say, in a country like our own, which is the most advanced frontier of "capitalism." It means consumer durable goods will come to Europe. It means the installment plan will come to Europe. It means many of the attributes of the large market, the mass market that we associate with the United States standard of living will also come to other nations at last.

Now, what else does this mean? There are some corollaries which we should not enunciate so explicitly that we should appear to be making remarkable predictions. I suggest, however, that American-style unionism will come to Europe—that is, business unionism, not Marxian or class unionism.

This development would have some important implications for European wage scales, for the European standard of living.

Also this development is implicit in what I said before: The very increase in capacity to produce in Europe and the pressure to develop internal markets will likewise also lead to rising wages.

What I am pointing out is that there are forces at work which will make for greater uniformity in unit labor costs in the United States and elsewhere, effecting even those countries which might enjoy some differential advantage today by virtue of low hourly earnings for production workers.

Professor Oppenheim has also referred to the development of an antitrust mentality in other nations. Well, this is another sign that the rest of the world, as it embraces the common market concept, the large internal market concept, will have to make some other concessions in our direction, concessions which may make it somewhat easier for individual firms to compete.

These are the tendencies, although they may require some time to register a significant impact.

In Japan we shall see the same development, even though it may come somewhat later, in the same way that Western customs have been embraced in that Oriental land.

Now I should like to say something about the participation of small business to date in foreign trade and in other foreign ventures.

As we look around, we don't find many pertinent statistics, but it would appear that perhaps one out of 25 manufacturing companies engage in some foreign trade. If there were more detailed statistics, they would doubtless show that, of those companies which do engage in some foreign enterprise, the dependence on foreign sales is generally relatively small.

In other words, there seems to be very limited interest to date on the part of American manufacturing firms, especially smaller companies, in exploiting foreign opportunities.

This may signify a certain backwardness. But it might also mean that the potential for profitable engagement in such activity is not especially attractive.

Small companies, of course, ought to look into the matter. We should not assume that, because there are certain pressures nowadays to discover a new international frontier in the same way that everybody was impelled to discover the research and development frontier a decade or so ago, small business also has to join the game.

In the end, small business makes its essential contribution to society by being profitable. In fact, all firms make their essential contribution by being profitable. I know this might sound heretical nowadays, but the social obligations of firms are carried out best when they fulfill this rather simple economic objective which we often overlook.

This is not a lecture. There is a real point to this remark, as you will see from some of my subsequent observations.

Let us consider research and development from the standpoint of small firms. A new report of the National Science Foundation shows that in 1959 something like 11.8 thousand firms were engaged in research and development activities. Curiously, 10.6 thousand of those firms, roughly 90 per cent, are companies that have a thousand or fewer employees. (I might add parenthetically that this figure for employees is still above the Small Business Administration definitional limit.)

Let us for the moment say that most of the research programs in the country, 90 per cent, are conducted by small business. When you look at the statistics in terms of dollars and cents, however, you find that, from the performance standpoint, these 90 per cent represent only about 6 per cent of the total volume of research and development activity.

In other words, big companies have certain opportunities and advantages

which we shouldn't overlook. And the thousands of small companies that do engage in laboratory work comprise only a small percentage of all small firms.

This does not mean that small companies are improperly engaging in research and development. Hardly. I am merely pointing out that the people who are vitally interested in profitability are pretty good at determining whether or not they should undertake an activity and where or when they should stop.

There are certain incentives which could be introduced to encourage little firms to make certain changes to facilitate their expansion into research—or foreign traffic in industrial property. However, I daresay that it would be pretty hard to make a remarkable change in the observed proportions in a short period.

I might add that in the Foundation's study of the role of patents in the creation, development and operation of small firms, we find that very few small companies are actually founded on the basis of an owned patent. We also see limited interest, certainly in the earlier years, in the acquisition of patents by small firms. And we see even limited licensing activity.

This does not mean that companies do not discover the opportunities to engage profitably in these activities as they go along. In fact, we see that as firms become bigger, as they become more seasoned, as they acquire more market stability, as they become more sophisticated, they often do diversify their total activities in directions of patenting, licensing, and other business including intangible property.

Now, this leads up to an important principle that Professor Harris and I have tried to expound in two articles so far in the Patent, Trademark, and Copyright Foundation *Journal of Research and Education.* We have introduced a simple concept that, we have decided, needs a name, although the concept is so familiar to all of us that it has generally gone without a name. And that concept is "positive competition."

Positive competition is the sum of activities that are legal or believed to be legal, that are technically feasible as well as legally permissible, in which business enterprises engage in pursuit of their self-advancement and thereby also, incidentally, in fulfillment of various social objectives.

Most behavior is of this sort. Most behavior by small firms in search of profit is of this sort. And there are various routes that may be taken. In the same way that some firms discover opportunities in developing a new technological face, so, with the expanding general interest in foreign trade, many companies will find it advantageous to pursue international transactions and activities of various sorts that also lead to profit.

Small firms have many sponsors urging development in this direction.

The government gives out "E's" for Export excellence now. There is the Small Business Administration, which has many management and technical aid programs as well as loan programs which could encourage firms to seek profitable opportunities in foreign directions.

We also have Small Business Investment Corporations, authorized under a special act of Congress in 1958 to supply equity capital, venture capital. And it may well be that many firms having the benefit of management guidance from the small business investment corporations will find it opportune to engage more extensively in international activities.

There are other government agencies which have useful and significant programs, such as the Export-Import Bank, the Department of Commerce, and then, of course, there are international agencies which also are interested, like the International Monetary Fund and the International Bank.

I should like to call your attention to one more item of bibliography before I make my concluding remarks. The Senate Select Committee on Small Business has put out a rather interesting brochure which reports the American Management Association's seminar on profit opportunities in international business for the smaller company.[2] The date of the report is July 31, 1961. It discusses rather intensively the advantages and disadvantages of "going abroad" in one way or another—for example, straight export (perhaps with the benefit of a combination export management company's services) setting up a foreign subsidiary, licensing, contract manufacturing, engaging in joint ventures, setting up tax havens, and so on.

Now, in concluding, I should like to point out that it behooves a small company to keep its costs down by increasing productivity however it can, to modernize, to invest in better equipment and in sufficient equipment, to engage productively in whatever activities it undertakes, whether these are domestic or foreign.

This is the rule of ordinary common sense. And it may well turn out that most small companies can still serve best the national objectives that relate to expanding our overseas trade activities by "keeping their own lamps trimmed and burning."

Now, Secretary Goldberg has pointed out that our increasing trade drive requires us to import more extensively into the United States, that the Trade Extension Act of the President, sponsored by the President, may entail a destruction of 90,000 jobs in five years if the program is successful. These 90,000 jobs may well be small business jobs. Certainly

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[2] *American Management Association Seminar—Going Abroad: The Profit Opportunities of International Business for the Smaller Company,* Select Committee on Small Business, U. S. Senate, 87th Cong., 1st Sess., July 31, 1961.

it behooves many, many small businesses to "go international" by staying in the United States and keeping in rather good shape to meet the challenge of this foreign competition which might bring them down; or, to take a more optimistic view, to permit them to employ those people who are disemployed by their colleagues.

Thank you.

(Applause)

DIRECTOR COLCLOUGH: Thank you, Dr. Siegel.

We will take a five-minute recess at this time.

(Whereupon, a recess was taken.)

PROFESSOR OPPENHEIM: We are now ready to resume, gentlemen.

I want to say that Admiral Colclough regretted very much the necessity for leaving, because he must attend a meeting of the National Capital Planning Commission in the interests of the University. He will be here this evening, of course, and will be here with us tomorrow.

We feel, with some justification, that all of the comments you have heard from our research staff are like desserts. They're rich in mental stimulation. Of course, you've got them in Metrecal doses, but there are lots of mental calories in them.

We're deliberately changing the order of the program, and I am now going to call on the Executive Director of the Foundation who is going to give us a perspective of the aspects of this year's progression in the Foundation's activities.

When I call on him, all I need say is: Lou Harris—in a real sense, almost by himself you could say, the image of the Foundation.

FOUNDATION INTERNATIONAL STUDIES

EXECUTIVE DIRECTOR L. JAMES HARRIS: Thank you, Oppie.

Most of you know that the Foundation has done pioneer work in the international field. I remember back in 1954 when the Foundation went into operation, the timidity with which I broached the subject. And I remember too being told in no uncertain terms by some that we should attend to our domestic knitting first.

Fortunately with the encouragement of Mr. Lindeman, the first principal investigator on our Foreign Licensing Project, now with the University of Syracuse—we persevered. We pointed out that we were emphasizing these domestic problems, and were only dipping into the international scene.

Moreover, its growing importance prompted some attention, and, our

Declaration of Trust specifically authorized it. The first report of Mr. Lindeman was circulated within the Foundation, and, was the basis for subsequent Foundation work.

When Dr. Behrman, the present Assistant Secretary of Commerce for International Affairs, assumed the responsibility for the investigation after Mr. Lindeman left to spend several years in Burma, the decision had already been made, and we were on our way.

It seems that researchers in the international field are expected to spend time abroad. It appears to be a badge of accomplishment, or perhaps their colleagues think they are more likely to know about the foreign picture if they were actually there.

At any rate, we have had more than our share of difficulty in maintaining some sort of continuity in our research because of this custom.

The Foundation's studies of international transactions have developed over the years. They concern the significance of industrial property and related rights in past development and in the current operation and the future course of the world enterprise systems.

At the present time, as Mr. Weiser mentioned, we are concentrating in the European Economic Community area, and we are looking toward Latin America.

In the few minutes I have, in view of the fact our former principal investigator on our Foreign Licensing Project, Dr. Behrman, is detained in Poland on government business, I should like to recall in a few words some of the findings for which we developed evidence, factual evidence, in our first study in the international area.

When the Foundation undertook its studies of foreign licensing, we found very little published material on the subject. Most of the information gathered was not hitherto available.

The research was first conducted by Mr. Lindeman, and he was followed by Dr. Behrman, through questionnaires and interviews. We found that the transfer of assets represented by patents, trademarks, and know-how had been the basis of much of the post-World War II expansion of American companies into Europe and Latin America.

Exact information was not available as to the number of American companies granting foreign licenses, but it probably exceeded 3,000. Few countries outside the Russian and Chinese blocs did not receive licenses.

Also, we found that products were licensed in great variety . . . from ashtrays to entire generating plants.

The studies disclosed that a larger percentage of trademarks registered abroad than of American-owned foreign patents were licensed. How-

ever, there were many more patent license agreements. Often the principal asset a foreign company wanted was know-how, sometimes by itself, sometimes to supplement a patent license, and sometimes to support a trademark.

It was the opinion of our researchers that foreign licensing offered one means of counteracting the economic competition of the U.S.S.R. and aligning the newly independent countries.

The Foundation's studies indicated that most of the licenses for American-owned patents, trademarks, and know-how were granted in the industrialized countries, and Latin America had received two-thirds of those in the less developed areas. U. S. licensors were much more ready to move into areas where there were no language or custom barriers, although factors of geographic proximity outweighed in certain instances the absence of similar language and custom.

Two-thirds of the licenses extended by 207 U. S. companies were made with independent companies abroad. American companies having foreign subsidiaries or affiliates granted licenses to more than four-fifths of them. Our researchers concluded that "licensing is a most important means of transferring non-capital assets abroad, even to financially-related companies."

Most of the companies questioned regarded licensing as profitable, although many of them did not calculate costs. More than half ranked royalty returns as the most important motive for licensing. Others counted an increase in the subsidiaries' profits or cross licensing as the prime motive.

Apart from these, the major incentive for licensing abroad after World War II was a negative one—the advantage it gave in getting around currency, trade, and ownership restrictions of foreign governments.

There was also what may be called the point IV attitude—the desire to help the economic development of foreign countries. More than a fifth of the companies questioned put this down as one of their reasons.

It was found that sometimes tax advantages were gained in handling licenses through subsidiaries.

Our investigators noted that American business could use licensing as a means of improving its own position and serving the U. S. in the economic phases of the cold war. They recommended in view of the national interests involved, that the government take steps to induce further licensing, including tax incentives, clarification of the antitrust laws, and government-private partnership in projects supported by foreign aid funds.

I know Dr. Behrman, as Assistant Secretary of Commerce for International Affairs, continues his close interest in Foundation research.

Hard Core Foundationites, and I see a number of you in the audience, know that each year we strive to improve the balance of our presentation. This year our attention is directed to the entire world. Our researchers have been talking on the "U. S. Industrial Property Systems in the Competitive World Context." Using the domestic situation as a point of departure, they are beginning your journey abroad. The participants in the following session will then transport you to the Soviet Union for a discussion of the "U.S.S.R.: A New Factor in International Patent Relations?"

Tomorrow, to acquaint you with another aspect of "The International Outlook on Industrial Property", experts will carry you to the Common Market in Europe, to Latin America via the Alliance for Progress, and perhaps into Asia through the experience of Mr. Tanaka of the United States-Japan Trade Council.

It is unnecessary for me to emphasize the present interest in this international voyage—and its implications for the future. I refer you to the objectives of the conference set forth at the top of the inside left-hand page of your programs, to emphasize the importance we attach to these conferences.

The conference serves to integrate our research, to surface new ideas, and as one of our most effective methods of dissemination of our research findings—part of our educational program.

I will not dwell on other dimensions of our educational program except to bring to your attention that the Thomas Alva Edison Fellow, Miss Mary Holman, is participating in the conference as a speaker. This is a first for us.

Also, I should like to direct your attention to the excellent reception of our film, "Fuel to the Fire". The very encouraging results of a recent survey by an independent organization of its acceptance by adult groups and TV stations is reported in the twelfth *Report to Members* in your kits. These kits were issued to you when you registered and contain Foundation material that will be of interest to you. I particularly want to call to your attention that the next issue of the Foundation *Digest* will be available at the registration desk this afternoon and our *Journal of Research and Education* will be out tomorrow. In closing, let me point out that we continue to adhere to the intentions of those who conceived this Foundation. Our research continues to be conducted free from any predetermined interests, our approach continues coordinated and systematic, and we strive to strike a proper balance between theory and practice.

Although we avoid the approach of the researcher in an ivory tower

and we recognize that knowledge to be effective must come to grips with the realities of the world within which it is used, we also recognize that the areas of learning must be continuously expanded by study and organization so that the vast body of knowledge in these fields may be made meaningful.

Thus, we continue to carry out the program first envisaged, and of course, elaborated in ways then unforeseen, of a high level analysis and largeness of coverage of all phases of the systems of industrial and intellectual property created to protect and encourage the flow of invention, authorship, industrial and artistic discoveries.

The Foundation needs your support and we will be very happy to enroll you—and your employer—as a member.

I hope you will all enjoy and benefit from the conference.

I have a most distinguished gentleman and a pillar of the Foundation whom I want to introduce to you this afternoon. This gentleman has, from the very outset of the Foundation, been one of its leading lights. He was one of the men, one of the original spirits who rendered important assistance in the establishment of the Foundation, and his interest has continued as a member of our Advisory Council. Today he is Chairman of our Advisory Council.

I could tell you a great deal about him and his accomplishments. But I think you all know him too well for that. In his case all I need say is the former Commissioner of Patents,

Chairman Watson.

(Applause)

REMARKS BY THE CHAIRMAN OF THE ADVISORY COUNCIL

MR. ROBERT C. WATSON: As Chairman of the Advisory Council, I want to say that we are most fortunate in having Lou Harris as our Executive Director.

The Advisory Council, as you know, is a group of about 25 persons who are, you might say, senior men in the field of patent, trademark and copyright law. Its function is only to advise. The Director and the Executive Director, Mr. Harris, are the ones who execute. So that as you look into your kits and consider the record of accomplishment of the Foundation for the past year, you know where to place the credit.

We work with the Executive Director when he asks for advice. We have an executive committee of seven which meets on occasion to discuss with the Director and the Executive Director proposed agenda and policies.

But the great work of the Foundation is done largely by the Executive Director.

I was very much impressed with the statement which he has just made to you.

On behalf of the members of the Council, a number of whom I see in attendance here, I wish to thank you for coming. And I see many who have come a considerable distance to attend this meeting. I hope that you will agree with me that it is a very rewarding meeting. It is a little different from those which we have heretofore held, in that the subject matter which is being discussed by the various members of the panel, and by those who perform research for the Foundation, is wider in scope. And, by the same token, the Foundation must continue to enlarge its sphere of activities by reason of the fact that world conditions are in such a state of change. We must to a greater extent concern ourselves with that which goes on without the borders of the United States.

At a recent meeting of the Advisory Council it was unanimously determined that we should increase our expenditures, and that is a program which we are currently implementing.

We are not going to ask anyone here to support our effort. What we have decided to do is to divide the work among the members of the Advisory Council, and each will select a number of corporations or individuals who he thinks should contribute to the work of the Foundation, which is unique in this world. There is no other group in any country of which I have knowledge which does the important work being done by this Foundation.

It needs to enlarge its sphere of activities, and I think you will all agree to that, so that research need not be conducted on a month to month basis but in such manner that the Executive Director has a greater ability to plan ahead, perhaps even to ask that a professor of standing come and work for an entire year with the Foundation in the study of a selected topic.

We have developed many important facts so far. But we have just scratched the surface. I am sure that as time goes on and the committees of Congress become more familiar with the work which is being done by this Foundation, you will find an increasing reliance upon its findings.

Actually, when there have been Congressional hearings, up until this time, usually it is for the reception of the individual views of a number of persons based upon their own individual experiences, and there has been not as much testimony based upon the collection of statistical data, and thorough analysis of it, as there might have been with great advantage to us all and to the economy of the country.

So I say that we have accomplished much, but we must enlarge our objectives. We must have a little more money to work with. And I hope that as the members of the Council work on this project—and you may happen to come across some evidence of it in your dealings with one or the other of your clients or friends in corporate life—you will agree it is a worthy motive and lend it your support.

Thank you very much.

(Applause)

PROFESSOR OPPENHEIM: Before we return to the research staff members, I'd like to introduce an official from the Patent Office. Commissioner Ladd was regretfully unable to attend today, but we have with us Mr. Gambrell. I'd like to have him stand up and take a bow.

MR. GAMBRELL: Thank you, Professor.

PROFESSOR OPPENHEIM: Of course, we all know Pat Federico, who has spoken, is also sharing the representation from the Patent Office.

I am going to call now on Robert B. Bangs, who will give us his report on taxation of United States income from foreign sources.

Bob.

TAXATION OF U. S. INCOME FROM FOREIGN SOURCES

DR. ROBERT B. BANGS: I am going to speak rather generally to results of our research, and my colleague, John Creed, will talk on the specific subject of the program.

The Foundation's taxation studies have been carried on for three years. We have sought in this time to detail the precise rules of Federal income tax law as they apply to owners of patents and related industrial property. We have tried also to get at representative tax experience among inventors and among corporations holding substantial patent portfolios. We wanted to determine, among other things, the role played by tax considerations in decisions concerning licensing and patent assignments.

We have made questionnaire surveys of the tax experience and problems of the individual inventors as well as those of corporations that owned 150 or more United States patents. We are grateful to all of you who have responded so generously to our detailed questions for whatever merit these surveys may have.

We found that inventors comprehend the Federal income tax rules of special interest to them only incompletely. They are often unable to take full advantage of the tax-saving opportunities available. These opportunities are in no sense tax loopholes but deliberate incentive provisions placed in the law to encourage invention.

We found that large corporations understand the tax law much better and have had remarkably consistent experience under it. But in a few cases they too have failed to find the most economical tax route in certain foreign licensing operations, especially where know-how is involved.

An individual inventor can save taxes by giving an exclusive license, conveying all substantial rights in his invention. He then gets capital gains treatment at half the rate or less that he would pay on an equal amount of ordinary income. He does not need to take a lump-sum payment but can get this favorable tax treatment on running royalties conditional on use of his invention. His main problem is ordinarily in locating a suitable exclusive licensing arrangement and in weighing off the advantages and disadvantages of the exclusive license course against alternative methods of using his patent at a higher tax cost.

Salaried inventors, who outnumber the independents, have little chance for tax saving. Seldom are they compensated except through salary for patents they assign their employers. Forward-looking employers may wish to consider incentive compensation related directly to assignment of particularly useful patents.

Independent inventors often fail to get research and development costs as tax deductions because of difficulty in establishing these costs as ordinary and necessary business expenses. A good many inventions issue from spare-time and hobby activities rather than from conscious pursuit of a business purpose. The motives behind invention are complex and only partly economic.

Corporations can get capital gains tax treatment on patents they sell outright or license exclusively, as they can on other depreciable property. The Administration's tax bill, now pending before the Senate Finance Committee, will remove this privilege if it passes in the form it cleared the House.

According to our findings from companies owning in the aggregate nearly 100,000 United States and foreign patents, corporations regard patents as assets primarily for their own use rather than for sale. They seldom dispose of the inventions unless they are chance developments unrelated to their principal business activity or unless the patent rights are incidental to the sale of a part of the entire business.

The extent of patent licensing varies greatly from industry to industry and, within industry, from company to company. Likewise, income from licensing shows wide variations among different corporations. Exclusive licensing is more generally used in foreign than in domestic operations.

Our surveys showed that corporations experience little difficulty in qualifying their research and development outlays as current tax deductions or in obtaining capital gains treatment in the unusual cases when

they sell patent rights outright or license them exclusively. We believe that quite a small fraction of aggregate corporation proceeds from patent licensing goes the capital gains route.

Tax considerations are material factors in the decisions concerning the form and extent of licensing but are seldom controlling in the decision-making process.

Limited opportunities for tax minimization exist in licensing activities abroad when know-how is included in the licensing package. Although the tax law in this area is not fully developed, there is some potential access to capital gains that we believe is not wholly appreciated. We spelled out these opportunities and limitations in the Summer 1960 issue of the *Journal.*

Some corporations with substantial investments in purchased patents have a minor problem with depreciation of these assets. Allowable depreciation is now based on the remaining legal life, which often exceeds the economically useful life.

Perhaps in the administrative liberalization of depreciation rules that has been promised by the Treasury Department, some relief for this problem can be provided. Corporations whose patents are internally generated by employees or by their own R & D programs have virtually no problem with patent depreciation, since virtually all costs can be expensed.

A great many changes in Federal tax law are already under consideration, and more will be proposed in the not too distant future. My colleague, Mr. Creed, will speak on some of the proposed changes in the taxation of American business abroad which may have important implications for our patterns of foreign investment and our balance of international payments.

Thank you.

(Applause)

PROFESSOR OPPENHEIM: This is a very fine example of a perfectly lawful cartel arrangement for allocation of time between Dr. Bangs and Mr. Creed, and I now call on the other cartel partner.

MR. JOHN F. CREED: Mr. Chairman, ladies and gentlemen, I would like to discuss those provisions of H. R. 10650, the proposed Revenue Act of 1962, that relate to the taxation of income derived by foreign subsidiaries of United States companies through the exploitation of patents and similar intangible property abroad.

As I am sure most of you know, H. R. 10650 passed the House of Representatives in March and is presently before the Senate Finance Com-

mittee. The bill has been described as a "many splintered thing"—(laughter)—and I propose to explore but one splinter.

The provisions in question are found in section 13 of the bill, which is entitled "Controlled Foreign Corporations." A controlled foreign corporation is any foreign corporation more than 50 per cent of the voting power of which is owned directly or indirectly—as through another foreign corporation—by a United States company or other United States persons.

The bill would tax U. S. shareholders currently on the net income realized by a controlled foreign corporation from any exploitation of patents, copyrights, and exclusive formulas and processes that were (1) substantially developed, created or produced in the United States, or (2), in the alternative, were acquired from any related United States person.

The proposal would not only cover income derived by the foreign subsidiary from the license, sub-license, sale of exchange of such property rights, but would create an imputed royalty in instances where the foreign company itself uses the intangible property in the manufacture of products.

It will be noted that these provisions do not reach income earned by a foreign subsidiary from the exploitation of trademarks or know-how, other than know-how that qualifies as a secret or an exclusive process or formula. However, any royalty income accruing to the foreign company from the licensing of these rights will normally be taxed to the United States company as foreign personal holding company type income under other provisions of the bill.

The provisions I have discussed were subject to a torrent of criticism by the witnesses appearing before the Senate Finance Committee in the last eight weeks. As a consequence, the most recent Treasury revision of the foreign income provisions of H. R. 10650 has changed its approach to the problem. The Treasury proposal would seek to deal with the problem at the time the patent or like property is transferred to the foreign subsidiary. If such property is sold to the foreign company, payments received by the United States company would be taxed as ordinary income rather than capital gains, as is normally the case under present law.

The Treasury proposal would apparently expand the category of property that would be subject to this treatment so as to include patents, inventions, models, or designs, whether or not patented, copyrights, secret formulas and processes, and other similar property rights.

The Treasury revision can be fairly criticized on these two major grounds:

(1) There would seem to be no logical or equitable reason for taxing a United States company at ordinary income rates in selling intangible

property to a controlled foreign corporation where the sale of the identical property to any other party would produce a capital gain.

(2) In most circumstances any royalty income received by the foreign subsidiary from the subsequent licensing of the intangible property would be taxed currently to the United States parent company, again as a category of foreign personal holding company type income under other provisions of the proposed law. In effect, then, the United States would first levy a tax at the time the patents or other rights are transferred to the foreign subsidiary and thereafter tax royalties collected by the subsidiary from the licensing of the same rights.

In a somewhat related area, the Treasury revision would create an additional category of income, called "foreign based company service income," that would be taxed currently to the United States parent company even though earned by its controlled foreign subsidiary. Foreign based company service income is defined to include income derived by the foreign company in connection with the performance of technical, managerial, engineering, architectural, scientific, skilled, industrial and like services which: (1) are performed or furnished for or on behalf of any related person; and (2) are performed in connection with business activities carried on by such related person outside the country of incorporation of the foreign company rendering the services.

For example, if a Swiss company rendered services for a related German company in connection with business activities of the German company in Germany, the income would be caught by this provision and taxed currently to the United States parent company.

This proposal displays the same heavy-handed approach that pervades the entire foreign income portion of the tax bill. Apparently it is of no significance if the services rendered by the foreign company are bona fide and if the compensation received by it is entirely reasonable. Nor apparently is it persuasive that in the usual situation in which one foreign company performs services for another, no avoidance of United States tax is possibly involved.

In summary, then, it can be seen that the enactment of the provisions I have discussed, whether in the form they passed the House or as revised by the Treasury, would bode ill for United States corporations operating abroad. Almost inevitably, foreign competitors not operating under the burden of such legislation would be placed at a distinct economic advantage over affiliates of United States companies.

Thank you very much.

(Applause)

PROFESSOR OPPENHEIM: I am completely untutored in the mystifications of tax law, but I can't forbear saying that after listening to Mr. Creed the extra-territorial effects of the antitrust laws seem to pale into insignificance compared with the way in which the American taxation flag seems to be following our businesses doing business abroad.

Our next research staff member is one practicing patent lawyer who also finds time to do some research, writing, and even does some teaching on the law of patents.

This is the first time that I'm not going to say that he was a former student of mine, but it's a fact. (Laughter)

George Frost.

(Applause)

COMPETITIVE RESEARCH ACTIVITY: U. S. AND ABROAD

MR. GEORGE E. FROST: Thanks, Oppie.

And I must say that one of the proudest and happiest relationships I have ever had has been in your class and in the subsequent years when we have shared so much in connection with patent and antitrust laws. And it has been a pleasure all the way, Oppie.

We thought perhaps the most constructive thing that we could do at this meeting in connection with our patent and antitrust law project was to talk a little bit about a chapter of history.

