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Foreword to Volume 16

With this Conference Issue of IDEA (Volume 16), the PTC Journal of Research and Education resumes publication from its new home in the PTC Research Foundation of the Franklin Pierce Law Center at Concord, New Hampshire.

IDEA treats with those areas of the law that are concerned with the administration and technical and commercial utilization of industrial and intellectual property, including patents, trademarks, and copyrights. More broadly, IDEA is concerned with the interfaces between the legal system and its corollary socio-economic and political environment on the one hand, and the scientific, engineering and technological communities on the other hand. Thus IDEA carries forward, though on a broader base, the publication of research efforts undertaken earlier by the PTC Research Institute of The George Washington University, in the period from 1957 through 1972.

Through inheriting the PTC Research activity from The George Washington University, The Franklin Pierce Law Center, in association with The Academy of Applied Science, has initiated a program of joint research and publication activities that now spreads well beyond the geographical confines of the PTC Research Foundation offices to institutions and colleagues from university, government and the private sector all over the nation and, indeed, the world.

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Copyright for Characters: The Search for Statutory and State Law Protection

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Introduction

Some of the most colorful copyright cases involve attempts to protect fictional characters: the "Maltese Falcon" case,¹ the "Paladin" case,² and, most recently, the Lugosi "Count Dracula"³ and "Air Pirates"⁴ cases.

The Copyright office generally takes the position that characters *per se* are not the subject matter of copyright registration under the

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¹ Warner Bros. v. Columbia Broadcasting System, Inc., 102 F. Supp. 14 (S.D. Cal. 1951), *modified*, 216 F.2d 945 (9th Cir. 1954).

² Columbia Broadcasting System, Inc. v. DeCosta, 377 F.2d 315 (1st Cir. 1967), *cert. denied*, 389 U.S. 1007 (1967).

³ Lugosi v. Universal Pictures Co., Inc., 172 USPQ 541 (superior Ct L.A. Co. 1972).

⁴ Walt Disney Productions v. Air Pirates, 345 F. Supp. 108 (N.D. Cal. 1972).

federal statute.⁵ The protection of characters as such is not directly involved in the registration of claims, since the Office registers the literary or pictorial manifestation of a character and need not decide the scope of protection.⁶ Nonetheless, the question is of great importance to copyright proprietors, users, and those interested in the field of copyright law.

Character protection by copyright immediately presents a problem in that it is not readily adaptable to the traditional quantum standards of judging copyrightability and protectability. Most types of works are judged copyrightable because they contain more than a minimum *amount* of copyrightable authorship,⁷ regardless of their aesthetic appeal.⁸ This standard is expressed by the maxim that "ideas are not copyrightable":⁹ that copyright is *founded upon*

⁵ Copyright Office Circular 40 C (Sept. 1971), provides in part:

IDEAS, TITLES, and CHARACTERS

The title of a cartoon or comic strip cannot be copyrighted. Likewise, although copyright may be obtained for particular drawings or prints, there is no way to copyright the general idea for a cartoon or comic strip series, or the general idea for the characters depicted in it. Titles and characters may sometimes be protected under principles of the common law, but this type of protection has nothing to do with the copyright statute.

Registration for particular drawings or prints in a series does not eliminate the need for copyrighting later cartoons or strips in order for the entire series to be protected. Although copyright in a drawing or print gives the owner the exclusive right to make other versions of the work, each new version must itself be copyrighted to protect any copyrightable additions or revisions it may contain.

⁶ See, e.g., R. Crowley, "The Register of Copyrights as an Art Critic," 11 ASCAP Law Symposium 155 (1962).

⁷ See, e.g., *Baker v. Selden*, 101 U.S. 99 (1879); *Bailie v. Fisher*, 258 F.2d 425 (D.C. Cir. 1958).

⁸ Justice Holmes rejected qualitative standards for copyright protection in *Bleinstein v. Donaldson Lithographing Co.*, 188 U.S. 239, at 251-52 (1903):

It would be a dangerous undertaking for persons trained only to the law to constitute themselves final judges of the worth of pictorial illustrations, outside of the narrowest and most obvious limits. At the one extreme some works of genius would be sure to miss appreciation. Their very novelty would make them repulsive until the public had learned the new language in which their author spoke. . . . At the other end, copyright would be denied to pictures which appealed to a public less educated than the judge. Yet if they command the interest of any public, they have a commercial value—it would be bold to say that they have not an aesthetic and educational value—and the taste of any public is not to be treated with contempt.

⁹ *Holmes v. Hurst*, 174 U.S. 82 (1899); Copyright Office Regulations, 37 C.F.R. §202.1 (1966), provide in part that:

"tangible expression."¹⁰ It is followed rather rigidly by both the Copyright Office and the courts in determining whether, in the first instance, to grant registration for a given work, and, in the second, whether to uphold the copyright. The quantitative standard has particular merit in determining the copyrightability of artistic works for, in bypassing aesthetic judgments, it enables a multitude of independent examiners and judges to reach somewhat uniform and predictable decisions with regard to the copyrightability of a spate of works in a given artistic genre. When a work is found to be copyrightable, it is protected by statute against unlawful copying. Thus, the standards of protection and protectability are coordinated.

However, once a fictional character is qualified, on measurable expression, for copyright protection, is that protection to be limited to preventing the copying of the tangible artistic or literary expression which qualified it? Or, does the copyright protection extend to the essence of the character in question: does it protect the "idea"?¹¹ If so, what are the limits of character protection by copyright?

This paper will examine the recently decided *Lugosi-Count Dracula*¹² and *Air Pirates*¹³ cases, in the context of pertinent legal precedents, in an attempt to answer these important questions.

Literary Characters

Judge Learned Hand first set down the standard for judging the copyright protection to be afforded to characters in *Nichols v. Universal Pictures Corp.*¹⁴ In that case, he reasoned that:

If a character is sufficiently developed so as to constitute 'a distinctive word portrait' rather than a mere character type, then the character should be protectible 'quite independently of the "plot"

The following are examples of works not subject to copyright and applications for registration of such works cannot be entertained:

. . . .
(b) Ideas, plans, methods, systems, or devices as distinguished from the particular manner in which they are expressed or described in a writing. . . .

¹⁰ See *Peter Pan Fabrics, Inc. v. Martin Weiner Corp.*, 274 F.2d 487 (2d Cir. 1960); *Kalem Co. v. Harper Bros.*, 222 U.S. 55, at 63 (1911).

¹¹ For a discussion of the "idea-expression" dichotomy, see M. Nimmer, *Copyright* Secs. 143.11, 166(1972).

¹² *Lugosi v. Universal Pictures Co., Inc.*, 172 USPQ 541.

¹³ *Walt Disney Productions v. Air Pirates*, 345 F. Supp. 108.

¹⁴ *Nichols v. Universal Pictures Corp.*, 45 F.2d 119 (2d Cir. 1930).

proper.' Such protection, however, should be no greater nor more durable than the protection afforded other elements of literary property.¹⁵

That case affirmed a decision by the District Court for the Southern District of New York holding that a playwright's copyrighted property did not extend to ideas. Plaintiff's play, "Abie's Irish Rose," whose plot evolved around the mixed-religion marriage of a young couple against the wishes of the zealously religious parents, was found not to be infringed by defendant's "The Cohens and the Kelleys," which dramatized the opposed, non-sectarian marriage of a Jewess and an Irishman.

Judge Hand compared the plots of the two works in question and found them too dissimilar to warrant an action of copyright infringement, though he cautioned that in all cases, and particularly those involving characters, copyright protection must extend beyond the literal expression of the work:

It is of course essential to any protection of literary property, whether at common-law or under the statute, that the right cannot be limited literally to the text, else a plagiarist would escape by immaterial variations.

Upon any work, and especially upon a play, a great number of patterns of increasing generality will fit equally well, as more and more of the incident is left out. The last may perhaps be no more than the most general statement of what the play is about, and at times might consist only of its title; but there is a point in this series of abstractions where they are no longer protected, since otherwise the playwright could prevent the use of his 'ideas,' to which, apart from their expression, his property is never extended.¹⁶

Aside from the copyright protection accorded to the plot or thematic development of such a work, the characters therein, if well developed, may enjoy some independent protection beyond that afforded to their literal development. The point was clearly made by Judge Hand in the course of his reasoning in the *Nichols* decision:

In such cases we are rather concerned with the line between expression and what is expressed. As respects plays, the controversy chiefly centers upon the characters and sequence of incident, these being the substance.

If *Twelfth Night* were copyrighted, it is quite possible that a second comer might so closely imitate Sir Toby Belch or Malvolio as to infringe, but it would not be enough that for one of his characters he cast a riotous knight who kept wassail to the discomfort of the

¹⁵ 43 Calif. L. Rev. 791, at 794-95 (1955).

¹⁶ 45 F.2d 119, at 121.

household, or a vain and foppish steward who became amorous of his mistress. These would be no more than Shakespeare's 'ideas' in the play, as little capable of monopoly as Einstein's Doctrine of Relativity, or Darwin's Origin of Species. *It follows that the less developed the characters, the less they can be copyrighted; that is the penalty an author must bear for marking them too indistinctly.*¹⁷

Later courts have approved of this statement of the doctrine of character protection:¹⁸ the greater the quantity of expression, the greater the protection afforded the "essence" of the character.

Particularly where the character is portrayed by words, rather than by pictures, the quantity of expression is linked with the quantity of protection accorded the author. Thus, in *Warner Bros. Pictures, Inc. v. Columbia Broadcasting System Inc.*,¹⁹ a California district court acknowledged rights in the well-developed character Sam Spade that extended far beyond the literal copyrighted expression found in the "Maltese Falcon." Relying on "trade custom," the court apparently concluded that the author possessed a "common-law right to make use of characters of his creation in situations as yet unpublished,"²⁰ which right survived the contractual grant of exclusive motion picture, radio, and television rights in the copyrighted work "Maltese Falcon."

Thus it became custom that, in the absence of express agreement to the contrary, an assignment of copyright in this field of detective mystery writing did not include the right to exclusive use of the characters portrayed in the copyrighted work. *In other words, the author customarily retained so-called character, series or sequel rights in the copyrighted work.*²¹

On the question of the possible preemption of those rights not secured by statutory copyright, the lower court reviewing *Warner Bros.* made the following significant observation:

Neither the rationale of the rule nor the language nor the purpose of the statute requires that the author relinquish any common-law right other than the perpetual right to restrict publication of the work. On the other hand it would seem that considerations of reason and policy argue against divesting the author of other common-law rights incident to authorship. Accordingly the courts have recognized that statutory copyright does not divest the author

¹⁷ *Id.* (Emphasis added).

¹⁸ *See, e.g.,* *Columbia Broadcasting System, Inc. v. DeCosta*, 377 F.2d 315, at 320; *Walt Disney Productions v. Air Pirates*, 345 F. Supp. 108; M. Nimmer, *supra* note 11, Sec. 30.

¹⁹ *Warner Bros. Pictures, Inc. v. Columbia Broadcasting System, Inc.*, 102 F. Supp. 141 (S.D. Cal. 1951), *modified*, 216 F.2d 945 (9th Cir. 1954), *cert. denied*, 348 U.S. 971 (1955).

²⁰ 102 F. Supp. 141 at 147.

²¹ *Id.* at 145 (Emphasis added).

of such non-statutory or common-law rights as he may have to exclude others from making use of the title or the characters. See *Becker v. Loew's, Inc.*, *supra*, 133 Fed. 2d at page 891; *Warner Bros. Pictures v. Majestic Pictures Corp.*, *supra*, 70 F. 2d at pages 311-312; *Nichols v. Universal Pictures Corp.*, 2 Cir., 1930, 45 F. 2d 119, 121, 51 S. Ct. 216, 75 L. Ed. 795. 'Any civil right not unlawful in itself nor against public policy, that has acquired a pecuniary value, becomes a property right that is entitled to protection as such. *The courts have frequently [recognized] this right. They have never refused to do so when the facts show that the failure to exercise equitable jurisdiction would permit unfair competition in trade or in any matter pertaining to a property right.*' *Fisher v. Star*, 1921, 231 N.Y. 414, 420, 132 N.E. 133, 137. 19 A.L.R. 937.

Recognition and protection of such rights in intellectual product is eminently just in view of the statutory provision that the 'works for which copyright may be secured . . . shall include all the writings of an author', 17 U.S.C. § 4, and the fact that title and characters are held not to be included in the monopoly granted by the copyright statutes.²²

Thus, where a character was well developed in a literary context, this California district court held that the author had common law rights in the character; and, these rights, being commercially valuable but not constitutionally copyrightable as "writings of authors,"²³ survived publication of the underlying literary work, the "Maltese Falcon."

Of course, the basis of this opinion is not strictly a copyright one, since the venerable case of *Wheaton v. Peters*²⁴ is widely read to decree that no common law copyright survives publication of a work.²⁵ Rather, it is a recognition that some common law rights (such as unfair competition) survive publication of a prototype work and protect the author's property rights in the use of the character in new situations. The sentiment of the opinion is clear. The court favors protecting an author's right exclusively to use his well-developed character in sequel stories once he has copyrighted the original work in which the character appeared.

Later, the court of appeals reviewed the *Maltese Falcon* case and reversed and affirmed in part in *Warner Bros. Pictures, Inc. v.*

²² *Id.* at 147 (Emphasis added).

²³ The United States Constitution confers upon Congress the power "to promote the Progress of Science and the useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective *Writings* and Discoveries." U.S. Constitution, Article I, Sec. 8 (Emphasis added).

²⁴ *Wheaton v. Peters*, 33 U.S. (8 Pet.) 591 (1834).

²⁵ For a scholarly analysis of the *Wheaton* case, see Whicher, "Ghost of *Donaldson v. Beckett*: An Inquiry into the Constitutional Distribution of Powers over the Law of Literary Property in the United States," 9 BULL. CR. SOC. 102 and 194 (1962).

*Columbia Broadcasting System, Inc.*²⁶ Its opinion was based on a construction of the contract giving Warner Brothers certain exclusive rights to the use of the copyrighted Maltese Falcon “writings” in movies, radio, and television. The court decided that since the contract was not an assignment of copyright, and since it did not expressly grant exclusive rights to the use of the characters, these rights were by custom reserved to the author.

If, by reason of the silence in the instruments as to such claimed rights, the instruments should be held to be ambiguous on this point, the custom and practice demonstrate that such rights are not customarily parted with by authors, but that characters which are depicted in one detective story together with their names are customarily retained and used in the intricacies of subsequent but different tales.²⁷

In dictum, the court goes on to discuss whether characters are copyrightable. If “the character really constitutes the story being told,”²⁸ copyright may protect it, avers the court, presumably referring to the character’s protection from use in other plots. However, “if the character is only the chessman in the game of telling the story, he is not within the area of the protection afforded by the copyright.”²⁹ The scope of this dictum is confined to the author’s rights to use his characters in subsequent stories after he has sold his copyright in the original work; and the court seems understandably inclined to recognize the author’s rights in this context. It concludes that

even if the owners assigned their complete rights in the copyright to the Falcon, such assignment did not prevent *the author* from using the characters therein, in other stories. The characters were vehicles for the story told, and the vehicles did not go with the sale of the story.³⁰

Although this appellate dictum is allegedly based on an interpretation of copyright law, the tenor of the opinion, seemingly protective of an author’s almost perpetual right to use his characters over and over again in different situations, is more sympathetic than legal. The only citation is to the *Nichols* case;³¹ and one wonders whether the dictum might be different if the author were deceased, and the only rights involved were those of the copyright

²⁶ 216 F.2d 945.

²⁷ *Id.* at 948.

²⁸ *Id.* at 950.

²⁹ *Id.*

³⁰ *Id.* (Emphasis added).

³¹ *Nichols v. Universal Pictures Corp.*, 45 F.2d 119.

owner-assignee versus those of a third party user.³² At best, there remains conflict and confusion as to the nature and extent of legal protection for copyrighted literary characters apart from the tangible expression in the copyrighted literary work.

Pictorial Characters

A series of graphic depictions or drawings of a fictional character may give rise to protection for the ineffable essence of the character portrayed. In *King Features Syndicate v. Fleischer*,³³ the Second Circuit rather puzzlingly held that a copyrighted book of cartoons depicting "Barney Google" and "Spark Plug," or "Sparky," was infringed by a doll named "Sparky," made in three-dimensional imitation of the horse depicted in the cartoons.

Granting the validity of the court's observation that "copying is not confined to a literary repetition, but includes various modes in which the matter of any publication may be adopted, imitated, or transferred with more or less colorable alteration,"³⁴ this decision represents a broad interpretation of the protection available under copyright. In fact, the court admits that its holding gives protection to the idea behind plaintiff's work: "The appellees did not take all of the copyrighted matter, or all its principal characters, but took

³² There is some question as to the correct interpretation of the *Maltese Falcon* case. M. Nimmer reads the appellate court decision as *holding alternatively* (rather than stating in dictum) that characters *cannot* constitute property rights in this context:

... [T]he court of appeals . . . invoked copyright law to find that *even if* the assignment to Warner Brothers could be construed to include the exclusive use of the characters, nevertheless Warner Bros. could not claim this exclusive right since under the copyright law Hammett never had such a right to grant. That is to say, the court of appeals found that the right to the exclusive use of the characters is not a property right which may be claimed under the copyright law, and hence, it may not be assigned.

M. Nimmer, "Copyright 1955," 43 Calif. L. Rev. 791, 793 (1960), discussing *Warner Bros. Pictures Inc. v. Columbia Broadcasting System, Inc.*, 216 F.2d 945.

Mr. Nimmer here refers to the fact that, having affirmed that the rights in the characters were not conveyed by contract, the Ninth Circuit went on to announce that even an assignment of the complete rights in the copyright to the *Falcon* would not prevent the author from using the characters in other stories. This is not to say that no protection is available for the essence of a character, but that, as Nimmer understands the opinion, such protection is not available through statutory copyright.

³³ *King Features Syndicate v. Fleischer*, 299 Fed. 533 (2d Cir. 1924).

³⁴ *Id.* at 535.

one, the *idea* of the horse 'Sparky.' ”³⁵ Rather than enunciating a doctrine of copyright law, it seems that the court is most concerned with the equities of the situation—with preventing the defendant from reaping undue commercial advantage from plaintiff's idea which he had attempted to protect through copyrighting a series of artistic expressions.

We do not think it avoids the infringement of the copyright to take the substance or idea, and produce it through a different medium, and picturing in shape and details in sufficient imitation to make it a true copy of the character thought of by the appellant's employee. Doing this is omitting the work of the artisan, but appropriating the genius of the artist.

...

Here the book was copyrightable, and embodied the pictorial illustration of the horse "Sparky." The artist's concept of humor was embodied in the copyrightable form, was addressed to the contemplation of the observer and the reader; its essence was the concept of humor which that form embodied. We think it cannot be copied, by manufacturing a toy or doll as the appellees did, without taking the copyrightable form of that concept, and without at the same time taking the commercial value—the fruits of the cartoonist's genius which consisted in his capacity to entertain and amuse.³⁶

And, the dictate that “there may be a three-dimensional infringement of a two-dimensional drawing” was followed in *Fleischer Studios, Inc. v. Freundlich, Inc.*³⁷ There, plaintiff's copyrighted animated cartoons of “Betty Boop” were held to be infringed by defendants' three-dimensional doll, which was not an exact copy of Betty Boop's likeness, but which conveyed the “same impression”³⁸ as plaintiff's work.

Both of these cartoon cases expand protection (presumably founded upon statutory copyrights) beyond the tangibly expressed original authorship to the essence or projected traits of the plaintiffs' characters. Normally under copyright law, statutory protection extends to the actual copyrighted expression. Thus, for example, the copyright of business forms in no way prevents another from using the system described;³⁹ and the copyright in architectural blueprints does not usually protect against another person's

³⁵ *Id.*

³⁶ *Id.* at 535, 538.

³⁷ *Fleischer Studios, Inc. v. Freundlich, Inc.*, 5 F. Supp. 808 (S.D.N.Y.), *aff'd*, 73 F.2d 276 (2d Cir. 1934).

³⁸ *Id.* at 809.

³⁹ *Baker v. Selden*, 101 U.S. 99.

building the actual structure.⁴⁰ Moreover, although the copyrighted photograph of a three-dimensional art work clearly prevents its unauthorized reproduction in two-dimensional form,⁴¹ the cartoon cases recognize even broader rights in preventing the three-dimensional representation of a two-dimensional copyrighted work. Perhaps the *raison d'être* of these cases is not judicial interpretation of statutory copyright protection, but rather judicial unwillingness to permit defendants' profiting from their commercial exploitation of plaintiffs' ideas. Thus, in the *Betty Boop* case, plaintiff's copyrightable expression provided evidence of his ideas; and copyright provided a legal basis, however sound, on which the court could rest its decision.

That some substantial quantity of original copyrighted authorship is a prerequisite to invoke protection for the essence of a character is the salient lesson of the *Paladin* case.⁴² There, defendants were found not liable for their alleged misappropriation of plaintiff's character and idea where plaintiff failed to obtain a statutory copyright. Plaintiff, a dissatisfied auto mechanic, conceived the idea of masquerading as a costumed western cowboy. In his distinctive guise he participated in horse shows, parades, auctions, and the like; and he passed out photographs of himself as well as printed cards bearing the symbol of a chess knight and the inscription "Have Gun Will Travel," and "Wire Paladin, N. Court St., Cranston, R.I."⁴³

He apparently sought no financial rewards from his character portrayal. Defendants' motivation, however, was more commercial. They produced the CBS television show "Have Gun Will Travel," whose lead character, Paladin, was a "dead ringer" for plaintiff.

Sympathies notwithstanding, the appeals court was unwilling to protect plaintiff's character against defendant's use. It reasoned that plaintiff's calling cards were constitutional "writings" and statutorily copyrightable; and that plaintiff's "publication" of them without securing statutory copyright dedicated the works to the public domain and precluded them from any state protection equivalent to copyright.

The cards were unquestionably 'writings' within the meaning of the copyright clause, and arguably were copyrightable under the statute. See 17 U.S.C. §§1, 5(g), 5(k); *Burrow-Giles Lith. Co. v. Sarony*,

⁴⁰ *DeSilva Construction Corp. v. Herrald*, 213 F. Supp. 184 (M.D. Fla. 1962); *But see Imperial Homes Corp. v. Lamont*, 458 F.2d 895 (5th Cir. 1972).

⁴¹ *Bracken v. Rosenthal*, 151 Fed. 136 (C.C.N.D. Ill. 1907).

⁴² *Columbia Broadcasting System, Inc. v. DeCosta*, 377 F.2d 315.

⁴³ 377 F.2d. 315 at 316.

1883, 111 U.S. 53, 4 S. Ct. 279, 28 L. Ed. 349. The consequence is that the plaintiff's character creation was published, even under the doctrine of *Ferris*,⁴⁴ and that this case falls squarely under the rule of *Sears*⁴⁵ and *Compco*.⁴⁶ Not having copyrighted the cards, the plaintiff cannot preclude others from copying them.⁴⁷

The opinion leaves unclear what, if any, protection the court would have extended to the Paladin character had his photographs or calling cards been published with the required statutory notice of copyright and been judged to contain copyrightable authorship under the terms of the statute.

The variety of poses depicted on the photographs is unknown; and the cards did not bear the likeness of Paladin, nor did they describe his character. They were no more than one of the accoutrements of Paladin, and their copying was certainly not the plaintiff's primary concern in his suit for infringement based on a television portrayal of "his" character.

Perhaps the court placed great weight on the fact that plaintiff made no effort to copyright any tangible aspect of his creation. In any event, it propounded in dictum two broad principles which could be catalysts for determining whether protection exists for characters in *any* media, and might thus bring some sorely needed uniformity to this erratic but important field of law. First, the court said that to the extent that a character is describable it is preempted from state protection by *Sears* and *Compco*; and, second, it said that to the extent that a character is ineffable, it is ineligible for protection under either state or federal law.⁴⁸

Federal Preemption

Are these principles legally valid, and have subsequent character cases borne out their validity? An answer demands an examination of the doctrine of federal preemption in copyright law, which developed in present times from the United States Supreme Court's decisions in the famous *Sears* and *Compco* cases.

The Paladin case was decided after the *Sears* and *Compco* cases, which have been read as preempting states from protecting against copying anything which the Federal Government declares uncopyrightable. The doctrine of preemption is based upon the Supremacy Clause of the United States Constitution and all im-

⁴⁴ *Ferris v. Frohman*, 223 U.S. 424 (1912).

⁴⁵ *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964).

⁴⁶ *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964).

⁴⁷ 337 F.2d 315 at 321.

⁴⁸ *Id.* at 320.

plementing statutes thereunder, and prohibits the states from enacting "contrary" legislation:

ARTICLE VI

This Constitution, and the Laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the Supreme Law of the Land; and the Judges in every State shall be bound thereby, any Thing in the Constitution or Laws of any State to the Contrary notwithstanding.⁴⁹

The domain of constitutional state action is further explained in Article X of the Constitution:

The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States, respectively, or to the people.⁵⁰

Thus, we meet the question of whether the Constitution's Copyright Clause, or Title 17 of the U.S. Code, precludes protection of any sort for fictional characters. Article I, Section 8, clause 8 of the United States Constitution empowers Congress

To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.⁵¹

Title 17 of the U.S. Code, Copyrights,⁵² implementing this constitutional provision, recognizes certain statutory copyrights in tangible "writings" of authors such as original literary and artistic works, dramatic works, and the like.⁵³ The scope of protectible "writings" as defined by the Copyright Law, is generally considered to be more narrow than the constitutional term "writings";⁵⁴ yet it clearly offers statutory protection for the literary description of a fictional character, or for the artistic expression of a cartoon character. But beyond these tangible expressions, can there be legal protection for the concededly commercially valuable⁵⁵ "essence" of a well-developed character?

The *Sears and Compco* companion cases are the first High Court

⁴⁹ U.S. Constitution, Art. VI, cl.2.

⁵⁰ U.S. Constitution, Amend. X.

⁵¹ U.S. Constitution, Art. I, Sec. 8.

⁵² The Copyright Law of the United States, 17 U.S.C. (1964).

⁵³ 17 U.S.C. Secs. 4, 5.

⁵⁴ See W. Derenberg, "The Meaning of 'Writings' in the Copyright Clause of the Constitution," Study No. 3 in COPYRIGHT LAW REVISION, REPORT OF THE REGISTER OF COPYRIGHTS AND STUDIES, Nos. 1-34 (1961).

⁵⁵ K. Raskin, "Copyright Protection for Fictional Characters," 2 Performing Arts Rev. 587 (1971).

attempts in recent years to illuminate the preemption principle in copyright law. In *Sears*⁵⁶ and *Compco*⁵⁷ the Supreme Court denied plaintiffs' actions for patent infringement and unfair competition engendered by defendants' copying of plaintiffs' lighting fixtures. It found the state's unfair competition law in each case unconstitutionally created liability in the face of federal policy permitting copying if the work is not protected by patent or copyright.

... when an article is unprotected by a patent or a copyright, state law may not forbid others to copy that article. To forbid copying would interfere with the federal policy, found in Art. I, Sec. 8, cl. 8, of the Constitution and in the implementing federal statutes, of allowing free access to copy whatever the federal patent and copyright laws leave in the public domain.⁵⁸

Although the subject matter dealt with in these cases was patents, the law established by the opinions applies to copyrights as well. However, the precedent value of the cases is limited in scope by the fact that the articles for which protection was sought in the cases were both subjects which came within the purview of the Patent Law.⁵⁹ That is, both were subjects which would have been eligible for statutory protection had they been sufficiently novel to qualify for patent protection. They were the proper subject matter for statutory patent protection, but they failed to meet the high standards of protectability established by Congress in the Patent Law. And the United States Supreme Court held that where the works fell within the purview of the Patent Law but failed to meet its standards for protection, states could not constitutionally grant a like protection through laws of unfair competition. In these cases, the state laws were aimed at the same evil as the federal Patent Law: appropriation of an article by a business competitor to the unrecompensed detriment of the original creator. Thus, the state laws in each case contravened federal legislative policy in the *Sears* and *Compco* cases, and were prohibited from so doing by the United States Constitution's Supremacy clause.⁶⁰

Arguably, the cases *could* be read more broadly, since the issue was phrased in the *Sears* opinion as questioning whether "... a State's unfair competition law can, consistently with the federal patent laws, impose liability for or prohibit the copying of *an article*

⁵⁶ *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225.

⁵⁷ *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234.

⁵⁸ 376 U.S. 234 at 237.

⁵⁹ *The Patent Law of the United States*, 35 U.S.C. (1958).

⁶⁰ U.S. Constitution, Art. VI, cl.2.

which is protected by neither a federal patent nor a copyright.”⁶¹ But the scope seems later to have been narrowed by the Court. Thus, in defining the supremacy doctrine, it limits preemption’s application to the “area of federal statutes.”

When state law touches upon the area of these federal statutes, it is “familiar doctrine” that the federal policy “may not be set at naught, or its benefits denied” by the state law.⁶²

This statement means that preemption is invoked against a state’s action in the copyright or patent field only where Congress either overtly or impliedly occupied the legislative field. It is a much narrower reading of preemption than one which would make it coordinate with the constitutional grant of Congressional power. In this conservative and restrictive interpretation, it seems to be in accord with the Constitution’s Article X reservation of residual legislative powers to the states.⁶³

Interestingly, the Court reinforced this restrictive reading of preemption by adding a caveat to assure that not all state legislative measures were preempted even though they might result in protection of objects which did not meet federal laws’ standards for statutory protection.

Doubtless a State may, in appropriate circumstances, require that goods, whether patented or unpatented, be labeled or that other precautionary steps be taken to prevent customers from being misled as to the source, just as it may protect businesses in the use of their trademarks, labels, or distinctive dress in the packaging of goods so as to prevent others, by imitating such markings, from misleading purchasers as to the source of the goods. But because of the federal patent laws a State may not, when the article is unpatented and uncopyrighted, prohibit the copying of the article itself or award damages for such copying.⁶⁴

The Lugosi “Count Dracula” and “Air Pirates” Cases

In the aftermath of the *Sears* and *Compco* decisions, two recent copyright cases have raised the question of the availability of protection for fictional characters. The first case, *Lugosi v. Universal Pictures Co., Inc.*,⁶⁵ considered whether an actor’s contract granting his motion picture producer the right to use his likeness in the exploitation of the photoplay was breached by the producer’s

⁶¹ 376 U.S. 225 (Emphasis added).

⁶² *Id.* at 229, citing *Sola Electric Co. v. Jefferson Electric Co.*, 317 U.S. 173 at 176 (1942).

⁶³ U.S. Constitution, Amend. X.

⁶⁴ 376 U.S. 225 at 232-33 (Footnotes omitted).

⁶⁵ 172 USPQ 541.

licensing third parties to use the actor's likeness on several commercial products.

Plaintiffs were the heirs of the actor who played the role of Count Dracula in two of defendant's productions, which were widely shown. Other actors have subsequently appeared in this role. Defendant, since 1960, had licensed manufacturing firms to use various horror characters on shirts, cards, games, costumes, etc. Each license listed the particular movie and the date of the movie in which each character appeared. The agreements with respect to Count Dracula listed the two movies in which the actor Bela Lugosi appeared as Dracula.

Plaintiffs contended that the licenses of merchandising rights violated their contract and property rights, and they sought to recover defendant's merchandising profits and to enjoin any further merchandising licenses without plaintiffs' consent. Defendant contended that by contract it owned all the actor's character rights in Count Dracula.

The contract in question merely gave the defendant producer a grant of rights with respect to the exploitation of the photoplay, with no mention of the rights to merchandise the character for other purposes:

The producer shall have the right to photograph and / or otherwise produce, reproduce, transmit, exhibit, distribute, and exploit in connection with the said photoplay any and all of the artist's acts, poses, plays and appearances of any and all kinds hereunder, and shall further have the right to record, reproduce, transmit, exhibit, distribute, and exploit in connection with said photoplay the artist's voice, and all instrumental, musical, and other sound effects produced by the artist in connection with such acts, poses, plays and appearances. The producer shall likewise have the right to use and give publicity to the artist's name and likeness, photographic or otherwise, and to recordations and reproductions of the artist's voice and all instrumental, musical, and other sound effects produced by the artist hereunder, in connection with the advertising and exploitation of said photoplay.⁶⁶

The court found no legal precedent on the precise issue; but it concluded that in the absence of any contractual provision on the grant of merchandising rights from the actor to the producer, "any such rights remain with the actor."⁶⁷ Moreover, the court found that the right of a celebrity such as an actor, entertainer, or an athlete, in his name, likeness, appearance and personality which has a pecuniary publicity value, is a property right, apart from the

⁶⁶ *Id.* at 542.

⁶⁷ *Id.* at 544.

right of privacy, and thus survives his death. In so doing, it rejected Prosser's classification of the right of publicity as a right of privacy, on the theory that "an invasion of such a right (of publicity) causes a pecuniary loss, as contrasted with the typical loss in a right of privacy invasion as an injury to a person's feelings and emotions."⁶⁸ At the same time, such a designation permitted the court to avoid the principle of the *Sears* and *Compco* cases that "copying alone of that which is in the public domain does not constitute unfair competition."⁶⁹ Rather, it followed the *Capitol Records*⁷⁰ decision that *Sears* and *Compco* do not forbid an action for misappropriation of a competitor's property.

The court declined to follow *Miller v. Comm. of Int. Rev.*,⁷¹ which found that a celebrity's interest in his name and personality is not a property right for purposes of deciding whether that interest constituted a capital asset within the meaning of the Internal Revenue Code. The opinion defined a property right, in the context of the case, as one the invasion of which causes a pecuniary loss:

Although Prosser has classified *the right of publicity* as constituting a right of privacy, it must be recognized that an invasion of such a right causes a pecuniary loss, as contrasted with the typical loss in a right of privacy invasion as an injury to a person's feelings and emotions.⁷²

The significance of defendant's copyright was apparently confined to his relations with third party licensees. The court in dicta cited *Detective Comics v. Bruns Publications*,⁷³ for the proposition that defendant's copyright in the Dracula photoplay might give him rights in the Dracula character as against his licensees.

The extent of protection in the character of Count Dracula was described in the following terms:

Accepting the principle of *Detective Comics* [*Detective Comics v.*

⁶⁸ *Id.* at 548.

⁶⁹ *Id.*

⁷⁰ In *Capitol Records v. Erickson*, 2 Cal. App. 3rd 526, 82 Cal. Rptr. 798 (2d Dist. 1969), the California appellate court held that, in accord with the rulings in other states, *Sears* and *Compco* did not preclude unfair competition relief against a business competitor who "appropriated the product itself—performances embodied on sound recordings" rather than copying or imitating the recorded performances. A similar result was reached by a three judge non-statutory court in a recent Ninth Circuit case, *Tape Industries Association v. Younger*, 316 F. Supp. 340 (C.D. Cal. 1970), *appeal dismissed for want of jurisdiction*, 401 U.S. 902 (1971).

⁷¹ *Miller v. Comm. of Int. Rev.*, 299 F.2d 706 (2d Cir. 1962).

⁷² 172 USPQ 541 at 548.

⁷³ *Detective Comics v. Bruns Publications*, 111 F.2d 432 (2d Cir. 1940).

Bruns Publications, 111 F. 2d 432 (2d Cir. 1940)], we must start with the premise that the character of Count Dracula as a general character is in the public domain. The evidence establishes in the case at bench that the vampire character, Count Dracula, comes originally from a published book and that the character has been used for stage plays. In addition, we find that various actors have played the role of Count Dracula in the movie *Dracula*, produced not only by defendant but by other movie producers as well. Since Count Dracula as a character is in the public domain, the question is whether the movie version produced by defendant with Bela Lugosi in the role created something special such as Superman was created in Detective Comics. This seems to be the case to give defendant a copyrightable Count Dracula character from the movies *Dracula* and *Dracula's Daughter*.

Even though the Count Dracula character is known for the flowing cape, when Bela Lugosi played the part he put his own individual stamp to the character by virtue of his facial characteristics, primarily. It was Bela Lugosi's facial appearance in the Count Dracula costume which makes the Count Dracula in defendant's *Dracula* photoplay similar to Superman in Detective Comics.⁷⁴

Thus, in this case as in others before it, we see that courts will recognize an author's rights in a well-developed fictional character, (whether literary, graphic, or dramatic in nature) as against a business competitor, so long as the author has in no way indicated his intent to abandon such rights. Since performance *per se* is generally not considered a "publication" of the underlying work for copyright purposes,⁷⁵ this condition was met in the *Lugosi* case.

Similarly, on a motion for a preliminary injunction in *Walt Disney Productions v. Air Pirates*,⁷⁶ plaintiff's well-developed, well-known and distinctively drawn cartoon characters were found to be protectible as "component parts of a copyrighted work." The scope of protection recognized by the court was broad:

By virtue of the artistry of plaintiff's employees, as well as the conceptual framework of the various copyrighted works, the various drawings of each character have a consistency that gives each character a recognizable image quite apart from the setting of the particular panel. In the case of a number of these characters, of which 'MICKEY MOUSE' is probably the prime example, the plaintiff has devoted considerable effort and resources to developing a recognition of that image, and exploiting its value in numerous ways.⁷⁷

Interestingly, the infringement in the case consisted of a parody rather than an actual copy of plaintiff's characters, a fact which

⁷⁴ 172 USPQ 541 at 549.

⁷⁵ *Ferris v. Frohman*, 223 U.S. 424.

⁷⁶ 345 F. Supp. 108.

⁷⁷ *Id.* at 109.

shows that the court accorded protection beyond the literal copyrightable expression found in the copyrighted work.

In the defendants' cartoons, each of the characters has a characteristic appearance, as do plaintiff's characters. Several of the graphic depictions of characters drawn by defendants bear a marked similarity to the graphic depictions employed by plaintiff in its various publications. In fact with respect to 'MICKEY MOUSE', about whom most of the discussion has revolved, the affidavit of defendant O'Neill states: "... I chose to parody *exactly* the style of drawing and the characters to evoke the response created by Disney." While the character was not copied in the sense that it was photographically reproduced, it was drawn as nearly like the plaintiff's drawing as defendant could make it. The name given the character so 'copied' was the same name used in plaintiff's works. There can, on the other hand, be no question but that the theme and "plots" of the defendants' publications differ markedly from those of plaintiff. While plaintiff claims that it seeks to foster for itself "an image of innocent delightfulness", the defendants' image could not fairly be called innocent.⁷⁸

Conclusion

To this writer, both the *Lugosi* and *Air Pirates* cases represent well-reasoned decisions consistent with an old yet expanding judicial disposition to uphold against unauthorized commercial exploitation the property rights of authors in the unexpressed essence of their fictional characters, so long as the author has created (in whatever medium) a well-developed character and has not abandoned statutory copyright where available to him. Fictional character protection, of necessity, often exceeds the traditional scope of copyright protection. In many instances, it is derived through contract, trademark, or unfair competition law. In such cases, arguably it does not contravene the policy expressed in the *Sears* and *Compco* cases; for their dictates applied only to works which are constitutionally capable of copyright protection, but for which Congress has chosen to afford no protection. The total "essence" of tangible fictional characters is not confined to any one concrete "expression"; it is an idea or evocation from one or more prototype copyrightable works. The essence may be the most commercially valuable aspect of an author's creation, yet it is clearly not subject in itself to statutory copyright as a "writing of an author" by the terms of the Constitution. For courts to recognize its commercial value and to protect this value under the terms of state laws is not proscribed by the preemption doctrine. Obviously, such protection

⁷⁸ Id. at 110-11 (Explanatory footnote omitted).

must be extended on a cautious case-by-case basis, considering the quantitative amount of creative authorship and the author's efforts to secure statutory protection, where possible. Such an approach has been followed in the most recent fictional character cases, *Lugosi v. Universal Pictures Co., Inc.*, and *Walt Disney Productions v. Air Pirates*.

Protecting the American Technology Interest in Developing Detente With the Soviet Union and Eastern Bloc Countries

HAROLD LEVINE*

In this paper I want to examine the significance and implications of the increasing number of agreements on scientific and technical cooperation between the State organs of the USSR and private U.S. industrial firms and to focus on some emerging areas of concern.

We have welcomed President Nixon's efforts to develop detente with the Communist countries, to take concrete initiatives to normalize relationships where for years we have expressed tension and rancor. We are also realistic enough to perceive certain shoals in the peaceful waters of detente—for instance, the current difficulties in the Middle East—and to realize that we must proceed steadily but cautiously with two-way concessions, two-way exchanges, and two-way adaptations to the new era in U.S. relations with the socialist countries.

We believe that trade can be a powerful factor for providing substance and meaning to the concept of detente. But it must be trade providing truly mutual benefit. It is in the assessment of this mutuality of benefit that one finds differing views in the U.S. business and industrial community.

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Normally, we at Texas Instruments would be most pleased to sell products of our technology to the Communist countries and, in return, to buy products from them. We have suggested such a relationship with many representatives of these countries. Their response has been, with differing degrees of grace and politeness, that such relationships are not interesting, and that what they want is to buy or license our technology to be used for the manufacture of our products in their countries. Because of currency convertibility problems, they would also like to market these products in hard currency market areas.

In the electronics industry, as in many others—at least as our company sees it—we are not highly capital intensive. The electronics industry is technology intensive. The industry's birthright, its trading and competitive future, depend upon the use of its proprietary technology. Understandably then, we at TI are very protective of that technology and, as we have released it to foreign markets, we have done so under very special conditions. We have sought access to full participation in those foreign markets, and we have wanted to participate actively ourselves in the growth of those markets through what we shall call "market share."

Furthermore, our company has actively and aggressively filed for patent protection for our technology in the key countries where we have released our technology. In our company, these have been the only acceptable bases for technology transfer, and represent the foundations on which our international activities have been built.

Let me also note that Texas Instruments is a late comer to the East-West trade area—for obvious reasons. Our main areas of activity—microelectronics, computers, radars, digital systems, and seismic exploration technology, have been of major strategic significance to the United States. Those technologies, and even the products they produce, have been under embargo control for many years. We have respected the will of the various Administrations and the Congress with respect to those export regulations and have not been a leader in seeking to change them.

As these controls are now beginning to relax, in line with overall U.S. policy, we too have begun to explore the potential of closer business relationships with the Communist countries. We have established an Office of East-West Business Development and are actively pursuing a dialogue of exploration and discussion with a number of Communist enterprises, ministries and government officials.

In the course of these discussions, we have sought to preserve those two basic principles of business discussed above—market share and patent protection. We have concluded that these issues indeed transcend the affairs of one company and represent matters of national—and hence governmental—concern. I therefore will direct a significant portion of these remarks to how the Government can help U.S. industry in these areas.

Technology and Trade

Even though the recent experience of the United States in world trade, as measured by the balance of payments over the last few years, has been far from satisfactory, that segment of our economy which is represented by high technology industries is doing remarkably well. As we examine the relationship between transfers and trade, two things are apparent.

First, the existence of technological leadership in the United States has had a favorable significant impact on our balance of payments.

Second, the funds received by U.S. companies as the result of this leadership are great enough to fund a substantial part of the research and development necessary to maintain the advantage which they now enjoy.

We would hope that future transfers of technology from U.S. companies to foreign economies will likewise take place in a manner which enables our country to retain its technological leadership. The concern is that it will not. One of the reasons for this concern is the type of technology transfers which appear to be taking place into the markets of the Communist countries.

When we speak of “technology sales,” it is important that we be as precise as possible. Basically, there are three things sold:

- 1) products which result from technology, or *technology products*;
- 2) the know-how which is the key to the technology, or *technology know-how*, which entails the transfer of detailed process and equipment information (e.g., trade secrets, turn-key plants, etc.), and which teaches the buyer how to make the product; and
- 3) permission to manufacture another’s products, or *patent licensing*, which may not involve the transfer of technology by know-how.

Each type of sale has a different impact upon the economies of both the seller and the purchaser.

It is important to note that all types of these sales are taking place, and that the increasing pressures of East-West trade will increase them. The pressures for high technology trade with all nations of the world, regardless of political philosophy, are immense, and they are growing. To some extent, the pressures result from the fact that the main non-agricultural goods which our present and potential trading partners want from us are high technology items. Because we will need to generate trade credits to purchase the petroleum we will have to import by 1980, if we can get it, it is not realistic to think that we can refuse to trade high technology products or absolutely prevent the transfer of some of our technology, and that is not our desire. We do remain convinced, however, that the nation must use all legal means possible to prevent the sale of strategic goods of any kind to Communist governments. We should be careful to avoid deluding ourselves with regard to the military or strategic value of technology which we transfer to Communist governments. Much is heard today regarding the fact that a particular technology is geared for the civilian sector and therefore will not have any meaningful impact on the military sector of the Soviet economy. But past actions, as well as written statements, by the Soviets make it vividly clear that *the Soviet economy is not neatly packaged into military and civilian sectors* and demonstrate the dependence of Soviet military strength on the Soviet industrial base.

If the transfer of high technology is to occur, it is essential that it occur in a manner which on the one hand provides a flow of sufficient funds to United States technology owners to enable them to continue the research and development necessary to maintain the technological leadership which makes future profitable sales possible, but on the other hand ensures that our own national defense establishment is provided with technology unequalled anywhere else in the world.

Sale of Know-How vs. Market Share as a Means of Technology Transfer

Industry in this country must be far more careful about know-how sales to State-owned competitors in Communist economies than about sales to free- or modified free-enterprise competitors in market economies. A state-owned competitor can enter foreign markets without any severe pricing restraint, whereas a free enterprise competitor must have a price which yields a profit. In an

effort to penetrate a given market, a Soviet State-owned business could enter the market with prices which would be "predatory" by U.S. standards.

We do not mean to imply any improper action on the part of Soviet business in this example. We simply want to point out that a State-owned business whose prices do not have to be related to costs can present formidable problems to a free enterprise company when the two compete in a third market. It is common sense for us to be cautious about providing such a State-controlled business with the know-how with which to compete with us.

The value of U.S. high technology products in foreign trade is well documented and generally accepted. Unfortunately, what is not understood is how this U.S. technology base can be nourished while fulfilling the needs of socialist markets.

It is axiomatic in high technology industries that the only adequate payment for know-how is market share. This is because of a so-called "*learning curve*" theory which tells us that each producer's costs can be reduced by a constant every time the volume of his total production doubles. As he gains experience with the product and the technology involved in its manufacture, he can reduce costs at a much faster rate than mere economies of scale would suggest.

If a producer's costs are related to his production experience, it follows that they are related to his share of the market, for he will no longer be able to increase volume if he cannot sell his products. Thus, the producer with the greatest worldwide market share will have the lowest costs and derive the highest profits. Obviously, he will be in the best position to put the funds into the research and development necessary to develop additional innovations to take into the market.

Traditionally, U.S. high technology firms have secured an effective market share in foreign trade by one of or a combination of three ways: first, by operating a manufacturing facility in the market to be served; second, by exporting products into the market; and finally, if the first two are not available, by receiving royalty payments on the product, manufacturing method or service. But because a sale in return for royalty payments does not allow the recipient to gain the experience and increased volume which direct sales do, it is the least preferred of the three.

Note that in each case payment is directly related to each item produced or sold in the market, or to *market share*. In this way, the purchaser of high technology products effectively finances the

producer's research and development, allowing the producer to maintain the technological leadership which generates new products for still more sales.

It is quite different for the producer to sell know-how to a competitor who then goes into competition with him. For now, after these payments have been made, he has forfeited any future compensation from products produced by the purchaser, thus limiting his ability to continue the financing of his business over the long term, as well as creating a leapfrogging opportunity for the purchaser to compete with a major advantage in traditional and emerging markets of the producer. As related to the national interests of the U.S., the sale of know-how allows the purchasing economy to close the technology gap at minimal cost.

The "Third Party" Problem

All one-shot technology know-how sales, however designed, present the same serious problem to all U.S. companies who are not sellers. Any other company in the industry of the know-how seller is effectively foreclosed from participation in the Soviet market, for example, unless it has patent protection. The Soviets could, acting within both the letter and spirit of their contractual agreement with the U.S. company with which they negotiated, use the acquired technology know-how to produce products which infringe upon the products of all other companies in that industry.

For example, if one U.S. company entered into a technology know-how sale to the USSR, one would expect that company to secure sufficient payment on the sale to fund enough R & D to regenerate its own technological advantage. But what is to prevent the acquiring economy from using the technology purchased from that company to produce products exactly like those made by, say, all of the other companies in that industry? Absolutely nothing!

If these other firms had effective patent protection, they could simply enforce their patents to prevent infringement. But that patent protection does not now exist. And without that protection, there is at present no way to protect the know-how and patent rights of the "third party" in a negotiation between a U.S. firm and the Soviet Union or some other Communist economy. In short, with no patent protection available, those technology owners in an industry who are not at the bargaining table in a negotiation with the Soviets are subject to having the value of their technology invalidated with no payments or obligations to them.

Since prevailing economic policies in the USSR inhibit direct participation in their market through American-owned manufacturing facilities or large scale direct export of products from the U.S., the "third party" firm cannot attempt to protect its technology by using it to compete in the Soviet markets. Its technology can be effectively confiscated.

Another way to describe the "*third party problem*" is:

Suppose Company A (a U.S. company) sells "know-how" to the USSR which enables the USSR to produce product X, and Company B (a U.S. competitor of Company A) has patents covering product X, but has not filed its patents in the USSR. The USSR pays Company A for know-how which Company A provides, and perhaps also for the use of Company A's patents, which are part of the know-how package. But Company B is not involved in the transaction between Company A and the USSR, and derives no benefit from this deal. And since Company B does not have any patents in the USSR, the sale of the Company A technology package to the Soviets implicitly provides the Soviets with the benefits of and the opportunity to infringe Company B's patented development, and there is no way that Company B can collect from Company A for such a sale, or from the USSR. Therefore, Company B is the injured third party, *with no recourse*.

Our concern is directed to protecting the interest of American technology owners, many of whom do not have patents in the Soviet Union or other Eastern Bloc countries. The matter is particularly serious in the context of the *third party problem*. Heretofore, the Soviets could buy a copy of any U.S. patent for 50¢, but they were not in a position to copy the products, because they did not have the production know-how or technology. But this deficiency will soon be remedied as the flow of technology from the West to the East increases. The third party problem will really come into sharp focus when Company A provides the Soviets and the Eastern Bloc economies with the technological muscle to produce not only the products and services of Company A, but also those of Company B and all the other members of Company A's industry who are not parties to the agreement with the Soviets, and receive no benefit from Company A's deal.

This is another reason why we feel strongly that the U.S. Government should take the initiative in negotiations with the Soviets to protect American technology interests.

Absence of Patent Protection

Although the USSR adhered to the Paris Patent Convention in 1965, only recently have significant numbers of U.S. firms begun to

file actively for patent protection in the USSR. First, it did not seem useful to many companies to file there; second, the Cold War atmosphere made filing on high technology inventions injudicious for U.S. firms; and third, particularly prior to 1965, the business benefits of the protection achievable were highly uncertain. The actual reasons for not filing will vary from company to company and industry to industry, but the reasons are not important. What is important is that for a significant number of leading high technology U.S. patents filed or issued before 1965, the U.S. inventor and invention owner have no patent protection in the USSR. But as a result of the continuous and rapid diffusion of technology around the world through literature, international meetings, or sales of high technology products and know-how by individual companies, the Soviets are continuously improving their own capabilities to practice U.S.-origin inventions.

It is because the Russians have decided that they must have U.S. technology, as well as technology from the rest of the Western countries, that they made the strategic decision to join the Paris Patent Convention in 1965. Therefore, supposedly, there should be no problems for patents issued after 1965. However, there were some very key patents issued prior to 1965 that still have seven to eight years to run. It is in respect to these patents, in the seven to eight year period, that Company A can sell its know-how to the USSR in such a way as to injure third party B.

To compound the situation, there is no way at present whereby either the U.S. Government or U.S. industry can handle the third party problem. And it is aggravated by the fact that the USSR is dealing from a monopolistic position; all of its industries deal through one USSR government agency, and that agency, in turn, deals with many individual companies in the U.S. and elsewhere, playing one off against the other.

We believe we must call the U.S. Government's attention to this problem, and get its assistance in protecting U.S. industry, or in setting up the means whereby U.S. industry can protect itself. One thing we need, surely, is some kind of retroactive patent protection and recognition by the USSR. But only the U.S. Government can negotiate such an arrangement effectively.

Concerns and Actions Required

Stated simply, our concern is directed toward protecting the interest of American technology owners, many of whom do not have patents in the Soviet Union or Eastern Bloc countries. The

concerns expressed in this paper have been more fully developed in the testimony presented on December 5, 1973, before the House Committee on Science and Astronautics by J. Fred Bucy, Executive Vice President of Texas Instruments Incorporated, and also in his testimony submitted on May 24, 1974 to the Subcommittee on International Finance of the Committee on Banking, Housing and Urban Affairs of the U.S. Senate.

We strongly advocate that the U.S. Government negotiate an agreement with the USSR to provide for the recognition of existing U.S.-held high technology patents. To make this request of the U.S. Government is an extraordinary measure, for the traditional and preferred approach is for U.S. companies to undertake their own negotiations individually in each market. We have a novel set of circumstances here, however, because of the absence of patent protection. Individual U.S. firms cannot be expected to negotiate with the Soviet government for protection of the rights of American industry. The U.S. Government must take this initiative to protect American technology effectively and prevent a "giveaway" of one of the last economic advantages the U.S. still retains—the advantage of technological leadership.

We believe the U.S. Government, in its trade negotiations with the USSR, should seek to secure a guarantee of protection for those high technology patents now in force in the U.S., even though they may not yet be patented in the USSR nor, indeed, yet filed there, without regard to the specific reasons for their not having been filed. If this is not done, we believe that the massive resources of the USSR, when concentrated on specific technical areas, will permit them to develop competitive technologies based initially on U.S. inventions at a fraction of the original cost, and without generating the return to U.S. industry necessary to finance the new research and development needed to maintain U.S. technological leadership. And while the USSR has been used as an example, the same recommendations apply to other Communist economies, including the People's Republic of China.

Possible Solutions to Be Considered

In our discussions with various Government people and other members of industry, we have included for consideration, as a possible solution to the problem, a "Boykin Act" type of retroactive patent recognition approach. We are aware that this approach may be less than an optimum solution, particularly if there are reciproc-

ity requirements or any significant exemptions for products currently being manufactured in the USSR. We also recognize the important requirement that the solution to this problem should not place U.S. industry at a disadvantage with its competitors in other countries in doing business with the Comecon countries.

As we reflect on this problem, we would like to be sure that our concerns and position are put in the proper perspective. Some of the feedback we have received from others indicates that they believe we are primarily interested in a request for the U.S. Government to negotiate a bilateral "Boykin Act" type of retroactive patent recognition agreement with the Soviets. But we are not committed or dedicated to any specific solution. The Boykin Act is only one possible approach, and we set it forth for consideration with the hope that the U.S. Government will come up with a better solution.

Conclusions

The mutual desire for trade expressed by this country and the Soviet Union presents an opportunity for economic gain by all. But it is important to remember that the economic gain must be mutual, and it must be real rather than illusory, if it is to contribute to the detente which makes trade possible. Proper patent protection is a critical and vital part of trade in technology.

If the businesses of the United States engage in a series of one-shot technology know-how sales, our economy will very quickly have traded all it has to trade in the way of high technology. If this occurs, where will the benefit to our economy be? It will have disappeared just as rapidly as the rate at which our technological leadership has disappeared. We will not be left with a good feeling toward East-West trade, but instead the feeling of disappointment which comes from knowing we have made a bad bargain.

If, on the other hand, we have exchanged our technology for some form of market share, for some ongoing participation in the Soviet and Eastern European markets, we will have a continuing economic exchange which is beneficial indeed. It is this approach which provides the economic incentive for continued, long-term detente.

It is our position, in summary, that if these one-shot or lump sum technology know-how sales occur, and without effective patent protection or some other form of protection in the Soviet Union and Eastern Bloc countries, the vast majority of American firms

will be foreclosed from participating in East-West trade because of them. Furthermore, this type of trade will not generate the funds to finance the research and development necessary to maintain technology leadership. Once our technological advantage is gone, it is questionable what we will have to contribute to East-West trade.

We feel that the U.S. Government can and must take actions on this issue. The potential consequences are momentous for the future of high technology industry in the U.S. as well as for vigorous and successful East-West trade.

The Follow-on Development Process vs. the Conventional Patent Protection Concept

BERNARD A. KEMP*

1. Introduction

The conventional view of patent protection is that a product patent leads to a one product-one firm market. Occasionally the market may have a different structure, either at the sufferance of the patent holder, or as the resolution of an interference or infringement action, or because the patented product happens to be a reasonably close substitute for one already on the market. In the pharmaceutical industry, however, manufacturing firms have developed and institutionalized a practice whereby *after* a breakthrough is marketed by one firm they deliberately attempt to re-search, develop and market their own new product(s) with similar therapeutic properties, hopefully an improvement over the breakthrough. Even if the follow-on product is somewhat differentiated, however, it must be suitable for the treatment of the same disease or condition, so that the firm which developed it may take advantage of the potential profits available in that market. And if one or more firms are successful in developing patented follow-on prod-

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ucts, then there will be a number of changes in the structure, conduct and performance of the markets involved.

Because this approach involves additional therapeutic agents of the same subclass which are introduced after the breakthrough I refer to it as the Follow-on Development Process.¹

It has been generally recognized by the member of the industry, by its critics, and by economists, that the firms in the pharmaceutical industry frequently develop and market more than one product in the same therapeutic subclass.^{1a} At worst, this practice has been considered with disdain, by physicians and even by members of the industry, because it leads to "duplicative" products. At best, it has been considered, first, as a diversion of resources from one of the primary objectives of the industry, namely, the development of dramatic new products for the treatment of disease;² second, as a

¹ A companion article, "The Follow-on Development Process and The Market for Diuretics," was presented at the Conference on DRUG DEVELOPMENT AND MARKETING at the American Enterprise Institute for Public Policy Research, Washington, D.C., July 25-26, 1974. This article is based on an earlier, more extensive study by Bernard A. Kemp—*The RDTEM Process: The Pharmaceutical Industry's Way Around Patent Barriers (As applied to diuretics)* (Philadelphia, Pa., 1971).