In the United States, we have a patent law and an antitrust law. The countries of Western Europe, while in general have had patent laws of some effect, have not until rather recent years adopted anything like our antitrust law policies.

That situation is now changing, and we can anticipate at least some measure of the antitrust law philosophy that has not been previously present in the foreign countries.

This is, thus, an appropriate time to spend a few minutes considering the role of competition in research activity here and in these foreign countries and to assess some of the lessons that history teaches.

First, let's consider our own patent law and our own antitrust law.

On the patent law side, we are all conscious of the role of the patent system in providing a reward to the business enterprise that engages in successful research, and particularly the concern that follows up such research with the manufacture and sale of products made possible by this research.

The patent system also works in another way, for through it the concern that fails to maintain its research productivity is penalized. When a competitor obtains good patents and enforces them, the laggard concern

can be foreclosed from the most up-to-date and, hence, the most profitable products and processes.

Our antitrust laws serve the cause of research and new product competition in a less direct manner. Very early decisions under the Sherman Act stressed the effect of agreements not to engage in marketing new inventions and agreements to share rather than compete in the creation of new products as in conflict with the objectives of the Sherman Act.

More recent decisions have sharpened the point and make it perfectly clear that agreements that render the normal patent system incentives ineffective are suspect under the Sherman Act.

Examples include the purchase of competing inventions, the unreasonable use of grantbacks to destroy the normal patent incentive to competitors, and agreements under which there is an unreasonable sharing in rather than competition for new products and processes.

Unfortunately, there have been some deviations from this pattern of endorsing competition in research and forbidding its destruction. In large measure, these have been due to critical attitudes toward the patent system and unsophisticated emphasis upon patents as so-called monopolies.

Perhaps the most notable deviations have occurred in the love affairs the Department of Justice has had from time to time with respect to so-called "open" patent pooling arrangements. These have, in effect, nullified the patent system.

In the main, however, the record of the United States has been an adherence to the principle that in research and new product marketing, just as in price, production, sales and other phases of competitive enterprise, the norm is competition stimulated by the availability and threat of patent rights and secured against unreasonable restraints by the antitrust laws.

Now let us turn to the situation abroad. Perhaps the best way to make a comparison and the best way to bring out the basic points is by reference to the creation and development of the German dye industry.

This is the story of what is probably the first competitive research race anywhere in the world. It is the story of the industry that gave Germany a lead in chemical technology that was of immense help in World War I and even at the time of the Second World War was of great aid. And it is the story of an industry that had a great influence on the European attitudes toward competition in research and new products.

The pioneering dye industry was not that of Germany but, rather, that of England. Sir William Perkins discovered mauveine, obtained a patent, and by the end of 1857 was selling the dye to the silk dyers of London. He thereby established the English dye industry which, until

about 1875, was the world leader in synthetic dye manufacture, including the manufacture of alizarine from coal tar which began about 1869.

In Great Britain, patents were available and were effective as to the various dyes manufactured. There was no compulsory licensing law at that time.

On the continent, a different patent situation existed. It was this that led to some important and interesting consequences.

A French synthetic dye industry developed shortly after the British industry. Perkins' patent of mauveine was held invalid because of an error as to a date. This led to the free use of the Perkins process in France.

The French industry itself contributed a number of discoveries on its own, including a color known as French purple and a red analine color known as fuchsin.

Like the British industry, the French industry had patent rights available.

Both the British and the French industries declined with the rise of the German dye industry. The German industry came into being shortly after Perkins' pioneering manufacture in Great Britain. At the time, the German State did not exist as a unit, and what is now Germany was made up of 39 separate states. Of these 39 states, ten had no patent laws at all, and the other 29 each had a patent law that was different from each of the others.

The result was patent chaos and complete absence of effective patent protection.

Initially, this was of aid to the industry, which simply pirated the dye inventions of the British and French, proceeded to manufacture, and thereby rapidly brought an industry into being.

The availability of fine universities and relatively well-trained organic chemists contributed further to the rise of the industry.

By the 1870's the industry was increasing rapidly in its size.

The rise of the German industry brought about a concurrent decline in the French and British industries. Without any means of preventing the pirating of their inventions and with the need to carry the expenses of creating new products, the French and British concerns discontinued their efforts toward new products.

One effect of this trend by the French and British concerns was to dry up the sources of new products for the German concerns themselves, especially when it became evident that the French and British industries were declining greatly in relation to the German industry.

It was in this setting that two very significant events occurred. One was the formation of a united Germany. For the first time, Germany was

united and the political basis for a single practical patent law existed. Secondly, the German dye industry recognized that it could not continue to grow without the availability of a continued stream of new dyes and that without patent rights the research to this end would not be carried out.

The industry became the center of an effort to obtain a patent law for Germany. That effort was successful, and in 1876 the first German patent law was enacted.

I might digress here just to point out that the history of Germany at that time is strikingly similar to what occurred in this country. We had our Constitution in 1790, and we had our first patent act as one of the very first acts passed by the Congress, namely, the 1790 Patent Act.

Now, what was the development of the German industry after the enactment of the patent law? From 1876 to about 1900 there was one of the most active and most competitive industries that ever existed. A good number of concerns competed. They were engaged in a feverish effort to create newer and better dyes that could be marketed in advance of the competition. Organic chemical technology developed at a previously unknown pace.

In addition to an endless stream of new dyes, the industry created important drugs, such as antipyrene, aspirin, atabrine, phenecitine, and others. It contributed to the creation of a heavy chemical industry, including the Solvay process for making alkali, and it laid the foundations for the plastics, photochemical, synthetic rubber and other industries.

There are few chapters in all history where a single industry contributed so much to technical progress as the German dye industry did in the period between about 1875 and 1900.

And the key thing, and the thing I would like to emphasize, is that all this took place in an atmosphere of intense research and new product competition and not in an atmosphere where competitive effort was confined to lower prices, production, sales, and the like.

It is interesting to note that in this connection the German dye manufacturers, having established a patent system in Germany, were instrumental in forcing the Swiss to adopt a patent law, which took place in 1907.

But the strenuous competition that existed in the German dye industry carried with it another factor that ultimately caused some decline of the industry. As the storehouse of existing dyes increased, it became more and more difficult to create new dyes. The result was that the cost of each new dye increased, and at the same time the prices of all dyes were declining as the relative advantages of new dyes in relation to the old dyes became less and less. The conditions under which the competing

companies could continue their research and new product emphasis and still enjoy a profitable business were rapidly disappearing.

The consequence was that the German dye industry formed the center of a movement to limit competition. This became the famous cartel movement, followed by a merger movement.

The first cartels existed as early as 1881, the most well-known being one in relation to alizarine. In the 1904-1914 decade, the German industry was divided into two chemical syndicates which competed. In 1916 there was a merger between the syndicates, and in 1925 I. G. Farbenindustrie, which was, of course, a trust, was formed.

The cartels were more or less fragmented at the close of World War II. Some of the original I. G. components are now independent concerns. But the industry still bears many reflections of the earlier attitude under the trust.

One result is that the German businessman even today does not generally think in terms of patent rights as the basis for excluding competitors. Cooperative research activities with competitors that American businessmen would not pursue are used.

Now, what are the lessons in all of this? There are a number of lessons.

In the case of the British and French dye industries, the industries were hampered and ultimately virtually disappeared when their competitors, the Germans, were free to pirate the new products.

We have heard a great deal from some quarters about how the patent system is somehow unnecessary, that there is some perpetual motion that would keep private industry engaged in research even though there were no restraints on copying by competitors.

Well, here's a case where it actually did happen. The difficulty was that all of these dye concerns were selling outside their own countries. The German concerns were competing with the British and the French in sales in the foreign markets. Here we had a case where copying did occur and was permitted. The consequence was that the British and the French industries largely quit their research effort, in large measure. And it was only by reason of the Germans themselves having a patent law that the work continued.

So here we have a rather good historical illustration of the effects of unlimited copying.

The second lesson, it seems to me, is that the cartelization and the ultimate merging of the German industry dulled the competition in developing new products and that there was a very clear and decided slowing of the contribution of the German industry.

Now, I don't want to overstate this, but I think it is absolutely clear that when the German dye industry was most competitive it made its greatest contributions to the organic chemical technology. And in the later years, while the contributions were great, they did not compare, at least on a relative basis, with what the industry did during that early period when there was such unremitting and unrelenting competition.

I have just one other point that I'd like to pass on. It's highly speculative but it adds up to this:

We have all become used to the idea that compulsory licensing in Europe has really not been very important. Statistically, there is no doubt about this. One rationalization—and I might add not the only rationalization—for this experience is that with the lack of competitive spirit in foreign countries the demand for licenses does not exist and that businessmen don't think in terms of putting their competitors out of business by refusing to grant patent licenses.

Certainly the history of the dye industry supports that general conclusion.

Now, if that be true, and if we are heading for a time when there is going to be a greater degree of competition in Europe, we may see that the statistics at least on the compulsory licensing may be different than they have been to date.

Thank you very much.

PROFESSOR OPPENHEIM: As you all know, intermarriage in college degrees has now reached the highest level in the Presidency of the United States—where Yale and Harvard join bonds. Our next research staff member, Professor Markham, was scheduled to be here to report on his study of Executive Decisions and Policies. He is a professor of economics at Princeton, but he has been visiting at Harvard University the past year. He is being detained there by commencement exercises. We regret he isn't here.

At any rate, in the absence of Professor Markham, perhaps in the question and answer period some of you might want to raise some questions about executive decision-making. Maybe some of you are decision-makers yourself. This refers to private enterprise executive decision-making and not governmental.

LATE AFTERNOON SESSION

U. S. S. R.: A NEW FACTOR IN INTERNATIONAL PATENT RELATIONS?

Now we come to a very interesting topic which you note on the program, namely, *U.S.S.R.: A New Factor in International Patent Relations?* And I would ask you also to note that it ends up with a question mark.

This is not a printer's error. It doesn't mean an exclamation point. But I know our next three speakers, whom we are privileged to have here on that topic, will certainly illuminate that area, so that the question mark might become less of a question mark. Or perhaps they may think it's more of a question mark.

At any rate, we have the honor first to present the President of Rand Development Corporation which is so well known, Mr. H. J. Rand.

Mr. Rand.

INVENTIONS AND PATENT PRACTICE IN THE SOVIET UNION

MR. H. J. RAND: I was asked to attend this meeting to discuss my findings in the Soviet Union of patent practice and inventions as a whole.

This series of visits I made with my assistant, George Bookbinder, who speaks fluent Russian, came about in a peculiar way. I was asked to take over as host for a Mr. Leschesko, who is a Minister of the Soviet Union, at that time Deputy Minister, of the Gosplan in Cleveland. When another visit was cancelled for some reason or other, I showed him our development laboratory and explained to him that we were a research and development and patent-holding company and that we made money in selling industry new ideas and new patents.

He was quite intrigued. He said, "Do you ever take on outsider inventors' ideas?"

I said, 'Certainly. A good share of our developments are brought to us by outside inventors."

I explained to him also that it usually takes far more money to sell an idea or a patent than it does to develop it, which shook him up a little bit.

But he invited me, in return, to come with Mr. Bookbinder to the Soviet Union to visit their patent office, to see their institutes, and to see if there weren't some developments over there which might be useful in this country.

So we undertook a series of visits. We found them most cooperative. We didn't know what to look for. We had no idea. So we asked them if they would suggest things that they thought were important advances that could be utilized in the United States.

The first institutes that we visited were institutes for medicine, for surgical instruments, and diagnostic institutes, diagnostic apparatus. I was much surprised to find that these were very important organizations of engineers and doctors with both degrees and quite far advanced in many things, such as their suturing instruments, which were completely new to me and to the American doctors.

Therein started a lot of work and quite a bit of expense. We found these novel devices very interesting, very expensive to tool for, and coming back to this country we found that the American corporations, while interested in this, would not spend anything on them because they would be almost immediately imitated by German, Japanese and other skilled workmen because they had no patent protection in this country.

We tried to explain to them how American patent law works, that anybody from any country anywhere in the world can come here and take out patents. And this was a mystery to them. But we did persuade them to apply for a few patents.

They got into the red tape, which was increased because of our State Department's lack of knowledge about our own patent law. Their applications would lie for months in the U. S. embassy in Moscow with nobody acting on them—just to put a notary seal on so they could come over here. They got over here and then they were very much provoked—the Soviet people were—because, of course, the first thing that happens in a patent action, at least in my experience, is all your claims are rejected, and you then have to go about proving why you have something novel and new. But they thought it was more cold war tactics. (Laughter)

It's a very interesting thing how these misunderstandings occur. Mr. Watson said, "The next time you go over there, I wish you'd see what happened to this patent exchange thing that we had." He said, "You know, the Patent Office is supposed to keep up on patents all over the world so that we don't issue invalid patents in this country which are made invalid because of discoveries in other parts of the world. So," he said, "we sent all our patents over there, but they didn't send theirs to us."

So I went in to their Patent Commissioner, and I said, "What about this?"

He said, "I was just about to get hold of Mr. Watson, because we sent all our patents to him but we never got his."

So I said, 'Get me the waybill number on your shipment."

And when I got back to Washington, the patents were located gathering dust in the Smithsonian for some reason. And then I found that our patents had been shipped by ship to Baltimore, which port hasn't seen a Russian ship in a good many years, and they probably would have been there yet if Mr. Watson hadn't dug out that information.

But finally the thing was exchanged, and the misunderstandings were cleared up.

In the meantime, the Russians sent a team over here just to investigate our patent system and how to get patents, and I think that probably we will see a number of Russian patents turning up in our files over here.

I was also very much interested in a lot of the claims that the Russians had made on various systems, television, radio, helicopters, and so on. And it is very interesting that in most cases they had pretty valid claims to priority on many of these things.

Mr. Zworkin, who is now father of American television for RCA, told me he built his first television set in 1906 in Moscow and then came over to develop the formidable array of patents for RCA which cover all cathode ray types of television.

Also I found that Sikorsky told me he built his first helicopter in Moscow. It didn't work, but that was only because motors, and so on, weren't available. And so it wasn't until about 1940 when he got the proper equipment that he could fly a helicopter, as we all know.

But I found the Russians aren't any different from any other people anywhere in the world that have sound educations and ingenuity. You're sure to find, anywhere that you have trained people, that they will come up with novel ideas, and so on, if they have incentive.

And this was an interesting revelation to me too.

They looked at the American patent system and admired it. They took the German classification system, number by number, put it in Russian, but they did one other thing. They don't have patents over there in the sense we have. They have patents but it isn't considered wise to take them out for political reasons, so they are given an author's certificate which the patent office handles, and a board decides how much reward will go to the inventor.

Then they did another novel thing which we could well copy in this country. Instead of having the suggestion box type of procedure, they first said to the foreman: "When anybody has a good idea, you will share in it if you will help demonstrate it and make it workable."

And they also said to their plant managers: "Whenever you have these new developments, you also will share in them."

So they spread the reward, got rid of the fact that most new ideas are a pain in the neck to the foremen and the plant managers. Instead, it became a monetary reward.

So it is working quite well, I think, over there. They have got their difficulties and, of course, their limitations. But the patent system I think as a whole over there is working very well, and I think our country will also benefit greatly if we get Russians patenting in this country, because otherwise the material will remain secret and we'll have to rediscover it ourselves.

Thank you.

(Applause)

PROFESSOR OPPENHEIM: I want to remind you that we are planning on reserving a period of time for questions. I think that in coming here as you do from various parts of the country that this attests to your interest to the point where it might not be unwelcome to you if we were to extend the adjournment time by 15 minutes at least, since the reception tonight begins at 7:30, and I take it that would allow enough time to get ready for that occasion.

But we will proceed now with the same topic.

We are next privileged to have Herschel F. Clesner, who is the Assistant Counsel of the Subcommittee on Patents, Trademarks, and Copyrights of the United States Senate Committee on the Judiciary.

Mr. Clesner.

THE ROLE OF THE SOVIET UNION IN INTERNATIONAL PROPRIETARY RIGHTS AFFAIRS

MR. HERSCHEL F. CLESNER: Thank you, Oppie.

I recall Jim's trying period in attempting to license Soviet inventions, get the Soviets to obtain patents here, and finally to dig out what was wrong with the Russian applications as filed here.

The recent patent delegation that they sent over in exchange for ours consisted of three people: a commercial attache, a legal attorney, and only one official from their patent office. And it appeared from the type of questions they asked that they were interested basically in the format and knowledge of how applications should be prepared and filed in the United States Patent Office.

It would appear also, from the type of official, that their intention would be possibly to protect patent rights and obtain licenses for other patented inventions in this country.

Another indication in regard to what Jim mentioned previously is the fact that Mr. Garmchev, who was the then Commissioner of Patents or in Soviet terminology the Chairman of the Committee on Inventions and Discoveries of the Council of Ministers of the Soviet Union, has now been replaced. His place has been taken by a gentleman by the name of Yuri Maksarev who had been Chairman of the Committee on Science and Technology. The Committee on Science and Technology had been upgraded with greater responsibilities to the State Committee for the Coordination of Research headed by a Deputy Prime Minister, Rudnev, and Maksarev became his First Deputy Chairman.

This indicates the importance that they place on new technology and research.

I don't know whether it's a promotion or a demotion for Maksarev to

become Chairman of the Committee on Inventions and Discoveries, but it's certainly a fact that they have placed a high personage in this office.

Now, what I'd like to attempt to do is to try to put in context in the view of background, whether the Soviet Union possibly may become a new factor in international relations concerning industrial property at the present time.

In the past 250 years, Russia has emerged several times from periods of isolation, self-destruction and internal construction to participate actively in international trade and activities, only later to withdraw again.

The recent Stalin period was primarily one of isolation. The present regime under Khrushchev's leadership has attempted to take the initiative and drive for economic trade expansion throughout the world.

Therefore, there is no doubt that this is a period of emergence, one from which there may be no retreat.

With the rapid growth of technology and communication projection, isolation further becomes a feature which no nation, especially the Soviet Union, which aspires to world economic and political leadership, can afford.

In order to meet the goals of their seven-year plan and other aspirations in many areas of their industry, purchases of foreign plants, technical know-how, and other skills and knowledge are and will be needed by the Soviets.

In turn, the Soviets have and will attempt to sell plants, technical know-how, and other necessary skills to those nations who will purchase from them.

Their foreign trade purchases and sales are tied directly to their main goal. This is the Soviet ambition to overtake the United States in industrial technology and achieve a level of material well-being greater than that in the United States or the West in 10 years. This is Khrushchev's promise to the Russian people.

Because of severe limitations on bringing additional manpower into industry, due to declining birth rates in war and famine years, and the large number tied up in agricultural pursuits, the bulk of their industrial growth and upsurge must have to be accounted for by sharply rising labor productivity—for example, by very rapid modernization and automation of production, plus the introduction and application of new technology.

Therefore, the Soviets have and will obtain an entire, or any part of, a technology, including plant, know-how, skill and proprietary rights in order to accelerate and supplement their overall program.

During World War II and the following years, lend-lease, appropriated equipment from vanquished nations, war reparations, and the sale of bulk raw materials or intermediates, such as aluminum, pulp, tin, manganese, and crude oil, have provided the means to obtain their needs.

Lend-lease, appropriated equipment, and reparations are no longer available. The sale of bulk raw materials in some instances may damage the markets of nations they do business with and whose political orientation is in their direction.

Further, through the environmental circumstances of lend-lease, reparations, their customary trade exchange agreements with other nations, they have been able to fairly easily negotiate and obtain package technology. Today this is not so, as other nations and their industrial units realize that the Soviets intend to be more than a competitor to them.

Therefore, the sale of know-how and technical information to the Soviets gradually will have to conform itself to customary commercial practice.

Even during the period of lend-lease, where the West knew of the desirable Soviet technology such as the making of synthetic rubber from grain, it was bargained for and obtained.

The Soviet Union has realized that technical know-how and information may be sold for value. Some individuals in the Soviet Union have realized that technical know-how and information protected as a proprietary right are more easily salable and can command greater value than technology which is not.

In the domestic Soviet economic system, the force of competition and the sales efforts of firms in the capital goods producing industries are nearly completely lacking. Therefore, the average Soviet manager, industrial operator, and sales individual encounter the value of proprietary rights only when attempting to purchase foreign technology or to sell technology and products to foreign firms and markets. This knowledge and experience is acquired by the Western manager at a very early date.

Further, the regime leaves very little to chance and local initiative. Initiative and organization must stem from the top.

Thus, despite the need to find some new sources of income to purchase their needs, the Soviet top echelon did not as a matter of policy decree that their innovations protected by a proprietary right could and should be used as an article of sale until a recent pronouncement by Deputy Prime Minister Kosygin.

In the sale of proprietary rights, technical know-how, patent rights, trademark rights, management skills, the Soviets do not have the knowledge or sophistication of some of the satellites such as the Czechs. Further, their adjustment to this process of world trade and the use of proprietary rights is slow, as Jim Rand has found out.

Yet, the Russians have gone through prior periods of emergence from isolation. In all such periods they have utilized patent and proprietary rights as an incentive and stimulus to promote development. This has been true as to their domestic proprietary rights system and as to their foreign dealings.

The first quarter of the eighteenth century, the reign of Peter the Great, was an instance of such an earlier emergence. At that time the Russian government brought in skilled workmen, scientists, engineers, from all parts of Europe. They built new cities, established the Academy of Sciences, and the Library of the Academy, developed the shipbuilding, optical works, fishing, ornament-making and other new industries.

This is quite similar to the period of today.

And, furthermore, it was in this period that patents first appeared in Russia. It was a monopoly grant directed to the establishment of a trade. It was adopted as a means to stimulate industrial development or trade through private initiative.

An example of this success through incentive was the Russian fur trade development, which extended itself to Northern California.

Another such period of emergence was the early years of the nineteenth century where the Russian trade and culture became intertwined again with the West.

In this period the Russians instituted legal reforms. The first Russian overall statute relating to patents was enacted. This created a privilege with a monopoly power for a period of three, five, to ten years when one declared and registered his discovery. In 1833 the Russians revised their system again and established at that time a novelty basis for the monopoly grant and examination of all patent applications. This preceded the U. S. examination by three years.

In 1919, as a result of the revolution, the then existing system was abolished, and a decree was adopted by which every recognized useful invention was declared the property of the state.

This law also attempted basically to protect the inventor, the actual originator, by means of a guaranteed payment.

Under this philosophy, the state owns all the inventions and must provide the initiative to adopt and develop them. The inventor's incentive was the award he would receive based on savings produced through the invention's adoption.

However, shortly thereafter, the need for establishing trade with foreign countries caused the Soviets to formulate a new economic policy, and finally in 1924 they amended their then existing statute so that patents also were allowable. The purpose was to allow foreign nations to come in and possess proprietary rights and trade.

Essentially, this is the Soviet statute today, the one that they operate under and the one under which a few Western corporations file. Companies like ICI (Imperial Chemical Industries), Montecatini, Courtaulds, Rhone-Poulenc plus one or two Scandinavian companies do file and do obtain patents in the Soviet Union. In the past several years the Soviets have

become active again in filing patent applications in the U.S. and other Western nations.

It appears that many of these factors indicate that the Soviet Union will play a more prominent role in international proprietary rights affairs. I believe this will be further stimulated by the thirst for knowledge among their country's youth, the increasing high standards of their technological demands to accommodate their goals, a substantial amount of direct foreign technical knowledge, their mystic appeal and drive to promote all things of a scientific and technical nature, their desire to keep abreast of Western technology and science, and the single-minded and ruthless determination of the present regime to overtake the United States and the West through industrial might and technological excellence.

It is this pressure energized and initiated from the top, with its increasing pressure through every channel to increase production, that is bound to result in innovation and new technology and with this the attempt to draw money from their own innovations in foreign markets through the protection of foreign patenting rights.*

(Applause)

PROFESSOR OPPENHEIM: Thank you.

Now we present Mr. Leon M. Herman, who is the Senior Specialist, Soviet Economics, in the Legislative Reference Service of the Library of Congress.

Mr. Herman.

FOREIGN TRADE AND THE NEW RUSSIAN INTEREST IN FOREIGN PATENT RELATIONS

MR. LEON M. HERMAN: Thank you, Professor Oppenheim.

I was in the Soviet Union in November 1961 to talk about foreign trade on behalf of a committee of the Congress. We had some useful and frank high-level talks with responsible officials.

It seems to me that foreign trade is as good a perspective as any from which to look at the new Russian interest in closer contacts with the outside world in regard to patents.

We found that they were very busy buying Western equipment on a large scale. They were buying complete plants. This happens to be the

* As further indication of the Soviet interest in foreign filing of patent applications and licensing of the resulting patents is the following recent Soviet publication which came to this participant's attention. "Patents and Licensing in International Capitalistic Trade" by I. D. Ivanov and Iu. A. Sergeev, Foreign Trade Publishing House, Moscow 1962.

new wave in Russia, the wave of the present. Their appetite for new technology is sharp indeed.

While we were there, we also met many foreign firms who were there because of these large-scale Soviet purchases. And it is in connection with these complete plant purchases that the Soviets have developed a passion for making this intake of foreign equipment fairly regular and systematic, and because of these sales, too, the Western firms have a real incentive, as they make a large sale, to also register their patent to the Soviet Union.

I think an interesting change in regard to the Soviet attitude on Western patents grows out of a change in the official philosophy on capitalism. It may interest you—as representatives of the capitalist system—that the Russians have extended your timetable. You'll be around a little longer. (Laughter)

Under Stalin, you might recall, the capitalist system was viewed as so close to extinction that it wasn't even worth following their inventions. He had laid it down as a basic proposition that actually capitalism was in its last stage, that it has no incentive to invent, that it can't use new ideas because new ideas threaten installed equipment and vested interests, and therefore new ideas get buried, driven underground.

But the present leadership did not quite shift to the middle on this issue. They shifted to the other extreme. The present proposition is the capitalists are trying to kill themselves to produce new ideas, in order to derive a high rate of profit. The present theme is: "We must keep an eye on them to find out what they are studying."

We found that not only does this interest in Western technical ideas motivate the officials of the foreign trade corporations, all of whom work for government agencies. This interest also exists on the highest level of the political hierarchy.

The speech referred to by Mr. Clesner was a very important statement made in mid-June 1961 by Kosyin, who is the top economic representative in the hierarchy. He spoke specifically about this problem of exchanging license arrangements with the Western nations. And he was clearly impatient with the pace of progress. He said the instructions exist, that the order is out. "The routine is manageable," he declared, "but somehow our comrades don't seem to have the experience. They don't seem to move fast enough." And the routine described was a regular pattern of exporting licenses abroad to earn foreign exchange, and use these earnings to buy Western patents to pump into the Soviet system.

There are still, however, great institutional obstacles. There is, first, a pattern of habit which is an obstacle to them. They have so long worked on a proposition that foreign invention is something that you can help yourself to. I think they're now interested in playing the game somewhat

more fairly, becuse they have reached a point in their industrial development where they too have something to lose from all-out pirating.

In fact, you now read a lot in their literature about the fact "we must be very careful with our new inventions," that "we must not describe them quite so completely." They're teaching themselves secrecy all over again after escaping only partially from the strait jacket of secrecy that Stalin had imposed on them.

The last point I want to address myself to is how this looks from the point of view of Western Europe. We did not meet any American businessmen in Moscow.

We spoke to about a dozen Western exporters, and their attitude I think is rather interesting and worthy of our attention. They are not quite so worried as we might expect about the Russian propensity to pirate or about their successful pirating. They think that they have sufficient control over the new ideas that they generate in the form of selling it to the Russians as a new idea either on a licensing basis or by building in a royalty over a long period of time.

They say that by and large the Russians are ready to accept the idea of licensing under a patent. The satellites began to accept it first. The Russians are still inclined to balk a little but they are slowly swinging over to it.

And I was also interested in their comments on what they think of the fact that the Russians very often buy a machine in a very small number of models, use it as a prototype to knock it down and reassemble it again. This amused the Western business representatives because they said they try to make the purchase as close to a commercial sale as possible; but if the Russians want only a few models and they take it and disassemble it, as they know they would, and try to build it and develop it, it takes a few more years, and by the time they are ready to go into action, especially in sale in a competitive market, the Western firm in question has a new machine in pilot plant stage, compared with which the Russian model is no longer competitive.

As one of them put it to me, "they are in a sense building obsolescence into their system," and this does not strike them as a very dangerous form of competition.

I am sure this is not a good sample from which to derive representative information, because these are rather unusual people. They're actually selling. They have a good thing going and you would probably have to get a more representative cross-section of Western opinion to see how the threat of Russian competition looks to them.

In concluding, I might mention the fact that this business of Russia selling licenses abroad for exclusive manufacture, which they have been

talking about for a long time, is finally getting under way. It took a long time. They reported rather jubilantly in the official monthly foreign trade publication recently (April 1962) that the first step has been taken. A Japanese firm by the name of Asahi apparently bought an exclusive license to manufacture silicalcite, which is a kind of building material with some new properties. And that the Russians have hailed as the beginning of a regular exchange of patents through licensing between them and the outside world.

Thank you.

(Applause)

PROFESSOR OPPENHEIM: I'm sure you will agree that this has been a fascinating series of comments in an area in which we all have intense interest. We certainly have been privileged to have had knowledgeable, expert comments from persons who have witnessed these things at first hand.

Now we are ready for the question and answer period. As I say, if you show any signs of dissent, we will conclude as originally scheduled. But I believe I am safe in saying that a quarter to six certainly would not be too much delay. We did run a little behind schedule. All of us agree when you have a conference of this kind you just don't have a stopwatch.

I would ask the members of the panel to come back and join us up here. There are plenty of seats for them. They can speak at this microphone.

I am now opening the floor to questions from the audience, from this informed and distinguished group.

If you would, please, just simply state your name. And we would appreciate it if you would use the microphone which is in the center of this room.

Do I have a sign?

QUESTION AND ANSWER PERIOD

QUESTION: Mr. Oppenheim, this question is directed to you.

In your opening statement, in the keynote address to this group, you made a statement that we must insist on equality in our patent-antitrust situation throughout the world. Now, in dealing with the Common Market, I think we have all seen that Britain's situation has gone from a nonjoining, initially not joining up, to a position where they are almost begging to join. Do you feel we will be in position or are even in position now that we can demand things from a group such as this?

PROFESSOR OPPENHEIM: Well, I think it is clear that United States policy definitely is not to join the European Community but to have deal-

ings with it as exemplified in the present effort in connection with tariffs.

I look at it more from the standpoint of the hope that the Community itself or other similar communities would recognize the inadvisability from a political and economic standpoint—of course, they're usually intermixed—of having any European patent office or any similar arrangement which excludes access to that office by reason of discriminatory treatment against persons or corporations which don't have any particular anchorage in the Common Market as a leverage or basis for filing applications in the European patent office.

In other words, I feel, as I have indicated, that the United States and other countries in the free world, in growing recognition of economic interdependence, should develop policies on a multi-national scale that will recognize the inadvisability of a discriminatory treatment of outsiders.

The external tariffs, we know, are a device that could contribute to the federal economy of the Common Market.

But I am rather hopeful that in this area of industrial property, for example, where we have had international conventions—all of the six European Common Market nations are signatories to several of those conventions, which should foster the common European patent office idea —the Common Market will also recognize that the nonmember countries, especially of course our own, have a great stake and a common stake in participating in the advantages of a common patent or trademark office.

This is what I had in mind. In the reciprocity and the hard bargaining, which is part of this scheme, the United States could properly insist upon equal treatment for its citizens or nationals in a way that is quite different from the approach that would be taken if any nation in dealing with the Common Market were to set up demands that were considered out of bounds.

I think Britain has learned that it is too late in the day for even that great nation to come to the Common Market with the idea that it can prescribe conditions.

But whenever there is common ground of mutual interest and reciprocal treatment, I am hopeful that discrimination against Americans can be avoided by the representations of the United States, even though it will not join the Common Market as such.

Is there any other question?

Yes?

MR. HAROLD RODITI (Haseltine, Lake and Co.): I have a question for Mr. Rand or Mr. Clesner. Does either of these gentlemen know whether the Russians have talked about joining the international patent convention?

MR. CLESNER: There has been a lot of discussion of that. There have been a lot of rumors. The Russians themselves have considered joining, because quite a few years back, not too many but about three or four, a commercial counselor here, Alkhimov had mentioned that. He stated he had recommended it.

However, it appeared that they didn't deem fit to do so at that time.

Query. What they may do I don't know. But it is a fact that many of the satellite nations do belong, such as Czechoslovakia and Yugoslavia and Poland and possibly Hungary. Further, the Soviet statute on inventions grants to foreigners the same rights as Soviet nationals on a reciprocity basis. So they would have to step far to join.

PROFESSOR OPPENHEIM: May I recognize someone else?

This gentleman, please.

QUESTION: I would like to ask Dr. Weiser if industrial property and particularly patents are singled out under the new antitrust rules of the Common Market for a particular treatment, particular stress on patents.

MR. WEISER: I presume that you are interested in knowing whether they are given a more favorable position. The indications are that it is so.

You see, even under the original Treaty of Rome, in Article 85, practices which contribute to the improvement of production or distribution or to economic and technical progress were given special consideration, as an exemption from the prohibited practices. Although this was not an automatic exemption, the wording is singularly descriptive of results obtainable in the exercise of industrial property rights.

You can take this fact together with the drafting of a strong European patent convention—which recognizes the desirability of strong protection of industrial property rights together with the fact that the new antitrust regulations provide for an optional exemption from registration for certain types of licensing agreements; we can tentatively conclude today that industrial property rights are going to be granted a specially favorable place under the EEC laws, and this means that the protection of industrial property rights in Europe is going to be increasingly important for us.

PROFESSOR OPPENHEIM: Next, please? Virgil?

MR. VIRGIL E. WOODCOCK (Woodcock, Phelan and Washburn): Mr. Oppenheim, I'd like to address a question to Professor Bangs or Mr. Creed perhaps.

You mentioned inventors are not taking advantage of our capital gains exemption. Do you have any information whether this lack of knowledge on the part of our inventors is any greater than on the part of other groups?

DR. BANGS: We don't have any precise knowledge, but I don't imagine that it is.

It is an unfortunate but true fact that our tax law is extremely complicated, and not everyone can know all its provisions or all of those that apply particularly to himself.

We did find when we got responses from individual inventors that many of them simply did not know there was a way they could grant exclusive licenses and get capital gains treatment. There are other groups that are ignorant of special tax provisions that apply to them.

I was pointing out to someone else during the intermission that the first income tax law we had in this country, in 1862, ran to a page and a half. The present Internal Revenue Code is a thick book, and the regulations implementing it run to several large volumes.

I don't think that inventors as a group are any more uninformed of tax provisions than any other comparable group.

PROFESSOR OPPENHEIM: Yes?

QUESTION: I have a question for Mr. Federico. It's not in connection with your present report, Mr. Federico, but it is in connection with an article which you wrote describing the present Russian patent system. I understand that they have both patents, which are somewhat similar to our patents, and certificates of inventorship.

My question has to do with the nature of this patent grant. Is this something that someone foreign to the Russian nation could obtain—a patent in Russia—and obtain exclusive rights under it?

PROFESSOR OPPENHEIM: Pat?

MR. FEDERICO: The answer is yes. The law provides for a patent, and the statute states that no one can use the invention without the permission of the patenter. So they have the same right to exclude, on paper, that our own statute gives an inventor.

Now, the inventor who gets a patent has no right to make or to use the invention commercially in Russia, but, curiously enough, patent lawyers in this country have been insisting that the patent does not give a right to use. The Supreme Court said so, and the language was put in the statute in 1952. The statute was so written as to bring that out.

So a patent here does not give the right to use. It is our economic system that gives you the right to use.

Now, a person who has a patent in Russia can't do anything with it, since he can't start an enterprise, but find a licensee. If he doesn't find a licensee, that's all there is to it. The right includes excluding importation of the articles, which is customary in European patent laws but not in the United States.

They do have a compulsory licensing provision whereby if the invention is deemed of importance to the state and if no licensing arrangements have been made out, the Council of Ministers could decree a license and set the terms.

MR. CARL G. LOVE (Cushman, Darby and Cushman): This is for Mr. Frost.

In connection with your relation of the development of the chemical industry with the I. G. Farben combination, I believe it's the fact that there was at that time an enormous, one of the really astonishing, technological advances in history which took place coincident with this development of the highly competitive era of German dyestuffs technology that you mentioned.

It's difficult, always, in a meeting such as this, to fully understand a brief presentation. I was wondering whether you were suggesting that as this I. G. Farben combination developed, and the competitive activity decayed, there was at this time a continuing decay in research activity as well, with some stagnation setting in. And I wondered if you could comment further on that, also perhaps relating it to the spur which I feel this combination and its stagnation, if it existed, really gave to other worldwide chemical industries, the feeling being back of this question that actually you have in this story very broad implications of worldwide patent coverage and the effects of worldwide patent thinking because you had a worldwide competitive situation which developed after a loss of a national competitive situation.

MR. FROST: I'm afraid that's kind of a lot to wrap up into one answer. It's probably just as bad as my attempt in 15 minutes to talk about something that one could spend a whole day on.

But I think I can stress just a couple of points that may illuminate.

In the first place, it's a terrible mistake—and I hope nobody had the wrong impression—to say that we have in the history of the German dye industry up to a certain point competition and then a complete change to noncompetition, lots of inventions before and none after. Both are wrong.

We owe a lot to the German chemical industry during the period of I. G. Farben. One illustration is the sulfa drugs. Another is *Salvarsan,* which is before I. G. Farben but it was during the time when the cartel movement was in full swing.

So we can't generalize too strongly. But I do think it is fair to say that during the period from about 1875 to about 1900, when we had this intense competition in the dye industry, comparatively speaking, at least, the major contribution was made.

Now, I just have one comment to add to that. We can find some parallels in this country. The thermal cracking history is an excellent example, where in this country we had one key invention and then a great number of competitors working out their improvements. And our rate of progress in the cracking art after the cracking process was simply amazing.

The pharmaceutical industry today is an excellent example. And we could go outside of the chemical industry to other industries and find the same sort of thing—namely, instances where there have been headlong competitive races and exceedingly rapid technical progress.

I hope that answers the question.

DR. ROSSMAN: May I make a comment?

PROFESSOR OPPENHEIM: Yes, Joe.

DR. ROSSMAN: I am very much intrigued by Mr. Frost's allusion to the German dye industry, especially the German patents. But I'd like to point this out:

Before 1918 the Germans took out many U.S. patents in this country covering dyestuffs. And when we were shut off from our dyestuff supply from Germany, as Mr. Frost pointed out, we were desperately trying to develop our own dye industry, and so we tried to follow the disclosures of these, U. S. patents, taken out by the Germans. Many of them were found to be inoperative. As I recall it some of them actually exploded in the laboratory tests. The Germans carefully concealed important know-how. The seizure of these patents by the alien property custodian during the war was obviously of no help in this situation.

I wonder what would happen if, say, the Russians decided they were going to go out into the international property field and come over here and try to duplicate the same tactics here in some vital technological area whether that would be an inducement to modify our patent laws to take care of such situations.

But it's very interesting to note when the Germans were obtaining U. S. patents in this country and actually dominating the entire dyestuff industry through these patents I don't recall that there was any suggestion that we should then impose compulsory working in this country to establish an American domestic dyestuff industry.

PROFESSOR OPPENHEIM: I hope you will remember there is no priority of invention in questions. This is not an interference proceeding, and we will be very happy to have more questions. We do have some more time.

QUESTION: To whom it may concern: At present is there any realistic economic incentive for an American company to obtain a Russian patent?

MR. RAND: Well, you can only go by experience of other countries, and certainly Montecatini and Swedish shipping companies and others have reaped very sizable rewards.

But I would like to point out it's like playing poker with the Bank of England. You only have one customer, and he has all the money, so you have to take what you can get.

MR. CLESNER: Also there is a further factor. Esso obtained several Soviet patents in the early or middle '30's, and they found no advantage. Today a few companies of other Western nations are filing. But one of the possible advantages—I don't know if it is—would be like ICI versus Montecatini or Courtaulds in the polymer field in attempting to sell a plant or technology. This may be a form of further advantage for bargaining with the Soviet organization which will plan to put up such a plant. The possible bargaining advantage would be payment for the patent rights.

Now, I don't know whether or not the recent purchase by the Soviets from Courtaulds rather than ICI of a synthetic fiber plant was based on the fact that Courtaulds had already a patent position in the Soviet Union or not, but it could be a factor.

PROFESSOR OPPENHEIM: Pat Federico has a comment.

MR. FEDERICO: I will add a remark to that. Beginning with 1956 the total number of patents issued in Russia each year was 7, 3, 18, 109, 96, 36. This was the total of all patents. Natives don't get patents except one or two a year perhaps, so that represents what the foreigners have obtained in Russia in a six-year period. So there is very little experience.

And in speaking with the Russians, asking them similar questions, they always give you two or three examples of foreigners who obtained patents and made satisfactory deals. You hear the same examples from different sources. Different visitors have been told the same story.

Montecatini is one of the standard examples. Then there is a British example and a Swedish example.

So that's all you have.

Theoretically, if somebody is going to export goods to Russia, a patent would be valuable because of the right to exclude importation there by others.

But the question really cannot be answered for lack of experience.

PROFESSOR OPPENHEIM: Mr. Stevenson.

MR. EARL P. STEVENSON (Arthur D. Little, Inc.): This is a comment but there is a buried question in it for Mr. Frost if I can state it.

His remarks with respect to the development of the petroleum cracking

art in this country struck a chord in my memory, as I was "experting" some of these patents back in the '20's. I recall in this connection one aspect of the compulsory licensing that we sometimes forget. For example, it is well known that a certain company, rather than pay tribute to another company who had a prior patent position in catalytic cracking, measured the cost of developing a competitive catalytic process against potential licensing fees and proceeded to develop what we know now as the fluid bed system, which was an advance in the art.

I have lived through the development of modern petroleum technology, and this aspect of it has been a major factor. In other words, if the industry had had access to compulsory licensing at minimum rates, catalytic cracking might have stopped with the fixed bed. As it is, companies went on to develop competitive cracking systems rather than to pay tribute.

This is an aspect of compulsory licensing we sometimes forget. Would you call it the "negative" aspect?

Now, there is a question in it for you, Mr. Frost, if you can take it. It's a little bit buried.

MR. FROST: I'm not so sure I get the question, but I'd like to comment.

MR. STEVENSON: Comment on my question.

MR. FROST: I certainly wouldn't call it a negative aspect. I think it's a very positive aspect. And you may be interested in knowing that in connection with some of the compulsory licensing legislation that has been proposed for the drug field the theme that you speak to has been a point of major emphasis by the industry.

There have been some very distinguished witnesses who have testified at great length and in great detail that one of the most important aspects of the patent system is that it prevents a company from sitting by doing nothing and not moving forward, and that with compulsory licensing of the kind that has been proposed, it would lead to just that.

MR. STEVENSON: I know my remark was not original. My comment isn't original. But I prefaced it by saying we are sometimes unmindful of this aspect of our patent system, that it really provokes a kind of a technological competition which is very stimulating to technological progress and change.

MR. FROST: I certainly couldn't agree more.

PROFESSOR OPPENHEIM: Do I see another hand?

Bob?

MR. ROBERT C. WATSON: I want to make one comment. During the course of his talk, Dr. Sanders called attention to the fact that as a result of a study which he had conducted he had ascertained that about 40 per cent of the inventions which are eventually patented by corporations were first commercially exploited even before the applications therefore had been filed. He didn't add, as he might have, that 50 per cent were first commercially exploited during the pendency of the application, and that only ten per cent were first commercially exploited after the patent had issued.

Those findings will appear in the *Journal* which will be available tomorrow, and I recommend to all of you that you read the article by Dr. Sanders with care, because to me those findings are of great significance.

The question is repeatedly asked: Why doesn't the curve which shows the number of applications filed each year, which we put on our charts, reflect the increase in the population, or the increase in the number of technical graduates from our colleges, or the increase in expenditures for research which are skyrocketing? The application curve goes up rather slowly.

I don't know what the reason is, but I think we now have a different habit of filing here in the United States than that which has obtained in the past. We have a great advantage in that we allow a commercial test to be made within the year preceding the filing of the application.

Then it has to do with the costs. Maybe many corporations are being persuaded to test out the saleability of inventions because of the total expense of patenting. And that relates to the small part, possibly, that the size of the patent fee does play.

There are many other interesting implications which may be drawn from those findings, and I think that you will find the article worthy of study.

PROFESSOR OPPENHEIM: Perhaps I might make a comment with regard to what Mr. Stevenson said. I was reminded of the analogous problem in connection with interchange of patent rights.

For example, all of us know that the Supreme Court sanctioned the patent interchange in the Standard Oil (Indiana) cracking process case in 1931. This was a patent interchange with open-end licensing on a nondiscriminatory basis where uniform terms were given to any responsible applicant.

It was interesting to me, Mr. Stevenson, that this has some bearing on what you say. I don't know what the answer is. But I just have a feeling that where you do have an interchange of patent rights on such a large scale and you don't have, let us say, grantbacks, which might be a barrier to competitive technological developments, with independent patenting by the members of the interchange beyond what is covered by

the interchange, you don't necessarily have a blocking off of this positive competition in new invention.

Gentlemen, it may be that by this time our thoughts are turning to types of refreshment that might be as stimulating as the questions and answers. So I just want to conclude by saying, in the first place, we always owe a great debt of gratitude to our research staff, the Director and Executive Director, the Chairman and members of our Advisory Council, and all the other mainstays of our activities. But I know they will all join me in saying that our ultimate vote of thanks and appreciation goes to you, because it is only once a year that we have a gathering of this kind.

And let me tell you for myself—and I know it must have the same impact on the others—that it is always a great morale booster to realize that your attendance here, taking time from your busy schedules, attests to us that we do have friends and supporters of this enterprise of ours.

And even though we need financial support, your presence here gives us, in addition, intellectual support from which the fruits of our work come.

I want to remind you that at 7:30 tonight is the reception, at 8:30 the dinner honoring Vannevar Bush, who, as all of us know, is one of the senior and outstanding statesmen in this field.

Then tomorrow there is the Current Issues Panel, which will begin promptly at 9:30.

Thank you for coming, and we will see you later.

(Applause)

(Whereupon, at 5:50 P.M., the first session of the Conference was adjourned.)

Kettering Award Address

THURSDAY EVENING SESSION

DR. VANNEVAR BUSH

An Address Delivered by Dr. Vannevar Bush, noted scientist, inventor, and public servant, at the Award Dinner of the sixth Annual Public Conference of The Patent, Trademark, and Copyright Foundation on June 14, 1962. Dr. Bush received the Foundation's fifth annual "Charles F. Kettering Award for Meritorious Work in Patent, Trademark, and Copyright Research and Education."

We, who are associated with the patent system in one way or another, often wonder why it is now vigorously attacked, or, more dangerously, whittled away in its effectiveness. It is a central feature of our free enterprise system, under which we have attained the highest standard of living in all the world and in all history. Why then should we see all about us that system harassed in subtle ways?

To a certain extent we have been living in a fool's paradise, and we now approach rigorous tests of our ability as a nation. With a great homogeneous market, uninterrupted by political boundaries, great natural resources, native ingenuity, freedom of association, we have prospered mightily in the past. With a real income to labor far higher than that in other lands we have nevertheless been able to compete vigorously in the world market. Our progress has been due to intense mechanization in industry, to liberal use of power, to ingenuity in innovation, to sound engineering, applied to our own wide market, and, thus applied, giving us the ability to export to nations not thus materially advanced, and to secure from them the raw materials and special products necessary for our well being.

That we are coming to the end of this happy road is all too clear. It is emphasized by the problem of the flow of gold, and by the discussion of our relations to the common market. But it goes deeper than these points. Other nations now not only realize the power of broad unimpeded markets, but propose to have them. Other nations are highly mechanizing their mass production. The use of generous amounts of power is rising everywhere. Increase of real national product, sensibly measured, is rising more rapidly among other prosperous nations than it is here. With this appears also a rise in the real wages of labor, and the increase in standards of living in the nations that are rapidly moving ahead. But it will be some years before this gap is closed. In the meantime, in the next decade, there is a question whether we can continue successfully to compete. There is also

the question whether we can approach the problem sanely and wisely, or whether we have to go through some sort of economic catastrophe before we learn simple lessons.

Under these circumstances one would expect that we would be straining every effort to support the free enterprise system which has served us well so far, to strengthen our industrial effort, in particular to further the conditions under which we have led the world in the initiation of new products and new methods of production. We are doing just the opposite.

Before I proceed I should assure you that there is nothing partisan in my criticisms; matters have gone just about as badly whichever party was in power. Moreover, I am by no means painting the picture of a virtuous wise business leadership, harassed by demagogues. In fact I think business leaders in some recent incidences have done some of the most asinine things I have ever witnessed. Nor am I attacking labor. A large part of our general prosperity is due to the efforts of organized labor, in raising real wages and spreading purchasing power. The pendulum has swung too far, in relations between labor and industry, but this has been far better for us than if it had not swung at all from the conditions obtaining when labor was essentially unorganized. Nor am I singling out for criticism the executive branch, or the legislative, or the courts; they all share in the absurdities we have seen. In fact I am really criticizing the American people, or that section of it which reads only headlines, or pursues a special interest without regard for the general welfare, or, more broadly, the mass of the public which does not understand. For, in this democracy of ours, dangerously removed from the concepts by the Founding Fathers of a representative republic, it is the grasp and will of the people which determines our course.

Am I just becoming pessimistic as I grow older, or seeing ghosts? Let us look at a few instances. I need not elaborate on gold flow, on the fact that we now import more steel than we export, on the flow into this country of well designed, well built products at prices that startle us. More sinister things occur. One of our principles, one which is in fact essential to industrial progress, is that personal property shall be secure against seizure by government. By consent of the people we admitted the taxation of income, the taxation of real estate, and death duties on capital. But we have regarded, as a foundation stone of our system, that during a man's lifetime, his savings, his accumulation of capital, should be secure. We violate this principle blithely. After the war, by national financial policy, we forced the inflation. Two dollars, of artificial value, appeared where one existed before. Then we proceeded to call the extra dollar capital gain and seized part of it. Recently, with the consent, in fact under

the order of the courts, it appears that a large number of completely innocent stockholders in a large company, are to receive two pieces of paper instead of one, to show their ownership, and the extra piece is to be considered a windfall to them and part of it seized.

One abuse that we instinctively revolt against is the payment of wages to men who do not work. We have, in one prominent instance, a reasonable plan for abolishing it, with minimized hardships to individuals. That plan receives no observable support from those in high authority. We have gravitated to a position in which a small group of men, highly organized and with effective means for limiting their numbers and preventing others from exercising their trade, can impose absurd demands, throw thousands of their fellow workers out of jobs, impose severe hardship on the public, and we do very little indeed about it. We have forced our railroads into a sorry mess, by overregulation, delays, denial of obvious palliatives, and we seem to be continuing to do so.

I think that no one who has watched the current scene objectively for some years could avoid the conclusion that government has sometimes attacked companies, not because they had violated the law, but merely because they were large, and because there is assumed to be political advantage in attacking big business.

I recently studied bills, being seriously considered in both houses of Congress, which would clip the wings of an important industry, and the stated reason for action is that this industry is making too good a profit. If the time comes when the people believe that, every time an industry makes an outstanding profit, instead of relying on the forces of competition, government will descend in its might and cripple that industry by punitive law, then the recent reaction in the stock market will be regarded in retrospect as having been only a minor adjustment. Yet I hear no strong voice in government noting this statement in Congressional records, and denying that we have any such policy. I do not need to multiply examples. Nor in this audience do I need to review the fact that the patent system is being weakened instead of strengthened, that there is a prevalent fallacy, among the bench as well as among people generally, that a benefit is inherently conferred when a patent is destroyed.

Ever since Governments have had financial systems they have gotten themselves into trouble by handouts, and then gotten out of trouble, temporarily, by inflating the currency. The handouts used to be to favored courtiers or to barons who built up as much military power as the king. Today the handouts are to pressure groups, farmers, old people, organized labor, some direct, some forced onto industry. Now many of these are utterly salutary, some are quite necessary if we are to have a decent attitude

toward fellow citizens in trouble. I am not arguing against the concept of the welfare state. I am merely saying that it can be overdone and get government into trouble. Inflation works, at least for a time. It does so by seizing a part of all savings that are in terms of the nominal value of the currency, savings bank deposits, bonds, life insurance. It also, in spite of increases, has the result of temporarily reducing real wages, for time lag occurs. By thus proceeding, and because an increase in nominal wages stimulates purchasing there is no doubt that an inflationary move temporarily solves a problem. We have today long treatises extolling it in one form or another. It has two faults, outside of the fact that it is, of course, highly immoral to seize peoples' savings without their consent. One is that it may run away, in which case genuine disaster follows for all. The other is that it injures and can destroy the national credit. In a closely knit, highly industralized world, those nations will prosper who have the stamina to maintain their credit untarnished. The other way out of trouble is to be restrained in regard to unnecessary expenditures, and to support vigorously legitimate business, from which nearly all national income comes. In order to do this a nation has to be mature, not childish, in its thinking. The question is whether we are mature enough to act with wisdom.

With a healthy free enterprise system, strongly supported by government, I believe we can continue to compete strongly in a highly industrialized world, maintain our standards of living, maintain also the safeguards we place about individuals against the hazards of national or industrial disruption. In fact I believe we can continue to lead, and to help others also to prosper. But if we try to do this, and at the same time hobble the system, which with all its faults is the best form of industrial system created by the mind of man, we are headed for a showdown which will be exceedingly unpleasant.

I should close on at least one small word of optimism. Our future health and prosperity depend upon understanding by the people. True, our system needs to be refined, and abuses removed. Moreover business itself has a duty to raise its code of ethics further, as I believe it has in recent decades. Also we trust that leaders of labor, exercising enormous power, will increasingly, as they have in recent years, trend toward a position of broader statesmanship. Certainly legislators, judges, government executives, have a duty to learn to understand more fully the relation of their acts to the ability of this country to compete in an increasingly tough industrial world. But all this will occur when, and only when, the people generally grasp more fully than at present the system under which we have operated successfully in the past, and under which, refined, we can operate more successfully in the future. I believe the public under-

stands far more fully than it did some years ago, with the present greatly enlarged means for transmission of facts, beliefs, analyses, with the more effective and widely spread means of education. The central question is whether this understanding can come in time. It is incumbent upon all of us to aid in an increase of understanding by the people.

Special Session Devoted to Discussion of Current Issues

FRIDAY MORNING SESSION
JUNE 15, 1962

PROCEEDINGS

(The Conference was reconvened at 9:35 A.M., John C. Green, Consultant to the Foundation, presiding as Moderator.)