^{1a} U.S., Senate, Committee on the Judiciary, Subcommittee on Antitrust and Monopoly, *Report of the Study on Administered Prices in the Drug Industry*, 87th Cong., 1st Sess., 1961; *Hearings . . .*, 86th Cong., 2nd Sess., 1960; *Hearings on the Drug Industry Antitrust Act*, 87th Cong., 1st Sess., 1961, pts. 1-4; U.S., Senate, Select Committee on Small Business, Subcommittee on Monopoly, *Hearings on Present Status of Competition in the Pharmaceutical Industry*, 90th Cong., 1st and 2nd Sess., 1967-68, pts. 1-5; Jesse W. Markham, "Economic Incentives and Progress in the Drug Industry" in *Drugs in Our Society*, Paul Talalay, Ed., (Baltimore, Md.: The Johns Hopkins Press, 1964), pp. 163-179; James W. McKie, "An Economic Analysis of the Position of American Home Products Corporation in the Ethical Drug Industry," *Hearings on Administered Prices . . .*, pt. 17, pp. 9939-10,072 at pp. 9947 and 9956; William S. Comanor, "Research and Competitive Product Differentiation in the Pharmaceutical Industry in the United States," *Economica*, (November, 1964), "Research and Technical Change in the Pharmaceutical Industry," *Review of Economics and Statistics*, XLVII (May, 1965), pp. 185-90, and "The Drug Industry and Medical Research: The Economics of the Kefauver Committee Investigations," *The Journal of Business of the University of Chicago*, XXXIX, Pt. 1 (January, 1966), all reprinted in *Hearings on Present Status . . .*, pp. 2069-2091; Henry Steele, "Monopoly and Competition in the Ethical Drugs Market," *Journal of Law and Economics*, V (October, 1962), pp. 131-63, and "Patent Restrictions and Price Competition in the Ethical Drugs Industry," pp. 198-223, reprinted in *Hearings on Present Status . . .*, pp. 1950-1997; Leonard G. Schiffrin, "Economics of the Ethical Drug Industry: The Case for Compulsory Patent Licensing," *The Antitrust Bulletin*, XII (Fall, 1968), p. 893, reprinted in *Hearings on Present Status . . .*, pp. 1890-1900; and Joseph D. Cooper, Ed., *The Economics of Drug Innovation*, The Proceedings of the First Seminar on Economics of Pharmaceutical Innovation, April 27-29, 1969, (Washington: The American University Center for the Study of Private Enterprise, School of Business Administration, 1970).

² Comanor, "The Drug Industry and Medical Research: . . .," *loc. cit.*, p. 2087

sort of booby prize for lack of success in meeting that objective;³ third, as part of "vigorous product competition";⁴ or fourth, as an attempt by a firm to differentiate its product in order to mitigate rivalry or insulate oneself from it and prevent a recurrence of the penicillin or streptomycin "experiences".⁵

Whether the critics of patent policy like it or not, the industry is currently operating under a patent law by which, as a matter of national policy, the government grants the inventor the exclusive right "to make . . . and sell" the patented product for seventeen years. What has not been appreciated is that the development of additional products of the same subclass makes entry possible when it would otherwise be barred by the patent on the breakthrough drug. The Follow-on Development Process is the practice which systematically makes that entry possible during the period of patent protection, and which is an integral part of the resource allocation process.

The Follow-on Development Process is of theoretical interest for two reasons. First, it examines the nature and effect of entry where neither of the typically-assumed extreme conditions exist—that is, the entering firm cannot replicate the product nor is the potential entrant simply barred just because the product is patented.⁶ Second, it is an elaboration, extension and specific application of the Schumpeterian hypothesis which makes it possible to integrate product innovation into the resource allocation process.⁷

The Follow-on Development Process also has important policy implications if it explains and predicts the pharmaceutical industry's activities better than the conventional view. If the Process is a better predictor, then current corporate and government

and 2091, and Steele, "Monopoly and Competition . . .," *loc. cit.*, p. 1950, 1961, 1965-1966 and "Patent Restrictions . . .," *loc. cit.*, p. 1972.

³ Comments by Antonie T. Knoppers in Cooper, Ed., *op. cit.*, p. 252.

⁴ Comanor, "Research and Competitive Product Differentiation . . .," *loc. cit.*, p. 2073 and Markham, *loc. cit.*, p. 172-173.

⁵ Comanor, "Research and Competitive Product Differentiation . . .," *loc. cit.*, p. 2070 and 2076.

⁶ While the theory of entry in oligopoly examines some of the effects of market imperfections on entry, for example, absolute cost differences, it does not take into explicit consideration the effect on entry of situations where replication of the product is not possible. Joe S. Bain, *Barriers to New Competition* (Cambridge: Harvard University Press, 1956); Paulo Sylos-Labini, *Oligopoly and Technical Progress*, translated from the Italian by Elizabeth Henderson (Cambridge: Harvard University Press, 1962); Franco Modigliani, "New Developments on the Oligopoly Front," *Journal of Political Economy*, June 1958, LXVI, pp. 215-232; Comments and Reply, August 1959, LXVII, pp. 410-419.

⁷ Joseph A. Schumpeter, *Capitalism, Socialism and Democracy*, 3rd ed. (New York: Harper & Brothers, 1950), pp. 72-106.

policies, practices and procedures will have markedly different effects on profits and socio-economic welfare than are presently envisioned.

The hypothesis will be presented in section II of the paper. Section III will elaborate on the Follow-on Development Process, section IV will briefly discuss the conventional view of patent protection, and section V will compare them. The next section will examine the alternative views in the light of a particular class of therapeutic agents—diuretics. The last sections will discuss the socio-economic and the resulting policy implications of the findings.

II. The Hypothesis.

The hypothesis asserts the existence of a process for developing follow-on products. It also asserts that when the first drug in a subclass is profitable, the Follow-on Development Process explains and predicts:

- the actions of firms in introducing additional new drugs and
- the effect that these additional drugs have on market and socio-economic performance

better than the conventional view of patent protection.

The objective of this paper is not to determine whether the conventional view of the Follow-on Development Process is more socially desirable. It is to discover which one better explains firms' patterns of behavior by comparing the predicted patterns under each practice with actual experience—using as a specific example the market for diuretics—and to determine the likely socio-economic consequences of the better theory.

In understanding the Follow-on Development Process, it is important to recognize that the differentiated products in a *class* of therapeutic agents usually fall into subdivisions or market segments which we shall call subclasses. For example, broad spectrum antibiotics are a *class*, tetracyclines are a *subclass*, and chlortetracycline is one member of the subclass. The members of a *subclass* have similar therapeutic properties, and frequently have similar chemical structures, although not necessarily.

Recognizing this distinction, there are three kinds of new drugs:

- (1) The breakthrough drugs which define the *class*;
- (2) Those which are suitable for the treatment of the same disease or condition and consequently fall within the same *class*, but are different enough from the breakthrough drug or any others on the market to be the first of a *subclass*; and

- (3) The new drugs of the same subclass as one previously on the market, which we call *follow-ons*.

The only other new pharmaceutical products are not new drugs. They are additional products of previously marketed chemical entities. The Follow-on Development Process does not explain the factors which influence the development of breakthrough drugs. As used here it only explains the factors which directly influence the development and marketing of follow-ons (Group 3).⁸

III. The Follow-on Development Process

The Follow-on Development Process is a continual feedback process in the development and introduction of follow-on drugs. The essence of the process is that, once a breakthrough drug has been developed, it becomes possible for other firms to assess the potential profits that exist within that subclass. If any firm believes the potential for profit exists, it will want to enter the market. However, because the breakthrough drug is patented, it is necessary for the firm to research, develop, test and evaluate a substitute or follow-on product through the New Drug Application (NDA) stage in order to enter the market. In order to understand the implications of the process for development of follow-ons, it is first necessary to examine the pre-marketing and post-marketing phases separately.

In the pre-marketing phase, the potential profits lead firms who are not currently marketing a product in that subclass to direct their resources into the research and development of follow-ons. The increase in inputs, if successful, will lead to an increase in the output at each of the pre-marketing stages. The pre-marketing stages include the development and screening of analogs, Phases I-III clinical testing and the FDA approval procedures.⁹ Increased activity in these stages will be evidenced by a rise (1) in the number of analogs developed, and (2) in the number of drugs with potentially similar therapeutic properties for which patents are applied for and awarded. There will also be an increase (3) in Investigational New Drug (IND's) applications submitted to the FDA for drugs of this type, (4) for those subjected to Phase I-III Clinical

⁸ It should be recognized, that an increase in research activity designed to develop follow-ons may serendipitously lead to the development of additional Group 1 and 2 type drugs.

⁹ Harold A. Clymer, "The Changing Cost and Risks of Pharmaceutical Innovation," Joseph D. Cooper, Ed., *The Economics of Drug Innovation*, *op. cit.*, pp. 111-112.

Trials, etc., and (5) in the NDA's which are submitted and (6) approved.

Once the NDA is approved and the drug is marketed, there is a new chemical entity on the market, but sold by another company under a different brand name. Physicians now have an additional therapeutic option. However, the market shares will not necessarily be equal, even though the two products may have very similar therapeutic properties and side effects. The change in market structure will lead to a change in the patterns of rivalry and in the firms' mutually interdependent responses to it. The introduction of a follow-on may also lead to an improved understanding of the modes of action, therapeutic properties and side effects of the drugs involved. It may or may not lead to an increase in output and/or a reduction in price. But even if it does not, there will be a redistribution of profits among the firms and a reduction in potential profits available to other outsiders, either because of a decline in their average revenue function, or because of the progressive increase in the cost of developing additional follow-ons for human use as more and more are precluded, or both.

Reduction in profit potential, and a changing profit picture, are the signals which lead firms to reduce or redirect the resources they commit to the research and development of additional therapeutic agents in the same subclass.¹⁰ Firms' responses to reduction in profits close the gap in the continual feedback process.

There are ramifications to the problem of determining market effects specifically because the products are likely to be differentiated. Not only are differences in therapeutic properties and side effects likely to arise because the chemical entities are different, but in promoting their products the firms are also likely to emphasize the differences, rather than the similarities, in order to mitigate rivalry or insulate themselves from it. But under these conditions the developer of the breakthrough product is unlikely to be passive—he, too, may attempt to develop additional analogs to improve the breakthrough product, because there is seldom an ultimate therapeutic agent. Moreover, if the breakthrough firm is successful in developing and patenting analogs, they will provide additional insulation for its market and profits position, because those analogs will not be available to outsiders.

One of the principal distinguishing features of the process is that

¹⁰ The development of additional products may reveal gaps in therapy and firms may attempt to develop breakthroughs to fill those gaps. If they are successful they will market a new type of therapeutic agent in the class.

it asserts that the development of follow-ons is a function of potential profits; the higher the profits, the greater the amount of resources that outside firms, individually and collectively, are likely to commit to the development of follow-ons. Thus the profits which arise from the patent system simultaneously provide the incentives and rewards for attempts to bypass the patents, and the signals for continual readjustment in the level of R&D activity. But, of course, the actual profits that a firm can obtain from developing and marketing follow-ons are likely to vary from one outside firm to another, and the profit estimates are likely to vary as well. Two factors make estimates of the market effects inherently difficult and subject to variation: (1) the role in therapy of new, somewhat differentiated products cannot be accurately predicted beforehand; and (2) a firm's ultimate profits are not independent of the strategy adopted by the oligopolistic rivals. Consequently the Follow-on Development Process makes R&D activity in the development of follow-ons, and attempts to circumvent patent barriers, both responsive to profit potentials and likely to vary among firms.

IV. The Conventional Patent Protection Concept

Let us first briefly review the conventional patent protection concept (CPPC) before comparing it with the Follow-on Development Process. A patent gives the inventor a right to exclude others from practicing his invention for seventeen years.¹¹ Under the conventional view of patent protection, this is tantamount to giving the holder of a product patent a monopoly for that period. Although there are exceptions where the monopoly position is not achieved, they are not considered to be important or prevalent enough to modify the somewhat simplistic conventional view. Moreover, the monopoly position is what inventors aspire to. The CPPC is also explicitly held by policy makers and analysts of the patent system and implicitly held by those who recommend changes in that system, including the recommendations to extend pharmaceutical products patents from 17 to 25 years or to force compulsory licensing after three years.¹²

¹¹ 35 U.S.C. § 154 (1964).

¹² Fritz Machlup provides a comprehensive summary of various views of the economic basis and effect of the patent system [*An Economic Review of the Patent System*, published in U.S., Sen., Committee on the Judiciary, Subcommittee on Patents, Trademarks and Copyrights, Study #15, 85th Cong., 2nd Sess., 1958]. In addition the view of leading corporate executives, attorneys, and scientists as well

There is an analytical basis for the conventional view of product patents.¹³ One of the requirements for patentability is novelty. That novelty almost certainly leads, in economic terms, to a differentiated product. If it is sufficiently differentiated from the other products which perform a similar function and which are already on the market, then the product patent leads to conditions for an economic monopoly on the demand side.

In spite of the novelty of the new, differentiated product, there are a number of situations where it may not lead to an economic monopoly. For example, the new product may be a close substitute for one already in the market, like a "better mousetrap" or can opener, or it may involve an improvement over a previously patented product, so that the holder of the improvement patent cannot practice the invention without a license under the dominant patent or until the dominant patent expires. There is a third situation, which may not be unique to pharmaceuticals but is certainly more prevalent there. Patents are awarded for chemical entities which are different from previously known compounds. It is possible, however, for two different chemical compounds, both of which are patented, to have similar therapeutic properties. In each of these three situations the appropriate model for analyzing the economic implications and the implications for corporate or public policy would be a differentiated oligopoly model or the differentiated or monopolistic competition model.¹⁴

as economists who are familiar with the patent system are presented in the Report and Proceedings of a Symposium on *The Role of Patents in Research*, [Pts. I & II (Washington: National Academy of Sciences—National Research Council, 1962)].

Throughout the discussions the predominant position is that a patent provides its holder with a monopoly and a profitable one at that. This position is held in spite of the fact that the best evidence is that 80-90 percent of all patents are never used [Machlup, p. 12]. The only modifications of this position are the discussions of "inventing around" which Machlup characterizes as outside the mainstream of the debate [p. 52 and Schmookler, *The Role of Patents*, *op. cit.*, Pt. II, p. 22]. As with many other aspects of the patent system, there is an information void on the importance of "patenting around". Even in the sophisticated analysis of the patent system and in the policy recommendations for changing it the authors almost uniformly, explicitly or implicitly, use the single firm monopoly model. And so do the policy makers themselves. [See Baxter, William F., "Legal Restrictions on Exploitation of the Patent Monopoly: An Economic Analysis," *The Yale Law Journal*, Vol. 76 (December 1966), 267-370] and for policy recommendations see *The Role of Patents*, *et passim*; Schiffrin, *op. cit.*, pp. 1890-1900; Foreman in Cooper, *op. cit.*, pp. 177-1983, and Clymer, Harold A., The British Columbia Centennial Symposium on "The Development and Control of New Drug Products," Vancouver, B.C., October 1 and 2, 1971. Also see the discussion between Sen. Gaylord Nelson and Schiffrin, *Hearings on Present Status*, p. 1872.]

¹³ The same cannot necessarily be said for process patents or use patents.

¹⁴ Although the necessary conditions for a monopoly position may exist on the

In all other situations, adopting the monopoly model is appropriate for the conventional view, and it is especially relevant in analyzing the Follow-on Development Process, which is initiated when the breakthrough drug is profitable. Since the breakthrough drug is the first of a subclass, an economic monopoly is exactly what would prevail if the Follow-on Development Process did not operate. An economic monopoly would also persist during the period of patent protection, if the Process were not successful in circumventing the patent barrier.¹⁵ Consequently, the limiting case of an economic monopoly within the type of therapeutic agent is the appropriate one for evaluating the Follow-on Development Process. Moreover, to the extent that the Follow-on Development Process is successful, it challenges both the mechanism and the result of the conventional patent protection concept.

V. The Follow-on Development Process vs. the Conventional Patent Protection Concept

Under the conventional view of patent protection, firms do not attempt to enter the market until after the patent expires, regardless of how high potential profits are. Consequently, for the purpose of comparing the two views, we assume that the potential economic profits for producing a given type of therapeutic agent are the same and moderately high; that a number of outside firms think so; that the market is large enough so that the entry of one, or perhaps more, of them would not render it unprofitable; and that the Follow-on Development Process is moderately successful. If potential profits are low, then there is no incentive for outside firms to commit resources to the development of additional products in the same subclass. As a consequence, the expected patterns of behavior for each view during the life of the patent are the same.

A comparison of the expected results of the conventional view of patent protection and the Follow-on Development Process when potential profits are moderately high is presented in Table 1. It covers the period of patent protection and the period afterward. For each view, the likely results for pre- and post-marketing variables involved are presented in a way to facilitate comparison and testing.

demand side, the patent holder may choose to license other firms to supply the product leading to a different market structure, or demand may not be great enough to support one firm.

¹⁵ New products which are not the result of the Process, and which unexpectedly turn out to have therapeutic properties similar to the breakthrough, are the only exception.

Table 1-Comparison of the Conventional Patent Protection Concept and the Follow-on Development Process

Variable	Conventional Patent Protection Concept (CPPC)	Follow-on Development Process
I. During the Period of Patent Protection		
A. <i>Pre-marketing Experience</i>		
1. Amount of resources committed to develop new products within the same type		
a. By firm who marketed the breakthrough	Some to develop alternatives for a contingency or to make significant improvements in the breakthrough product. Decrease in activity if substitutes are found or if near the end of the patent grant; increase if difficulties with the breakthrough product develop.	About same as CPPC except research activity of rivals may lead to discovery of potential adverse side effects and actual or potential rivalry may lead to research activity during the entire term of the patent
i. To develop an agent with improved therapeutic properties or to protect against the development of long-term or low-frequency side effects	None	Some. However, at this stage it is not possible to distinguish the goal of the research expenditure
ii. To develop analogs to insulate market position by preventing entry	Significant if product fills a recognized therapeutic gap which a number of firms have been trying to fill	Same as CPPC
b. By other specialists in the same class of therapeutic agents	None after patent is awarded	Initially continued and increased research activity, redirected to chemical entities like the breakthrough product. Would decline as more analogs are marketed or firms after winning through analogs are unsuccessful in finding one with similar properties.
i. Prior to the development of the breakthrough		Some
ii. After the breakthrough is marketed		Some, depending upon success of RDTM* process
c. By other firms		Some, depending upon success of RDTM process
2. Number of analogs developed and tested (various phases)		A considerably smaller number primarily by potential rivals
a. By the innovator	A small number	About the same number as above
b. By other firms	None	An even smaller number than above
3. Number of Patents	A smaller number and then only by the original patent holder	
4. Number in which INDs were obtained	A smaller number and then only by the original patent holder	
5. Number of NDAs received	An even smaller number and then only by the original patent holder	

a. Number of agents for which NDAs were issued but which were not marketed					Perhaps some	
i. By the innovator				Perhaps one or two	None. They will market to share in profits	
ii. By other firms				None, no new NDAs	A number, depending on the success of the RDTEM process primarily by firms which did not market the breakthrough product	
b. Number which were marketed				The breakthrough and perhaps one other improved product by the same firm unless problems develop with the breakthrough product		
B. Marketing Experience						
1. Marketing Area						
a. Number of products marketed abroad only						
i. By innovator					Perhaps the one or two contingency analogs	
ii. By other firms					Indeterminate—other firms may hold patent on this or rival product abroad or drug patents may not apply	
b. Number of products in U.S. and abroad					Perhaps one—the patented product	
c. Number of products marketed in U.S. only					Perhaps one—the patented product	
2. Elapsed time from breakthrough to first follow-on					Term of the patent plus time required to obtain an NDA	
3. Average elapsed time for all follow-ons					Longer than above	
C. Post-Marketing Experience						
1. For the type of therapeutic agents treated as a group						
a. Structural Variables						
i. Number of chemical entities				One, perhaps a second	Some, depending on success of RDTEM process	
ii. Number of producers				One	Some, depending on success of RDTEM process and number of firms market can hold	
iii. Number of brands				One, perhaps two	Some, depending on success of RDTEM process	
iv. Market shares				100 percent	Distributed among firms, depends on physician acceptance of rival products	
b. Rivalry					Strong and active	
i. With producers of the same type of agent				None		
ii. With potential entrants				Only by attempting to protect patent from infringement	Strong and active. They represent potential market encroachment	

Table 1 Continued

Variable	Conventional Patent Protection Concept (CPPC)	Follow-on Development Process
c. Patterns of Conduct	Designed to inform physicians about product and its uses but not to show it is superior to rival product; also, some activity to discover new uses	Designed primarily to distinguish the firm's product from that of its rivals. Considerable attention is paid to the rival's successful promotions for clues for new markets or successful techniques.
i. Promotional patterns		
d. Performance Variables		
i. Output	Depends on incidence and frequency of disease, physicians' knowledge of product, etc.	About same as CPPC, with some moderate increase possible because of lower average prices, differentiated products or broader promotional coverage.
b. pattern of sales	Initial peak and some tapering off	Initial peak but additional tapering off as rival products are introduced
ii. Prices	Uniform throughout the term of the patent except for possible reduction at the end	While normal or list prices remain stable, net realized prices should fall because of expansion into less profitable markets like hospital and government sales. If demand for the overall type of therapeutic agent expands, price drop will not be as marked.
iii. Profits (Proxy Variables)	High and stable depending on disease characteristics with possible drop at the end of the term	Decline in overall market and on average for the firms depending on the success of the RDIEM process and the number of analogs marketed
2. For the subgroups within the type based on the differentiated products	None	Same as the number of analogs marketed
a. Number of differentiated products	None	Depends on technical differences among analogs developed and marketed as reinforced by product promotion
b. Number of distinct subgroups based on therapeutic properties or side effects	None	Those subgroups with recognized superior therapeutic properties and/or greater promotional expense will have greater sales and market share
c. Output	Not applicable	The post-patent experience depends on the success of the RDIEM process during the term of patent. If it is successful, profits will be reduced and there will be less entry after the patent expires. If it is unsuccessful, the post-patent experience will be like the CPPC process. For the purpose of this discussion, we assume a moderate degree of success.
II. After the period of Patent Protection		

A. Pre-marketing Experience		
1. Amount of resources committed to test the previously patented chemical entities within the same type		
a. By the firm who marketed the breakthrough	None	None
b. By other specialists in the same class of therapeutic agents	Considerable, to extend product line and take advantage of superior cost-revenue position	Some, if previously unsuccessful in developing a product of this type; none, otherwise
c. By other firms	As long as continued entry enables firms to cover cost plus a "normal" return on its investment	Some, until entry no longer "profitable"
2. Number of new products patented	None, or perhaps a few accidental discoveries or attempts to differentiate products	None, unless one developed which fills a recognized therapeutic gap
3. Number of single entities tested	A considerable number, product now replicable	Some, but less than CPPC
a. Identical to those on which the patent expired	None, or few	Products can be different if a number of patents expire about the same time, most of the testing on the most successful analogs
b. Different from those on which the patent expired	Continues until entrants no longer consider entry "profitable"	Some, less than CPPC
4. Number for which INDs were obtained	Same number as above	Same number as above
5. Number for which NDAs were issued	Same number as above	Same number as above
6. Number marketed in the U.S.	Same number as above	Same number as above
B. Marketing and Post-Marketing Experience		
	After the patent expires other firms, especially specialists in the same area, will test and market the same chemical entity. There is little reason to incur the cost of developing a new analog unless there are significant and recognized therapeutic gaps. There will be a number of additional suppliers of the same chemical entity, the number depending on potential profits. Probably increased output and lower net realized prices, if not list prices. The increase in rivalry will lead to greater promotional expense in an attempt by firms to differentiate their product and all firms, including the one which held the breakthrough patent, will increase promotion and advertising expense and redirect them to promote their own products in contrast to their rivals.	The marketing and post-marketing experience after the patent expires will be essentially the same for the CPPC and RDTEM process except that it will not be as active or pronounced for the RDTEM process. If a number of patents expire about the same time, the therapeutically superior and/or more "profitable" ones are those which will be replicated. As a result of the RDTEM process, there will be a greater number of products with both real and imagined differences.

Source: Bernard A. Kemp, *The RDTEM* Process: The Pharmaceutical Industry's Way Around Patent Barriers (as applied to diuretics)* (Philadelphia, Pa.: 1971)

* Note: In this table, the Follow-on Development Process is referred to as the RDTEM process; the letters stand for research, development, testing, evaluation and marketing.

During the period of patent protection, one of the principal differences is the amount of resources committed to research, development, testing, and evaluation of products of the same subclass by firms which did not market the breakthrough product. As in the case of any other attempt at innovation, the firms may or may not be successful.

If, at the extreme, a number of firms commit a considerable amount of resources and none of them is able to develop a new product in the same subclass, then there is a social cost with no corresponding benefit. It is a social cost that would not be incurred under the conventional view, but is a cost that is borne by the resource owners. If, on the other hand, some of the firms are successful in developing and marketing new products of the same subclass, then all of the previously discussed pre-marketing and market consequences of the Follow-on Development Process come into play, including changes in the product mix, in the competitive structure, in rivalry, perhaps in output and prices, and in the distribution of profits. None of them occurs if the conventional view applies.

Another basic difference is that, to the extent that the Follow-on Development Process is successful, it transfers some of the "competitive" response from the post-patent period to the time when the patent is in force. This shift reduces the effective control of the patent holder during the life of the patent, and distributes the rewards for product innovation among a number of different firms. After the patent expires, firms can enter the market by replicating the product. Consequently, in the end, the cost-demand conditions for the type of therapeutic agent in question dictate the number of firms the market will support, and it is likely to be similar under both views. However, the product options presented by those firms are likely to be different and more varied under the Follow-on Development Process because, after the patent expires, the entrants can replicate the patented product.

These differences affect the internal operations of firms and the market differently (See Table 1) and thereby provide the basis for the comparison between the two hypotheses, and the determination of which one more accurately reflects the firms' patterns of behavior.

VI. An Example—The Diuretics

Diuretics are drugs used to treat edema, which is a condition where excessive body fluid is retained in the spaces between the

cells. It is usually manifested by swelling, especially in the extremities and sometimes in the abdominal cavity.

There are seven major subclasses of single-entity diuretics:

Theophylline Derivatives, principally Aminophylline

Organomercurials

Carbonic Anhydrase Inhibitors

Amisometradines

Thiazides and Related Compounds

Potassium Conserving Diuretic Compounds

Fast Acting Diuretics

The last five groups involve patented products whose names, the names of the producers, and the dates of introduction, are given in Table 2. All have been quite profitable except for the amisometradines. Only the four profitable subclasses will be used in the analysis which follows.

None of the four existed before 1953, but today there is a large market. One recent estimate is that overall value of shipments of diuretics in 1968 was about \$103 million per year.¹⁶ The value of new diuretic prescriptions increased ninefold in the 14 years from 1955 to 1969.¹⁷ In 1969, the four subclasses involved in this analysis held 99 percent of the diuretics market.¹⁸

From the medical, physiological, pharmacological, economic and marketing viewpoints, the basic unit is the subclass of the therapeutic agent. However, since the economic and market factors which influence profitability are likely to vary from one subclass to another, so are the factors which influence the success of the Follow-on Development Process, and without a specific examination of these factors the relevance of comparisons across classes is open to question. Moreover, since we examine here only four product groups, the complete generality of our results cannot be established. However, the conditions affecting the development of the four profitable subclasses of diuretics, and their success, has varied so widely that, even if they are not typical of all classes of

¹⁶ U.S. Department of Commerce, Bureau of the Census, Industry Division, *Current Industrial Reports*, Pharmaceutical Preparations Except Biologicals (MA-28G(68)-1) SIC product codes 2834571 + 2834573.

¹⁷ No other comparable data are available for so long a period. *National Prescription Audit*, Therapeutic Category Report, Ten-Year Trend, Category 2700 Diuretics (Dedham, Mass.: R.A. Gosselin & Co., Inc.) 1958, Category 2700, p. 1; 1967, pp. 455-460; and 1969, pp. 371-375. I wish to thank Lea, Inc. and the individual companies involved for their permission to use the Gosselin data.

¹⁸ All market share data are based on the dollar value of new prescriptions as reported in R.A. Gosselin *NPA*. It is based on a sample of retail pharmacies and therefore does not cover all methods of distribution and administration of patients. Consequently, results using more complete data could vary somewhat.

Table 2 Basic Information About the Various Single Entity Diuretics Introduced Since 1953

Subclass/Brand	Producer	Date of Introduction
<i>Carbonic Anhydrase Inhibitors</i>		
Diamox	Lederle	1953
Cardrase	Upjohn	1957
Daranide	MSD ^b	1958
Neptazane	Lederle	1960
<i>Amisometradines</i>		
Mincard	Searle	1954
Mictine	Searle	1956
Rolicton	Searle	1956
<i>Thiazides and Related Compounds</i>		
Diuril	MSD ^b	1957
Esidrix ^a	Ciba	1959
Hydrodiuril ^b	MSD ^b	1959
Oretic ^a	Abbott	1959
Bristuron ^a	Bristol	1959
Naturetin ^a	Squibb	1959
Enduron	Abbott	1960
Metahydrin ^a	Lakeside	1961
Naqua ^a	Schering	1960
Ademol	Squibb	1960
Saluron	Bristol	1960
Aquatag ^a	Tutag	1960
Exna ^a	Robins	1960
Anhydron	Lilly	1963
Renese	Pfizer	1961
Hygroton	Geigy	1960
Hydromox	Lederle	1962
<i>Potassium Conserving Compounds</i>		
Aldactone	Searle	1960
Aldactazide	Searle	1962
Dyrenium	SK&F ^c	1964
Dyazide	SK&F ^c	1965
<i>Fast-Acting Compounds</i>		
Lasix	Hoechst	1966
Edecrin	MSD ^b	1967

Footnotes: a. At least one other brand of the same chemical entity involved in this product was marketed.

b. Merck, Sharp & Dohme

c. Smith, Kline & French

pharmaceuticals, they should provide important insights into the nature and effect of the Follow-on Development Process and the conditions under which it or the CPPC appears as the more relevant hypothesis.

Pre-marketing experience

The expectation based on the CPPC, as discussed above, is that outside firms will not commit any resources to the development of

Table 3 Pre-Marketing Experience in Diuretics: Known
Analogues Developed and Marketed by Companies
Which Did Not Market the Breakthrough, by Subclass

Subclass	Minimum Number of Analogues Developed	Number of Single Entity Follow-ons		Cost of Resources ^a (millions of \$)
		Chemical Entities	Brands	
Carbonic Anhydrase Inhibitors	5	2	2	na
Thiazides and Related Compounds	165 ^b	11	15 ^c	na
Potassium Con- serving Compounds	12 ^d	1	1 ^e	\$3.4
Fast Acting Diuretics	2	1	1	na
TOTAL	175	15	18	\$3.4

Source: Bernard A. Kemp, *The RDTEM Process: The Pharmaceutical Industry's Way Around Patent Barriers (as applied to diuretics)* (Philadelphia: 1971), pp. 62-76.

Footnotes: na Information not currently available.

- a. These data are incomplete. The quantity presented is only the amount that can be currently documented.
- b. One hundred fifty-six were developed by one firm alone. The number of additional thiazide analogs that were developed by the 12 other successful companies and by those who were unsuccessful is unknown.
- c. In addition, there are 28 additional thiazide combinations not produced by Merck which use these single entities.
- d. SK&F developed 11 of them.
- e. Two other important potassium conserving follow-ons are combination products; one produced by Searle, which marketed the breakthrough, and one by SK&F, which marketed the follow-on single entity.

follow-ons during the period of patent protection and none will be developed. But even the incomplete data available on the diuretics show a very different pattern of firms' behavior.¹⁹ (See Table 3). While there are wide differences among subclasses, the results are consistent, in that within each subclass additional entities were developed and marketed by companies which did not produce the breakthrough. Developing follow-ons required resources. Even if we consider only the eighteen brands of the fifteen single entity follow-ons which reached the market, we may estimate the cost of the resources involved as almost \$23 million.²⁰ More resources,

¹⁹ For a more complete discussion and documentation see a recently completed study by the author, entitled *The RDTEM Process: The Pharmaceutical Industry's Way Around Patent Barriers (as applied to diuretics)* (Philadelphia: 1971). Copies of the study are available.

²⁰ The post-1962 cost is based on Clymer's minimum estimate of the allocated cost incurred before a product can reach the market, \$2.5 million. (Cooper, Ed.,

perhaps many more, were involved in the development of the 29 combination products which were marketed by outsiders and the undisclosed additional products whose development was terminated before they reached the market. For example, one company alone developed 156 thiazide analogs and eventually directly or indirectly marketed only two of them.

Post-marketing experience

The first indication of success of the Follow-on Development Process is its effect on competitive structure—on the number of chemical entities, of brands and of companies. The experience in diuretics was quite different from that expected under the conventional view. (See Table 4). In each subclass, at least one additional single entity brand was introduced by outsiders; in thiazides there were fifteen. The follow-ons which were marketed only had a minimal effect on the market shares in two of the subclasses—carbonic anhydrase inhibitors and fast-acting diuretics. But they had a marked effect on physicians' prescribing patterns and on market shares for the other two. The follow-ons came on the market soon after the breakthrough—1 to 4 years. (See Table 5). The number of brands remained relatively constant. Over time, however, there were marked changes in the relative importance of the breakthroughs and the follow-ons.

Within each type, the follow-ons present the physician/patient with differentiated therapeutic options. In some cases they are slightly differentiated; in others, not so. For example, hydrochlorothiazide is produced by three companies under three brand names, presumably by the same process of production resulting in equivalent potency, absorption and attained blood levels. On the other hand, for the potassium-conserving compounds and for fast-acting diuretics, the somewhat different therapeutic properties of the follow-on has been documented in careful pharmacological studies. Yet the follow-on is sufficiently similar to the breakthrough to be included in the same subclass.²¹

These changes in market structure led to, or were associated with, secondary changes in the pattern of rivalry, in the firms' market conduct, and in market performance, which are quite different from those which are likely if there is a single-firm patent

loc. cit., p. 117.) The pre-1962 cost estimate is assumed to be \$1.0 million. According to Clymer clearance now takes 3-4 times the time. (*Ibid.*, p. 110).

²¹ Practically speaking, it is at this point in the research, development, marketing and promotion process that Comanor's emphasis on product differentiation comes into play, because typically the pharmacological activity of different chemical entities cannot be predicted beforehand.

Table 4 Post-Marketing Experience in Diuretics: Number of Single Entity Follow-On Brands Marketed and Their Market Share in 1969, by Subclass

Subclass	Share of the market, 1969			
	Number of follow-on brands marketed			of single entity follow-on products marketed
	by break-through company	by outsiders	of break-through	
Carbonic Anhydrase Inhibitors	1	2	97.9%	0.0% 2.1%
Fast Acting Diuretics	0	1	90.9	— 9.1
Thiazides and Related Compounds	1	15	27.2	25.2 40.9 ^a
Potassium-Conserving Compounds	1 ^b	2 ^b	11.6	40.3 48.1

Source: Bernard A. Kemp, *The RDTEM Process: The Pharmaceutical Industry's Way Around Product Patent Barriers (as applied to diuretics)* (Philadelphia, 1971), Tables IV-5, IV-6, pp. 72 and 75, and table on p. 73.

Footnotes: a. The combination products make up the remaining 6.7 percent.

b. The two potassium conserving-thiazide combinations are treated as single entity products.

Table 5. Speed of Introduction of Follow-On Diuretics Marketed by Outsiders, by Subclass

Subclass	Year introduced	No. of years to first follow-on	No. of follow-ons 5 years after introduction of the breakthroughs	
			Brands	Compounds
Carbonic Anhydrase Inhibitors	1953	4	2	2
Thiazides & Related Compounds				
Single Entities	1957	2	15	11
Fixed Combinations ^b	1960	1	25	19
Potassium Conserving				
Single Entities	1960	4	1	1
Combinations with Thiazide	1962	3	1	1 ^a
Fast Acting	1966	1	1 ^c	1 ^c

Source: Bernard A. Kemp, *The RDTEM Process: The Pharmaceutical Industry's Way Around Patent Barriers (as applied to diuretics)*, (Philadelphia: 1971), Table IV-6, p. 75.

- Footnotes: a. The same companies produce combinations as well as single entities.
b. Three others dropped out of the market, one before the first five years were over.
c. For fast-acting diuretics, the information for the first four years after their introduction was used.

monopoly. Rivalry within each subclass takes the form of elaborate and expensive techniques for discovering the nature of other firms' research activity; market research activity about rival brands; surveillance of their advertising campaigns, especially in the medical journals; monitoring changes in sales; and promoting a company's own brand over a rival's. In part, the failure of follow-ons to take a larger share of the market away from the breakthrough company may be due to the promotional activity of the breakthrough company and the difficulty of overcoming the "first of a type" syndrome. In one case—fast acting diuretics—the company which introduced the breakthrough, Hoechst, was new and "small" in the U.S. market, although not internationally, but its successful promotion campaign enabled it to obtain and maintain its market position. Some of the resources required for competitive activity are used to discover and counteract the effect of rivals' promotional strategies, but in other cases, as in the instance of the potassium-conserving compounds, "competitive" rivalry led to improved understanding, by both physicians and pharmaceutical manufacturers, of the modes of action, therapeutic properties and side effects of drugs which were on the market previously.

The results for two performance variables—output and

prices—and, by implication, for profits, were also markedly different from the conventional view. Assuming the factors affecting demand and market price are constant, the expected sales pattern for the breakthrough product, and consequently for the subclass under the conventional view, is: a peak in sales shortly after the introduction of the breakthrough as physicians become aware of and try the new drug; a slight decline to a constant sales level as they integrate it into their patterns of treatment; and then a more marked decline when and if new subclasses are introduced.²² But this pattern was reasonably approximated in only one of the four cases—carbonic anhydrase inhibitors; in each of the other cases, sales for each subclass of diuretic increased markedly. The average annual rate of increase ranged from 146 percent for the potassium-conserving diuretics to 2150 percent for the thiazides, and these increases occurred in spite of the fact that two new and important subclasses of diuretics were introduced after the thiazides—the potassium-conserving and fast acting compounds—and one new one after the potassium conserving diuretics were marketed.

Price Factors

The predominant expectation in these markets, either as a single firm monopoly or as oligopolies, is for price stability, especially for published prices. That is just what occurred. For 19 of the 25 single entity brands—17 thiazides or related compounds, 4 carbonic anhydrase inhibitors, 2 potassium-conserving compounds and 2 fast-acting diuretics—*Red Book* prices did not change from the date they were introduced through 1969. In all, 207 product-years were involved, and there were only nine price changes affecting six brands. This is an average of one change every 23 product-years—remarkable price stability.

Admittedly, these conclusions about price stability are based on list prices at the manufacturer-retailer level. And it is well known that they do not necessarily reflect the level or variation in actual prices. It is, however, the only publicly available price information.

The introduction of follow-ons, however, provides the physician/patient with therapeutic and price options when prices are not uniform that would not be available under the conventional view. These options make it possible for the physician to prescribe and the patient to receive equivalent therapy at marked price reductions. In our analysis, we can only make price comparisons for the thiazides and the potassium-conserving diuretics, because

²² McKie, *loc. cit.*, p. 9944.

they are the only subclasses for which potency equivalents could be determined.²³ *Red Book* prices in 1969 for fourteen brands of thiazides or related compounds based on equivalent potency are given in the following table. Even though the most typical price to the pharmacy was \$6.00, equivalent therapy at lower cost could be obtained if the physician prescribed one of the lower priced follow-on brands. Similar market price differences for equivalent therapy exist among the potassium-conserving compounds, as well.

Price to the Pharmacy (\$/bottle of 100s)	Number of Brands
\$8.25-\$8.75	1
.	.
.	.
.	.
6.25- 5.75	6
5.75- 5.25	2
5.25- 4.75	4
4.75- 4.25	1

Even keeping patient-to-patient differences aside, authorities differ on the potency equivalent for a number of thiazides, and these differences have a marked effect on price comparisons. It is difficult to determine potency equivalents even for those products, like the thiazides, which are considered basically the same. These difficulties add to potential price variation. Consequently, even though prices are stable, the development of follow-ons provides physicians therapeutic options and significant price differences that they would not have in a one-product market. If the published price results reflect actual prices, and if the lower prices are known and taken advantage of by physicians, patients could get lower prices and cost savings for equivalent therapy. However, for whatever the reason, the market share data indicate that in practice physicians have not typically taken advantage of the lower-priced options.

There is no direct evidence of the effect of the introduction of follow-ons on the profits within each subclass. However, the increase in sales and market share for the fast-acting and potassium-conserving diuretics is evidence of increased, rather

²³ *Red Book* prices do not fully reflect differences in the channels of distribution or corporate discount policies. Consequently even these published prices may not be directly or appropriately comparable.

My thanks to Dr. Marcus Reidenberg, Associate Professor of Clinical Pharmacology, Temple University School of Medicine, for his help in determining equivalent potency.

than decreased, profitability as a result of, or concomitant with, the introduction of the follow-ons. The decrease in market share for the other two subclasses does not necessarily indicate declining profitability in such rapidly expanding markets. Instead, there is some evidence that the producers have simply redirected their research efforts toward different, and potentially more profitable, new products.

Summary

For each of the four types of profitable patented diuretics, the Follow-on Development Process describes and predicts the behavior of the manufacturers better than the conventional patent protection concept does. For each subclass, the producing firms committed resources during the period of patent protection in an attempt to develop follow-ons. And for each subclass, one or more firms were successful in developing and marketing follow-ons which led to a decline in the share of the breakthrough product; in two cases, that decline was moderate or marked. Within each subclass, moreover, the follow-ons provided physicians and patients with additional, somewhat differentiated therapeutic options which would not be available in one-product markets.

These changes in market structure led to, or were associated with, an increase in output in three of the four subclasses. And while they do not appear to have led to published price reductions—published prices were remarkably stable—they did make it possible for the physician to provide his patient with equivalent therapy at a lower cost. Apparently, firms have responded to the changing potential profit picture in these patented diuretics by adjusting the amount of resources they commit to the development of additional patented follow-ons.

There are strong indications that the experience in diuretics was repeated in other classes of therapeutic agents as well. The preliminary indications are that the Follow-on Development Process was also working in corticosteroids, oral antidiabetics, tranquilizers, patented broad spectrum antibiotics,²⁴ and in many other classes of therapeutic agents as well.²⁵ Apparently a one product-one firm market does not exist in any of them and, in many cases, the market structure has changed dramatically.

²⁴ Steele, "Patent Restrictions . . .," *loc. cit.*, pp. 1976-1995.

²⁵ Arthur D. Little, Inc., "A Report on the Aspects of Concentration and Product Obsolescence in the Pharmaceutical Industry in the United States," *Hearings on the Drug Industry Antitrust Act*, *op. cit.*, pt. 4, pp. 2519-2523.

VII. The Socio-Economic Implications of the Follow-on Development Process

There are two primary differences between the Follow-on Development Process and the conventional view:

1. The Follow-on Development Process directs the flow of resources into profitable markets in spite of patent protection, in a manner which is similar, but not identical, to what would occur in the absence of the patent.

2. It leads to a wider variety of product options for the physician/patient.

These two primary differences have a number of important secondary effects which are primarily beneficial, but there are some actual and potential costs, as well.²⁶

Benefits

The potential secondary socio-economic benefits from the successful operation of the Follow-on Development Process in the drug field are:

- It reduces the market control of the original patent holder.
- It spreads the profits, which are the rewards for successful research and development, among a number of firms rather than giving them to just one.
- The introduction of follow-on drugs in the same subclass is more likely to lead to a better understanding of the uses of the new drugs, to more physicians being informed about them, and to development of additional uses.
- The rivalry from the larger number of producers of the same subclass of therapeutic agent could lead to greater "competitive" effort in producing and marketing of new subclasses of drugs, and in developing better drugs of the same subclass and perhaps even at lower prices.

There can also be some much-touted potential spillover benefits from serendipitous development of drugs for the treatment of other diseases or conditions. History shows they occur.²⁷ However,

²⁶ One additional factor which influences the socio-economic evaluation of the practice is the timing. The earlier in the life of the patent the follow-on products are introduced, the longer those potential benefits have to run, thereby offsetting the extra resource cost.

²⁷ For an excellent discussion of the interrelatedness of drug development, see Fred W. Schueler, Ch., *Molecular Modification in Drug Design*, Advances in Chemistry Series No. 45 (Washington, D.C.: American Chemical Society, 1964). For example, research on the antibacterial sulfonamides led to the carbonic anhydrase inhibitors, which led to the thiazides, which led to an understanding of electrolyte

the existence of this potential, and maybe even important, unpredictable side benefit does not imply that it is costless or that the benefits, even if they are realized, are worth the cost.

Costs

The primary social cost of the Follow-on Development Process is the resources involved in the research, development, testing, evaluation, and marketing of follow-ons. Moreover, under some circumstances firms can use the conditions associated with this practice to further their own interests, at some cost to society. One of the potential social costs is that the increase in rivalry which comes when there are few sellers in the market, especially if it is intense, may lead to practices which limit its social advantages—for example, excessive “competitive” promotion and advertising.

It has been argued that the development and patenting of analogs *by the firm that produced the breakthrough* has been used to foreclose the market to rivals, and insulate it from market pressure. When contrasted with the option of a single firm patent monopoly over the life of the patent, however, this argument takes on a different light. If a single firm is the alternative, any entry, even if the additional firms must surmount additional barriers posed by the existing firm, brings with it the advantages of multifirm rather than single-firm operations. The only *caveat* is that the extra R&D expense of the “monopolist” involved in raising the barriers to entry increases its costs as well.²⁸ It is true, however, that if the firm which developed the breakthrough did not develop, patent, or market other analogs of the same type, there could be more room and lower cost barriers for potential rivals.

It has also been argued that large established firms with large R&D departments and extensive sales forces can develop and market products of the same type and take over the market for new products developed by small firms.²⁹ But even if the assertion is correct, it is not self-evident that, from a socio-economic view-

imbalance, far removed from the treatment of bacterial infection. Moreover, thiazides proved useful in the treatment of hypertension.

²⁸ The pharmaceutical companies contend that the objective of additional research and development activity is to improve the product and to have an alternative if undesirable long-term or low-frequency side effects develop. Regardless of the objective, this activity has the effect of increasing the barriers for potential entrants unless the analogs are licensed.

²⁹ There is no reason to believe that the patent system, as it is currently constructed and interpreted, is designed to protect the small firm exclusively. It is nominally designed to protect the individual, or the firm which develops a new and novel product or process, large or small.

point, it is superior to have one firm producing the therapeutic agent even though, prior to its entry, it was small, rather than to have a number of firms, one or more of which is a large, established firm in some other class of therapeutic agents.³⁰

Follow-ons increase product options during the period of patent protection and afterwards as well. Consequently they provide the physician with a greater latitude for choice. But the increase in options is of no value to the physician unless he is aware of them, and does not affect the market unless he prescribes them. The pharmaceutical manufacturers must therefore expend some of their resources to inform the physician and to promote their products. Moreover, the mere existence of new therapeutic options is not costless, because it requires the physician's time and resources to learn about them and to integrate them into his understanding of the disease or condition to be treated.

In general, additional therapeutic options which give the physician a larger menu from which to select the drug-of-choice are a socio-economic benefit. It is conceivable, however, that one drug of a type would be better than a number, especially if the rivalry increases the cost and price without any corresponding increase in physician information. But that would be difficult or impossible to know beforehand. Moreover, it is not clear who would make the judgment and prevent other drugs of the same type from coming on the market.

The development and marketing of additional drugs of the same subclass require the use of research and testing facilities, and it has been argued that those resources would be better used to develop drugs of a different type. This is a social cost. However, since there are potential benefits from follow-ons, it is not self-evident that the net socio-economic benefits would be greater if the resources were committed to the development of drugs of a different type.

Net Effects

The foregoing are secondary potential social benefits and costs from the Follow-on Development Process which are not available under the conventional view of patent protection. A better understanding of the net socio-economic effects in the drug industry can only be obtained from an examination of other individual classes of

³⁰ In diuretics, all the companies which introduced breakthroughs were large. The smallest one, Searle, had sales of \$133 million in 1969. On the average, the companies which produced the follow-ons were smaller than the one which produced the breakthrough.

therapeutic agents, like diuretics, but data are not presently available.

It is important to recognize that the Follow-on Development Process is the logical consequence of an individual firm's responses to the profit motive, current patent policy, and existing market conditions. Therefore, unless these underlying factors change, or unless the individual decisions of firms on where to commit their resources are circumscribed in some way, the firms will continue to behave as they have, and the socio-economic consequences will be whatever they are.³¹ Policy-makers who neglect these forces do so at a potential risk of instituting bad policy.

VIII. Conclusions and Policy Implications

There is good evidence, both direct and circumstantial, that the Follow-on Development Process describes the drug industry's activity in the development and marketing of additional drugs of the same subclass. When the breakthrough is profitable, outside firms do commit resources during the period of patent protection in an attempt to develop follow-ons. (See Table 1.)

The process was successful, for diuretics as a class, more for some subclasses than for others. The preliminary measures of success for the diuretics are the large number of analogs that have been developed, the number of follow-ons, and the speed with which they came on the market. In the case of the diuretics, however, the Follow-on Development Process must be considered to be somewhat less successful when evaluated in terms of the erosion that the follow-ons caused in the market position of the breakthrough firm. Its success on market performance is more speculative, mixed, and suffers from a lack of information. In that context, however, in three of the four subclasses analyzed here, the output for each subclass increased markedly; prices changed little; profits did not decline as much as expected; a number of new, differentiated therapeutic and price options were developed; and in some cases, rapidly adopted.

Setting aside the question of whether the Follow-on Development Process is desirable from a socio-economic viewpoint, there is no question that it is working in the sense that, through it, re-

³¹ Other corporate policies are possible, and they may include overt attempts to prove a patent invalid. In one sense, the CPPC is at one end of a continuum based on the amount of resources committed to the development of follow-ons, and the Follow-on Development Process includes all cases in which *some* resources are involved.

sources are directed into the development of follow-ons, and meaningful therapeutic options within the same subclass of therapeutic agents have been developed, marketed and sustained by physicians' prescriptions and by patients' purchases.

Moreover, the Follow-on Development Process describes this phase of the industry's activity better than the conventional patent protection concept (CPPC), which would have it that no resources are committed by outside firms in an attempt to develop new drugs of the same subclass during the period of patent protection. The fact that, for some subclasses of diuretics, the structural or performance effect was more limited, and the results more closely approximate those expected under the CPPC, indicates only that the Follow-on Development Process was not as successful in those subclasses, not that it was not operating.

The pattern of market conduct described by the conventional view of patent protection is a behavioral option which is open to the firms. However, it is one which many have not chosen to adopt. Consequently, from their viewpoint, at least, expected benefits from the Follow-on Development Process must be worth the extra cost involved and, since they continue to engage in the practice, actual benefits probably exceed the cost. Moreover, in diuretics the unexpected, and probably unrecognized, sizable spill-over effects led to larger benefits than could reasonably have been expected. This does not necessarily prove that from a socio-economic viewpoint the Follow-on Development Process is better than the practice implicit in the conventional view, or that the Follow-on Development leads to net social benefits. All that can be said analytically at this juncture is that the value of the resources committed to the practice involves a social cost, the magnitude of which is presently unknown, and that in diuretics the successful implementation of the practice has led to market and socio-economic benefits which would not be available under the conventional view of patent protection.

In spite of almost universal criticism, the twin practices of so-called Molecular Modification and Me-Too-Is in the drug industry take on a very different light in the context of the Follow-on Development Process. They no longer need to take second place to "new product development," nor must the marketing of the resulting follow-ons "lead to problems for the company," certainly not from political or social pressure.³² The practices are, in fact, an

³² Knoppers, *loc. cit.*, p. 252.

integral part (1) of the firm's technique for entry where entry with undifferentiated products is precluded because of patents; (2) of the industry's competitive response; and (3) of the socio-economic resource allocation process.

Moreover, unlike the conventional patent protection concept, the Follow-on Development Process responds to the market signals of profit differentials. Consequently, corporate and government policies, practices and procedures which reduce the profitability of follow-ons are likely to have unrecognized and undesirable anticompetitive side effects. There are a number of corporate and government policies which probably have or have had this effect. The corporate policies include the decision not to market Me-Too drugs which were developed, refusal to license other companies even at a reasonable royalty, and refusal to sell information on research, development, clinical testing, and production to other firms in order to delay their entry. In addition, if the spill-over effects which occurred in the diuretics market are prevalent elsewhere, these policies could have led to a reduction in the company's own profits as well. The government policies include the 1962 Drug Amendments Act and FDA practices which slow up the clearance of follow-ons. In part, however, these delays must be recognized as due to the limited resources which are made available to the FDA.³³

The foregoing brief study shows that a more careful and analytical examination of the likely implications of alternative corporate and public policies beforehand would probably have revealed important, unrecognized and undesirable side effects. Moreover, a re-examination of old policies in the light of new theories, of evidence which was not available at the time the policy was adopted, and of an improved understanding of industry operations, is a prerequisite for improved policies. Society takes the consequences of the undesirable effects of *ad hoc* policies, including inaction, even when those effects are unrecognized or unrecognizable.

³³ For a more detailed examination of the policy effects see Kemp, *op. cit.*, pp. 107-112.

THE FRANCIS W. DAVIS RESEARCH PROGRAM

At a brief ceremony on September 11, 1974, Francis W. Davis, of Belmont, Massachusetts (see the following article) donated \$500,000 to the Franklin Pierce Law Center, which established a Research Program in his name. On the occasion, Dr. Davis (ScD.hon., Franklin Pierce College), made the following brief comments:

It gives me a great deal of pleasure to see the phenomenal development and growth of the Franklin Pierce Law Center here at Concord, New Hampshire, and to realize that America has, at last, one interdisciplinary law-science research center concerned with the role of the inventor in today's society. I am, as you know, a recipient of an honorary degree from the College.

Almost a year ago, when the Law Center was being launched under the leadership of my close friend, Dean Robert H. Rines, I gave a lecture here in Concord to the first-year law students, covering my struggles to persuade the automobile industry to adopt my invention of power steering. I sincerely hope that your efforts will result in making the path of the American innovator of the future easier and rewarding.

To help in that and the other endeavors of the Law Center, it is my honor to dedicate the Francis W. Davis Research Program to be conducted at Concord, New Hampshire, and elsewhere, and to donate Five Hundred Thousand Dollars (\$500,000) to the Franklin Pierce Law Center for the sole use of the Law Center and its successors, and to be administered solely by Dean Robert H. Rines, including but not limited in such use to sponsorship of joint research, facilities, and other activities with the Academy of Applied Science of Boston, which has been so instrumental in helping launch the Law Center, and of which I am a member of the Board of Governors . . .

The History of Power Steering— Some Personal Observations

FRANCIS W. DAVIS*

It is a pleasure and high honor to be here today to talk to you on The History of Power Steering. I have been connected with the automobile industry for a great number of years, and I believe that my experience in the field of engineering and patents will be of interest to you.

Before giving you any details of my experience in this field, however, I would like to quote from an article written some time ago by Daniel V. DeSimone, then Director, Office of Invention and Innovation, National Bureau of Standards.

We have explored some of the challenges that confront the independent inventor as he travels his long and difficult journey. He must be an iconoclast, challenging the accepted way of doing things; yet he must be a winsome advocate for the disruption he proposes. He must persuade others that he has what they have been waiting for; but they probably haven't been waiting at all. He

* Mr. Davis, who holds more than 40 U.S. and foreign patents, is credited as "The Inventor of Power Steering." A graduate of Harvard College (Mechanical Engineering, 1910), he was associated with the Pierce-Arrow Motor Car Company from 1910 to 1922, and has been a consulting engineer since then. In 1972, he received the degree of Doctor of Science (hon.) from Franklin Pierce College.

This paper is adapted from a talk given at the Franklin Pierce Law Center on November 3, 1973, in conjunction with the PTC's Fall Conference on Future American Trading in the EEC—see IDEA, Vol. 16, Conference Number.

must overcome the skepticism of potential sponsors as to the workability of his invention; and he is unusual if he can convince them that the inevitable defects are merely the rough edges of early development, soon to be smoothed away. And if he really has a winner, he must ward off imitators at every corner. In short, he must fight one battle after another, and the chances of ultimate triumph would get him fifty-to-one odds at Monte Carlo. If he fails, society loses nothing. But if he wins, society benefits handsomely. He ought, therefore, to be encouraged, not repressed. Society ought always to be solicitous about giving him the opportunity to spread his wings.

History

I joined the Pierce-Arrow Motor Car Co. in Buffalo, New York, in 1910 and was with them twelve years, ending up as Chief Engineer of the Truck Division.

In World War I, in the teens, we were shipping a great number of five-ton capacity P.A. trucks to England, and then to France. The English agents for the P.A. trucks sent the two Perry brothers over to Buffalo. One was in the Sales Department and the other was in the Engineering Department. The latter was put in my charge, and during the two months of his visit, I showed him the service and repair problems he would be faced with.

Unfortunately, on their return to England, the two brothers sailed on the *Lusitania*, which was torpedoed and sank off the coast of Ireland; 1198 people were killed, including my Perry friends.

Two weeks later, Mr. H. Kerr Thomas, Assistant General Manager of the Pierce Arrow Co., called me in his office and showed me a cable from the English War Office and Admiralty, saying, in effect: "Please send a capable engineer over to take Mr. Perry's place." I said I would go under two conditions, and Mr. Kerr asked me what they were. I said first I wanted a ten thousand dollar life insurance policy on myself, for the benefit of my mother and father in case I didn't come back, and second I wanted my salary raised from *here* to *here*, about *four* times. He said, "Get ready to go!" I spent just under one year—1916—in England and France, and during that time the Pierce-Arrow Co. shipped over a great number of five-ton trucks, which did very well.

I left the Pierce-Arrow Co. in January 1922, located in Belmont, Mass., and set myself up as a consulting engineer in the motor truck field. I also acquired an office and shop in Waltham, Mass. and hired George W. Jessup, formerly Chief Engineer of Metz Motor Car Co., an expert draftsman, tool maker and machinist, who was with me 25 years.

In 1924, I patented: "The Davis Steering Gear Coupling" and manufactured and sold several hundred to Pierce-Arrow owners. It worked very well, and reduced the noise and vibration in the steering column. The car owners liked it, but said "It doesn't go far enough," and that started me thinking about power steering for autos and trucks.

By 1925, I had hydraulic power steering in my 1921 P.A. Runabout, and I had my patent lawyers (Wright, Brown, Quimby and May, of Boston) apply for patents on my steering gear after I had introduced the principle of using an open center valve. We searched the Patent Office, and found that several patents had been granted on power steering, using several approaches—electric; vacuum; compressed air; mechanical (clutches); and hydraulic (closed center valve)—but none using an open center valve.

When we first drove my Pierce Arrow car with my power steering system, there was no feel when you turned the steering wheel. You could turn it with your little finger, and there was no reaction on the wheel. Then I applied for a patent on centering springs. Then I followed that with patents on hydraulic reaction, to give the driver a feel of the highway. I held off having these patents issued as long as I could, but finally the Patent Office said—you must have your patent issued or give it up. My first patent in this field was No. 1,790,620, Hydraulic Steering Mechanism, filed in 1927 and issued in 1931. The spring centering of the valve was patented in 1932, and the hydraulic reaction on the valve in 1933. My latest patent in the power steering field was issued in 1958, and I am still collecting royalties on that one.