MR. GREEN: Shall we take our seats?

Good morning, gentlemen. This is the Current Issues Panel, and our Theme this morning is the international outlook on industrial property.

You will recall that last night Dr. Bush pointed out the emergence of other industrial nations as formidable competitors in the economic field. He then speculated on our responses to these challenges. This morning we are going to examine some of these developments, the hazards and the opportunities they present.

Before we get started, let me describe how we will operate. If you will look at your program, you will see that there are three general sectors—implications of the Common Market, implications of the Alliance for Progress, and implications of programs to expand United States foreign trade.

We're going to divide it into two broad groupings. The four speakers concerned with the implications of the Common Market will give their presentations. There will be an opportunity for questions and answers. Then we will have a coffee break, and then we will resume with the other five speakers and a final question and answer period, which will take us through until the luncheon period.

Now, nine authoritative speakers, nine challenging topics, coffee break, two question and answer periods mean that the task of the moderator is a harsh one. I will have to cut the introductions short, I must cut off protracted questioning, and keep the program moving so that our last speaker, Mr. Tanaka, will have equal time with our first, Mr. Robbins. I want to apologize now to the audience and to the other speakers if I seem to be abrupt at following the schedule. Let us begin.

Our first speaker, Mr. Robbins, of the well-known firm of Langner, Parry, Card and Langner, was educated in England and in America. He combines university training at Cambridge, London, and NYU Law School.

He has spent many years specializing in foreign patents and trademarks and is the author of many papers in this field.

He has recently returned from Europe where he has been exploring the problems of the European patent, and he is going to describe to us its current status and significance.

Mr. Leonard Robbins.

(Applause)

CURRENT ISSUES PANEL: INTERNATIONAL OUTLOOK ON INDUSTRIAL PROPERTY

Implications of the Common Market

THE EUROPEAN PATENT CONVENTION

MR. LEONARD J. ROBBINS: Thank you, Mr. Green.

In the middle of the twentieth century, we are in a new era of international economic interpenetration. European industry has established domestic beachheads here, and American industry is physically active in Europe. This cross-fertilization is not so much in basic commodities but is essentially in technological and consumer goods fields, which depend on industrial property rights, particularly patents and trademarks.

I think all of us here are convinced that these rights, even though they are not headline news every day, are of vital importance and constitute the catalyst or, if you prefer, the fuel to the fire, for an expanding international economy based on research.

In 1957 the Rome Treaty establishing the European Common Market, was vague as regards these industrial property rights with respect to restraint of competition. However, now in 1962 the recently enacted antitrust regulations and rules give a special position to such rights provided they are not abused as a spur to progress. I am sure that Dr. Koch will confirm that they will be safeguarded and encouraged.

In the meantime, in a parallel development, the future status of industrial property rights in Europe has been dramatically changed. Up to now, even including the effect of the International Convention and the Madrid arrangement, the scope of patents and trademarks has been essentially national in effect. Beginning a few years ago, probably around 1958, the dynamic Pan-European driving forces behind the Common Market decided that supra-national autonomous European industrial property rights covering the whole territory of the adhering states were necessary as soon as possible, instead of waiting for ultimate federation of Europe.

The basic idea is not new but the political power of creation is.

In broad outline, the decision is to create separate specific European patent, trademark and design conventions as offspring of the Rome Treaty, possibly accompanied by a general integrating industrial property convention. A most important practical reservation is the principle of coexistence with national rights indefinitely.

All this originated in a rather dense atmosphere of official secrecy in the Commission of the Common Market, which is charged with the drafting of the proposed conventions, so that industry and the patent profes-

sion, even in Europe, have had very little solid information until recently. In view of the effects in Europe itself and the implications in other geographical areas, I think it is pardonable that both insiders and outsiders have been extremely curious, if not even inquisitive, concerning what has been going on.

However, the former secrecy has now been largely dispelled, and various Common Market officials are making public statements and are willing to discuss these matters informally. Enough is known to say this: The trademark and designs conventions are still in the embryonic stage, but the patent convention will soon be born in draft form. Numerous publications, including those of this Foundation, have indicated the general outline of the patent convention. It will be an unusual convention, since, in effect, it will also be a complete and detailed autonomous patent law different from any existing patent law, particularly as regards prompt publication, provisional grant accompanied by a search report, a period of five years during which full examination may take place at the instigation either of the applicant or third parties, a new type of opposition, followed by final grant for a total period of 20 years. The resulting European patent will be subject to a supra-national jurisdiction as regards questions of validity, although the national courts may be used in the first instance for infringement issues.

What will be the value of European patents to their owners as compared with national patents?

Now, first it must be said that they may be difficult and expensive to obtain, since, for all important inventions, in view of the great territorial effect of the European patent, it would appear that the new type of opposition provided for during prosecution will induce competitors to intervene. However, once granted, the broad advantages of a single autonomous patent as compared with piecemeal national protection appear obvious in every field——of maintenance, working, enforcement, licensing, etc.

Even though many detailed problems will undoubtedly arise, and even though for many years applicants in many fields are still likely to apply for national patents also as a sort of insurance or second line of defense, until the European system is well established, it is believed that such cumulative protection will only be transferrable as a whole and that an infringement suit under one type of patent or the other will exhaust the remedy.

Who will be able to obtain European patents? Now that our curiosity concerning the subject matter of the patent convention has been partially satisfied, that has become the key question.

Initially, owing to its derivation from the Rome Treaty, the patent convention will be a closed club available only to applicants of the present

six Common Market countries. Presumably applicants will have the same significance as "resortissants" under the International Convention—that is, not necessarily nationals only but also those having a legitimate residence or place of business.

When the draft convention is published, it is possible that it will provide for increasing the membership with the unanimous consent of the original six. Future members of the Common Market itself will most probably wish to join for reasons of convenience even though there is no obligation.

Whether the draft convention will permit anything less than full and complete adherence by outsiders is not yet known. This is the great controversial topic and may be left to a later stage for inclusion in the integrating general convention. I believe that at the present moment sentiment within the Commission favors admission of outsiders, but the voice of European industry has not actually been heard.

What, then, is the position of the United States as an outsider? There appear to be four possibilities.

First, full adherence. This would not affect the existing U. S. patent law. However, a new and different type of patent protection would arise, bonded with Europe. Foreigners would acquire patent rights covering United States territory by decision of a European authority. United States citizens would have private patent rights, extending over United States territory, determined by an international tribunal. A constitutional question is involved here which has recently been very ably analyzed by Mr. Michael N. Meller of the U. S. Patent Office in the April 1962 issue of *JPOS*. He found no precedent for such delegation of Congressional power but concluded full adherence would not actually controvert any command of the Constitution.

However, in such a difficult matter of construction in a new situation, Congressional policy and the shadow of the Bricker Amendment are also involved, so that any available alternatives to full adherence are likely to be preferred.

And quite apart from the legal aspect, on the practical level it seems very doubtful whether many sections of United States industry would consider the advantages of obtaining a single European patent instead of multiple national patents to be worth the *quid pro quo* of opening the United States to an undoubted flood of European-owned patents, many conflicting with United States national patents but outside the jurisdiction of the United States courts.

There is another angle. Under the Rome Treaty, the United States is excluded from full membership of the Common Market itself as a non-European state. As has just been indicated, it is only new full members

of the Common Market that are likely to acquire full membership of the patent convention. So this is still another reason why full adherence by the United States, even if possible, does not appear desirable or practical.

The second possibility is free access-right at the opposite end of the scale. It has been suggested that all outside countries should have entirely free access to the European patent convention—that is, to have club membership without dues or responsibilities. The full members, of course, will give up some sovereignty in the economic field.

The argument in favor of this is that it is one of the many steps now being taken toward economic and political federation of Europe. At that time the convention would become the patent law of the new superstate, and outsiders could apply for patents just as they can in all other countries.

If then, why not now? This would assist in eliminating national territorial barriers, which is a prime purpose of the Common Market. The objection is that the interim period is likely to be quite long. The maintenance of the new European patent system will clearly be expensive and an obligation of the full members. The fledgling European patent office might well be overwhelmed by outsiders eager to obtain such powerful patent rights to the actual detriment and confusion of European industry itself.

Since, owing to the co-existence principle, outsiders can still obtain national patent rights, it seems unlikely that free access would be regarded as desirable by the full members—at the present time.

Thirdly, there is an argument based on International Convention for admission of outsiders. In principle, according to the directive given to the working group that is drafting the patent convention, it is not supposed to conflict with other treaty obligations, particularly the International Convention for Industrial Property. All six members of the Common Market are members of the International Convention.

Article 2 of the International Convention provides that applicants from other member countries will enjoy the benefit of the national patent law in given countries. It has been argued that the benefits of the European patent convention must therefore be extended to all countries of the International Convention. However, opponents of this argument insist that the European patent will not be equivalent to one issued under a national patent law and is completely outside the scope of the provisions of the International Convention and is, in effect, a special restricted arrangement between members as permitted under Article 15 of the International Convention.

This is a simplification of the arguments, which are quite subtle. Much has been written pro and con on this topic of extremely well-reasoned and persuasive character. Incidentally, it is interesting to speculate how

the problem of a possible conflict between the two treaties could actually be finally resolved. At the present time, however, it is possible to submit that since there are 50 or more members of the International Convention, this is really only a limited variant, as it were, of the free access problem. It must be assumed that the European convention is begin created for the benefit of the Common Market countries rather than for altruistic reasons.

The fourth possibility is association, as distinguished from full adherence. Article 237 of the Rome Treaty refers to full adherence to the Common Market itself by European states only. But Article 238 refers to association by any third-party state on a basis of reciprocal rights and obligations. Now if the creation of the European patent convention is to be regarded as an action to achieve one of the aims of the Common Market under the very broad powers of Article 235, then by analogy the provisions of one or both of Articles 237 or 238 might be applied.

Article 237 would restrict full adherence to the patent convention to European states and thus automatically eliminate the United States. But Article 238, which refers generally to third-party states, might open the the door to some form of association by negotiated arrangement.

What would reciprocal rights and obligations mean in this connotation? A suggestion has been made that the European patent might extend automatically to United States territory but that all rights thereunder would be determined by United States law and United States courts. Formidable difficulties would obviously be involved, but possibly not insuperable.

Four possibilities for the admission of outsiders have been reviewed, and there may be others. But, until the Common Market authorities make their position known, they are all still in the purely speculative field.

We have been considering applicants located in the United States. However, it would appear that subsidiaries of United States corporations located in any of the Common Market countries could properly apply for European patents. But it seems reasonable to assume that title and beneficial interest would have to be vested in the subsidiary and could not be transferred later to the parent corporation. It is well known there are serious objections to placing outright ownership of industrial property rights, which can be considered as capital assets, in the hands of foreign subsidiaries.

This discussion of possible United States participation in the European patent convention should apply generally also to participation in the trademark and designs conventions when they come into being, although difficult problems are obviously involved with trademarks due to the apparent indestructability of the existing national marks.

As regards the time schedule, actual official publication of the draft

patent convention will probably not take place until sometime shortly before the end of 1962. All interested parties, governmental and private, may then be invited to submit comments and suggestions, and conceivably the draft may be then amended. Ratification by the six member countries is hardly likely before the end of 1963. After that, the European patent office will have to be organized, which will be no small task, and detailed regulations formulated. It does not appear possible that European patent application No. 1 can be filed before 1965, although the rapid pace of all Common Market developments makes predictions rather dubious. The European trademark convention, at any rate, seems to be at least two years behind the patent convention.

The publication of the draft patent convention will reveal whether questions of adherence, free access or association by outsiders will be dealt with then, or deferred to a later stage.

United States industry has a very vital and genuine interest in these questions. If the Europeans will allow the United States access without any commitments, that will be a gift of noble proportions, all to our advantage without any visible drawbacks. However, if conditions to membership will be attached, then it appears advisable that the basic considerations should be carefully reviewed here during the next six months so that the United States is ready and prepared to adopt an appropriate viewpoint.

Various sections of the ABA, the APLA, the American group of AIPPI, the International Chamber of Commerce, State patent law associations, and, of course, this Foundation, have already studied the situation. However, up to now the Common Market Commission itself—that is, the six men who wield the executive power—have not been receptive to direct unofficial suggestions from professional and business organizations, even in Europe itself.

Our State Department and the Department of Commerce are also keeping in very close touch with these developments. In view of the interwoven political and economic aspects, possibly it would be useful to establish a special joint committee of State and Commerce representatives to act as a clearing house or evaluation center for proposals from all the American groups that are interested.

The way would then be well prepared, when the time comes, for contact with European authorities at the effective diplomatic level.

Thank you.

(Applause)

MR. GREEN: In the interest of an orderly presentation, I think we will depart slightly from the order of speakers that you find in your program.

At dinner last night, Admiral Colclough pointed out our next speaker has been on the Washington merry-go-round ever since his arrival early yesterday. The reason is that many people in Washington, in both the executive and the legislative branches, need and want to "pick his brains."

We are fortunate indeed that he has found time to be with us this morning, and I understand that thanks also go to our previous speaker and his firm because they were instrumental in arranging his visit.

Dr. Norbert Koch's background includes what might be called that of the traditional public servant in Europe, a combination of law and economics. He studied law in Germany. He took his state examinations in the early 1950's and his doctor's degree in 1953. Afterwards, he stressed professional experience in antitrust work.

For example, he joined the Antitrust Division of the Economics Department at Bonn. He went from there to Berlin where he assisted in the establishment of the Bundeskartelamt. Finally he joined the Antitrust Division of the Commission of the European Economic Community, where he is now working on administrative decisions which will be taken under the respective provisions of the Treaty of Rome.

This morning he will talk to us about antitrust regulations of the European Economic Community.

Dr. Koch.

(Applause)

EUROPEAN ECONOMIC COMMUNITY

DR. NORBERT KOCH: At the beginning of this year, the European Common Market entered the second stage of its gradual implementation. The European Community is more and more becoming a reality.

There are recent developments, particularly in the area of European antitrust regulation, which do not only bear upon business behavior of European enterprises but which also present a *direct impact on European activities of United States firms.* Some of these developments call for thorough consideration by American lawyers, who probably have been familiar enough with the European nations' more or less permissive policies towards private restrictions on competition in former periods. Since the end of the second world war, however, several European nations adopted legislation which reflects a considerable change in the public evaluation of restrictive business practices.

With the establishment of the European Common Market, a Community antitrust policy is being put into operation which comes comparatively close to the United States concept of fostering private business competition through prohibition of combinations in restraint of trade.

The analysis of the Community's antitrust regulation necessitates an understanding of its basic political and economic policies.

The Community seeks to achieve its ultimate objectives by an economic integration embracing the whole area of inter-member state economic activity. The actual goal of this integration is the establishment of a free market between member states, a customs union, eliminating all public obstacles to a free and unrestrained exchange of goods, services, capital and labor. This free market, so the founders of the Community believed, should not be governed by economic planning but by rules prohibiting anti-competitive practices. *The Community philosophy for inter-member state commerce, then, is basically one of free enterprise,* regardless of individual economic or political policies within member nations.

In order to create the conditions for the operation of a free market, the Treaty of Rome provides for rules dealing with both private and public restrictions or distortions of competition, the latter focusing on state aids, taxation measures, and other national legislation.

The framers of the Treaty of Rome wrote a body of antitrust rules into the Treaty itself. These "Rules Governing Competition" include Articles 85 and 86 of the Treaty, which are the material antitrust provisions in the proper sense.

Article 85 (1) establishes a *general prohibition* of agreements between enterprises, decisions of associations of enterprises and concerted practices which restrict competition and are apt to affect inter-member state commerce.

The rather broad scope of this basic provision covers a host of both horizontal and vertical agreements and practices, such as fixing prices or terms of trade, controlling production, limiting channels of distribution, dividing markets or sources of supply, restricting importations or exportations, fixing resale prices or conditions of sale, tying-in agreements, exclusive dealing contracts, collusive discrimination, and certain categories of licensing agreements.

The agreements and decisions prohibited by Article 85 (1) are declared to be void by Article 85 (2). This prohibitive concept is moderated by a provision which in a very general sense and without implying any transplantation of American concepts might be termed a *legislated rule of reason*—restrictive practices which contribute to the improvement of production or distribution of commodities or to the promotion of technical or economic progress may qualify for administrative exemption subject to compliance with Article 85 (3).

According to this provision, Article 85 (1) may be declared inapplicable to such "reasonable" practices where, in addition to the beneficial effects mentioned, an appropriate share of the resulting profits is reserved to

consumers and where the restriction both is minimized to the indispensable extent and does not eliminate competition in respect of a substantial portion of the commodity involved.

Article 86 forbids the *abusive exploitation of a dominant position* in the Common Market or a substantial part thereof by one or several enterprises. Unlike the far-reaching prohibition of concerted action by Article 85, Article 86 does not affect the existence of enterprises which dominate the market or the legality of the exertion of economic power deriving from dominant positions. It merely forbids the abuse of such power.

In spite of the rather general reading of Articles 85 and 86, they both were designed to govern the Community as rules of law rather than statements of principle. Council and Commission of the European Community held them to be applicable as *self-executive* and internal law of the member nations.

This concept has been confirmed and modified by the Court of Justice of the Community in its recent *Bosch v. de Geus* decision.

That case involved an effort by a German manufacturer to enforce a contract clause forbidding his German dealers from exporting refrigerators without the consent of the manufacturer. When refrigerators were being sold by a Dutch dealer other than the manufacturer's exclusive distributing agent for the Netherlands, Bosch and his agent sued the Dutch dealer in a Netherlands court for injunction and damages. The Dutch defendant claimed that the restrictive clause was automatically null and void under Article 85 (1) and (2) of the Rome Treaty. After the defendant appealed from an adverse decision in the lower court, the Dutch Court of Appeal at The Hague referred the case to the Community's Court of Justice for interpretation of the nullity provision of Article 85 (2).

The Court of Justice held that during the period from January 1, 1958 (this is the day of the coming into force of the Rome Treaty) until March 13, 1962 (the day of the coming into force of the *first Council's regulation to implement Articles 85 and 86*) the nullity clause would not apply automatically but only on administrative decision stating explicitly to that effect.

Decisions of this nature not having been taken at all, with the exception of seven decisions of the Bundeskartellamt in Berlin issued under Article 85 (3), the Court's finding practically defers the applicability of the nullity clause until the entering into force of the implementing regulation. This ruling thus *temporarily preserves the validity of all existing agreements concerned,* regardless of their compatibility with Article 85 (3), which would otherwise have been deemed technically void after the Treaty came into effect.

The *Bosch* case highlights the importance of regulations under Article 87 of the Treaty. This provision calls for appropriate executive regulations to be issued for the purpose of applying the legal principles of Articles 85 and 86, and it confers upon the Council of Ministers of the Community authority to legislate in this field.

The first such regulation, the Council's Regulation No. 17, was adopted unanimously by the Council in February 1962, coming into effect as a binding regulation on March 13, 1962.

The main purpose of this regulation is to ensure uniform application of Articles 85 and 86 in all member states, to establish predictability of law for all concerned, and to provide for various procedural devices which will enable the Commission of the Community to pursue an effective antitrust policy.

During the drafting stages of the regulation, one of the cardinal points was whether the exception of Article 85 (3) could be invoked *ipso iure,* i.e., automatically on the grounds of a mere compliance with the provisions of that paragraph, or subject to an administrative decision of constitutive effect explicitly setting aside the ban of Article 85 (1). The final result was a compromise establishing a system of *prior notification for retroactive validation of "reasonable" restrictions.* As a rule, the retroactive effect to be conferred on exemptions under Article 85 (3) is limited to the date of notification. But for some particular categories of "reasonable" restrictions—among these, vertical price fixing, certain restrictions in licensing agreements, agreements on uniform standards and types —retroactivity may be extended beyond the date of notification back to March 13, 1962.

For *transitional purposes,* the same privilege is open to "reasonable" restrictions which on March 13, 1962 already have been in existence and which either belong to the particular categories just mentioned—and may consequently obtain prolonged retroactive exemption already on these grounds—or of which the Commission has been notified before August 1, 1962.

This special rule of notification thus provides for *uninterrupted validity* under the applicable civil law in favor of *"reasonable" pre-existing restrictions.* It is supplemented by a provision facilitating adaptation of "unreasonable" pre-existing restrictions provided that notification is affected in due course.

Exclusive jurisdiction to apply Article 85 (3) is conferred upon the Commission, which thus emerges as an antitrust administrative body of great importance.

Apart from the notification procedure, the regulation provides for the

Commission to extend *negative clearance* in respect of agreements, decisions or practices not likely to give cause to prosecution.

If, furthermore, acting on request or ex officio, the Commission finds that Articles 85 or 86 are being infringed, it may address *recommendations* to the enterprises responsible or, if necessary, oblige the parties concerned to *cease and desist.*

Besides these basic procedural institutions, the regulation gives, above all, authority to the Commission to perform *inquiries* and *investigations,* both for specific cases before it and for more general economic problems in the Common Market, provided that infringements are to be presumed according to general circumstances. The Commission agents may gain access to all business books, papers and records, may copy documents, make oral inquiries and direct investigations on the firm's premises.

Negligent or deliberate violation of Articles 85 and 86, as well as refusal to comply with a binding decision or presentation of false information, may lead to sanctions of *administrative fines* from $500 to $1,000,000 or 10 per cent of the business turnover achieved by the participating enterprises during the preceding year.

In order to compel timely compliance with the Commission's decisions, *penalties* may be ordered at the rate of $50 to $1,000 for each day of delay.

In addition, the regulation deals with procedural questions like cooperation with national antitrust authorities. For this purpose a *Consultive Committee* is being established.

In order to institute *procedural guarantees,* the regulation entitles the parties concerned, as well as other interested parties, to express their views in an oral hearing.

Publicity has been provided for as to the substantial contents of demands for negative clearance and of notifications likely to justify a favorable decision of the Commission, as well as of the substantial contents of these decisions themselves, and of decisions taken in prosecution of infringements against Articles 85 or 86.

Procedural rules concerning demands and notifications have been established (Commission's Regulation No. 27) providing for *forms* to be employed *obligatorily.*

As stated before, some particular categories of "reasonable" restrictions may qualify for retroactive exemption under Article 85 (3) back to March 13, 1962, without being obliged to respect any particular deadline for notification. Among these figure agreements, decisions and concerted practices between two enterprises having the sole effect to impose upon the purchaser or the user of *rights of idustrial property*—particularly patents, utility models, industrial designs or trademarks—or upon the

beneficiary of contracts involving the assignment or licensing of *manufacturing processes or know-how* relating to the use and application of industrial techniques, *limitations in the exercise of these rights.*

Thus, the benefit of unlimited retroactivity appears to relate to agreements the sole effect of which is to impose restrictions *within the scope* of rights in industrial property and know-how. Consequently, restrictions going *beyond the scope* of the patent monopoly or the trademark right or the rights in the know-how may, as a rule, invoke retroactive validation only to the day of notification.

Pre-existing restrictions of this nature may, however, as excepted from the general rule for transitional purposes, qualify for retroactive validation back to March 13, 1962, provided they are notified before August 1, 1962.

The procedural concept outlined raises the question of *when* a patent, trademark or know-how agreement may be found in violation of Article 85 (1). As to the regulation, it is neither conceived nor competent to resolve this problem of interpretation. The answer will, in all probability, be determined by a continental philosophy which has American ancestors.

This philosophy, which proceeds from the traditional social and economic justification of industrial property legislation, seeks to mutually accommodate the monopoly-oriented law on industrial property and the competition-directed antitrust law.

For the time being, however, it seems premature to draw a dividing line between legal stipulations that fall properly within the scope of the industrial property right and illegal ones that are not covered by its protective aims and are thus violative of Article 85 (1). Any efforts to trace the boundary line between "reasonable" and "unreasonable" restrictions encounter the same difficulties.

This situation may be considered a deplorable lack of predictability of law, but I would like to take the liberty of quoting Assistant Attorney General Leovinger here, who, when being questioned about how to clarify the meaning of the U. S. antitrust laws, said that the law is clear and people do know what it means in general terms. It is not always clear and it is not always certain with respect to borderline cases in application to specific circumstances. But this is true of every law.

Thank you.

(Applause)

MR. GREEN: In view of the important information we have already heard in these two presentations, I would like to suggest to the staff of the Foundation that they print the proceedings in a hurry, that they print a couple thousand more than usual, and that they let the American Bar

at large in on these, because I think they can all use it and would like to know about it.

You probably have noted that we are moving from the specific to the general. We started off with the European patent. We then talked about the antitrust implications of the Common Market. Now we're going to look at the Common Market itself.

We are fortunate in our next speaker, Dr. van Blankenstein, who is currently Economic Minister at the Netherlands Embassy. He verifies my earlier observation about the traditional mating of law and economics in European education, since he was trained at the Institut Universitaire de Hautes Etudes Internationale at Geneva and also at the University of Leiden where he took a doctorate.

Highlights of his career in foreign service include the Ministry of Economic Affairs in The Hague, Director of Foreign Economic Relations, Commercial Counselor at their Embassy in London, and currently he is Economic Minister at the Netherlands Embassy here.

He has been decorated by many governments. For example, he is an Officer in the Order of Orange Nassau from his own government. He is a Legionnaire in the United States Legion of Merit, Commander in the Order of Dannebro from Denmark, and, one that is particularly pleasant, Commander in the Order of the Polar Star, which was granted by Sweden.

Dr. van Blankenstein is going to tell us about the meaning of the Common Market.

(Applause)

THE MEANING OF THE COMMON MARKET

DR. H. VAN BLANKENSTEIN: Thank you, Mr. Chairman.

If, after all the important information we have got from the two previous speakers, you wonder what I'm doing here, then I can only say that I agree with you.

Nevertheless, I shall do my best.

Our moderator has asked me to try and explain the meaning of what you have heard.

I think I can be fairly short on this. And in this respect I am better off than my predecessors, who had much to say in far too little time.

In the first place, I want to point out to you the important new spirit which has inspired the two subjects on which we have had information, on the one hand the draft patent agreement, and on the other hand the regulations on restrictive trade practices.

You must try and think back about ten years ago when Europe was still, as we used to know it, a continent divided into many national units

with different languages and different outlooks. They would find it very difficult to imagine that within ten years from that time it would be possible to have, for at least six countries in Europe, a common restrictive trade practices law or a draft agreement for a common patent arrangement.

This was only possible because of the Common Market and what it stands for. I shall come back to this, because it is really the most important point.

A second point I want to point out to you is that again this development has only been made possible because there is slowly developing in Europe a European civil service. You see before you in the person of Mr. Koch I would say an excellent specimen. But I assure you that he is not the only one. There are in Brussels now a group of dedicated and very able civil servants whose only aim in life is to work out rules for European arrangements not only in the field of patents and restrictive practices but also in many other fields.

Also there are national officials meeting in Brussels in committees, and they closely cooperate with those European officials, and they are creating an entirely new spirit.

In the third place, you will have noticed from what you heard that the Treaty of Rome has set up a European executive. You will have noticed that the regulations on the restrictive trade practices on cartels were originally drafted by the European Commission. Then they were enacted by the Council of Ministers. But, finally, they will again be implemented and executed by the European Commission.

Now, this is a somewhat complicated picture for an executive, and I would not try to explain this situation fully to you. But let's put it in a somewhat simple manner, and say that the European Commission is the first beginning of a federal executive, while the Council of Ministers might be the first beginning of what you know in this country as the United States Senate.

If we look at it like that, the things that have been going on perhaps fall into place.

But then also you will immediately notice a shortcoming of the whole setup, and that is that there is no clear federal parliament or congress in the sense that you know it and that other federal nations know it.

There is, of course, a European parliament which also advised on the implementation of the antitrust clauses in the Treaty, but there is no effective parliament that could amend or stop the executive or the executive and the rudimentary senate from making the regulations they did make.

This, I think, is a matter that deserves attention and I know that my Government feels the same. It will be of very great importance for the

future development of the Common Market that an effective parliamentary body should develop.

Having pointed out these four elements which appear from the subjects you have been listening to, I want to close now by saying this:

Whatever the shortcomings may be of the present arrangements in the Common Market, from the fact that a number of new developments have been started, developments which were long overdue in Europe, it is already clear that the Common Market is a great inspiration to Europe. And it is difficult for those of you who have not been over to Europe in recent years to understand entirely how important, I would almost say how tremendous, this inspiration is. It has created a whole new mentality and spirit in Europe, a mentality which must show some resemblance to your pride and feeling that this country is the country of unlimited possibilities. Europe has awakened and has become in its own eyes also a land of unlimited possibilities.

And let's be quite frank about this. This was not entirely without your doing. It's not only your example which has inspired Europe. It is also what you have done after the war when Europe was divided and ruined, what you have done to put Europe on its feet again both in the material field but also in other fields, that has helped to create this new spirit in Europe, which for a European like myself is really a revelation and something which—I repeat myself—I admit it—but ten years ago would still have been difficult to imagine.

Now, don't think that before the Common Market has developed fully —and that will, as you know, take a few more years—we shall not have problems. As a matter of fact, we may have problems after the Common Market has completely developed. You as a federation of much longer standing know that even better than we do. You have had your problems; you occasionally still have your problems—say for instance in relations between the federal government and the state governments. And we are sure to have those problems too.

But don't let that influence you. When you read in your papers about difficulties or about problems, about quarrels even, don't forget that, notwithstanding those day-to-day difficulties, there is the great inspiration, the great spirit which is going to build Europe into a great federation which will remake Europe into what it used to be but what it lost, shall we say, through its own mistakes.

Thank you very much.

(Applause)

MR. GREEN: We have heard about the European patent. We have heard about the antitrust regulations of the European Economic Com-

munity. We have heard about the Common Market itself. I'm sure you are all asking yourselves: What does this mean to us? What does this mean to United States enterprises?

Our next speaker, George Nebolsine, is particularly well qualified to address himself to this subject. He also is a product of combined U. S.-European higher education. He studied at Yale Law School, University of Paris Law School, and the Academy of International Law at The Hague.

Since 1953 he has been a partner of Coudert Brothers, and, importantly, now he is the United States member of the International Chamber of Commerce Committee on Restrictive Practices, the working party of which has held 20 meetings in Paris, Brussels, and London to consider these EEC antitrust problems and to confer with the staff. By that I mean Dr. Koch and his colleagues.

Mr. Nebolsine will talk to us on the Common Market and its impact on United States enterprises and industrial property.

(Applause)

INDUSTRIAL PROPERTY AND THE COMPETITION CONCEPT OF ANTITRUST

MR. GEORGE NEBOLSINE: I was tremendously interested in the most lucid and informative report given to this meeting by Dr. Koch. I think he has made a very distinctive contribution to an understanding of this very tangled subject.

As he went through the origins and the scope of the antitrust provisions of the Rome Treaty and finally came to the question of industrial property, he made a statement which seems to me a very good starting off point for our further discussion here this morning.

He said that the policy of the Treaty combined two somewhat contrary concepts, namely, accommodation between the monopoly concept of industrial property and the competition concept of antitrust. And he's absolutely right, of course.

This, in effect, constitutes the great revolution that has been brought about by the Rome Treaty provisions. It has brought into the European legal scene a phenomenon that we have been familiar with in this country for a very long time and which has given much anguish and consideration to business and the legal profession and the courts: namely, how do you reconcile—at what point and in what manner do you reconcile—the monopoly concept of patents and the competition concept of antitrust?

Now, I can't in the few minutes that are at my disposal give you a systematic presentation of this, but I thought perhaps to generate discussion between us here that I might touch on a few high points as points of orientation.

First, as to the Treaty's respect for industrial property—and that's a very important premise on which industrial property rights must rest—it seems to me that viewing the Rome Treaty as a whole it's impossible to find an intent to alter industrial property rights which are guaranteed by the laws of each of the six member states as well as by international treaty.

The Treaty of Rome recognizes and protects industrial property rights in two articles which don't deal directly with our problem here of patent licensing but which throw a light on the whole situation.

It accords an exception to member states from the provision of Article 30 by authorizing import restrictions where required "for the protection of industrial and commercial property rights."

In other words, you can exclude infringing goods without violating the concept of freedom of trade. The concept of freedom of trade yields to the right to exclude infringing goods.

In another provision of the Treaty it gives special attention to authors' royalties, patent design, trademarks and inventions, the assignment and licensing of patent rights, designs, trademarks and inventions, whether or not legally protected, and transfers arising out of such assignments of licenses. Here again the national licensing is clearly contemplated by the Treaty.

Now, I might add, getting away from the Treaty, that the Commission has gone out of its way, it seems to me, to give recognition to a very important phase of industrial property rights—namely, know-how—in Regulation No. 17, Article 4 (2) (2) (b).

The history of the introduction of know-how into the exception from notification is an interesting one, but it would be too long to tell it to you here. Suffice it to say that it was the representation I think of the business community that brought to the attention of the Commission the desirability of approximating the status of know-how to that of patents with respect to licensing and the antitrust regulations applicable thereto.

I think it's a tremendous step forward, and it brings know-how into the legislative machinery, for future regulation just as was done in the German antitrust laws, which as you know, recognize know-how in specific terms.[1]

This having been said on the side of recognition of industrial property rights, and, in fact, a very generous recognition of rights in know-how, let us look at the other side. What does the antitrust side say?

The antitrust rule is concentrated in a very brief sentence, or rather not even a sentence but two clauses, in Article 85 (1). These are the

[1] Section 21 of The Law Against Restraints of Competition of July 27, 1957. OEEC *Guide to Legislation on Restrictive Business Practices.*

governing provisions as to legality or illegality of a given restrictive practice. And it reads, depending upon which translation you prefer as follows:

"Agreements which are likely to unfavorably affect trade between the member states and which have as their object or result the prevention, restriction or distortion of competition within the Common Market."

These two clauses are connected with an "and", which means that both conditions must be met. And that is the construction that the Commission has adopted in the formulation of the forms [2] and in its general references to the subject. They are not alternative tests of illegality; they are concurrent tests.

What do they mean? What kind of practices have or are likely to have these effects? Of course, that is a very difficult and a very broad subject. But let us look now at what has been done at the official plane in regard to it.

You are all familiar with Regulation No. 17, which in Article 4 states certain exemptions from the notification procedure. Now, you mustn't say the "requirement" of notifications, because there is no requirement of notifications. In the original draft there was a requirement of notification and for failure to notify was punishable. Here there is no requirement of notifications. Notification is a voluntary act.

But even in respect to the voluntary aspect of notification, an exemption is afforded in favor of a certain class of licenses.

And here may I draw your attention to a failure of translation in one of the most recent and authoritative pamphlets that has come out on the subject.[3]

The French and German language of this clause is quite intricate, and it is very difficult to translate it into a nice, flowing English clause. But the sense of it was conveyed to you very accurately by Dr. Koch, who wasn't using the faulty translation, when he said the restraints are defined as relating to the exercise of "these" rights meaning rights in patents, utility models, registered designs, trademarks, and know-how.

The restraints may not extend to unpatented articles, to matters lying outside the scope of the patent, or to matters like dealing in goods other than those covered by the patent, to raw materials to be used in connection with the patented process, and to periods of time or areas not covered by the patent.

Now, there is nothing new to us in all that. We are all familiar with

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[2] Reference is made to Form A under Regulation No. 27 to be used in making application for a negative ruling.

[3] The defect appears in Supplement No. 2 (1962) of the Bulletin of the EEC.

that kind of a distinction. But I think we're all curious as to how far we can proceed down this path with any degree of certainty. And at what point do we really get into an area where nobody can tell whether the particular practice falls within Article 4 (2) (2) (6) is prohibited under Article 85 (1)?

I must also, before reading a couple of interpretations of this which I think are very important, make a brief reference to the fact that Article 4 (2) (2) (b), which I have just read, which exempts from the notification provision, gives some of the protection of notification, does not measure the line of prohibition or permissibility. And the Commission has so stated. It says: please do not regard things within this Article as clearly legal and things outside of it as clearly illegal. This is merely a convenient line that is drawn for purposes of relieving the Commission of innumerable notifications which might otherwise have been made.

But it leaves the problem with all of us as to what is legal and what is illegal, and that is what I want to address myself to briefly.

There isn't too much to go on, and I certainly wouldn't dispute the statement of Dr. Koch that these matters are only going to be gradually revealed in the case-by-case approach and not by any declarations of definitions of the legal and the illegal. But I do think you should consider two rather authoritative points.

Now, you know the European Coal and Steel Community Treaty which deals with the coal and steel industry contains anti-restrictive practice clauses in some respects very similar, virtually identical, to those of the Rome Treaty. In this area it contains a prohibition of price fixing and production regulation which is co-extensive in its wording with that of the Rome Treaty.

Now, the High Authority of the ECSC, which is the corresponding body to the Commission in the Rome Treaty, made the following declaration back in 1956:

"The High Authority holds the view that agreements concerned solely with the working of patents cannot be regarded as restricting the normal operation of competition within the meaning of the Treaty, and, accordingly, the granting of exclusive rights for a particular area was not, in point of fact, a contravention of the Treaty."

In the Coal and Steel Community Treaty there is nothing said about interfering or injuring trade between member states. The only test is whether it restrains competition within the Common Market. If exclusive licensing does not restrain competition, it is outside of Article 85 (1).

But I have another citation which goes a little further perhaps. This is an answer to a question raised in the European Assembly in March 1961.

You know the European assembly follows a system where members of the Assembly submit written questions to the High Authority or the European Economic Commission and these questions receive formal replies which appear in the record.

Well, this is one of these questions and answers, and it was addressed to the High Authority. And this is the answer. The answer reads:

"The Treaty did not modify in any respect the legal provisions in force in each country with respect to patents. Consequently, if the national law in force permits limited transfer of rights relating to patents, the license contract containing such provisions does not extend beyond the limits of the rights determined by the law of the protection of industrial property. If the restriction may operate on a regional basis, it may also apply to a country of the Community. See Fourth General Report." (—which I just quoted). "On the other hand, if in signing a license contract the parties make other agreements which go beyond the rights relating to patents, the provisions of the Treaty in regard to competition shall apply. The same would apply in respect to the period beyond expiration of the patent rights."

Well, gentlemen, one could, if time permitted, go into other areas. One could particularly note the most interesting decision of the Commission Techniques in France interpreting the antitrust provision of the French Decree (which bears a certain similarity to the antitrust prohibition of the Rome Treaty Article 85 [1]) with respect to a patent pool and restrictive licensing program. The argument was made by the defendants to the Commission Techniques that industrial property rights stood outside the scope of the broad French antitrust law since it did not specifically refer to patents and did not specifically limit patent rights.

This argument was rejected by the Minister of Economics.[4]

I must now conclude these brief remarks. Thank you.

(Applause)

MR. GREEN: Now we come to the audience participation part of the program. As you know, this is being taped, and sections of it will be rebroadcast. So I would ask you if you have a question please come to the microphone in the center of the room, give your name and affiliation, and indicate whom you would like to answer the question.

It's your program from here on.

Any questions, please?

Yes, sir?

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[4] J. O. 14 Jan. 1960 Annex No. 1. Annex No. 3. Magnesium Cartel.

QUESTION AND ANSWER PERIOD

MR. JAMES H. TILBERRY (Williams, Tilberry and Golrick, Cleveland, Ohio): I would like to address my question to any member of the panel who would care to comment on it.

Most agreements with which I am familiar are of the mixed variety involving not only patents but sometimes trademarks, certainly know-how and many other considerations.

Now, is there any reason that any member of the panel can think of why these agreements, whether they be in the nature of joint ventures, agreements with subsidiaries or agreements with independent corporations in Europe, should not be noticed to the European Economic Community Commission?

MR. GREEN: Do you wish to volunteer, Dr. Koch?

DR. KOCH: Yes.

I think the point is to very well distinguish between the restrictions in licensing contracts of the nature which you have just mentioned, which stay within the limits of the protected industrial property right, and those which go beyond the limits of these rights.

If restrictions go beyond the limits of these rights, they are violative of Article 85 (1). In that case, each particular agreement is at least void under civil law as concerns the restrictive clauses.

Now, in order to be sure that any such agreement will be held valid by civil courts in Europe, I think notification is absolutely necessary. And I would even like to add that, already for this reason, the objective of Article 4 (2) of Regulation 17—the objective to let the Commission get rid of a certain amount of notifications of licensing contracts—will never be achieved, because in most of these cases the parties that enter into such agreements are interested to timely ensure the validity under civil law of these agreements.

I don't know whether this answers your question. If not, I am, of course, prepared to make further remarks.

MR. MERWIN F. ASHLEY (United Shoe Machinery Corporation): I'd like to ask Mr. Robbins a question.

Mr. Robbins indicated that the basis on which United States industry might be permitted to obtain advantages under the new patent convention that has been proposed would be on some partial basis. And he said, I think, that they might, having made sacrifices themselves which we would not have made, be very noble and permit us to come in and have patent rights under the convention.

It seems to me we will all agree that Europe, Common Market countries particularly, has profited greatly from the export of American technology and that the patent rights that we have enjoyed there have encouraged the investment of capital and greatly helped the prosperity of the Economic Community.

I'd like to ask Mr. Robbins if he would not agree that it is within the selfish interests of the Common Market not to deny but rather to encourage in every way the disclosures and the export of technology of America and other countries to the Common Market and to provide the best and the most readily available protection they could to help provide the incentives for the exploitation economically of that technology.

It seems to me that it's within the selfish interests of the parties to this new convention to invite us into it and not to sacrificially be noble and permit us to come in on some terms.

MR. ROBBINS: Yes, Mr. Ashley, I agree that our export of technology to Europe during the past fifteen years has aided the Common Market countries, but only they can define their own selfish interests at the present time. The position of the United States is indeed different from that of other countries, and a special invitation to us would be fine. However, we are not dealing with bilateral arrangements but with a treaty of unique character involving insiders and outsiders—very different, for example, from the International Convention. I think that some sort of a formula will be necessary to define how outsider countries can join.

MR. ASHLEY: I think I made by point in asking my question.

Thank you.

I have another question. May I ask a question of Mr. Nebolsine?

MR. GREEN: Mr. Nebolsine.

MR. ASHLEY: In regard to the antitrust provisions of Article 85, on the matter of notification, I think it's understood that not all agreements, even though not matters of industrial property, that contain some degree of exclusivity or restriction are required to be registered, but only those which would adversely affect trade in the Common Market. However, Article 86 provides for companies and relationships between companies that obtain a dominant position in the Common Market.

And my question is: Might an agreement which has some restriction or some exclusivity that would be exempt under 85 (1) be considered an abuse perhaps under 86 and that if a company is in the position of having dominance should they be more careful about notifying than they would otherwise be?

In other words, might it be an abuse under 86 where it would not be a violation under 85 (1)?

MR. NEBOLSINE: I was expecting you to go on in that question and say "and assuming they get an exemption under 85 (3) does that give them some coverage under 86?" And I'd have to answer I don't know.

But I think you have put your finger on it—that the concept of exemption in Article 85 is not available in that form at all in Article 86 cases.

It is of course possible to argue that the practice is not really an abuse within the meaning of the Article.

And I am not sure what immunity notification gives you from 86. I doubt it gives any.

But if the Commission has considered the practice, it is probably fully aware it could bring a proceeding under 86, and if it doesn't and gives an exemption under 85 (3), I can't help but feel that that would be a rather nice kind of a thing to have for the company that was doubtful as to its status under these two clauses.

MR. ASHLEY: Thank you very much.

MR. GREEN: We have time for one more question before the coffee break.

MR. W. HOUSTON KENYON, JR. (Kenyon and Kenyon, New York City): My question is directed to Dr. Koch and is concerned with the question of the public availability of contracts and agreements which have been filed or tendered to the Commission.

A question has arisen giving rise to some reluctance to present such contracts to the Commission for the very reason that Dr. Koch earlier mentioned—the existence of antitrust provisions on a national basis in other countries of Europe, for example, Germany, which have been enacted since the end of World War II.

What assurance can the Commission give, if it approves an agreement, that that same agreement will not lead the submitter into trouble with the German authorities, the French authorities, the Italian authorities, and so on?

DR. KOCH: Ladies and gentlemen, I must admit that this question which has just been raised is one of the most intricate problems which we have to face. It is the question of the relationship between national antitrust legislation and European antitrust regulation.

This, of course, is a question which will finally have to be settled by a decision of the Court of Justice.

But in my personal opinion, the relationship between these two pieces

of legislation has to be considered as a mutual applicability of both laws. I think, by the way, that this concept of mutual applicability of state antitrust laws and federal antitrust laws is the philosophy, the approach of the United States antitrust jurisprudence.

Well, the practical consequences of this approach are that restrictive agreements which come under Article 85 of the Rome Treaty, as well as under some antitrust provision of the state law, of the member state law, have to comply with both the conditions of the European antitrust legislation as well as those of the national antitrust legislation in order to qualify for exemption under the respective provisions.

Of course, this depends on what country we're talking about. If we are referring ourselves to Germany, then we have similar national and European legislation, and agreements would have to comply with the respective provisions for exemption of both legislations.

When we refer ourselves to member states which do not have the prohibitive concept which Germany has, then the situation is, of course, easier.

But you must bear in mind that the granting of an exemption by the Commission based on Article 85 (3) will not exclude national antitrust authorities from intervening into that particular agreement.

MR. GREEN: In fairness to our other speakers and the fact it's time for the coffee break, let's break now and come back promptly, please, in ten minutes.

(Whereupon, a recess was taken.)

MR. GREEN: Dr. Koch has indicated he would like to supplement his response to Mr. Kenyon before we start the rest of the program.

DR. KOCH: Gentlemen, two questions have been raised, during this short interval, which I think are of general interest and on which I would like to comment generally.

The first question is that of prolongation of the delay for notification. As a matter of fact, the Commission received a number of suggestions from private business circles to amend the delay fixed in Regulation No. 17.

Now, as you are aware, Regulation No. 17 is community legislation decided upon by the Council of Ministers, and it's only the Council of Ministers who is in a position to amend this regulation. So a very formal procedure has to be observed in order to prolong the delay.

Consequently, the Commission suggested to the Council of Ministers to take the necessary decisions, and there has already been a unanimous informal decision of the Council of Ministers accepting the substance of

this suggestion. But for the time being the formal proposition has been sent to the Assembly in order to hear the view of the Assembly. It will then be returned to the Council of Ministers which then will be able to finally and definitely decide upon it.

I fear that this will take some more weeks and will not be before the middle of July.

But there is a definite chance that prolongation will be achieved until November 1.

The second question which has been raised is that of publicity, of due protection of business secrets of enterprises which entered agreements that have been notified. As a matter of fact, publicity has been provided for in Regulation No. 17 for notifications which are likely to lead to a favorable decision of the Commission and for this decision itself.

But, on the other hand, publicity has been restricted to the substantial parts of such notifications and decisions.

The Commission is fully aware of the necessity to respect and to protect justified business interests and not to make public any internal secrets which do not bear upon the scope and importance of the respective restrictions. Where the borderline between business interests and the interest of the public will be is a difficult question, which I am, as you will certainly understand, unable to explain right away.

Thank you.

MR. GREEN: One of the early and important program announcements of President Kennedy was the Alliance for Progress. This partnership of the nations of the hemisphere to advance living standards and contribute to economic growth was welcomed by all nations.

Then we were faced with a question of performance, and in the performance of this long-term national responsibility there is a requirement for a consolidation, a marriage, a cooperation of private enterprise, governments, and international bodies.

Those are the activities represented in the next section of our program. We will begin with the private practice section, and here we have Mr. Walter Slowinski of the firm of Baker, McKenzie and Hightower.

Mr. Slowinski is the resident partner in this firm. He is adjunct professor of law at Georgetown Graduate School and lectures at the University of Virginia Law School in Charlottesville, teaching a course in tax problems of United States corporations abroad.

He is past secretary of the Section of Taxation of the ABA, a member of the American Law Institute, the American Society of International Law, and co-author of "The Federal Taxation of Individual and Corporate Income from Foreign Sources."

Mr. Slowinski is going to cover the topic of the increasing licensing of industrial property in Latin America.

(Applause)

Implications of the Alliance for Progress

THE INCREASING INDUSTRIAL PROPERTY LICENSING IN LATIN AMERICA

MR. WALTER A. SLOWINSKI: Thank you, Mr. Chairman.

Mr. Chairman and members of this Foundation, our law firm has been greatly interested in your Foundation since its beginning. We were not one of the charter members, but joined shortly thereafter.

When this program was first announced, Lou Harris and I discussed the preparation and planning of the program on current issues in industrial property.

Needless to say, the European Economic Community and its developments came first, both in terms of popular and commercial interest and in terms of the four fine participants you have already heard this morning. They were the results of wise and careful and fortunate planning, and you are to be congratulated on having them prepare this integrated program for you today.

The next area of interest, however, is certainly Latin America, and the developments within the new Latin American Free Trade Association (LAFTA).

The Association signed its treaty February 18, 1960. It is only two years old, still in the planning stage—just about where the Common Market was in 1956 and 1957 before the January 1, 1958 inauguration.

The treaty was signed in Montevideo by Argentina, Brazil, Chile, Mexico, Paraguay, Peru, and Uruguay. A hundred forty million people live in this Latin American free trade area.

This step was followed by the Charter of Punta del Este in August of 1961, which was the implementation of this short-range and long-range project called the Alliance for Progress.

Add to the Latin American Free Trade Area and the Alliance for Progress these additional steps forward:

1. The Act of Bogota of October 1960 to provide new measures for economic development in Latin America.

2. The creation of the Central American Treaty for Economic Integration.

3. The growth and development of the very fine Inter-American Development Bank which has its headquarters here in Washington.

4. The work of the Economic Commission for Latin America.

It is clear that after 400 years of social, political and economic shackles, the Western Hemisphere and specifically Latin America will be moving ahead to meet the twenty-first century in entirely different circumstances from those in which it greeted the twentieth century.

Needless to say, our discussion on industrial property in Latin America this morning cannot be as mature or as sophisticated or as detailed as the European program preceding us.

However, it is heartwarming to note that the very first article in the spring issue of *The Patent, Trademark and Copyright Journal,* which some of you have before you, is entitled "Latin America: A New Frontier for Industrial Property", by Lou Harris. It is exactly in keeping with the tenor of this morning's program. It suggests a Foundation study and lists the important questions to be explored, as follows:

How far would the United States have to go in joining inter-American conventions and treaties on industrial and related properties?

What is the significance of present treaties and conventions for United States interests?

What is the significance of the present laws and practices in the industrial countries for United States interests?

What is the developing attitude and practice of these countries toward licensing United States companies?

In view of the hostility toward "Yanque" and the competition of the Communist bloc, the Common Market and the Asian countries, what is the economic, sociological and political impact of research and development and industrial property developments in Latin America on the United States?

Is there an emerging pattern of United States investment, export and licensing activity in Latin America?

Is there a regional bloc developing in Latin America, and, if so, what form has it taken or will it take?

Before exploring any of these questions with our panel this morning, I thought it might be helpful to place before you some of the secondary materials which a private practitioner in this foreign trade field uses regularly to supplement his actual legal approach and planning. Call these materials on the table which I brought this morning a small private library, if you will, in the foreign trade and legal field.

But it is interesting to note that one of the sound recommendations for you who are interested in industrial property is that you or your companies or your foundations or your universities have as many as possible of these materials on hand by way of background.

The materials try to take us, in some cases, through these 400 years of Latin America's economic development and growth, to bring us to a

place today where we can with some knowledge and some experience negotiate licensing agreements or establish joint ventures with Latin American companies which are certainly beneficial to the economy of the United States and the Western Hemisphere.

At the Georgetown Graduate Law School I teach a seminar entitled "Comparative Tax Law." This is for lawyers receiving their master's and doctor's degrees. At the University of Virginia it is a third-year seminar for students who are just finishing law school, and it is entitled "Tax Problems of United States Corporations Abroad." The seminar runs the gamut of Western Hemisphere trade corporations, foreign tax credits, taxation of licensing, possessions' corporations, Puerto Rican corporations, foreign-based corporations, the major taxes of the European countries, the major theories of tax jurisdiction that are used worldwide (because many countries have entirely different theories of taxation from the United States), and other related taxation problems.

The planner today, the man who intends to take industrial property to foreign countries, must be able to mesh the tax systems of the world so that he or his company pays no more than a fair and reasonable tax on which he can report to the shareholders of his corporation.

Some of the most interesting areas of these courses, however, cover licensing, investment, manufacturing, and joint ventures.

One of the most important areas of current interest worldwide is the problem of licensing of industrial property in foreign operations and the interplay of the differing theories of tax jurisdiction in major countries.

For example, we in the United States say that our tax law is based on citizenship or residence. If a United States corporation, because it is a United States corporation, a United States citizen in effect, does business anywhere in the world, it is taxable immediately at 52 percent in the United States on its income worldwide. If a foreign company is resident in the United States, it is taxable on its United States source income.

The United Kingdom, Canada, and Australia do not use this as their tax jurisdiction test at all. Their test is "management or control" or "seat of management". If a Tanganyikan company is managed and controlled in the United Kingdom, it is taxable as any United Kingdom company.

The Spanish civil law concept of taxability is territorial. Venezuela feels that if a dollar is earned in Venezuela, it will be taxable in Venezuela. If a dollar is earned by a Venezuelan company in Brazil, it will not be taxable in Venezuela because it was not earned in Venezuela. But by the same token, a dollar spent, if it is spent in Venezuela for ordinary and necessary business expense, will be allowed as a deduction, but if it is not spent in Venezuela, there will be no deduction.

In Western Europe, each of the countries has borrowed from the civil

law concept of taxation. Belgium has a 40 percent corporate rate, but if a Belgian corporation earns income outside Belgium—this is to encourage Belgian corporations to go outside and do business—the income tax on that foreign earned income is reduced to 12 percent.

French tax law provides that if a French corporation (where the corporate income tax rate is 50 percent) goes outside France and earns income, when that income comes back in the form of dividends, it shall generally be subject to tax not at 50 percent, but at 24 percent, plus the corporate rate of 50 percent on one quarter of the dividends. This amounts to about a 33.5 percent tax rate as opposed to 50.

The Netherlands since 1892 has had a theory of tax jurisdiction which provides that if a Dutch company places a permanent establishment in another country where there is an income tax system like the Dutch income tax system, not the same 47 percent rate, the profits of that Dutch permanent establishment in another country can be brought back to the Netherlands tax free.

Many of the Latin American countries adopted the theory of territoriality of taxation which makes it an entirely different concept from our United States taxation rules in terms of licensing industrial property in Latin America vis-a-vis licensing industrial property in some of the European Common Market countries.

Your Foundation's *Journal*—and we say this with great respect—has, in the area of foreign licensing and in the area of taxation of patents and industrial property, led the field in research and publication. There is to our knowledge no equivalent research being done anywhere else in the United States.