Detroit

I first showed my Pierce-Arrow car with power steering to the automobile industry in the Detroit area in 1926. Mr. Jessup was with me, and we arrived in Detroit on October 20. We were there ten days, we called on ten companies, and out of 25 individuals we interviewed, most of them drove my car. There were all greatly pleased with it, and some made suggestions regarding the fast steering ratio, and the capacity of my hydraulic pump for parking the car. Consequently, we changed the steering ratio to 18 to 1, and also increased the capacity of the pump.

I was aiming at the Cadillac Co. of General Motors, and on one of my numerous trips to Detroit they asked to borrow my car for a couple of days. When I went out to the G.M. building a couple of

days later, to pick up my car in the basement garage, I noticed that the small Yale padlock was missing from my spare tire. I asked the serviceman what happened to my tire lock? He smiled and then said, "The G.M. engineers wanted to try the 'shot-gun test' on your car." When I asked what it was, he told me.

They fasten a shot-gun shell to the right front fender in a unit that points the shell at the front tire. The unit has an electric battery, and the shell can be fired by the man sitting alongside of the driver by pressing a button. The driver doesn't know when his friend is going to push the button. They go round and round the test track, and suddenly "bang," and the tire explodes and the driver, normally without power steering, would have to be strong and alert to avoid an accident. But with power steering, they reported that the car was under perfect control. They put their own tire on the right front wheel, and that's why they broke the lock—to change tires.

General Motors (The Cadillac Co.) wanted to take an option for one year so that they could build a power steering unit in their own factory, and run some tests to make sure I hadn't withheld some of the details. I agreed to this, and they paid me for the option. Also, they paid expenses to have Mr. Jessup come out to Detroit and Saginaw to help them design and build a power steering unit in their own factory. Then, at the end of the year, General Motors indicated that they wanted to sign up a License Agreement and start in the power steering field on their Cadillac cars.

I insisted on a license that would give me a good down payment, a minimum royalty per annum, and a graduated schedule of royalties depending on the number of units sold. The contract was about one quarter of an inch thick, with a great number of variations and options.

On the day when the agreement reached the G.M. Patent Department, I arrived at the office about 1 p.m. and was greeted by the head of the Patent Division and his assistant. The agreement was taken up to the office of the Vice President and General Manager, and the word came back that he wanted a slight change in the wording. I agreed, and the Agreement went back up, but it appeared they wanted another small change! This continued for a good part of the afternoon, until I realized that they would never stop as long as I was willing to accept the changes.

The next time another small change was suggested, I said I was sorry but I would not accept any more changes. So I left, went back to my hotel, had supper, and started to pack up my clothes, when

the telephone rang. It was the head of the Patent Division, who told me they had all agreed to accept my agreement. So I stayed overnight, went out there about 9 the next morning, and got my check and the contract. I learned a good lesson from all this!

General Motors used to have an annual testing of all its new products at Milford, the proving grounds outside of Detroit. They had designed power steering units for one of their buses and also for the Cadillac car, and were going to test them at Milford. I went out there to answer any questions regarding power steering. Late in the day, I saw four men get into the Cadillac and take it for a test drive on the different test runs at the proving grounds—steep hill, rough pavement, through water one foot deep, and finally around the high speed track.

They brought the car back, and one of the passengers went up and looked under the left front fender to see if any of the power steering mechanism was exposed to the elements along the highway. He called me over and pointed to the drag-link, which connects the Pitman arm on the steering gear to the arm on the left front wheel. The Pitman arm had a slight bend so as to clear the left front wheel when making a sharp left turn, and I could see daylight part way across the bend. We called a mechanic and he disconnected the drag link and broke it over his knee! The Lord was with us, because if the drag link had broken during the test run, one or all of the passengers could have been killed or severely injured. The Power Steering unit would have been blamed, and it could have set us back many years. Nowadays, we don't use drag links with any bends, because the extra strain, with power steering, would be unsafe.

In 1933, the Cadillac Co. was ready to add power steering to its cars, but we were in a great depression at that time, and they thought they would be able to sell no more than 1000 cars in one year. So, since the tooling cost was considerable, the Cadillac Co. turned down power steering, and I received a letter saying that General Motors would exercise its right to cancel the power steering license agreement dated Jan. 1, 1931, at the close of the second calendar quarter of 1934.

Two years later, in 1936, I signed a license agreement with the Bendix Corporation, at South Bend, Indiana, and I am still licensed to Bendix Brake and Steering Division. Bendix interested the Buick Division of General Motors in power steering, and they signed an agreement and built and tested several units and were ready to announce power steering when Pearl Harbor, in Hon-

olulu, was shelled and blasted by the Japanese. America started in World War II, and the manufacture of passenger cars was stopped.

In World War II, General Motors (Chevrolet Division) manufactured U.S. Ordnance Department Armored Cars Model T-17E1 with power steering licensed under Davis patents. Also the Tank Recovery Units T21, and the Ross Model 780 used power steering units under Davis patents; a total of about 10,000 units was used in World War II. The units worked very well, there were no serious service problems, and I picked up royalties on all these units.

After World War II, both Davis and Bendix thought that the industry was ready for power steering for both passenger cars and trucks. Davis was asked to present a paper on the subject at the S.A.E. War Engineering Annual Meeting in Detroit on Jan. 9, 1945. The title of the paper was "Power Steering for Automotive Vehicles," and in my paper I showed a drawing of an oil pump with a supercharged intake, using the Venturi meter principle to change static pressure to velocity and back again. Using this principle, I designed and built a rotary hydraulic pump with gear teeth at an angle, and the teeth of the gears shaped to give uniform flow from the pump.

In the early 1930's, I put this new oil pump in a car with power steering. Before that, I had used a fluid booster arrangement, with the pump mounted on the electric generator, which ran at $1\frac{1}{2}$ times engine speed; at 50 mph a lot of noise was evident, due to cavitation at the intake. Then we tried the supercharged intake, and the noise disappeared, up to the top speed of the car. I figured the new pump was rotating at approximately 6,000 rpm.

When my Patent No. 2,251,64 for the new oil pump (issued in 1941) had about a year to run, General Motors started using pumps using this principle, essentially, although there was a slight variation in the hydraulic circuit in the pump discharge. After a lot of hassle with General Motors I decided not to take the matter into the courts, but at a later date I was doing some consulting work for General Motors in their Patent Division, and the new oil pump was mentioned, and one of the men spoke up. He said: "Davis, we figured you had us over a barrel with your patent!"

The automobile industry appeared to be holding back on power steering units, and about 1948 there was a conference to discuss its future. They said there were *three reasons* why they were not using power steering:

1. There was nothing competitive on the market.

2. There still might be some serious service problems, although none had shown up in the 10,000 Army vehicles that used power steering during World War II.
3. We are selling all the cars and trucks we can make!

The market changed in 1951, and the Chrysler Co. announced power steering available in its cars, using some of the Davis patents that had expired, together with a complicated way to move the valve.

So General Motors realized that power steering was finally coming on the market, and they had a conference with the Bendix Corp. to plan for Bendix to produce half of the power steering units for General Motors. At first, the validity of the Davis patents was questioned, and they called in the former head of the G.M. Patent Department, with whom I had first negotiated. He had retired, but was still living in the Detroit area. His advice was: "I have known Davis for a number of years, and in my opinion you have a moral obligation to respect the Davis patents." He put on his hat and walked out, the agreement was signed, and General Motors announced power steering on its Cadillac cars.

Power steering units are on most of today's automobiles, except for the small cars. The production increases each year, and runs in the high millions. I had lunch two years ago (1971) at the Annual S.A.E. meeting in Detroit with Henry Smith, who is Chief Engineer of the Saginaw Steering Gear Division of General Motors. I said, "Hank, how many power steering gears are you turning out at Saginaw?" He said, "We are making slightly more than 20,000 units a day." Power steering units are manufactured by a number of other companies in the U.S.A. and by foreign companies as well.

The Inventor and the Government

Production of power steering units started immediately after 1951, and increased very rapidly. Davis was picking up a good royalty and, after a year or two, he was paying his regular income tax, but holding out on the power steering and paying capital gains tax.

The government was re-writing the income tax laws at the time, and Davis appeared before the Senate Finance Committee to argue his tax question. Davis had lived in Colorado until he joined the Pierce-Arrow Co., and Senator Milliken of Colorado was chairman of the Committee. So, when Davis stood up and faced the Commit-

tee, he said, "I used to live in Colorado, and I have great respect for the beautiful mountain scenery." Mr. Flanders of Vermont was on the Committee and he said, "We have some beautiful mountains in Vermont." Sen. Milliken leveled his hands about waist high and said, "Little hills, little hills."

During World War II, passenger cars could not be manufactured and sold for a three-year period. A few of us inventors at the end of the war thought that we might be able to get a three-year extension on the life of our patents, if we could show that we were deprived of a market. I appeared before the Senate Committee, and it passed both the Senate and House Committees. But before anything becomes a law, it has to be acted on by both the House and the Senate, and, in a case like this one, the President has to hold up the patent, and if there are no objections, the law is passed. The President didn't hold up this patent, and it was killed right there. I won't tell you his name, but his initials were L.B.J.

Two Personal Items

In 1958 a book was published by Macmillan & Co. Ltd.: "The Sources of Invention," by John Jewkes, David Sawyers and Richard Stillerman. There was a question of whether Vickers or Davis should be credited as the inventor of power steering. Vickers started manufacturing power steering units for trucks in the early thirties, but he did not use the open center valve, and he claimed in his patents that his centering spring was only of sufficient strength to overcome the friction to move the valve.

I obtained one of the Vickers units, and found that the centering spring needed approximately 30 lbs pressure to move the valve from the center position. This infringed the second patent obtained by Davis in 1932, but I didn't want to stop Vickers from manufacturing and selling power steering units, as he would help in the overall picture of introducing power steering. Therefore I granted Vickers a license, until several of my early patents expired.

In the book on "The Sources of Invention" this subject was argued at considerable length and finally on page 344, and I quote, the statement was made: "The greater contribution was that of Davis, whose inventions made power steering practicable."¹

In the mid fifties, I was picking up nice royalties on patents in the power steering field, and I had always had a great liking for

¹ Davis' U.S. and foreign patents relating to power steering and hydraulic pumps number 26.

one of the professors at Harvard whom I had studied under. So, in 1955, I set up the Lionel S. Marks Fellowship Fund at Harvard to honor the professor “who made his students work hard and made them enjoy it.” Davis said his \$50,000 gift establishing the Marks Fellowship was “a token of his high regard and friendship for an inspiring teacher and great personality.” This Fellowship Fund is in the Division of Engineering and Applied Physics. The income is made available for awards each year by the appropriate fellowship or scholarship committees. I have had some very nice letters from the students in Mechanical Engineering thanking me for this Fellowship Fund.

Conclusion

In conclusion, I would like to quote from an article that was published in the January 1945 *Scientific American* under the title, “Research Opens the Door” by Charles T. Kettering. He tells what the independent inventor has to go through to succeed. The article is about “independent wheel suspension,” and I quote two short paragraphs:

1. “But the working sample doesn’t function like the model—a spring breaks, the wheels shimmy, for a hundred other things may happen and each one has to be ferreted out and corrected. To do this, [the inventor] has to be a metallurgist, a mechanical engineer, a mathematician, an optimist, and a very well-to-do man.
2. There are many places for the inventor to become hopelessly lost. He must have the faith of Goodyear, the creative ability of the Wrights, the patience of Edison, the business ability of Robert Fulton, the production knowledge of Ford or of Knudsen—and in addition, sufficient thousands of dollars to see the thing through.”

PTC PROGRESS REPORT

In the last issue of IDEA, Volume 16, Conference Number, we summarized the history of the PTC Research Foundation up to the time of its transfer to the Franklin Pierce Law Center in 1973. A synopsis of the subsequent developments at the Law Center and the PTC follows. Other news items and future developments will also be reported from time to time in issues of the PTC newsletter, IDEAs, which is mailed to all members and friends of the PTC.

Calendar

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| Sept., 1973 | Franklin Pierce Law Center, New Hampshire's first law school, admitted 98 students. |
| Oct., 1973 | PTC offices opened at the Law Center. PTC Conference: Future American Trading in the EEC (reported in IDEA, Vol. 16, Conference Number). |
| Feb., 1974 | The American Bar Association placed the Law Center on its list of approved law schools. |
| March, 1974 | The Law Center received degree-granting authority from the State of New Hampshire. The PTC co-sponsored, with the New England Law Institute, a seminar for the practicing bar on intellectual property, held at Boston University. |
| June, 1974 | The PTC was awarded a National Science Foundation contract for a study on "Indicators of the Role of Science in Patented Technology." |
| Sept., 1974 | The Francis W. Davis Research Program was established at the Law Center (see p. 60, this issue). |

Research Progress

The Law Center and the PTC are actively continuing work on the following research projects, initiated last year.

The Patent System and Innovation:

This joint program between Massachusetts Institute of Technology and Law Center students and faculty involves the updating of previous research on the United States patent system. One

thousand questionnaires were mailed a few months ago to current patentees selected at random from the files of the United States Patent Office. Several hundred of these patentees have responded, returning completed questionnaires to MIT for computer correlation and subsequent analysis by Law Center personnel. The basis of the project is to decipher who is using the patent system, for what purposes, with what attitudes and with what degree of success or lack of success.

In a cooperative research effort, these techniques are about to be introduced in Europe by the British Institute of Patentees and Inventors, which will conduct a similar survey of the role of the inventor in the United Kingdom and the European Economic Community. In addition, members of the Faculty of Law at Lund University (Lund, Sweden) have agreed to participate in this survey by coordinating the study throughout the Scandinavian countries.

To complete the profiling of current inventors and the nature and problems of current inventing and patenting throughout the world, the Academy of Applied Science is planning an extension of the survey in the Far East.

Business Failures Among Innovators:

Substantial headway is being made on introducing to the legal community new bankruptcy proposals derived from the recent Bankruptcy Commission Report. Under the direction of Prof. Kenan Sahin, University of Massachusetts, and Prof. Robert M. Viles of the Law Center, this project is developing a computer model of business failures. It is hoped the model can be used as a tool to study the impact of legal and other procedures upon small business operations.

Professor Sahin is also serving as a visiting lecturer at the Law Center, where he directs a seminar on law and economics. In this capacity, he expresses an economist's view as to various types of legal standards evolved from regulatory and other legal arenas.

The Role of the Technical University in Aiding Innovation:

The Law Center is cooperating with the Innovation Center of the Massachusetts Institute of Technology in its efforts to encourage student invention and entrepreneurship. It is contemplated that Law Center students, under faculty guidance, will assist in preparing patent applications on the inventions and constructing license agreements between the inventors and new or existing companies.

New Research

National Science Foundation Science Indicators Project:

This research program is directed toward determining the role of basic and applied scientific and technical published literature in stimulating significant patented invention in several technological areas over the past two decades. A report is scheduled for December 1974.

Creativity and Obviousness for Patenting:

The PTC Research Foundation has announced the awarding of its second grant since arriving at its new home in Concord. Prof. Thomas G. Field, Jr. and Ms. Juanita Field, Ph.D., recipients of the grant, will analyze the concept of "creativity" and the legal mechanisms for its recognition. Dr. Field, a psychologist and research associate of the PTC, will attempt to define and to devise a method for measuring sensitivity to, and for, creativity. From his experience in the patent area, Prof. Field will relate these ideas to the present patent laws, with the end view of trying to evaluate one of the three tenets for patenting—nonobviousness—and the attributes of those members of the legal community who are called upon to adjudge it.

Educational Programs

Internship Program:

Franklin Pierce Law Center was founded upon the principle of innovation in the legal field. A first step toward revising traditional law school concepts was the commencement of a specialty in the integration of law with science and technology. A second step involves a comprehensive third-year clinical or internship law practice experience, phases of which are currently being tested by the second-year law students. As part of this endeavor, Prof. Murl A. Larkin, Visiting Professor from Texas Tech University School of Law, has been instrumental in the formation of a Criminal Justice Internship Program, wherein fourteen students have been serving part-time in the offices of county attorneys and the public defenders in the greater Concord and Manchester areas.

International Exchange Program:

The Law Center formalized in October, 1974 an exchange program with the School of Law at Lund University in Sweden,

under the supervision of Dean Rines and Prof. Lars Holmqvist of the Lund Faculty of Law. The two schools will exchange faculty and students for study in Comparative International Law and Technology Transfer, with the first faculty member from Lund expected in 1975.

All the programs mentioned above illustrate the very warm response and excellent cooperation the Law Center has been receiving from local, national and international organizations active in the educational, legal and scientific fields.

Notes on PTC Progress

The Advisory Council

On December 9, 1974, a meeting of the Advisory Council of the PTC was held at the MIT Faculty Club, Cambridge, Massachusetts, chaired by Earl P. Stevenson, out-going Council Chairman.

The research activities of the PTC were reviewed. Of primary interest was the National Science Foundation sponsored study of basic and applied research devoted to invention. An interesting note of the study was the finding that very few high technology patents that were issued between 1950 and 1973 have come to litigation. This, and other information derived from the NSF study, will be reported in a 1975 issue of IDEA.

The Council expressed gratitude to Mr. Stevenson for his service as Chairman and his considerable assistance in engineering the transfer of the PTC to the Franklin Pierce Law Center. Acting upon Mr. Stevenson's suggestion, the Council members voted to appoint Alan Smith, retiring PTC Director, as their new Chairman. The Council elected Mr. H. Damon Swanson, Ph.D., as Acting Director. Mr. Swanson, in his second year at the Law Center, has served the PTC as Research Coordinator and was a member of the student editorial committee for IDEA.

New members to the Council include Dr. Harold E. Edgerton, MIT; Kenneth J. Germeshausen, former Chairman of EG&G, Inc.; J. D. Nyhart, Director of Law Related Studies at MIT; and Nelson H. Shapiro, Esq., of Shapiro and Shapiro, Washington, D.C.

Publication

The journal, IDEA, publishes in each issue a Call for Papers from its readers. Topics for publication have included areas of Property (Industrial and Intellectual), Technology and Commerce. The journal is devoted not only to research in these areas but also to education. Therefore, in keeping with this policy, requests are also made from persons who wish to print manuscripts, text materials, lectures and other instructional information of an educational nature. Educational publication is within the context of the PTC charter and a separate section, connoted EDUCATION, may be considered in future issues.

Conference on Copyright

A conference on copyright will be held March 5, 6 and 7 at the Sheraton-Wayfarer Convention Center in Bedford (Manchester), New Hampshire and the Franklin Pierce Law Center in Concord. The Law Center, in conjunction with the PTC and the Academy of Applied Science, is offering its facilities to provide for the conferees a neutral atmosphere to discuss the current roadblocks and future status of copyright law. The main theme of the conference will be a workshop discussion of the present (1974) Copyright Law Revision Bill (S. 1361) and possible alternative proposals in controversial areas thereof.

Toward a Realistic Standard of Patentability

NELSON H. SHAPIRO*

Introduction

The Congress shall have Power

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To promote the Progress of . . . useful Arts, by securing for
limited Times to Inventors the exclusive Right to their . . . Dis-
coveries. [U.S. Constitution, Art. I, § 8, cl. 8.]

Under the patent system established by Congress upon this Constitutional foundation, patents are granted to inventors as an incentive to promote the progress of the useful arts.

If an incentive system is to work effectively, the promised reward must not be illusory. Inventors must have reasonable assurance that a patent *will* provide the exclusive right to their discoveries. But rampant invalidation of patents litigated in recent years has seriously weakened that assurance, and inventors are becoming increasingly disenchanted with the patent system.¹

* Partner, Shapiro and Shapiro (Washington, D.C.), and member, Advisory Council, PTC.

NOTE: This is an expansion of remarks made by Mr. Shapiro at the closing session of the PTC's Conference on Future American Trading in the EEC—see IDEA, Vol. 16, Conference Number.

¹ Although few patents are litigated, considering the number of patents issued, the negative effect of the overwhelming proportion of litigated patents held invalid is pervasive.

It is surprising, therefore, that in the major revision of the patent laws now proposed, so little attention has been given to the principal basis for patent invalidation—failure to meet the judicially interpreted standard of patentability.

History of the Present Standard of Patentability

Other than the reference to promoting progress of the useful arts, the Constitution is silent as to requirements for patentability, leaving this matter to Congress. The early patent acts set forth “novelty” and “utility” as requirements for patentability,² but in 1850 the Supreme Court concluded that something more was required, namely, patentable “invention.”

In the famous “doorknob” case, *Hotchkiss v. Greenwood*,³ the Supreme Court said that patents are not to be granted for inventions which are no more than an ordinary mechanic would be expected to produce as a matter of course in the pursuit of his calling. The invention in that case was found lacking because all the inventor had done was to attach a doorknob made of one material to an old metal shank in the same manner that doorknobs made of another material had been attached to such shanks before. This was found to be merely the work of a skilled mechanic, hence insufficient “invention” to justify the grant of a patent.

In the 100 years following the doorknob case, the courts struggled chaotically with the question of what does or does not constitute patentable “invention.” Then in 1952 Congress attempted to define the standard of patentability in different terms.

The 1952 Patent Act contains no abstract standard of “invention.” Instead § 103 states, as a condition for patentability, that the invention (the thing made by the inventor, as distinguished from the abstract standard) is not patentable “. . . if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains.”⁴ Section 103 contains a further provision: “Patentability shall not be negated by the manner in which the invention was made,” this provision being an apparent effort by Congress to expunge from the law the requirement announced by Mr. Justice Douglas in *Cuno*

² Patent Acts of 1790, 1793, 1836.

³ 52 U.S. 248 (1851).

⁴ 35 U.S.C. 103.

Engineering Corp. v. Automatic Devices Corp.,⁵ that an “invention must reveal the flash of creative genius.”

The drafters of § 103 expressed the hope that the introduction of the concept of “non-obviousness” as a requirement for patentability would serve as a stabilizing influence in the law, but this hope has not been fulfilled. Since the statute does not state how non-obviousness is to be determined, the question of non-obviousness has proved to be as troublesome as the question of patentable “invention.”

In 1966, in its first interpretation of the 1952 Patent Act, the Supreme Court had the opportunity to fill this void. While stating in *Graham v. Deere*⁶ that the ultimate question of patentability is a question of law, the Court tied to § 103 a three-step process of factual inquiry, namely:

- (1) determining the scope and content of the prior art;
- (2) ascertaining the differences between the prior art and the claims at issue; and
- (3) resolving the level of ordinary skill in the pertinent art.

Obviousness, or non-obviousness, the Court said, is to be determined against that background.

The process of factual inquiry prescribed by *Graham v. Deere* was actually not a new process at all. It was merely a standardization of the types of inquiries that traditionally had been made by the district courts in patent validity cases. The opinion of the Supreme Court failed to provide meaningful guidelines for the lower courts in their determination of obviousness. Instead the Court created additional confusion by equivocation as to whether such factors as commercial success of the invention and the failure of others to solve the problem solved by the invention should always be considered, or only in a “doubtful case.” Moreover, in refusing to find any difference between the standard of patentability set forth in § 103 and the judicially established standard of earlier years, the Court equated “obviousness” with “lack of invention” and opened the door to all of those nebulous hand-maidens of “invention” that had plagued the courts for so many years and that § 103 was intended to reject once and for all. This soon became apparent in the decisions of the lower courts following *Graham v. Deere* and three years later in an opinion of the Supreme Court itself.

⁵ 314 U.S. 84 (1941).

⁶ 383 U.S. 1 (1966).

In *Anderson's-Black Rock v. Pavement Salvage*⁷ the Supreme Court resurrected *Lincoln Co. v. Stewart-Warner Corp.*⁸ and *The Great Atlantic & Pacific Tea Company v. Supermarket Equipment Corp.*,⁹ both cases antedating the 1952 Patent Act and both dealing with so-called "combination inventions." *Stewart-Warner* stands for the proposition that patentability of a combination invention depends upon a showing of a "new or different function" in the combination, while the *A & P* case requires that the whole of the combination must exceed the sum of its parts. Thus for a combination invention to be patentable there must be a new or different synergistic effect resulting from the combination.

Graham v. Deere was even more retrogressive, for the Court reiterated the insidious presumption of inventor omniscience, a judicial myth that has burdened inventors for over 70 years and that has now been extended to the person of ordinary skill in the art for the determination of obviousness under § 103. In the words of Mr. Justice Clark:

The standard [of patentability] has remained invariable in this Court. Technology, however, has advanced—and with remarkable rapidity in the last 50 years. Moreover the ambit of applicable art in given fields of science has widened by disciplines unheard of a half-century ago. It is but an evenhanded application to require those persons granted the benefit of a patent monopoly be charged with an awareness of these changed conditions.¹⁰

Time and time again the presumption of omniscience is relied upon by the courts in denying patentability on the ground of "obviousness" or "lack of invention." For example, *In re Winslow*:

We think the proper way to apply the obviousness test to a case like this is to first picture the inventor as working in his shop with the prior art references—which he is presumed to know—hanging on the walls around him.

Section 103 requires us to presume full knowledge by the inventor of the prior art in the field of his endeavor.¹¹

Walker v. General Motors Corp.:

Walker was charged with knowledge of all that the prior art disclosed at the time of his alleged invention, irrespective of whether persons of ordinary skill in the field, or he himself, or anyone else actually possessed such all-encompassing familiarity with prior disclosures [citing *Graham v. Deere*].¹²

⁷ 396 U.S. 57 (1969).

⁸ 303 U.S. 545 (1938).

⁹ 340 U.S. 147 (1950).

¹⁰ 383 U.S. 1, 19 (1966).

¹¹ 151 U.S.P.Q. 48, 51 (C.C.P.A. 1966).

¹² 362 F.2d 56, 60, n.3 (9th Cir. 1966).

Griffith Rubber Mills v. Hoffar:

Thus the statute prescribes, as a condition of patentability, that what has been accomplished must be such that it would not have been obvious to a hypothetical person skilled in all that could have been known, at the pertinent time, in the field to which the invention relates.¹³

The ease with which patents may be invalidated under this presumption of omniscience is particularly evident in the dissenting opinion of Judge Stevens in *Malsbary Manufacturing Company et al. v. Ald Incorporated*:

Each of the elements of claim 5 was an old concept; only the combination was new. The issue is whether the combination "would have been obvious at the time the invention was made to a person having ordinary skill in the art" of washing cars, or perhaps the art of making car-washing equipment. 35 U.S.C. § 103.

There are two ways to try to answer this question. One approach is to consider what was obvious to actual artisans. Many people for many years have been familiar with car-washing equipment. Yet Tompkins was the first to recognize the benefits to be gained from this unique combination of concepts. As a matter of fact, he was a pioneer in a crowd. If the combination was obvious, others in the crowd would certainly have recognized it. Under this approach the issues of novelty and obviousness tend to merge.

A second approach is to consider what would have been obvious to a hypothetical artisan who, having all of the prior art at hand, set out to design an improved car-washing machine. Such an artisan, although his skill might have been ordinary, would have commenced his work with a truly extraordinary background. With such preparation a host of valuable new combinations might be obvious to a man with ordinary skills. Under this approach the obviousness hurdle would make a patent a rare prize reserved to reward a person with creative talents transcending an ordinary artisan's skill. I think Congress has directed us to follow this second approach [citing *Graham v. Deere*].¹⁴

The presumption that a person of ordinary skill in the art has complete knowledge of all prior art in his field of endeavor seems to stem from a 1900 Supreme Court case, *Mast-Foos v. Stover*.¹⁵ In

¹³ 313 F.2d 1, 3 (9th Cir. 1963). See also *L.S. Donaldson Co. v. La Maur*, 299 F.2d 412 (8th Cir. 1962); *Brenner v. Ladd*, 247 F. Supp. 51 (D.C.D.C. 1965); *Illinois Tool Works Inc. v. Continental Can Co., Inc.*, 273 F. Supp. 94 (D.C.N. Ill. 1967); *David & David Inc. v. Myerson*, 388 F.2d 292 (2d Cir. 1968); *Continental Can Co. v. Crown Cork & Seal Co., Inc.*, 415 F.2d 601 (3d Cir. 1969); *Oglebay Norton Co. v. Universal Refractories Corp.*, 300 F. Supp. 1106 (D.C.E. Wis. 1969); *U.S. Gypsum Co. v. National Gypsum Co.*, 440 F.2d 510 (7th Cir. 1971); *Drilling Well Control, Inc. v. Dresser Industries, Inc.*, 340 F. Supp. 1266 (D.C.S. Tex. 1971); *Novelart Mfg. Co. v. Carlin Container Corp.*, 363 F. Supp. 58 (D.C.N.J. 1973); *Esso Research & Engineering Co. v. Kahn & Co.*, 183 U.S.P.Q. 582 (D.C. Conn. 1974).

¹⁴ 447 F.2d 809, 813 (7th Cir. 1971).

¹⁵ 177 U.S. 485 (1900).

that case it was held that it made no difference whether the patentee knew about old devices in the United States, because the patentee was presumed to know all that was known in his field. The subject of the patent in suit was a windmill gearing differing in only one respect from a well-known prior device for the same purpose. The prior device, in the same art, had a pinion engaging the teeth on the outside of a large spur gear but in the patent in suit the teeth of the pinion engaged teeth on the inside of a large internal gear. The invention thus involved the simple substitution of a well known internal gear for a well known external gear. Nevertheless, the presumption of *Mast-Foos* has been judicially extrapolated to include *all* published information in the art of the invention and in analogous arts, *world-wide*, regardless of how obscure or little known.

Quest for a Realistic Standard of Patentability

In attempting to establish a realistic standard of patentability, the presumption of inventor omniscience and its expansion to include the person of ordinary skill in the art is a good place to start. Inventors are not supermen, and their minds are not computer memory banks charged with all the available knowledge in the prior art. Why, then, in determining the obviousness of the differences between the invention and the prior art, should a person of *ordinary* skill be presumed to have *extraordinary* knowledge?

In determining “novelty” knowledge of the prior art by the inventor or anyone else working in the inventor’s field is irrelevant. The negative effect of the prior art upon patentability is the same whether or not the prior art is actually known. In determining “obviousness,” however, the level of general knowledge of persons of ordinary skill becomes crucial to the determination of the significance of the differences between the invention and the closest prior art.

Enveloped by the artificial atmosphere of omniscience, the determination of obviousness becomes an Alice in Wonderland task, completely devoid of reality. Judges easily extend the presumption of total knowledge to include the ability to use that knowledge productively, so that the making of an invention is viewed as merely trying all possible combinations of the pieces of a jigsaw puzzle until success is achieved. The importance of the ability to select and assemble particular elements to arrive at a result not yet known becomes de-emphasized.

It is far from "an evenhanded application," to use the words of Mr. Justice Clark in *Graham v. Deere*, to presume that a man of ordinary skill should have the extraordinary ability to absorb and retain all the knowledge there is to know in his field, but it is outrageous to conclude from that presumption that a man of ordinary skill should have the ability to call forth from his miraculous memory the necessary bits and pieces of prior art required to make the invention, when the ultimate result is not even known. As pointed out by Judge Rich in *In re Antle*:

... the very point in issue is whether one of ordinary skill in the art would have *selected*, without the advantage of hindsight and knowledge of the applicant's disclosure, the particular references¹⁶

Moreover, in applying the presumption of omniscience to persons of ordinary skill, the courts ignore the stifling influence of too much presumed knowledge upon the ability to select particular elements and combine them to make an invention. The greater the possible choices of elements, the more difficult it is to find the particular elements required to make an invention. Selecting particular elements from a vast array and combining them in a special manner to produce a desired useful result requires the ability of an inventor.¹⁷

The manner of selecting particular elements to make an invention is especially relevant to so-called "combination inventions." In fact, there are very few inventions that can not be characterized as combinations of old elements. To stigmatize combination inventions by requiring special standards, such as synergistic effect, is to stigmatize almost all inventions. No rational basis exists for treating combination inventions uniquely. If non-obviousness is to be a condition for patentability, then non-obviousness of combination inventions should be judged by the same considerations as any invention, and without the artifice of a presumption of omniscience.¹⁸

The willingness of the courts to apply, without question, a standard of patentability that is so apparently unrealistic is perhaps

¹⁶ 444 F.2d 1168, 1171 (C.C.P.A. 1971).

¹⁷ Not infrequently inventors experience the disconcerting realization that all of the essential concepts required to make the invention were in mind for months, or years, without the insight to put them together.

¹⁸ A "virtue" of the presumption of omniscience in treating combination inventions is that it makes the job of judges and patent examiners easy. Those charged with the duty of determining obviousness or non-obviousness have become accustomed to having the pieces of a combination invention served up neatly on a plate as the product of post-invention searches of the prior art.

explained by the philosophical views of many judges toward patents. In *Atlantic Works v. Brady*, Mr. Justice Bradley stated:

It was never the object of those laws [patent laws] to grant a monopoly for every trifling device, every shadow of a shade of an idea, which would naturally and spontaneously occur to any skilled mechanic or operator in the ordinary progress of manufactures. Such an indiscriminate creation of exclusive privileges tends rather to obstruct than to stimulate invention. It creates a class of speculative schemers who make it their business to watch the advancing wave of improvement, and gather its foam in the form of patented monopolies, which enable them to lay a heavy tax upon the industry of the country, without contributing anything to the real advancement of the arts. It embarrasses the honest pursuit of business with fears and apprehensions of concealed liens and unknown liabilities to lawsuits and vexatious accountings for profits made in good faith.¹⁹

Mr. Justice Douglas said, in *A & P*:

Every patent is the grant of a privilege of exacting tolls from the public. The Framers plainly did not want those monopolies freely granted. The invention, to justify a patent, had to serve the ends of science—to push back the frontiers of chemistry, physics, and the like; to make a distinctive contribution to scientific knowledge. That is why through the years the opinions of the Court commonly have taken “inventive genius” as the test. It is not enough that an article is new and useful. The Constitution never sanctioned the patenting of gadgets. Patents serve a higher end—the advancement of science. An invention need not be as startling as an atomic bomb to be patentable. But it has to be of such quality and distinction that masters of the scientific field in which it falls will recognize it as an advance.²⁰

In *Graham v. Deere* Mr. Justice Clark philosophized at length:

The Congress in the exercise of the patent power may not overreach the restraints imposed by the stated constitutional purpose. Nor may it enlarge the patent monopoly without regard to the innovation, advancement or social benefit gained thereby. Moreover, Congress may not authorize the issuance of patents whose effects are to remove existent knowledge from the public domain, or to restrict free access to materials already available. Innovation, advancement, and things which add to the sum of useful knowledge are inherent requisites in a patent system which by constitutional command must “promote the Progress of * * * useful Arts.” This is the *standard* expressed in the Constitution and it may not be ignored. And it is in this light that patent “validity requires reference to a standard written into the Constitution.”

Jefferson’s philosophy on the nature and purpose of the patent monopoly is expressed in a letter to Isaac McPherson, a portion of which we set out in the margin. He rejected a natural rights theory in intellectual property rights and clearly recognized the social and

¹⁹ 107 U.S. 192, 200 (1882).

²⁰ 340 U.S. 147, 154 (1950).

economic rationale of the patent system. The patent monopoly was not designed to secure to the inventor his natural right in his discoveries. Rather, it was a reward, an inducement, to bring forth new knowledge. The grant of an exclusive right to an invention was the creation of society—at odds with the inherent free nature of disclosed ideas—and was not to be freely given. Only inventions and discoveries which furthered human knowledge, and were new and useful, justified the special inducement of a limited private monopoly. Jefferson did not believe in granting patents for small details, obvious improvements, or frivolous devices. His writings evidence his insistence upon a high level of patentability.²¹

In *Evr-Klean Seat Pad Co. v. Firestone Tire & Rubber Co.*, Judge Johnson of the 8th Circuit Court of Appeals observed:

The patent law was not intended as a dam to divert natural changes and evolutionary progress in the arts into the laterals of monopoly. The general skill and judgment of the crafts belong to society as a whole.²²

Clearly there is intense judicial concern with possible undesirable effects of granting patents for minor improvements that would be expected to evolve naturally from the teachings of the prior art.²³ Whether such effects dictate the granting of patents for revolutionary inventions only is for Congress to say.²⁴ However, if non-obviousness to a man of ordinary skill is to remain as the essential criterion of patentability, that standard should not be burdened with judicially imposed fiction to implement pre-conceived notions as to the evils of patents and to insure that patents are held invalid. The way to determine obviousness or non-obviousness of an invention with realistic concern for progress of the useful arts is to consider whether the differences between the invention and the closest prior art involve changes that would be expected to flow naturally or by evolution from the endeavors of persons of *ordinary* skill possessing *ordinary* knowledge.²⁵

Focusing the factual inquiry realistically upon natural changes

²¹ 383 U.S. 1, 5, 8 (1966).

²² 118 F.2d 600, 602 (1941).

²³ The concern of the courts with the monopolistic effects of patents is a subject in itself, but if the patent system is deemed beneficial to the Nation, then the anti-trust laws should be relied upon to negate undue monopolistic effects. In the present judicial climate, the unintended target of anti-patent decisions aimed at large and powerful monopolists is, unfortunately, the individual inventor and the small company—those who are most reliant upon patents to provide entrance to markets and to compete with commercial giants, and those from whom emanate a large proportion of the important inventions.

²⁴ Detailed studies should be conducted to ascertain who uses the patent system today, how it is used, and to what extent the technological, economic, and social benefits which spring from the patent system outweigh any undesirable restrictions upon free use of knowledge.

²⁵ Courts are accustomed to making similar determinations in tort cases.

which would be expected from the work of persons of ordinary skill possessing ordinary knowledge would make more meaningful the types of factual inquiries usually made by astute judges in patent cases. For example:

1. Was the problem solved by the invention a problem recognized by those working in the art to which the invention pertains?
2. If the problem was known to persons working in the art:
 - a. How long was the problem known?
 - b. Did motivation exist for a solution to the problem?
 - c. What prior attempts were made to solve the problem by the inventor and others in the art?
 - d. Was the inventor's solution to the problem contradicted by the teachings of others working in the art?
 - e. Was the success of the invention in solving the problem considered surprising by persons working in the art?
3. What tributes were paid to the invention, such as:
 - a. Laudatory comments of others working in the art?
 - b. Commercial success due to the invention?
 - c. License rights acquired from the inventor?
 - d. Copying of the invention by competitors?

Conclusion

If the patent laws are to fulfill the intended constitutional purpose of promoting progress of the useful arts, inventors must be assured that their inventions will be judged in accordance with a realistic standard of patentability. Whether this judgment is in terms of non-obviousness, advancement, or merely progress of the useful arts, the standard should not be encumbered by a presumption of omniscience. Patentability should be determined in accordance with realistic guidelines explicitly contained in revised patent statutes. The folly of permitting judges, with little technical training and even less knowledge of the mechanics of inventing, to decide what is patentable without explicit statutory guidance is fully apparent in the endless judicial chaos in patent validity cases which started with *Hotchkiss v. Greenwood* and which has continued since the 1952 Patent Act.

The patent laws should clearly state that the same standard of patentability applies to all inventions, including combination inventions. New and better results and synergism should be factors to be

considered in the determination of patentability, but not *per se* requirements.

By statutory command, the courts should be directed to interpret the scope of patent claims so that the inventor's reward is commensurate with his contribution.²⁶ Holding claims invalid because of mere technicalities should be specifically discouraged.

Once a district court has made factual inquiries and determined patentability or non-patentability in accordance with the statutes, the findings and determination of the district court should not be subject to reversal by a court of appeals except under the specific provisions of Rule 52 of the Federal Rules.²⁷

Hopefully, the revised statutes will also include a reaffirmation of congressional confidence in the patent system and its benefits to the nation.

²⁶ If courts of general jurisdiction still refuse to sustain patents, special patent courts will become a necessity.

²⁷ Congress should be heard as to the extent to which the question of patentability is a matter of law or a matter of fact. *See* the dissenting opinion of Mr. Justice Douglas in *Shultz et al. v. Moore*, 183 U.S.P.Q. 385 (1974).

Constitutional Preemption, *Goldstein v. California*, and Other Aspects of Preemption*

NEAL ORKIN**

The Supreme Court has used the doctrine of preemption to prohibit state encroachment upon federal legislative areas. This doctrine traditionally employed the conviction that a federal regulatory scheme in accordance with Article I, Section 8 of the Constitution is so pervasive that no margin exists for similar state legislation.¹ However, new implications have been espoused by the Court in *Goldstein v. California*² which may redirect the traditional methodology employed earlier. The *Goldstein* case will be analyzed to determine its impact upon the previous preemption decisions.

This paper will also explore the concept of preemption with respect to the extent of both constitutional and congressional implementation by examining the implications of both the constitutional grant of power to Congress and the exercise, if any, of that power. Two hypothetical situations which history has rendered

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¹ See *Sears, Roebuck & Co. v. Stiffel*, 376 U.S. 225 (1964).

² 412 U.S. 546 (1973).

moot will be used as part of this analysis: (1) the case in which Congress was not granted a power under Article I, Section 8, but Congress still sought other means to preempt state powers; and (2) the situation in which a congressional power remained dormant for an extended time period, and preemption might therefore be inferred through judicial interpretation of that power.

The basis for preemption is the Supremacy Clause of the U.S. Constitution.³ For the purposes of this paper two areas of supremacy, and hence preemption, will be analyzed—supremacy resulting from the constitutional grant of power to Congress, and supremacy resulting from the congressional exercise of that power.

When state and federal powers are in conflict, the Supreme Court has invalidated the state statute by three means:

1. Traditional Preemption, when a law of Congress supersedes the state statute;
2. Constitutional Preemption, in which a negative implication arises from the constitutional grant of power to Congress;
3. The Silent Will of Congress, in which an inference of Congressional Silence invalidates the state law.⁴

I. Congressional Implementation—The Traditional Approach

Preemption, as a traditional maxim, has heretofore presented a judicially created doctrine that the supremacy of federal law governs when state and federal laws are in conflict. The Supreme Court has previously required two elements for a finding of preemption: (1) a constitutional grant of power to Congress under Article I, Section 8, and (2) an exercise of this power of such magnitude as to displace state encroachment of federal powers.⁵ The Court has based its second requirement either upon congres-

³ Art. VI, § 2: "This Constitution and the Laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby, and Thing in the Constitution or Laws of any State to the Contrary notwithstanding."

⁴ If Congress implements its power, supremacy results from a law of the United States; if Congress does not act, supremacy results from the Constitution itself, both in the case of a negative constitutional implication and in the case of the Silent Will of Congress.

⁵ Federal law rarely occupies a legal field entirely. It is usually drafted on an ad hoc basis to accomplish limited objectives. See Hart and Wechsler, "The Federal Courts and the Federal System" (1953), 435. See also *Kelly v. Washington*, 302 U.S. 1, 10 (1937).

sional intent⁶ or upon the dominance of federal interest precluding the compatibility between state and federal laws.⁷

The origin of the test for statutory coexistence rests with *Cooley v. Board of Wardens*.⁸ In determining whether a Pennsylvania law requiring the engagement of local pilots for ships entering the port of Philadelphia was compatible with the congressional power under the commerce clause of the Constitution, the Court emphasized the congressional declaration that such matters were local in nature and should be left to the states until Congress had found it necessary to exercise its constitutional grant of power. In finding the state statute constitutional the Supreme Court stated:

It is the opinion of a majority of the Court that the mere grant to Congress of the power to regulate commerce, did not deprive the States of power to regulate pilots, and that although Congress has legislated on this subject its legislation manifests an intention, with a single exception, not to regulate this subject, but to leave its regulation to the several States.⁹

The Court therefore created a dichotomy under Congress' commerce power upon which it might invalidate a state law: (1) the state statute substantially impeded the free flow of commerce from state to state,¹⁰ or (2) the state law had been displaced by either congressional implementation or the need for national uniformity under *Cooley*.

Judicial Formulae for Preemption

No one precise formula has been used by the Court to decide whether a federal statute had *preempted* the field. Justice Black in *Hines v. Davidowitz* stressed the Court's use of the following expressions: conflicting; contrary to; occupying the field; repugnance; difference; irreconcilability; inconsistency; violation; curtailment;

⁶ *Pennsylvania v. Nelson*, 350 U.S. 497, 504 (1956). *H. P. Welch Co. v. New Hampshire*, 306 U.S. 79, 84 (1939).

⁷ *Rice v. Santa Fe Elevator Corp.*, 331 U.S. 218, 229-230 (1947).

⁸ 12 How. 299 (1851). The Supreme Court had earlier chosen not to decide whether state patent laws were consistent with the federal statutes by basing its decision in *Gibbons v. Ogden*, 9 Wheat. 1 (1824), on the commerce clause and not on preemptive grounds. See the discussion *infra* in Section II.

⁹ 12 How. 299, 320 (1851). The concept that the states cannot regulate those areas of interstate commerce that demand a single uniform rule has become known as the *Cooley Doctrine*.

¹⁰ *Gibbons v. Ogden*, 9 Wheat. 1 (1824). Since the New York law was contrary to an act of Congress in *Gibbons*, the question whether state power was surrendered by the constitutional grant of power to Congress was given great weight but was left undecided. This point will be discussed in detail *infra* in Section II.

and interference.¹¹ In concluding he noted, "In the final analysis, there can be no one crystal clear distinctly marked formula."¹² Thus far the Court has applied its various preemption formulae to two basic areas: (1) those requiring national uniformity, and (2) those in which there exists a dominant national interest.

National Uniformity. Since *Cooley*, the Court has found preemption of state authority in cases requiring a need for national uniformity. In fact, under the Cooley Doctrine if national uniformity is essential there is no need for congressional implementation—the Constitution itself *preempts* or occupies the field.¹³

Those preemption cases resting on national uniformity are best represented by *Sears, Roebuck & Co. v. Stiffel*,¹⁴ in which the Court ascertained that state unfair competition laws could not be used to protect an article not worthy of a federal patent.¹⁵ Justice Black, writing for eight members of the Court, found a need for national uniformity resulting both from a legislative history of the constitutional patent power in Article I, Section 8, Clause 8, and from a congressional intent to provide for uniform federal standards. The Court cited the oft-quoted phrase of Federalist No. 43 that the states "cannot make effectual provision for either patents or copyrights" as evidence of a constitutional desire for national uniformity.¹⁶ That Congress had sought national uniformity in patent and copyright laws was inferred by the Court from the enactment of statutes such as 28 U.S.C. § 1338(a) which vests exclusive jurisdiction in federal courts in patent and copyright cases, and 17 U.S.C. § 2 of the Copyright Act which saves state protection of unpublished writings but does not include published writings.¹⁷

¹¹ 312 U.S. 52, 67 (1941).

¹² *Id.*

¹³ *Kelly v. Washington*, 302 U.S. 1, 9, 14 (1937). *See also* the section on Constitutional Preemption *infra*.

¹⁴ 376 U.S. 225 (1964). *See also* the companion case, *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964).

¹⁵ The only power left to the states under local unfair competition laws was that area in which one party was "palming off" or passing its product off to the public as another's. The net result of *Sears* was to limit state protection to labeling, dress, or packaging and not to the articles themselves. *See* Kaul, "And Now, State Protection of Intellectual Property," 60 A.B.A.J. 198 (1974).

¹⁶ 376 U.S. 225, 228 (1964). *See also* *Goldstein v. California*, 412 U.S. 546, 555-556 (1973); *Capital Records, Inc. v. Mercury Records Corp.*, 221 F.2d 657, 667 (2d Cir. 1955) (Hand, J., dissenting). For a more detailed history and analysis of the patent clause, *see* Orkin, "The Legal Rights of the Employed Inventor: New Approaches to Old Problems," 56 JPOS 648 (1974).

¹⁷ 376 U.S. 225, 228, n.7 (1964).

In *Compco*, the companion case to *Sears*, the Court reiterated the elements required by the traditional methodology used in preemption cases:

To forbid copying would interfere with the federal policy, found in Article I, § 8, cl. 8, of the Constitution *and* in the implementing federal statutes, of allowing free access to copy whatever the federal patent and copyright laws leave in the public domain.¹⁸ (Emphasis added.)

The Court has by no means limited its preemption decisions to the patent area; numerous preemption cases have arisen in the field of interstate commerce.¹⁹ The Supreme Court, in these instances, has exercised its option to find that the federal law had preempted a state statute rather than rest its decision on a finding that the state law presented an unreasonable burden on interstate commerce.²⁰ In fact, the same reasoning process is used in both instances.²¹

In *Rice v. Santa Fe Elevator Corp.*²² the Court found that the United States Warehouse Act²³ superseded state authority by standardization in particular instances of warehouse operation. The Court decided that prior to 1931 the Federal Act by reason of its express terms had been subservient to state laws in the area.²⁴ By examining the legislative history of the 1931 amendments, the Court ascertained that Congress intended to make the Federal Act independent of State laws in order to provide for national uniformity.²⁵

Other traditional commerce clause preemption decisions include: *Kelly v. Washington*²⁶—a finding that a state law requiring safety inspection of tugs was not preempted by the federal Motor

¹⁸ 376 U.S. 234, 237 (1964).

¹⁹ Since the emphasis of this article is on constitutional preemption, only a general overview of the traditional approach is presented. Consequently, a number of cases on labor law preemption have not been cited.

²⁰ See *Southern Pacific Co. v. Arizona ex rel. Sullivan*, 325 U.S. 761, 765 (1945). The state law was invalidated as an unreasonable burden on interstate commerce; the contention that Congress had superseded state power by authorizing the Interstate Commerce Commission to regulate train lengths was rejected by the Court. Preemption has, however, been inferred when Congress merely creates a regulatory agency whose authority remains unexercised. See *Guss v. Utah Labor Relations Board*, 353 U.S. 1 (1957).

²¹ See note, "Preemption as a Preferential Ground: A New Canon of Construction," 12 *Stan. L. Rev.* 208, 220 (1959).

²² 331 U.S. 218 (1947).

²³ 7 U.S.C. § 241-273, 39 Stat. 486.

²⁴ 331 U.S. 218, 232 (1947).

²⁵ *Id.* at 233-236.

²⁶ 302 U.S. 1 (1937).

Boat Act of 1910; *Maurer v. Hamilton*²⁷—a finding that a state prohibition of trucks carrying over-the-cab vehicles was not barred by the federal statute which gave the ICC power to provide for safety regulations; *Campbell v. Hussey*²⁸—a finding that federal law concerning types of tobacco sold at auctions superseded state law; and *Burbank v. Lockheed Air Terminal*²⁹—a finding that a local airport noise curfew was preempted by federal EPA and FAA regulations.

Dominant National Interest. In *Hines v. Davidowitz*³⁰ the enforcement of Pennsylvania's alien registration act was barred by the federal alien registration act.³¹ The Court's concern for a dominant national interest³² was complemented by a concern for uniformity as expressed in the constitutional grant to Congress to establish uniform rules of naturalization rather than from the statute itself.³³ In *Pennsylvania v. Nelson*³⁴ the Court again discerned a dominant national interest in a federal statute that had preempted state legislation—this time in the area of sedition. In this instance the Court based its decision on three premises: (1) Congress intended through a scheme of federal regulation that no room be left for state legislation;³⁵ (2) the federal interest was so dominant that state statutes must be precluded;³⁶ and (3) enforcement of state sedition laws presented a serious danger of conflict with the administration of the federal program.³⁷ That Congress ever intended to preempt the area of sedition was denied by Congressman Howard Smith—author of the bill—in a letter to Pennsylvania

²⁷ 309 U.S. 598 (1940). *Cf.* *Castle v. Hayes Freight Lines, Inc.*, 348 U.S. 61 (1954).

²⁸ 368 U.S. 297 (1961). *Cf.* *Florida Lime and Avocado Growers, Inc. v. Paul*, 373 U.S. 132 (1963).

²⁹ 411 U.S. 624 (1973). *Cf.* *Huron Portland Cement Co. v. City of Detroit*, 362 U.S. 440 (1960) and *Askew v. American Waterways Operators*, 411 U.S. 325 (1973).

³⁰ 312 U.S. 52 (1941).

³¹ 54 Stat. 670 (1940).

³² 312 U.S. 52, 62-69 (1941).

³³ U.S. Constitution, Art. I, § 8, cl. 4. *See* Kalodner and Vance, "The Relation Between Federal and State Protection of Literary and Artistic Property," 72 Harv. L. Rev. 1079, 1084 (1959). *See also* *Zschernig v. Miller*, 389 U.S. 429 (1968). The Court struck down a state alien inheritance statute based on its intrusion into the field of foreign affairs which the Constitution had entrusted to the President and Congress. *See also* *Perez v. Campbell*, 402 U.S. 637 (1971).

³⁴ 350 U.S. 497 (1956).

³⁵ *Id.* at 502-504. The Court applied the basic formula of *Rice v. Santa Fe Elevator Corp.*, 331 U.S. 218 (1947) to points 1 and 2.

³⁶ *Id.* at 504-505.

³⁷ *Id.* at 505-509.

Attorney General Truscott.³⁸ It would therefore seem that the Court's first finding was somewhat apocryphal. The last two findings are somewhat more tenable in view of the suspected nationwide scope of Communist activity and the possible effects on foreign relations.³⁹

Congressional Action and Reaction

Just as state legislatures are ordinarily concerned with purely local transactions and do not contemplate conflict of laws questions, Congress often does not foresee preemption issues.⁴⁰ However some federal statutes contain so-called savings clauses which attempt to allow some vestige of power in the states, while others contain provisions manifesting exclusivity in the federal government. In spite of these provisions, the courts must provide the ultimate answers to questions of statutory construction and preemption.⁴¹

Congressional reaction to *Nelson* led to the broadest savings clause yet introduced:

No act of Congress shall be construed as indicating an intent on the part of Congress to occupy the field in which such Act operates, to the exclusion of all State laws on the same subject matter, unless such Act contains an express provision to that effect, or unless there is a direct and positive conflict between such Act and a State law, so that the two cannot be reconciled or consistently stand together.⁴²

The test for preemption as stated in the statute is similar to that of the Supreme Court; therefore it seems that the statute would have had little effect on any future preemption decisions.⁴³

One of the pitfalls in deciding a case on preemption is a possible tug of war between the Supreme Court and Congress. For example, if we assume the same factual situation as *Burbank v. Lockheed Air Terminal*,⁴⁴ the Court's preemption decision might lead Con-

³⁸ *Commonwealth v. Nelson*, 377 Pa. 58, 90; 104 A.2d 133, 148 (1954).

³⁹ See note 21 *supra*, at 218-219.

⁴⁰ See *Bernkrant v. Fowler*, 55 Cal. 2d 588, 594; 360 P.2d 906, 909 (1961). See also note 21 *supra*, at 209.

⁴¹ For a more detailed discussion see note 21 *supra*, at 211-215.

⁴² H.R. 3, 85th Cong., 2d Sess. (1958). The bill was proposed by none other than Congressman Smith and was passed by the House, but defeated in the Senate.

⁴³ See Wham and Merrill, "Federal Preemption: How to Protect the States' Jurisdiction," 43 A.B.A.J. 131, 189-190 (1957).

⁴⁴ 411 U.S. 624 (1973). Justice Douglas' majority opinion relied solely on preemption, while the District Court's opinion was based on interstate commerce

gress to enact a savings clause in the Environmental Protection Agency (EPA) regulations stating that no provisions would bar state regulation of airport noise control. When challenged again, the state statute might be invalidated as an unreasonable burden on interstate commerce. Congress' reaction may then take the form of a law consenting to a limited violation of the commerce clause, which, if not egregious, may sustain a constitutional challenge in the Court.⁴⁵

*Preemption Under Article IV*⁴⁶

To date, traditional preemption cases have been resolved by the Court's interpretation of statutes enacted to reflect views of congressional power conferred by Article I, Section 8 of the Constitution. But the question then arises: does Congress have preemptive powers other than those of Article I? In order to provide some insight to an answer, I shall propose the following hypothetical situation: Assume that Congress was not given a patent power in the Constitution.⁴⁷ Assume further that state patent grants were plentiful⁴⁸ and that the effect of these grants was to limit the patent to the territory of the state of issuance.⁴⁹ What then might Congress do—short of a constitutional amendment—to create a national system to reward inventors for their efforts, thereby compensating for any hardships an inventor might sustain?

The "full faith and credit" clause of the Constitution may resolve some of our queries:

Full Faith and Credit shall be given in each State to the public Acts, Records, and judicial Proceedings of every other State. And the

grounds as well. *See Lockheed Air Terminal v. City of Burbank*, 318 F. Supp. 914 (1971).

⁴⁵ *See Prudential Insurance Co. v. Benjamin*, 328 U.S. 408 (1946). *See also* note 21 *supra*, at 225.

⁴⁶ Although this type of preemption is by no means traditional—it has never been put to use by Congress—I have decided that it should be placed under the Traditional Approach since it exhibits traditional elements, *e.g.*, constitutional grant of power plus congressional implementation.

⁴⁷ Art. I, § 8, cl. 8: "Congress shall have Power to promote the Progress of Science and useful Arts by securing for limiting Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." This hypothesis also assumes a restrictive reading of the commerce power, such that Congress could not issue patents thereunder.

⁴⁸ *See generally* Federico, "State Patents," 13 JPOS 166 (1931).

⁴⁹ Both the territorial approach to judicial jurisdiction as seen in *Pennoyer v. Neff*, 95 U.S. 714 (1878), and the territorial or vested rights approach to conflict of laws which existed during the 19th century give credence to this assumption. *See also* *Livingston v. Van Ingen*, 9 N.Y. 507, 581 (1812).

Congress may by general Laws prescribe the Manner in which such Acts, Records and Proceedings shall be proved, and the Effect thereof.⁵⁰

One means to attempt to create a national patent system would be for Congress to enact a statute for a federal choice of law rule.⁵¹ The net effect of such a statute could be to disallow a state from refusing to recognize another's patents by using a defense that the patent is contrary to the public policy of that state. This type of solution would pose many problems. Suppose, for example, the invention merited a patent under state A laws but not under state B patent laws where state B was the forum in which an infringement suit was commenced. Should state B be compelled to recognize a foreign patent when the invention did not warrant one in the forum state? A different result might follow if the suit were first brought in state A and a state A judgment was sought to be enforced in state B as a matter of full faith and credit under the federal choice of law rule. Although the federal law would mandate a uniform choice of law rule throughout the United States, national uniformity in patent legislation could still be absent because of these disparate results. Therefore, it seems that congressional control of choice of law would not produce the desired solution—a uniform patent system without the constitutional grant of a substantive patent power to Congress.

A second possible solution rests with the interpretation of the term "prescribe the effect" in the congressional enabling provision of the full faith and credit clause. Under this provision, Congress may prescribe the legal consequences in other states of the legislative acts of any one state.⁵² Some commentators have argued that Congress has a latent power to enact substantive legislation to ensure uniformity of state statutes. This legislation may take the form of a type of divorce or other private right that could be granted national recognition, notwithstanding a state law to the

⁵⁰ U.S. Constitution, Art. IV, § 1.