Regarding Latin America and its future development of industrial property utilization, it is interesting to note that Brazil and Mexico and Argentina, as a result of one of the Foundation's recent studies, were among the first ten countries in receiving licenses from a hundred United States companies which answered the questionnaire. To restate the figure, of the fifteen major countries to which United States licensors license, Argentina, Mexico and Brazil were among the first ten.

More research should now be done to see why these Latin American nations have been attractive and other Latin American nations have been less attractive for licensing.

The Tax Institute of America—presently the Tax Institute of Princeton, New Jersey, which has just become the Tax Institute of America—will hold here in Washington on October 25 and 26 a program entitled "Tax Policy on United States Private Investment in Latin America." Ten major country speakers will participate. Based on the Tax Institute's success at this forthcoming conference, if it is one, perhaps The

Patent, Trademark, and Copyright Foundation could sponsor a program based on a study of the same or similar Latin American countries entitled "Industrial Property Policy on United States Private Investment in Latin America".

But all is not going well in the Alliance for Progress in terms of interesting United States corporations to invest their industrial property in Latin America.

John Creed, in your Foundation's taxation program yesterday, advised you of the newly proposed United States tax bill, H. R. 10650, now pending before the Senate Finance Committee. Let me give you an idea of what might happen under this new tax bill if your United States company proposed to transfer a new Brazilian patent, one which had not been exploited before, to a joint venture company in Brazil in which you, the United States company, owned as little as 51 percent.

The Treasury in H. R. 10650 had recommended a new change deleting its earlier approach in the proposed Section 952 which would have included as "Subpart F income" (taxable currently to the United States shareholders) all income from United States generated patents, copyrights and exclusive formulas and processes. The Secretary of the Treasury orally indicated before the Senate Finance Committee that the pressure of drafting the bill in the final few days before the House Ways and Means Committee had resulted in problems which now prompted his suggestion that this provision be entirely deleted.

However, in the place of the deleted material, he has proposed an alternative recommendation which is equally unworkable.

He now suggests there be an imposition of a United States tax at 52 percent (which is the corporate normal and surtax rate) on the full value of the technology of United States companies at the time this technology is originally to be transferred to the foreign subsidiary.

He orally indicated a somewhat longer statute of limitations on assessment to permit a retrospective valuation of such technology at some future time.

This is what the new proposal would do in the area of the Alliance for Progress. If a United States corporation transferred a new Brazilian patent to its controlled Brazilian subsidiary—by control is meant the ownership of more than 50 per cent or as little as 51 per cent—it would have to estimate in advance the fair market value of that Brazilian patent, since the patent had never been exploited abroad before.

If such fair market value determination by the United States corporation is, for example, $100,000, the United States corporation would have to pay $52,000 in United States tax before it is allowed to send that Brazilian patent to its subsidiary.

If the Brazilian project is a failure, perhaps, if time permits, a claim for refund could be presented to recover the $52,000 in United States tax paid. However, if the Brazilian patent is a success, then a United States Internal Revenue agent would be free to assert a substantial tax deficiency with interest retroactive to the date of the transfer against this United States corporation based on a new valuation, because he has had an opportunity for three years to look at the valuation your company made three years before at the time of the original transfer of the patent.

This new Treasury proposal would not only levy this new tax under this proposed Section 1249 on the sale or exchange of patents, but it would include inventions, models, designs, copyrights, secret formulas, secret processes, or other similar property rights.

In addition, then, the United States would tax currently any royalties your company receives from that Brazilian subsidiary from the licensing of these same rights.

We do not intend to labor this point except to tell you that these are unnecessary hurdles being placed in the path of your companies seeking to obtain a foothold in the so-called less developed countries of Latin America.

It is unfortunate that the objectives of our various administrative departments, such as State, Commerce, and Treasury, cannot be properly integrated.

The future of the Alliance for Progress in this instance hangs in the balance.

Thank you.

(Applause)

MR. GREEN: I can assure you Mr. Cates of State and Mr. Dale of Commerce were listening closely.

Our next speaker includes Andover, Yale, and Yale Law School in his background. He has been assigned to our embassies abroad for many years. For example, he was in the "hot spot" as head of the political section at Caracas, and he has been the legal officer both in Mexico and in Germany.

In addition, his experience encompasses a number of United States-United Nations participating projects, in which he has had administrative responsibilities.

Currently he has the impressive title that you see in the program, Deputy Director for Inter-American Regional Political Affairs, U. S. Department of State; he is also our alternate representative to the Council of the Organization of American States.

Mr. Cates will continue the theme of the role of private enterprise in the Alliance for Progress.

Mr. Cates.

(Applause)

THE ROLE OF PRIVATE ENTERPRISE IN THE ALLIANCE FOR PROGRESS

MR. JOHN M. CATES, JR.: Thank you.

I am here today representing Theodore Moscoso, who is the Coordinator for the Alliance for Progress and the director for Latin America for AID.

I confessed to my colleague from the Inter-American Development Bank, Señor Iraneta, and also to Mr. Dale, that I am really not and I cannot pose as an expert on patents and trademarks, nor do I in any way intend to touch on the field of the previous speaker.

What I would like to do very briefly is to say a little bit about what the Alliance for Progress is and where we think it's going and why, and stress the importance of private investment abroad and the relationship of economic development to stable political and social conditions.

We have found out there has been an enormous amount of misunderstanding or ignorance about what the Alliance is, not only abroad—and I have just been to Venezuela—but at home in the halls of Congress. And in the newspapers there is a lot of conversation as to: why the Alliance isn't getting off the ground—rocket ships seeming to take over all the similes and metaphors nowadays—and also what is it all about anyhow?

So, very briefly, I would just like to run back over the introduction of this concept by President Kennedy a little over a year ago, refer briefly to the Punta del Este conference which the previous speaker mentioned, and say a little bit on how we think it's going to work and how it has been working.

As you know, President Kennedy's idea—and I won't quote from some of his speeches—is that, with a continent which is as rich in natural resources and which also, I might say, is as rich in problems as Latin America, it is up to us to help develop these resources—and help solve the problems—and to help give these people a standard of living which will make life worthwhile and, we hope, will make them support the kind of a political system which we think is in their and in our own interests.

I suppose you could say that we hope to help the people of Latin America, our neighbors, help themselves to develop a viable economic system which will support a viable democratic system, a system which

will have its own sustained growth, which will be able to feed and employ their populations that are getting bigger every day, and, in general, will develop the kind of a country where people's lives, their homes, churches, schools and family life, can go on under the conditions that, very briefly, make it worthwhile to get up in the morning.

I assume you're familiar generally with those proposals of President Kennedy, to form an "alliance" to achieve these ends, and in view of the few minutes we're putting in on this subject, I will not go into details any further.

This idea of President Kennedy, which is extremely important and which, as the previous speaker mentioned, is not wholly new, was implicit in the Bogota Pact and in a former Brazilian President's Operation Pan America. Former President Fegueres of Costa Rica claims it was his idea. President Betancourt in Venezuela has a little Alliance for Progress of his own. And Muñoz Marin in Puerto Rico has done some remarkable things, part of it in cooperation with Teodore Moscoso, now head of the South American division of the AID Agency.

Of course the idea of countries advancing their own development is not new. What is new, is the introduction of the concept of the necessity for self help and for social and legislative reform as a precedent to economic aid, which was introduced by President Kennedy and which was written into this pact of Punta del Este by the Latin American nations which attended.

I just would like to quote two things from this pact that are interesting.

In the main declaration, on the establishment of the Alliance, it is stated:

"This Alliance is established on the basic principle that free men working for the institution of representative democracy can best satisfy men's aspirations, including those for work, home, land and health."

On that basis the various countries agreed to work together to bring it about.

The preamble is interesting. You will recognize a comparison to our own Declaration of Independence. I think ours is the first that ever said "we, the people." The preamble of the charter of Punta del Este starts out:

"We, the American republics, hereby proclaim our decision to unite," in order to fulfill these aspirations.

And through this conference run these several themes. One is that the countries and the people of Latin America are united, realizing their own responsibility. The second theme is the element of self-help, the old New England—I guess we can't claim it all for New England—"the Lord helps those who help themselves" and the idea of the necessity of certain fiscal

and social reforms. Reforms have to be made in tax programs, although I don't intend to get into that or our own tax problems here.

But, nevertheless, as you know, there are many countries in Latin America and other parts of the world that are looked upon as tax havens. Some of these tax climates have been so favorable that the few have had the champagne and the poor have had mostly hunger.

And in Venezuela before the recent reforms began, just to give you an example, there were some figures, that may be a little high, that 85 per cent of the wealth was in two per cent of the people's hands, while taxes, in our sense, were non-existent.

I think it is important to recall, at a meeting like this—that we are a middle class nation, we are a bourgeois people. I don't know about the rest of you here, but most of our ancestors worked very hard with their hands. And the concept now of paying our way and sharing our wealth through some sort of a tax program is something that is so much a part of our own society that I think we forget the extent to which this is not true in certain other countries of the hemisphere.

I mention this problem of taxation to introduce the Alliance for Progress relationship. Tax reform is one of the steps expected to be taken by Latin American countries wishing to meet the standards established by Punta del Este as a prerequisite for help under this mutual aid program.

So much for how and why it came about. Next, it's quite obvious that if you're going to build up private industry you have got to have a market. And if you are going to have a market, you have got to have the people in the market having some money to spend.

This gets us into a favorite topic of a man named Walt Rostow, a classmate of mine, whose book called *Economic Growth* has had an enormous success around the world as the first successful intellectual attack on Marxist precepts.

One of our best ways to combat Marxism is to show that it's old-fashioned, that there are other and better ways of doing things. Until this book of Rostow came out, there had really been no sound, positive economic attack on this theory. Rostow's idea of economic growth is based upon a theory that as various societies develop they reach what he calls the takeoff point, and at this time the society, in its developing economic theories, its developing factories, the accompanying progress of agricultural production, starts that wonderful cycle known as sustained growth, a phenomenon which has occurred in this country and various other countries in Europe and which ends with a rising standard of living and all these happy things that follow when we live in a society such as our own.

Now, the idea of the Alliance for Progress recognizes that capital is

needed from outside to help reach this particular takeoff point. The original Punta del Este figure is a very large sum of money, 20 billion dollars over ten years. The United States agreed that it would put up part of these funds. We talk about it in terms of matching funds. But the bulk of capital investment must come from the country itself and other outside sources.

As you all well know, not only did this country develop through machinery and equipment manufactured under a lot of European patents, but we also developed through investment of a lot of European capital, and this situation really never shifted until, I suppose, after World War I.

Until that time you heard a great deal, even in the United States of criticism of England and Europe. Outstanding was the famous Mayor Thompson of Chicago, who always used to badger King George and England. He never seemed to disturb the King greatly. But this attitude of anti-England, anti-European capital is the same sort of thing, of course, that we hear today when we hear in Latin America of anti-Yankeeism and criticism of American imperialism.

Its the same sort of problem that our friend from Japan may mention. Japan played a part in the economic development of the Asiatic mainland, and was soundly criticised for it. However, what we must have is some man with something on the ball and some money in his pocket and something to look forward to in terms of profit who will put money into a situation to help start the cycle moving.

Without going into details, the Alliance for Progress is pitched to that particular problem.

And now to get around to the part of private enterprise. The Alliance for Progress cannot work, and of this I am convinced, as is our Government and as is stated in the Punta del Este compact itself, unless private initiative picks up the ball and advances with it in this particular development field.

Now, how you get private enterprise to go into one or another specific field is, of course, a very neat trick. Theoretically you do it by profit motive. A great deal of what we are depending on in the private enterprise field will, of course, come from the United States firms.

One of the great issues up in the current tax bill is whether the bill, as just mentioned, will inhibit American firms from going abroad.

As I say, I am far from an expert on this, but I was quite close to the American community in Caracas as I was to many Venezuelan friends, and I can say the American community down there was most concerned about what the effect might be although, of course, I have no comments on the merits.

Now, our own taxation problem and program which will affect Ameri-

can business has its counterpart in taxes affecting Latin American businesses. Questions are being raised abroad as to whether tax reform programs called for by the Alliance for Progress are going to further inhibit local Venezuelan, Colombian, Argentinian, and Brazilian capital from going into the development of their own countries instead of going out of the country.

As you know, I suppose, there is a great deal of South American capital in New York, Miami, Zurich, London, and other places.

Now, one of the reasons that that capital is abroad is an uncertainty as to what may happen or will happen with regard to their political situations at home, but not because of fears this capital may be taxed at home.

The hope of the Alliance is that by encouraging private persons and industry to accept civic (local government, taxes, welfare) responsibility with the sense of growing civic responsibility, with the social well-being which will follow and with the economic development, aided by private, as well as public investment, there will also follow the development of more stable political situations.

In the United States we are inclined to forget that in reaching our present stable political climate we went through one of the greatest revolutionary upheavals the world has ever seen, the Civil War or the War between the States, as you prefer. When we make flippant remarks about revolutions in "Those South American countries," we are generally inclined to forget our own early difficulties. Nevertheless, it is perfectly true that frequent political turbulence in various countries in South America and Central America has inhibited investment. It has inhibited American firms from going there. And it has inhibited the nationals of those countries from investing their own money in their own countries.

The problem of creating the political climate which will induce private enterprise, local and foreign, to participate in national development is a major aim of the Alliance for Progress. And, of course, basically the problem is once such an orderly political climate is established and private investment picks up, will private enterprise itself provide the stimulus to the development of these countries which will justify our own faith in our own system?

And if we ourselves, as Americans, believing in the system, the political-economic system that we follow, cannot by our own efforts and efforts in cooperation with our neighbors prove that this is a viable system, the persons that are attacking the system, the Communists and the Castroites, of course, will claim our failure is proof of the accusations they have been making ever since the Soviet Russians began to attack our system.

The implications of this are obvious.

I will now mention in closing one other point, one of our "trouble

areas," which Mr. Harris asked me to cover. And this again is where I started.

One of our biggest trouble areas is to get people to understand what is meant by the Alliance for Progress and how this Alliance works. The Alliance itself is really a concept, or it is like a great umbrella. There has been a great deal of talk about AID, the Agency for International Development. However, the Alliance for Progress works not only thorugh AID but through an enormous number of agencies. It works through such things—again I speak about Venezuela because I have just been there —as the Creole Investment Corporation in which the Standard Oil of Venezuela put 10,000,000 bolivares to be used locally for local development.

It works through such things as IBEC, the Rockefeller development company.

It works through private business concerns for whom you work, or perhaps which you own.

It works particularly, of course, through the Inter-American Development Bank, which Señor Iraneta is representing here today.

It works through the Peace Corps.

It works from the Food for Peace program.

It works through various agencies of the United Nations and the Organization of American States.

This Alliance is an enormous and a vital experiment, and it really is going to come down to whether we can organize and export our system, a system which has worked well here, which has worked well in Western Europe. It has worked well in Venezuela to this extent: that the Venezuelan oil industry developed fast and huge profits resulted. But Venezuela had a ready market for the oil, and the Venezuelan economy of the fifties was built up—well, floated on a great lake of oil.

Now the challenge is, with the evolving political situation there, with a democratic government seeking a wider distribution of wealth, the problem that other countries have through Latin America, can we regularize this system and can we through our own ideas and the strength of private enterprise as well as government aid help bring the kind of life to the people of Latin America which will keep them, you might say, allied to our system, not as poor relations and certainly not as our satellites, but as our self-respecting friends meeting the obligation of and enjoying the benefits of the system that has so far worked so well here.

Thank you.

(Applause)

MR. GREEN: It's clear there are problems to be faced and being faced in the performance of the objectives of the grand plan, or the Alliance for Progress.

It would seem that an official attached to an international agency would be in a good position to become aware of such problems and to give an objective evaluation of them. We have such a man as our next speaker.

Mr. Iraneta was born in Chile, his experience combining also teaching and practical work in economics. For example, he was professor of economic theory at the Inter-American Training Center for Economic and Financial Statistics in Santiago. He has been professor of economic theory at the School of Economics at the University of Chile. He has been also the Assistant Chief of Finance and Planning of the Development Corporation of Chile and the Chief of the Division of Economic Research at the Pan American Union.

Currently he is the Secretary of the Inter-American Development Bank.

He has written a number of publications, all in the field of national and international economics. For example, "The Inflationary Process in Chile," "Production Indexes" for the magazine of the School of Economics at the Chilean University, and "Capital Formation and Consumption."

Mr. Iraneta will speak to us on problems and objectives facing the Alliance for Progress.

(Applause)

PROBLEMS AND OBJECTIVES OF THE ALLIANCE FOR PROGRESS

MR. PEDRO IRAÑETA: Thank you, Mr. Chairman.

I deeply appreciate the opportunity to participate in this meeting and more so to comment upon a subject which is of tremendous importance for Latin America. The remarks expressed here are my personal views.

Recently, referring to the Alliance for Progress, the *New York Times* mentioned that the millions of dollars that will have to be capitalized could be counted but that the amount of intelligence, initiative and dedication needed, as well as the failures and disillusions that will have to be met, will be immeasurable.

I would like to point out briefly some of the new characteristics of this program—new, at least, within the framework of earlier aid programs to Latin America.

First, this program has committed both the aid-providing and the aid-receiving nations to take action conducive to attaining certain long-term objectives. The United States has offered and committed resources on a long-term basis, which is a new concept in U. S. aid to Latin America.

The program is pased on a ten-year process of growth, and it has committed the nations to reach at least an annual increase of two and a half per cent in income per capita during this period.

May I say that while this rate may sound not too high to you, it is quite significant for Latin America, when you think that very few countries in the region have maintained such a rate of growth on a continuous basis, and that population growth in Latin America is one of the largest in the world.

The second new characteristic is that the program is directly related to domestic policies for economic and social development and reform. An objective of the program is to promote certain economic and social reforms, such as a better distribution of income and changes in the land tenure systems. The program is also guided by over-all political considerations since it is intended to strengthen the free democratic systems in the Americas.

Finally, another aspect which is also new is the important degree to which this plan has been launched as a multilateral program. It is guided by principles which were approved in a meeting of all American republics in Punta del Este. Mr. Cates before me mentioned to you some of the objectives and principles that were agreed upon in that meeting. Also, machinery for implementing and conducting the program has been established on a multilateral basis. A committee of nine "wise men" composed of nationals of various American republics has been established. The countries will present their long-term plans to this committee, which will review them to judge the degree to which social change and improvement and economic growth is being fostered by each country, the extent in which domestic resources are being mobilized and the foreign aid needs.

The mere enunciation of the main objectives of the program is indicative of the immenseness of the task undertaken, and I will briefly point out certain factors the fulfillment of which I believe will be basic for the success of the program.

First, I think it is essential to the success of the program that it be realized, both in the aid-providing and in the aid-receiving countries, that growth and social change are a slow process, a very slow process indeed, and that the success of the program can only be judged on the basis of its long-term objectives. The implementation of the program will call for the broadest popular support possible, and it would be dangerous if speedy accomplishments were expected; we could easily become discouraged by the obstacles that will have to be met.

In addition to that, a clear vision of the long-term nature of the program will prevent confusing its objectives with goals which in due perspective may be irrelevant. This would also allow for the flexibility

which is essential in a program of this type. Growth and social change in a free society require give and take and the molding of the quite often contradictory forces which are at play.

The realization of this, I think, is essential for public acceptance of the progress of the program and for the continuous public support it calls for.

The second factor which I think is important to point out is that the granting of aid under the plan should be based on very clear permanent criteria. This is fundamental, because the whole program is based on the countries' preparing long-term plans—five-year, ten-year plans. It will certainly help the undertaking of such planning if countries can know quite far in advance which are to be the criteria for the granting of aid and can be assured that there will be no changes in such criteria. It is also important for another reason. No matter how generous this country may be in providing aid, the success of the program and the economic growth of Latin America will depend fundamentally on what Latin America per se does. From this point of view, foreign aid, in addition to its immediate impact, is important as an incentive for the adoption of measures needed in the recipient countries. If the criteria for granting aid were not clear, if they were confused with aims different from those that orient the final objectives of the program, if the prerequisities that the countries have to fulfill to obtain aid would change or not be uniform, then the value of the aid as an incentive would be considerably lost.

The third factor which is basic for the success of the program is the degree to which its objectives are widely accepted and supported by the public both in the aid-providing and in the recipient countries.

In the recipient countries, to a considerable degree, the acceptance of the objectives of the Alliance for Progress—economic growth and social reform and improvement—will depend on the extent to which these are truly objectives that effectively the majority of the people want. But it will depend also on how the program is conducted and the aid granted.

In this connection, with reference to the recipient countries, clarity of aid-granting criteria will also help; the realization that the aims pursued are only those stated in the program will facilitate its general support.

The degree in which the guiding principles are multilaterally established and, at the same time, that flexibility is allowed in implementing the program, in accordance with the different conditions existing in the various Latin American countries, is also a factor which will promote the general acceptability and support of the plan.

In this respect, I may mention that the multilateral approach followed, in launching the program, to work out its guidelines and to establish ma-

chinery for its execution, will, I believe, enhance the general support of the plan by public opinion in Latin America.

Fourth, the success will depend too on the adoption of other international measures, distinct from direct financial aid. This happens to be particularly true with the foreign trade of Latin America. No amount of aid would be able to contend with a continuous decline in the prices of the main primary products which Latin America exports. It will be very difficult for the Alliance for Progress to meet success if the economies of Latin America continue to be subject to violent fluctuations in the prices of their exports and in their foreign exchange receipts.

It is essential that new markets be opened for Latin American exports and that tariff and trade barriers which prevent new commodities from being exported from Latin America be diminished. The Latin American countries themselves will have to intensify their steps to broaden their markets, as they are starting to do now through the Latin American Free Trade Area agreement and the economic integration program in the Central American countries.

Finally, of course, the success of the program will depend mainly on the degree in which the Latin American countries per se make a tremendous effort.

It has been said that in ten years $20 billion of foreign capital will flow to Latin America. In the same period, Latin America will have to capitalize seven to ten times that amount out of domestic savings. The extent to which internal resources are successfully and productively mobilized, needed institutional reforms and technical and administrative improvements fostered, managerial capacity strengthened, etc., will be basic to the success of the program. And this is not only a government undertaking. It needs the support of and it is a tremendous undertaking for private enterprise. It has to mobilize and needs the support of peasants, laborers and public servants.

Latin America is nowadays facing an economic and social revolution. This revolution, no doubt, will continue whether Alliance for Progress is a success or a failure and this we may not know. What we do know is that the Alliance offers one of the main hopes for bringing about badly needed changes and improvements while preserving free democratic societies.

Thank you, Mr. Chairman.

(Applause)

MR. GREEN: I think I am speaking for everyone here when I tell Mr. Iraneta that as far as all of us in the United States are concerned the Alliance for Progress is going to be a success, and we are going to do our best to make it so.

Now we are going to shift emphasis a little to the expansion of foreign trade. Here we have our final program before conclusion.

Balance of payments, foreign competition, reduced trade barriers and necessary protection for adversely-affected United States firms;—these are problems faced every day by some of the key officials on the Washington scene. Our next speaker is one who has major responsibilities for these problems and for their solution.

He is the Deputy Assistant Secretary for International Affairs, Mr. William Dale.

Bill, as he is known around the Department, has a degree in history from the University of Michigan. He has another degree in international law, diplomacy and economics from the Fletcher School. He is currently a candidate for a Ph.D. from that school.

He has written extensively in the international field on such topics as "Brazil: Factors Affecting Foreign Investment," "United States Venture Capital in Newly Developing Countries," and a number of other basic reports and documents.

He came to Government from Stanford Research Institute where he had earned an international reputation as an economist. For the last six years he had been program director of international research at S.R.I. There he conducted studies of foreign investment projects in Brazil, India, and other developing countries, and he was quite concerned with the United States international balance of payments.

Within the Department he has been responsible for administering our export controls, foreign economic policies, the provision of information to business on economic conditions around the world, and he has represented the United States in several conferences in Geneva on questions of international trade.

Mr. Dale will now speak on the subject of United States legislation and administration for an expansion of international trade.

(Applause)

UNITED STATES PROGRAMS TO EXPAND INTERNATIONAL TRADE

MR. WILLIAM B. DALE: Thank you, John.

The hour is late. I know that we are somewhat behind schedule, and I will hope that we can leave some time for questions, since I will clearly benefit more, and perhaps you will too, than by listening to a long description of what we're trying to do within the Federal Government to expand U. S. trade.

I will briefly outline two major programs. One on which I will be

particularly brief is the Trade Expansion Act of 1962, which is now before the Congress. It has just been passed from the House Ways and Means Committee to the full House for further action there and later will be presented to the Senate Finance Committee and finally to the full Senate before its enactment, before the end of the present session.

The other portion of my talk will be on the export expansion program which the President asked us last year to undertake in the Department of Commerce due to the financial stress that the American dollar has been placed under because of our balance of payments deficit. This has become a serious national issue during the last several years.

First, as to the Trade Expansion Act of 1962, I would urge, if you have not gotten it, that you get a copy of the House Ways and Means Committee's report by which on last Tuesday, June 12th, this bill as amended by the Committee was passed to the House.

It is a good report, and in the scope of a very few pages in the beginning, the general provisions of the bill are outlined accurately and I think comprehensively.

Let me say that when the President introduced this bill last January 25th, he pointed out that there were five major features of the international situation and our domestic situation that affected the manner in which these provisions were drafted and presented. I will quickly run through those in order to give you some background.

Some of these considerations are relatively new. Some have been in our mind for some time. But I believe all of them have become much more important to us as a nation and much more imbedded in our consciousness today than they were in 1958, the last time that the Congress renewed the Trade Agreements legislation.

First, he pointed out that we have concluded that the rate of our domestic economic growth is not satisfactory, and this bill has a relationship to that problem.

Secondly, along the lines of the discussions we have heard this morning, the formation of the European Economic Community, which in 1958 was a feature of passage of the Trade Agreements Act, has become a much more vigorous and much more important development since then. We must find ways to meet our own national requirements in relationship to this movement toward economic integration abroad, particularly in Europe but also in Latin America and elsewhere.

Thirdly, the problems of the less developed countries in the field of trade have become much more important to us. We used to say at the time of the Marshall Plan that we would prefer trade, not aid. We have now recognized, I think, that a different slogan is needed. One version of it is: *From* aid *to* trade.

Fourthly, the Soviet economic offensive has been charging along and has in some parts of the world—it is a very selective offensive—become a matter of very deep concern to us.

I need only mention that the Soviet economic penetration into Cuba has brought very closely to our attention during the past year this very difficult problem.

Fifthly, since 1958 we have developed a most serious balance of payments problem.

Let me now briefly go through some of the main provisions of this act as an outline to stimulate questions. I will do it in a factual way. I am not here trying to gain votes for the trade bill but merely to present information on it.

I will do this in four general categories:

First, the authorities that it confers on the President to modify our import restrictions in negotiations with other countries.

Secondly, the pre-agreement procedures and safeguards that are built into the act.

Thirdly, a few general administrative points on how the provisions of the act will be carried forward.

And, lastly, the post-agreement safeguards by which interests of domestic industry can be protected if they are imperiled by the actions of the President under the act.

As to the President's authorities, the basic authority is that he will be empowered to reduce by as much as 50 per cent the U. S. tariffs applicable to our imports, those tariffs as they exist on July 1, 1962.

This is the authority under which he can negotiate trade agreements with any foreign countries, all friendly foreign countries (that is, other than those of the Communist bloc) and the negotiations would be carried forward, as they have been in recent years, under the provisions of the General Agreement on Tariffs and Trade in a multilateral forum and manner.