⁵¹ See *Yarborough v. Yarborough*, 290 U.S. 202, 215, n.2 (1933) (Stone, J., dissenting); Cook, "The Powers of Congress Under the Full Faith and Credit Clause," 28 Yale L.J. 421 (1919). Federal control of choice of laws at present is limited to judicial determination under the due process and full faith and credit clauses. See Cheatham, "Federal Control of Conflict of Laws," 6 Vand. L. Rev. 581 (1953).

⁵² See Cook, note 51 *supra*, at 425-426. Note also that the language of the "necessary and proper" clause of Art. I, § 8, cl. 18 extends to the full faith and credit clause: "To make all Laws which shall be necessary and proper for carrying into Execution . . . all other Powers vested by this Constitution in the Government of the United States, or in any Department or Officer thereof."

contrary.⁵³ If this is so, Congress could enact substantive patent legislation under the full faith and credit clause.⁵⁴ Preemptive federal legislation of this nature appears somewhat radical in view of traditional state regulation of domestic relations and other private rights under the Tenth Amendment to the Constitution.⁵⁵ Moreover, since *Erie Railroad Co. v. Tomkins*,⁵⁶ there is a question whether the Supreme Court would allow substantive federal legislation of this type. In *Erie*, the Court stated:

Congress has no power to declare substantive rules of common law applicable in a state whether they be local in their nature or "general," be they commercial law or a part of the law of torts. And no clause in the Constitution purports to confer such a power upon the federal courts.⁵⁷

The Court was referring specifically to cases involving diversity of citizenship. This is perhaps the only existing sample of case law concerning a congressional power to enact substantive rules involving a preemption of private rights not otherwise granted to Congress in the Constitution.⁵⁸

Another less radical interpretation of "prescribe the effect" would be for Congress to grant national *effect* to the patent statutes of one state. Thus, the federal statute might provide that:

All states of the United States shall give full faith and credit to Pennsylvania patent statutes. The patents issued by the Pennsylvania Patent Office; the criteria for patenting; and the general patent statutes of Pennsylvania shall be given national effect, the laws of the several other states to the contrary notwithstanding.⁵⁹

⁵³ Corwin, "The Full Faith and Credit Clause," 81 U. Pa. L. Rev. 371, 388 (1933); I. Schofield, "Essays on Constitutional Law and Equity" (1921) 211 *et seq.* Congress could prescribe only the effects of state statutes and not state "common law." See Cook, note 51 *supra* at 434, Fn. 27a. For other interpretations of "prescribe the effect," see Cook, note 51 *supra*, at 432-435 and Ross, "Full Faith and Credit in a Federal System," 20 Minn. L. Rev. 140, 157-158, 188-189 (1936).

⁵⁴ Patent rights stem solely from legislation and are not considered *natural* rights. See Orkin, note 16 *supra*.

⁵⁵ "The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people."

⁵⁶ 304 U.S. 64 (1938).

⁵⁷ *Id.* at 78.

⁵⁸ No case law exists on the relatively dormant powers of Congress under the full faith and credit clause.

⁵⁹ Congress' only exercise to date under Art. IV, § 1 is 28 U.S.C. § 1738 which reads in part: "Such Acts, records and judicial proceedings or copies thereof so authenticated, shall have the same full faith and credit in every court within the United States and its Territories and Possessions as they have by law or usage in the courts of such State, Territory or possession from which they are taken," and 28 U.S.C. § 1739.

Congress might be able to do indirectly something which it could not do directly under the Constitution, so long as Congress was not prohibited under another constitutional provision from so doing.

What then might be the consequences of such a statute? Certainly, the Supremacy Clause of the Constitution⁶⁰ mandates that the states recognize the federal law as supreme. Even if the local public policy of a state were to the contrary, the state would be required to enforce the rights arising under the federal statute.⁶¹

Having been granted this vast latitude, the Pennsylvania state legislature might at once exact excessive patent fees from those states with which it had feuded prior to the enactment of the national patent statute. Thus, while Pennsylvania might charge its own residents nominal fees, it could exact exorbitant payments from out-of-state patentees. An interesting situation would arise: this might present a denial of equal protection or privileges and immunities (the state law was contrary to the 14th Amendment) or it might present a due process argument (the federal statute was contrary to the 5th Amendment), or both.⁶²

That Congress has the power to preempt state legislation in this manner seems possible; that Congress would do so seems unlikely. Although national uniformity in patents would result, Congress would in effect be surrendering federal supremacy to state interests. Congress has on occasion consented to discriminatory state laws,⁶³ but not in a case in which Congress would lose total control of future legislative enactment. Moreover, Pennsylvania's interests would not necessarily reflect those of the nation. Hence, congressional preemption of this type under Article IV must remain

⁶⁰ Art. VI, § 2.

⁶¹ See Cheatham, note 45 *supra*, at 582; *Mondou v. N.Y., N.H. & H.R.R.*, 233 U.S. 1, 57 (1937).

⁶² Equal protection and due process are sometimes interchangeable. Compare *Brown v. Board of Education*, 347 U.S. 483 (1954) with *Bolling v. Sharpe*, 347 U.S. 497 (1954). It might also be that no constitutional violation exists. There is dictum in *Prudential Insurance Co. v. Benjamin*, 328 U.S. 408 (1946), that since Congress had consented to an otherwise discriminatory state law, this is sufficient to validate the statute. However, *Prudential* involved a violation of the commerce clause and not a denial of a more personal right. That Congress could not legislate to violate the equal protection clause, see *Katzenbach v. Morgan*, 384 U.S. 641, 651, n.10 (1966). A conflict between the full faith and credit clause of Art. IV, § 1, and privileges and immunities clause of Art. IV, § 2, might also arise. See *Toomer v. Witzell*, 334 U.S. 385 (1948).

⁶³ See generally Biklé, "The Silence of Congress," 41 Harv. L. Rev. 200 (1927); Dowling, "Interstate Commerce and State Power," 27 Va. L. Rev. 1 (1940); Note, "Congressional Consent to Discriminatory State Legislation," 45 Colum. L. Rev. 927 (1945).

interred, not only because it is basically moot, but also because it entails a loss of federal dominance.

II. Constitutional Preemption

Most disciplines, including the legal profession, feel more comfortable if they are able to place previously unknown quantities into set definitions. For the purposes of this paper, I would like not to define the term Constitutional Preemption⁶⁴ at this point, but I would rather describe some of its characteristics with the expectation that a definition may be forthcoming once more is known about the subject.

We know that if such a phenomenon as constitutional preemption exists it exhibits the following traits: the net result is the invalidation of a state law; no congressional implementation is necessary. This section on constitutional preemption is divided into two parts: a discussion of *Goldstein v. California*⁶⁵ and a hypothetical situation involving constitutional preemption.

Goldstein v. California

Before I consider *Goldstein*, there is one case that preceded *Goldstein* by 18 years which must be examined first: *Capitol Records, Inc. v. Mercury Records Corp.*⁶⁶ In *Capitol Records* a 2-1 majority of the Second Circuit held that, although Congress had not granted copyright protection to recorded performances—a power that Congress had under the Copyright Act but did not exercise—under the state law of New York, these performances were entitled to protection.

Protection under the state law was tantamount to the grant of a monopoly for *perpetuity*, or until Congress decided to include these works in the Copyright Act.⁶⁷ One of the issues in the case was whether the term *limited times* in the copyright clause of the

⁶⁴ Constitutional Preemption has previously been defined as the grant of exclusive power to Congress, preempting state law. See Treece, "Patent Policy and Preemption; The Stiffel and Compco Cases," 32 U. Chi. L. Rev. 80, 84 (1964); Kalodner and Vance, "The Relation Between Federal and State Protection of Literary and Artistic Property," 72 Harv. L. Rev. 1089, 1082 (1959). See also H.R. Rep. No. 92-487, n.5, at 3, cited in Justice Douglas' dissent in *Goldstein*, 412 U.S. 546, 574 (1973).

⁶⁵ 412 U.S. 546 (1973).

⁶⁶ 221 F.2d 657 (2d Cir. 1955).

⁶⁷ If Congress did include this category in the act, federal supremacy would require that the state law be preempted—a classic case of traditional preemption.

Constitution⁶⁸ was a limitation on both the states and Congress; if so, a state grant of a perpetual monopoly would be *preempted* by the force of the Constitution acting alone.

In dissent, Judge Hand would allow the states to protect *unpublished* writings—a power customarily granted to the states under common law copyright—only after the term *publication* was defined by federal law. He asserted that the *limited times* restriction also applied to the states, by noting that national uniformity was required by the copyright clause. In support of his conclusion, he cited Federalist No. 43 that “the states cannot separately make effectual provision for either of these cases” (patents or copyrights).⁶⁹ He offered the following hypothesis as an example of what was intended by Federalist No. 43:

If for example in the case at bar, the defendant is forbidden to make and sell these records in New York, that will not prevent it from making and selling them in any other state which may regard the plaintiff's sales as a “publication”; and it will be practically impossible to prevent their importation into New York. That is exactly the kind of evil at which the clause is directed.⁷⁰

One of the commentators on Judge Hand's dissent proposed that nothing within the copyright clause dictates a requirement for uniformity, noting by way of contrast that another clause of Article I, Section 8 specifically mentions uniformity while the copyright clause does not.⁷¹ If uniformity is not required by the clause, this assertion would be wholly antithetical to later dicta in *Sears* and *Compco* and to traditional notions of uniformity necessitated in other Article I powers since *Cooley*.⁷² Moreover, other legislative history of the copyright clause mentions the need for uniformity.⁷³

In *Goldstein v. California*⁷⁴ the Supreme Court considered similar issues. The petitioners in *Goldstein* were convicted of violating § 653h of the California Penal Code which proscribed so-called “record piracy.”⁷⁵ The federal copyright law did not afford protec-

⁶⁸ Art. I, § 8, cl. 8. See note 47 *supra*.

⁶⁹ 221 F.2d 657, 667 (1955).

⁷⁰ *Id.*

⁷¹ Kalodner and Vance, note 64 *supra*, at 1084; Art. I, § 8, cl. 4 which grants Congress the power to provide for uniform laws of naturalization and bankruptcy.

⁷² See the authorities cited in note 63 *supra*. This point will be discussed *infra* in the hypothetical analysis.

⁷³ Fenning, “The Origin of the Patent and Copyright Clause of the Constitution,” 11 JPOS 438, 442 (1929). Madison's address to the Constitutional Convention mentioned the “want of uniformity in the laws concerning naturalization and literary Property.”

⁷⁴ 412 U.S. 546 (1973).

⁷⁵ The unauthorized duplication of recordings of performances by major musical artists.

tion to such recordings, while the state statute did.⁷⁶ Petitioners' first argument was that the state statute established a copyright of unlimited duration and was contrary to the "limited times" restriction of Art. I, Section 8, Clause 8 of the Constitution. Chief Justice Burger, speaking for a five member majority, dismissed this argument by finding that the *limited times* restriction applied only to congressional action and not to the states, and that the states did not relinquish a similar patent and copyright power to the federal government. The majority invoked the reasoning of Alexander Hamilton in Federalist Number 32 in support of its conclusion:

An entire consolidation of the States into one complete national sovereignty would imply an entire subordination of the parts; and whatever powers might remain in them, would be altogether dependent on the general will. But as the plan of the [Constitutional] convention aims only at a partial union or consolidation, the State governments would clearly retain all the rights of sovereignty which they before had, and which were not, by this act, exclusively delegated to the United States. This exclusive delegation, or rather this alienation of State sovereignty, would only exist in three cases: where the Constitution in express terms granted an exclusive authority to the Union; where it granted in one instance an authority to the Union, and in another prohibited the States from exercising the like authority; and where it granted an authority to the Union, to which a similar authority in the States would be absolutely and totally contradictory and repugnant.⁷⁷

The Court rejected the first two tests proposed by Alexander Hamilton by noting that the general language of Article I, Section 8 does not vest exclusive power in Congress, nor are states prohibited by other constitutional provisions from exercising a similar power.⁷⁸ The Court then proceeded to analyze Federalist Number 43 as the third test, employing a different method from that which Judge Hand had employed. Chief Justice Burger felt that Madison's proposal that states could not make effectual provision for patents and copyrights merely illustrated the difficulties an author or inventor would encounter in achieving national protection. The Court's notion that the state patent grants of the early 19th century⁷⁹ represented a promotion of *local* interests by the states seems inaccurate. Although it is true that the original intent

⁷⁶ The Copyright Act was amended to include such recordings but only after February 15, 1972; the criminal acts occurred between April 1970 and March 1971 so that no federal law was in effect. See Pub. L. 92-140, 85 Stat. 391, 53. Note also that a penal statute was involved in *Goldstein* which only indirectly created a perpetual copyright.

⁷⁷ 412 U.S. 546, 552-553 (1973).

⁷⁸ *Id.*

⁷⁹ See Federico, note 48 *supra*, also cited in *Goldstein*, 412 U.S. 546, 556, n.12 (1973).

of these grants was to limit the effects to the borders of the states, it must be recalled that it was a state patent monopoly that led to the landmark *interstate* commerce decision in *Gibbons*. Furthermore, a thorough reading of Federico's article indicates that the states had resorted to somewhat ruthless and retaliatory methods;⁸⁰ this evil, and not the author's difficulties, seems to be the intent of Madison's writings. The Court further illustrated *local* interests by giving examples of present state monopolies such as food concessions in a state park.⁸¹ What the majority did not point out was the fact that such a monopoly was not granted for perpetuity, as was the case in *Goldstein*. The Court also noted that Congress could preempt at any time the state's perpetual monopoly by including the writing or invention within the federal patent and copyright acts.

The petitioners' next argument was that the state law must be held invalid under the Supremacy Clause of the Constitution as conflicting within the federal policy of *Sears* and *Compco*. The argument that Congress intended as part of a uniform federal scheme, that individuals be free to copy a work not protected by federal copyright, was also advanced by the petitioners. The Court found that, since Congress did not bring these type of works within the purview of the Copyright Act, traditional preemption could not be inferred from the nature of any congressional action. This dictum seems to contradict the warning sounded by Justice Black in *Sears*: "States could allow perpetual protection to articles too lacking in novelty to merit any patent at all under federal constitutional standards. This would be too great an encroachment on the federal patent system to be tolerated."⁸² Moreover, *Sears* and *Compco* seem to refer to both the patent and copyright statutes as requiring the same rules of interpretation.⁸³

As a final argument the petitioners contended that, since the records they copied had previously been issued to the public, they had been *published* under federal law and could not be protected under a theory of state common law copyright as permitted by 17 U.S.C. § 2.⁸⁴ Chief Justice Burger dismissed this argument merely

⁸⁰ *Id.* at 174-175. Connecticut, New York, and New Jersey enacted rather onerous laws concerning *local* monopolies and licensing practices against their sister states.

⁸¹ 412 U.S. 546, 558 (1973).

⁸² 376 U.S. 225, 231 (1964).

⁸³ *Id.* n.7; 376 U.S. 234, 237 (1964); see also Justice Marshall's dissent in *Goldstein*, 412 U.S. 546, 578, n.3 (1973).

⁸⁴ 17 U.S.C. § 2—"Nothing in this title shall be construed to annul or limit the right of the author or proprietor of an unpublished work, at common law or in

by noting that California had granted the recordings the attributes of property while allowing no restraints on the use of a concept or idea which should be free for public use.

In summary, the Court reaffirmed *Sears* and *Compco* as not applying to *Goldstein*, since no congressional implementation existed.⁸⁵ The majority used the Cooley Doctrine to find that the subject was one which did not demand a single uniform rule because of the lack of need for national uniformity. Therefore, a negative implication stemming from the constitutional grant of power did not arise.⁸⁶

In his dissent, Justice Douglas would have extended *Sears* and *Compco* on the basis of a need for national uniformity.⁸⁷ Without discussing the *limited times* extension to state action, he agreed with Judge Hand's analysis of the meaning of Madison's requirement for uniformity and felt that uniformity could be accomplished only by *preemption*. His mention of *preemption* affords some difficulties; though he did not clarify the term, it would seem that he meant *constitutional preemption* for there had been no congressional action. His reading of *Goldstein* would also follow the Cooley Doctrine, but he stressed the need for national uniformity and hence the invalidation of the state law. This is perhaps the first time that a member of the Court makes reference to *preemption* when using the Cooley Doctrine. This reaffirms Justice Black's comments that there is no one precise formula for finding *preemption* or, in effect, federal supremacy.

A New Argument for the Limited Times Extension

Neither Justice Douglas nor Justice Marshall, dissenting in *Goldstein*, provided a counter-argument to the analysis the majority used to restrict the *limited times* restraint to congressional action. Perhaps there is no valid counter-argument other than Judge Hand's statement in *Capitol Records* that the patent clause has the effect of extending this restriction to the states *ex proprio vigore*, and that extending perpetual protection by the states would defeat the overriding purpose of the clause.⁸⁸

equity, to prevent the copyright, publication or use of such unpublished work without his consent, or to obtain damages therefor."

⁸⁵ 412 U.S. 546, 571 (1973).

⁸⁶ It will be shown under the hypothetical analysis that there exists an area in which Congress does not have to act in order for *preemption* to occur and hence any action would be invalid as *preempted* by Art. I, § 8 alone.

⁸⁷ Justice Marshall's dissent will be discussed in Section III.

⁸⁸ 221 F.2d 657, 667 (1955).

I should like to propose the argument that the states are restricted from granting monopolies of unlimited duration similar to a patent or copyright by either the Fourteenth Amendment's "privileges and immunities" or "due process" clauses.⁸⁹ This proposition would necessitate the incorporation into the Fourteenth Amendment some restriction other than found within the first eight amendments; *i.e.*, a limitation on Congress in Article I may be extended to the states through the Fourteenth Amendment. Although some justices have espoused the idea that the Bill of Rights should be embodied *en toto* in the notion of due process,⁹⁰ the majority have held to the concept of selective incorporation—the incorporation of rights so essential to fundamental principles of due process.⁹¹

The first point to be examined is whether a specific limitation on Congress can be applied to the states through the notion of due process. This had been done in *Gillow v. New York*⁹² in which the First Amendment, which states that "Congress shall make no law . . .," was held applicable to the states. However freedom of speech in *Gillow* was considered a right so fundamental that it was subsumed in "due process." But is the concept of an unlimited durational monopoly so repugnant to our constitutional system as to warrant the same analysis? Historically, many of the founding fathers felt so. Justice Clark, in his opinion in *Graham v. John Deere Co. of Kansas City* recounted some of the events that led to our present patent system:

Jefferson, like other Americans, had an instinctive aversion to monopolies. It was a monopoly on tea that sparked the Revolution and Jefferson certainly did not favor an equivalent form of monopoly under the new government, his abhorrence of monopoly extended initially to patents as well. From France, he wrote to Madison urging a bill of rights provision restricting monopoly, and as against the argument that limited monopoly might "serve to incite ingenuity," he argued forcefully that "the benefit of even limited monopolies is too doubtful to be opposed to that of their

⁸⁹ "No State shall make or enforce any law which shall abridge the privileges or immunities of citizens of the United States; nor shall any State deprive any person of life, liberty, or property without due process of law. . . ."

⁹⁰ *Adamson v. California*, 332 U.S. 46 (1947) (Black, J., dissenting). Compare Fairman, "Does the Fourteenth Amendment Incorporate the Bill of Rights? The Original Understanding," 2 *Stan. L. Rev.* 5 (1949).

⁹¹ *Bloom v. Illinois*, 391 U.S. 194 (1968). Only the right to grand jury indictment in Amendment V, the right to a jury trial in a civil suit in Amendment VII, and the prohibition against excessive bail or fines in Amendment VIII remain unincorporated.

⁹² 268 U.S. 652 (1925).

general suppression," IV Writings of Thomas Jefferson (Ford ed.), at 176 (July 1788).

His views ripened, however, and in another letter to Madison after the adoption of the Bill of Rights, Jefferson stated that he would have been pleased by an express provision in this form:

"Article 9. Monopolies may be allowed to persons for their own productions in literature, and their own inventions in the Arts, for a term not exceeding — years, but for no longer term and for no other purpose." *Id.*, at 493 (Aug. 1789).⁹³

The majority opinion in *Goldstein* seems to run counter to Jefferson's wishes, for it allows a monopoly of unlimited duration.

The Slaughter-House Cases⁹⁴ provide another historical source for our analysis. A Louisiana statute chartered a corporation and granted it a 25 year monopoly to maintain slaughterhouses. Butchers not included in the monopoly claimed the statute violated the Thirteenth and Fourteenth Amendments. The majority held in favor of the state—a factor which eventually led to the near disuse of the privileges and immunities clause of the Fourteenth Amendment.⁹⁵ In a vigorous dissent, Justice Field would have struck down the monopoly as a violation of the privileges and immunities clause:

Now, what the clause in question does for the protection of citizens of one State against the creation of monopolies in favor of citizens of other States, the fourteenth amendment does for the protection of every citizen of the United States against the creation of any monopoly whatever. The privileges and immunities of citizens of the United States, of every one of them, is secured against abridgment in any form by any State. The fourteenth amendment places them under the guardianship of the National authority. All monopolies in any known trade or manufacture are an invasion of the privileges, for they encroach upon the liberty of citizens to acquire property and pursue happiness, and were held void at common law in the great Case of Monopolies decided during the reign of Queen Elizabeth.⁹⁶

Later in his opinion he noted that the 21st statute of James I abolished all monopolies with the exception of several items including patents for new inventions for a *limited period*.⁹⁷ Justices Bradley and Swayne also dissented, but weighed their opinions more heavily on the due process clause.

⁹³ 383 U.S. 1, 7 (1966).

⁹⁴ 16 Wall. 36 (1873).

⁹⁵ *But see* *Duncan v. Louisiana*, 391 U.S. 145 (1968) (Black, J., concurring) in which the Bill of Rights was considered a privilege due protection under this amendment, as compared with the majority in *The Slaughter-House Cases*.

⁹⁶ *Supra* note 94, at 101-102.

⁹⁷ *Id.* at 104. The present attitude of the Court toward state economic regulation not violative of other constitutional provisions is in favor of the propriety of such laws.

There are dicta in dissenting opinions, therefore, to indicate that a monopoly, especially a perpetual one, might be included within the due process and privileges and immunities protections. In fact, other opinions indicate that the Fourteenth Amendment's protection may extend beyond the enumerated rights of the first eight amendments. For example, in *Griswold v. Connecticut*⁹⁸ Justice Douglas felt that the Bill of Rights had penumbras or emanations that should be afforded protection. In a concurring opinion, Justice Harlan stressed the fact that the state law infringed on the concept of ordered liberty, while Justice Goldberg, in another concurring opinion, joined by Chief Justice Warren and Justice Brennan, based his views on the Ninth Amendment. Therefore, it seems as if the protection afforded by the Fourteenth Amendment may not be strictly limited to the literal principles enumerated in the first eight amendments.⁹⁹

If the *limited times* restriction is to be applicable to the states, what would be an acceptable length of time? Could a state constitutionally grant protection to intellectual property for a period longer than allowed by Congress—17 years for a patent and 56 years for a copyright? This longer protection would certainly be within the range of something less than perpetuity. However, it would seem that the Supremacy Clause would bar a state from granting patent or copyright protection longer than that provided by Congress if the *limited times* restraint were incorporated into the Fourteenth Amendment.

One difficulty with this argument would be that if the *limited times* restriction is applicable to the states, then it might follow that the other restrictions of the clause should also be applicable. This would mean that any state protection of intellectual property must "promote the progress of science and useful arts," and the terms "writings," "authors," "inventors," and "discoveries" must be interpreted in light of any federal standards.¹⁰⁰ Such a restrictive reading could disallow any state protection whatever. However, the Court could selectively incorporate only those terms of the clause it deemed necessary; such could be the case for the *limited times* term if the Court found its violation contrary to traditional notions of *fundamental fairness*. Moreover, there is legal precedent—although

⁹⁸ 381 U.S. 479 (1965).

⁹⁹ See also Note, 50 Harv. L. Rev. 956, 961 (1937), arguing that the Fourteenth Amendment could have qualified the immunity from suit granted the states by the Eleventh Amendment and should therefore negate the legal friction of *Ex Parte Young*, 209 U.S. 123 (1908).

¹⁰⁰ Kalodner and Vance, note 64 *supra*, at 1082-1088.

solely with the Bill of Rights—for the Court to selectively incorporate rights within the Fourteenth Amendment.¹⁰¹

A second, and perhaps even greater, obstacle to using this argument would be the Supreme Court's present attitude toward economic regulation under substantive due process. Since 1937¹⁰² there has been a hands-off approach to interfering with state regulation of the economy. In effect, the Court has structured an economic-personal rights dichotomy when applying its due process formulae.¹⁰³

However strenuously the Court may deny any return to substantive due process, cases such as *Griswold* and the abortion decision in *Roe v. Wade*¹⁰⁴ portend such a revitalization, at least in the area of personal rights. Any double standard created under due process has, however, been slowly dismantled under the equal protection clause. *Economic equal protection* has surfaced in cases such as *Shapiro v. Thompson*¹⁰⁵ in which the Court held invalid a waiting period for welfare assistance.

If the Supreme Court is to incorporate the *limited times* restraint into the Fourteenth Amendment, it must balance the public's right to enjoy the benefits of free competition against the state's right to grant a perpetual monopoly for an article which may be unworthy of federal patent or copyright protection. At present the Court's decision in *Goldstein* signifies both a revitalization of states' rights and a turn away from maximum public enjoyment of intellectual property.

In view of the dormancy of the use of the privileges and immunities clause to restrict monopolies, the Court's non-interference with economic interests under substantive due pro-

¹⁰¹ See *Palko v. Connecticut*, 302 U.S. 319 (1947); *Herbert v. Louisiana*, 272 U.S. 312 (1926); *Snyder v. Massachusetts*, 291 U.S. 97 (1934); *Lisenba v. California*, 314 U.S. 219 (1941).

¹⁰² *West Coast Hotel Co. v. Parrish*, 300 U.S. 379 (1937).

¹⁰³ *United States v. Carolene Products Co.*, 304 U.S. 144, 152, n.4 (1938). Compare *Lynch v. Household Finance Corp.*, 405 U.S. 538 (1932). In *Lynch*, the right to enjoy property was considered a "personal" right; therefore, the public's right to enjoy intellectual property should also be considered a "personal" right. See generally McCloskey, "Economic Due Process and the Supreme Court, An Exhumation and Reburial," 1962 Sup. Ct. Rev. 34, and Struve, "The Less-Restrictive-Alternative Principle and Economic Due Process," 80 Harv. L. Rev. 1463 (1967).

¹⁰⁴ 410 U.S. 113 (1973). See Justice Stewart's concurring opinion in *Roe* in which he strongly accepts a return of substantive due process, 410 U.S. 113, 167-168 (1973).

¹⁰⁵ 394 U.S. 618 (1969). Cf. *Loving v. Virginia*, 388 U.S. 1 (1967); *Levy v. Louisiana*, 391 U.S. 68 (1968); and *Skinner v. Oklahoma*, 316 U.S. 535 (1942).

cess, and the fact that Congress could at any time preempt state protection of intellectual property,¹⁰⁶ an argument to extend the *limited times* restraint through the Fourteenth Amendment seems unlikely to succeed. Moreover, state protection of common law copyrights and trade secrets has been traditionally treated with a hands-off attitude from both the federal courts and Congress, and is likely to continue to be so treated.¹⁰⁷

Constitutional Preemption: A Hypothetical Analysis

I have previously discussed the situation in which Congress preempted state legislation without the substantive grant of a patent power. Now I shall consider the situation in which Congress was given a patent power in the Constitution but did not utilize it.¹⁰⁸ The question that must necessarily be answered by such an assumption is: what are the limits of state powers vis-à-vis both the constitutional grant of power and the extent of any congressional action under the patent power? To answer this question it is imperative that the more often litigated and critiqued congressional commerce power be analyzed, first because it experienced a period of dormancy similar to that of the patent power in the hypothetical, and second because it, too, is an Article I, Section 8 power.

Prior to the twentieth century, the Supreme Court was called upon to ascertain the breadth of state powers under the commerce clause, virtually without an extensive congressional legislative scheme. Four theories evolved from these decisions; each theory was proposed by the Court or a number of Justices at one time or another:¹⁰⁹

1. The commerce clause impliedly prohibits all state regulation of taxation or interstate commerce;¹¹⁰

¹⁰⁶ *Goldstein v. California*, 412 U.S. 546, 559 (1973). This appears to be one of the main reasons for the majority's allowance of state protection.

¹⁰⁷ See generally Kalodner and Vance, note 62 *supra*. See also *Kewanee Oil Co. v. Bicron*, 416 U.S. 470 (1974) which extended *Goldstein* to the area of state protection of trade secrets by allowing an injunction to run for perpetuity.

¹⁰⁸ This assumption is basically moot, as Congress wasted no time in exercising its power by enacting the first federal patent and copyright act in 1790, 1 Stat. 109. This hypothetical will be utilized to determine the extent of state powers and to determine whether the force of the Constitution by itself can *preempt* state legislation.

¹⁰⁹ See Dowling, note 63 *supra*, at 2-8.

¹¹⁰ *Gibbons v. Ogden*, 9 Wheat. 1, 209 (1824). See note 10 *supra*.

2. The clause itself prohibits nothing. The states are free to regulate until prohibited by congressional action;¹¹¹
3. The clause prohibits some but not all state regulation;¹¹²
4. Even though the clause prohibits nothing, the express or implied will of Congress does bar state legislation.¹¹³

Theories one and three above represent two possible views of constitutional preemption; in both instances a state law would be barred without affirmative intent or action on the part of Congress. Theory one delineates a strict definition of constitutional preemption¹¹⁴ and was refuted by the majority's reading of No. 32 of the *Federalist* in *Goldstein*. Theory three presents a more workable definition of constitutional preemption, as a negative implication arises from the constitutional grant of power solely in those situations requiring a single uniform rule.¹¹⁵ This negative implication provides a better definition of constitutional preemption, since it allows state regulation in certain instances while it bars it in others. Moreover, it is in accord with those tests proposed by Alexander Hamilton in *Federalist* Paper No. 32—a repugnancy of State action could only be inferred in those instances demanding national uniformity.

Theory four shifts the onus of invalidating a state law from the Constitution to Congress; *i.e.*, a conflict with the will of Congress is found, rather than a constitutional negative inferred.¹¹⁶ This theory assumes that no such doctrine as constitutional preemption exists and that preemption could be inferred from such nebulous factors as the silent will of Congress.¹¹⁷

The Court's categorization of *Sears* and *Compco* in terms of national uniformity similar to that in *Cooley*, and its reliance upon

¹¹¹ *License Cases*, 5 How. 504 (1847). This theory is no longer viable, as it would allow states to regulate in those areas of interstate commerce that would require national uniformity.

¹¹² *Cooley v. Board of Wardens*, 12 How. 299 (1851).

¹¹³ *Leisy v. Hardin*, 135 U.S. 100 (1890); *In re Rahrer*, 140 U.S. 545 (1891).

¹¹⁴ See note 52 *supra*.

¹¹⁵ *Cooley v. Board of Wardens*, 12 How. 299, 319 (1851). It is interesting to note that the modern concept of "occupancy of the field" or "preemption" evolved from Justice Johnson's concurring opinion in *Gibbons* in which he used the term "occupy so much of the field" (9 Wheat. 1, 234 (1824)). See Biklé, note 63 *supra* n.6, at 203. See also Hart, "The Relations Between State and Federal Law," 54 Colum. L. Rev. 489, 497, 526 (1954).

¹¹⁶ Dowling, note 63 *supra*, at 6; Biklé, note 63 *supra*, at 204.

¹¹⁷ Since this falls somewhere between constitutional and traditional preemption, it will be discussed in the following section.

Cooley and other commerce clause decisions in *Goldstein*, indicate that theories similar to those four in the interstate commerce area would have evolved had Congress not utilized its patent power. What then may be said of state patent grants in the absence of federal legislation? Although Chief Justice Marshall refused to address the issue of federal-state compatibility of patent grants in *Gibbons*, the prior state case of *Livingston v. Van Ingen*¹¹⁸ did. Chancellor Kent, in finding state patents constitutional, stated:

A state cannot take away from an individual his patent right, and render it common to all the citizens. This would contravene the Act of Congress, and would be, therefore, unlawful. But if an author or inventor, instead of resorting to the Act of Congress, should apply instead to the Legislature of this state for an exclusive right to his production, I see nothing to hinder the State from granting it, and the operation of the grant would, of course, be confined to the limits of this State. Within our own jurisdiction, it would be complete and perfect. . . . Congress may secure for a limited time an exclusive right throughout the Union; but there is nothing in the Constitution to take away from the states the power to enlarge the privilege within their respective jurisdictions.¹¹⁹

Although state court decisions on constitutional issues are not binding on the federal courts, the decision in *Livingston* was accorded great weight by Justice Harlan in *Patterson v. Kentucky*.¹²⁰

From the foregoing, it would appear that state patents, effective only within the respective jurisdictions, would in fact have flourished had Congress not used its power. Moreover, since *Goldstein*, states are now again free to protect intellectual property of purely local interest.¹²¹

As for a definition of "Constitutional Preemption," let me say that in some instances the force of the Constitution acting alone may preempt state legislation. Whether the Court utilizes such terms as "a need for national uniformity," "unreasonable burden on interstate commerce," or "direct-indirect effect on interstate commerce" the result is the same: the invalidation of a state law without congressional action.¹²²

¹¹⁸ 9 N.Y. 507 (1812).

¹¹⁹ *Id.* at 581.

¹²⁰ 97 U.S. 501, 508-509 (1878).

¹²¹ For examples of such property, see Kaul, note 15 *supra*, at 199-202.

¹²² It seems as if the Supreme Court is rarely willing to phrase its decisions in terms of the force of Art. I, § 8 alone, precluding state action. It uses the above terminology as a means to the same end: a curtailment of state power. However, in essence a negative implication within the Constitution does arise. See *Kelly v. Washington*, 302 U.S. 1, 9 (1937).

III. The Silence of Congress

In the previous two sections I have discussed a curtailment of state powers both by the Constitution itself and by congressional action. In this section, I shall show that, although the Supreme Court does not refer to it as preemption, theory four represents a middle ground between Traditional and Constitutional Preemption upon which state action is preempted.

Justice Marshall, in his dissent in *Goldstein*, argued that *Sears* and *Compco* should be extended to *Goldstein*, and thus the California statute should be invalidated. His interpretation of *Sears* and *Compco* reflects a judgment that these two cases should be placed in theory four:

The Court adopted in those cases a rule of construction that, unless the failure to provide patent or copyright protection for some class of works could clearly be shown to reflect a judgment that state regulation was permitted, the silence of Congress would be taken to reflect a judgment that free competition should prevail.¹²³

His reading of *Sears* and *Compco* follows the doctrine enumerated in *Leisy v. Hardin*¹²⁴ and *Bowman v. Chicago & Northwestern Ry.*¹²⁵ that the state law must be barred by a supposed conflict with the will of Congress as inferred from its silence.¹²⁶ It would seem then that a state statute might be invalidated by a quantum less than congressional implementation but greater than a constitutional negative implication. This indicates that theory four presents a type of preemption different from either the traditional or constitutional types.

Justice Marshall's interpretation of *Sears* and *Compco* therefore seems to attempt to remove these cases from the area of Traditional Preemption and place them in theory four. An analysis of this nature is not without difficulties. As the majority in *Goldstein* point out, the standards for patentability provided by Congress indicated both the areas deemed worthy of patent protection and those which Congress wished to remain free for public use. Chief Justice Burger noted the importance of *Sears* and *Compco*:

The application of state law in these cases to prevent the copying of articles which did not meet the requirements for federal protection disturbed the careful balance which Congress had drawn and thereby necessarily gave way under the Supremacy Clause of the Constitution.¹²⁷

¹²³ 412 U.S. 546, 577-578 (1973).

¹²⁴ 135 U.S. 100 (1890).

¹²⁵ 125 U.S. 465 (1888).

¹²⁶ Bickel, note 63 *supra*, at 207-208.

¹²⁷ 412 U.S. 546, 569-570 (1973).

Congress seems not to have been *silent* at all in these cases but appears to have acted affirmatively.¹²⁸ Justice Marshall's reading of these two cases therefore appears somewhat inaccurate. However, Justice Marshall's finding that congressional silence betokens a determination that the benefits of competition outweigh the impediments placed on creativity by the lack of copyright protection¹²⁹ appears tenable if applied to *Goldstein*. He is merely placing *Goldstein* among those cases following *Leisy* and *Bowman*, and, since Congress was *silent* in the area of sound recordings, such a solution is credible. The determinative test of theory four was proposed by the Supreme Court in *Bowman*: ". . . State legislation, however legitimate in its origin or object, when it conflicts with the positive legislation of Congress, or its intention reasonably implied from its silence, . . . must fail."¹³⁰ Hence, there lies a middle ground upon which the Court may curtail state powers.¹³¹

Conclusions

There are three different means the Supreme Court has utilized to preempt state laws when federal and state powers conflict: (1) a finding of a negative implication within the Constitution itself; (2) a finding that a congressional exercise of power had displaced the state statute; and (3) a finding of a conflict with the implied will of Congress as inferred from its silence.

The negative implication within the Constitution arises when there exists a need for national uniformity or there is a substantial interference with the free flow of commerce. The constitutional grant of power to Congress under Article I, Section 8, does not of itself preempt state legislation.

When Congress exercises its power, it is not necessary that the federal and state laws be in direct conflict for preemption; only a touching of the federal area must occur for curtailment of state powers. Nor is it necessary that Congress occupy the entire field for federal dominance—for state laws may be invalidated merely by a congressional intrusion into a certain area. Although there would be a loss of federal dominance, Congress may hypothetically

¹²⁸ Congress' specificity as to the criteria for patentability may be viewed as an affirmative rather than a negative act.

¹²⁹ 412 U.S. 546, 579 (1973).

¹³⁰ 125 U.S. 465, 482 (1888).

¹³¹ I shall not attempt to define the limits of this middle ground, as its nature depends basically upon a case by case determination of the Court. See note 63 *supra*.

preempt by granting national effect to a state statute through its powers under the Full Faith and Credit clause. Also, there exists a preemptive power stemming from a concept as nebulous as the silence of Congress.

The Court's recent decisions in *Goldstein v. California*¹³² and *Kewanee Oil Co. v. Bicron*,¹³³ although not wholly overruling *Sears* and *Compco*, signify a return of states' rights in the area of intellectual property that had been partially restricted since *Gibbons v. Ogden*.¹³⁴ Moreover, *Goldstein* and *Kewanee*, along with other recent preemption decisions,¹³⁵ indicate that each case will be decided on its own merits—thus reiterating Justice Black's assertion that there is no precise formula or constitutional yardstick for a finding of preemption.¹³⁶

As to the quest for imaginary solutions to moot problems, this leads one to think of a little girl whose search for a curious white rabbit with a waist coat and pocketwatch led to similarly insolvable riddles. But, alas, if only along the way we had heeded the advice of those two odd little men, Tweedledum and Tweedledee, the controversy might have been settled earlier:

Contrariwise, if it was so, it might be; and if it were so, it would be;
but as it isn't, it ain't. That's logic.¹³⁷

Acknowledgement

The author would like to thank Professors Sevareid, Reinstein, and Myers of the Temple Law School faculty for their valuable advice on this project.

¹³² 412 U.S. 546 (1973).

¹³³ 416 U.S. 470 (1974).

¹³⁴ 9 Wheat. 1 (1824). States' rights have always existed in common law copyrights and trade secrets.

¹³⁵ *Burbank v. Lockheed Air Terminal*, 411 U.S. 674 (1973) and *Askew v. American Waterways Operators*, 411 U.S. 325 (1973).

¹³⁶ *Hines v. Davidowitz*, 312 U.S. 52, 67 (1941).

¹³⁷ Carrol, "Through the Looking Glass," Chapter IV.

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The PTC Research Foundation— New Location, New Programs, New IDEAs

ALAN A. SMITH*

Let me start by noting that I have a very flexible presentation. If there is lots of time available, I can talk about The Patent, Trademark and Copyright Research Foundation of The Franklin Pierce Law Center, which is our full, official name. But if time is short, I can simply talk about the PTC.

In a sense, I'd rather do that anyhow, and not only to save time. For while as a research organization we continue our interest in Patents, Trademarks and Copyrights as essential instruments for the protection of industrial and intellectual property under our free enterprise system, we intend also to expand the range of our interests much more broadly into the basic problems of invention, innovation and the many roles of technology in business.

So perhaps, at some time in the future, we will even want to back up the acronym PTC with different words. As a starter, I will offer Property, Technology and Commerce, but no doubt any of you can do better, and I invite your entries in the contest, at your leisure.

In any event, I submit that having a flexible talk is an innovation in programming. But I submit also that innovation, sometimes in

* Director, The PTC Research Foundation. This article is a composite of introductory remarks delivered to the EEC Conference reported on herein and several talks given by Mr. Smith before professional groups which had expressed interest in learning about the present status and future plans of the PTC.

obscure ways, is part of the stock in trade of both the PTC and The Franklin Pierce Law Center. For I find from the archives that it was none other than Franklin Pierce, fourteenth President of the United States, 1843-1857, and the only U.S. President from New Hampshire, who officially introduced the Christmas tree to the United States of America. German settlers, mostly in the mid-West, brought the custom with them, but it wasn't until Franklin Pierce illuminated a Christmas tree in the White House that there was any even semi-official recognition of what had been considered up till then a basically pagan custom.

But rather than dwell on Franklin Pierce, I should tell you something about the Law Center named after him, and its PTC Research Foundation. First, a little history.

History

Most of you were no doubt familiar with the PTC when it was associated with The George Washington University in Washington, D.C. The story goes back to February 1949, when the American Patent Law Association, by resolution at its stated meeting and subsequently by referendum vote, recognized a need for research and education, under university auspices, in the field of patent and related systems of law. The George Washington University agreed to undertake the establishment of an appropriate organization, later endorsed by the American Bar Association and 15 of the then 18 state and city patent law associations.

I am fascinated to note that, in its first incarnation, the PTC was known as *The Patent, Trademark and Copyright Foundation*. It was not until September 1, 1963, that the name was changed to *The PTC Research Institute* of the George Washington University; so now, in our new location, we have our old foundation name back again!

In any event, over the next fifteen years or so, the PTC made substantial progress in its many programs of research, education, awards for creativity, and well-deserved corporate support. The Advisory Council came to include some of the leading figures in the whole country; the research staff were in large part leaders, each in his own field of investigation into the realities of industrial and intellectual property systems. Annual conferences, and the ceremonies relating to the presentation of the Kettering award and the Inventor of the Year award, attracted national attention.

All these accomplishments, I want to point out, redound primarily to the credit of one man—Professor L. James Harris, formerly

Director of the PTC Research Institute. Many of you know him, and you will share with me the conviction that if it hadn't been for his personal dedication, there would be no high reputation of the PTC, for those of us who are now concerned, to inherit.

Despite that high reputation, it became apparent to the George Washington University along about 1970 that the mechanics of PTC operation would have to change, to keep pace with changes in the University imposed by changes within society itself. So the Advisory Council of the PTC established within itself a Transition Committee, and the question it asked was: What new form should the PTC take? At that stage, I had the honor of being invited to work with the Transition Committee, at the suggestion of its former Chairman, Earl P. Stevenson, then Chairman of the Board of Arthur D. Little, Inc., my old alma mater.

The first solution proposed was—an independent, not-for-profit research institute. And we set about raising funds to bring that transition about. Interestingly enough, however, the reaction from members of the Institute was a resounding no! Evidently, they simply didn't want another new patent research organization which, it appears, they would regard as just another lobbying group, no matter how meritorious its programs. Over the years, the PTC had built up a substantial reputation for academic impartiality, and it was the opinion of the members that it ought to be preserved at all cost.

Consequently, our second approach was to search for an alternative university sponsor. To make a long story short, we found it in the Franklin Pierce College and its new Law Center, and I should tell you something about them.

Franklin Pierce College
Franklin Pierce Law Center

Franklin Pierce College was founded in 1962 by the man who is still its able President, Frank S. DiPietro, and located in the town of Rindge in the Southwestern corner of New Hampshire. It is a fully accredited non-sectarian coeducational institution of higher learning, with an undergraduate enrollment of more than 900 students. The student body comes from all over the United States and a few foreign countries although, as you can imagine, the College serves primarily the New England region, plus upstate New York.

The Law Center, the first graduate program of Franklin Pierce College, is located at Concord, New Hampshire, the state capital.

Like all law schools, the Franklin Pierce Law Center offers a general graduate program of instruction leading to the Juris Doctor degree, through a three-year course of full-time study and legal internship. The Dean of the Law Center is Robert H. Rines, probably well known professionally to many of you as a patent attorney with offices in Boston. The innovative programs of the Law Center reflect, in large part, Bob Rines' personal interest in the problems which arise at the interface between law and technology, and the academic atmosphere at the Law Center—because of those interests—is an ideal one for nurturing the further growth of the PTC.

Let me illustrate the point by quoting one paragraph from the 1974-75 information bulletin of the Law Center:

In addition to affording an opportunity for a legal education that can prepare a student for a wide variety of professional careers, the Law Center sees a responsibility as a new school to make a significant contribution to legal education and research in this country. In the past, no law school has taken on, as a major concern, the impact of technological breakthroughs of the Twentieth Century on our legal system and the relationship of the United States with other nations. The vast changes brought about or made feasible by scientific and engineering advances vitally affect the premises and applications of health and safety laws, antimonopoly and fair trade legislation, international trade agreements and other treaties, as well as the laws that establish and protect the proprietary rights of innovators and creators. The technological capabilities for mass transportation, space exploration, environmental protection and pollution control, and harnessing of new energy sources, are only a few examples of the technological innovations that call for comparable legal innovations to realize their benefits for the well-being of the community. The achievement of just outcomes in legal decision-making itself may be greatly improved by the wise and creative use of data processing and retrieval systems and other new tools from the sciences"

The PTC Research Foundation

Now I should turn to the PTC itself. I mentioned that, beginning in 1970, the Transition Committee became concerned with the problem of finding a new and appropriate academic location for the PTC program. During the course of the search, I talked with Bob Rines, among many other people, and he told me about his plans for the Law Center, still in the formative stage. By the middle of 1972, PTC activities at the George Washington University had come to an end, but the Law Center was still on the drawing board. So the Transition Committee asked George Washington to put the affairs of the PTC in escrow for a year, and that was done.

Late in 1972, arrangements were concluded for the Law Center to open its doors to students in September of 1973, so it became apparent that the PTC would have a viable new home. Accordingly, an appropriate new Declaration of Trust for the PTC was worked out, the assets were transferred to the Franklin Pierce College as the parent organization, and the PTC—again a research *Foundation*—was back in business.

The best description of that business I can give you, I believe, is embodied in the Statement of Purpose for the PTC dated November 1, 1973 so let me just read it to you now:

The PTC Research Foundation is now established at the Franklin Pierce Law Center as "a continuing foundation for research and education relating to industrial and intellectual property, including patents, trademarks, copyrights and scientific and technical information. . . ." (Declaration of Trust)

More specifically, the Foundation fosters research, education, training, instruction, knowledge and publication in the fields enumerated above, with faculty and students of the Law Center participating in the Foundation's programs, as part of the Center's practical training. Research projects will often be carried out jointly with other institutions of higher learning and, in addition, authorities in the Foundation's fields of interest will contribute as Research Associates and Consultants. The Advisory Council, comprising leaders in industry, law and the professions who are concerned with innovation, will work with the Dean of the Law Center and the Director of the Foundation to help establish overall policy.

The Foundation has taken into its Trust the assets of the PTC Research Institute of The George Washington University, and will continue many of the Institute's programs, including publication of the journal *IDEA*. New projects will be directed toward solving contemporary problems related to intellectual property through what Professor L. James Harris, former Director of the Institute, has called:

"... objective research and education in the fields of patents, trademarks, copyrights, and other aspects of industrial-intellectual property, such as invention, innovation, and related trade practices."

The business community, and the concerned public, must have truly objective information about the relationship between the United States Patent, Trademark, and Copyright systems and the antitrust laws, the tax laws and other laws, and contemporary court and administrative decisions and policies which affect trade practices, the arts and the innovative process, as well as the posture of American industry in domestic and international competition.

It is imperative that such information, gained through impartial research, be made available, through publication and otherwise, to help in the formulation of sound national policies concerning intellectual property. Further, research results in this field should be at the command of those who serve and those who will serve as administrators and officials of government, business enterprises, and regulatory bodies of the future.

The Franklin Pierce Law Center, with its unique program of multi-disciplinary, legal/technological training, will meet the academic requirements for understanding, as well as provide for "internship" in the solution of contemporary problems, both national and international in scope. The programs of the PTC Research Foundation will comprise "laboratory research", with emphasis on the publication and dissemination of significant new results.

To quote from Dean Robert H. Rines of the Law Center:†

"... invention, patents and innovation cannot be treated apart from their social, political and economic environment - - - - To review the principles of patent law without delving into the interplay of many aspects of our society would be to discuss a theoretical, nonexistent system."

The basic purposes of the PTC Research Foundation are thus, in an academic, though practical atmosphere, to study and report upon the existing practical systems for dealing with industrial and intellectual property, and to identify current problems and their possible solutions, to the benefit of business, the inventive community and the public at large.

Now how do we achieve the goals we have established for ourselves, continue the programs of the PTC, and even expand upon them? I think I should give you brief answers under three categories—research, education, and people.

Research

The *research* activities of the PTC are of course inherent in the name of the organization itself and the concepts which underlie it. We have felt strongly that we should get research going as soon as possible, even in advance of receiving the substantial supporting funds which we anticipate during the coming years.

So we have gotten started by the device of launching cooperative research endeavors with other educational institutions—to start with, on a very modest basis. Three projects are being conducted jointly with M.I.T., and one with the University of Massachusetts. Let me review them briefly:

1. The Patent System and Innovation:

Seniors and graduate students in the Electrical Engineering Department at Massachusetts Institute of Technology (MIT) who are taking courses dealing with innovation have started a joint research project with law students at the Franklin Pierce Law Center. Primarily, they are updating and quite extensively expanding upon earlier statistical information appearing in *IDEA* on the

† R. H. Rines: *Create or Perish*, Acropolis Books, 1969; permission, M.I.T. Press.

actual workings of the patent system of the United States. The project includes in-depth probing of who is actually using the patent system, for what purposes, with what attitudes, and with what degree of success or lack of success. In addition, with the assistance of the Academy of Applied Science, the students of both institutions hope to develop detailed case studies on the problems of innovation, primarily among the newer-technology companies in the New England environment. Findings will be published in future issues of IDEA.

2. The Role of the Technical University in Aiding Innovation:

At MIT, Professors Y. T. Li, George Newton and Francis Lee are actively conducting courses in innovation, to carry inventive and entrepreneurial students, in real-life activities, through the development of inventive ideas to actual reduction to practice and introducing the developments into the market place by licensing or even forming new companies. Professor Thomas Field, Dean Rines of the Franklin Pierce Law Center, and PTC Research Advisor Harry Saragovitz, with students, are serving as the legal inventors of a flexible system for administering the legal aspects of this program.

3. Communication Problems Between the Legal Community and the Scientific-Engineering-Technological Community:

The PTC is providing auspices for defining fruitful areas of innovation and data-taking in a three-way study of this problem, involving technical, behavioral and legal investigations at MIT, headed by Professor J. D. Nyhart. Other direction comes from Associate Dean Robert M. Viles and Instructor Joseph Dickinson of the Law Center; and Robert Bigelow, Esq. of the American Bar Association Law and Technology Committee. As a member of the PTC, I shall also be aboard this project, which is looking towards a working conference to define the problem areas and lines of attack for study.

4. Business Failures Among Innovators:

Some small, high-technology businesses fail—not necessarily because the inventions they are promoting have no merit, but because something goes wrong in the process of innovation or doing business, which is to say, commercialization. Question—given sufficient hard data concerning business failures, particularly among the smaller innovators, could computer simulation be used to develop a useful model of the process? If so, could the courts use a computer model to judge the merits of alternative plans for

reorganization? Could the data suggest good ways to administer bankruptcy proceedings, SBA and banking financing considerations, and the extension of tax relief, among other matters?

Answers to these important questions are the goal of a joint project between the PTC Research Foundation and the University of Massachusetts, that has already started. Directing the work at the University of Massachusetts is Professor Kenan Sahin of the Department of Management. Investigators for the PTC will be headed by Associate Dean Robert M. Viles of the Franklin Pierce Law Center, who is most anxious to inject into the computer modeling the legal restraints upon business operations, including bankruptcy concepts. Professor Viles joined the Law Center following his work as Research Director at the U.S. Commission on Bankruptcy, and he is anxious to try out new proposals in this area on the computer. Results of the investigation will be published in future issues of *IDEA*, and/or reported during special workshop conferences.

In fact, I should also mention another joint project—this one not with an educational institution, but with the consulting firm Harbridge House in Boston, working under a grant from the National Science Foundation. The purpose of this one is to determine the extent to which the availability of protection for intellectual property affects or does not affect the utilization of innovations. Appropriate questionnaires have been mailed out to 550 presidents of companies producing goods and services in each of the three industrial markets; energy, public health and pollution. Preliminary results are now being worked up.

Finally, another new project, since it illustrates one of our basic beliefs—that research in our field, while it should remain academically impartial, should nevertheless be as practical as possible. The question is very close to that raised by many industrial companies: Is patent protection in *Eastern* Europe really worth the cost? The problem faces a number of our members in very specific ways—perhaps it faces you as well—and with the help of some of our research associates, plus special corporate funding, we want to launch the appropriate investigation during 1974.

Education

Let me talk now about *Education* as the second of those three categories. First, we see publication as crucial to our whole educational program—what good does it do to conduct research if the results are never published?

Our major publication will be the law journal IDEA, the PTC Journal of Research and Education. As many of you know, it started publication in June 1957 with Vol. 1, No. 1, and it continued through the Conference Number of Vol. 15 at the end of 1972. Then came the escrow period, and the eventual transfer of assets from George Washington to the Franklin Pierce Law Center; among those assets was IDEA.

The first new issue of IDEA will be the Conference Issue of Volume 16, featuring the proceedings of our Fall Conference held in Concord, New Hampshire, October 31-November 4, 1973: Future American Trading in the EEC. That Conference Issue is scheduled for publication early in 1974, and we plan two more issues during the remainder of the calendar year. Manuscripts are in hand, and our Editorial Advisory Board is reviewing them but, I should add, the Board welcomes further submissions so, if you have appropriate material in process, we will be glad to hear from you.

During 1975 and thereafter, our plans call for returning to the customary publication rate of four issues plus the Conference Number each year. In that effort, we will have the benefit of cooperation from the Academy of Applied Science, an organization which is also much concerned with innovation, and which maintains offices both at the Law Center and in Boston. But meanwhile, in advance of the full publication rate of the journal IDEA, we have also launched our newsletter IDEAs, to keep our present and former members, and many friends of the PTC, up-to-date on our progress.

I should go back for a minute and say that our Fall Conference, which I mentioned briefly, represents the second of our educational endeavors. We expect to continue such public sessions in the future, as the PTC Research Institute did so well in the past, as a most important part of our overall goal of research and education in the field of industrial and intellectual property.

People

For the third category, I want to mention *people* as being most important to us in determining our future progress. We have of course the backing of the President and Trustees of Franklin Pierce College, of Dean Rines, Associate Dean Viles and the entire faculty of the Law Center. We have a long list of potential Research Associates—men who worked with the PTC in the past and are anxious to do so in the future, as soon as we can get research

programs off the ground. We have our five-man Editorial Advisory Board with its Chairman, Harry Saragovitz, who manages our Washington Office. And we have a small but select Advisory Council including, I am delighted to say, three men who served on the Transition Committee for the PTC Research Institute—Earl Stevenson, whom I have already mentioned, John Green, formerly head of OTS in the Department of Commerce, and Ted Bowes, now Executive Director of IPOA.

Finally, we have our membership—about 50 corporate members so far, and another 50 who are either individuals or representatives of law firms. We are delighted to have them with us and we naturally hope they will be joined by many others during the years to come.

THE CONFERENCE

The dates October 31-November 4, 1973 (Wednesday through Sunday) were chosen for the PTC's Fall Workshop Conference concerning Future American Trading in the European Economic Community (EEC). Leading experts from both Europe and the United States chaired the working sessions. Joint sponsors of the Conference were the PTC Research Foundation of the Franklin Pierce Law Center and the Academy of Applied Science. Dean Robert H. Rines of the Law Center was moderator.

As discussed more fully later in this article, there are serious implications of recent EEC free trade and related decisions. These implications, and current trends in European ways of doing business, will seriously affect American trading and technology licensing in Europe. The problems were examined, and perhaps first steps towards solutions were developed, at the informal sessions of the Fall Conference.

The base of operations for the Conference was the New Hampshire Highway Hotel in Concord, a one-and-one-half hour's drive from Boston. One session was held at the Franklin Pierce Law Center, so that Conference registrants could meet its faculty and inspect its facilities, including the offices and library collection maintained by the PTC at the Law Center.

Implications

The implications of recent EEC legal and policy decisions and trends in the administration of trade and technology transfer, including franchising and licensing of industrial and intellectual

property rights, are just becoming apparent to American, British, and other European businessmen, lawyers, technologists, inventors, and government agencies concerned with commerce, trade, technology and proprietary rights.

The Fall Conference was arranged by the PTC in the belief that an immediate understanding of the trends, and new rules of doing business and dealing with proprietary rights in Europe, are of urgent concern to the largely uninformed American commercial, legal, university and Government community. The following section of this article presents a brief background analysis, drawn largely from articles that have appeared in the PTC journal, *IDEA*.

The first full session of the Fall Conference, on November 1, 1973, was devoted to position papers by Messrs. Weiser, Federico, and Johnson, whose remarks appear later in this issue. The afternoon consisted of "Working Sessions," devoted to an examination of the questions raised by the morning presentation. The same format was followed on November 2, when the morning speakers were Messrs. Noble, Holmqvist, Gori-Montanelli and Kessler. An evening public session at Representatives' Hall in the State House in Concord included the above speakers plus Mr. Adolfo Comba of the EEC, and there was a summary session on Saturday evening, November 3.

EEC Trends—Background Analysis

The Patent, Trademark and Copyright Research Institute (PTC), formerly of the George Washington University, to which the PTC of Franklin Pierce Law Center has succeeded, has an interesting history of closely following the development of the European Economic Community (EEC) "freedom of competition" concepts, and their impact upon the public and private industrial and other property rights and business practices, not only of member states and their citizens, but of nationals of other lands, including the United States. We summarize here, briefly, certain writings of the original PTC that will serve as an excellent source of background material.

Implementation of the antitrust provisions of the Treaty of Rome¹ (Articles 85 and 86), which treaty established the European Economic Community, commenced with the effectuating of regulations in early 1962.² An early summary of these regulations was

¹ March 25, 1957, effective January, 1958. U.N.T.S. 14-94 (1958); 51 *AM. J. Int'l. L.* 865 (1957).

² Journal Officiel des Communiqués, Règlements No. 17 du Conseil, eff. March 13, 1962.

reported in the Patent, Trademark and Copyright Journal of Research and Education (later named IDEA)³ with the caution by Gerard J. Weiser.*

A new era in the 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 . . . "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"

And a significant *caveat* was issued that:

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*.

Later in 1962, Weiser reported⁴ on a draft of a Common Market patent system and its possible

serious dampening effect on the flow of protected property between the United States and the EEC,

particularly as a result of its apparent proposed vitiating of patent filing and priority rights assured by the long-existing Paris Union Convention.

Updating of patent and antitrust developments,⁵ left PTC readers with the impression that the EEC was going to proceed in these areas in its own interests, irrespective of difficulties that this might introduce for American or other outside innovators or business operations—a direction that seems now equally strongly to be impacting upon the British community as it undertakes to operate under this system.

In one important area, as an example, it was pointed out that the only exclusive distributorship arrangements found *not* violative of free trade concepts by the EEC Antitrust Commission: (1) were void of prohibitions against re-export into other EEC countries; (2) did not prohibit the parallel imports into the distributor's "exclusive" territory from buyers outside that territory; (3) did not prevent the distributor from simultaneously handling competitive products; and (4) had no resale price control. These matters are hardly

³ Gerard J. Weiser, "Freedom of Competition in the European Economic Community: An Analysis of the Regulations Implementing the Antitrust Provisions," *PTC J. Res. & Ed.* (IDEA) Vol. 6, No. 1, 1962, p. 20.

* A speaker at the Fall Conference.

⁴ Gerard J. Weiser, "The European Common Market Patent Convention: The Right to Apply For a Common Market Patent," *PTC J. Res. & Ed.* (IDEA) Vol. 6, No. 3, 1962, p. 317.

⁵ Gerard J. Weiser, "Patent and Antitrust Developments in the European Economic Community—A Sequel," *IDEA*, Vol. 10, No. 1, 1966, p. 1.

recognizable as exclusive distribution arrangements under established British and American business practices.

The relatively recent events of substantial retroactive fines, for even long-established conventional arrangements, licenses, distributorships, etc., now held to be illegal, coupled with the whittling away of national patent scope (which used to prohibit each of manufacture, use or sale), and the abolition of other concepts long accepted in American understanding and practice, stimulated the PTC's Fall Conference, and with a sense of extreme urgency.

I FIRST SESSION

Introductory Remarks

ROBERT H. RINES*

I'm Robert Rines, Dean of the Franklin Pierce Law Center, New Hampshire's first law school, which opened its doors to its first one hundred students just a few weeks ago, September 18th, 1973. It's appropriate, I think, to say a few words about the Law Center, and the Patent, Trademark, and Copyright Research Foundation, which was formerly located at the George Washington University in Washington, D.C., and which we have in effect inherited.

One of the reasons for establishing the Franklin Pierce Law Center at this time is that very few very qualified law students find they can have the opportunity of being admitted to first grade law schools—the ratio is in excess of three applicants to every one accepted. In order to be an applicant for a law school, you must not only be a graduate of a college or university (and in a good many cases many of our students have advanced degrees), but you must also have relatively high cumulative grade averages and score relatively well in what they call the Law School Aptitude Test. Yet you find that there are over 50,000 young people in the United States who want law school training, and often the admissions people appear to flip a coin to decide whom they will admit!

Apart from that problem, one of the things that has disturbed a number of us who have been in private practice over the years is that no law school in the United States, really, is particularly

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concerned with doing research in the sense that the scientist might use that word. Automatically, the word implies *interdisciplinary* research, not a lawyers' monopoly, but lawyers working in conjunction with the people who use society. More than that, the words—capitalistic system, free enterprise, industrial property and intellectual property—seem to be bad words in our society, and most law schools prefer to avoid them in favor of talking about other things—very important things to be sure, the poverty law, environmental law, and all the other things that are in vogue today. But many of us believe what has happened to the United States is the result of lack of education and understanding of the system on the one hand, and perhaps an unwillingness on the part of the practitioners on the other hand, to admit that maybe some basic modern changes are required in our industrial and intellectual property systems. A system that was designed for 1790 and that still works in 1970 is a remarkable thing but it's remarkable that it is still working at all!

Therefore, we became convinced that there had to be some kind of a dynamic infusion of new ideas—not just more speeches and conferences and Congressional hearings, with lawyers on one hand insisting that the country would fall apart without patents, and some antitrust people on the other hand insisting that patents were needless monopolies, research was a monopoly of the Government and big corporations which outlived the need for patents, and so on. We saw the need for an institution that would, from an academic and impartial point of view, study what's really working and what isn't working, and be a trustworthy data gatherer, a barometer, if you will, for the Congress and for the whole industrial-intellectual community. Indeed, the institution should be flexible enough and dedicated enough to want to find out how, in today's big-government society, we *can* have a vigorous and strong free enterprise system.

We are convinced that, unless somebody moves and moves fast, all of the trends in the United States will support a crushing, if you will, of the sanctity of industrial property, the sanctity of the original Constitutional mandate that in return for making things public you would be protected from the pirates. We draw our conclusions from the pronouncements of our Antitrust Department, our Federal Trade Commission and even our Supreme Court, in their efforts to do away with what they feel is an improper kind of monopoly system in America. And we now find that Americans are not the only ones facing the abolition, the

destruction, the emasculation if you will, of property rights; our brethren in the European Economic Community—and more importantly the newest member, from whom we have derived our Anglo-Saxon traditions and concepts, Great Britain—now suddenly have discovered what it means for property rights to have joined the EEC, and what the future may indeed hold for them, as well as for Americans wishing to do business in Europe.

To give us a common base of understanding, we will begin our very informal conference this morning with a review of how competition within the European Economic Community is being conducted under the guidelines of the Treaty of Rome, and a discussion of the trends, and the history and development of those competition concepts and rules and norms that have been evolving recently, about which the American industrial and legal communities are largely uninformed. One of our functions here is to try to have you carry back not just pronouncements of people talking to you about what has happened, but an informed view of what the trends seem to indicate is going to be required from American industry and American technology in the future. How can we even trade legally in the Europe Economic Community? Perhaps as important, or more important, how can we get a fair break for American business in the European Economic Community? Those of you who travel or who have been abroad know what the tremendous devaluation of the dollar has meant!

So this morning, three speakers are going to set the tone for what we will be calling, in the afternoon, “workshop sessions.” Those of you who are particularly interested in the subject matters that are covered by the three speakers this morning will select those sessions which the speakers will introduce this afternoon. In the small sessions we will welcome your questions and answers, and hopefully stimulate discussion of the problems that you’re concerned with and how these experts feel they may be treated in the light of very serious recent trends in what is allowable competition and the enforcement and protection of proprietary rights in Europe.

We plan to tape-record both the speakers’ position papers and the discussion material, and edit it for publication in the law journal *IDEA*, which we inherited from George Washington University’s Patent, Trademark and Copyright Research Institute, and which will now become the law journal of the Franklin Pierce Law Center. We hope our next issue, featuring the proceedings of this Conference, may serve somewhat as a Paul Revere or a William

Dawes in alerting the American Community to the fact that it has got to awaken to some very real problems in its dealings with the European Economic Community. Perhaps more important, for the first time America is beginning to get some allies in these foreign countries who are now going to feel this same kind of pressure towards the destruction of intellectual and industrial property rights that our courts and our Justice Department and others in this country have been exerting.

Now, before introducing our three speakers, it gives me a great deal of pleasure first to ask for some comments from the Director of our Patent, Trademark and Copyright Research Foundation, Alan Smith.

Introductory Remarks

ALAN A. SMITH*

As Dean Rines pointed out, we are the very happy inheritors of the Patent, Trademark and Copyright Research Institute, formerly at the George Washington University in Washington, D.C. A little over a year ago, they decided that it needed a new home and we believed that in a new home such as the Franklin Pierce Law Center it could expand substantially in its areas of interest and competence. In due course, we were successful in persuading the University to transfer the assets, the good will, and the journal IDEA to the aegis of the Law Center.

The PTC was founded a number of years ago at the urging of the patent bar itself, because they saw the need for an informed public, an informed industry, and an informed Government—informed in an academically impartial and nonlobbying sort of way. The need was great then, and the need is still acute now, particularly if you broaden it into international concerns over intellectual property, as you will hear during this Conference.

For those of you who don't happen to know, the support for the PTC over the years has come primarily from concerned corporations, individuals, and law firms, primarily the patent law firms. There have been special grants from companies, some from foundations, and some from the Government on occasion, for support for particular research projects. We would like to build up our

* Director, the PTC Research Foundation.

membership and we think we now have a great deal to offer, starting with this Conference, whose proceedings, as Dean Rines pointed out, will help to get the law journal *IDEA* off the ground again. The first issue of Volume 16 will feature the proceedings of this Conference.

Now I really have only two pleasant duties to perform—first, to welcome you to Concord, New Hampshire, and this first Conference of the PTC in its new location, and, second, to turn you back to your Moderator, Dean Rines.

Competition in the EEC—An Overview

GERARD J. WEISER*

(Introduction by Dean Rines: The first of our speakers this morning, Mr. Gerard Weiser, is well known to many of you as a frequent contributor to the law journal IDEA. He is definitely one of this country's leading experts on problems in the European Economic Community, and in his articles in IDEA he has traced for you the development of EEC trade practices, and often sounded the warning bell. We are indeed privileged to have Gerry give us his overview this morning, particularly because it represents one more element of continuity from the old PTC to the new. Mr. Weiser:)

Your remarks, Dean Rines, were very timely. We are at the first year past the first decade of the beginning of Common Market antitrust, and this is therefore, while modest, a rather noteworthy meeting.

Nineteen seventy-three has been called the Year of Europe. It is a year of evaluation, a year of self-criticism, both economic and political. Nineteen seventy-three is also a year for the United States, from the political, economic and business points of view, of re-examination vis-à-vis our relationship to the Common Market.

Nineteen seventy-three, as I said, marks the first year after the

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first ten years of Common Market antitrust, so the competition policy of the EEC is becoming almost a teen-ager. Now, teen-agers are fun to be with, and to work with, and they are stimulating, but from time to time they need studying. And it is therefore timely, that in this eleventh year of the evolution of EEC antitrust, the Franklin Pierce Law Center is created to begin its studies. We all wish it the very best. Like the EEC, the Law Center was created in historic surroundings, and like many other very important events it was created under very bad climatic conditions, in a tempest. Nevertheless, the Law Center is important, because to study the historical development of the EEC at this time is important for United States policy making, both in Washington and other places, both for the business community and for the academic community. So let us make 1973 not only the year of Europe and the United States—let us make 1973 the year of the Law Center also!

Antitrust and Competition

My subject is very difficult. If I discuss with you the refinement of the decisions of the Common Market in the field of antitrust, and go with you analytically through the cases, of which there are an awful lot now, and try to give you citations and commentaries and try to show the implications for American business, some of us will be left out of that discussion. On the other hand, if I only direct attention to the basic fundamentals, many others will be left out. So given this difficult dilemma, I tended to choose something to try to indicate the perimeter, the trends, the outline of antitrust in the Common Market today as it affects United States policies in business, in the hope that in our later discussions a lot of questions would be asked about what is inside of the perimeter. And this, I hope, will be the subject matter of our working sessions.

A preliminary remark may be important. Look at competition, and what we are doing in antitrust, as a counterpart of our patent system. If we keep in mind that whenever we are talking about competition antitrust, and application of trade regulation rules, we are really talking implicitly, if not explicitly, about the other side of the coin. When Dean Rines said the title of my talk included the word "competition," he was telling you what one surface would be, but underlying this is the strong patent system, or a weak patent system, and of course trade has been called the interface between the two. So as we keep this in mind, it adds additional elements and dimensions to any decision about trade regulations with respect to the industrial property field.

The Treaty of Rome

It is perhaps a good beginning to point out that the efforts devoted to the creation of European patent law, and of the anti-trust rules of the Community, must be seen against the backdrop of the general aims and principles of the Treaty of Rome. The member states decided to work together to ensure economic and social progress in their countries by eliminating the barriers which divide Europe. They are, moreover, determined to establish an ever-closer economic and political union, ever-expanding and balanced trade and fair competition. And it is for these purposes that the activities of the Community include, amongst others, the elimination, as between member states, of customs duties and quantitative restrictions with regards to importation and exportation of goods, plus the establishment of a system ensuring that competition shall not be distorted in the Common Market.

Now, it is not possible to look at Common Market antitrust decisions or their applications to license agreements, for instance, without keeping in mind the Treaty of Rome and the policies of the Treaty of Rome, the basic principles. The courts have shown, the Supreme Court of the EEC has shown, an amazing vitality, imagination, and lack of literal interpretation, by looking in this huge "constitution" for the basis of any decision that it has chosen to take. That is one concept.

The other concept is that throughout the Treaty, and particularly in the area of competition, you see verbs or other words used in the *movement* sense. The Treaty reflects an ever-changing pattern, a growing. Every concept that is examined in the Treaty is seen as ever-changing. The concept of what affects competition, what is free trade *today*, means something other than it did ten years ago. The word "today" means something other in the world than it did ten years ago. Decisions of the Commission are granted for a certain period of time—three or five years for instance—subject to review. This is rather disconcerting to the American lawyer, because he wants certainty, and his client, the businessman, wants certainty. But certainty only lies in some direction, and we want to predict directions. In fact, we *can* predict some directions in the Common Market, because we know it is going to be an increasingly strong economic union in some sectors. What may have no effect on trade today will perhaps have an effect on trade in five years, so we must keep up a consistent and constant review of practices in our relationships with the Common Market.

So, two important considerations to keep in mind are (1) the

basic principles of the Treaty of Rome, and (2) the constant tendency for change, with which we can live, and we ought to live, or at least we ought to learn how to handle. This second aspect I tend to emphasize because it is generally not apparent in either talks or readings, and just because of human nature we generally tend to look at those instances that will perpetuate themselves forever.

One noteworthy aspect of the application of EEC antitrust is the recognition by the policy makers that the merging of six national markets into a single market, and the need to approximate national policies for technology, also call for a recognition of the importance of industrial development, scientific research, and the type of industrial property that is covered by patents or transferred by licenses. Hence, the Treaty of Rome in its basic-provisions, antitrust provisions, has recognized that some agreements, some form of businesses, have more of a desirable effect than an undesirable effect on competition. Hence also, and particularly important for this Conference, is the recognition that there is a segment of business which should receive consideration for what it has really done, namely, make a contribution to the Common Market. Thus license agreements which, if treated properly, promote the transfer of technology, have received a more favorable, considerate, careful analysis, this in contrast to other forms of restrictive trade practices.

The Next Ten Years

The EEC is, without boring you with figures, gaining a lot of money, making a lot of money from license agreements, and we are also in the United States. Now, I call 1973 and the next ten years the years of translating objectives into reality. The first ten years produced considerable evidence, considerable writings and the beginning of decisions in the more aggravated cases. But from now on is perhaps the more exciting time, the more important time. We are the teen-agers awakening, and we in the United States are awakening to the repercussions, the effects, of working with an eleven-year-old, or a one-hundred-and-eleven-year-old.

The Common Market has shown extraordinary innovation in dealing with restrictive trade practices and their proper economic power. The Treaty of Rome already contains very strong antitrust provisions, and those which are not explicit are implicit in the other provisions. And it is worth while at this time, because in a sense we

talk about comparative law between the United States antitrust system and the Common Market, to see the reasons why the Treaty of Rome already contains very strong antitrust provisions.

Now, a general industrial market requires for its success that private parties be prevented from reestablishing the type of barriers to free trade by agreement, or by the exercise of monopoly or by concerted practice, which the provisions of the Treaty are designed to prevent. It is noteworthy that in the United States the need for legislation protecting competition became clear only *after* the industrial revolution had occurred, and long after free interstate commerce had already been established. In the EEC by contrast, where the task is to join countries with an existing high level of industrial development, such legislation was necessary at the very outset in the basic "constitution" of the Common Market. This is a fundamental difference between the evolution of the two antitrust systems, which we can recognize in practicalities in everyday practice. And if this had not been so, today we could not contemplate achieving the translation of objectives into reality over the next ten years.

The evolution of the Community—I am talking about its evolution in contrast to how it was created—is surely one of the most fascinating and significant developments in European integration, both from the substantive point of view and from the procedural points of view, as well as institutionally. Perhaps in this Conference there will be time to review the types of Common Market institutions, the role of the Commissions, the Supreme Court, and the procedures according to which cases are transferred. Substantively, the process of application of antitrust, in particular, to the industrial property system, demonstrates the search for a new socio-economic concept for the building of a modern industrial state, unfettered by the philosophies that prevailed for the last fifty or hundred years. Institutionally, the development of antitrust law in the EEC has contributed significantly to the building and definition of a federal relationship between community law and national law. Of course, we already have in the United States a relationship between state law and federal law—it exists a little bit in the field of taxation, and it is now coming in the field of pollution regulations.

Jurisdictional Problems

I tend sometimes to compare work with the Common Market here as a huge club sandwich, and the sandwich keeps growing,

and I hate to tell you how big it is. The first layers are the United States antitrust, and the second consideration is of course the antitrust regulations of the individual country with which we have a license agreement, be it Great Britain, Germany particularly, or some other country. Then superimposed on that is the EEC antitrust. But that's not all—they intertwine. Why? Because in some areas there is no law, so then there is the question—what happens if there is no national law, but there is federal law? In some areas there may be a refusal to deal, because for example the French law may be stronger than the EEC law. In other areas there is a strong application of German law, but the EEC law is somewhat weaker—what happens there? And at first there was the whole question of whether or not federal law (that is, EEC law) would take precedence over national law, but individual cases have decided that. Nevertheless, in time we perceive that we are so puzzled that puzzlement has replaced perception and any case is difficult to handle.

Let me give an example of the difficulties with this type of law and let me illustrate with Regulation 17. Now Regulation 17 is the basic regulation implementing the basic articles of the Treaty of Rome dealing with antitrust. Regulation 17 allocates antitrust jurisdiction between national and community institutional authorities, and hence it is important to know which are the respective authorities. Sometimes Regulation 17 provides for exclusive community jurisdiction, sometimes for concurrent jurisdiction, and sometimes for a power pre-emption in the community law. Now when national jurisdiction is exercised, the interest of the community in a uniform solution to substantially similar problems has to be handled also.

And this can be realized either through the exercise of the pre-emptive power, or through ultimate review of the national decisions by the EEC Supreme Court at Luxemburg. This fascinating or puzzling application of balancing of jurisdiction is the mainspring of the supranational organization of the Community, and it will be an undoubtedly important factor in the administration of antitrust.

Again, we have mostly broad generalities at this time, but definitive applications of these principles appear in recent cases such as Hoechst, for instance, changing certain concepts of validity, certain concepts of what body has jurisdiction to handle a particular problem. The vitality of EEC antitrust, and an illustration of what the EEC Supreme Court can do in specific cases where there

is no explicit provision for a practice which, it is decided as a matter of policy, shall not exist any longer, may be illustrated by the Deutsche Grammophon case, a landmark Supreme Court case of last year. One of the essentials for a practice to come within the jurisdiction of the Treaty of Rome is that there be an agreement, a concerted practice, or some similar understanding. And yet in the Deutsche Grammophon case the court could not find that, and it very freely turned to Articles 3 and 5, which have never been considered up to now the basic provisions of the Treaty of Rome. When you read books or listen to our talks, we almost always refer to Articles 85 and 86, but Article 3 is practically in the beginning as among the very principles, the basic tenets of the Treaty of Rome.

Promoting Union

At this juncture, it is necessary to reflect a moment about an aspect of the competition policy which most of us are not interested in, unless we are scholars or look at it from the academic point of view, because it is not the type of thing that we in industry or even in the academic field need to be concerned with. Yet it is necessary to understand it, because it explains two things. It explains why the Commission or the Council of the Common Market is not paying attention, or is not immediately directing its attention, with its limited staff, to certain agreements, certain practices. And on the other hand, it also explains sometimes to me why certain court decisions sound the way they do.

Promotion of competition in the Common Market is only part of a much larger goal—to establish a European industrial base, as it is expressed. We must not forget that the long-term objective is the creation of an economic and monetary union. This requires a single market in which people, goods, services, capital and corporations are allowed to move freely. Note the words “capital,” and “corporations.” Our concern generally is—with people, but not from the antitrust point of view—really, with goods and services. Our technical barriers, private and Governmental, must be removed. But fiscal and legal barriers which hamper mergers and other corporate creations must also be changed.

There are two important aspects of the field of competition which are right in the Treaty, and in the policy decisions, with which we generally do not concern ourselves, but with which the European countries concern themselves very much. First, the right to bid on industrial contracts, public contracts. Intra-Community

trade in the *private* sector is about 35% of apparent consumption, and it is growing. Intra-Community purchases in the *public* sector, Governmental sector, remains very low, at about 5%. And yet this represents a growing portion of the Community's industrial outlets, about 28%, and hence it is important for the Common Market countries to free that chunk of economic power, to have various parties having the right to bid industrial contracts without barriers. And this is an aspect which we normally do not think of here in the United States.

The other important aspect is the fact that there are such things as national commercial monopolies in the Common Market. What is the sense of applying Common Market antitrust against Pittsburgh Glass or Corning or Henkel or Palmolive or Deutsche Grammophon or Sirena and all the others—illustrious names that punctuate EEC development in the private sector—when the cigarette industry, the inorganic phosphate industry, and the tobacco industry can *not* be controlled? The Commission has recognized that competition can be seriously distorted and hampered in the Common Market unless national commercial monopolies are also controlled. It means that here for the first time is a supranational body that will go against the governments of the member states. And accordingly, the Commission, and this is not academic, the Commission has devoted its time, its efforts taken away from the private sector, has spent its energies and its money for cases involving infringement under Article 169 (again, the type of article which we normally do not think of) against French match companies and the Italian match monopoly. These are 1972 developments; that is why they are noteworthy at this time.

In 1972, the Commission received the assurances of the French Government that it will discontinue some of its practices and hence that they will be minimized and terminated—not overnight, because the Common Market, and especially its *people*, are concerned about the social implications of the application of its economic antitrust power (that is a subject matter in itself, and I would like to review it at length some other time). The Commission has received the necessary assurances that certain forms of monopolies will be discontinued. By contrast, the Italian Government has taken the view that it cannot change its position—not arbitrarily, because, as the brief to the Commission states, it cannot do so without hurting the medium- and small-size American match firms, and an enormous amount of social disruption would follow; the Italian Govern-

ment has to balance its equities. Accordingly, the antitrust proceedings at the Commission have continued against the match industry in Italy. Similar proceedings are continuing at this time against the tobacco industry in France and Italy.

Regional Aspects

The third aspect that we tend to overlook sometimes is state aid, the aid given by the individual states to certain regions, economic units. On one hand, how can the state provide financial aid to certain industrial regions, depressed or otherwise, if they are considered important for a particular country, but maybe not important to the entire Common Market? On the other hand, the Commission will initiate antitrust proceedings against certain concerted practices—the maintaining of prices and quotas, for example. To illustrate, Article 85, one of the basic provisions, prevents the control of production—but maybe the state is controlling production of that particular segment of the industry, and there will be conflict, and there will have to be readjustment.

The Community has sought to minimize the survival of industries which cannot be expected to compete on the national European Common Market scale with, against, or in conjunction with, for instance, American industry. Hence, a third important aspect often overlooked in the application of Community antitrust law in our understanding of why, for instance, some grant-back clause is reverting to some language that is known to all of us in license agreements which sometimes we approve, and sometimes we do not approve. Similar language is often used, also, with respect to parallel inventions or improvement inventions. But sometimes there is in fact considerable rationality behind that which I am suggesting—it depends on a number of the economic circumstances which surround it.

Finally, another trend that is not to be ignored is the enormous increase of international interpenetration and concentration of European industry across national borders. From the legal point of view, the application of Article 86 to the Continental Can case recognized some basic principles, and the Italian ICI case recognized some other basic principles in the field of mergers. The greater facility and encouragement given by the Community to this across-the-border cooperation is an important factor in the application of its antitrust policies, and our handling of our negotiations and agreements with the Common Market.

Case Law

Perhaps, having given you somewhat of an outline at this time, you will note that there is an awful lot of substance missing—namely, the case law. I have not talked about that, and in view of the short time that I have left, I would summarize by indicating two trends, leaving again for later, for the working sessions, the review of the cases and my attempt to justify, when you ask me all these stimulating and penetrating questions, why the cases don't fit those trends. That's one of the toughest problems—after indicating trends and giving the impression that one knows where the thing is going, you find that all the cases don't fit anything.

Now, however, let me say that in the beginning, the first ten years of application of antitrust, the cases were directed to fundamentals like: what *is* trade, what is intercommunity trade, what affects trade? And now they are still doing that, but the concept has already changed. Take, for instance, a recent decision involving cement, which was purely a national Dutch monopoly, with no partners outside. The Commission has taken jurisdiction and said that there *are* effects outside of Holland and therefore, even though there is an agreement among several parties within one single Holland, one single country, and technically it does not even fall within some of the provisions of the Treaty, it is an agreement which comes within our jurisdiction. So even that concept is being looked at.

But the first ten years were spent on looking at direct, crude restriction, import, export, the very proper basics. Now, the Commission is looking at more sophisticated arrangements—indirect effects, rebates, favoring, quotas, all sorts of indirect commercial arrangements with which we are all familiar, devices of one sort or the other which tend to allocate markets, which tend to divide markets along economic or national boundaries. So one trend is this greater sophistication from the direct to the indirect, although that does not mean that cases today will not look at direct problems, because obviously they still arise.

The second trend is the recognition by the antitrust Commission of the value of certain agreements in the field of technology. There is now under study a group exemption applying to know-how and to patent license agreements, which is going to be of critical importance to American licensors and American licensees with respect to the Common Market, which will exempt a large group of license agreements from denotification and its penalties. How large

it will be is a matter of negotiations now among certain groups in this country, others in the Common Market, and the Commission. Dr. Willy Schlieder, the head of the Commission, and others next to him, have always expressed a great interest in listening to considered opinion on this point.

At the beginning of this talk, I asked your forgiveness for many of the shortcomings. If you are just a little puzzled about EEC antitrust, as I am, join the Europlay Club! But I think it is also fair of me to give you the key of that club—the same key that I was given when I was in Brussels, and talked to the EEC antitrust officials and expressed my puzzlement and tried to resolve some of my clients' problems. They told me: Gerry, it is no problem at all, all you need is to learn to know these few basics. And they usually take the Treaty of Rome in hand, and they say—first learn this. Then if you have the charm of a Prussian, the modesty of a Frenchman, the punctuality of an Italian, the good-nature of a Dutchman, the sobriety of a Luxemburger, the love-making ability of a Britisher, and the language facilities of an American, that's all you need to know!

(Closing Remarks by Dean Rines: I think Gerry has done a fantastic job with a massively complex bit of subject matter, and particularly I would like to point out something to our law students. What you have heard here today, or at least what I've heard, is the concept of a brand new breed of lawyer—one who isn't going to be looking for *stare decisis*, not going to the books to see what was necessary to decide another case and assuming therefore, in a similar factual situation, it will be so decided in his case. Instead, we have the kind of philosophy of law that we are going to run this case in some nebulous way in accordance with the underlying concepts of the Treaty. If there is an express provision for antitrust and you don't fit in that, then we will pick something else out of the Treaty to make you fit into what we feel is intended, regardless of what we may have done before in other cases. This is a very broad kind of Anglo-Saxon equity, if you will, which we either complain about or learn to live with, or we do something somewhere in between. I think it's a tremendous challenge that you're not going to be able to tell your client anything definite—probability is, of course, going to decide!

The other concept, that decisions are being made for limited periods of time, means that out the window goes the idea that we

can do our corporate planning over long periods of time. And, of course, sitting here myself, I get extremely red-faced when I look at some of my clients who have been good enough to come here and they now learn that I have written agreements for them with the American kind of restrictions, which it now appears may fall within some of these decisions. Hopefully, *stare decisis* won't apply!)

The European Patent Concept

PASQUALE J. FEDERICO*

(Introduction by Dean Rines: Underlying all we have heard from Gerry Weiser are programs now under way in Europe, under which different groups are concerned with trying to unify property rights, developing the concepts of a supranational patent, if you will. We are extremely privileged to have with us one of the Deans of the Patent Bar, a gentleman who stems from great public service in our Patent Office in the Commerce Department. He has been on its Board of Appeals, and he has been a representative of the United States Government at many of our international conferences about patents. I think he's certainly the father or one of the fathers of the 1952 Patent Act, which tried to restore some kind of sense to the chaotic condition of patent litigation in this country, and he is beloved by all those of us who have served under him in the United States Patent Office at various times. He is going to try to give us an overview of some very recent developments, including the Munich Conference that just ended a week or so ago, in which there was a struggle to find some sort of supranational community way of handling industrial property rights, particularly inventions, and technology of the type that is patentable. It gives me great pleasure to introduce to you Mr. Pasquale Federico:)

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Historical Developments

There are three treaties which will need to be discussed. They are not treaties in existence, but they are treaties coming into existence, and to show their interrelationships it may be best to treat them from the historical and development standpoint.

As you all know, each of the European countries has its own patent law, except Liechtenstein, but by agreement with Switzerland, the Swiss patents cover Liechtenstein. Other than that, each of the European countries has its own patent law, and for a person who wishes patent-type protection in a number of countries, it is necessary to have recourse in each instance to the laws of that country, fulfill their procedures, etc. The laws vary, among the different countries procedures vary, expenses vary, and the effect of patents varies to some extent also.

During the past twenty years, however, there has been an evolutionary development towards the concept of a single patent covering a group of countries, and this is what we are concerned with today. I put the period at twenty years because a lot of groundwork was laid by the Council of Europe beginning in the early 1950's, in setting up committees to study patent problems and starting attempts to unify patent laws and patent procedures. Their work included the evolution of a treaty which was signed by twelve countries in the late 1950's, which never came into effect, but has had quite an effect on the development of the laws expressed in succeeding treaties. This early treaty dealt with the unification of substantive points of patent law.

The Common Market itself started in 1959, with the thought of developing a single patent for the Community. The objectives there, of course, were tied in with the objectives of the Community itself—to eliminate differences between the countries in matters of trade, where the existence of individual patents in each country might create difficulties in trade between the countries. So, a Commission was set up and a committee of working parties evolved a draft which was published in 1962. The draft was subject to suggestions and comments by the public in the countries involved, and the working parties continued to revise the draft. Then the project was laid aside due to difficulties that arose on a number of points—particularly economic points and licensing points—and also the position of certain Governments was such that the project could not proceed. So, it was laid aside for a number of years and almost forgotten, you might say.

Now, to put this all into historical perspective, during all this time there had been other causes leading towards unification, namely, the positions of the various patent offices and their workloads and the duplication of efforts. If a patent is going to be applied for in ten countries, you are going to have ten administrations working on the same job and have all this duplication of effort, so movements were going forward toward trying to eliminate this duplication of effort and relieve the loads on the individual administrations. Beginning in 1966, efforts were started by the International Bureau under the existing patent convention, mainly sponsored or spurred on by the United States, leading toward a system of unified filing of a patent application. The effort developed until, in 1970, a diplomatic conference was held and a treaty signed. This is the so-called Patent Cooperation Treaty.

Now, spurred by the activity leading towards the Patent Cooperation Treaty, the Community project was revised in late 1968 on a broader basis, and work began in 1969 towards the European Patent and the Community Patent. I emphasize that in my view the effort was spurred into revival by the existence of the proceedings leading toward the Patent Cooperation Treaty. Now the Patent Cooperation Treaty must be described, because while it is not a European Treaty, it interrelates to the European Treaties and the European countries will be involved too. So I will try to give a very brief description of what its objects are.

The Patent Cooperation Treaty

This is a Treaty which has as its objective a common filing of a patent application. Instead of filing your twelve applications, assuming you have twelve countries operating under this treaty, one application is filed. Then the preliminary processing of this single application is done in one country only. The preliminary processing relates to formalities, compliance with formalities, and the making of a search of the prior art to reveal what is known already.

The applicant of this international application names all the countries he wants it to apply to, initially. He can name them all—there is no obligation. But at a certain stage, which will come twenty months after the filing, the naming of the countries is made effective by the paying of the fee and performing some other formalities in some cases. Then, the application is filed in a single language and it isn't until about twenty months later and perhaps later than that, in some instances, that translations for the indi-

vidual countries will be required. So the applicant who is obtaining patents in a variety of countries has a number of advantages under this system. He doesn't need to make up his mind definitely as to which countries he is going to get a patent in until the period twenty months after filing—which is quite different from the situation now—and he doesn't need to have all the translations made until this later period. In the meantime, he has gotten what is intended to be a complete, thorough search of the prior art, so he can decide whether to proceed or not.

Now, I won't go into any more details of the execution of the Treaty, but I said it was signed in Washington in 1970, in June. It has not yet come into effect—for the United States, a treaty like that needs statutes to put it into effect. The Treaty itself provides that it will not come into effect until eight countries have ratified it, and of these eight countries, four must be of a certain category in respect to volume of work. Of course, there is an administrative set-up involved in this Treaty, and some administration will be with the International Bureau at Bern in Switzerland.

The applicants for filing an international application file it in their own patent office, which will act as the receiving office for the organization. Their own office will perform formalities checking; then the searching will be done by selective particular offices. It might be the U.S. Patent Office, the German Patent Office, or the International Institute at The Hague which will do the searching. Then when this is over, the papers are spread to each of the countries concerned, and thereafter each country proceeds under its own law to grant or refuse a patent in accordance with its own system. There is no change in the substantive laws of any countries. Of course, every country is required to accept the form of the single application—the formalities you can't vary—so that you have to have different applications for different countries, but each individual country would proceed in its own way.

Now, to come into force, the Treaty will need ratification by eight countries, at least, including four countries so defined so that they will be countries with a large volume of patent applications. So far, there have only been ratifications by five small African countries which would not effect its coming into force, because they come nowhere near the requirement. (Malawi, for example, granted five patents in 1971.) It takes a minimum of 40,000 applications filed in a country to be one of these four that will make the treaty come into force. The Treaty was submitted to Congress for advice and consent to ratification a year ago in September, and

the necessary legislation was introduced in Congress two months ago, but there has been no further activity. The European countries are holding off on ratifying that treaty because of other activities, and I will come back to their attitude on the Patent Cooperation Treaty later.

The European Patent Convention

Next, we have to come back to the European Patent Convention, which started activities in 1969. The committees working on the drafts had the advantage of the early draft of the Community Patent and the previous work of the Council of Europe. So they produced a draft of the European Patent Convention which was published in 1971 as a book about a half-inch thick. Then, persons from the individual Governments and countries involved were invited to submit comments, discussions and so forth, and the working parties worked for another year and produced a second draft, whose volume increased from about a half-inch to about three-quarters inch thick, and this second draft was likewise commented on. The countries themselves sent official comments to the central working committees and individuals sent individual comments and observations, etc. but only inside the group. Outsiders weren't allowed—they were not allowed in any of the discussions as observers or anything. So then the group produced a third draft which had increased in size to an inch thick! Now, it is not as large as it looks, because it is in three languages, French, German and English, which will be the official languages under the new organization, and then it has a few subsidiary papers.

This third draft was the agenda for the diplomatic conference which was held in Munich in September and the first few days in October, 1973, which ended with fourteen countries signing the Treaty. The diplomatic conference may make changes, and has made changes in the draft as last printed. The changes are in general very minor details in some of the procedural aspects, but there are several changes which are of interest. No changes have been made which change the general nature and the fundamental conditions of the draft. So, we have a Treaty in signed form which doesn't come into effect (the Treaty itself provides it doesn't come into effect) until it has been ratified by six States. I want to emphasize, for a purpose that will come later, that in all these official diplomatic papers, treaties and all that, a country is called a State, with a capital "S." Now, six States must ratify the Treaty

before it will come into effect, and these six States must be such that, among them, there were 180,000 patent applications filed in a given year. So you have to have six States that total 180,000 applications in their own countries in a given year. The year specified in the draft is 1970, but it may or may not have been changed, I don't know. Now there are only three countries that have more than 30,000 applications per year and, adding those that are close or a little below, you have got to have countries like the United Kingdom, France, Germany, Italy, Sweden and Switzerland ratify before it could come into effect.

Now, when will this Treaty come into effect? Of course nobody knows, because these ratification procedures are rather slow, but it has been said, by one of the officials of one of the countries, that they hope that the ratifications will be finished by 1976 and that operations will start by 1977. Now that is a rather optimistic statement, and I think it ought to be taken as the minimum rather than the perspective. It will be at least that time, because an awful lot of work is still needed to be done to produce this.

What does this Treaty do—what is important about it? This particular Treaty, which is European, not Common Market, is a new plan for new operations on an expanded basis; one of the causes of laying aside the original plan was that one of the countries insisted that it was too narrow, that countries outside the Common Market had to be taken in, and one of the countries stoutly refused to accede to that point of view, so we got nowhere. Now this new Treaty is a European Treaty; only twenty-one European countries are permitted to adhere to it. The twenty-one are all the European countries except the Communist block, but including Yugoslavia. And the number twenty-one includes Monaco, Liechtenstein, Turkey, and all the European countries. (There is a possibility there may be twenty-three, because Cyprus and Iceland might be included.) Now only those countries can participate, can become parties to this Treaty, and of course there is a difference between becoming parties and taking advantage of its provisions. The appropriate authority under the Treaty could invite other countries to participate, to adhere, but no other country can say: I want to adhere to that Treaty, as it can under the present Paris Convention.

The new Treaty establishes an organization, referred to generally as the European Patent Organization. Its principal arm will be the European Patent Office, so there will be a single patent office called the European Patent Office. There was a great deal of

discussion as to where it would be located, but eventually it was decided it would be Munich. A good many people think that is unfortunate, but in view of how the work had progressed, I think Munich was inevitable. Now, the concept of the Treaty is that a single patent application will be filed in this European Patent Office, and all the procedure leading to granting a patent will be effected by that single patent office, right up to the stage of granting a patent.

Patent Law

The Treaty itself contains a complete patent law with respect to the patentability of inventions and granting patents. Now, I like to think of a patent law as divided into three parts, the first part governing what can be patented and the conditions for patenting, which are important—conditions of novelty and obviousness, the types of subject matter which can be patented—those are substantive provisions. The Treaty contains a complete law on these substantive provisions.

The second part of a patent law is how you get a patent. The Treaty contains a complete patent law on the details of how you obtain a patent. And the third part of a patent law is what you do with a patent after you have it, relating to enforcements and infringements and so forth, and the Treaty does not touch upon that except in one or two of its provisions which bear upon it a little bit, unavoidably. So you have two parts of a complex patent law and all the subscribing countries subscribe to that patent law. When a European patent is granted under this new single patent law, it is not a single patent, it is twenty-one different patents. The same document represents or evidences twenty-one patents, one in each of the countries, assuming that twenty-one countries have adhered to it. After that stage, the granting procedure includes an opposition period for a certain period, but after that stage, everything is local in the individual State. The procedures, infringement proceedings, are governed by the law of the State. The procedures for obtaining remedies, the nature of the remedies, licensing activities, treatment of the patent as property, are all under the law of the individual State. You've got twenty-one patents, you don't have one.

Further, there is this important point. The adjudication of the validity of the patent will be in each State according to its own law, but the validity will be determined by the law of the Treaty—the

substantive law of patentability, not by the local law of the State. So this possibility will arise, at least in the early stages: a Community Patent, a British patent, for example, may be granted by the European Patent Office but be adjudicated by the statute that is in the Treaty which is different from the British statute. Or, a patent for France obtained under the European system will be adjudicated under the European law, not under the French law. So you will have for a time two different laws in the same country as to the patentability and the validity of a patent. That might be an advantage in some countries where the European law might be better, and it might be a disadvantage in other countries where the European law might be harsher. However, that situation is not as bad as it seems, because the substantive provisions have been evolving to a common form anyway, and different countries have already been changing their laws—for example, Ireland, a long time ago, changed its law to conform to the Council of Europe uniform proposals. France recently, just several years ago, changed certain basic provisions that conform to the commonly accepted way these privileges should read. The widest departure, I would say, would be in England, where the present law is extraordinarily more free for obtaining patents than the European law would be, but presumably, in due time, the British will change their law, so this system of having dual laws won't exist too long.

Well, that's it. Under the European Patent Convention, you have a single procedure for granting patents. Now, of course, the Treaty itself contains an enormous amount of detail. There are 177 Articles, and then there is another set of 107 Articles which are called Regulations. These are evolved and signed at the same time as the Treaty, and the reason for a separate document containing the Regulations is that the Treaty can only be changed by another diplomatic conference, whereas Regulations can be changed in accordance with procedures set forth in the Treaty, and that is simpler, by vote of a committee or whatever is provided. Then all these institutions have to be taken care of, they are defined in their duties, etc., and their procedures have to be spelled out.

Now, I'm sorry to say that I think the procedure that is worked out is very involved and quite complicated. As a matter of fact, it's very similar to the procedure in the German Patent Office before World War I. Notice, I don't say the procedure today, the procedure before World War I! While there will be the central patent office that will do the adjudicating, they may have, in effect, branch offices for a while. And during the transition period there may be

modifications of some of these things I have said, and some of the State patent offices will be utilized as branch offices to do some of the work. There is also danger, in my mind, in view of the way that this procedure has been set up and the way that the organization has been set up, the evolving of a terrific German-type bureaucracy, really. Efforts to staff that office have already been made. The staffing will be international, and it will be up to other countries to have a sufficient number of their own nationals on hand. The British and the French, for example, should have enough British and French people on the staff so that the thing won't be too German, and as a matter of fact the British and French patent offices are already trying to collect individuals. The French office is having a training course for examiners who are willing to go to the European Patent Office and be examiners there, and the British offices are trying to collect British examiners who are willing to go to the common patent office.

European and Community Patents

There are quite a number of other details which I can't mention now, because I haven't even mentioned the Community Patent—part of the overall plan is simultaneously to evolve a Community Patent. The European Patent is a bundle of patents, but the Community Patent will be a single patent. So we have a second Treaty, to which only the Community countries can subscribe. This Treaty contains part of the patent law, dovetailed in with the first one. So, under the Community Patent you have the substantive patent law, and the procedural patent law as defined in the European Treaty. Then you have the enforcement aspects, the rights, the patenter's property and all that aspect set out in this Treaty, so for the Community there will be a single patent law that covers everything that a patent law covers. And then a patent granted under this Treaty (this is dovetailed into the European patent organizations), a European Patent, will be a single patent. You get a little mixture there.

Now let's consider what happens when a European Patent is obtained and there are fifteen countries involved, let's say eight Community countries. As to seven countries, it will be seven different patents, and then it will be an eighth patent for the Community as a whole. But the Community is not divided; it is emphasized in various provisions that the patent is indivisible, it's a unitary patent. So you have the Community as a whole treated as one country

under the European patent system, but the obtaining of that patent goes through the one procedure, so that's why they're dovetailed. The Community Patent Treaty cannot come into force until the European Patent Treaty has come into force, and they are inter-related. This document I have is the draft of the Community Patent Treaty, which just came out about a month ago and will be the agenda for a diplomatic conference in May, next year. So there's a prospect of signing this Treaty as well, and, both these Treaties contain elaborate provisions integrating them with the Patent Cooperation Treaty.

Parallels

I will have to close, and I just want to say several things. I emphasize the word "States" because it always brings to mind the situation in this territory in 1787, '88, '89 and thereabouts. You had a number of separate states, really a number of separate countries which are now called states, and you did not have a Constitution then, and in the deliberations, the problem of the granting of patents by the individual countries—states—had to be considered. Now some of these individual countries—states—had already granted patents to inventors through the authority that was capable of doing so. There was one inventor by the name of Oliver Evans, who obtained a patent in Maryland and in Delaware, Pennsylvania and in New Hampshire. The New Hampshire patent was an act of the authority capable of doing such a thing, which would be the legislature, and there is an act for the benefit of Oliver Evans which grants him patent rights and establishes the remedies, etc. And there was even one country—state—that had an article relating to patents in one of its laws. Now, there weren't very many granted, but the concept of the individual countries granting patents was there, and the decision was made to put the granting of patents into a central authority. The Article was written into the Constitution, and then the central patent law was passed in 1790, and incidentally, the first patent was granted to a foreigner, namely a citizen of Vermont, because Vermont hadn't joined the United States yet, so the Vermont citizen was a foreigner!

There is another analogy, with the German Customs Union in the 1830's and '40's—that's the Zollverein. They had similar objectives, but in a more elementary way, to those of the Community, and the question of patents arose. They solved them by a treaty in 1842 that broke down patent barriers among the countries of the

German Zollverein, but using a method that people wouldn't stand for today.

Then I have one last word. Somebody else used this symbolism, but I think it is a good one. This whole project is Wagnerian—it's a masterpiece of working out the details of these two complex laws, three complex laws if you include the other treaty, and their interrelationships. It's hard to think of any single point that hasn't been considered and worked out, and the points you run into would astonish you if you see that they came up and were decided. The undertaking to me was almost fantastic in its scope and its thoroughness. I have to talk about a lot of the details later, and I hope to show that the whole project is more complex than a very brief description might bring out. Thank you.

(Closing Remarks by Dean Rines: Mr. Federico's analogy to the three constitutional conventions in this country is not only apt, but it makes us rethink that all these things just weren't made in a day. And that how even people who distrusted each other, who indeed put amendments in the Constitution because of that distrust, nevertheless, through perseverance, went ahead and made things work.

Our problem here in the United States is that we are simply not used to this kind of excitement, this kind of novelty, this kind of growth, this kind of flexibility, and indeed many of us have become very involved with the form of what we do and give little thought to the substance. It's a particularly exciting time, I would say to our law students. You know they are going to need a pile of lawyers to interpret these hundreds and hundreds of regulations, whether Germanic or otherwise, and you know there are going to be at least two lawyers on each side! There should be some hope that at least patents and industrial property and licensing and the protection of some kind of private enterprise is a goal in Europe. It may no longer be a goal in the United States, but it certainly is a goal in Europe, and maybe we can take heart that perhaps America will somehow play a role. The direction is certainly clear, and there is great excitement, whether we approve of it or disapprove.)

Comments on the Evolution of the International Law of Industrial Property

(with particular reference to the Treaty of
Rome and the proposed European Patent System)

W. E. P. JOHNSON*

(Introduction by Dean Rines: We come now to the question—how are we in America—the business, legal and academic communities—going to be able to deal with a whole new philosophy of interpretation of laws? We have the problem to be sure, and as you will learn in our working sessions, some of our companies have already been very heavily fined in what might very well be called an *ex post facto* manner. All of a sudden you find that things that you have been doing for years—which in your own country are all right—now violate the antitrust laws of the EEC, and they hit you for back damages, so-called.

I'm not going to steal any of Johnny Johnson's thunder, because he is closer to the problem than we are. We are not yet in the European Economic Community or really in any way tied to it permanently. However, as you are all aware, Great Britain relatively recently did join that Community, and now it is in the throes of examining what the details mean. Today we have with us a very

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keen analyst of these details, a lawyer in every sense of the word, and a chap who isn't just a nitpicker or one who is unaccustomed to innovation and change or bound by tradition. Johnny Johnson was the first man in the world to fly blind on instruments, while he was with the RAF. Later, as a patent agent, he was almost as instrumental as Whittle, himself, in persuading the Royal Air Force to use the jet engine. He has an enormous background in the field of innovation and invention, and he is highly respected not only in England, but in all of his international dealings.

Mr. Johnson comes to us today expressing perhaps the first challenge of this Conference in terms of how he, as an Anglo-Saxon-trained man in the field of intellectual and industrial property, holding the ideals and the norms of Anglo-Saxon law, as distinguished from the Germanic traditions, reacts to Britain trying to fit itself into these recent trends and decisions that have come from the European Economic Community. More particularly, how does Great Britain deal with this Treaty of Rome, this "Constitution" that now, as Johnny says, is imposed on his country? How do you interpret it from the very practical point of view—how do you advise a client, how do you plan?

Is American industry going to be able to say, well, we can keep that branch office in France for the next two or three years until the antitrust Commission gets around to reviewing the license agreement and then we have to be prepared to disband it? Maybe that's the way we have to work, I don't know. Maybe the kind of advice we have to give is to look for extracurricular things to persuade a tribunal to make a decision in our favor, whereas in the past, in similar circumstances, the decision has been made the contrary way. It's going to be a whole new ballgame. To present an increasingly widely held viewpoint from England, I would like to introduce Johnny Johnson, of Cleveland & Johnson of London, whom I consider to be one of the most illustrious international lawyers. Mr. Johnson:)**

This paper is an attempt to throw some light on aspects of International Law and its practice as related to industrial property, and on matters of domestic law which have some bearing internationally. In order to do so, it seems desirable to review the general

** Mr. Johnson's talk at the Conference was an abbreviated version of the full paper presented here.

nature of such practice, both as it applies in individual countries and as it is sought to apply it internationally. To many of you this will be a familiar and tedious topic, but I hope to be able to enliven it by challenging a few aspects which in my opinion deserve to be challenged.

Main Elements

There are at least five main areas which need to be considered in the practice of international industrial property law. In these lie Patents, Registered Designs (in the U.S.A. called Design Patents), Trade Marks, Copyright, and Contract, in so far as it relates to Competition. I omit antitrust law as such because it is in my view a political rather than an industrial matter.

Patents for inventions were conceived and enacted by statute in the year 1624, in England and, typically of many great legal steps, had a purely negative background. In those days, in most monarchies, services could be rendered by granting monopolies. Thus, for example, a royalist Mayor of a town might be granted a monopoly for the sale of salt in his town. But as social conscience became more sensitive, this came to be regarded as a bad thing, and my forebears enacted the Statute of Monopolies, which is the foundation of Patent Law everywhere. This forbade in general the granting of monopolies. It did however, very wisely, provide for the grant of Letters Patent (that is, a public declaration with National authority) in respect of invention, defined as "any manner of new manufacture within the Realm." The grantee of such a Patent was thereby enabled to prevent, for a limited period, other people from "making, using, exercising, or vending" the subject-matter of the invention. Note that the inventor was *not* himself given the right to exploit the invention because of course, he was already perfectly free to do so and needed no grant. His reward for disclosure, i.e. "patenting," was the right to prevent; you might reasonably compare this with a land tenure which carries the right to prevent trespass, or perhaps the specifically limited right to prevent hunting.

I wish to emphasise, contrary to much popular and political misunderstanding, that a Patent is not a grant of a monopoly. Nothing in a Patent enfranchises a man to make something. There may be an earlier dominating Patent, an illegality, a contract, all sorts of things which prevent a Patentee from exploiting. If there is no such bar then he is entirely free to exploit without getting a

Patent. It is, therefore, quite fallacious to argue anything from the premise that a Patent is a monopoly. I suppose I have a personal right to prevent someone from picking my pocket, but this does not give me a monopoly in pocket-picking.

Whilst not dismissing it as unimportant, I will leave Design protection to the same comments. Trade Mark Registration is different in so far as the term of protection is limitless, and defines rather than grants an exclusive right. But Copyright, in the sense that Authors' Copyright is dealt with by international convention, is very different, because it does grant a monopoly. If the subject is not original then it is not copyright; *ergo* copyright subject-matter cannot be subject to some dominant copyright (save in a very few exceptional cases), and the right uniquely goes automatically to the author. Note that its term is very much longer than that of any Patent; and also that the monopoly is not subject to any pre-examination, though validity is, of course, entirely open to challenge in Court.

Thus for all practical purposes, Patents for Inventions are not monopolies; Authors' Copyrights are.

Now let me turn to the word "Invention." All nations misuse this term, and I think Germany, Japan, and the U.S.A. misuse it most. There is constant confusion between an "invention" and the thing to which the invention is applied. "Invention" is an abstraction and it cannot have physical existence: it cannot be quantified. To quote from my learned colleague E. Williamson (1), "Invention" means a quality, neither tangible nor an action taken at a particular time. Yet by giving a name to a quality we create the illusion that it exists as an entity. If you need an analogue, try "virtue."

It follows that there is no such thing as a quantum of invention. There is perhaps as Williamson said, a spectrum ranging from scintilla to flash of genius—and for my part I remind you that "genius" can mean an infinite capacity for taking pains—so that "invention" may reside in hard work. I emphasise this to remind you that when your Examiners here in this country say that something is non-inventive in the light of A + B; they overlook the fact that seeking out A, seeking out B (possibly from hundreds of A- and B-like things of art), and realising that they can be put together, involves work. Neither the pre-existence of A, or B, nor the fact that they are easily put together is evidence of lack of invention. The concept of "mosaic," in anticipation, is not only intellectually horrible, it is a self-contradiction.

The diode tube (or valve as we call it) of Fleming was not an

invention; it was the outcome of an invention. The triode tube of de Forest was not an invention; it was the offspring of de Forest's genius married to Fleming's diode. One of the greatest inventions (if not the greatest) in the field of communication was the Morse Code; it vastly improved upon smoke signals (an earlier piece of American art) and the semaphore of the Napoleonic era. As far as I can judge it was not patentable, for there was no tangible end product.

It is quite unreasonable to confuse "invention" with "thing or method." In U.S. Patent practice the Specification does not say "I claim as my invention"—it just says "I claim." British practice for a short period used the phrase "What I claim as my invention is:—," but I am glad to say the mistake was appreciated and what we now have to write is "What I claim is:—." The Claims of a Patent are not a concise description of the invention. It is a definition of what the Patentee may prevent someone else from doing. It is a fence around a prohibited area.

I hope to show you after these tedious linguistic niceties how important it is to stick to the rules of verbal communication—we shall see a few examples of how they are broken by enthusiastic but misguided legal draftsmen in other places, with the result that nobody can say what was intended, let alone what is legislated.

Obviousness

Let me now deal with a final verbal monstrosity in Patent legal usage, which I regret to say had its origin in the U.S.A., and has spread with plague-like rapidity through Germanic and Japanese practice, and become, if I may say so, quite the worst feature of the practice in all those countries—I refer to "obviousness" as a criterion of inventive level or patentability. I feel particularly strongly about this because a body called the Banks Committee (2) has reported to my Government the desirability of requiring British Patent Office Examiners to examine for obviousness. The disease has spread and appears in the proposed European Patent System, which is my excuse for mentioning it. I have personally spoken to nearly 40 U.K. Patent Examiners of all seniorities, to a large number of practitioners, and to a small cross section of Patent lawyers from other nations, and the generality of opinion is that Patent Examiners are not intellectually or educationally equipped to judge upon "obviousness" nor are they trained to decide judicially upon evidence. Most inventions during their early life, i.e. in

the Application stage, simply have not lived long enough for it to be proven whether they were "obvious" or not, because this cannot be determined until some basis of objective proof can be adduced. Several Patent judges have said that of all the difficult issues they have to decide "obviousness" is the most difficult. If judges of enormous experience in Patent Law say that, you may be fairly sure that no Examiner should have the burden of such judgment put upon him, especially because his view can only be subjective and, moreover, he cannot and should not exclude from his deliberations his particular and intimate familiarity with the relevant art, the collective effect of which after a year or two must surely be to make almost anything "obvious." Still further, at the Application stage, an invention *ex hypothesi* cannot in most cases have been exposed to the objective test of industrial acceptability.

I have, as a matter of fact, devised a procedural gambit which has once or twice totally defeated an Examiner in this context (I have played this game in Germanic countries; I have seldom found a U.S. Examiner so obsessed by the need to "refuse" as to need the treatment), by deliberately but by perfectly fair statement introducing an "obviousness" objection, and then indisputably showing that he (the Examiner) has not understood the invention—which I take to be proof that it was not obvious but the very opposite, namely "obscure."

Before I leave "obviousness" let me refer to the real meaning of the word when removed from rarefied Patent usage. Webster, at his most relevant, defines "obvious" as "readily and easily perceived by the sensibilities or mind" which seems to me to exclude perception by any other aid. The "Oxford" which is our British counterpart to Webster, relevantly says "plain and open to the eye or mind, perfectly evident."

My submission is, therefore, that if you have to refer to anything other than the object, in order to assess it as obvious or obscure, then automatically the object is not obvious and is obscure. For an object to be obvious it must be such as to require no illumination nor any deductions, conjugation, or mental construction, in order to be comprehended. It is, therefore, a nonsense to say that B is "obvious" having regard to "A." This is a very straight-forward contradiction in terms, however it may be wrapped up in other words by an Examiner or, for that matter, a Defendant in a Patent suit.

I have dwelt to the point of boredom on this last linguistic fallacy because it represents to me not only the worst single element in

your practice but as I have said it has epidemically spread to other industrial countries, may spread to mine, and is to be seen in all its self-contradictory clarity in Article 54 of the proposed European Patent System (3), which may enact, pretty fatuously, that "An invention shall be considered as involving an inventive step if, having regard to the state of the art, it is not obvious to a person skilled in the Art." It occurs to me that this means that an invention may be such as to involve no inventive step—very odd. Even more odd—the very factor which justifies the finding of an inventive step, namely the existing art, is to be used to disprove the step. This is, quite simply, a confused attempt to say "if it is obvious to a skilled man, it is obvious." I would have thought it a waste of ink to print it. What I suppose is meant is "An invention involves an inventive step unless it is, in the light of the art, obvious to a person skilled in the art."

Existing British Law is not above criticism in this context (nor, indeed, many other contexts) but at least it does not leave "obviousness" to the mercies of an Examiner, but rather to "*inter partes*" procedures wherein full and properly regulated evidence both for and against, including evidence of industrial or technical success, is judicially to be considered.

The Treaty of Rome

Having by now shown that I am a thoroughly opinionated person, I will try to establish the relevance of the foregoing to the Treaty of Rome and to the proposed European Patent System.

In regard to the Treaty of Rome, I must first make it clear that I am strongly for a European Economic Community (hoping that in due course it will become International) but most vehemently opposed to the Treaty of Rome. Please accept from me that although the public and lay impression is that they are the same thing—they are not.

I am likewise strongly for an International Patent System (providing it does not result in the abolition of domestic Patents), and most vehemently opposed to the draft Europat system.

I ask you further to understand that the Treaty of Rome embodies, for the first time in British history, the imposition upon us of a written Constitution, which is in fact so badly written that it is easily mistaken for Statute Law—or perhaps this was deliberate. If you have occasion to study this Romantic document, do not take literally what you read, because you will not be able to advise

whether you are reading Law, or an ideal objective which is to be implemented by Law according to the view bureaucrats may take of the intention with little or no regard to the words.