Secondly, there is a second provision for what we envisage as an historic trade negotiation with the European Economic Community. This is supplementary to the basic 50 per cent reduction authority and does not compete with it. It is not isolated from it.

The major feature here is that the President would be allowed to reduce by *more* than 50 per cent, which means as far as zero, our tariffs applicable to imports for certain well-defined commodity groups. These commodity groups would be categories in which we and the European Economic Community jointly provide 80 per cent or more of total free world exports in a given representative period.

In some respects, this is a rather complex provision, but basically the

idea is that in highly manufactured and highly technological goods we and the Europeans dominate the world market. This has generally been designated as the dominant supplier formula.

If in a category of goods we and the Europeans provide 80 per cent or more of total free world exports, then clearly we have jointly a very strong competitive advantage and in those goods it would make sense for us mutually to substantially free our trade with each other so that we like the Europeans could gain the advantages of increased competition and expanded markets.

Principally, the objective from our viewpoint of this provision is to give the President an authority by which he could force the European Common Market to reduce very sharply their import tariffs. So this would be used to gain access as far as possible for American goods into this rapidly growing European market.

There are several other much less important features of the special authority for negotiating with the EEC. One relates to agricultural commodities and says, in effect, that for certain types of agricultural commodities the President would be allowed to reduce our tariff to zero providing he were sure that as a result of this negotiation with the Common Market our own exports of the same agricultural commodities or products thereof could be maintained or increased.

There is a separate provision also by which the President could reduce tariffs on tropical commodities, tropical agricultural or timber commodities, to zero, providing the Common Market gave substantially the same access as was thus provided to the commodities of the less developed countries which are tropical.

This provision is designed to try to open up the European market to the major export commodities of some of the important less developed countries and in this fashion to help to shift some of the burden which we are now so importantly carrying for the growth and development of these less developed countries.

There are certain limits on the ability of the President to reduce U. S. tariffs. For example, he is *required* to hold out of any such negotiation such articles as are covered by escape clause tariff increases which have been processed through the Tariff Commission and on which escape clause relief has been granted.

He is required to reserve commodities falling under the national security provisions—that is, commodities on which import restrictions are maintained because domestic production of the article is regarded as important for national security.

And a new feature. He will be required under the bill as amended by the House Ways and Means Committee to reserve articles where the Tariff

Commisssion has found by a majority vote that there is, or there is threatened, serious injury to domestic producers. This means, in effect, that under this version of the bill the Tariff Commission would have the power to force the President to reserve articles out of these negotiations.

In addition, the actual application of reduced tariffs under this Presidential authority would be required to be staged over a five-year period. In effect, the provision is that the reduced tariff negotiated under this Act could be applicable not more rapidly than 20 per cent of the total reduction in each year over a five-year period.

The pre-agreement procedures and safeguards have to do chiefly with advice from the Tariff Commission to the President with respect to the economic effect of any tariff reduction on articles which the President expects to negotiate on. They would have to provide him with their judgment about the economic effects—that is, the effects on our economy and on our domestic industry, of reductions in tariffs on items the President expects to offer for negotiation.

Beyond that, hearings with representative agencies of the Executive Branch would be required as they have in the past.

As to administration of this bill, there is a new provision for a special representative to be named by the President, and approved by the Senate, for trade negotiations. This would lift to the status of a Presidential appointee directly representing the President the person who would be responsible for the conduct of trade agreement negotiations in Geneva.

There would be established also an inter-agency trade organization which would advise the President on the policy aspects of administration of this Act. That would, of course, be similar to the presently existing Trade Policy Committee, chaired by the Secretary of Commerce.

This whole bill, of course, is based on the historic principle of most favored nation and I perhaps should have mentioned when I was briefly discussing the provision for a negotiation with the Common Market that once that negotiation has taken place, the most favored nation principle would apply to it.

That is to say, when we reduced our tariffs and the Common Market did too, substantially on industrial products, those markets on both sides would then be opened on the same basis to the less developed countries and they could gain to the degree they could become competitive in the commodities concerned.

As to the post-agreement safeguards, they are quite complex, and I will describe them only in the very briefest fashion.

Essentially what is involved is the adoption of a new concept and new program, the trade adjustment assistance program. Provision is made for relief to domestic industry by the President through establishing either

quota restrictions or higher tariffs once it has been shown that domestic industry has been seriously injured or that serious injury is threatened by increased imports due to a reduced tariff brought into force under a trade agreement.

There are, in addition to that, the provisions of the trade adjustment program under which either industries, companies or groups of workers can be assisted by the Federal government in several ways.

Let me turn now very briefly to the other side of the program that we in the Commerce Department are carrying forward and are trying daily to improve upon.

The effect of the Trade Expansion Act of 1962 when passed, will, of course, take place over a number of years, perhaps as much as seven or eight or ten years, depending on how rapidly it can be implemented and how rapidly the negotiations that take place can be concluded.

The export expansion program, however, is one that must have results within a fairly short time. It is imperative, as the President and Secretary Dillon as well as Secretary Hodges have said a number of times, for us to reduce very sharply and rapidly our foreign exchange deficit.

For that reason, we are pressing ahead as rapidly as we can to expand our exports by all the means that are at our command.

We are doing a number of things. One of them is to establish a committee structure of interested and active public-spirited business people in all parts of the country. Secretary Hodges on April 9th reactivated and changed the membership of a new National Export Expansion Council of 34 members which has developed for itself an active program of investigating a number of different steps that can be taken to expand our exports.

That is being supplemented by 34 regional export expansion committees which will have roughly 30 members each.

We will then have a structure of some 1,000 American business people who are giving of their time generously, are advising the Secretary and others of us in the Department, and are carrying forward a program of bringing to the attention of American business the need and opportunity in the export field.

Secondly, the old Navy "E" for "Excellence" has been taken out of mothballs, and we now have an "E" for "Export" award. The first ten awards were made several weeks ago at a presentation at the White House by the President, and we are now actively processing applications for "E" awards. We are about at No. 45 at the present time.

As an incidental benefit we are finding in the documentation presented for the "E" awards a great deal of interesting case material which bears on how well we can compete abroad.

We have an agents and distributors program under which we will find agents for companies abroad. We have improved, we think, our information program. I will show you here a new publication whose antecedents go back to 1880, but as of next Monday we will have, instead of the old *Foreign Commerce Weekly,* a new publication, *International Commerce.* That will be on some 12,000 to 15,000 desks next Monday, which is the release date.

We are actively pressing our trade fairs program, our trade centers program, our trade missions program, and the program of carrying forward trade seminars in all parts of the country.

I think here, Mr. Chairman, I must stop, in view of the time. I hope we will have time for questions.

(Applause)

MR. GREEN: Perhaps the discussion today seems to have been preoccupied with Europe and the Common Market, but that doesn't mean we neglect the astounding recovery of Japan or the formidable competition that we are getting today from Japanese exports.

Our next speaker is in a peculiarly good position to discuss this problem. He is Mr. H. William Tanaka. His educational background includes UCLA, where he took the AB degree, and he has an LLB from George Washington and an LLM from George Washington.

For the last eight years he has been in private practice in this city, and his roster of clients sounds like he is a one-man trade mission. I think he includes most of the significant imports from Japan in the organizations he represents. For example, he is general counsel for the Electronics Industries Association of Japan. He is counsel for the Stainless Steel Flatware Manufacturers, the Sheet Glass Association, the Japanese pottery manufacturers, the Japanese bicycle exporters, the Japanese tile manufacturers, the Japanese machinery exporters, the Tuna Packers' Association.

The only association I can think of he missed is the association of geisha girls—(laughter)—and I suppose the export potential is limited there.

At any rate, I think we need to know more about the impact of Japanese imports on United States domestic industry, and Mr. Tanaka is prepared to tell us about it.

(Applause)

TRADE LIBERALIZATION IN THE CONTEXT OF UNITED STATES—JAPAN TRADE

MR. HAJIME WILLIAM TANAKA: Thank you, Mr. Chairman.

From the erudite level of previous speakers, I would like to descend

for a moment to more mundane subjects, such as tunafish, flatware, pocket radios and the like. In order to make a judgment as to what might happen if further tariff reductions are negotiated, it would be useful to take United States-Japan trade and cite a few basic statistics.

The United States has been a net exporter to Japan during the post-war period with the exception of 1959. In 1960 United States exports were approximately $1.3 billion as against United States imports from Japan which were about $1.1 billion, a net export surplus of $200 million.

In 1961 the United States exports to Japan were $1.7 billion as against imports from that country of $1.1 billion, a net favorable balance of $655 million.

As compared with United States exports to EEC countries, which amount to about $4 billion, United States exports to Japan are approximately one-half.

So it can be seen from these figures that Japan does play a vital role in maintaining and expanding United States exports.

Now, I would like to circumscribe my discussions to my personal experience—that is, in the area of import competition from Japan.

What would happen if further trade liberalization were to be effected as a result of the enactment of the Trade Expansion Act of 1962?

This may best be answered by examining some of the import injury cases which have been filed with the United States Government agencies charged with the responsibility of protecting domestic industries.

Before going into specific cases, I think it would be useful to make certain general observations.

First, one of the principal concerns expressed by opponents of liberalization is that tariff reduction would adversely affect employment and destroy the industry involved. The opponents claim that this would be particularly serious in view of the fact that we have a continuing high level of unemployment.

However, in this connection I might cite the Holland Report which was issued by the House Labor and Education Committee back in 1960. The report observed that many employers wait until recession occurs to discharge their workers, and then they tell them that imports have been responsible. However, when production resumes, those laid off are never rehired.

The report concludes that this technique is frequently used to disguise layoffs which are due primarily to technological displacement.

Further, it should be noted that to talk of unemployment in the context of import competition is to permit a very small tail to wag a very large dog.

To illustrate, a recent Brookings Institution study demonstrated that a 15 per cent increase in imports resulting from liberalization would result

in unemployment of a negligible two-tenths of one per cent of the workers involved in the affected industry.

The fact is that the Administration is faced with a task of finding 225,000 jobs every week for the next several decades, and from this perspective, unemployment which might result from import competition is minimal, and employment gained from reciprocal tariff reductions would, on balance, increase employment.

Second, insofar as apprehension over destruction of competitive industries is concerned, it should be noted that there is no question that some of the industries are not competitive in the international market and would therefore be affected adversely by increased imports.

On the other hand, under spur of import competition, many of such industries are already doing an admirable job of innovating and diversifying their operations to move into new growth markets.

In the context of the technological revolution which is now under way, no industry can stand pat and survive. In the electronics industry, particularly in the semiconductor sector, small firms without specialization are quickly becoming laggards and are being bought out by larger firms in search of tax benefits and diversification.

With these prefatory remarks, I think it would be illuminating to examine some of the cases involving Japan which have come up before the Tariff Commission and the Office of Emergency Planning.

First let us take the stainless steel flatware industry. What were the facts involved? What, in fact, happened was that stainless flatware imports had their principal impact on silverplated ware. As a matter of fact, when import rose, silverplated ware production dropped by about 30 per cent. But, more importantly, at the time stainless imports began to come in from Japan in quantity, silverplated ware, as you well know, was already in rapid decline due to shifts in consumer taste which had made this product obsolescent.

The curious aspect about the case was that United States manufacturers at one time imported approximately 70 per cent of total imports of stainless flatware in an effort to control its import, but as soon as trading firms came into the picture and the manufacturers lost control of the imports, they filed an escape clause action before the Tariff Commission.

The history of the industry makes clear the desire of the industry to maintain production of the higher-profit-margin silverplated ware as long as it could, and, of course, when it lost control over imports it had no alternative but to step up its shift toward production of stainless steel flatware. In retrospect, it appears clear that silverplated ware was doomed to die, imports or no imports.

Secondly, I would like to take up the electronics industry. This industry presents an interesting case study.

In terms of total trade balance, the electronics industry is a net exporter by a substantial ratio of approximately 3 to 1. In structure, this industry is divided principally into three sectors—the defense, the commercial industrial, and the consumer end product segments. Fifty per cent of the product output goes to the Defense Department. This is obviously an area where import competition is non-existent.

Another 25 per cent consists of the commercial industrial sector, involving the production of data-processing equipment, computers, governing devices on automation equipment, etc. In this sector again import competition is negligible because of the advanced level of our technology. As to the products of this segment of the industry, the United States is a net exporter and Japan happens to be our largest export market for computer equipment.

In the balance of 25 per cent is where import competition appears to be concentrated, namely, in the consumer electronic sector. However, even in this sector the facts do not sustain allegations of injury.

Total imports as against total production of consumer end products amounts to only a negligible 7 per cent.

These figures, I believe, clearly demonstrate that notwithstanding the alleged flood of transistor radios, tape recorders, and other articles from Japan, the impact on the total industry is *de minimus.*

In addition thereto, it should be noted that one-third of the transistor radio imports consisting of one and two transistor toy sets fill a market interstice not supplied by domestic producers. As to this one-third it would be difficult to claim that the product was competing with a domestic product.

As to the balance of two-thirds of the transistor radios, none other than the AFL-CIO in one of its reports echoed the well documented fact that the imports from Japan had opened up a new market in which the domestic industry is now participating to its benefit.

Take another industry, the tuna industry. This industry's case has been a *cause celebre* in the halls of Congress and for a number of years the industry has been vigorously asking for relief. The fact is that frozen tuna imports have brought a net increase in employment and made possible the rapid growth of the tuna cannery industry in the last decade.

The United States has always been a net importer of frozen tuna.

In the case of crude horseradish, which receives little public notice, the Tariff Commission found that the traditional producers in the St. Louis area were really being depressed by the growth of horseradish production

in other areas of the United States, and that the imports were supplemental to the domestic supply.

In the sheet glass industry, about which you have probably heard a great deal in recent months, the facts indicate that successive strikes in the industry to protect obsolescent skills and the failure of the industry to meet the market demand played a significant role in the inducing imports. Under these circumstances, it is clear that the large automotive and construction industry sectors of the economy should not be permitted to falter for the lack of glass.

These facts appear to demonstrate that the imports of sheet glass probably have, on balance, contributed more to the total economy than they have injured.

In summary, it seems to me that in view of the expected doubling of the GNP in Japan by 1970 as compared with a lower rate of growth in the United States, that any reciprocal tariff reductions would probably redound to the greater benefit of United States exporting industries than to the exporting industries of Japan. I think, for this reason, that there is no real basis for apprehension that imports from Japan might flood the United States market in the event that the Trade Expansion Act is passed and implemented.

Thank you.

(Applause)

QUESTION AND ANSWER PERIOD

MR. MAX WEISS (Western Electric Company, New York) : Mr. Cates, you mentioned the need for private investment to permit the Alliance for Progress to succeed. My question is: If this investment should come from the United States and take the form of either an exchange of technical know-how with or without patent rights from United States corporations or money from private individuals for an interest in a Latin American corporation, then what controls or security measures are provided for the private investors that will protect their interest in the Latin American corporations from being lost by either a unilateral policy shift by the particular Latin American government or a change in the Executive department of that government?

MR. CATES: A very good question. It is a question that has been before, I suppose, every foreign investor every place in the world ever since people began to go abroad to make money.

The only thing I can say about it is that a responsible government is going to take care of the interests of investors in the country. We can take some extraordinary cases like Cuba, without going into why Cuba was what it was or why it was.

You have got the I.T. & T. case in Brazil right now. You can go back to the famous cases in Mexico that I worked on.

But the development of a more sophisticated political situation throughout the world, the development of these mutual assurance funds and projects of the Alliance for Progress, and the cooperative attitudes of the governments who wish to attract and hold foreign capital are the only things we can rely on.

There is no particular magic formula. I would suppose of all the people that have ever lost money abroad that as many more have probably been protected and have made money.

I can just say that the United States Government is aware of it. The business interests are aware of it. The governments of Latin America are aware of it. I don't know whether our friend from the Development Bank wants to say anything about this or not.

I am not dodging your question but it defies a flat answer.

I have talked about this with American firms, among other places in Caracas, and what I have come up with myself is that there must be more money to be made abroad than there is by not investing it abroad or else so many American firms wouldn't risk it.

Granted, some of them do it in your field, particularly where there is licensing of equipment, and so forth, to hold their own market or to hold a competitive position against either another American firm or just to hold their reputation abroad. And I think that in any answer you have got to balance off on one side the reasons why firms go abroad against the dangers you mention on the other side.

But certainly a stable political situation based on a stable economic and social situation will bring a climate, a result which you want, which is the protection of the American who is putting his dollar or his licensing process abroad against arbitrary confiscation.

MR. GREEN: Mr. Slowinski said he would like to make a supplemental observation.

MR. SLOWINSKI: I would be a little concerned with Mr. Cates' reasoning as to why your companies go abroad. They go abroad in so many instances because they are forced to go, not because they are going to make any profit there. Some companies have a choice of losing that market or holding it.

In Venezuela, they have a new law or regulation which provides that unless a company manufactures a certain pharmaceutical product in Venezuela, it cannot import that product into the country.

A United States pharmaceutical company then has the choice of losing

the entire Venezuelan market—getting out—or going in to set up manufacturing facilities within that country.

The Agency for International Development understands the investment guarantee problem you have just raised. They have investment guarantees available to cover private investments in certain Latin American countries against expropriation, war risk, and currency convertibility. These are the three types of risks which are included in the AID investment guarantee program.

Unfortunately, many of the Latin American countries have not yet signed the basic agreement with the United States, and some have signed only to protect investors on currency convertibility, not expropriation or war risk.

These kinds of investment guarantees are important, and the AID is doing a fine job, but they have not yet signed up enough countries. Also, if there is not a real interest by the United States companies in going abroad, these investment guarantee programs are also going to fail.

MR. GREEN: Bill?

MR. DALE: I'm sorry to string this out, but just two quick comments.

Walter Slowinski has pointed out that an agreement ordinarily is required with a foreign government before the investment guarantee program can be instituted. I just want to say that steps are under way, particularly with reference to Latin America, to speed up and to facilitate the process by which agreements can be reached so that these guarantee programs can be effective in a larger number of the Latin American countries.

Secondly, as an outgrowth largely of the I. T. & T. case in Brazil, there has recently gone to each Ambassador all over the world, or all over the free world in any event, a message directly signed by Secretary Rusk and Secretary Hodges giving the philosophy of the United States Government on the subject of the steps which Embassies and Ambassadors should take in the event there is a dispute between an American company and either the local or national government concerned.

I think that you would find it a very excellent message, one which stresses very heavily that Embassy missions abroad should take every conceivable step which is proper to protect the interests, the appropriate interests, of American companies abroad.

MR. GREEN: Yes?

MR. JOHN H. SCHNEIDER (Abbott Laboratories): My colleagues and I have just been through extensive hearings in connection with the Kefauver drug bill where the opposition was very strongly and effectively

organized, and I'm very much impressed with what can be accomplished that way.

I wonder whether the opposition to the new tax law that has been proposed is as effectively organized or is it dispersed to such an extent that it is ineffective?

Does Mr. Slowinski have anything he can add?

MR. SLOWINSKI: Could we have this off the record, please?

(Remarks off the record.)

MR. GREEN: Next question, please.

I wonder if anyone on the panel would like to question another member of the panel?

Not at all?

Well, it looks like we may be going to come to the conclusion pretty nearly on schedule.

Admiral Colclough, are you prepared to take over?

DIRECTOR COLCLOUGH: As we bring the sixth Annual Conference of the Patent, Trademark and Copyright Foundation to a close, I hope we are aware of the program in retrospect.

Yesterday our research staff reviewed their research projects, a number of which were internationally oriented and will continue to be so, because we have recognized this year the tremendous importance of our industrial economy being internationally conscious.

You heard last evening, those of you who graced us with your presence, what I would call an outstanding address by a distinguished American, Dr. Vannevar Bush.

Today you have heard the European Economic Community and the Common Market discussed in most interesting fashion. One of the speakers, as we shifted to the Alliance for Progress, made a point that it was a bit new in comparison to the European Economic Community and the Common Market and therefore one can't be as precise in discussing the industrial property aspects of the Alliance for Progress.

But we know, as John Green said, it is going to succeed, and, therefore, we will have to deal with its problems in more specifics, as the European discussion evolved this morning.

We understand that this is new, but it is an exciting concept.

And, finally, we have addressed ourselves to the expansion of United States foreign trade, which is, in a way, a summary of the whole, because the expansion of our trade in conjunction with the free world is the objective.

I have been asked a number of times this morning when the proceed-

ings of this Conference will be published—how soon. I have had at least a dozen people ask me how soon they can get a copy of Dr. Vannevar Bush's speech of last night, and others about the Conference generally.

It has been our practice, as you know, to publish a supplement to the *Patent, Trademark, and Copyright Foundation Journal,* in which we reproduce the two half days of the proceedings here for the benefit of all those who support the Foundation.

And I would be remiss if I did not remind all of you whose presence here is a great encouragement to us that the Foundation is an integral part of the University, a private independent institution, non-publicly supported. And, therefore, think about it as you go away, if you will, please, that we must be supported not only intellectually and morally, but financially.

During the last part of the discussion I had written down a note here to make some reference to the movie which you saw at the dinner last evening, entitled "Fuel to the Fire", and, as I concluded at dinner last evening, we were going to devote ourselves today to adding fuel to the fire on the international level.

I now want, on behalf of the University and its Foundation, to thank most sincerely these distinguished men who have participated on the panel today; to express again our great pleasure at having Dr. Koch here and at having the Minister of the Netherlands Embassy and the gentleman from Chile; at having a very fine former law student of mine at George Washington University; and so on.

And now I want to thank all of you, because but for your interest and but for the motivation to attack these problems today in a thoroughly realistic, sophisticated international context, we would not be fulfilling our mission.

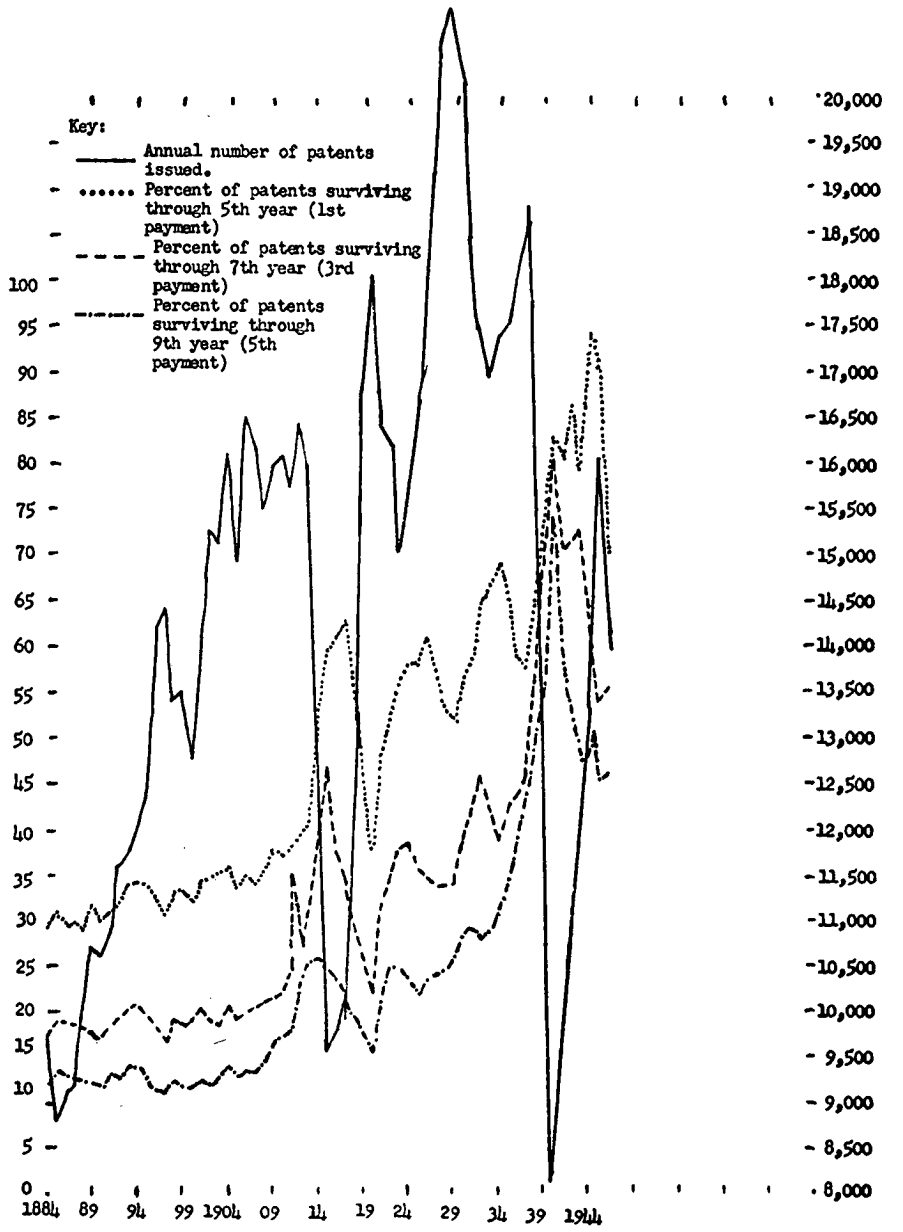
The meeting stands adjourned. (Applause)

(Whereupon, at 1:10 P.M., the sixth Annual Public Conference was adjourned.)

* * *

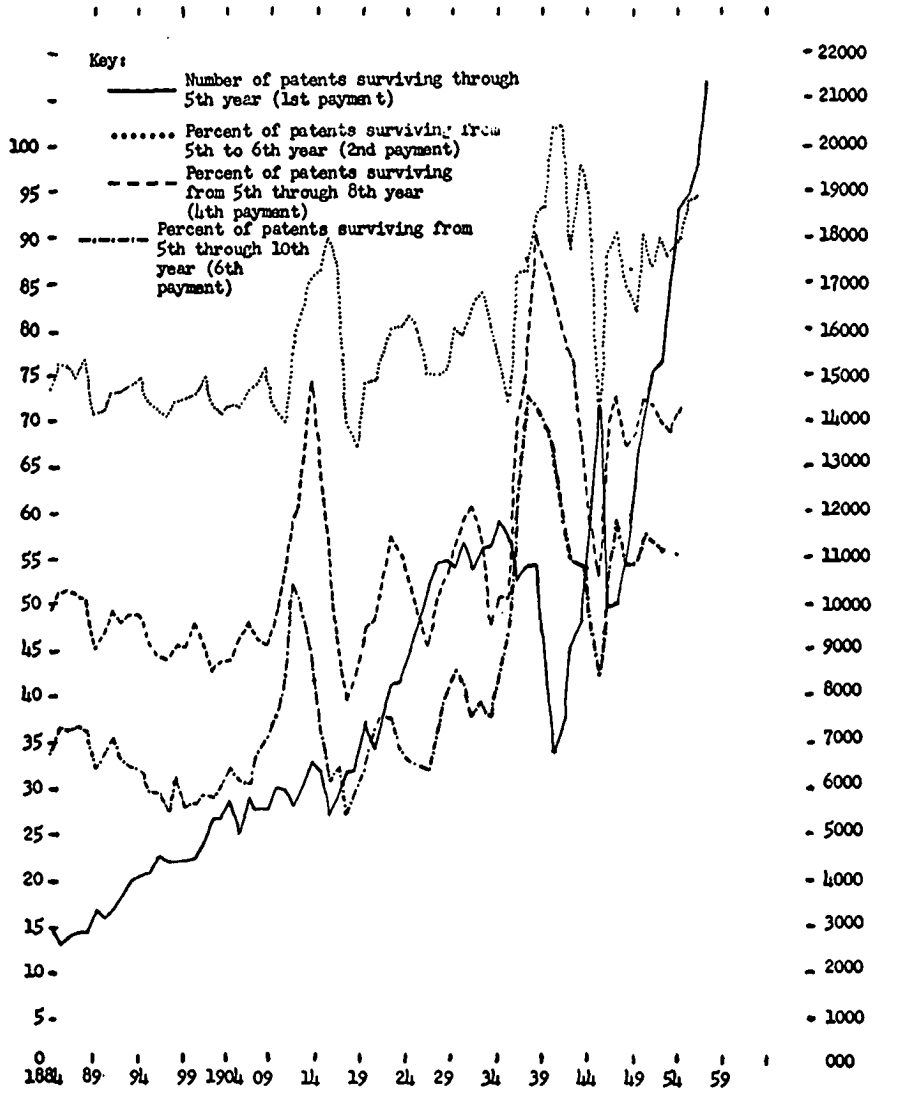
Appendix I

CHART I. Great Britain, Annual Number of Patents Issued and the Proportion of Such Patents Kept in Force at the End of the 5th, 7th and 9th Years After Issue,[1] 1884-1946 [2]



[1] In Great Britain the renewal payments required to keep patents in force start on the 5th anniversary of issue and continue for each year, payments increasing with time.
[2] After 1946 the number of patents issued are not reported.
Source: Patents, Designs, and Trade Marks of the Comptroller General of Patents, Designs, and Trade Marks (for appropriate years).