But also please remember that the Treaty is as binding on members of the E.E.C. as your Constitution is on you. A very great difference is that my nation is subject to the Treaty and the enactments enforceable under it, without there ever having been any debate or vote in our Parliament; that Treaty rulings override those of domestic Courts even at the highest level of Appeal; that the rule of "*stare decisis*" does not apply, so you cannot rely on Decisions (indeed, you should not rely on any Treaty Decisions, which are in reality quite indecisive). I have good authority (4) for this very alien proposition; from this I quote: "There are no strict rules of *stare decisis*, but like every other Court, the Court of Justice is reluctant to go against its own precedents. It is still too early to consider every aspect of the lines along which the Court's case-law is developing. We can, however, indicate the main sources from which the Court draws its rules of Law."

The same very valuable reference book has most useful comments on the manner of interpretation deriving from the Community Treaties themselves. This is not the place in which to recite them, but it is worth noting that the sum total of it seems to be that you should not rely on the actual language of the Treaty nor of Laws (regulations) made under it; instead, there must be applied the European approach, in which earlier drafts, debates, etc. may be used for the purpose of enlightening the interpreter. Further, in the event of there seeming to be a doubt due to the usage in one of the official languages, you are permitted to look at the others in order to assist you. Lastly, and here I think I would do well to quote:—

"Where the text to be interpreted is unclear, the Courts often apply what is called a 'systematic interpretation,' construing the provision in question so as best to fit the context of the chapter of the Treaty in which it is to be found or even so as to fit the context of the Treaty as a whole." I make no further comment—it would be redundant.

Treaty Law contains something very like "presumption of guilt." This is especially poignant to free-thinking nations, since such Law applies retrospectively and (although it does not say so) penally. That is, your client may be liable to a huge fine or penalty (a distinction is drawn between these two, to which I refer later, but they both may mean a huge payment) for something to which he

legitimately and innocently committed himself six years ago. If that is not retrospective penal law, I do not know what it is. You may well ask, as I have, by what sanction a Commission or Court in Europe can extract a fine from a British party (or in theory an American) at first remove (as in Continental Can, referred to later). The answer is simple. Brussels, or wherever it may be, sends a message to our Government's principal legal administrator—I do not know whether it is the Lord Chancellor or the Lord Chief Justice, nor do I care—and tells him to collect, like a bailiff. He has to. It is now our Law. He cannot hear the victim, nor can his summons to pay be appealed.

I may as well continue to be somewhat rhetorical, even emotional. The judiciary which exercises these supra-National powers is appointed on the basis that it consists of people who (I quote) (5) are chosen "on the grounds of their general competence and whose independence is beyond doubt." I suppose I am a generally competent person: I can sail a boat, fly an aeroplane, drive, argue, do first-aid, talk a bit of French and German, get along occasionally in the U.S.A., practice International Patent Law—but I am certainly not fitted to be a member of the Commission, for a reason which in itself "kills" the second requirement, "independence beyond doubt." If I was not a firm believer in the Treaty of Rome I could not, in good conscience, serve. If I was a believer, then *ex hypothesi* I would not be independent. The provision is, to me, quite impossible to meet.

Indeed it is already entirely recognized in Brussels that Decisions of the all-important Commission have been known to be deferred until this or that Member has had an opportunity to consult his Government. So much for independence. As said by my colleague Geoffrey Lynfield and his co-author in a recent Paper, "In practice, however, the Commissioners often refer back to their national capitals to assess the state of official thinking of their own Governments." The so-called Court of Justice (which is self-evidently a Court of Law and not of Justice) is even more sinister. The Court (6) is chosen for independence beyond doubt, qualifications for the highest judicial offices in their respective countries, or recognised competence as jurisprudents (what an extraordinary "*or*"). I have, I believe, dismissed with not unreasonable scorn this abuse of the word "independence." I ask then, whose doubt is the appointment to be beyond? and what qualifies anyone for the highest judicial office in nine nations? I believe I am right in saying that here, such competence is decided by politics, rather than by expertise. I feel

pretty certain that the level of qualification is entirely different in each of the nine Member nations. I do not doubt the absolute personal sincerity of the members of the Commission or Court, but I totally reject their competence to rule me—which they do.

The fact is that numerous Decisions so far published* (see my earlier comment on *stare decisis*) have ignored many absolutely basic precepts of justice—such as the sanctity of contract in that the basic principle of contract involves “*consensus ad idem*” and therefore if the parties have not agreed to the same thing the contract is void. Now contemplate the effect for example of Grundig-Consten (7) in which *part* of a contract was held to be illegal. What a nonsense this is! A contract, by definition, expresses a “consensus.” If you cancel one material provision you cancel the lot. But by the Romantic concept of law this is not so. I long to see a contract examined in Brussels which for example says a party “in consideration of the foregoing will pay \$10,000 a year” and the tribunal concerned declares that covenant to be illegal. Clearly, the whole contract is hopelessly bad by your concept of good order and commercial morality, and mine. This may be good Treaty theology but it is, at least to me, very poor law. Yet the Treaty law gives power to rule that this clause be cancelled.

Needs for Change

This brings me to a further point, and I think that in the next (I hope) contemplative ten years, the point will be considered. It is this. The Treaty of Rome is a hotch-potch of traditional Roman Law, grandescendant of the Napoleonic Code, doubtful progenitive relationship of U.S. Law, and is reduced to words in almost Wagnerian Germanic mysticism. No one of those ingredients is bad in itself. The offspring is, in my view, the worst piece of legalist bastardy to which lawyers have ever been exposed. I have emphasised—perhaps over-emphasised—various respects in which bad linguistics has led to bad law, and I would remind you that, like Gresham’s Law as to money in economics, bad law drives out good.

I now propose to launch an examination as to how, judged by results, bad linguistics, politics which are neither good nor bad because they are merely opinion, and a partisan drafting brief have led to flaws in the Treaty of Rome. Obviously this examination cannot be in depth and I am in any case incompetent to be an examiner. One of the problems to which I have exposed myself is

that everything is so new and so complex that, as yet, there is no climate of legal decision or opinion which is so stable as to justify confident criticism, so I prove myself to be over-confident to start with. But between starting a rough draft of this Paper, and coming here, decisions have changed, and the mood of the E.E.C. is thought to be changing. It is now thought by some competent observers that much that was decided in the earlier phase of the E.E.C. (six countries) is now subject to some very hard "second thinking." I have been quite unable to keep up with this very rapid evolutionary phase, so, hopefully, some of my more critical remarks may no longer be tenable.

The European Economic Community has an almost theologically fervent following, and its apostles are obsessed with the notion of absolute freedom of commercial and social intercourse between Member Nations. There is written thus an overdose of anti-trust philosophy, which in my country is generally regarded as an admission that other law is bad or ineffective. This obsession about freedom has, in fact, a precisely opposite effect. Under the Treaty, you are not free to do as you would have been doing for centuries of good sound commercial history. The whole of the Treaty is riddled by the word "prohibited." This is in the name of the Sacred Cow, *freedom* of transaction. In moderation, restrictions may be a necessary thing. A prohibition on murder is a pretty good thing. But it is symptomatic of the nature of Treaty freedom that it is almost entirely in terms of "thou shalt not." Such freedom as it may engender will be that permitted by a bureaucracy operating under the Treaty of Rome, the most important components of which I have already sufficiently criticised.

The Treaty of Rome is a written Constitution and the first ever to be adopted by the United Kingdom. I doubt if we shall be the better off for having one. I do not personally take the view that any "non-emergent" nation should have a written Constitution, but I agree that it is an essential starting point for National emergence. The United States is a perfect example of how a written Constitution has resulted in a civilised and progressive Nation, not totally hidebound by a document conceived by an astoundingly competent parenthood, but recognising the American sense of "updating."

One of the worst things about the Treaty of Rome is that you cannot see where Constitution ends and Law begins. It is an unintelligent mixture of both. The articles immediately relevant to Industrial Property are already notorious as "the 85-90 nonsense." There are many other Articles affecting ordinary people and

ordinary transactions, which have yet to become notorious. It is not in my field, but I commend to your attention that part of my legal, British, Constitution (albeit written Romantically)—namely Articles 74-84, which in my interpretation clearly make illegal our General Post Office (*ergo* its International Postal Agreements) because it is a Monopoly; and by the same token, make illegal the activities of I.A.T.A. (International Air Transport Association) which you and I have endorsed and which is an international price-fixing deal. I warn you, that having prohibited price fixing as to transport, Art. 84(2) somewhat belatedly provides that "The Council may, acting unanimously (nine Nations in unison is not intended to be a joke) decide whether, to what extent, and by what procedure appropriate provisions may be laid down for sea or air transport." Presumably they equally may not. Have you ever heard such an entirely ineffective term? How can I advise a client if he may, or may not, start a private international Mail Service? How can I tell him whether to go ahead and bust the I.A.T.A. air-fare cartel? My shallow enquiries have failed to yield the information that the Council has yet acted under 84(2). So, the internationally monopolised mail service is illegal and so is the I.A.T.A. cartel. Please do not worry—just sweep it under the carpet.

By the time anyone has really woken up (I include the U.S.A.) to its full significance, I shall have retired and, hopefully, the Treaty of Rome will have ceased to exist, at least in its present form. I believe that the Treaty has about four years of life, and will perhaps be honoured by its successor Treaty being called "The Second European Treaty." But I would wager that it will not be so Romantic, Napoleonic, or negative in what it does. Nor will it reflect what I personally consider to be its worst elements, namely the gross interferences in basic commercial freedom. Whatever lies ahead, I feel strongly that in my country, when its voters wake up (and that in itself will be sensational) we will reject Law which has never been even explained let alone debated, in our two Houses of Parliament. And we will abjure the written Constitution which today supersedes our domestic Law.

Articles 85-90

The Treaty of Rome (5) (I now concentrate on Articles 85-90) imposes law on E.E.C. members which negates our established Contract law, our Industrial Property law (Patents, Designs, Trade Marks, Copyright) and our conceptions of equity. Like many other

passages in this remarkable mixture of Constitution and Law, there is a multitude of prohibitions to elements of Agreement (disregard "*consensus ad idem*"—it has no place here) of which a substantial slice must be determined by "having their object"—see Article 85. Who, I wonder, can determine what was the object of two parties in coming to agreement? Yet enormous commercial transactions may be determined by what is held by a Commission or a Court (whose Rules of Evidence do not exist as far as I know) in regard to "have as their object."

But do not be deluded. Article 85 (Sect. 2) says that any prohibited agreement is void. This is an absolute term. Happily, it is not true, and is immediately contradicted by Section 3. What Law says under that comprehensive Constitutional blanket, is that *any part* of an agreement which conflicts with the prohibitions, *may* be declared invalid and void. This is very remote from legislating that there is automatic voidance of the whole agreement. I ask you to consider the consequences, to which I have previously referred, of invalidity of *any part* of a contract.

Whether my reading is right or wrong, Section 3 of Article 85 then goes on to score a first double-negative. Section 1 is inapplicable (thus the negatives or prohibitions of Section 1 are themselves contradicted) for by Section 3 "the provisions of paragraph 1 may however be declared inapplicable in the case of." I ask you what is the effect of the word "may." Does it mean "will," does it mean that the victims themselves decide, or does it mean that the "Commission" or the "Court" may make a decision? I have been trying to interpret International Statutes for half a century, and I have no idea of the meaning. So, I refer to history, basically that of Napoleon. What this byblow of Constitution and Law, as nearly as I can understand it, means, is that "you now know what we all mean and expect—now act accordingly." Unhappily, due to about four or five negatives, we do *not* know what they all mean. I will now prove my rhetorical point.

Article 85, Para 1, seems to set up prohibitions; a negative form of legislation—first negative.

Para 2 is supplementary. It says that any agreement under Para 1 is automatically void; confirms first negative.

Para 3 then says that Para 2 is not true. Nothing is automatically void. Second negative. It then recites three different situations in which Para 2 is not applicable (Negative No. 3). The draftsman does not tell us whether his words "the case of" mean all three situations or any one of them. But the next few words "which

contributes to" seems to direct us, at least by grammar, to a singular. If that is true then any one of the three "inapplicabilities" is a negative of Para 1 and of Para 2.

It is interesting to seek guidance from the first negative, and its negation of the second negative. So look at Para 3. This bemuses you with a third negative "which contributes . . . and which does not" (followed by subparagraphs a and b). Para 3(a) and (b) impose upon your intelligence a third order of negation. I hope you can unravel this. I gave up a year ago, not only because it is all supposed to express an intention (that is, a Constitution) but because it has been accepted through several (not binding) decisions, as Law.

Now consider Article 86 of the Treaty. This is concerned with parties who have a Dominant Position. The Article uses the apparently definitive words "in particular." This is typically German mystical usage. Does it mean "expressly" or are the words put in simply to raise doubt in the mind? Anyway, "in particular," four types of usage are stated (Art. 86, a-d). They purport to deal with the law of Contracts as to price, limiting technical development to the prejudice of consumers, (how do you interpret that?) application of dissimilar conditions to different parties, thereby placing them at a competitive disadvantage (silence as to what happens if they are placed at an advantage) and, finally, 86(d) says that a party in a dominant position may not make a contract subject to acceptance of supplementary obligations. Note that this *only* applies when there is a dominant position, and only applies if the supplementary obligation is something which is involved in the conclusion of the contract (I believe that, in fairness, this really means the *making* of the contract and not its conclusion). Why it should be illegal for anyone to agree to something otherwise perfectly legal, I cannot see: he is presumed to agree because he wants to or because it is commercially expedient. Nobody uses any force.

But the real fault in Art. 86 is that it is applicable only to a party "in a dominant position." The words "dominant position" are undefined. The matter cannot be quantified. Cunningham in his very valuable short book (8), says ". . . economic power . . . the ability to exercise a significant influence on the market, an ability which (it) can foresee and exercise deliberately." There are two Cases which are instructive, namely Continental Can (9), whose commercial position was debated in terms of its German subsidiary Schmalbach; and GEMA (10), which was an Authors' Rights Society which had as a condition that royalties had to be paid on unpro-

tected work as well as protected. The Commission held that GEMA had a dominant position because it was the only body of its kind in Germany and therefore had no competition, and had abused its domination.

However, there has been some attempt to quantify "dominance." Note that "dominance within a substantial part" (Art. 86) of the E.E.C. can mean dominance in any one Treaty country, perhaps Luxemburg, with all of its 300,000 or so population. It has, for example, been stated that a party having 40% of a market, may dominate it if the other 60% are scattered, numerous, and individually weak. Again, 15% of the "particular market" (whatever that means), if the party's turnover does not exceed 200 million units of account; or maybe, annual turnover must not exceed 20 million dollars and the involved products must not be more than 5% of the volume of business. If you can decipher all this farrago of nonsense, you will be able to advise a client whether or not he dominates the market. If I were you, I would defer your advice until the whole idea is exploded in the nonsensical cloud in which it is obscured. (19).

One form of possible "dominance" has been before me professionally, and I am much concerned about it. I invite you to tolerate listening to it, because it so well illustrates a realistic business situation. A party A has International Copyright in the design of a popular sailboat. A had granted to B and others various rights as to manufacture and selling, including defined rights as to selling in Europe and granting sub-licenses in Europe. All of this industrial property is on a virtually sole and exclusive basis (with some very limited exception). The boat has a name by which it must by contract be identified. Moreover it is the basis of an International Class, based on that name, with sailing clubs confined to that Class. I have no figures, but I suspect that probably 10-15% of sailboats of similar dimension and performance the world over, are of the Class. Has my client a dominant position? He has 100% of the market, in all countries, for that boat, which you cannot buy except by its Class name but, as I say, perhaps 15% of the market in generally similar, but not identical, boats. I am talking about sizeable business, such that, if my client has a dominant position, his contractual situation is hopelessly jeopardized and he and his contractual associates can be penalized for a lot of money in respect of his past dealings, i.e. before the U.K. entered the E.E.C. His manufacturers and dealers are, I am told, all perfectly happy; and so is the sailing fraternity.

Whilst you are thinking that one out, I remark that our new Law seems to differentiate between a fine and a penalty. A fine is a one-shot job. A penalty runs on, like a royalty. I suspect that will be news to you. For my part I think a penalty is a punishment and a breach of law. This is one reason why I say that Treaty law involves a presumption of guilt, but maybe I am wrong, and it is only a presumption of tort.

Case Law

For those of you who care to follow case law (not forgetting that it is not binding precedent in the E.E.C.) I commend attention not only to Continental Can (9) and GEMA (10) (*supra*) but to Parke, Davis (11), Deutsche Grammophon (12) and Sirena (13). These all have an element of domination in them, but their greater impact will be seen in regard to the immediately next matter.

In case it be thought that I have ignored another very important type of case (your Supreme Court *Lear & Atkins* decision which has, I profoundly regret to say, been paralleled in Europe), a contract clause preventing a licensee from challenging validity was held to be unallowable in *Davidson Rubber Company* (14).

Finally as to the Treaty, I raise a point which may be of greater importance to U.S. Industry than all the others. I refer to the doctrine of "exhaustion of rights."

The propositions decided in Parke, Davis, and Sirena, and in Deutsche Grammophon (*supra*), although each dealing with a specialized issue, should be taken to their logical conclusion. The proposition put is, that if you have an Industrial Property right in one country A, and that right has earned you a royalty payment on a product, then the payer is entitled to export the thing to country B, where you again have a legally entirely separate right, and you shall receive no further payment—neither shall any term of contract prevent the import into B. What the competent jurists decided, therefore, was that a Patent was for a *thing*, and that the idea that there can be a Patent which gives a right in one country in respect of an invention, and another Patent in another country in respect of the same invention, is untenable. Deutsche Grammophon related, as it happens, not to a Patent but to a form of German copyright, and Parke, Davis was a bit of an oddity because it related to a pharmaceutical (the product in conflict was made in Italy where no Patent can exist for a pharmaceutical), and the Italian producer imported into Holland where there was a Patent.

The European Court held for the Patentee. In *Deutsche Grammophon* (12) and also in *Grundig* (7) it understood to have been made clear (though nothing whatever was made clear to me) that if Patents in countries A and B are owned by the same party, and the Licensee in A exports to B, the Licensee cannot be stopped. *Sirena* (13) says that if the rights had *once* been owned by a single Patentee and are now owned by different parties, again the licensee in A cannot be stopped. It seems, however, that if the two Patents have never been owned by a single party, the export from A to B *can* be stopped (*Sirena*). No one seems to have heard of Patents applied for and granted to assignees, as under the International Convention.

The fallacy in *Deutsche Grammophon*, and in *Sirena*, is the concept that the Patent in A has something in common with the Patent and the commodity patented. Hence the phrase "exhaustion of rights." The truth is, of course, that the A Patent is totally disparate from the B Patent. It is nothing more than a coincidence that the A and B rights pertain to the same subject-matter or commodity. In the Patents themselves the scope of the Claims, the description, and the manner of legal interpretation may be (probably are) entirely different. One asks oneself "If I am the Patentee both in A and B, can I assign one of the Patents without the other?" By the Romantic doctrine, I think not—not by reason of *Sirena*, but because they are not disparate rights but—it seems—enlargements of a single right. I look forward with humorous relish to an E.E.C. Decision when the Patent in A is for a product, and in B only for a process, the end result being the same commodity. Perhaps then our religiously fervent free-traders in Brussels will begin to consider some legal sense, rather than their present dogma.

It is interesting to mention that the concept (so clearly nonsense in relation to Patents) seems to have its congenital roots in the *Heidsieck* champagne cases in the U.K. (15) and Germany, which were on Trade Marks. Here, wine genuinely bought under Trade Mark in France was imported into England, and the importer was sued under Trade Mark Law. The total difference between a Trade Mark case and others is that a Trade Mark is Registered, but the Registration as such confers no right; it merely records a right which may well exist without Registration. Providing the commodity is genuine and genuinely marked, there is clearly no cause of action in its re-sale and the "right" (such as it is) was exhausted at the first sale.

I would like to have been able to spend more time with the Treaty of Rome. For those of you who seek a proper treatise by one who knows how to write on Law, I strongly commend James P. Cunningham's "The Competition of Law of the E.E.C." (Kogan Page, London, 1973) (16). This is the work which is condensed in reference 8 hereto. There is only one passage in this book with which I disagree, and that is the last sentence in its Introduction which is, to me, worth quoting as a piece of quite unjustified optimism, thus:—

"By conforming to the Rules of Competition, enterprises will also show that the freedom of action which the Rules are intended to guarantee within the Common Market do not operate solely to the benefit of consumers but also permit an optimum expansion over the whole range of production and distribution." My view is directly the opposite. I see nothing in the Treaty which can possibly fail to restrict trade, increase prices, and—above all—powerfully and adversely affect investment in industrial development.

How an enormous sequence of prohibitions, reversals of century-old proven commercial practice, retrospective penalization, and quite unprincipled control of free enterprise can operate either for the benefit of consumers or result in expansion totally defeats me. But Cunningham's excellent book is much more objective than my personal heavily biased opinion, and certainly makes out no case for Dr. Schlieder's introduction as above quoted.

Patent Law

I now turn to Patent Law as such.

In essence, three proposed innovations in International Patent Law exist, of which one is alive, kicking, and being kicked. This is the European System (Europat) for the Grant of Patents now in lukewarm debate among 21 countries; one is in coma if not dead (the P.C.T.) and the third is nascent and is a proposed E.E.C. "Common Market Patent Convention" (17) to which, if Heaven fails to protect us, all members of the E.E.C. would be obliged to belong. Whether or not this happens, seems to depend very much on the introduction of the Europat system (3). In my view, British official accedence to Europat (3) is a subvert political step intended ultimately to support the E.E.C. Convention (17) and is entirely without any realistic basis outside of politics.

I will concentrate on Europat because it has some current realism. Its position is that it exists in draft, 14 out of 21 nations

have signed the Draft subject to some amendments, and I understand that the remaining 7 have no objection to signing but have to consider their domestic Laws first. The System is not yet Law; it needs to be ratified by Governments and this will require time, because it demands amendments of current Statutes. I hope it will be ratified by every nation except mine.

A high-light of the System is that there will be a main examining Patent Office in Munich; searching will be done elsewhere and is regarded as a function entirely separate from Examination. Three languages are available; German, French, and English, and the Applicant selects the one he proposes to use and it is used in all proceedings except (I think this is a vital exception) that Infringement will be tried in the country in which the Patentee sues—in effect, the country wherein the subject infringement occurred. Validity is an issue wholly divorced from Infringement and will be tested in a Community Court, presumably at Munich. It will follow that a Defendant in infringement will have to seek a stay of the action, and then go to Munich to get a judgment on validity, before effectively answering the infringement.

I do not know whether in U.S. Courts you have the equivalent of what we call the “Gillette Defence.” This means “If the Patent Claim is so read as to involve me in infringement, it is invalid: but if so read as to exclude me, it is valid.” Such a defence, which seems to me to be totally sensible, will, I suppose, not be available under a Europat, because the validity cause will be tried independently of the infringement cause, in a different place, language, and legal climate.

The Europat Applicant has to nominate the nations in which the Patent is to be effective. His filing fee will be calibrated accordingly. There are conflicting views as to the cost; some have assumed that the cost of nominating all 21 countries will be less than that of obtaining individual Patents, and others believe it will be more. My professional colleague E. W. E. Micklethwait recently very ably addressed my Institute and will, I believe, be reported soon in CIPA, dealing with cost and also far more basic results of the Europat. One of his points deals very shrewdly with renewal fees, and it is interesting to note that, currently, the renewal fees for the life of a Netherlands Patent sum to about \$5125, whilst those in the U.K. are \$865. The proposed Community Patent in nine countries (with no power of selection) is budgeted at \$7068, and therefore compares very well with the *sum* of all the nine at \$17,118. But observe that, by getting individual Patents, you can write your own

budget, and you can abandon any country which is unremunerative, whereas in a Community Patent you are stuck with it. These figures are, currently, mere guesswork, but are probably representative of proportions. Some observers say they should be updated 30-50%.

I strongly commend the Micklethwait paper to you when it comes out; I am privileged to have heard it by its author and, by his courtesy, to have a copy with me.

Another speculation relates to the proportions in which the languages will be used. It seems to be certain that at least 60% of Europats will be in English, and some put it as high as 80%, largely assuming that, if the usual course is followed, Japanese-origin (and a fairly small number of other non-commercial language) cases will in any event come in English if only because of the usual fact that, if European cover is sought, so is U.S., so an English translation will exist anyway. Let us guess that 70% of Europats will be in English. This of course means that 30% will be divided between German and French.

It is, therefore, rather silly to have the Patent Office in Munich: the Munich Office will be totally competent to deal with, say, 15% of the Applications. We have been told that there may be a transitional period of about 15 years, during which at least some of the Examination will be contracted out to London. I hope our U.K. Patent Office refuses to touch this, though I fear the worst. The U.K. Examiner is not geared to the Germanic type of practice. U.K. Examiners regard it as their duty to help an Applicant to get a valid Patent, since their function is aimed at the support of a Patent System, not obstruction to it. The German Examination (and Germany is far from alone) is psychologically directed to finding and dogmatically asserting grounds for refusal. In the U.K., we believe that the final tests for validity can only take place in open Court, with complete presentation of evidence, cross-examination, formal pleadings, all hallowed by the experience and force of Judicial procedures conducted by trained advocates. In this, we go further than the U.S.A., though in the end effect your Cases are decided in very similar manner. We not only talk almost the same language but our legal systems have a common base. Our bureaucracies are there to serve and help the public. In many countries, they are there to discipline and control the public and to subject individual interests to dictated Law. In some E.E.C. countries it seems to me that the term "civil servant" should be replaced by "civil master."

The proposed Europat System is bad in important respects, and I regret to be so impolite to say that it borrows some of its worst from the worst of yours.

For example, in the proposed Europat system (Art. 54) it is the duty of the Examination to judge "obviousness" and "inventive step." I have already told you why I consider this to be bad.

Again as in your practice, there is no Opposition to Grant. Lip-service is paid to it, but the System allows not for Opposition but for Revocation—i.e., something which happens after grant. Without being a chauvinist, half a century of experience has taught me that pre-Grant Opposition is a very good legal brake, relatively cheap, and almost always of good effect for both parties and for the public.

There is no provision for Compulsory Licences as such. I know it is not favored here, but my considered view is that the Compulsory Licence principle is a very salutary provision against the abuse of Patents and much of what you might regard as "anti-trust" behavior.

Claims, in the Europat, must be written in the Germanic and repulsive form in which the ambit of protection has to be "characterised in that" This form clearly assumes that an invention, in order to be patentable, must belong to some known concept, group, or class. This in turn indicates to me that the Germanic mentality has never yet grasped what an invention is: it gets as far as considering an improvement but, in the world of Patents, cannot understand that there is such a thing as originality.

This type of formula-written Claim has nothing to be said for it. Worse still, the thinking behind it has led German jurisprudence into the most extraordinary state of confusion. An excellent Paper (18) has recently been presented to my Institute by Dr. G. B. Hagen, who practices in Munich, on "Scope of Protection of a German Patent." This is a valiant attempt to clarify a mystique—which I take to be an impossibility—but Dr. Hagen gets full marks for trying. He reminds us that German Patent Law says that the patent claim shall specify "what is put under protection is patentable." He adds, very wisely, "the claim does not completely tell one what is the scope of the patent."

I suppose I should stop there to invite a minute of silent contemplation. If the Claim does not tell the public what it may not do, what is the point of the Claim? One would do better under the now out-of-date French "résumé." Germans by temperament, tradition, and length of word, are generally supposed to be very precise

people: yet they produce (may often insist on) Patent Claims which fail to define the ambit of protection!

What is made entirely clear by Dr. Hagen is that ordinary literate people, with some skill in semantics, and law, cannot interpret the scope of a Germanic-type claim. Yet it is this formula, and this philosophy, which is to dominate the Europat's future, for 21 nations, at least for those who are foolish enough to elect for the Europat.

Let us be thankful for one thing. You do not have to seek a Europat. It will be entirely optional. You can take individual domestic Patents. That is what my clients are going to be advised to do. But of course if the E.E.C. Convention monstrosity is in fact created, my British clients would be compelled to use it if they wish for European protection. I can foresee no reason why they should so wish.

I suppose the real test of the Europat System will be, how many Applicants go for it. My bet and hope is that so few will, that the System will die in the course of a very expensive childbirth.

I recently asked our Comptroller of Patents (the parallel of your Commissioner), giving him fair notice that I might use his answer, presumably given on behalf of his Department and therefore the Government, the question—what advantage is expected to enure to the U.K., by joining the System? The Comptroller, I may say, has been *ex officio* the leader of the U.K. delegates to the Conferences leading up to the System. I should add that as a person and as Comptroller he is highly respected and admired, and a number of us feel that he has been put in the impossible position of accepting a brief which no-one would wish to take.

The reply to my question was, as I expected, quite sterile. I still do not know what advantage is expected. I was officially informed that "industry and the patent profession (whose advice is alleged to have been sought) consider that the advantages of the U.K. joining the Europat System outweigh the disadvantages." My only comment is that my profession has, as far as I know, never been asked an unloaded question about this, and I suspect that neither has industry. All the debates have *assumed* that we should join, and the questions asked have dealt with the best formulae based on that assumption. I believe the whole idea to be a pro-Market political racket having no element of realistic public advantage. I have asked around in my profession (many members of which generally support the idea of a Europat though not in the manner drafted), around the Patent Office (nearly forty Examiners of all seniorities),

and a fair cross-section of other informed opinion. Nobody can tell me any advantage in joining.

The key to the seeming anomaly is that in the proposed System *anyone* can be an Applicant for a Europat. Thus, for example, the U.S.A. gets all the advantages and makes none of the sacrifices. Any Applicant in a Convention country can apply with priority benefit of Convention. Why, then, join? We (the U.K.) will be no better off by joining, but will make very large sacrifices to do so.

Peroration

I am as aware as you, that I have given you a confused, not very concise, and certainly very opinionated series of comments. You will, I do not doubt, read and hear a great deal of propaganda, some law, and a small number of facts (it must be small because there are not many to read), concerning both the Treaty of Rome and proposed Europat law. If I have scattered a few grains of salt to be consumed with the bread, I have met at least one requirement of my task.

One cannot fail to have a peroration. Mine is a quotation from the poet G.A.O.I. al Khayyam (known to his friends as Omar)

"I oft when young did eagerly frequent
Doctors of Law, and heard great argument,
But evermore
Came out by that same door wherein I went"

Nothing could be more apposite to the Treaty of Rome or to the Europat System.

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15. Heidsieck Monopole v. Buxton (1930) 1 Chancery Div. (U.K.) 330.
16. "The Competition of Law of the E.E.C.," Kogan Page, London, 1973.
17. Draft Convention for the European Patent for the Common Market (1973) Office for Official Publications of the European Communities, Luxembourg.
18. "Scope of Protection of a German Patent" G. B. Hagen, C.I.P.A., August/September 1973, p. 484.
19. The Brussels Commission has stated totally arbitrarily that Art. 85 of the Treaty is not applicable if the proportion of the product subject to agreement, in the relevant area, is not more than 5% of the business in "identical products" (or similar in the mind of the consumer) and when the aggregate annual turnover of the parties does not exceed 15 millions of units of account, or in the case of agreements between commercial parties, 20 millions. I know this kind of quotation is dull to hear, but just try to imagine without rude laughter, differentiating as a matter of law between "undertakings participating" in a production or distribution agreement, and "commercial undertakings." I also draw attention to the fact that a party who has a Patent, Design, or Copyright in respect of a commodity *ex hypothesi* dominates the market for that product. Regulations have been made by the Commission which touch on, but do not resolve, the obscurities thus created. Commercial Regulation 17/62 is a lot of pretentious words which purport to instruct us and under the glare of linguistics or equity fail to do so. As to Patent Licences in particular, it is worth a wry smile to try to understand a Commission Notice published 24th December 1962 which throws more darkness on perfectly ordinary business transactions than any other legal Black Mass I have ever encountered. (See p. 256 of Cunningham's book referred to above.)

II SECOND SESSION

Introductory Remarks

ROBERT H. RINES

Yesterday, we had a very difficult problem, because this Conference is as much for the benefit of our law school students as for anybody, of giving us all somewhat of a common base from which to begin to understand some of the current problems and trends in the EEC, and the views of some of our foreign speakers as to what might affect future American trade in the Common Market. It was difficult to do without insulting the intelligence of those who already have quite a background and, at the same time, give an overview to those who have very little of a background. I think our speakers did an admirable job.

Today, we can get further into the meaning of the situation, and begin to crystallize some of the issues. Then, in our working sessions this afternoon, we can get into the specifics of the decisions that were mentioned yesterday. I know that some in Mr. Weiser's group will want answers in detail, but on the other hand, others of you have not yet had the opportunity to learn what some of these cases are about and what the prevailing philosophy may be. In due deference to Mr. Johnson, while *stare decisis* may be out the window, I'm sure that even the European Economic Community tribunals don't want to decide "A" on Monday and "B" on Tuesday if it can be avoided!

We thought we would start out this morning in an area that is perhaps very little known to Americans, particularly, and certainly to many of our foreign friends. I refer to the transfer of technology, in both directions, between the United States Army and the nations in the European Economic Community, through the NATO program. Whether we like it or not, we are, indeed, now interminably and irrevocably entwined with the rest of the world in many ways, and we have to look at them no longer in the parochial American sense. It isn't just the U.S. Army that is going to be talking here now, but NATO, which embraces much more than the U.S. Army.

The Atlantic Alliance (NATO) and the European Economic Community (EEC)

JAMES E. NOBLE*

(Introduction by Dean Rines: I'm proud to announce to you this morning that our speaker came to us as Lt. Col. James E. Noble, but I guess the United States Army had the same perspective that we have. When they heard that he was going to address this Conference, they immediately promoted him to full Colonel, so that it is going to be a pleasure to call him Col. Noble this morning.

Col. Noble is from the Patent Division of the U.S. Army's Judge Advocate General's office. He is intimately concerned not only with the U.S. Army's problems, in terms of technology and dealings with nations in the EEC, but he is closely associated with the NATO program, and it will be most interesting for us to learn about the similarities in our dealings with both organizations. Another thing I would like to say is that in Colonel Noble, we have a man who recognizes our responsibilities to future generations. I've noticed the very agitated and exciting talks he has had with some of our law school students, explaining some of the programs of the Army in terms of summer work, trying to intrigue budding lawyers into choosing careers in the Government service, where competent lawyers are badly needed on a professional basis. I hope he has

* Colonel, and Chief, Patents Division, U.S. Army Judge Advocate General's Office.

been successful in those endeavors, and now I am very proud to present to you *Colonel Noble!*)

Thank you, Dean. It is a pleasure to be here, but I have one special comment I would like to make, and it is—I don't think I've ever been any other place, or any school, or any establishment, where I have found enthusiasm to be so contagious as I've found it here. That goes right on down from your Dean to the students, and I think it's pretty remarkable. I've been treated splendidly, and I appreciate that, and it's a pleasure to come to a place where the Army is not in trouble, or the military is not in trouble! Sometimes our problems are of our own making, but sometimes they are not, and we like the invitation to present our views, and I hope we get another one sometime in the future. I may present things from the U.S. Government's standpoint, but that's the business I'm in, and naturally I would expect somebody else in another business to present it from his standpoint.

EEC and NATO

Please do not expect me to forecast NATO's future or to drop hints about U.S. Foreign Policy. That simply is not my line of business. My situation is similar to that of a businessman who must guess how politics will influence investments and commerce. However, I do hope to relate NATO and the EEC, and to give you some information about industrial property activities in the two most important international organizations in Western Europe.

We know the EEC's purpose is to ensure the member states' economic and social progress by taking common actions to eliminate trade barriers which divide Western Europe. The EEC is a supranational organization with institutions ostensibly empowered to overrule a member state government's actions in areas which do not agree with the Community's aims.

By contrast, the North Atlantic Treaty Organization (NATO) is not a supranational organization, and does not have mandatory powers over its 15 member states. NATO's purpose is to promote stability and well-being in the North Atlantic area, which partly overlaps the EEC sphere of influence. The NATO treaty provides for collective self-defense and for continuing joint actions in the political, economic and social fields, and encourages economic cooperation among NATO countries (Article 2).

NATO was formed in 1949. It has a predecessor known as the Brussels Treaty Organization, which was formed in 1948. During 1950, after NATO was formed, the famous French foreign minister Robert Schuman made a historic proposal which led to the economic integration of European coal and steel resources under the European Coal and Steel Community, and probably also led to the present European Economic Community.

Because of the EEC's success, most people have probably forgotten that a European Defense Community Treaty was signed during 1952. That Defense Community Treaty would have established a European army, drawn from the European coal and steel countries, to operate under a single command with NATO. But France did not ratify that treaty, because the United Kingdom rejected the idea of such a defense force, and because France wanted both United Kingdom and German participation in Western Europe's defense activities. Therefore, the European Defense Community never came into being, and today NATO is Western Europe's defense shield.

You may have read recently in the newspapers (New York Times, 12 October 1973, page 5) that France proposed that any new declaration of Atlantic alliance principles be limited to questions of defense—apparently, in response to a call by the United States for a new Atlantic Alliance Charter. I understand that the Common Market countries have now presented a draft of principles to Washington which covers political and economic questions, but not defense issues. France's position probably avoids showing that Europe owes the United States any economic concessions because of our commitment to NATO.

It is important to recognize that today there is no single institution that coordinates both Europe's security and its economic affairs. Paul-Henri Spaak, who was once the Belgian Prime Minister, the President of the United Nations General Assembly, and also the Secretary General of NATO, said in 1965 that a purely military alliance was not conceivable, and that a European community effectively united for possible military operations but torn by political or economic conflicts was an illusion.

Turning to NATO—United States membership is no direct conduit to the EEC, but the fact that we are a member of NATO obviously means that we have a great interest in the EEC's economic policy and the effect EEC regulations, directives and decisions have on NATO member nations. Also, there is always a relative balance of payments gain or loss which accrues or is

incurred by NATO members because of NATO commitments and troop stations.

We all know that the EEC does not issue regulations or directives pertaining to or binding NATO, so there is only an indirect EEC regulatory influence on NATO. Conversely, NATO has a Committee of Economic Advisers with subgroups and working teams, although no direct action would take place where action by other organizations is feasible. On balance, it seems more likely that the EEC will impinge on, and influence, NATO more than NATO will be allowed to impinge on the EEC, and NATO will remain the EEC's security blanket.

Procurement

The EEC has a considerable impact on NATO by virtue of the mere fact that eight EEC members are members of NATO. But there are other opportunities for EEC influence on NATO as well. Some of these opportunities exist because armed forces which are committed to NATO by individual member nations procure defense goods in their parent EEC countries and have installations in EEC countries. Also, their employees live in EEC countries.

NATO does not directly order production or defense equipment for maneuver division-type troops, nor does it have a central logistics system. However, NATO does have an infrastructure comprised of airfields, communications, pipelines and missile installations. National infrastructure installations are paid for out of national budgets, but NATO common infrastructures are collectively financed. Contracts for installations are let to firms of NATO member countries.

One Commission directive (1969) and two EEC Council directives cause all Community bidders to have access to public supply contracts, but military wares are excluded from those directives, because Article 223 permits member states to take measures necessary for state security. Control of weapons, munitions and war materials production is left to member states. However, member states are not permitted to affect competition in products not intended specifically for military purposes.

United States military procurement activities include, by reference, the U.S. Armed Services Procurement regulations (ASPR) when we buy offshore and in the EEC. However, that does not solve our procurement law problems, because determining the desirable forum of law for interpreting any offshore contract can always be a problem. Fortunately, our offshore procurement has

declined and, when the ASPR is included in a contract, most courts determine that U.S. law should be applied.

In practice, our U.S. offshore procurement contracts should provide for applying U.S. law and selecting a U.S. forum, but this provision is sometimes omitted. However, if the choice of law clauses is valid and sovereign immunity is recognized, the U.S. Government will probably remain clear of the European Court of Justice (ECJ), at least when U.S. law is chosen and has some logical relation to the contract. If no choice of law provision is inserted in a contract, such as in a patent or trademark license, the law of the country where the industrial property grant was issued will probably be applied, and could lead to the ECJ.

EEC jurisdiction is likely to be applied in Government-to-contractor cases and Government-to-Government contracts where subcontracts are placed by foreign Government contractors, because Article 189 of the Treaty of Rome ensures that provisions of EEC regulations are accepted in the legal processes of member states and have the force of law. Equally important, Article 235 permits EEC institutions to adopt provisions of law necessary to the Rome Treaty's aims. The European Court of Justice then solely decides whether the provisions issued under Article 235 are lawful (Article 177).

ECJ Decisions

The European Court of Justice has considerable influence on EEC member states because it has the power to determine individually how they honor the Treaty of Rome (*Costa v. Enel*, 6/64, *Recueil*, Vol. X, page 1141, CCH para. 8023). The ECJ does not permit states to overrule their Rome Treaty obligations, as they can with other international agreements, and moreover the Court has held that particular provisions of the Rome Treaty create individual rights which member states' municipal courts must recognize (*Van Gend and Loos*, 27/62 *Recueil*, Vol. IX, page 1, CCH para. 8008). One *caveat*—for natural persons to appeal a Council or Commission's decision, the decision must be addressed to them, or they must be directly affected by a decision or regulation as addressed to another person. Only a national court of law may seek a "preliminary ruling" from the European Court of Justice on questions of community law (Article 177).

In all of NATO's activities, industrial property rights and a contractor's ability to compete are important factors, just as they

are in U.S. defense contracting. Probably our knowledge of United States antitrust law provides a usable standard for what is lawful in the EEC, but the conflict between EEC antitrust law and member states' industrial property laws causes confusion.

National industrial property laws maintain trade barriers by helping to keep out imports, but the Rome Treaty demands trade barrier removal—Articles 36 and 222 preserve national industrial property laws. Superimposed on this confusion is the application of EEC antitrust Articles 85 and 86, applying to agreements or practices in several countries. Although there is the prerequisite that trade must be affected in the EEC, actual presence in the EEC is not necessary to bring the antitrust regulations into play.

A fair understanding of this dilemma—but not a solution—is possible from reviewing four European Court of Justice decisions; let me now summarize those decisions and their styles:

*Grundig-Consten v. EEC Commission*¹ was a trademark case. The ECJ found that the object, (not the effect), of a combined national exclusive dealing arrangement and a trademark license, to keep German-made Grundig products out of France and preserve the French market to Consten and other national markets to similar licensees, violated Article 85 and was a restraint of competition.

Five years later, in another trademark case, *Sirena, S.R.L. v. EDA GmbH*,² the owner of an Italian trademark was not permitted to keep out of Italy, with his trademark, cosmetics manufactured in Germany. The ECJ said those actions impaired trade between EEC members and restrained competition, in violation of Article 85. Significantly, the Court did not find a dominant position (Article 86 violation) and applied a rule of reason approach to determine if an Article 86 abuse occurred.

In a copyright-related case, *Deutsche Grammophon v. Metro S.B. Grossmarkte*,³ the ECJ refused to approve keeping phonograph records from being reimported into Germany, as incompatible with free movement of goods. Perhaps now import prohibitions based on national industrial property laws are considered by the ECJ to be contrary to the Treaty of Rome, but the ECJ did not appear to overrule, at least explicitly, a previous patent decision, *Parke-Davis & Co. v. Probet*.⁴ In *Parke-Davis*, the ECJ refused to find that using Netherlands patents to keep unpatented Italian pharmaceuticals

¹ Cases 56/64 and 58/64 of July 13, 1966, CCH para. 8046.

² Case 40/70 of February 18, 1971, CCH para. 8101.

³ Case 78/70 of June 8, 1971, CCH para. 8106.

⁴ Case 24/67 of February 29, 1968, CCH para. 8054.

out of the Netherlands violated Articles 85 or 86. In fact, in Parke-Davis, the ECJ declared:

The existence of rights granted by a Member State to the holder of a patented invention is not affected by the prohibitions set forth in Article 85, Paragraph 1, and 86 of the Treaty.

Joint Planning

Within this thicket of national and EEC industrial property law, NATO countries and NATO have used joint production planning, cooperative production, and standardization. In NATO, the trend is towards making national cooperation in the development and production of equipment as easy and advantageous as possible. The old NATO basic military requirements have been abolished.

Most procurement has involved the exchange of technical information, sometimes by outright purchase of rights. At other times, a mutual exchange of information occurs, as a result of the popular "memorandums of understanding" or through bilateral patent exchange agreements. Currently, NATO industrial property activities are centered in AC-94, the Working Group on Industrial Property. That Group is composed of interested members from NATO countries, but generally only about 8 or 9 of the countries actively participate. AC-94 reports directly to the Conference of National Armaments Directors, which is a major committee on the civil side of NATO, and responsible to the top-level Defense Planning Committee.

AC-94's end products are guidelines for industrial property agreements and activities in NATO—for example, the NATO Agreement on the Communication of Technical Information for Defense Purposes, which came into force during 1971. This particular agreement applies to the communication of proprietary technical information, for defense purposes, between Governments; it does not cover communication of proprietary technical information between individuals or contractors. For related EEC law, I refer you to a pair of Commission decisions involving Burroughs Corp. of Detroit (CCH CMR paras. 9485 and 9486 and para. 9512), and German and French firms. The Commission approved requiring the licensees to keep know-how secret, in one case for the term of the patent, and in the other case for ten years beyond the patent term.

Another important work is the NATO Agreement for the Mutual Safeguarding of Secrecy of Inventions Relating to Defense. There is also a Checklist for Drafting International Cooperative

Research and Development Agreements, because it is through those agreements that the United States Government and its contractors could feel some EEC influence.

The program management of a complex country-to-country or contractor-to-contractor R & D program, where management is placed in an EEC country, must eventually lead to review of competition and licensing activities. Therefore, you may wish to refer to a 1971 Commission decision pertaining to an agreement between Colgate-Palmolive and Henkel Cie. of Düsseldorf to establish a joint research company. The Commission recognized a possibility of the parties going beyond the terms of the agreement and, although the agreement was approved, stipulations were attached to the exemption requiring annual licensing reports and notices of interlocking personnel assignments or acquisition of interests jointly by the parties (23 Dec. 1971, CCH CMR para. 9491). Further, AC-94 is now working on a NATO report on the application of the European Community's rules on competition to restrictive practices with respect to patents and licenses.

The fact that an EEC member is a member of NATO does not appear to impede greatly technology transfer to an iron curtain country. You probably know that the United Kingdom is working on an economic cooperation agreement with the GDR⁵ and also on technical collaboration agreements with all COMECON⁶ countries except East Germany. The United States has an agreement with the U.S.S.R. which broadly promises cooperation in the fields of science and technology (24 May 1972) and is now negotiating implementing guidance for the agreement. France has sold complete plants to the U.S.S.R.

DOA Patents

Last, and somewhat unrelated to my main subject, I would like to add that the Department of the Army wants to put its 4,500 patents into commercial utilization, in keeping with presidential patent policy. U.S. licenses are available for all of those patents.

The Department of the Army is also very much interested in the new European Patent and the EEC unitary patent, which is supposed to prevent market sharing by patent licensing agreements. The Department of the Army now has informal patent filing interchange agreements with Canada and the United Kingdom for

⁵ German Democratic Republic, East Germany.

⁶ The Communist Economic Community.

filing our Department of the Army patent applications in those countries. We would like to broaden the foreign filing of at least some of our patent applications and subsequently license those patents.

Thank you for the opportunity to be here. I hope that I have contributed in some way to your understanding of NATO's relations with the EEC and with Europe.

(Closing Remarks by Dean Rines: This afternoon Colonel Noble will join with Harry Saragovitz, who has just retired from active work with the Army in a similar area, in working session B, and I'm sure there will be other information both can impart to you.

I think it's rather nice to contemplate the situation that, if the United States Government is going to go into the business of exclusive licensing of its patents, including some of its foreign patents, we may indeed have an ally, for once, in trying to deal with the problems of intellectual property both in this country and abroad. I have always hoped that there would come a case where the United States Government would be suing, and the case would reach the Supreme Court, to test the validity of a United States Government patent. We might get a favorable decision!)

Scandinavian Views on International Industrial Property Rights and the EEC

LARS HOLMQVIST*

(Introduction by Dean Rines: Our next speaker is sort of on the outside looking in, much like the United States, but his country and his block of countries, the Scandinavian countries, are not yet bound by many of the activities of the European Economic Community. He is closer than we are, and the thrust of his interest isn't so much on the patent side, as on the trade-name and trading side.

I've known Lars Holmqvist for many years. He is also on the professorial bent now, teaching at Lund University, and this next spring he is going to be trying with his students a Conference something like this. So perhaps these techniques will start to become international, and we can begin to do things together, and put some muscle together that will keep a proper balance between Government and industrial property, even though in Sweden it may be a socialist Government, as distinguished from a so-called capitalistic Government.

Lars practices industrial property law in Malmö, Sweden. He has been his country's delegate to numerous international conferences dealing with property rights, particularly in the area of trademarks, and his talk is entitled, "Scandinavian Views on International

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Industrial Property Rights and the EEC." It gives me a great deal of pleasure to introduce Lars Holmqvist:)

Thank you, Dean, and first of all thank you very much for inviting me to come here. I'm much honored and very happy to be back for the third time in the United States, and especially in this part of your country, which reminds me a good deal of my home in southern Sweden.

I am going to talk to you a bit on Scandinavian views on international industrial property rights. These international rights would include those to be created by bodies like the EEC, and I mean by "international industrial property rights" both those that are truly supranational in character and those which are not supra-national in the split sense of the word. I will give you examples as I go on.

A couple of questions I'm going to try to answer are: How is the territorial limitation of these property rights affected by these international conventions? Is there international legislation already which leads to the possibility of seeing a crossing of frontiers? Can you actually apply your own national laws in such a way that the rights and titles granted in one country become effective in other countries without actually having an international convention? And how does the Scandinavian law look at these matters?

Now, when I say Scandinavia, I might just as well say the Scandinavian countries, or the Nordic countries. We prefer to say in Sweden, northern, the north, the Nordic countries. They are, strictly speaking, five in number—Denmark, Finland, Iceland, Norway, Sweden. Iceland is very often forgotten, but Iceland is very much a Nordic country—actually *the* Nordic country, as you know, from which Leif Erickson set forth to discover Vinland the Good, which is supposed to have been Newfoundland. Now, Iceland does take part to some extent in the inter-Nordic legislative work, but when I speak here today, I shall mention specifically what happens in Denmark, Finland, Norway and Sweden, and will mention Iceland only where it becomes relevant.

Patents

Let me give you a general, very brief survey of what our laws look like, in the industrial property field. First, patents: we have almost identical patent acts. There is no such thing as a Nordic

patent, although we did try to introduce one even to the extent of introducing a Chapter (No. 3) in the Acts which is not, however, enforced, although the act itself is enforced. But Chapter 3 is not enforced, and why?

Well, the concept of a Nordic patent was supposed to mean that you could file an application in one of the countries and obtain a patent in all four Nordic countries (Iceland was not considered in that connection.) You would not have had to produce a translation, since Danish, Norwegian and Swedish are very closely related (you can speak Swedish in Denmark and Norway and become understood quite easily). But as for Finland, you would have had to produce a translation, since Finnish is not at all related to the other Nordic languages; instead, Finnish is remotely related to Hungarian. But of course we are closely country-related and, indeed, Finland and Sweden were a union for five hundred years; we fought all our wars together for five hundred years.

Now, this Nordic patent concept did not materialize, because it became connected with the so-called Nordic Economic Project, which was an attempt to create a sort of Nordic Economic Community. But Finland had to back out for political reasons. We are told that somebody east of Finland didn't like it. Distant grumblings were heard in Moscow and the project was shelved—it went into a deep freezer. I don't know whether you can say that it is in a coma, but it is deep-frozen, anyway, and we don't expect to see it revived or thawed out.

Design Registrations

Now, the next kind of industrial property right covers designs, design registrations—we have almost identical design acts. We protect the overall appearance of a product, disregarding whether a design is of an esthetic value or of a functional value. We protect the entire appearance. But, note that this is a protection for the form and shape, not an idea, not a utility model like the German *Kleinbilder*.

Copyrights and Trademarks

We have almost identical copyright laws, and we have very similar, highly similar, trademark acts. In that connection, I will mention that the Icelandic Act is a close translation of the Danish. I would characterize our trademark law by mentioning that we apply the registration system, combined with the possibility of obtaining

protection for rights built on the user and his reputation. Denmark, specifically, also has the possibility of protecting a trademark on account of first use, but that applies only to Denmark. The registration title is considered the more important one; the rights built on use and reputation fill out the picture, so to speak.

We have nothing equivalent to the concept of your Lanham Act, where you have to use a trademark first and you obtain your registration afterwards. But, if you permit me to make a personal statement, I would say that the Lanham Act seems to me very logical and right in its conception because, after all, you choose a trademark because you want to use it. You could make do with the British "honest intention to use"—I could go for that. But what I cannot accept is the possibility of registering trademarks, long series of them, with very broad registrations for any number of goods, that just lie unused, and apply them for restrictive trade purposes or sell consents at high prices to lawyer-businessmen who apply later for a trademark which they are really going to use.

There are certain differences between our acts. Those of Denmark and Norway differ slightly from those of Sweden and Finland, for instance, in the important respect that there is a rule of compulsory use of trademarks in Swedish law and Finnish law, but there is no such rule in Danish or Norwegian law. In all five countries, you are allowed to obtain a very broad registration, in respect of your intention to use it, and I touched very briefly on that just now, but I just want to underline it. You can register it for all thirty-four classes of goods under the International Classification System, and all eight service classes. You can cover everything from industrial chemicals through submarines and compositions of metals and chewing gum down to cigarettes. They don't care—the Patent Office only considers whether there are prior rights which have been taken into consideration, and, of course, the inherent distinctiveness of the work.

Unfair Competition

Next, unfair competition. There, Sweden differs somewhat from the other countries, in that we try to draft similar acts covering both unfair competition and unfair marketing practices. A big debate concentrated on the question whether the Nordic countries should have a general clause or not, a general clause of the kind that would supplement the acts, the trademark acts specifically, and protect unfair competition, and protect products or names from

being copied or being used unfairly, even if there were not registrations for them. Everything looked fine until Sweden suddenly broke out of the Nordic circle and passed an unfair marketing act, and left the other sections of the draft act lie unprocessed, whereas Denmark, Finland, and Norway proceeded on the path that had been chosen from the beginning.

Now, why did Sweden break out? Well, because Sweden, or the Swedish Government, wanted to concentrate on consumer protection specifically, somewhat along the lines of your Federal Trade Commission, and apparently the Government considered protection for the businessman as being of less interest. So we have very strong consumer protection legislation in our country. I'm all for that kind of legislation, I don't object in the least to it, but what I can't understand is why we should leave the businessman high and dry, because that is more or less what Swedish legislation on unfair competition does. The reasons were political. We were going to have elections, exactly when that act was presented to our Parliament, to the Rikstag, and of course it looked good to say—we take care of your interest, the consumer's interest, the businessman can take care of himself. Those are stark facts, ladies and gentlemen.

So now we have an organization in Sweden beginning with the consumer's Ombudsman. Now, Ombudsman is a word which we have exported to Great Britain, I believe, among other countries. It is a sort of Attorney General, a sort of Attorney General for consumers. His decisions can be appealed to the market court and generally these cases are considered somewhat on the principles of the Federal Trade Commission.

Integrated Laws

Now, how do the Scandinavians look at the possibilities of integrating law, to create supranational conventions, supranational law systems? Let's see what we have done so far. In patents, we have signed the PCT, and we are told that Sweden will be a search authority when the PCT comes into force. We have taken part in work on the European Patent Convention, we have signed it, and when I say we, I mean the four Nordic countries, with the exception of Finland in this particular case. I believe that Finland will sign it eventually, but as far as I know, Finland has not yet signed it.

Trademarks—we are not members of an agreed union for international trademark registrations. We have taken part in the work on the trademark registration treaty throughout, from its inception

in Geneva, when it was first tried to develop it as a broadening of the Madrid Agreement, and later into the creation of an independent treaty. The Scandinavian countries will probably sign this treaty before the end of the year, but not necessarily ratify it—that is a more distant project.

We will take part, probably, in the work on the European Trademark Convention, which I suppose will begin next year. They have taken out an old proposal from the beginning of the 1960's, dusted it off, and put it forward as the basis of discussion on a community trademark. We will certainly take part in that, and see what we can do. We will certainly, also, take part in the discussions within the AIPPI, the International Association for the Protection of Industrial Property, which has placed on its agenda, as question 59B, the question whether a supranational trademark convention can be created embracing all nations—a truly supranational trademark law. That question will be discussed at the Executive Committee Meeting of the AIPPI in Melbourne, Australia, in February or March, next year.

You know that Denmark has decided to enter the EEC. Norway had a plebiscite shortly before Denmark had, and the result was negative with respect to Norway's entering into the EEC. The propaganda that was being produced and put forward against and for Norway's entry into the EEC was quite remarkable. I'm sure there would have been a similar kind of thing in Sweden, if we had really put the matter to the test, in a plebiscite.

Now, my opinion is, and I know it is shared by a good many Swedes, and by Norwegians and Danes also, that if the Norwegian plebiscite had been held after the Danish, Norway would have been a member of the EEC today. Sweden and Finland are not members of the EEC. We are told that the Swedish Government was very much for an entry into the EEC, but changed its opinion very quickly—for what reasons, we don't know; the reasons have never been divulged to the Swedish population. We know, however, that instead they started negotiations with the EEC which eventually resulted in an agreement of free trade, with the EEC and with the CECA, the coal and steel authority. Finland is following the same path as Sweden.

Territoriality

Now, let's see now to what extent Nordic law is an expression of a strict principle of territoriality. For if we consider that question,

we might be able to evaluate how easy it would be for us to enter a community like the European Economic Community. Do we have to adapt our respective laws very much? And, is there a tendency or are we inclined, perhaps, to enter that community? Here is a brief survey of Nordic law from that viewpoint.

In patent law, there are territorial limitations in the usual manner. For instance, if you manufacture in Denmark a product which is patented in Sweden, but not patented in Denmark, and you import it into Sweden, you infringe the Swedish patent title as soon as the product enters Sweden. Design law, the same principle; trademarks, basically the same principle, yes, but there are exceptions.

I would like to draw your attention first of all to the very important group of trademarks that we in the Nordic law call the Kodak trademarks, the famous trademarks under the Kodak Doctrine which, as you know, proceeds on the assumption that the trademark is protected not only in respect of the goods for which it has gained a wide reputation, but also for many other goods.

The original Kodak case was, of course, an evaluation of whether cameras and films on the one hand and bicycles on the other hand were similar goods. Now the Kodak Doctrine, of course, also has the effect that the trademark right and title crosses the frontiers, and will have to be considered in other countries than the original country. Let me say here that Nordic trademark law has a clear expression, has codified this principle. Kodak marks, famous marks, enjoy protection in Sweden without registration, merely on account of, exclusively I should say, on account of their wide reputation in wide circles, and for the goods which the owner can prove to be included in or under the protection.

I had the possibility of testing that doctrine in one specific case, which concerned parallel importation of goods, but the case never reached the courts. The situation was this: Eastman Kodak in this country produces 8mm Kodak color film, packs it in bulk packages, bulk cartons, ships it to France, where it is taken care of by a subsidiary of the Kodak concern, Kodak Pathé, repacked in packages bearing the well-known Kodak logotype, the well-known colors, but bearing German text, and shipped from France to Germany, where it is taken care of by the second subsidiary, Kodak Aktiengesellschaft in Stuttgart. On the German market, this film was bought by purchasers from Swedish companies selling goods in very large department stores, where you can buy products very

cheap. The question was, could this importation to Sweden, this parallel importation to Sweden, be stopped by the holder of the trademark rights for Sweden, which is the third subsidiary company, namely Kodak Limited? Specifically, the question was asked by the general distributor Hasselblad, incidentally the company which was founded by the well-known inventor of the Hasselblad camera. The question was asked of me. My answer then was, and it still is, no—you can't use trademark law for that purpose. It is impossible to stop that parallel importation of goods, because how can you expect the general public, the purchasing public, to differentiate among Kodak trademark titles in the United States, in France, in Germany, in Great Britain and in Scandinavia? These were real, genuine goods marked by the original producer. That answer could obtain, in my opinion, as soon as we can see a world claim, a world-famous claim which crosses the frontiers. This was one case of parallel importation.

Now, that case had a bearing specifically on the effect of the Kodak Doctrine, but there have been others in Swedish law. One, and the latest which was actually given the position of Swedish law (and I can say that the law in the other Nordic countries doesn't differ materially from this), concerned two trademarks, Poly Color and Poly Lock. The former is evidently an agent or substance you use to dye hair, the second one probably to make curls in your hair, as far as I know; these are well known marks in Germany. That was a case of parallel importation.

Genuine goods were marked by the German producer, but the trademark title was held by a subsidiary of the German company, the Danish Henkel company, or rather, companies in the Henkel concern. In the court of the first instance, and in the Court of Appeal, the parallel importer won the case, and the Supreme Court of Sweden (we have three instances) sustained the Court of Appeal, because it was held that the parent company and the subsidiary companies were so closely related that you couldn't distinguish between a trademark title held by one and held by the other. The trademark title held by the subsidiary was, if you want, just held by that company as a representative of the parent company. So the parallel importer was free—he could go on with his parallel importation.

These are cases showing that trademark rights can cross the frontiers, of course, without actually having an international regulation in that respect. Of course, it all takes place under the Paris Convention, but the decisions are still based on international law.

Restraint of Competition

Now, how do we look at the restraint of competition in Sweden? There are two acts in Sweden and there are similar acts in the other Nordic countries. (If I speak of Sweden in the first place it is because I know the case law of my own country best, as would be expected.) One can say that the Swedish law with respect to restraint of competition expresses the same principles as have been enunciated in the EEC law, namely, that you can make full use of your patent rights, for instance, to stop *unlawful* use of your industrial property rights, but you cannot use them in order to restrain competition in certain respects. You are allowed to make use of the legal monopolies, patents and designs, to a full extent. But, as you know, the trademark right is not a monopoly right; you can sell the product under another name.

We have a couple of interesting cases in Swedish law, firstly with respect to patents. One concerns tire studs, and perhaps we can speak more in detail of it this afternoon, at the working session, but I just mention that this was a patent which covered the whole market. The antitrust Ombudsman brought action against the patentee, and against two holders of his licenses, and alleged that the use of the patent, the way that the patent was utilized, in Sweden, tended to increase the prices and had, in fact, effects of restraint of competition. The case was heard by the market court, and actually it was found that the agreement as it was concluded, and the patent, had such an effect, and the two companies were enjoying the fun (I may not be using the correct English word). But the result was that the antitrust Ombudsman took up negotiations, took up discussions with the companies, and made them cancel certain clauses in the agreements in order to neutralize these effects of restraint of competition.

We have a couple of other cases from trademark law. A manufacturer of soft drinks wanted to buy an essence by means of which you make soft drinks called Pomark, and he also wanted to obtain the trademark, the labels, to apply to the bottles. Well, the manufacturer of this essence refused to sell the product to him. The antitrust Ombudsman took action, and eventually the manufacturer of the essence was ordered to sell this essence to the manufacturer of soft drinks, but they could not order him to hand over labels, to hand over the trademarks. So in Sweden there existed a soft drink that must have tasted approximately like Pomark but which had another name.

We have a different case concerning Coca-Cola; in that case, it was a bottled product. And in that case the Coca-Cola Company learned that it couldn't make selective sales of this kind; it would have to sell to anybody who wanted to buy—but this was because the product was bottled. It was a question of a sort of compulsory license for trademarks, and this was a concept in the negative, whereas the Minister of Justice said that in his opinion it should have been possible to receive a sort of compulsory license in the former case. I, personally, am finding this statement highly remarkable, to say the least.

Harmonization of Laws

Now another aspect is, of course, the harmonization of the laws; that, as we know, is an aim of the EEC. What about harmonization of laws in Sweden? Well, our tradition of harmonization of laws is very old. We have, as I have already enumerated, almost identical laws in the field of intellectual property. We can see, consequently, that almost all our intellectual property acts are highly similar, although they are not supranational in character. Case law, for example, varies a good deal. Now, we cannot help it that the Nordic Project and the Nordic Patent did not become a reality, although we have Patent Acts and Design Acts which are highly similar to each other. The Scandinavian area does not produce supranational effects in the true sense of that word.

Now, I would like to make a brief evaluation of these conventions which aim at integrating the laws of different countries. Are they really a realistic alternative to the harmonization of laws? How far can we go?

With respect to patents, as far as I can see, there will be no problem with respect to the grant of a title. A technical problem will have to be solved in the same way the world over, even if there may be variations as to how you judge your, as they say, inventive step in different countries, but you could, I suppose, harmonize that as well. But with respect to the grant of trademark rights, the matter is completely different. Since trademarks, especially if you speak of words, word marks, are elements of language, and you have to consider the fact that one specific word will have a different status in different countries. If you have to create international conventions in this field, you should, properly speaking, let them coincide with the different language areas.

One instance of this is provided by the Swedish word for crisp bread, which is a very important part of our food in Sweden; the

Swedish word for crisp bread is knäckebröd. That word is said to have been registered by Japanese companies in Tokyo, so the Swedish word, written in Katakana characters, will stop Swedish salesmen from importing crisp bread into Japan, if the Japanese want to eat crisp bread. This is, I think, a good illustration of the possibilities that we will encounter—the problems that will have to be solved as soon as you discuss the question whether a supranational trademark law is really possible, a truly supranational law. In my opinion, the rights and titles will have to be judged, evaluated, in the respective countries, or in each language area.

How about the use of titles? Well, every convention which is truly supranational must presuppose that the national laws cannot be applied for any of the countries in the supranational convention. That is the basic way of expressing it. There may be important, or difficult, positions between the international and the national rights. I speak of trademarks chiefly, so—did the Benelux countries act in the right way when they scrapped their national trademark acts? They probably did. The EEC, the proposed trademark convention, says that the national acts should be allowed to remain. The problems which will arise as a consequence of this will certainly have to be considered very carefully. Let's discuss this problem too, this afternoon.

In my opinion, it is difficult to get any further than to harmonize the laws and, as an alternative or in addition, to adopt a convention on formalities, like the TRT. PCT is another convention of that kind. The TRT provides for centralized filing, and so does the Madrid Agreement; you file in one country and you obtain a bundle of national rights. As far as trademarks are concerned, in my opinion, that is as far as you can come.

And finally, how should the law be developed, towards a strengthening or better consideration of substantive law or in the direction of legislation which provides formal rights only? In my opinion, the answer is that you should strengthen the possibilities of obtaining the consideration of *substantive* law. But we can notice a trend, in these conventions which have lately been accepted, that only the *formal* rights are granted. Benelux trademarks are of a formal character; they return to the registration principle—not exactly in the way that we saw it at the turn of the century—but still a registration principle, where trademark rights built on use and reputation are not considered, are considered very little, or not considered at all. The French Trademark Law of 1964-65 is a step in the same direction. In my opinion, it's a pity that the French Act

of 1857 developed in that direction. The Nordic countries will certainly not work that way. We are going to harmonize our laws; steps are being taken at this moment to convene Nordic Committees in order to harmonize our trademark laws still further. I don't think we shall see any return to a pure registration principle in Nordic law, and with that I would like to conclude my speech. Thank you very much for your attention.

Exclusive Distributorship Agreements and the Competition Law of the EEC

RICCARDO GORI-MONTANELLI*

(Introduction by Dean Rines: Now we turn to the important question of distributorship agreements for doing business in the EEC, and how they are interpreted under the Treaty of Rome. Our speaker is well-qualified for the task. He is a practicing corporate and industrial international attorney with offices in Milan, Italy, in New York and, I believe, in Rome as well—certainly, he has contacts all over the European Economic Community. His firm, Pavia & Harcourt, is involved not only in the negotiation of agreements, but also very heavily in litigation. He served his stint in the diplomatic area as the head of the Italian Government's investment mission, he was in the United States in Washington for some years in the late fifties, and I can't think of anyone who can bring a broader perspective to this general subject matter of exclusive distributorship and types of agreements that can and indeed cannot, apparently, be entered into legally within the confines of the EEC. That, of course, bears very heavily on our American problem—how the devil do we do business there and not

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run afoul of what these trends are indicating may be violations *ex post facto*, perhaps, of the antitrust laws and provisions?

Riccardo has phrased his topic to read: Exclusive Distributorship Agreements and the Competition Law of the EEC, and this afternoon he will chair session A, which will be a continuation of this subject matter in detail, providing an opportunity for the corporate representatives here, who may be facing such problems, to try them out on Riccardo and others in the session. It gives me great pleasure to present Riccardo Gori-Montanelli:)

Thank you, Dean. As you well know, Europe, the source area of a great part of the components of the American melting pot, is still composed of nations using different languages, laws, systems and traditions, often different, and contrasting one with the other.

The Common Market, in existence only since 1957, is the major step in creating a European melting pot. Its effect has been to revolutionize the approaches to doing business among the member states by imposing the Common Market Treaty as a new law, supreme over all national laws of the various countries which may contrast with it.

Today I shall touch on distributorship agreements and the competition law of the EEC.

EEC Goals

We must remember, and I repeat here a theme which was already touched upon by previous speakers, that the essential goal of the EEC Treaty, signed in Rome on March 25, 1957, is to merge national markets into a single market by removing trade barriers between the States. The realization of the objective of a single market between Member States is a constant preoccupation of the EEC authorities, and this is a feature which distinguishes the EEC laws from the United States antitrust laws. In the U.S., a unified market already existed when the Sherman Act was enacted at the end of the 19th century, and its primary aim was not that of tearing down territorial barriers, but to break up or limit the power of monopolies and curb their abuses. When the Community competition law came into effect, there was no unified market in Europe. In the first fifteen years of Common Market history, therefore, the Community authorities have devoted more attention to the elimination of territorial restrictions from agreements among business concerns than to the concept of free competition, which is the basis of U.S. antitrust laws.

The Competition Laws

You have already heard descriptions and quotations of Articles 85 and 86. Let me just remind you that Article 85 of the Treaty prohibits and makes void, as incompatible with the Common Market, all agreements between enterprises, all decisions by associations of enterprises, and concerted practices which may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition within the Common Market.

Exclusive distributorship agreements, by their very nature, *do* restrict competition. A supplier agrees to deliver his products *only* to the distributor in a certain area—a right of exclusivity is thereby being granted to the distributor. When the Commission promulgated, on March 22, 1967, what is known as Regulation 67/67, it divided distributorship agreements into two categories: those which we may call the “simple exclusive distributorships” and the “exclusive distributorships with absolute territorial protection.” While the former were considered by Regulation 67/67 as generally permissible and were accorded a group exemption, the latter were considered anticompetitive and therefore prohibited. In this latter category are the agreements where the exclusivity is strengthened by means intended to assure that the distributor would be the only one to distribute the contract products in his territory. These means may consist of export laws imposed on other distributors of the same supplier, and/or the assignment to the sole distributor of industrial property rights.

De Minimis Derogation

The only derogation to the prohibition of distributorship agreements with absolute territorial protection was found by the European Court of Justice in the so-called “agreements of minor importance.” It was expressed in the *Volk V. Vervaecke* case,¹ where the Court of Justice said that the tests of Article 85(1) must be applied in the factual context of the agreement in question.

The Court held that it is possible that, even where there is absolute territorial protection, an exclusive distributorship agreement does not come within the prohibition of Article 85(1) in view of the weak market position that the parties have within the territory for which there is absolute protection.

¹ Case No. 5/69, July 9, 1969, in CCH § 8074.

The ruling in the Volk case was followed by the publication of a Notice by the Commission dated May 27, 1970, in which the Commission attempted to state the legal principles derived from the Volk case in a more practical and concrete form, by defining in advance what is meant by "agreements of minor importance."

According to the Commission, an agreement falls within this category in two cases:

1) where the products covered by the agreement represent, in the part of the Common Market where the agreement is carried out, no more than 5% of the volume of business realized from the same products or products considered similar by the user because of their properties, price, or uses;

2) where the total annual turnover realized by the enterprises which are the parties to the agreement does not exceed either 15 million U.S. dollars or, for agreements between trading enterprises, 20 million U.S. dollars.

The Commission emphasized that the Notice had only an indicative value, and was not to be considered as having the force of law. In the *Cadillon v. Hoss* decision,² the Court of Justice made it clear that the derogation from the rule should be considered as exceptional. It stated that "an exclusive distribution contract, even one that provides for absolute territorial protection, may be exempt from the prohibition of Art. 85(1)" and it added that "this is particularly true when such an agreement does not prevent third parties from making parallel imports into the protected territory, or the licensee from re-exporting the contract products."

Trends in the Development of Competition Law

The Community authorities have started rather cautiously the business of putting into motion the means at their disposal under the Treaty to realize the single market among the Member States. Now that we can look back at a series of decisions starting from the early sixties, we can also look for trends. If there is a trend in the policy of the Commission and the Court of Justice in the field under examination, it moves towards a progressive extension of the prohibitions of Article 85, and of other provisions of the Treaty, especially if the territorial protection is obtained through the exercise of industrial property rights in force in the national legislations of the Member States. In effect, one may detect an evolution towards the recognition of the principle that the exercise of these

² Case No. 1/71 of May 6, 1971, CCH § 8135.

rights, for the purpose of obtaining territorial protection, is almost *per se* incompatible with the Common Market, even in the absence of agreement or concerted actions.

I shall now examine some of the landmark cases decided by the Court of Justice, many of them already mentioned during this Conference, and attempt to follow this evolution.

Consten & Grundig Case

The first important policy-making decision by the Court of Justice in this field was in *Consten and Grundig v. E.E.C. Commission*.³ Grundig, a German manufacturer of radios, televisions and related equipment, had appointed Consten, a French company, its exclusive distributor for France. Consten agreed not to sell, either for its own account or for the account of others, similar articles that would likely compete with the contract goods, nor to make either direct or indirect deliveries to, or toward, other countries from the territory covered by the contract. A similar prohibition had already been imposed by Grundig upon all its exclusive licensees in other countries, as well as upon German wholesalers. Grundig, for its part, agreed to leave the retail sale to Consten, and not to deliver, directly or indirectly, to other persons in Consten's area. For the purpose of distributing the Grundig products, Consten was authorized to use the Grundig name and emblem. In addition, by a collateral agreement, Consten was authorized to register in France, under its own name, the GINT trademark, which is carried by all the equipment manufactured by Grundig, including that sold in Germany. A French company, UNEF, bought Grundig appliances from German dealers, who delivered in spite of Grundig's export prohibition. UNEF sold the appliances to French retailers at lower prices than Consten's. Consten then sued UNEF under the French law of unfair competition and for infringement of the GINT trademark. The French Court of Appeal stayed the proceeding pending a decision by the E.E.C. Commission on the possible violation of Article 85 by Consten and Grundig. The Commission ruled that the contracts were in violation of Article 85, and both Consten and Grundig brought an action before the Court of Justice to annul the Commission's decision. The Court of Justice upheld the Commission, finding that competition was distorted within the Common Market in violation of Article 85(1). It refused to apply the exemption under Article 85(3) because of the exis-

³ Cases 56/64 and 58/64 of July 13, 1966, CCH § 8046.

tence of an absolute territorial protection which gave Consten a monopoly position in France.

The Court based its decision on two major grounds:

(a) The agreement by Grundig not to deliver to third parties, even indirectly, products destined for the contract territory, and the fact that all of Grundig's other exclusive distributors, including Consten, were subject to an export prohibition, isolated the French market, creating an absolute territorial protection on behalf of Consten.

(b) Consten's registration in France of the GINT trademark was designed to fortify the agreement's built-in protection against parallel imports with the protection arising out of industrial property law. The fact that Consten was authorized to register the trademark by a collateral agreement was not important, because the whole distribution system established by Grundig must be considered. In this context, the Court of Justice found that Consten became the holder of GINT trademark rights in France only by reason of the trademark license agreement with Grundig. While this license agreement taken by itself would be legal, it became illegal, because it supported the illegal exclusive distributorship agreement.

Sirena Case

The Sirena case⁴ decided on February 18, 1971, reiterates the points of law expressed in the Consten and Grundig case. The difference in facts, however, is important, and the application of the rule in the factual context shows that the Court of Justice took a step forward.

Let us have a look at the facts. In 1933, Mark Allen, an American corporation, registered the "PREP" trademark in Italy. In 1937, Mark Allen assigned the trademark to an Italian company, Sirena s.r.l., by a contract which did not involve any transfer of manufacturing processes, methods or know-how. Sirena thereafter manufactured a shaving cream which it sold in Italy under the PREP trademark. It subsequently renewed the trademark in its own name, and also registered two other trademarks, consisting of the "PREP GOOD MORNING" mark and other symbols.

Mark Allen later authorized a German company, Eda GmbH., to use its "PREP" trademark in the Federal Republic of Germany. This company thus marketed shaving creams under the same

⁴ *Sirena s.r.l. v. Eda GmbH.*, Case No. 40/70 CCH § 8101.

trademark. When the German company started to market its products in Italy through Novimpex s.r.l. (an Italian company) at lower prices than Sirena's, the latter brought suit in an Italian court, basing its rights on (a) the 1937 contract whereby Mark Allen assigned the PREP trademark to it, and (b) the continuous and exclusive use of the PREP trademark since 1937. Novimpex contested the validity of the 1937 contract as in violation of Articles 85 and 86. The Milan court decided to submit two questions to the Court of Justice: (a) whether Articles 85 and 86 could be considered applicable to effects resulting from a contract assigning a trademark before the entry into force of the Treaty, and (b) whether Articles 85 and 86 should be interpreted as meaning that they prevent the owner of a trademark, legally registered in one Member State, from enforcing the absolute right which this implies to prohibit third parties from importing, from other Community countries, products carrying the same mark which is legally affixed in the country of origin.

In its opinion, the Court of Justice noted that the national rules relating to the protection of industrial and commercial property have not yet been standardized within the Community framework, so that the national character of this protection could create obstacles both to the free movement of trademarked goods and to the Community competition system. The exercise of the trademark right is particularly apt to contribute to the partitioning of markets, and thus to impair the free movement of goods between States. Where the trademark right is exercised by virtue of an assignment to others in one or more Member States, it must be determined in each case whether the exercise of such right leads to a situation which could come within the prohibition of Article 85. The Court concluded that Article 85 applies if the importation of products coming from other Member States, and carrying the same trademark, is prevented by invoking the trademark right where the owners of the trademark acquired this mark, or the right to use it, under agreements between them, or agreements with third parties.

The interesting point is that, in this case, the only agreements involved were agreements in which the original owner of the trademark assigned his rights thereunder to different assignees at different times, and that in the particular case of the Italian assignee, Sirena, the assignment took place well before the entry into force of the E.E.C. Treaty. We could ask ourselves whether these agreements were really intended to create an absolute territorial protection or whether they were concluded only for the

purpose of assigning the trademark rights. The step forward in this case appears to be the fact that, in the *Sirena* case, the Court of Justice reached the point of saying that the prohibited action was a result of the pure and simple exercise of the trademark right, rather than a concerted action involving the "agreement", plus the exercise of the trademark right.

Deutsche Grammophon Case

We come now to the third important case, which is *Deutsche Grammophon v. Metro-SB-Grossmarkte*.⁵ When I mentioned the *Sirena* case, I expressed my doubt as to whether the facts could justify the assertion that an agreement existed between the parties relating to the use of industrial property rights aiming at a division of the Common Market in violation of Article 85 (1). In the *Sirena* case, however, the Court of Justice was still invoking Article 85(1) to nullify the agreements, and the use of national industrial rights to strengthen the end sought by the agreements. In the *Deutsche Grammophon* case, instead, the Court found the use of industrial rights enjoinable even in the absence of agreements which violate Article 85(1), because these rights were relied upon to prevent or obstruct imports and exports between Member States.

Let us briefly review the facts. *Deutsche Grammophon*, a joint subsidiary of Philips of Eindhoven and of Siemens of Berlin, was a German manufacturer of phonograph records which it distributed in Germany directly through retailers covered by a system of resale price maintenance, and abroad through subsidiaries. One of the subsidiaries, (*Deutsche Grammophon* had a 99.55% interest in its capital), was a French company, *Polydor S.A.* of Paris, with which D.G. had concluded a licensing agreement granting it the exclusive right to use the licensor's recordings in France, to sell the records manufactured by the licensor in Germany, and to use the *Polydor* labels. Some of the records supplied by *Deutsche Grammophon* to *Polydor* were sold by *Polydor* to a Swiss company, which sold them to a German wholesaler, who sold them to a company called *Metro-SB-Grossmarkte*, which then sold them on the German market, still at prices well below those imposed by *Deutsche Grammophon* upon its German retailers. *Deutsche Grammophon* obtained an injunction from the German court of first instance in Hamburg, which was sustained on appeal. The higher court stayed

⁵ Case No. 78/70, June 8, 1971, *Recueil* Vol. XVII, 1971-5, page 487, CCH § 8106.

the proceeding, and asked the Court of Justice to decide whether there was a violation of Article 85 (1) or of Article 86 of the Treaty. Deutsche Grammophon had obtained the injunction against Metro by invoking a German law which gave a manufacturer of sound recordings an exclusive right of protection very similar to that of a copyright.

The Court of Justice held that Article 85(1) had not been violated, but there had been a violation of the Articles of the Treaty relating to the "free movement of goods" in the Common Market. The Court said that Article 85(1) could not be invoked, because the licensing contract between Deutsche Grammophon and its subsidiary in France, tending to prohibit the reexportation of the records supplied to it, could not be considered an agreement or concerted action between undertakings under Article 85(1). Contracts concluded between a parent company and its subsidiaries are not covered by Article 85. The Court, however, added that this is not sufficient to close the matter and that, in order to answer the questions submitted to it, it was necessary to determine whether the exercise of the right to protection is compatible with *other* provisions of the Treaty, particularly those relating to the free movement of goods. These *other* provisions are those which are found in Articles 3(f) and 30 to 40 of the Treaty, which generally prohibit any measure equivalent to quantity restrictions of trade between the Member States. Article 36 provides exemptions to these prohibitions, one of these exemptions being the protection of industrial and commercial property. Article 36 ends by stating: "Such prohibitions or restrictions shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States."

In finding that the provisions of the Treaty on the free movement of goods were violated by Deutsche Grammophon, the Court advanced two arguments:

first, that the exercise of a national industrial property right, (in this case akin to a copyright), has a territorial character, and the right of protection which it creates in its owner may well serve to isolate national markets and be in conflict with the essential goals of the Treaty;

second, that the exemptions found in Article 36 cannot save the territorial character of these rights, because the exceptions to the free movement of goods are permitted "only to the extent that they are justified in order to safeguard rights that are the specific object of such property."

This means that the exception in Article 36 applies only where there is in question the *existence* of an industrial property right, which is to be considered unaffected by the Treaty, but not its *exercise*. "That is why," the Court said, "the exercise by a producer of sound recordings, of the exclusive right under the laws of a Member State to distribute the protected products, in order to prohibit the sale in that state of products that were distributed in another Member State by the producer or with its consent, solely for the reason that such distribution did not take place in the territory of the first Member State, is contrary to the rules providing for the free movement of goods within the Common Market."

The ultimate result of this decision is that national industrial property rights can no longer be used to prohibit imports, from another Member State, of products which are lawfully sold there.

In the *Consten and Grundig* and *Sirena* cases, the Court applied this rule to trademarks, and in the *Deutsche Grammophon* case to rights akin to copyrights. The *Beguelin* case, instead, applied it to the French law of unfair competition.

Beguelin Case

In the *Beguelin* case,⁶ a Japanese firm, Oshawa, manufacturer of a pocket butane cigarette lighter "WIN," granted the exclusive right to distribute the lighter in Belgium and in France to the Belgian firm Beguelin. The Belgian firm formed a subsidiary in France, Société Beguelin/France, to which it assigned its rights for France. A German firm, Marbach, which had received exclusive distribution rights for Germany, sold "WIN" lighters to a French company, G. L. Import-Export S.A. Both Beguelin companies, Belgian and French, brought suit in France against G. L., seeking an injunction to prohibit the selling of the "WINs," and for damages for unlawful and unfair competition. The French court asked for an interpretative decision from the Court of Justice. The Court held that "an exclusive distributorship agreement between a producer domiciled in a third country (Japan) and a distributor established in the Common Market is subject to the prohibition of Article 85 of the Treaty where, in law and in fact, it prevents the distributor from re-exporting the products in question to other Member States, or prevents these products from being imported from other Member States into the protected territory, and distrib-

⁶ Case No. 22/71, November 25, 1971, Recueil Vol. XVII, 1971-6, Page 949, CCH § 8149.

uted in that territory, by persons other than the licensee or its customers." The Court found that this latter condition was fulfilled "where the licensee can, on the basis of the agreement in combination with national statutory provisions on unfair competition, prevent parallel imports from other Member States into the allocated territory."

The novel factor in this case is that the agreements in question did not contain clauses aimed at territorial protection, nor was there any concerted practice to this end. But the Court found that the agreement fell under the prohibition of Article 85, because the licensee had the *possibility* of recourse to its national laws on unfair competition to prevent parallel imports from third parties. This possibility may not even have been considered by the parties, much less concerted between themselves.

Applicability of Same Rules to Patents

The interesting question is whether the Court of Justice will apply the same rule also to patents. In the *Parke, Davis and Co. v. Centerfarm*⁷ case, the Court of Justice considered the question, and held that the existence of rights granted by a Member State to the holder of a patent of invention is not affected by the prohibitions set forth in Article 85(1) or 86 of the Treaty.

The EEC Commission showed a change of mind about license agreements involving the exclusive right to manufacture patented goods and their sale. In the Official Notice on Patent Licensing Agreements of December 24, 1962 (one of the so-called "Christmas Messages"), the Commission held that clauses appearing in patent licensing agreements involving an undertaking by the licensor not to authorize any other person to utilize the invention, or not to utilize the invention himself, were found not to fall under the prohibition laid down by Article 85(1).

In a June 9, 1972 decision on a negative clearance request, the Commission held, in the Davidson Rubber Co. case, that the exclusive right to manufacture and sell did come within the prohibition of Article 85(1), because it produced perceptible restrictions on competition and on trade between Member States. Davidson, a U.S. company, had granted exclusive patent and know-how licenses to a number of European companies, each of the licenses being limited to one or more Member States. The licenses related to the manufacture of seats and armrests for automobiles. In this particu-

⁷ Case No. 24/67, February 29, 1968, Recueil Vo. XIV-2, Page 81, CCH § 8054.

lar case, the Commission granted an exemption under Article 85(3), because it found that the contracts helped to promote technical and economic progress by making it possible to utilize an important process and because consumers shared in the resulting benefit.

Another case decided on the same day by the Commission (Raymond/Nagoya) reiterated the principle expressed in the Davidson case. It remains to be seen whether the Court will follow the Commission in this stricter policy towards patent licensing agreements. Judging from past experience, it is probable that it will.

If an American businessman wishes to go into Europe with his products, or wishes to enlarge its presence there, and wonders whether his action may violate Article 85 or 86, he may go and talk about it with the high priests in Brussels, the Eurocrats. They love to talk about competition; competition is much on their minds, and more often than not, one sees a fanatical gleam in their eyes. Competition for its own sake is dangerous, but a dedicated bureaucrat who is a fanatic about competition may also be dangerous, because he forgets to interpret the Treaty clauses at his disposal with the cool light of reason!

(Closing Remarks by Dean Rines: I was singularly struck by a light that came to me that I ought to look at some of these cases in, that I hadn't considered before—namely, perhaps it's all right to do all these things you're not supposed to do providing you can convince them—I think your words were, Riccardo—that you are providing help in the consumer product area that wasn't there before. I had the impression that is what an invention is all about, and that's why industrial patent rights have been granted. Maybe this aspect of introducing a consumer product, which wasn't in that country before, we may want to encourage—one of those equitable considerations which makes something legal that otherwise wouldn't be legal. The Davidson Case, I would think, certainly ought to be examined from that point of view.)

Enforcing Proprietary Rights in France and the EEC

JACQUES KESSLER*

(Introduction by Dean Rines: We've heard numerous references to the Republic of France—Lars' feeling that they took a step backwards in trademark law—and so far we've had no opportunity to allow the French to speak for themselves. When I approached Harry Saragovitz with the question—whom shall we invite?—he said, "There's only one man.")

Jacques Kessler is a very dynamic and able lawyer and engineer who not only has had quite a bit of experience in trying to enforce and make worthwhile industrial property and patents in France, but knows quite a good deal about this general area of opportunity in the European Economic Community as well. In fact, Jacques, who is now the senior partner in Cabinet Kessler, engineers and patent agents in Paris, also knows something about the attempt to create an international group of patent examiners to handle these new world patents. He himself did a stint for three months in the United States Patent Office as a patent examiner in training, and then he spent half-a-year in the German Patent Office. So I believe that, when we get into our working sessions later today, and some of these issues such as obviousness (which Johnny Johnson referred to) are brought up, Jacques can be of considerable assistance.

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It gives me a great deal of pleasure to introduce to you now Jacques Kessler, who will speak about the problems of enforcing industrial property rights in France and the European Economic Community. I hope that, if he wants to fight back at anything that was said about the practices in his own country, he will feel free to so do. Mr. Kessler:)

Thank you, Dean. Ladies and gentlemen, you have heard about our King Louis XIV, the one who built Versailles. Well, the father of one of his assistants was going to come one day to Versailles to visit his son. So, as he wanted to make a nice special favor, the King said to his assistant: "When your father comes, why don't you tell him just to step down into the garden when I have my daily walk, and I will be very pleased to take him around and give him a good visit." Well, he did, and when the father came the King took him around Versailles; he took him in the garden, to the fountain, he showed him all the beautiful buildings, and he put him on the magnificent stairs with the beautiful prospect on the grand canal and he said to him, "Did you appreciate that? What surprised you most?" And he said, "Your majesty, what surprised me most is for me to be here!"

And here *I* am! I have heard so many fascinating comments here and I have seen so many world-famous names at this Conference that I am naturally surprised to be here at all. But, fortunately, it is said that once you leave home by about 500 miles you become an expert, and the more you leave the more you become an expert, so I will try to do my best.

Enforcing Proprietary Rights

Now, I want to talk regarding the matter of enforcing proprietary rights—what is going to be enforced, how it's going to be enforced. Those who are accustomed to U.S. practice know that proprietary rights are much-elaborated facts. When you apply for a patent, you are submitted to an exacting search—the examiner will look at the patent on its merits, its utility, the inventive step, and there will be hard bargaining between the examiner and the applicant, regarding the intentions of every single claim. And the resulting document will be easy to deal with in litigation.

But there are countries in Europe where the case is quite

different. For instance, in France, patents which were issued before the new law, that is, before January 1st, 1969, were not subject to any examination at all, and those patents have no claims. Actually, of course, they do have a claim, which is: "I am claiming everything in this specification." However, since the new law, there has been a novelty examination system in France, which started in 1969, and under that system some French patents began to be examined. Starting next January, *all* French patents will be subjected to search examination.

Now, when those old patents and these new patents are brought to court, the new ones will have the benefit of a novelty search conducted by the patent office, but not the old patents, and not some of the recent patents which were not subject to examination. It is compulsory now that, before you go to court, you request the patent office to make a novelty search. But that means that your old patent, for example, is unenforceable if you don't have a novelty search, and this raises a number of problems, because novelty search requires time.

For an old patent, you can request a special novelty search, which will not require more than three months. However, most French patents are not being submitted to a novelty search these days. So, when any litigation comes on those patents, you go to the infringer and say, "Look, you are infringing my patent," and the infringer will say, "Do you have a novelty search report?" You say, "No," and he will say, "Will you come back in three months, when you have a novelty search report, and then we'll talk about it?" In the meantime, I will invest, I will continue to work on my infringement, and then we will talk again." So there is a real need to have novelty searches made for those old patents, so they can become enforceable. Otherwise, all you have is a gun without cartridges.

For the new patents, which were filed since 1969, or which are going to be filed after next January, for those patents you don't get a three months' novelty search made. You will be required to spend more than 3-4 years before you get your final report, because this will be a three-stage report. You get the first report and then you can amend your claim, and have it reviewed by the examiner, and then write a new set of claims. So, for these recent patents, it would be really unwise to take advantage of the possibility of delaying the novelty search, because you can do that in the French system or the European system—you can delay that novelty search for two years, at least. In fact, I just started a new case a few months after the new

French law went into force, for a patent which was filed in February, 1969, and I just got the final novelty search report last spring, which means a four-year examination! So the European system, or the French system, where you have to delay those novelty searches, can be dangerous sometimes, because the day you want to enforce your patent you realize you have nothing, and you must wait not only three months but more than that.

Novelty Search Reports

Now, what do these novelty search reports look like? There are two kinds—the old patent search report would be only a two-part piece of paper. In one part would be the set of claims which would have been drafted by the applicant for the patentee at that time, and submitted to the patent office. On the other page would be simply a list of documents. There will be no comment at all from the examiner regarding the merits or regarding the combination of references; the documents are merely cited.

When you have such a novelty search report for an old patent, just a paper referring to two or three documents, you had better not go to court with such a paper. Instead, you had better make another request, after first amending your claim. You pay another fee, and you draw up a new set of claims, such that the patent examiner can say, "There is no art cited against those claims." And then the novelty of your new set of claims will be clearly evidenced, because novelty is a matter of fact—it is not a matter of interpretation, as in the case of deciding the "inventive step" and so on. And the court will be very inclined to say, "Look, the examiner said this is novel. I don't have to look again. I will take it as true, and I will go into just determining whether there is some utility." They will not be apt to talk about some inventive step, because this doesn't apply to old French patents filed before 1969. And this is the reason why, for those old patents, it's very important to have that paper done before starting a litigation. In fact, you can just request the examination of your old patent and then start the litigation, but then you will have to modify your claim, which is not very pleasant when you are trying to enforce it.

Now, when you have submitted a set of claims, amended that set of claims, and resubmitted and reamended, you get a different kind of search report, showing you what is novel in your claim. This is the second kind of report I mentioned, and you get it for both old and new patents.

Novelty and Usefulness

Now, the court will certainly have to check whether what you have been presenting as novel is also useful. In fact, there will be no discussion on this matter, because, at the time you go to the court, and say to the judge, "Look, this is an infringer; I have my claim and that part of the claim is novel, he is using exactly what is novel in my claim," the judge will have no prejudice against it. He will say, "These novelties are useful," because, if the infringer comes and says, "No, they are not useful," the judge will be inclined to say, "Then why are you using this novelty which is useless?"

The issue of utility is very seldom raised before the time of infringement, because in patent litigation in the patent office there is no appreciation of whether an invention is useful or not. But at the time you go into French litigation then you are sure it is useful, because the other party finds it valuable to use it.

When you have something which is novel, which is useful, the problem is: Does the court appreciate whether it is inventive or not? The answer is "No" for an old patent; since no inventive step is identified. You can have only a very limited patent, and that practice still persists today. All these old patents can still be used in opposition to any party, and it must be remembered that they should not be interpreted as "old patents" simply because they do not specify an inventive step. The new law, which came into force in 1969, introduced the inventive step. So, you might say, the court is now going to begin to look at that inventive step.

As I've told you, the new patents are just being achieved. Therefore, you should realize that until the first decision becomes enforceable on the first patent which was issued after 1969—which will be in about 1977—we will have no appreciation of what the French courts are likely to do. Meanwhile, decisions will still be under the application of the old concept. The courts may amend that concept, but probably progressively, not sharply.

The problem arises not only in France. I would say in other countries, like Germany, the tribunals are not inclined to restrict the claims to what they are saying—in fact, they enlarge the claims.

In France, when you submit a set of claims to the patent office for an infringement procedure, what you do is this: on the left side of your desk you put the prior art that you know. On the right side you put the infringing item, and then you just draft your claim so that it will cover the infringing item. So you would say, "Look, that

man has been waiting ten years to determine what claim he wants." Now it's very easy. You have the item, and you just cover the item with the claim you want.

Even in Germany, if you have some claim which looks to be restrictive, the German courts are quite ready to say, "Look, that man had a first set of claims, but the idea of the invention, what he invented, is a little bit more." So they are very close to accepting the idea of what they call the *Erfindungsgedanke*,—the scope of the invention as it was really.

Therefore you realize that most of the patents you have in Europe (I would except the British one, where the first claim cannot be expanded or enlarged beyond what it was saying), are open to different interpretations. In most countries, and especially in France, many Americans are shocked to say, "Look, we have a patent and we don't know exactly what it wants to claim." It's a very heady thing for the examining agency to determine what the patent *might* claim, to speculate what could be done with that patent.

Court Enforcement

Let me close that first part regarding the proprietary right by itself, and let's see now how rights are going to be enforced by the courts. And let me divide this last part into three subparts—before the action, during the action, and after the action.

Before the Action

Let me start with the problem of how you warn a competitor—I think I would call it choosing the proper channel, the proper level among the various courts. For some problems which are peculiar to the Americans when they go into Europe, there is the matter of providing a bond or guarantees, in the countries where there is no special treaty. In this country, when you send a warning letter to a competitor and say, "Look, I have a patent; you might infringe it. I want you to stop," you might get into some trouble because you might be interpreted as intimidating him. Now this is not the case in some countries like France, and, I would say, Italy and Belgium—maybe to a certain extent in Germany, maybe more in the U.K. In those countries, it's very usual to receive such letters, and very little would come of it. In fact, if you had a patent you might even say to your competitor, "I'm going to sue you," and you still wouldn't get into much trouble. The point is, you just can't go

to the competitor and try to reach an agreement by trying to impress him.

In this country, as in many countries, patent litigations are being dealt with by the civil tribunals. But you have to remember that infringement of patents, copyrights or trademarks in some countries is considered a crime. Therefore you can be fined, and in many cases before the new law went into effect, some patent work was being litigated before the criminal courts. That raised some hilarious problems sometimes, when you had the president of the company just sit back, sit on the bench—he was not happy! I know of some cases where settlements were made just because he didn't want to be sitting there! Now, the new law in France still makes it possible to sue in a criminal tribunal, but only after the civil court has made its decision. So you can issue two briefs—one in the criminal court and one in the civil court—when it seems to you that the infringer has been warned and he still continues.

Regarding the level, as here and in many countries throughout the world, there is a two-level system—first instance, and appeal instance, but where you get the enforceable decisions depends on the country. In most of them, you get it after the appeal—that is, after two instances. There is a supreme court in many cases, but the supreme court is not able to try the matter *de novo*—just determine whether the decision was justified, not on fact but on reasoning.

Now, regarding the last part before the trial—this matter of bond and guarantee. Let's take the problem in France, where there is a treaty between France and the U.S.A. An American firm can sue a French or an American firm in France, and they won't have to pay any bond or any guarantee, because the treaty covers that. But the French-American treaty does *not* cover the damages which could be counter-claimed by the defendant, and this is a very important matter. When a French firm is being sued by an American firm, the first thing they do is say, "Look, I am prepared to go to the tribunal, to the courts, but would you please put a large amount of money in the special security bank?" This is a good way to buy time, because if you claim a huge amount of money, you can be sure your plaintiff will just challenge that. So you buy about six months to one year, and when that amount is used up you buy another six months to one year by appealing the case. And this matter is important also in that some American firms, before starting litigation, can transfer their European rights to their European subsidiaries.

During the Action

Now, let's go to the during-the-trial problem. I think in France we have the most shocking way of bringing the matter before a tribunal. When you collect evidence that an infringer is infringing your patent, your claim, what do you do? You just take your patent, you go to a judge, *ex parte*, and you get an injunction. An officer of the court, a transcriber, will go to the infringer at 9 in the morning, knock on the door and say, "Look, we are here with an injunction from the court. We are permitted to make discoveries, and I have a policeman with me. I have the man who knows the case best, and he is the patent agent of the plaintiff. He knows the case for sure. He will be able to show me where I have to go and what I have to transcribe, and we're going to spend about one day here. So, you be sure that by the end of the day everything which is related to the case has been put in the report."

Sometimes you can say, "Look, what about the counterclaim I am going to have if I lose my case?" Now, there will be no great counterclaim, because the court will say, "This one officer, and the patent agent, will act as court appointees. They will be sworn to secrecy, and they will not be allowed to report beyond the written report, and they know that they will just report what is related to the case. Now, if your infringer had some technical secrets which were implicated with the case, and, if you were going to lose your case, you shouldn't have your secret in such a mess. That's your fault. But, if you are not going to be condemned, you have to prove to me that those secrets have been used by the plaintiff." So that's a tort case, and I don't know a case where more than \$1,000-\$3,000 was awarded as a counterclaim in such cases.

What happens when you have done a good job of discovery of infringement, taking pictures of the machine, noting the total sales during a pre-determined period, to get some estimate of what in a subsequent stage another expert will agree to? Then you have a beautiful proof to bring to the desk of the court. When you remember that the claims were drafted with the infringing item on the right side of the desk, you realize the case is very simple, because your claims are novel. The court is not entitled to make any description of the invention, or the inventive step for this patent, and you really have proof that what the infringer is doing is exactly what you are claiming.

In such a condition, the handling of the matter by the court becomes very simple. There is no need of expert testimonies,

affidavits for proving the infringement, because everything is there—you don't need experts. The court will say, "We don't need experts; we are expert on those matters." And it is true in some countries, like Germany, you have 8 courts who specialize in patent matters. In France, I don't remember how many there are, but something in the same range. And those courts just deal with patent matters. They don't want to have experts. In the past, they did appoint experts, but they realized the experts just consumed their time and tried to substitute for the court in giving opinions, and they were prolonging the trial.

Nor do they want to have witnesses. In this country, when you have to produce evidence you just get testimony. But in most countries, except perhaps in Germany and the U.K., they would think that the witnesses would just try to speak for their own side, and the court will say, "We don't want you even to read what the experts say; we are not permitted to hear witnesses, because this arises only in criminal cases, but not in civil cases." Therefore, the court will make its decision without experts, without testimonies, only by comparing the claim you have prepared, the proof you have written concerning the infringement, and the comments of the barristers.

To give you an example, I think the French court's Rolls Royce decision regarding the jet engine, which is a most sophisticated matter, covered less than six pages, while in the U.K. the judgment apparently covered something like 100 pages. So you realize that in some countries, you can get into great trouble just by underestimating some patent in some country where patent matters are not subject to direct examination as they are in France, Italy, Belgium.

After the Action

Let's see now what happens when the decision is rendered. The decision rendered in the first instance, in most cases, will take about two years. If you appeal the case, it will be another two years, and then you get an enforceable decision. But you don't get an injunction from the beginning to stop your competitor, so you have to accept the fact that he will be continuing during the meantime at his own risk, but he will be continuing. At the end of that time, however, you will get a strong injunction, which will provide some extra fine if the infringer continues the infringement; the amount of this extra fine will be very high, about ten times the sale price. It's very discouraging.

Sometimes you can also get a seizing, based on your discovery of infringement. You just take one picture, you take one sample, that's all. And when you seize all the production by the manufacturer or by the wholesaler, then he gets in great trouble. When you have started an action against one infringer and there have been about 20 infringers, you cannot sue every twenty, but you can request some advertising of the decision in two or three newspapers.

Let's go now to the end of this part, and find out how long it took and how much it costs. In Europe, the cost of litigation *may* be considerably less than it is in this country, mostly because there would be no money spent on evidence, in testimony, on experts and so on. The cost for a first instance in many countries would range around a few thousand dollars, rather than around a few ten thousand dollars. In some countries, however, you may have some court costs, which might be important. I remember the Rolls Royce case in the U.K., where I guess the costs were calculated according to the amount of the claim, which was about £ 400,000, which was terrific.

But in most cases the court costs are very low, almost nothing, almost ridiculous. In some countries (Germany is the only country, I think, in the EEC, although perhaps in the Scandinavian countries too), the fees for the attorneys are included, at a low rate I must say. But in Germany you can recover that cost.

In closing this part, may I just emphasize the fact that I may have told you a lot of things which were not well-coordinated, and some aspects of this kind of litigation are shocking for people who are accustomed to other procedures. So what I may suggest, when you are going to get into that kind of proceeding, is just to really try to understand the mind of the judges and the local customs. I understand that, as Mr. Federico said, we are not now going to have this new European patent system in April, so it will be a long time before those minds become coordinated. And the only thing to be done is to try to follow their route rather than to try to adapt the European practice to the American view.

May I close this little speech with a story in which I'll try to explain to you how, sometimes, it makes a difference whether you get a different angle. When you try to look at the matter from the European point of view, then you become a little bit distant from what you have done in this country.

There was a conscript who was inducted into the Army, and the first day he was integrated into a group, to learn to march. So, the sergeant said, "One, two, one, two." And soon the sergeant realized that the conscript was out of step with respect to the others, so he came to him and said, "Do you realize that the full group is out of step with respect to you?" So, the young conscript looked at the sergeant, and looked at the others, and said, "Beg your pardon?" The sergeant said, "Look, I tell you—the full group is out of step with respect to you." So, the conscript looked at them again, and looked at the sergeant and said, "I am not in charge of them, *you* are!"

(Closing Remarks by Dean Rines: I thought for Americans it would be extremely cogent to know that there are, in other parts of the world, other kinds of philosophies. I guess we have to begin to learn that lesson pretty quickly to do business with the EEC!)

III. PUBLIC SESSION

(On Friday evening, November 2, 1973, there was a public session of the Conference in Representatives' Hall in the State House in Concord. The Governor of New Hampshire, Honorable Meldrim Thomson, Jr., welcomed the conferees; each of the principal speakers gave a précis of his earlier talk, and there was a full address by Mr. Adolfo Comba, an official of the European Economic Community itself, who traveled from Washington for the session.

The following pages present, from the public session, the introductory remarks of Governor Thomson, Dean Rines and President Frank S. DiPietro of Franklin Pierce College, and Mr. Comba's address. The full text of the session may be printed later, as a separate publication.)

Introductory Remarks

Speaker: Governor Thomson

Thank you, Dean. As Governor of the State of New Hampshire, I am very pleased to be able to welcome you to this pioneering effort in international relations. As members of your respective countries, you are endeavoring to determine how trade can be encouraged, and trade, as important as it is, cannot move (fortunately enough for those of us who are lawyers) without the help and guidance of the legal community. I think it's very significant that our first, and brand new, law school has taken an interest in a matter as important as this and has sponsored this Conference.

I would call your attention to the fact that, although the Franklin Pierce Law School is new, it follows in a very old tradition here in New Hampshire, because our State is the State within the nation where constitutional law was first born, and that goes back to six months prior to our Declaration of Independence in 1776. And our State, like others that were settled on the cold and bleak and unknown shores of this great country more than three hundred

years ago, was at that time wholly dependent upon trade. First there was the fishing industry, and then we traded the tall virgin pines which were used for masts for the war vessels of Great Britain.

So I think it is very significant for a new law school to inherit an old and rich tradition such as we have here in New Hampshire. You are here tonight to discuss problems whose solution can be beneficial both to those of you from foreign lands and to us here in America. I wish all of you a very successful session.

Speaker: Dean Rines

Governor Thomson alluded to the first law school in New Hampshire. This first law school would not have been possible if there had not been another first in New Hampshire, namely a very splendid, young, vigorous liberal arts college, the Franklin Pierce College in Rindge, led by its very dynamic founder and president, Dr. Frank DiPietro. He is with us this evening, and before proceeding with our program, I'd like to ask him to say a few words, since this is the first public conference in which the Franklin Pierce Law Center has participated. Dr. DiPietro:

Speaker: Dr. DiPietro

Members of the Board of Trustees, Dean Rines, members of the faculty, students of the Law Center, distinguished guests from many lands. It gives me a great deal of pleasure to welcome you to this great first for Franklin Pierce College. I hope that you enjoy your stay in Concord, in our beautiful New Hampshire surroundings.

I notice in your program that you have one of your meetings in the Franklin Pierce Ballroom, and you know that the name of our school is Franklin Pierce College. Franklin Pierce was the fourteenth President of the United States, the only one from New Hampshire, so I think it is safe to say that we are in Franklin Pierce country when we are in New Hampshire.

Some people have asked—Why a Law Center at Franklin Pierce College? I think the simplest way to answer is to say that the college trustees and the faculty were interested in extending its services through legal education. It's the first law center, as you know, and the only law school in the state.

It might be interesting to know why we called it a Law Center rather than a law school. We saw three functions for this Center, so

the whole operation is quite different from the usual law school. First, of course, there is the law school itself. But then there is the PTC Research Foundation, the research arm of the Law Center. And finally we saw the need for a series of public conferences, of which this one represents our first in New Hampshire.

One of the ideals I have for the Law Center is that, as it expands into various fields of research, especially in economics and specifically into the fields of property and intellectual rights, the students involved in this work will not only become practitioners in their specialties but, hopefully in the future, develop enlightened legislation that will make this a better world for all of us to live in. Perhaps we can move from crisis mismanagement to prevention in some of the problem areas that we are faced with in dealing with our economy and our world.

I wish you the best of success at this Conference. It is the very first of the Law Center, and I hope that there will be many other conferences to come. I look forward, along with the rest of you, to seeing the results of this Conference written up for publication in IDEA, by the PTC Research Foundation which has co-sponsored this Conference. Thank you.

Speaker: Dean Rines

We would like to start off this evening with a gentleman who is a very rare man, much in demand. He is a special counselor with the European Economic Community Commission in Brussels, but stationed for the moment in Washington, at the EEC offices there. As an information officer for the EEC, he will tell us about some of the general problems, not just legal, not business, not antitrust, not industrial property, but the general problems that underlie the relationships between the European Economic Community and the United States, and some of the results that are hoped for as a result of cooperation between America and the European Economic Community. I'm very proud that the EEC saw fit to honor us by having him come here, and I am delighted to welcome Mr. Adolfo Comba to give us an overview of the European Economic Community as our first talk this evening.

The United States and the EEC

ADOLFO COMBA*

Dean Rines, faculty members, ladies and gentlemen. I was called upon to talk about trade and about relationships between the United States and the European Economic Community, but I shall not confine myself to speaking about mercantilistic things, because I think that the European Economic Community is much more than that. Evidently I am not alone, for in the session that I participated in this afternoon I think I heard mention of the EEC relative to the member states of the EEC in a proportion of no less than thirty times to one, which means that the concept of the EEC is so well accepted that one doesn't really have to put it to question any more!

Imaginative People

Having said that, I think I should tell you that the EEC has been, from the outset, the creation of some imaginative people who, under pressure of events, of historical events, thought out ways for Europe to unite. Early in May this year in London, the man who is perhaps the father, the founding father of the EEC, Jean Monnet, who is 95 years old, was honored at the 25th anniversary of the creation of the European movement, for what he had done. Monnet, a Frenchman, was a very great friend of Great Britain, whom he had tried very early to convince to join the EEC, but Great

* The European Economic Community Commission, Brussels and Washington.

Britain at the time was not ready to do so. Jean Monnet was also a great friend of the United States of America, and he succeeded in gaining the support of the United States of America for this enterprise. He had to deal with the United States during the war, and later on he succeeded in having John Foster Dulles support the creation of the coal and steel authority in Luxemburg, which rallied together not only France and Germany but also Italy and the Benelux countries. He succeeded in interesting the United States not only in this creation, but also the creation of something that was to become the United States of Europe.

Now, having paid a tribute to Jean Monnet as the creator of the European Economic Community, I would like immediately to pay a much more recent tribute to an Englishman who has been trying to defend the Community just two or three days ago in Washington. I'm speaking of Sir Christopher Soames, who is the Commissioner in charge of external relations. Part of his task was to talk about my topic of trade, and if you had read the Washington Post the following day, you'd have read that Sir Christopher Soames, after having talked with George Schultz, and William Casey and others—well, the Washington Post said, "He gave them back all the lot he got." And another caption said, "After Soames' visit, there was broken china all over town." I say this only because there are differences between the United States and the European Economic Community, and I think it is rather moving to see an Englishman who belongs to a country that has just joined the Community defend the EEC to the United States of America.

Some Problems

About specific problems that have to do with trade and the United States: I felt before I came here that it was not my responsibility, and I was not asked, to give you a pep talk on the European Economic Community. Therefore, I will not tell you that the Community is without problems. I don't think you have to have listened to the latest news over the radio to know that there are many critical issues within western Europe, last but not least the fact that NATO countries disagree among themselves concerning the stance, the posture to be taken vis-à-vis the Middle Eastern conflict. And I am not going to tell you that we are yet a very solid, economic political entity that need not worry about its own internal and external solidarity.

However, I think that it is important for you to know that it does not take an awful lot of either economic or political logic to

understand that there is an interest on both sides of the Atlantic in keeping the Community going and keeping it solidified. I think in a way it is true that the European Economic Community is now living in its second phase—perhaps in a rather frivolous way I might even say that the EEC is like the chrysalis that has begotten its own butterfly. Now we have now become a new Community, enlarged by Great Britain, Ireland and Denmark. We are a new Community which is constituted on the basis of the founding treaties of the European Economic Community, that has to deal with issues that were not fully dealt with in those treaties. We are, therefore, in a critical, yes, but perhaps in a creative stage of our history. And I think you should think of it as such, as a Community which is trying to strengthen itself, much in the same conditions in which it first was created.

Basic Aims

The EEC was created, in the first place, in times with some internal strains which had to be reconciled, and with some external impacts that acted on it. You must not forget that at its origin the Community was created to ensure Franco-German reconciliation and out of fear of the Soviet Union during the cold war. Again I say, and I'll underline it—it doesn't take a lot of either economic or political logic to realize that some of the circumstances are in a sense repeating themselves, although, of course, war within western Europe is forever banned.

If you want to understand the rationale and the effort and what the Community is striving at, in very simple words you must understand that the Community is trying to strengthen its identity, and to go about it with all the instruments it disposes of. The Community as originally intended has fulfilled the objectives that were contained in the Treaty of Rome. It was to create a customs union, which it has. It did have some common policies, and one is the common agricultural policy which, of course, is notorious in this country, and which is under fire in the Community itself. It had a common trade policy and, in matters of trade, you have to deal with one voice.

We understand, however, that having completed this first stage by 1970, as anticipated, we are now trying to create something much more difficult, under much more difficult conditions. What the Community is trying to do is try to build up a full economic and monetary union, which means a full integration of the economics of the member States, in a relatively short time, at a time

in which the task is more difficult because every marginal yield of sovereignty is getting more painful for the member States who are disposing of lesser common legal instruments to proceed in this enterprise. Moreover, we are at a time in which there are more protagonists, and there are more people who have to discuss these things. So do not forget that, if there are crises in the Community, this is quite understandable, because every marginal step in yielding sovereignty is costing more and more to the member States. And don't forget that there are great disparities in size, dimension, power, traditions, and whatever you want among these member States, which makes it all the more difficult.

What we are trying to do is try, more and more, to have common policies in new fields. Eventually, we would like to have common economic policies, and that means common monetary, fiscal, and income policies, possibly common regional policies. Now, all these things are very difficult to bring about, because they bite into the very essence of national power. There are, however, some policies that we are trying to manage in common, to elaborate in common, and which rest on the legal basis of the Treaty of Rome.

Antitrust Policy

I refer in this particular case to something which is very close to your hearts and your interests and, I trust, your own policy. I'm not going to delve very much into the problem of antitrust policy, but I would just like to say that in the Community it is an ambivalent thing, because it has on the one hand to keep competition from being too restricted, and on the other hand it has to promote industrial structures that are strong enough to compete with other countries, notably very powerful ones like the United States of America. And I noticed, in attending the session this afternoon, that this was one of the basic questions in the mind of people who were discussing these issues. They wanted to know where the demarcation line really is between negative antitrust policy, where the Community will try to restrict mergers or other concerted practices to a certain extent, and where these mergers and the strengthening of industrial structures are, in fact, going to be encouraged actively by the Community for various reasons, be they because of industrial competitiveness in the world, or to encourage regional development, or for other reasons.

What seems to me to be important in this subject matter that, in fact, has been the center of discussions at your conference, is: Is it relatively more interesting for the United States of America to have

a fragmented Common Market? Or is it more interesting for the United States of America to have a unified Common Market? Regardless of the answer you give to this question, I am going to tell you that I, as an official of the Commission of the European Economic Community, am committed to do everything I can to help the Common Market become unified more and more, and to safeguard the unity of this Common Market.

Other Tasks

But the more difficult task is to try to persuade you that whatever is being done in the Community is going to be in the best interests of those who operate in the Common Market and the European Economic Community, and the EEC is trying to do things that will eventually persuade you of this. Meanwhile, it is engaged in very difficult work in harmonizing laws in taxation, in proposals that are very difficult, such as creating a European company, in creating conditions for the opening up of the capital market in Europe, and possibly the opening up of the public procurement market, which is so important to many of you who represent large multinationals.

But it is also committed not only to do things that are of interest to businessmen. It is also very much committed to do things that have social value, that will result in a more harmonious behavior of the labor unions within Europe in such a way as to appeal to the interest both of the workers and of the common man. For if this is not going to be the case, then the Community will not go very far in its objective to eventually become a union of States.

The United States and the EEC

The last thing I would like to mention about our relationship is pretty much the fact that we believe, in the Community, that there is great concern for building up platforms of cooperation between the United States and the European Community. One often speaks about the Community being an economic elephant and a political dwarf. This is true in a sense, but one must have the honesty of saying that if one chastizes an economic elephant, one must not keep the political dwarf from growing and from ceasing to be a dwarf. There are times when, if the United States of America are asking the Community to speak with one voice, they must do everything they can to make it possible for the Community to arrive at one voice. And when painful efforts are made to speak

with one voice, this should not be discarded as too little, this should not be discarded as something of no interest, particularly by the sort of people who are intelligent enough to understand how difficult it is to arrive at that little bit of identity and that little bit of a common voice.