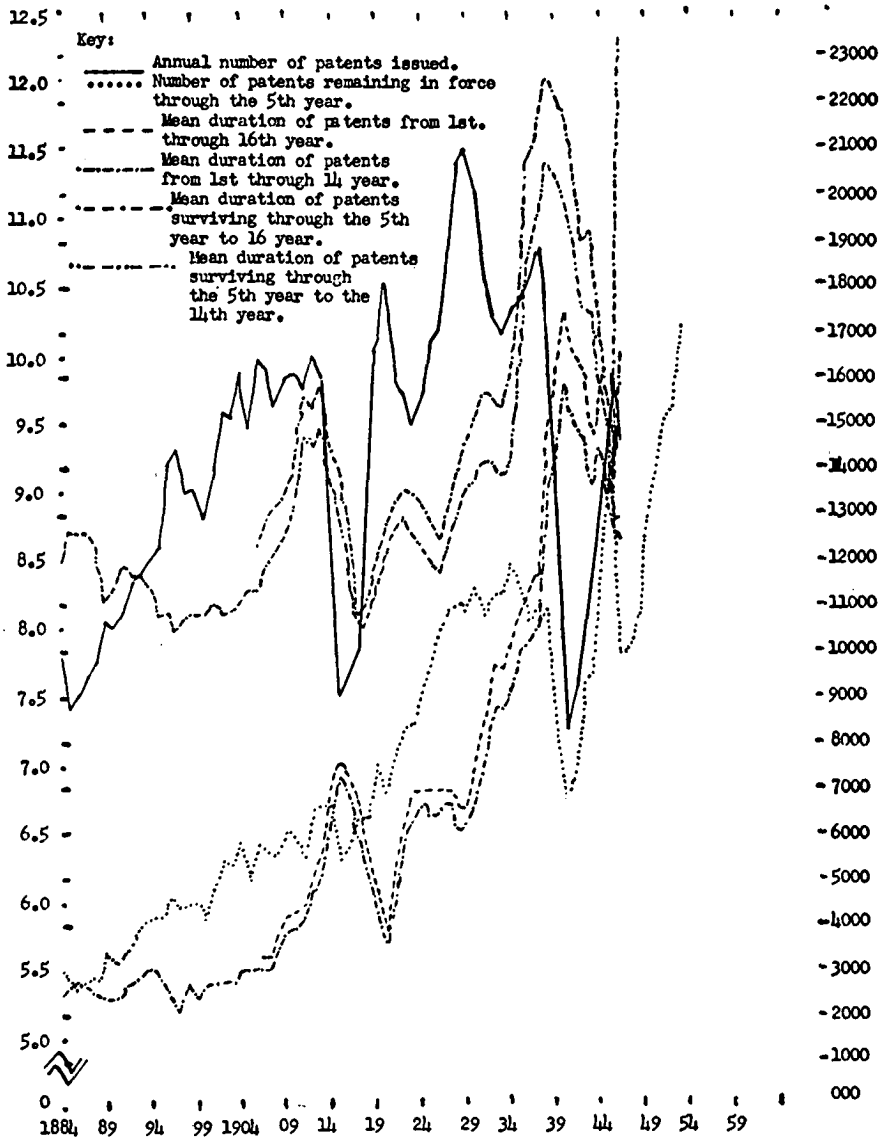
CHART II. GREAT BRITAIN, ANNUAL NUMBER OF PATENTS SURVIVING THROUGH THE 5TH YEAR [1] AND THE PERCENTAGE OF THESE SURVIVING THROUGH THE 6TH, 8TH AND 10TH YEAR, RESPECTIVELY, 1884-1960.



[1] In Great Britain the renewal payments required to keep patents in force start on the 5th anniversary of issue and continue for each year, payments increasing with time.

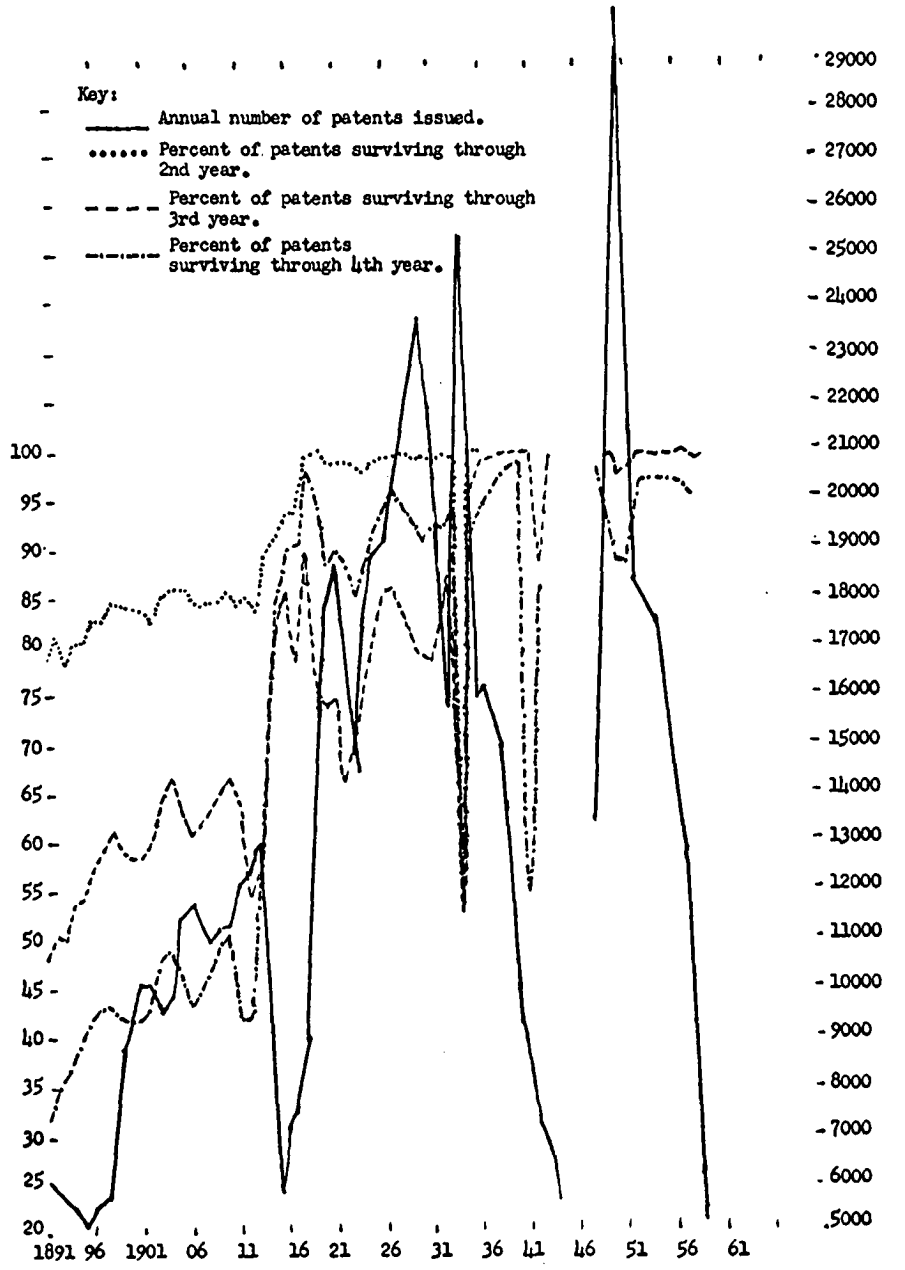
Source: Patents, Designs, and Trade Marks of the Comptroller General of Patents, Designs, and Trade Marks (for appropriate years).

CHART III. GREAT BRITAIN, NUMBER OF PATENTS ISSUED, THE NUMBER SURVIVING THROUGH 5TH YEAR, AND MEAN DURATION OF PATENTS ISSUED IN A PARTICULAR YEAR REMAINING IN FORCE FOR 14 YEARS AND 15 YEARS, RESPECTIVELY, 1884-1957.



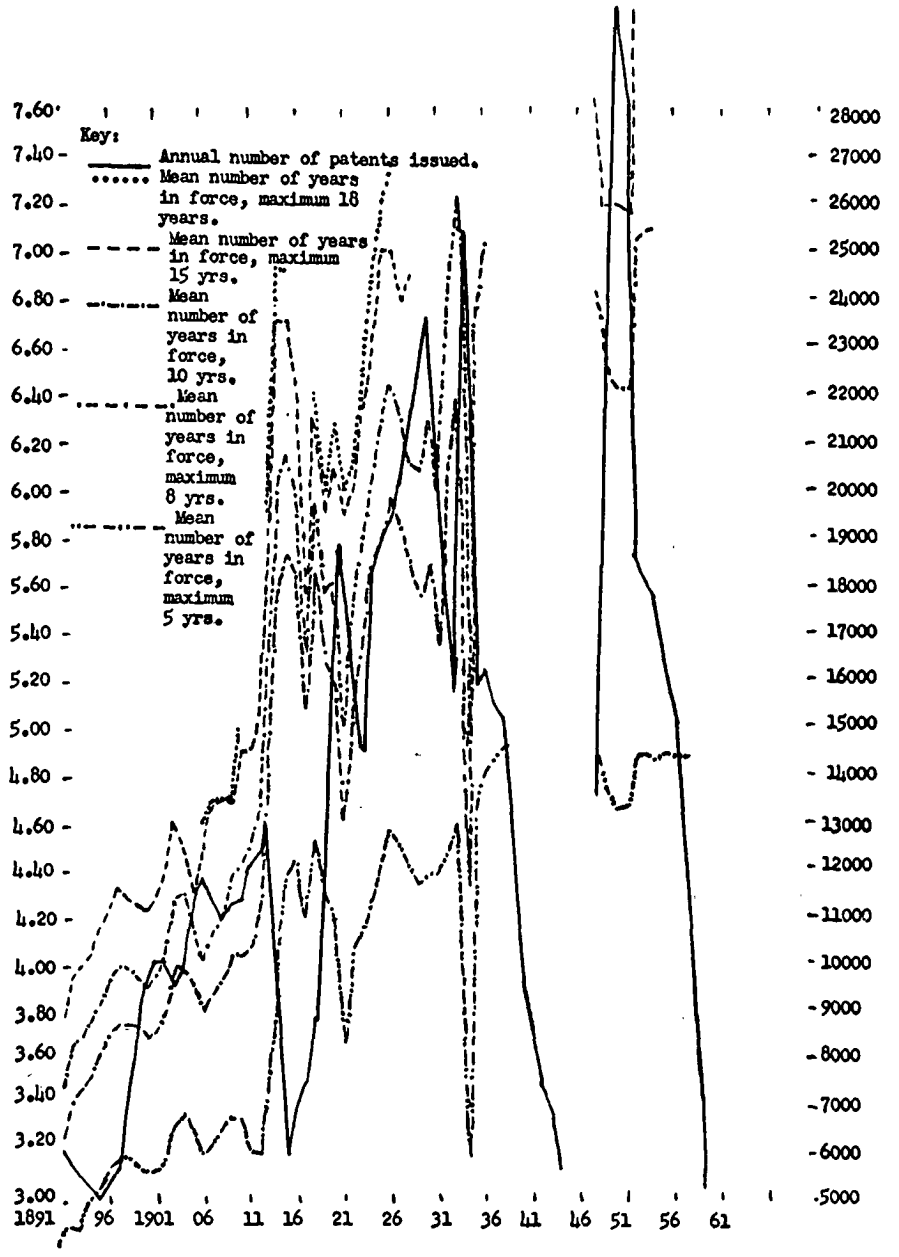
Source: Patents, Designs, and Trade Marks of the Comptroller General of Patents, Designs, and Trade Marks (for appropriate years).

CHART IV. GERMANY, ANNUAL NUMBER OF MAJOR PATENTS ISSUED AND THE PERCENTAGE OF SUCH PATENTS SURVIVING AFTER THE 2ND, 3RD AND 4TH YEAR AFTER ISSUE, 1891 TO 1959.[1]



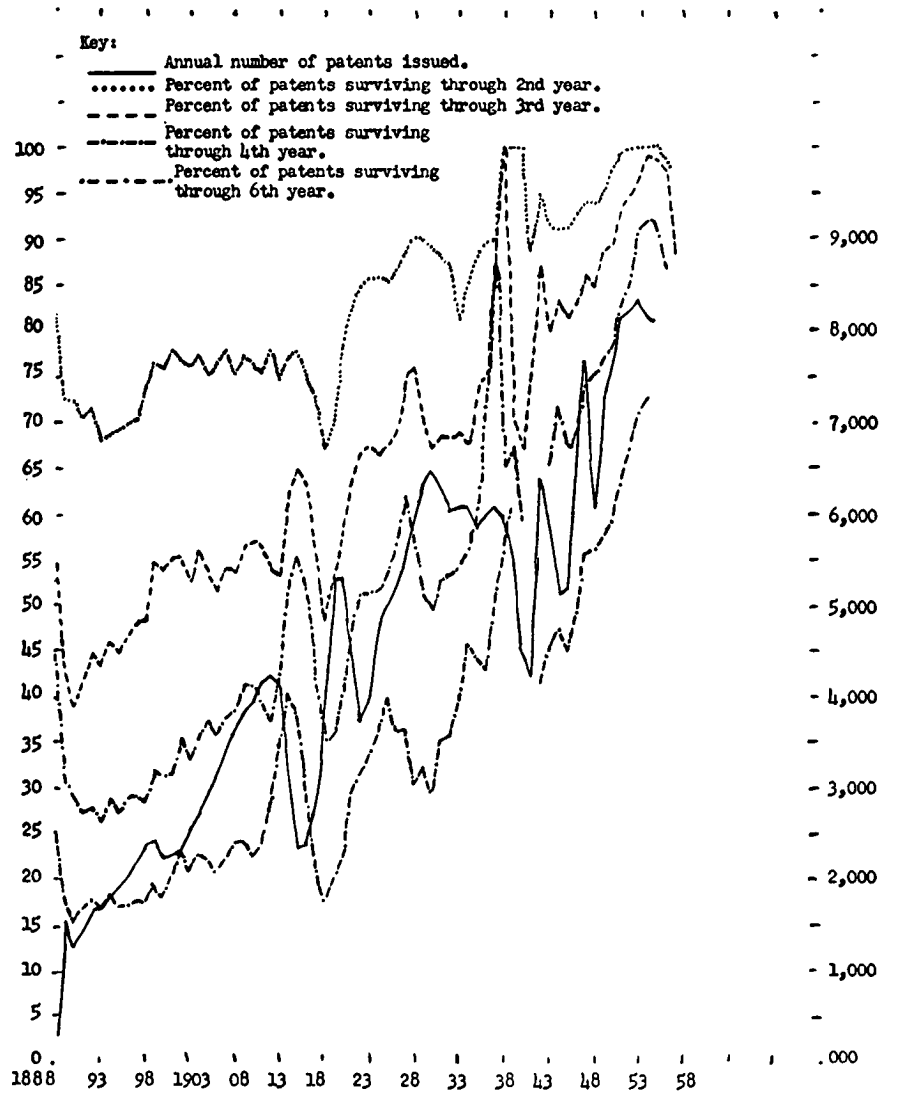
[1] Information lacking entirely or incomplete during and after World War II.
Source: The appropriate issues of Blatt Für Patent—, Muster Und Zeichenwesen—the last issue available March 1962.

CHART V. GERMANY, ANNUAL NUMBER OF MAJOR PATENTS ISSUED AND THE MEAN NUMBER OF YEARS PATENTS REMAINING IN FORCE WITH A MAXIMUM OF 18, 15, 10, 8, AND 5 YEARS, RESPECTIVELY FROM THE TIME OF ISSUE 1891 TO 1959[1]



[1] Information lacking entirely or incomplete during and after World War II.
Source: The appropriate issues of Blatt Für Patent—, Muster Und Zeichenwesen—the last issue available March 1962.

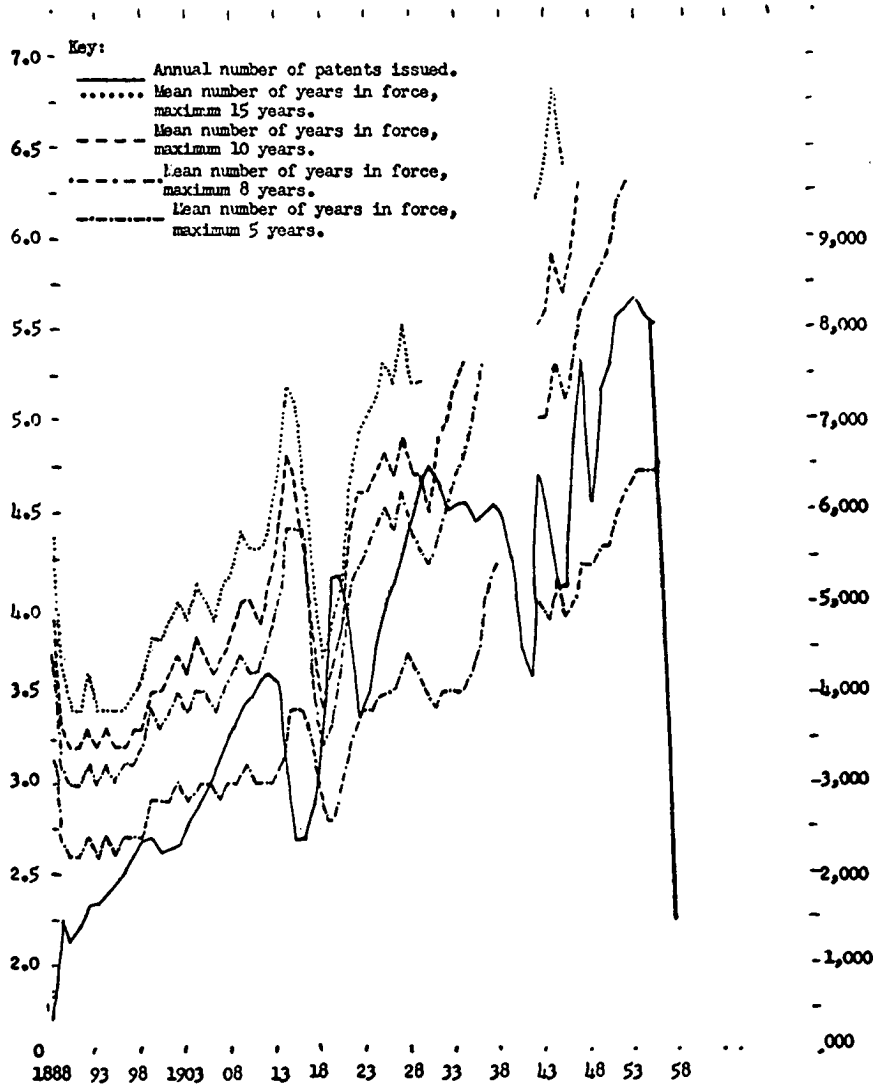
CHART VI. SWITZERLAND, ANNUAL NUMBER OF MAIN PATENTS ISSUED AND THE PERCENTAGE SURVIVING AFTER 2ND, 3RD, 4TH, AND 6TH, YEAR AFTER ISSUE, 1888 TO 1958 [1]



[1] Information lacking for certain years.

Source: The appropriate issues of catalogue annuel des Brevets dinvention et des Depots de dessines et Modeles— Confederation Swiss, Edete par la Bureau Federal de la Propriete Intellectualle, Berne.

CHART VII. SWITZERLAND, ANNUAL NUMBER OF MAIN PATENTS ISSUED AND THE MEAN NUMBER OF YEARS THAT PATENTS REMAINED IN FORCE FOR A MAXIMUM DURATION OF 15, 10, 8, AND 5 YEARS, RESPECTIVELY FROM THE TIME OF ISSUE 1888-1958.[1]



[1] Information lacking for certain years.
Source: The appropriate issues of catalogue annuel des Brevets dinvention et des Depots de dessines et Modeles— Confederation Swiss, Edete par la Bureau Federal de la Propriete Intellectualle, Berne.

Appendix II

Tables on Comparative International Patenting Discussed by P. J. Federico

TABLE 1

Applications Filed by Residents
1956-1960 Averages

	No. of App.	Pop. Est. in 1000's	App. per 1000 res.
1. Liechtenstein (9)	125	15.4	8.10
2. Switzerland	4,447	5,178	.86
3. Germany (5)	35,271	55,372	.64
4. Sweden	4,539	7,413	.61
5. Austria	3,017	7,021	.43
6. United States (12)	62,250	174,054	.36
7. Norway	1,214	3,525	.34
8. Japan	29,635	91,600	.32
9. France (3)	13,560	44,500	.30
10. United Kingdom (11)	15,600	51,681	.30
11. Denmark	1,231	4,500	.27
12. Australia (1)	2,685	9,846	.27
13. Luxembourg (10)	80	320	.25
14. Netherlands	2,334	11,173	.21
15. Israel (6)	402	1,997	.20
16. Finland (4)	846	4,376	.19
17. Italy (7)	9,070	48,635	.19
18. Belgium (2)	1,660	9,053	.18
19. Canada	1,297	17,048	.08

(The figures in parentheses refer to notes following the tables.)

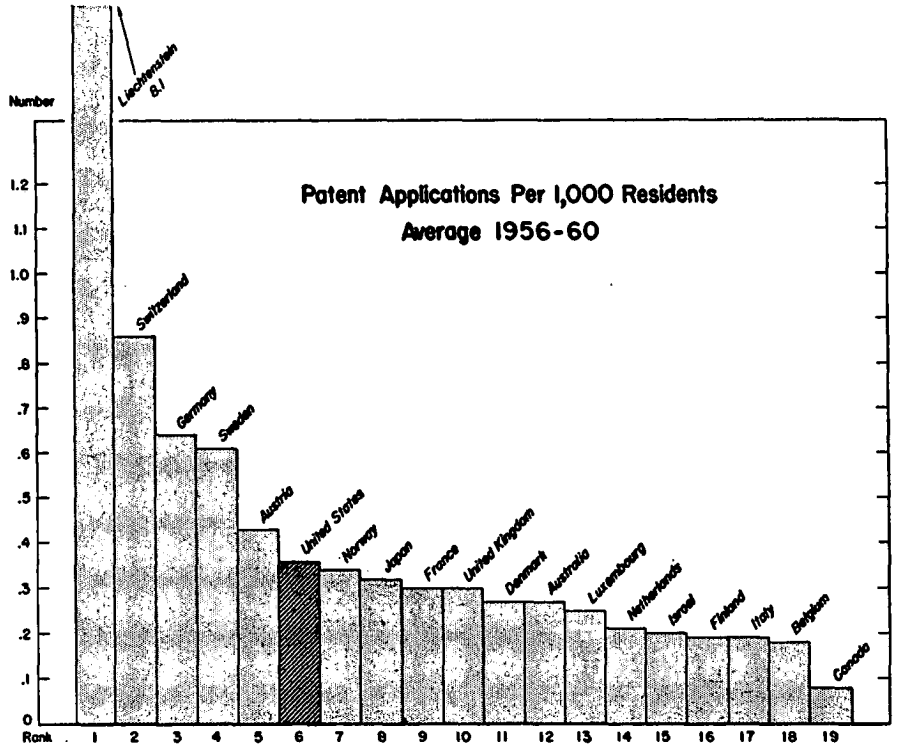

Patent Applications Per 1,000 Residents
Average 1956-60
Number
Rank
Liechtenstein 8.1
Switzerland
Germany
Sweden
Austria
United States
Norway
Japan
France
United Kingdom
Denmark
Australia
Luxembourg
Netherlands
Israel
Finland
Italy
Belgium
Canada

TABLE 2

Applications Filed By Residents
1951-1955 Averages

	No. of App.	Pop. Est. in 1000's	App. per 1000 res.
1. Liechtenstein (9)	98	14	7.00
2. Switzerland	5,828	4,865	1.20
3. Germany (5)	45,000	54,432	.83
4. Sweden	5,616	7,192	.78
5. Austria	3,750	6,958.5	.54
6. Norway	1,483	3,375	.44
7. Denmark	1,674	4,361	.38
8. United States (12)	58,426	159,606	.37
9. France (3)	14,550	42,742	.34
10. United Kingdom (11)	14,030	50,754	.28
11. Luxembourg	82	305	.27
12. Australia (1)	2,260	8,786	.26
13. Netherlands	2,611	10,419	.25
14. Finland	1,007	4,170	.24
15. Japan (8)	20,870	87,033	.24
16. Belgium (2)	1,750	8,758	.20
17. Israel	286	1,669	.17
18. Italy (7)	7,930	47,390	.17
19. Canada	1,188	14,781	.08

(The figures in parentheses refer to notes following the tables.)

NOTES TO TABLES

The basic data used and further information will be given in the compilation of international patent statistics, and only a few notes are given here. For Table 1, 1958 population estimates were used; for Table 2, 1953 population estimates, in some instances obtained by interpolation.

(1) *Australia.* Complete specifications only; the figures are estimates.

(2) *Belgium.* The figure in Table 2 is an estimate based on the ratio of domestic to total cases derived from patent statistics; in Table 1 this ratio was derived from patents for three years only.

(3) *France.* The figures are estimates based on the ratio derived from patents.

(4) *Finland.* The figure in Table 1 is an estimate based on total applications for 5 years using ratio obtained from 4 years only.

(5) *Germany.* Applications filed by applicants in East Germany are not included. In Table 2, refiled old applications are not included and a slight amount of estimation is involved.

(6) *Israel.* The figure in Table 1 is an estimate based on total applications for 5 years using ratio obtained from 3 years only.

(7) *Italy.* The figure in Table 1 is an estimate based on patents for 4 years only; Table 2 is an estimate based on patents.

(8) *Japan.* The figure in Table 2 is an estimate based on the ratio obtained from patents.

(9) *Liechtenstein.* The Swiss patent law extends to Liechtenstein and the numbers given are the averages of applications filed by residents of Liechtenstein in Switzerland.

(10) *Luxembourg.* The figure in Table 1 is an estimate based on total applications for 5 years using ratio obtained from 3 years only.

(11) *United Kingdom.* Complete specifications only. The figures are estimates.

(12) *United States.* The figures are close estimates; designs and reissues are not included.