I think that there is a great call for cooperation on both sides of the Atlantic, if for no other reason, because there are some great historical links. If we go back to the 19th century, we find that while the objectives were slightly different, Prince Metternich and Talleyrand liked each other very much, and they liked to negotiate together, and they were the sort of diplomats who knew very well that you are not going to push a negotiation to the point of destroying your own interests. You push negotiations as far as you can, but then at some place there will be a commonality of interests to arrive at a successful outcome of that negotiation.

Trade and Investment

Last, but not least, I would like to say a brief word about the subject which is of particular interest to this group and this Conference. It is the problem of: What sort of relationship are we going to have, not only in trade, and I said I am not going to delve much into trade. But you know we have certain guidelines to negotiate in Geneva, when everybody is ready to negotiate, and we are waiting for the United States to put its own guidelines into shape.

But we have an interest in cooperating in matters of investment, as well. In matters of investment, you know very well that Europe is the recipient of a very large portion of American investment, for forty to fifty per cent of foreign investment in Europe is U.S.-based. It is U.S.-based in the sense that it is a result of an investment in subsidiaries which are largely wholly owned or, if not so in any one case, very largely majority-owned. So you must realize that whatever happens to this investment is followed with great interest, that when this sort of investment in Europe is behaving in ways that are favorable to the local environment, there is great praise, and great craving to have more. But when there are problems that arise because of it, the United States investment is much more vulnerable to criticism than the investments of other countries.

I would say in concluding that I believe in any case the transatlantic dialogue can be in this, as in other matters, greatly helped by trying to understand each others' problems in this and in other

fields, and by, as much as possible, adopting the criteria of not discriminating against each other on the grounds of nationality, for Europe not to discriminate against the United States just because it is the United States, and for the United States not to discriminate against Europe.

That brings up the concept of reciprocity. There is a fairly wise understanding in Europe that many problems can be settled if reciprocity is effectively applied, if the identity on both sides is recognized, if the complexity on both sides is recognized, and, I would say, if neutral dignity is respected. Perhaps that might be the sort of slogan which could replace the very much discussed word "partnership," which is, for the time being, generating too much contention. Thank you.

IV. WORKING SESSIONS

In an important respect, the Fall Workshop Conference was mostly that—informal working discussion groups were convened each afternoon. In general, the speakers who had delivered their position papers in the morning presided over the working sessions as Moderators. Discussions centered around the questions raised by both the conference registrants and the Law Center students who attended. Each session was taped by student recorders, and the transcripts were edited into the summaries presented in this section.

On Saturday afternoon, the working sessions were devoted to the preparation of summaries of key elements in the discussions. Then the summaries were presented at the final session on Saturday evening. For each of the Saturday afternoon sessions, in addition to the Moderator, one or two “Analysts” were responsible for preparing the summary.

The schedule of working sessions, Moderators, and Analysts, is given below. It should be noted that no separate summary is presented here for Session B; for a brief analysis of its proceedings, see the summary of the Saturday evening session.

Thursday, November 1

Session A: *Forms of Trading in the EEC*

Gerard Weiser, *Moderator*

Session B: *Technology Transfer and Licensing*

W. E. P. Johnson, *Moderator*

Session C: *Patents, Trademarks, Copyrights and Unfair Competition*

Pasquale Federico, *Moderator*

Friday, November 2

Session A: Riccardo Gori-Montanelli, *Moderator*

Session B: Harry Saragovitz,¹ *Moderator*

Session C: Lars Holmqvist, *Moderator*

Saturday, November 3

Session A: Riccardo Gori-Montanelli, *Moderator*

Robert Viles² and Gerard Weiser, *Analysts*

Session B: Isaac Blonder,³ *Moderator*

Thomas G. Field, Jr.,⁴ and Glenn Stephenson, *Analysts*

Session C: Robert Needleman,⁵ *Moderator*

Nelson Shapiro,⁶ *Analyst*

¹ Manager, Washington Office, PTC Research Foundation.

² Associate Dean, Franklin Pierce Law Center.

³ Chairman, Blonder-Tongue Laboratories.

⁴ Professor, Franklin Pierce Law Center.

⁵ Counsel, Academy of Applied Science.

⁶ Partner, Shapiro & Shapiro, Washington.

Forms of Trading in the EEC

GERARD WEISER, Moderator
CHARLES HERRON and DAVID SIFF, Recorders

Opening remarks—Mr. Weiser: Quotes from British Antitrust Act to show parallels with the Treaty of Rome. Development of EEC antitrust laws showed foresight in not making British entry too difficult because of a completely foreign body of law.

Parallels were then shown between the German Cartel Act and the Treaty of Rome, with reference to the provisions and exemptions which determine the enforceability of agreements. There was also a brief presentation of some similarities in the French laws affecting agreements.

Mr. Weiser cautioned that there are *per se* good practices but no *per se* bad practices.

Mr. Mayers* questioned those who were concerned with U.S. antitrust law and are now concerned with EEC antitrust—which law is now the more severe? The question was directed towards patent licensing in relation to price control and restrictions on use, and this was suggested as an area of great importance for possible discussions.

* Names not identified elsewhere in these proceedings are those of registrants and guests at the Fall Conference.

Mr. Weiser asked the European representatives whether EEC courts have adopted *stare decisis* as a principle in arriving at their decisions. Mr. Montanelli responded that you end up with *stare decisis* without having a common law system. Mr. Weiser noted that during the EEC's first ten years there were no cases to rely on, but there is now a second generation of cases developing, to provide a basis for *stare decisis*. Also, the court is now using a pragmatic rather than a dogmatic approach—the pragmatic necessities of the times are to encourage trade and development. Question—How are businesses in the countries represented at this Conference adapting to *stare decisis*?

Mr. Montanelli—Most companies are not worried about *stare decisis* as they still think: 1—only in terms of national markets; and 2—it can only happen to the other guy, in spite of the Grundig and Sirena cases.

Mr. Murdock asked what percentages of all agreements are now being reported to the Commission in what countries? Mr. Weiser answered that because German law, since 1953, has required notification, they have the highest percentage, compared with relatively few in France.

The topic then shifted to registration and penalties. Mr. Weiser asked whether high fines encourage registration or discourage registration, because a company figures it may receive a high penalty and will try to chance not registering to avoid notice. Col. Noble commented that, in America, bigness is badness, but in the EEC, concentrated business is desired to maintain competition.

Mr. Weiser noted that there are two ways the Common Market deals with the issue of fines: 1—if an agreement is found by the Court to be unenforceable, a fine can be imposed, but registration will avoid the fine; and 2—provisional approval is given to agreements about which the Court is notified. Mr. Weiser—The implication of the increased rate of rejection of agreements is that more and more companies are beginning to break into new areas, or markets that were previously closed, thereby setting up situations of parallel imports.

Mr. Blonder discussed the EEC's setting up standards that specifically exclude U.S. products. He also suggested the need for a representative with a national voice to be sent to the various policy-making sessions of the EEC. Mr. Weiser answered Mr. Blonder in part by identifying: 1—the need for new approaches to technology transfer problems; and 2—the need for politician-technicians to represent American interests.

Mr. Norton asked the question—Must one license only one person for the entire EEC or can there be one per country? It was generally concluded that there is nothing wrong with exclusive manufacturing licenses for each country, but exclusive selling arrangements are different; it is illegal in both the U.S. and the EEC to divide up territories for selling. The three problems of licensing involve manufacturing, selling, and distribution. It would seem to be all right to grant exclusive licenses to manufacture or distribute, but there cannot be restrictions on where one can sell.

Question—Are proposed exemptions from modification regarding exclusive licensing involving know-how and patents acceptable?

Answer—Yes, the ruling was that they are acceptable under Article 85.1, as in the Davidson and Noguchi cases.

Acceptable and unacceptable contract clauses under EEC anti-trust law Commission *proposals* for exemptions—Acceptable:

1. Exclusive distributorships for patents for small companies, i.e., those contracts which include only two enterprises. Grant-back clauses would be allowable for improvements.
2. If use of a licensor's raw materials is required for faultless production of a finished product, it is acceptable to require the licensee to buy only from the licensor.
3. A clause to require arbitration is acceptable only with regard to the quality of finished products.
4. Also acceptable is a provision whereby the licensor furnishes additional know-how as it becomes available.
5. Know-how is also transferrable from the licensor to the licensee.

Not acceptable:

1. Waiver of licensee's right to challenge patent validity.
2. Obligation of the licensee not to manufacture or sell competing products.
3. Mandatory adherence to manufacturing or sales quotas.
4. Obligation of the licensor or licensee to sell products only to a certain class of buyers.
5. Price control or sales conditions control of patented products or products of patented processes. Note (question by Mr. Mayers, answered by Mr. Weiser): Price control is allowable under certain limited circumstances, e.g., to protect a new product.
6. Licensee agreements not to export, but this is not applicable to package licensing; it is only applicable when gross sales exceed a certain ceiling.

Mr. Weiser paraphrased two questions raised by Mr. Johnson in the morning session on the topic of retroactive invalidity of a contract:

1. Is the whole contract invalid or, if not, which clauses are enforceable? Mr. Weiser gave the answer that the particular nation wherein the contract is to be enforced will determine according to its own laws which clauses are enforceable. Mr. Montanelli said that in Italy the clause would be invalid, but the rest of the contract would be enforced.
2. Will national law recognize separability clauses? Mr. Montanelli responded, "Yes."

Mr. Murdock asked—Have there been any instances where a third party beneficiary has been able to recover damages for injury caused by a contract being found invalid? Mr. Weiser answered, "Yes."

RICCARDO GORI-MONTANELLI, Moderator
CHARLES HERRON and DAVID SIFF, Recorders

Mr. Montanelli discussed the procedures for determining whether a contract is covered by Article 85 or 86.

1. The provisions of Article 85:3, para. 1 are not applicable if the contracts are between enterprises or associations of enterprises. Distributors are distinguished from agents by determining where the financial risks are placed.
2. A business that has doubts about the legality of its contract may request negative clearance. Because of the volume of requests for this negative clearance, the "Christmas messages" were promulgated on December 24, 1962.

Mr. Murdock asked—Is there anything akin to parallel import doctrine which would affect companies from outside the EEC? Mr. Montanelli answered that he didn't think so as, for example, to prevent Japan from shipping to Germany when a French patent licensing agreement granted Germany to a French concern. Mr. Weiser said that the parallel import doctrine must be adversely affecting trade between member nations to be declared bad.

Mr. Montanelli asked—Does exclusive distributorship base itself on contracts or patents? Mr. Weiser answered—on patents, with or without license.

Mr. Murdock asked whether different royalty rates for various distributors is in violation of Article 85. Mr. Weiser answered no,

that mere variation is not *per se* bad and the courts will try to analyze if there is, in fact, a valid reason for the variation.

Mr. Yount asked—Where you have a first license without restrictions and don't notify, and a second license with a different royalty rate, are you then required to register both? Mr. Weiser answered that the concept in the EEC is that a standard contract, once registered, need not be registered again. Old contracts, before March 3, 1962, did not need to be registered for the member nations then; for the United Kingdom the registration date was July 1, 1973. Thus old contracts still need not be registered unless there is a marked change, but mere changing of the royalty rate does not change a standard contract enough to require registration.

Mr. Grace asked—Can we still rely on the Christmas notices? Mr. Montanelli said, "No." Mr. Weiser noted that significant changes are shown in the Davidson case relating to royalty clauses. Mr. Grace said he understood that patent licenses should be for five years, and not for the life of the patent.

Mr. Falk asked whether the EEC was bound by the Treaty of Rome in dealing with the Eastern European nations. Mr. Montanelli thought the countries would be bound, and anything bad would be stopped, but as of yet he knew of no bad practices or restrictions on trade with Eastern Europe.

Mr. Weiser commented that there are current hearings being conducted in Washington on foreign antitrust laws and their effect on imports. Mr. Falk said that much could be justified in the EEC by competition that would be illegal in the U.S.

Patents, Trademarks, Copyrights and Unfair Competition

**PASQUALE FEDERICO, Moderator
RANDY REIS and MORGAN HOLLIS, Records**

The objective of the Thursday afternoon session was to acquaint the conferees more thoroughly with the current changes in the field of patents in Europe. Pasquale Federico was the Moderator.

The new proposed set-up for Europe is the European Patent Organization. The governing body of that group is called the Administrative Council, which will consist of a representative of each country, who will have the privilege accorded all international officials, such as ambassadors.

The greatest amount of time in the working group was spent on the procedures for filing a patent in the new European Patent Organization. The first step in a filing involves the preliminary investigation, which consists of a thorough search being made at the international office at The Hague, although for specific patent applications, the search may be farmed out to local nations. After such a search, the applicant is given six months to decide whether to proceed with further processing.

Moving into the examination of the patent by the Board, one

examiner is assigned the application to investigate and recommend it or raise objections as to its validity. Three other members sit on the Board, and they decide upon final approval or disapproval, based largely on the original examiner's investigations. If at this point the patent is rejected, the applicant has a chance for appeal to a Board of Appeals.

Q. Does the applicant pay one fee for each country designated?

A. Yes, a small fee.

Q. How much translation is actually going to be required?

A. None, if submitted in an official language of the organization . . . English, French, German. However, if the patent is involved in litigation, Mr. Holmqvist noted, a translation for the local country will be required at the option of the countries.

Q. Is there going to be an examination fee, such as the French now have?

A. No, no fee during the examination proceedings, although there is a prospect of \$400-\$500 in government fees.

Q. Is there a need for a local representative?

A. There will be set up a roster of European Patent Agents, consisting of all those who qualify to practice patent law in their own countries; the roster will include members in countries where there is an established Patent Bar, or those in other countries who are established patent attorneys. For an infringement, a patentee must appoint a European Patent Agent. Representation is mandatory.

Perhaps the most significant fact of the new European Patent System is that all the nations were able to join together and complete a unified pact. Among the agreements (which currently differ in individual countries, but the differences will be resolved) are the adoption of the U.S. concept of obviousness in patents, and the patentability of medicines and biological products.

Also important is that, with the change in the Europat, a patent will follow local laws. If it is challenged in one country, it is challenged by its own particular laws. If it fails in one country, it still can be valid in other countries.

A major problem which U.S. patent applicants to the European Organization will face will be the choice of whether to:

- a) file separate patents, that is, one for each country;
- b) file a European Patent for separately designated countries; or
- c) file both ways.

LARS HOLMQVIST, Moderator
RANDY REIS and MORGAN HOLLIS, Recorders

The Friday session turned its attention to international trademark registration, with Lars Holmqvist as the moderator.

Mr. Holmqvist first discussed aspects of the Madrid Arrangement of 1891. The major advantage of the Madrid Arrangement, which has 22 member countries, is the possibility of central filing; one can obtain trademark rights in all the member countries with only one registration fee. The most disturbing flaw in this union, however, is that although a registrant may gain international approval, the trademark must be examined in each country before he knows what rights he has.

The Madrid Arrangement also has a central attack system. If one of the national titles is successfully attacked within 5 years after registration, the international title will also fail, but after 5 years the international title becomes incontestable. Furthermore, there is no "use" requirement for registration in Madrid. The laws of each individual country decide if the trademark must be used to be valid.

Mr. Holmqvist next turned his attention to the Trademark Registration Treaty signed in Vienna in June, 1973. The citizens of the member countries of the Trademark Registration Treaty may file for a trademark either through the International Bureau or through their own national systems. Therefore, the major advantage of the TRT, as with the Madrid Arrangement, is the oppor-

tunity for central filing. The reason for many countries rejecting the TRT was that it did not adopt a central attack system. The treaty also failed to adopt a "use" requirement, and that may result in the failure of the U.S. to ratify it.

A significant problem with the TRT is that, although it offers the opportunity for central filing, certain countries require that a registrant have his trademark examined under their own regulations before it is considered a valid trademark. This cuts deeply into the savings of central filing, since the aid of qualified local attorneys will be required.

After discussing the Benelux convention, a small but truly international registration system, Mr. Holmqvist went on to discuss the proposed European Trademark Convention. In this Convention, it was agreed that surnames may be registered, and that the Council will have the right to investigate trademarks in the individual countries, to determine the existence of prior users or prior rights.

Finally, Mr. Holmqvist addressed himself to the problems that supra-national trademark registration presents in general. Included in these is the problem of a word being descriptive or generic in one language but losing that meaning upon translation. Additionally, administrative problems are raised, such as the determination of who shall have the right to decide what words are generic or descriptive, and whether a third party should be able to challenge a title.

In summary, Mr. Holmqvist noted that there are major advantages to be gained from international trademark registration, but that many problems stand in the way of realizing these goals.

SUMMARIES OF WORKING SESSIONS

Saturday, Nov. 3, 1973

ROBERT H. RINES, Moderator

Our working sessions have been analogous to the kind of situations that lawyers have to face up to in hearing rooms or court rooms. You can't go home and mull things over and choose just the right words. You're through with the trial, and the judge says, "All right, now what are you going to tell the jury?" or, "Give me a final argument, and that's it." So this has been a special experience for the students, the recorders of our working sessions, particularly.

I would like to start with Gerry Weiser, who will be summarizing for us some of the high points of the working session that he started, dealing generally with the problems of our EEC relationships.

Gerard Weiser: During our working sessions, we attempted to derive the origins of the Treaty of Rome, particularly by comparing it with the British Restrictive Trade Act. Since Mr. Johnson had interestingly enough given us some opinions on the Treaty of Rome from the British point of view, during our session we attempted to show how similar it was in some respects to the British Restrictive Trade Act and with the similar German act. We then went into a comparison of the relative severity of the U.S. antitrust laws and the EEC antitrust laws. And our tentative conclusion was that in some ways the EEC antitrust law is more severe, because it has, what we do not have here, a registration-type arrangement,

but in some other ways it is milder, because it has not yet reached its full development.

We reviewed a number of cases involving the EEC antitrust laws. We looked at their impact on licensing agreements, on the transfer of technology from the United States to the EEC, and from the Common Market to the United States. We discussed some peculiarities of the EEC antitrust laws such as exemptions, and we reached the conclusion, a tentative conclusion, that, in pursuing its policies for achieving economic and financial integration of the Common Market, a court of the EEC would follow some cases, but try to reach its ultimate aim without going into statutory traditional European ways of looking at cases, deciding on a pragmatic case-by-case basis. This, of course, makes it more difficult to predict the application of antitrust laws in the future.

Questions that were asked related to the lack, for instance, of a unified position on the part of the United States, particularly in some indirect restrictions. It was pointed out that the Common Market has a way of establishing standards, specifications, for technical goods and that implicitly, if not explicitly, we were therefore excluded from the European market. It was pointed out by businessmen with experience in the Common Market that such restrictions, such specifications, were not imposed by politicians in the Common Market, but by technicians who might not be influenced by the political decisions, and hence may be forgetful of the ultimate aims of trade with the United States.

Some questions related to the new developments in the Common Market about distributorships. A very clear exposé was given by several contributors as a result of questions, and Mr. Gori-Montanelli gave us a very clear explanation of the law of distributorships in the Common Market, the relevant decisions relating to the use of trademarks. In conclusion, it might be said that we discussed the law of antitrust as it applies to business in the United States and to business in Europe, and we concluded that American business must be keenly aware of the developments that have occurred in Europe.

Dean Rines: Mr. Federico had commented: "I thought students were going to give the summaries," and I replied: "Well, yes, that's what we planned." So, to summarize Session B in its broader aspects, I'm going to call now on Glenn Stephenson, one of our Law Center students.

Glenn Stephenson: As I looked back over my notes on the interchange among the countries represented at the Conference

and today's session, I clearly saw two major themes develop. The first was an almost universal concern, emphasizing the need for cooperation among all people who are interested in international property law. Numerous comments indicated that the evolving world we live in today requires cooperation on both the international level and, even more basic than that, in the United States—but is it practical to get a unified voice in the United States? How can we represent the many diverse views within our country in order to facilitate cooperation with the EEC? Can the American Bar Association or the American Patent Lawyers' Association be practically considered as a cooperative arm? Is there now any organization, other than the ABA or APLA, that can act as a functioning agent representing some type of cooperative effort in the patent field today?

Another area that arose in the discussion today was the type of input that's needed for effective cooperation in the industrial property field. Are lawyers really the right people to discuss patent problems? How do we get more effective input from management and the inventors of today?

The final area within this topic of cooperation that I found evident in my notes was a definite indication that we need a better means of communication among those concerned with the industrial property field. Well, once again we are left with unanswered questions. What type of communication? How can the diversity of the interests be communicated?

The second major theme that developed in today's interchange, I felt, was even more basic to the industrial property field than the need for communication or cooperation. It questions the entire theory of patents. Are patents valuable in today's society?

It was pointed out that the American courts generally do not uphold patents. But can invention be stimulated in a country where patents are not upheld? It is a major question, and any answer to that question must consider the significance of what appears as the court's opposition to patents. It was suggested that the percentage of patents which reach litigation is very insignificant. But I think the consensus was that, even though the evidence is that few are litigated, the problem still exists. So the general conclusion I drew today was that patents *are* necessary.

It was pointed out that France found its effort to enter the industrial revolution without patents was simply impossible. Holland tried to maintain an industrial economy without patents around the turn of the century, and concluded that patents were

necessary to keep the economy from dying. So, if patents are necessary, and the present system of patenting is causing us to question their necessity, it follows that the system needs overhauling.

But we're left again with unanswerable questions. How do we pinpoint malfunctions of society or of the system? And how do we repair those malfunctions after we find them? It's quite evident that the open work session this afternoon put up the amber light. The many unanswerable questions flashed a warning that should be heeded. To properly identify the warning of that light, and then steer clear of the dangers that light represents, can only be achieved through investigation and academic research directed at answering many of the questions raised today during the session. If the light was as clear to the conferees as it was to me sitting in the back of the room with my pen going, I think we can now take a step away from the danger instead of toward it.

Dean Rines: In another session, perhaps a somewhat more technical session, we delved into some of the intricacies of the new patent laws and other treaties now in force in Europe, and also into some of the problems of dealing with trademarks, trading styles, and the rights of controlling those trademarks in the various countries of the European Economic Community. We've asked Nelson Shapiro to put together a summary of that working session, Session C.

Nelson Shapiro: This is not going to be really a summary, because it's a difficult thing to attempt to summarize in a few minutes the hours of work that went into these workshop sessions by such eminent men as Pat Federico and Lars Holmqvist. What I am going to do in the few brief moments I have is just give you some of the highlights we discussed.

Mr. Federico spoke about the European patent and the EEC patent, and I think the most astounding observation was that there is *any* basic cooperation among such diverse entities as Germany, France and Great Britain, with their individualistic types of law, and background, and practicing procedures. Apparently they are cooperating rather well, and this is an amazing achievement, if you consider it.

Another rather startling thing, and particularly for me because it is a pet subject of mine, is the fact that in these basic cooperative laws they have incorporated the question of obviousness or unobviousness as one of the considerations in determining whether or not you are entitled to a patent, and they've done it in a way which

incorporates to a large extent the types of language that we use in the U.S. statute. This has been a real sore point of patent practice in this country for some time, and I think that the Europeans are opening up a Pandora's box by incorporating this into their law. Not that they haven't had some aspects of this in the laws of certain countries before, but for the first time it's being incorporated in a way I think is going to require development of the body of law in a way which is very similar to what we have here, in connection with the question of obviousness.

Then we considered typical businessmen's problems and, of course, when you consider the problems of a businessman, you also consider the problems of a practicing patent attorney, such as myself and Dean Rines. Such questions as: What are the benefits and detriments of proceeding under these cooperative treaties, under the laws that implement those treaties, or proceeding under the individual laws of the countries? Whether it is worthwhile to obtain a European patent or an EEC patent, or whether we should stick with the old school and do what we have been doing for years and advise our clients to get the patents in England, France or Germany or what have you? Such matters as the relative expenses that are involved, the terms of the patents, whether in fact you might start off by attempting to get concurrent rights? Why file applications for individual patents in the countries which are the signatories to these treaties, as well as applying for a European patent or an EEC patent until you're forced to make a commitment one way or the other?

I think that those are the highlights of what Mr. Federico covered, except for the details of the treaties and the provisions, which we won't review now.

Mr. Holmqvist, on the other hand, considered the matter of trademarks and addressed himself basically to the question: How should an international trademark convention be structured and where is it possible to do so? He gave some consideration to the matters of distinction between trademarks and patents, the basic distinctions, and discussed as background material the existing international conventions such as the Madrid Agreement, the TRT, and the Benelux Trademark Treaty, and then from this background material attempted to consider whether it might provide guidelines as to how we might implement any treaty concerning an international trademark law.

We went into some of the basic characteristics of trademarks, such as the fact that trademarks may mean different things in

different languages; a word in English may mean something entirely different in French. The question is whether a term in the English language may be descriptive in French for example, or German, and therefore objectionable in many of the senses of the trademark. We considered whether a local refusal to grant a trademark on various grounds under one of the local laws (and when I say local I mean the laws of the particular countries which are members of this organization), whether that should cause a reversion to the individual laws. If you can't get a trademark registration generally, say under the European Treaty, because in one particular country you have trouble, does that mean, therefore, that you go back and attempt to get trademark registrations in each of the countries? And there is the question of possible conflict of pre-existing trademark rights in various countries: How should that affect the possibility of obtaining registration?

The basic question of what we refer to as after-required rights was raised: If the rights are given initially, by registration, how does use of the mark in the marketplace affect it if it becomes, for example, a generic term? How do conflicting rights of others affect the trademark registration? And then, although Mr. Holmqvist didn't have the opportunity to consider certain questions in great detail, he did pose additional questions which he would like to throw out for possible answer, and he gave some of his own views on these subjects. Basically, the questions are these: To what extent can the right and title that is granted under any such international trademark law be used? Should there be rules as to unfair competition in the international convention, or should the local rules of unfair competition prevail? Can the national law, the individual national laws, remain effective concurrently with the supranational law, and should there be special training of practitioners in this supranational law? I think in essence that was what we covered in Session C.

Dean Rines: I'd like now to turn to our concluding summarist, Harry Saragovitz, who will give his impressions of Session B, in its more detailed aspects.

Harry Saragovitz: This session, Session B, was shared between Mr. Johnson and myself and, although the subject matter was supposed to be transfer of technology, I think each of us went a bit far afield from the subject, because in one of the sessions the concept of obviousness was discussed at great length. I think Mr. Johnson felt that some of the European countries have been infected with this concept of obviousness as being a part of patent-

ability, and he had hoped that this virus would not spread any further, or would be put to rest before it gathers any further ground.

We discussed also whether or not it would be advantageous for the U.S. to align itself with any European Patent concept, or any other outside patent concept. The main thing that was stressed was the surrender of some element of sovereignty over the body of law, which would be utilized to judge validity, which may be quite different from the concepts we have held for many years ourselves.

Another subject which was discussed rather freely was the concept of the EEC courts declaring portions of contracts invalid or unenforceable, and continuing to enforce what is left of the contract. There was discussion as to the great inequities that would result from such a practice. Also, we considered whether a contract specifying territorial limitations would just about disappear from the EEC concept. If there were exclusive licenses, and the courts held that the exclusivity would be held invalid, this would not detract from the benefits to the licensor, but would detract from the benefits to the licensee. The licensor would certainly collect his royalties on the amount of items produced, regardless of whether it was an exclusive license, or a series of nonexclusive licenses.

We considered in great detail the status of trade secrets in the United States, and the status of trade secrets in the EEC. And the conclusion was reached that trade secrets, along with other elements of intellectual property, have been held in higher esteem in the European countries than they have in the United States. We concluded things would probably continue to stay this way.

We talked briefly about memoranda of understanding. The subject was of limited interest, because it involves government-to-government relations. But it does draw in the commercial aspect, too, because, when two or more governments enter into such a memorandum of understanding, they require that their contractors transfer background rights to the firm of the other country, in order to make the research program workable when the results are finally obtained. And it was pointed out that many firms in this country refuse to contract on this basis, because they would be out of their minds in setting up a competitor in a foreign country, where there was none that existed before; it was through their own efforts that they did so and they received in exchange, in their minds, a pittance in the way of royalties.

One question that was not brought up that I think should be faced is: What is happening to the theory of eviction of licensees

which occurs in this country? We wonder whether it occurs in the EEC, where the exclusivity of a portion of a license could be knocked down. Then the patent owner would fail to police his patent by suing for infringement. Would it be held that the licensee was evicted from his license and was no longer liable for any royalties?

I think this about covers the points that were discussed at length.

Dean Rines: This has been our concluding session, and I want to thank all of you for coming to our new Franklin Pierce Law Center and the new home of the PTC Research Foundation.

We are particularly grateful to the experts who have come to help us get launched in our new surroundings, but we are grateful to all of you as well—registrants at the Conference, guests, students and staff, who have helped so much in this effort towards fuller understanding of the Future of American Trading in the EEC.

Lars Holmqvist: May I just have your attention for a few moments? I think a note of thanks should be expressed from the Europeans present. I haven't been called upon or invited to speak now, so I shall only speak briefly. Thank you for these days here. They have been most rewarding, and my colleagues agree. Thank you for inviting us to come here. We were most honored, and we have not been disappointed in any way with this Conference. I think that what you have started here merits every good wish for a full success, and I would like to include in those good wishes the representatives of the young America, whom I have had the pleasure to meet. I wish you every success in your studies, and it's been a treat to meet you. I have admired your diligence in taking notes and acting as the recorders in our sessions. Good luck to you all. Thank you for your hospitality. Good luck to the Franklin Pierce Law Center, and to the PTC Research Foundation.

Chronological Index of Reports and Papers

Listed below are the major reports, articles, and papers which have appeared in *IDEA* during the first nine years of publication. It is included in the *Bulletin* to provide an easy and quick reference to the subject matter covered thus far.

VOL. 1 NO. 1 JUNE 1957

The Value of the American Patent System: An Inquiry into Possible Approaches to Its Measurement *by Jesse W. Markham, James S. Worley, Dwight S. Brothers.*

Patent and Other Factors in the Development of Firms in the Custom Heat-Treating Industry *by Nathan Belfer, Irving H. Siegel.*

Patent Utilization *by Joseph Rossman, Barkev S. Sanders.*

Patent and Other Factors in the Future Organization of the Steel Industry *by Robert M. Weidenhammer, Irving H. Siegel.*

Patent and Other Factors in the Growth of the Electronics Industry in the Boston Area *by Weldon Welfling, Irving H. Siegel.*

Compulsory Licensing and Patent Dedication Provisions of Antitrust Decrees—A Foundation for Detailed Factual Case Studies *by George E. Frost, S. Chesterfield Oppenheim, Neil F. Twomey.*

Licensing Abroad of American-Held Patents, Trademarks and Techniques *by J. N. Behrman.*

Public Attitudes Toward the Patent System *by James N. Mosel.*

Incentives to Inventing for National Defense *by James Mosel, Barkev S. Sanders, Irving H. Siegel.*

VOL. 1 NO. 2 DECEMBER 1957

The Research Program of The Patent, Trademark and Copyright Foundation *by L. James Harris.*

Incentives and Deterrents to Inventing for National Defense *by James N. Mosel, Barkev S. Sanders, Irving H. Siegel.*

Role of Patents in the Creation and Growth of Small Industrial Units *by Irving H. Siegel.*

Patents in Boston Area Electronics Industry *by Weldon Welfling.*

Foreign Licensing *by J. N. Behrman.*

Public Attitudes Toward Patents, Trademarks and Copyrights *by James N. Mosel.*

Taxation and Patents *by Robert B. Bangs, Joseph P. Driscoll.*

The Role of Patents in Executive Decisions *by Jesse W. Markham.*

The National Inventors Council and the Inventor *by John C. Green.*

Government Patent Administration, Policy and Organization *by George N. Robillard.*

VOL. 1 1957
CONFERENCE
SUPPLEMENT
(160 pages)

Contains edited reports and discussions of the First Annual Public Conference held in Washington, D.C., June 13 and 14, 1957 on the following topics: Presentation and Discussion of The Patent, Trademark, and Copyright Foundation; Effects of Certain Antitrust Decrees Involving Patents as a Major Factor; Patent and Other Factors in the Future Organization of the Steel Industry; Patent Utilization; Patent and Other Factors in the Development of Firms in the Custom Heat-Treating Industry; The Patent-Antitrust Question From the Standpoint of an Industrial Executive; The Value of the American Patent System: An Inquiry into Possible Approaches to Its Measurement; Brief Progress Reports on Foundation Projects; and Future Prospect.

VOL. 2 NO. 1
MARCH 1958

The Non-Use of Patented Inventions *by Barkev S. Sanders, Joseph Rossman, L. James Harris.*

The Concrete Block Making Machine Industry *by George E. Frost, S. Chesterfield Oppenheim, Neil F. Twomey.*

Three Major Trademark Problems in the United States *by Francis C. Browne.*

Advantages and Disadvantages of Foreign Licensing *by J. N. Behrman.*

Certain Aspects of the Non-Use of Patented Inventions *by Irving M. Freedman.*

VOL. 2 NO. 2
JUNE 1958

Licensing Abroad Under Patents, Trademarks and Know-How by United States Companies: Report on a Survey of Problems and Practices and Their Relation to the American Patent and Trademark Systems *by J. N. Behrman.*

Patents and Other Aspects of the New Steel Technology *by Irving H. Siegel.*

The Status and Impact of Design Piracy *by Alan Latman.*

Can Ornamental Designs for Useful Articles Be Protected by Copyright? Constitutional Basis of the Willis Bill *by Karl B. Lutz.*

VOL. 2 NO. 3
SEPTEMBER 1958

Public Attitudes Toward the Patent System *by James N. Mosel.*

Economic Impact of Patents *by Barkev S. Sanders, Joseph Rossman, L. James Harris.*

Patents and Other Factors in the Aluminum Processing Industry *by Marshall C. Howard.*

Patents and Other Factors in the Plastics Fabricating Industry *by Murray Brown.*

Parking Meter Industry *by George E. Frost, S. Chesterfield Oppenheim, Neil F. Twomey.*

An Analysis of Antitrust Consent Decree Provisions Affecting Foreign Patent Rights *by William F. Upshaw.*

Pendent Unfair Competition Jurisdiction in Patent, Trademark and Copyright Cases *by Alan H. Bernstein.*

VOL. 2 1958
CONFERENCE
SUPPLEMENT
(229 pages)

Contains edited reports and discussions of the Second Annual Public Conference held in Washington, D.C., June 19 and 20, 1958, on the following topics: Report on The Patent, Trademark, and Copyright Foundation's Progress; Taxation and Patents; The Role of Patents in the Creation and Growth of Small Industrial Units; Public Attitudes Toward Patents, Trademarks, and Copyrights; Effects of Certain Antitrust Decrees Involving Patents as a Major Factor; Relation of American Patents, Trademarks, and Techniques, and American-Owned Foreign Patents to Foreign Licensing; The Role of Patents in the Creation and Growth of Small Industrial Units.

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Patents and Other Factors in the Operations and Prospects of Nonintegrated Aluminum Processors *by Marshall C. Howard.*

Attitudes of Assignees Toward Patented Inventions *by Barkev S. Sanders, Joseph Rossman, L. James Harris.*

Federal Taxation of the Inventor by *John F. Creed, Robert B. Bangs, Joseph P. Driscoll.*

Section 1. Guide Note for Study of the American Patent System and Commentary by *S. Chesterfield Oppenheim.*

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New Developments in the Foreign Licensing Project by *J. N. Behrman and Wilson E. Schmidt.*

Positive Competition and the Patent System by *L. James Harris and Irving H. Siegel.*

The United States Patent System in Historical Perspective by *H. R. Mayers.*

Guides to Foreign Licensing by *J. N. Behrman.*

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My Father, Charles F. Kettering by *Eugene W. Kettering.*

Man of the "Tomorrow" Mind by *T. S. Boyd.*

An Objective Look at Boss Kettering by *J. Ralph Fehr.*

Exponent of Explanation by *Allen Orth.*

Charles F. Kettering—The Inventor's Inventor by *John C. Green.*

Memories of Forty Years of Association with Charles F. Kettering by *Frank A. Howard.*

Tax Experience of Individual Inventors by *Robert B. Bangs, John F. Creed, Joseph P. Driscoll.*

Anomalies of Reductions to Practice of Inventions by *Loyd R. Koenig.*

Proof of Reduction to Practice in an Interference Contest by *John A. Dienner.*

VOL. 3 1959
CONFERENCE
NUMBER
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Contains edited reports and discussions of the Third Annual Public Conference held in Washington, D.C., June 24 and 25, 1959, on the following topics: Pricing, Antitrust, European Common Market, and other Problems in Foreign Licensing;

Tax Problems of the Individual Inventor; Patents and Other Factors in the Creation and Growth of Small Firms; Variations in Patent Utilization by Different Types of Companies; Compulsory Licensing and Color Movies: Effects of Technicolor and Eastman Antitrust Decrees; Special Session Devoted to Current Issues, Kettering Award Address, Report on Foundation Progress.

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Patent Acquisition by Corporations *by Barkev S. Sanders, Joseph Rossman, and L. James Harris.*

Patent and Other Factors in the Operations of Small Independent Instrument Firms in New England and the Middle Atlantic Area *by Paul R. Nichols.*

Royalty Provisions in Foreign Licensing Contracts *by J. N. Behrman and Wilson E. Schmidt.*

Comparison of the Patent Provisions of the NASA Act and AEC Act *by Gayle Parker.*

The Statutory Standard of Invention: Section 103 of 1952 Patent Act *by Gay Chin.*

The Patent System in Action *by Virgil E. Woodcock.*

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WINTER 1959

New Data on Foreign Licensing *by J. N. Behrman and W. E. Schmidt.*

Supplemental Report on Scientific Instruments Industry *by Paul R. Nichols.*

Development and Implications of the First Transistor Patents *by Edgar Weinberg and Irving H. Siegel.*

Wanted: A Definitive Government Patent Policy *by Howard I. Forman.*

Some Antitrust, Trade, and Investment Aspects of Foreign Licensing: An Economic Analysis *by Wilson E. Schmidt.*

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A Study of the Professional Color Motion Picture Antitrust Decrees and Their Effects *by George E. Frost and S. Chesterfield Oppenheim.*

Prologue to a Study of Patent and Other Factors in the Machine Tool Industry by
Murray Brown and Nathan Rosenberg.

Patents and Other Factors Affecting Executive Decisions by *Jerome C. Strong and
Jessee M. Markham.*

Our Patent System Works by *Richard F. Carr.*

The Growing Importance of Chemical in Comparison with Mechanical Patents by
Barkev S. Sanders, Joseph Rossman, L. James Harris.

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"Know-How" Licensing and Capital Gains by *John F. Creed and Robert B. Bangs.*

A Study of the Professional Color Motion Picture Antitrust Decrees and Their
Effects: Analysis and Conclusions by *George E. Frost and S. Chesterfield Op-
penheim.*

Foreign Licensing and Investment in U. S. Foreign Economic Policy by *J. N.
Behrman.*

Certain Aspects of the Armstrong Regeneration, Superregeneration, and
Superheterodyne Controversies by *James R. Gaffey.*

VOL. 4 1960
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(110 pages)

Contains edited reports and discussions of the Fourth Annual Public Conference
held in Washington, D.C., June 16 and 17, 1960 on the following topics: Patent-
ability Principles; Patents and the Tie-In Sale or Lease; Patents from the Inventor's
Viewpoint; The Patent System—Logic vs. Experience; Strengthening the Patent
System; Patents and Contract Research; Government Patent Acquisition and Use;
Patents and the General Welfare; Kettering Award Address: Patents and Techni-
cal Progress.

VOL. 4 NO. 3
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Analysis of 203 Transistor Patents by *Edgar Weinberg and Irving H. Siegel.*

Patent Information in Annual Reports: Potential Contributor to Corporate Image
by *Irving H. Siegel.*

The Coordinated Soviet Effort to Promote and Apply Major Inventions by *Herschel
F. Clesner.*

The U.S.S.R. Patent System *by M. Hoseh.*

Scientific Discovery, Invention, and Cultural Environment *by Irving H. Siegel.*

Eminent Domain Aspects of 28 USC 1498 *by James E. Denny.*

Protection of Fabric Designs *by Chester L. Davis, Jr.*

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Federal Patent Policies in Contracts for Research and Development *by Donald Stevenson Watson, Harold F. Bright, Arthur E. Burns.*

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Patents, Research and Technology in the Machine Tool Industry *by Murray Brown and Nathan Rosenberg.*

U. S. Companies as Licensees under Foreign-Owned Patents, Trademarks, and Know-How *by Jack N. Behrman.*

A Review of the Taxation Study *by Robert B. Bangs.*

Foreign Licensing and the Investment Guaranty Program *by Wilson E. Schmidt.*

Payment for Discoveries and Innovations in the Soviet Union *by Herschel F. Clesner.*

The Patent System from an Inventor's Point of View *by Carl E. Barnes.*

Relief in Trade Secret Cases after Patent Publication *by George R. Powers.*

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Evolving Court Opinion on Patent Licensing: An Interaction of Positive Competition and the Law *by L. James Harris and Irving H. Siegel.*

American Inventiveness *v.* Foreign Inventiveness *by Barkev S. Sanders.*

A Brief Look at Foreign Licensing by European Companies *by Jack N. Behrman.*

Persistence of the Sole Inventor *by Irving H. Siegel.*

Legal Guide to the European Common Market *by Gerard J. Weiser.*

Facts Concerning Ornamental Industrial Design *by William M. Blaisdell.*

VOL. 5 1961
CONFERENCE
NUMBER
(117 pages)

Contains edited reports and discussions of the Fifth Annual Public Conference held in Washington, D.C., June 14 and 15, 1961 on: Panel Discussion of Research Findings of the Foundation with topics on Taxation; Foreign Licensing; Antitrust; Executive Decision-Making; Trademark Effectiveness; Development of Procedures and Standards; Sources and Uses of Patented Inventions; Small Business; Government Patent Policies; and with a Current Issues Session on The Patent System and the Public Interest; The Nature of the Right in Trademarks; The Patent System from a Scientist's Point of View; The Impact of Technology on Venture Capital; The Role of Patents in Industrial Progress; The Problems of a Small Research Organization; Armed Services Procurement Regulations; Role of the Inventor in Dealing with Government; Management of Government Patents.

VOL. 5 NO. 3
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Tax Experience of American Corporations Owning Numerous Patents *by Robert B. Bangs and John F. Creed.*

Industrial Property in the European Common Market: Its Significance to United States Interests

The Proposed New European Patent *by Leonard J. Robbins.*

The Convention for European Industrial Property Rights *by Gerard J. Weiser.*

Antitrust in the 1960 Decade *by S. Chesterfield Oppenheim.*

The Constitution and Enforcement of Government Owned Patent Rights *by Jerry Cohen.*

Secrets of the Patent Library, as Published in the Soviet Union *by Valerii Ag-ranouski.*

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New Information on the Operation of the License Policy in Federal Contracts for Research and Development *by Donald S. Watson.*

Utilization of Corporate Annual Reports for Popularizing Patent Information *by Irving H. Siegel.*

Industry Life Cycles and Patents *by R. A. Norman.*

A Patent Guide for Inventors and Executives, and the Context in Which It Appears *by L. James Harris.*

The Application of Section 7 of the Clayton Act to Patents, Copyrights and Trademarks *by Les J. Weinstein.*

A Statistical Analysis of Patent Renewal Data for Three Countries *by Thomas Dernburg and Norman Gharrity.*

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Industrializing Latin America: A New Frontier for Industrial Property Transactions *by L. James Harris.*

Freedom of Competition in the European Economic Community: An Analysis of the Regulations Implementing the Antitrust Provisions *by Gerard J. Weiser.*

The Developing Law of German Employee Inventions *by James W. Brennan.*

Speedy Entry of Patented Inventions into Commercial Use *by Barkev S. Sanders.*

Small Composer Representation and Remedies in ASCAP *by Richard Harris.*

Innovators and Patents *by John T. Conner.*

Protection and Promotion of Products of the Mind Resulting from Research in a Technological Institute *by Frederic B. Schramm.*

VOL. 6 1962
CONFERENCE
NUMBER
(156 pages)

Contains edited reports and discussions of the Sixth Annual Public Conference held in Washington, D.C., June 14 and 15, 1962, on the following topics: United States Industrial Property Systems in the Competitive World Context; U.S.S.R.: A New Factor in International Patent Relations?; International Outlook on Industrial Property: Implications of the Common Market; Implications of the Alliance for Progress; Implications of Programs to Expand United States Foreign Trade.

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Price Fixing in Great Britain with Some American Parallels *by Michael Burnside.*

The First Modern Common Market: A Reinterpretation of the [British] Commonwealth Experience in Industrial Property *by L. James Harris.*

Innovator's Payment Determination in the U.S.S.R. *by Herschel F. Clesner.*

On Individual and Joint Patent Production *by Irving H. Siegel.*

Data Provisions in Defense Contracts by *George F. Westerman*.

Copyright Notice Requirements for Foreign Works Published Abroad by *R. Steven Pinkstaff*.

The Concept of "Property" in Know-How as a Growing Area of Industrial Property: Its Sale and Licensing by *John B. Nash*.

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Right to Apply for Common Market Patent by *Gerard J. Weiser*.

Industrial Property in Latin American Development by *L. James Harris and Irving Siegel*.

Protection of Trademarks and Patent Rights in the Middle East History, Geography and Economics by *Saba Habachy*.

Effect of 1962 Federal Tax Legislation on Owners of Patents and Related Property by *Robert B. Bangs*.

An Appraisal of the Atomic Energy Field After 20 Years of the Patent Title Policy by *H. Fredrick Hamann*.

VOL. 6 NO. 4
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1962-1963

Public Lecture Series: Current International Industrial Property Developments and the Relation Thereto of Antitrust and Trade Practice Laws and Policy.

Current Antitrust Developments in the European Common Market and the Relation Thereto of Industrial Property Rights by *Pieter VerLoren van Themaat*, Guest Lecturer.

Current Developments in Industrial Property Rights in Great Britain by *Geoffrey W. Tookey*, Guest Lecturer.

Progress Toward the Proposed Conventions for a European Patent and for a European Trademark by *Franz Froschmaier*, Guest Lecturer.

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1963 Federal Tax Proposals Affecting Research and Industrial Property Rights by *John F. Creed*.

Access to the European Patent: Common Market Implications by *D. A. Was*.

Introduction to the Japanese Patent System: Japanese Orientation by *Kotaro Otani*.

Current Developments in Antitrust and Trade Practice Laws and Policy in Japan and the Relation Thereto of Industrial Rights: Japanese Orientation by *Toru Onuma, et al.*

The Upgrading of Patented Inventions and Their Use Here and Abroad: U.S.-European Comparison by *Barkev S. Sanders.*

The Case Against Drug Patent Compulsory Licensing by *George E. Frost.*

VOL. 7 1963
CONFERENCE
NUMBER
(187 pages)

Contains edited reports and discussions of the Seventh Annual Public Conference held in Washington, D.C., June 20 and 21, 1963 on the theme, Fostering and Rewarding Invention in the Company, the Government and the University, with sub-topics on Government Organization Interaction; International Comparison; Organization-Individual Confrontation; Organizational Context and Individual Motivation (Inventors' Round-Table).

VOL. 7 NO. 2
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The Utilization of Government-Owned Patented Inventions by *Mary A. Holman.*

Some Possibilities and Limitations of Patent Interference "Reform" by *George E. Frost.*

The Upgrading of Patented Inventions and Their Use Here and Abroad by *Barkev S. Sanders.*

Increasing the Production of Inventions by *James W. Colvin.*

Notes on Japanese Patent Literature.

VOL. 7 NO. 3
FALL 1963

Positive Competition and Antitrust in Foreign Transactions Involving Industrial Property by *L. James Harris and Irving H. Siegel.*

Current Developments in Industrial Property Rights in Latin America and the Relation Thereto of Antitrust and Trade Practice Laws and Policies by *Carlos Henrique Fróes, César Sepulveda and Juan E. F. Wodak.*

Political Aspects of Accessibility to the European Patent by *André Armengaud.*

The Utilization of Government-Owned Patented Inventions by *Mary A. Holman.*

Registration and Publication of Dedicated Discoveries by the Patent Office by
Frank A. Howard.

Inventions—Inventor's or Employer's? by *Laurence R. Hefter.*

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Legal Protection of Know-How by *Stephen P. Ladas.*

Comments on Selected Japanese Laws Bearing on United States Trade with and
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Access to the European Patent System by *Ralph E. Buckman.*

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The Riskiness of Research and Development Performed by Large Firms by *Charles
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Trademark Registration of Patented Articles—Extension of Monopoly by *Don W.
Martens.*

Protection Against Imports Which Undermine the Value of a United States Patent
by *Lawrence G. Kastriner.*

The Brazilian Anti-Trust Law, Public Lecture and Discussion Series, with Intro-
ductory Remarks by *L. James Harris.*

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SPRING 1964

1964 Annual Public Conference Program: Current and Emerging Problems in
Property Rights to R&D and Related Information.

Patent and Antitrust Developments and Prospects of the European Economic
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Taxation of the Foreign Licensor in Australia by *John K. Connor.*

Dominance of Sole Patentees in Computer-Related Technology by *Irving H. Siegel.*

Patterns of Commercial Exploitation of Patented Inventions by Large and Small
Corporations by *Barkev S. Sanders.*

Patent Policies of Other Governments by *Mary A. Holman.*

Antitrust and the Exploitation of Patents: The Interaction of Patent Licensees and
Licensors by *Ronald S. Kareken.*

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VOL. 8 1964
CONFERENCE
NUMBER
(223 pages)

Contains edited reports and discussions of the Eighth Annual Public Conference held in Washington, D.C., June 18 and 19, 1964 on the theme, Current and Emerging Problems in Property Rights to R&D and Related Information, with sub-topics on Energizing and Rewarding Inventors; Loss of Trade Secrets; Accelerating Use of Government-Financed R&D; Interference Settlements; Industrial Property; Antitrust Problems of U.S. Firms Abroad; Impacts of Proposed Copyright Legislation; New Concepts of Design Protection; Patent and Copyright Implications of Electronic Data Processing.

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U.S. Government Controls Over Export of Technical Data *by J. N. Behrman.*

Attitude Survey on Patent Office Relocation *by L. James Harris and Irving H. Siegel.*

Longevity of Patented Inventions Put to Commercial Use *by Barkev S. Sanders.*

Protection of Trade Secrets: Initial Report *by L. James Harris and Irving H. Siegel.*

Trademarks and Taxes *by Dennis I. Meyer and John F. Creed.*

The European Patent Convention as a Guide to Modernizing Our Patent Examining System *by John Robert Duncan.*

Is 35 U.S.C. 103 Applicable to Chemical Compounds? *by Marion Wayne Western.*

Statutory Copyright Protection of Fictional Characters *by James Robert Parish.*

VOL. 8 NO. 4
WINTER
1964-1965

Edited minutes of the first Clinic of The Patent, Trademark, and Copyright Research Institute held in December 1964 on the campus of The George Washington University. The topic of the Clinic was Statutory Requirements of Companies for Protection of Intellectual Creations.

VOL. 9 NO. 1
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Comparative Patent Yields from Government Versus Industry Financed R&D *by Barkev S. Sanders.*

Latin Americans View Their Own National Industrial Property Systems by *L. James Harris and Irving H. Siegel*.

Recent EEC Antitrust Activity Relating to Exclusive Distributorships and Trademarks by *Gerard J. Weiser*.

Non-Accessibility of Proposed Common Market Patents of Third Party Nationals and its Effect on U.S. Convention Rights by *Saul Jecies*.

Proprietary Rights and East-West Trade by *Herschel F. Clesner*.

U.S. Patent Examination System—Why Change a Good Thing? (For the Wrong Reasons) by *Paul A. Rose*.

A Modified Deferred Examination System by *Elmer A. Gorn*.

Government Patent Policy—Its Impact on Contractor Cooperation with the Government and Widespread Use of Government Sponsored Technology by *Helge Holst*.

Product Simulation—Before and After the Stiffel Case by *David S. Urey*.

The Uniform Commercial Code and Warranties Against Liability for Infringement by *Roy Lucas*.

Judge Learned Hand and the Concept of Invention by *Edmund A. Godula*.

VOL. 9 1965
CONFERENCE
NUMBER
(240 pages)

Contains edited reports and discussions of the Ninth Annual Public Conference held in Washington, D.C., June 17 and 18, 1965, with the theme, Evolving Needs for the Protection of Industrial and Intellectual Property; and sub-theme, Toward a Data Base for the President's Commission on the Patent System, including the following topics: The Changing Setting; The Nation's R&D Commitment and the Presidential Commission's Task; Administrative and Judicial Requirements for the Patent and Other Established Systems; Legislative Objectives and Proposals; The Role of Industrial Property in the Dissemination of Technical Information in the World Context; and International Challenges and Opportunities.

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Additional Aspects of Proprietary Rights and East-West Trade by *Herschel S. Clesner*.

The Number of Inventors in the United States by *Barkev S. Sanders*.

Breaking the Innovation Barrier *by Carl E. Barnes.*

The Case for Permitting Copyright in Works of the United States Government *by Arthur A. Murphy and Maxwell C. Freudenberg.*

Whither Goes the United States Patent System? *by Robert C. Brown, Jr.*

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Interrelational Aspects of the Presumption of Validity and the Mechanized Search *by Wilkam Carter Reynolds.*

Late Claiming *by Paul L. Gardner.*

The Doctrine of Territoriality in Patent Law and the European Common Market *by Norbert Koch and Franz Froschmaier.*

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Machines in the Administration of Trademarks, Patents and Licenses *by Norman St. Landay*

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The Examination System and the Backlog Problem *by W. Scott Railton*

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A New "Hobby" for the Scientifically Trained Lawyer—Amateur Strategist by *S. C. Yuler*

The Courts—Our Number One Problem by *Cyril A. Soans*

Independent Inventors: Six Moral Tales by *Irving H. Siegel*

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The Federal Government's Propensity to Patent by *Donald Stevenson Watson and Mary A. Holman*

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Opportunities Afforded an Independent Inventor by the Patent System by *Samuel Ruben*

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Foreign Collaborations in India: Problems and Prospects by *Ashok Kapoor*

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"Double-Patenting" and the 1952 Patent Act *by William T. Bullinger*

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Some Absurd Presumptions in Patent Cases *by Cyril A. Soans*

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A New Approach to Evaluation of the American Patent System *by S. Chesterfield Oppenheim*

Some Comments on Proposed General Revision of the Patent Laws *by Leonard J. Robbins*

VOL. 10—1966
CONFERENCE NUMBER
(281 Pages)

Contains edited reports and discussions of the Tenth Annual Public Conference held at Washington D.C. on June 16 and 17, 1966, on the theme, Spotlight on U.S. Industrial and Intellectual Property Systems: Critique, Outlook and Recommendations, with sub-themes, Conflicts between Patent and Antitrust Laws?; Employees Versus Company Interests in Trade Secrets & Patents; Balancing Patent Quality & Rapid Processing; Revised Copyright Law: Workability & Emerging Issues; Outstanding International Issues: Compatibilities, Incompatibilities, Reconciliations; Trade Identity Unfair Competition in Domestic & International Commerce; The Public Interest under Federal Patent Policies.

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Roots of Creative Research *by Gordon K. Teal*

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The Anti-Inventor Report of the President's Commission on the Patent System *by Jacob Rabinow*

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Changing Status of Sole Inventors: A Company Case Study *by Irving H. Siegel*

A Realistic Appraisal of the Draft Patent Cooperation Treaty *by Gerald D. O'Brien*

The BIRPI Plan for a Patent Cooperation Treaty *by Stephen P. Ladas*

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Adequate Control or Trademark Misuse—Trademark Licensor's Dilemma *by Laurence H. Pretty*

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The United States Patent System—Has it come to the end of the Line? *by S. Delvalle Goldsmith*

Simplified Interference Practice by *Harry C. Bierman*

Cost-Benefit Study of the Domestic and International Patent Systems by *Robert F. Dale and James K. Huntoon*

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An Analysis of the Proposed Deferred Examination System by *Robert J. Lasker*

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Defects of Interference Practice and a Proposed Remedy by *James Angus Watson*

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An Outline of Important Changes in German Patent and Trademark Law by
Stephen G. Beszédes

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Deferred Examination by *H. Geoffrey Lynfield*

A Critique of Deferred Examination by *Tom Arnold*

VOL. 11 1967
CONFERENCE NUMBER
(244 Pages)

Contains edited reports and discussions of the Eleventh Annual Public Conference held at Washington, D.C. on June 22 and 23, 1967, on the theme: Improving Industrial and Intellectual Property Systems for Greater Social Progress, with subthemes on, Protection Needs in R&D; Prospects in Industrial and Intellectual Property Law; Management Responsibility and Decision.

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Executive Views on the Presidential Commission's Patent Recommendations:
Medium-Sized Companies by *Irving H. Siegel and Gideon Schmuckler*

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Taxation of Foreign Licensors in Italy by *Peter C. Alegi*

U.S. Limitations in Patent Licenses by *Joseph Gray Jackson and Edward Lovett Jackson*

The World Intellectual Property Organization and the Administrative Reorganization of BIRPI by *Eugene M. Braderman*

WIPO: A Noble Idea Whose Time Has Come by *Harry Goldsmith*

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Domestic & International Trade Aspects of the USSR Trademark System by *Joseph M. Lightman*

The Global Exchange of Patents: An Analysis of Patent Statistics by *D. A. Was*

The Patent Cooperation Treaty—The 1968 BIRPI Draft Compared with a Simple New Alternative Proposal by *Leonard J. Robbins*

International Novelty Search Based on Claims or Search Definitions? by *P. O. Langballe*

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The First-to-File Priority System: Possibilities and Problems by *Stephen D. Kahn*

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Informed Foreign Experience and Opinion on Provisions Similar to Commission Recommendations by *L. James Harris and Gerard J. Weiser*

Foreign Inventors' Behaviour under U.S. and Foreign Patent Systems by *L. James Harris and Gene L. Finn*

Observations on the Presidential Commission's Recommendations for Recasting the U.S. Patent Laws *by Barkev S. Sanders*

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Correspondence on "Use Limitations in Patent Licenses" *by Theodore L. Bowes*

Copyright Protection for Motion Pictures: Limited or Perpetual? *by Peter F. Nolan*

Copyright Liability for Communications Satellites: A bridge from CATV *by Roger Wesley*

VOL. 12 1968
CONFERENCE NUMBER
(241 Pages)

Contains edited reports and discussions of the Twelfth Annual Public Conference held at Washington, D.C. on June 20-21, 1968 on the theme, Industrial Property; Instrument to Foster Technology for Economic Advance, with subthemes, Toward the Modernization of Industrial Property in the U.S.; Toward the Accommodation to Modernization: Interplay of Unfair Competition and Antitrust Doctrines; Toward the Improvement of International Arrangements for Industrial Property.

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